



DEPARTMENT OF STATE

Washington, D.C. 20520

February 3, 1982

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MEMORANDUM FOR MR. WILLIAM P. CLARK
THE WHITE HOUSE

Subject: Paper on Libya for NSC Meeting February 4, 1982

Attached is a discussion paper for the February 4 NSC meeting on Libya. An executive summary covers the document.

A handwritten signature in dark ink, appearing to read "L. Paul Bremer, III".

L. Paul Bremer, III
Executive Secretary

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TOP SECRET**SENSITIVE****EXECUTIVE SUMMARY****NEXT STEPS ON LIBYA**

The NSC considered the issue of next steps toward Libya at two meetings in December, the first addressed to the broad pattern of Libyan activity threatening to U.S. interests and the second focused more narrowly on the Libyan assassination threat against key U.S. officials within this country and abroad. These meetings were followed by the December 10 announcement calling for the voluntary withdrawal of Americans from Libya and announcing the invalidation of U.S. passports for travel to Libya. At the same time a private demarche was sent to Libya to make it clear that we would consider any Libyan terrorist attack against a U.S. target to be tantamount to an armed attack upon the U.S. and that we would respond accordingly. The demarche also contained a warning against any Libyan interference with the withdrawal of Americans from Libya or impairment of the safety of Americans still in Libya.

On January 21 the NSC was provided with a status report on Libya. Implementation of the steps ordered in NSDD 16 was reported as proceeding well.

The basic decisions before this NSC meeting concern the issue of whether to revalidate and then activate the next steps toward Libya discussed at the first December NSC meeting. These are steps designed to address the broad and long-lasting Libyan threat and not the proximate threat of "hit squads" that was the focus of the second December NSC meeting and of the contingency planning described in NSDD 16.

Now that we have achieved the withdrawal of most Americans from Libya and reduced to a significant degree the prospect of Libyan hostage-taking in reprisal for U.S. action, we are able to move on to consider next steps for dealing with the broader Libyan problem. While it is necessary to revalidate the contingency planning that focuses on the assassination threat in light of changed Libyan and international circumstances, the primary issues to be decided now are whether and when to invoke IEEPA to take the economic measures described as Item 4a (an embargo of imports of Libyan oil) and

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Item 4b (an embargo of exports to Libya) in NSDD 16 and whether to undertake additional measures toward Libya by choosing among options developed on an interagency basis. In addition, this NSC meeting will provide an opportunity to revalidate the military measures that address the broader Libyan threat and to assess the advisability and appropriate timing of another U.S. naval exercise in the Gulf of Sidra and several other issues.

Discussion of Oil Embargo and Export Embargo

1. Oil Boycott: The argument for implementing an oil boycott by invoking IEEPA as soon as possible is that this is the absolute minimum we can do to increase the pressure on Qadhafi and to underline our seriousness about Libya. A boycott can be fully justified as a long overdue measure in the face of a sustained pattern of Libyan aggression and misbehavior. It would show that we will no longer help finance Libyan terrorism and subversion, eliminating a major source of doubts about the seriousness of U.S. opposition to Qadhafi. While an embargo would have little direct effect on Libya--since it can sell its oil elsewhere--it is a necessary next step in any long-term strategy toward Libya and can help to build the basis for stronger actions in the future.

The principal arguments against imposing an oil boycott are that it would not have an appreciable economic effect in Libya; it could redound to Qadhafi's benefit in the region; and it could legitimize using oil as a political weapon. Moreover, while the boycott will not affect allied economic interests, there will be political costs. Finally it might also be argued that even if a boycott were implemented, it might be a more effective symbol if it were used in response to a specific provocation.

2. Timing the Ban on Exports: The Polish crisis has increased allied concerns about extraterritorial application of unilateral economic sanctions, as well as the possibility that the allies may charge us with the reckless use of economic sanctions for political ends.

Since we can use IEEPA to impose an export ban without enforcing it extraterritorially, however, we should consider implementing it simultaneously with the oil boycott because: (1) The two sanctions together will make the strongest possible political point to Qadhafi and those

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threatened by him that the U.S. is no longer willing to do business as usual with an international outlaw; (2) Implementing both measures together avoids the potential inconsistency that would arise if we refuse to buy Libyan oil but continue to sell Libya technology, particularly oil-related technology; (3) Negative allied reactions can be sharply curtailed by a U.S. decision not to seek extraterritorial enforcement, and what criticism there is can be absorbed all at once rather than being faced all over again in several months; and (4) We have justification for taking both measures at this time, on the grounds that the Americans have only just gotten out of Libya.

The main argument against implementing a full export ban is that such a ban without extraterritorial enforcement (e.g., transshipment controls) would be little more than an empty gesture. This could make the U.S. look ineffectual and could, thus, increase domestic pressure to impose extraterritoriality. Even if we decide to take this further step, there is an argument that we should delay taking it until after we have had the opportunity to assess the Libyan reaction to the oil boycott and also that we should hold it in reserve so we can respond to further Libyan provocations.

Other Issues

3. Withdrawal of Remaining U.S. Citizens: It makes little sense to invoke IEEPA exclusively for the purpose of attempting to force withdrawal of the Americans remaining in Libya after mid-February. However, if we impose either an oil boycott or an export ban, we may want to use IEEPA to remove as many Americans as possible and put us on firmer ground if something does happen to those that remain. The argument against doing so is that the few additional withdrawals we might achieve are not worth the costs of using IEEPA in this manner.

4. Banning Financial Transactions in Libya: If it is decided to implement either or both economic measures, it may also make sense to include a ban on financial transactions by Americans in Libya, also under IEEPA. While this may force some U.S. companies to abandon their equity holdings or forfeit their performance bonds in Libya and could impose severe economic consequences for them, such a ban would avoid charges that U.S. capital is financing and

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is financing and facilitating Libyan oil production and development. However, it should be noted that this issue was not discussed on December 8, 1981 and its implications may not have been adequately considered. Hence, we may want to delay such a decision while stressing that actions affecting U.S. company holdings and operations in Libya should be on a voluntary basis.

5. Gulf of Sidra Exercise: We will not have two carriers in the Mediterranean until April at the earliest and perhaps not until June. Nevertheless, given Qadhafi's nervousness and the importance of keeping the pressure on him, there is good reason to seek to schedule an exercise at a reasonably early time. The counterargument to this is that another exercise soon might back Qadhafi into a corner and build sympathy for him in the region, particularly if a military confrontation again results.

Before taking any or all of the above steps, we need a public affairs and Congressional strategy that prepares the ground for the announcement of new measures directed at Libya. The announcement should be formulated so that it reflects a balanced and well-rounded approach, rather than a set of random negative sanctions.

Since the view is widespread that our initial measures against Libya were linked to the assassination-terrorist dimensions of the Libyan threat, the new measures we may take may not be well understood by the public--especially if the assassination threat appears to have receded. As a result, in laying the groundwork for these new measures with the Congress and the public, it will be very important to explain the broader strategic threat that Libya continues to pose.

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DISCUSSION PAPER FOR FEBRUARY 4 NSC MEETING:
NEXT STEPS ON LIBYA

I. INTRODUCTION

The NSC considered the issue of next steps toward Libya at two meetings in December, the first addressed to the broad pattern of Libyan activity threatening to U.S. interests and the second focused more narrowly on the Libyan assassination threat against key U.S. officials within this country and abroad. These meetings were followed by the December 10 announcement calling for the voluntary withdrawal of Americans from Libya and announcing the imposition of passport restrictions on travel to Libya. At the same time a private demarche was sent to Libya to make it clear that we would consider any Libyan terrorist attack against a U.S. target to be tantamount to an armed attack upon the U.S. and that we would respond accordingly. The demarche also contained a warning against any Libyan interference with the withdrawal of Americans from Libya or impairment of the safety of Americans still in Libya.

On January 21 the NSC was provided with a status report on Libya. Implementation of the steps ordered in NSDD 16 (of December 10) were reported as proceeding well. (The current status of progress on these steps is presented in Tab A of this paper.) In addition, the January 21 NSC received a report on the status of an interagency review of relevant changes in the international environment and in Libyan behavior and attitudes since the December 10 steps were instituted, as mandated by NSDD 16. The findings of this review are incorporated in the appropriate sections of this paper and are highlighted in Section IV.

The basic decisions before this NSC meeting concern the issue of whether to revalidate and then activate the next steps toward Libya discussed at the first December NSC meeting. These are steps designed to address the broad and long-lasting Libyan threat and not the proximate threat of "hit squads" that was the focus of the second December NSC meeting and of the contingency planning described in NSDD 16.

Now that we have achieved the withdrawal of most U.S. citizens from Libya and reduced to a significant degree the prospect of Libyan hostage-taking in reprisal for U.S. action,

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we are able to move on to consider next steps for dealing with the broader Libyan problem. While it is necessary to revalidate the contingency planning that focuses on the assassination threat in light of changed Libyan and international circumstances, the primary issues to be decided now are whether and when to take the economic measures described as Item 4a (an embargo of imports of Libyan oil) and Item 4b (an embargo of exports to Libya) in NSDD 16 and whether to undertake additional measures toward Libya by choosing among options developed on an interagency basis by the Libya Task Force and presented in Section VI of this paper. In addition, this NSC meeting will provide an opportunity to review the contingency military measures and the military measures that address the broader Libyan threat and which are presented in Section VII of the paper. Finally this meeting provides an opportunity to assess the advisability and appropriate timing of another U.S. naval exercise in the Gulf of Sidra.

II. CURRENT LIBYAN BEHAVIOR

Libyan support of international terrorism and support of subversion of moderate regimes has not ceased. The assassination threat against U.S. officials captured attention by virtue of the drama and audacity of the Libyan plan. Yet it can be understood only as part of a broad pattern of support of international terrorism and deep Libyan hostility toward the United States and the West. The list of Libyan efforts to use terrorist tactics and to destabilize friendly regimes is a long one. In the context of the Tripartite Pact with Ethiopia and South Yemen, Libya is sending terrorists into the Sudan in order to capitalize on the strains that currently exist within that country. Libya may also be targetting the Sultan of Oman for assassination. In spite of the resumption of diplomatic relations with Saudi Arabia and the recent agreement to reopen the border between Libya and Egypt, Libya is still actively positioning itself to threaten Tunisia, Morocco, and Egypt and Saudi Arabia. Through a policy that relies on bribes, intimidation, and support of internal dissidents, Libya is interfering in the internal affairs of a score of African states located far from its own borders: Ghana and Somalia are prominent examples.

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The extent of Libyan reaction does not stop there -- Libyan financial support of the regime in Nicaragua, the possibility that it is sending arms to the insurgents in El Salvador, and its financial support of one of the political factions in the island of St. Lucia attest to the role that Libya is seeking to play in Central America. Libyan relations with the Soviets have, if anything, become closer during the weeks intervening between the December 10 decisions and the present. While the Libyans and Soviets differ in ideology, the fact that their foreign policy goals are similar and that the Libyans can serve Soviet interests cannot be overlooked now anymore than it could when the initial NSC deliberations about Libya took place.

III. U.S. OBJECTIVES

The objective behind the measures taken on December 10 (i.e., demarche to Libya, request for withdrawal of Americans, and passport restrictions) was a deliberately limited one. We wanted to signal Qadhafi that the U.S. was serious about responding to his misbehavior, and to take necessary measures to ensure the safety of Americans in Libya against the existing Libyan threat so that our freedom of action would be increased in the future.

These measures were undertaken within the broader context of our basic objectives with respect to Libya: (a) to end Libyan support for terrorism, (b) to inhibit Libya from undermining governments friendly to the U.S., and (c) to influence Libya to stop assassination efforts against U.S. and other officials and Libyan nationals in other countries. In order to achieve these objectives we are seeking to isolate Qadhafi within the world community and to diminish Libyan capabilities.

An important first step, now that most Americans have left Libya, is to remove the inconsistency between our political and economic policies toward Libya. Implementation of the economic measures under consideration here (the oil embargo, an embargo of exports to Libya, and a ban on commercial transactions by U.S. firms within Libya) will prevent continuation of the current cycle whereby U.S. oil income and production expertise plus the export of U.S. technology translate into Libyan income. This income is then used to purchase advanced Soviet weaponry and to spread terrorism and subversion in moderate states in the region, in Europe through indirect funding of terrorists there, and, most recently, reaching to the United States itself.

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Opinion differs about the ability of the U.S. to reduce Libyan capabilities over more than the short-term by instituting economic measures. At a minimum there will be dislocation costs as substitute sources of supply are found. In some areas, such as oil technology equipment of an advanced nature, substitutes are difficult to find and U.S. withdrawal from the field will both hurt the Libyans and create new competitor industries in other countries.

Opinion also differs about the extent to which Qadhafi's behavior can be changed by any measures (political, diplomatic, or military) that the U.S. could undertake. Some argue that Qadhafi will not change no matter what we do, and that we must limit our objectives to those of weakening him and isolating him. Others argue that Qadhafi is a shrewd political operator who will moderate his behavior (albeit tactically) in response to punishing economic measures and symbolic demonstrations of military presence and force in the area. (Qadhafi's current susceptibility to U.S. pressure is discussed in Section IVB below.)

IV. CHANGES IN THE INTERNATIONAL ENVIRONMENT SINCE DECEMBER 10 AND THEIR IMPLICATIONS

(A) Poland: The key development since our December 10 actions against Libya has been the military crackdown in Poland and our response of imposing economic sanctions against Poland and the Soviet Union. We have asked our allies to take parallel economic and other actions and not to undermine the effectiveness of measures we have taken that are broader than theirs.

These developments have increased the existing strains within the Alliance, and will have an interrelationship with implementation of economic sanctions against Libya. Both the oil import embargo and the embargo on U.S. exports to Libya are explicitly designed to be unilateral measures. We do not expect that imposition of a unilateral U.S. import embargo against Libya would strain U.S. ties with its allies. An export embargo could, however, have abrasive effects because it raises issues of potential extraterritorial application.

We face a dilemma here: in order to be effective to the maximum degree from an economic standpoint, our prohibition against exports to Libya would have to include provisions

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preventing re-export of U.S. origin products and prohibitions against alternative supply of proscribed items by U.S. subsidiaries and licensees operating in third countries. Such a policy would place an economic burden on our allies and incur political costs within the alliance. The recommended solution to this dilemma is one which squares with our intention to make a strong symbolic political statement that the United States has decided to conduct its own policy in a way that isolates Qadhafi and prohibits normal U.S.-Libyan commercial relations. We would welcome Allied support but will not pressure them to do so. Therefore, we could explicitly avoid extraterritorial application in the regulations designed to institute the export controls being considered in this policy review.

(B) U.S./Libyan Relations.

Qadhafi at present is in a relatively weak position internally. A recent coup attempted by the trusted military and consumer discontent over food shortages and cutbacks in imports due to cash flow problems may lead him to make some temporary tactical concessions to the U.S. but we do not expect his basic political orientation and methods of operation to change.

CIA reports that the increasing militant posture of the U.S. has led Qadhafi to feel vulnerable and that Qadhafi's perception of threat has increased markedly during the period between the measures ordered by the President on December 10 and the present. We cannot determine with precision the effect that our demarche had on Qadhafi. Qadhafi sent an envoy claiming that he desires better relations with the U.S. and that our withdrawal of Americans from Libya was greeted with "shock" and "panic" by Qadhafi. This is in sharp contrast to the sense of bravado with which Qadhafi reacted to the Gulf of Sidra incident in August and which he sustained during the pre-December 10 media attention accorded him when the Libyan plot to assassinate senior U.S. officials was first revealed.

In framing a policy that will capitalize on Qadhafi's feeling of being under pressure, it is well to bear in mind CIA's assessment that (1) Qadhafi is at heart a survivor with strong self-preservation instincts, who has shown a capacity for judicious political calculation; (2) any public facing down of Qadhafi leaves him psychologically and politically choiceless

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and would be taken as a dare, not a deterrent; and (3) Qadhafi has demonstrated that he can back down in response to a clear message privately communicated.

(C) The World Oil Market:

World oil markets are expected to remain soft at least through 1982, barring any unforeseen disruptions involving major producers or concerted action by a number of producing countries to reduce production. Free world demand has been falling since 1979 and may decline further in 1982, and the OPEC countries as a group are producing about 3.0 mmbd below the sum of their "preferred" levels. As a consequence, the economic effects of a unilateral U.S. boycott of Libyan oil on either the U.S. or Libya are not likely to be noticeably different than they were in December.

As a result of Libya's reducing the price of its oil from \$41 to \$37 per barrel, Libyan oil producing rose from 600,000-700,000 b/d in November 1981 to an estimated 1.0-1.1 mm b/d currently. U.S. imports of Libyan oil have averaged 150,000 b/d for the last few months, about 3 per cent of total U.S. imports and 15 per cent of total Libyan exports. This is a sharp drop from the 1980 figure of 716,000 b/d.

(D) Relations with Regional States:

There have been several developments since early December in U.S. and Libyan relations with North African and Middle Eastern states. The Israeli action with regard to the Golan Heights and the U.S. veto of sanctions in the UN has put the U.S. in a more difficult position with regard to Arab public opinion, and increased the desire of both radical and moderate states for at least a semblance of Arab unity. Also the worsening position of Iraq in its conflict with Iran and growing Iranian assertiveness in the Gulf gave the Arab moderates a greater incentive to close ranks with states like Libya which were backing Iran. These were among the factors leading to Saudi recognition of Libya at the end of December.

The reactions of regional states to the December 10 measures held few surprises. The governments of Morocco, Egypt, Sudan, Tunisia, Jordan, Oman, and North Yemen were privately supportive, though most took a low public profile. The Saudis expressed a concern that our actions were building

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up Qadhafi, and Mubarak worried that they might lead to increased Soviet presence in Libya. The net effect of these developments has been to increase somewhat the political costs in the region of further U.S. actions against Libya. The Tunisians have become increasingly concerned about Libyan subversive activities and overt Libyan support for the Rawlings coup in Ghana has increased distrust among African states. Meanwhile, Libya's withdrawal from Chad has eased somewhat the threat to the Sudan and improved Qadhafi's relations with neighboring states.

(E) Soviet Posture:

Soviet propaganda has ridiculed U.S. action towards Libya and suggested that Soviet support for Qadhafi has had a "sobering" impact on the U.S., but nothing has occurred to suggest that Moscow's basically cautious posture has changed. Preoccupation with the Polish crisis may make the Soviets less inclined to get actively involved in defending Libya, although they will continue to use the Libyan crisis to increase their presence there.

(F) Public Opinion:

The predominant perception of Libya among Americans changed from being "unfriendly" to being an "enemy" of the U.S. between November and December according to a Harris poll. Survey data indicated considerable public support for an oil boycott although there was strong opposition to military action even in polls taken at the time when media reports of Libyan hit squads in the U.S. were in full swing.

V. REVALIDATION OF OIL EMBARGO AND EXPORT BAN

In light of our objectives toward Libya and an awareness of the changes that have occurred in the international environment since, the U.S. should activate for reconsideration and confirm the further economic measures for which the President directed the Secretary of the Treasury to initiate and coordinate preparations, that is: termination of U.S. oil imports from Libya and prohibition of U.S. exports of equipment and technology to Libya.

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Item 4a: An Embargo of U.S. Oil Imports from Libya:
The discussion of this step contained in the NSC discussion paper of December 8 continues to be valid. World oil supplies are expected to remain more than adequate to meet demand through 1982, barring unforeseen political disruptions.

As noted in that paper, a unilateral oil embargo would not have a significantly long-lasting economic impact on Libya. This would be a political statement putting Qadhafi on notice that we are determined to isolate him and signal our moral outrage at his support of terrorism and subversion. It would also demonstrate to regional states, the Soviets, Libyans and our own public the seriousness with which we view Libya's lawless and aggressive behavior. By denying U.S. funding for Libyan terrorism and arms, we will free ourselves from charges of hypocrisy and will strengthen confidence among Qadhafi's potential victims that we are serious in our determination to assist them to resist Libyan aggression. We also will make the important political point that Libyan oil revenues are the source of funding for Libyan terrorism and aggression.

Such a unilateral U.S. boycott would not strain the alliance because it will not affect any concrete allied economic interests. We cannot expect much support from our allies on a boycott or on other measures against Libya, particularly in the wake of our discussions of sanctions against Poland. We will want to make clear that we would welcome allied support, are not pressing for it, but also expect the allies to refrain from undercutting U.S. actions or from any public criticism of them.

The legal authority for an oil embargo would be the International Economic Emergency Powers Act (IEEPA), and a draft Executive Order has been prepared on this basis. IEEPA gives the President broad discretionary authority to respond to "any unusual and extraordinary threat, which has its source in whole or substantial part outside the United States, to the national security, foreign policy, or economy of the United States, if the President declares a national emergency" with respect to that threat. Thus, the President must find that there is an "unusual and extraordinary threat." These are words of judgment. Courts will be extremely loathe to question a reasoned decision by the President that the statutory standard has been met.

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There may be \$200 million worth of such bonds constituted as irrevocable letters of credit with U.S. banks or their subsidiaries or branches overseas. The U.S. could impose controls attempting to block payment in the event of Libyan presentation. However, putting such controls on U.S. banks could injure their long-term competitiveness. Applying them to foreign branches or subsidiaries would pose clear conflicts with foreign bank laws and requirements.

Prior Withdrawal of Americans. By early February, the number of employees of U.S. oil companies operating in Libya will have declined to less than 100. In addition, there will be an indeterminate number of other Americans, mostly spouses of Libyans or Americans working directly for the Libyan government, who will probably choose to remain in Libya. Those remaining after that point will be doing so of their own freewill and in conscious disregard of clear U.S. policy. The discussion paper for the December 8 NSC meeting suggested a further stage of forcing withdrawal. This can be done by invoking IEEPA to prohibit financial transactions related to the travel to or presence in Libya of U.S. nationals, at the same time as IEEPA is used to institute the economic sanctions.

The December 8 NSC discussion paper suggested using IEEPA to achieve mandatory withdrawal of Americans prior to institution of the next steps. Further study suggests that it would be unwise to invoke IEEPA for this single purpose, particularly because of the Constitutional issues raised by an order interfering with the right to travel. Given the good record of compliance with the December 10 withdrawal request, it also can be argued that a mandatory withdrawal order is unnecessary.

VI. ADDITIONAL MEASURES

A. Transaction Controls.

The earlier NSC papers considered the issue of trying to achieve the disposition of equity of U.S. firms in Libya on foreign policy grounds. The Exxon example of voluntary disposition of equity was pertinent and forms of voluntary and mandatory requests to follow this example were considered.

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Mandatory divestiture of equity by U.S. firms in Libya could be accomplished under IEEPA but would raise serious policy problems. In addition, IEEPA is limited in this connection to the extent that it permits the President to prohibit the holding by U.S. citizens of property only where a foreign country or foreign national has an interest in that property. It may therefore be preferable to use IEEPA instead to prohibit U.S. citizens and firms from engaging in commercial transactions in Libya and with Libyans, on foreign policy grounds. Such an application of IEEPA could be undertaken in conjunction with steps 4a and 4b (the oil embargo and an embargo of exports) or with step 4a alone. Similarly, the timing could be phased or simultaneous with respect to any or all of these three measures.

To halt U.S. commercial relations in Libya in this manner would be a serious step, one with obvious adverse implications for that portion of the U.S. business community now doing business in Libya. On the other hand, it would remove the inconsistency (certain to be focused on by observers, particularly those in the media) that arises from invoking steps 4a and/or 4b in the absence of transaction controls. In the instance of an oil boycott, for example, U.S. oil companies would still be able to conduct their operations in close to full force. They will have substituted foreign nationals for the Americans who were withdrawn because of the December 10 policy initiative and they will be able to continue to sell the approximately \$8 billion of their annual production to Europe, as before.

B. Selective Export Controls.

Should we decide not to have a total embargo or implement transaction controls, we could take steps to control selected exports. At present, export controls now in effect do not allow us to deny dual use technology, including computers, communications equipment, and aircraft ground equipment, destined to the Libyan government. New controls blocking delivery of such technology to Libya would increase the pressure on Libya and make U.S. actions more consistent.

To implement this step, new regulations would be published under the foreign policy provision of the Export Administration Act to deny the export of "national security" items (those items controlled for export to the USSR) to either 1) government

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and military endusers, including the Libyan National Oil Company or 2) all endusers in Libya including foreign private firms.

C. Export Licensing Requirements.

An additional option, also in lieu of an export embargo, would be to require licensing of all items for export to Libya. A general licensing requirement could be announced as a measure to monitor exports to Libya and to provide the Administration with the authority to deny any item which could be used by Libya to support its terrorist or military activities. Our licensing decisions would consider factors such as the potential contribution of the export to Libyan adventures and the need to avoid interference with contractual obligations of parties in foreign countries. By explaining these in-house criteria to our Allies, and by retaining the flexibility to issue licenses to meet their concerns in specific cases, we would go a long way towards minimizing further difficulties arising from the extraterritorial effects of our actions. However, a general licensing requirement would create an enormous flow of license applications, and invoke the Administration's responsibility for every export which was authorized.

The steps outlined in B and C above would not do significant damage to the Libyan economy. They would, however, prevent transfer of U.S.-origin material and expertise to Libya and their possible diversion to Libyan terrorism and subversion. In that sense, they would be consistent with other policies designed to end U.S. contributions to such activities. They are presented as an alternative to a full embargo on exports to Libya as a means to (1) protect U.S. exporters -- in general -- from facing the "reliable supplier" charge and from incurring the broad-scale financial costs that will accrue from a full embargo; and (2) give the U.S. greater protection against the assumption on the part of our allies that we will inevitably be pushed toward extraterritorial application of U.S.-export controls, with all the adverse consequences for third countries (primary among them, increased unemployment during recessionary times).

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D. Diplomatic Initiatives Against Libyan Peoples' Bureaus

In order to achieve progress toward isolation of Libya in the world community, it is recommended that an interagency group, such as the working group adjunct to the Libya Task Force, be tasked with formal responsibility. Operating under such a charter, that group (or any such designated body) would periodically review reports of Libyan initiatives in third countries, and if judged appropriate, recommend to the NSC, through the Task Force, actions which could and should be taken by the U.S. government. A sequence of events envisioned by this recommendation would start with an intelligence report of a Libyan initiative, such as People's Bureau Association with known terrorists or anti-government factions with the host government not aware of the contact. The US, in the case of an allied or friendly government, would share such a report and request the host government consider the closing of the People's Bureau. Additional pressure might be required in order to convey the US Government desire in such a case, but obviously this must be assessed on a case by case basis. Even in those countries where US and local government interests have wide divergence, the possibility of such action should be assessed. In any event, Libyan moves into such traditional areas of strong US interests, like the Caribbean, could be met and countered in something approaching a systematic manner. Recent reports of Libyan expansion into such locales as Venezuela, Saint Lucia, Ghana, Oman, and Curaco would logically be subjected to this interagency process. Coincidentally a country by country review should be undertaken to further identify potential situations which fit the criteria of this recommendation.

VII. MILITARY AND SECURITY MEASURES

Military measures that might be directed against the Libyans fall into two categories:

- Those that are taken in response to direct Libyan attacks against U.S. officials, installations, or citizens.
- Those that are taken to deal with continuing Libyan efforts to subvert, de-stabilize, and more directly coerce friendly regimes in the area.

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A. Responding to Direct Libyan Attacks Against the U.S.

The JCS has reviewed the seven courses of action it previously proposed for responding to this category of Libyan actions. They have confirmed that these courses of action are feasible; Course of Action Six (Strike Operations) is capable of being executed within 96 hours. The JCS believes that the range of options that have been developed are sufficiently comprehensive that additional options need not be developed. Refining the various options or courses of action will be necessary -- especially given the possibility of changing scenarios -- and will continue. We would address the War Powers Resolution and other legal implications in making a decision to carry out any of these options in light of the circumstances at that time.

Potential Reactions to the Exercise of U.S. Military Options. Soviet, regional, and NATO reactions to an exercise of direct U.S. military force against Libya will in differing degrees be influenced by the nature of the Libyan attack on U.S. citizens or facilities. If there were little ambiguity about the Libyan action, and the action itself was extreme (i.e., assassination of a high U.S. official), even the Soviets would probably distance themselves from Libya and not come immediately to the Libyan defense.

At the same time, the Soviets would condemn any U.S. military response as an over-reaction and try to stir up anti-U.S. sentiment in the region. In circumstances where the Libyan action was less clear-cut, Soviet support of Libya would be far more pronounced. Though being unlikely to use their forces in such a way that a military confrontation with the U.S. would develop, the Soviets would offer to bolster Libyan defenses, replace and rebuild equipment and infrastructure that U.S. strikes might destroy, and increase their own military presence in Libya. The more forceful our action, the more likely the Libyans would be to accept an increased Soviet presence in the hopes that it would deter further U.S. actions.

Among Arab states in the Middle East, the issue of provocation will only be significant to the moderates. The radicals, i.e., Syria, PDRY, etc., will attack us and offer figuratively to come to Libya's defense, regardless of the nature of the Libyan action. If the provocation were clear-cut, many of the moderates would privately welcome our action and some

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(e.g., Sudan, Oman, and possibly Egypt) might publicly support it. The Saudis and others, however, being fearful of appearing to sanction an outside military action against an Arab nation would not openly support our action and might feel the need to establish some distance from us at least for a limited period of time.

In those cases where Libyan responsibility is less clear, or the U.S. reaction is seen to be disproportionate (e.g., civilian casualties), the Saudis and other Gulf moderates will more openly condemn our action and more demonstratively distance themselves from us. Enhancing military cooperation against the Soviets could become more problematical. More damaging than a U.S. response to an ambiguous situation would be an American military reaction that is perceived or portrayed as a failure -- especially if there were U.S. losses. This would rekindle doubts about the U.S. and its ability to safeguard its friends in the region. It would probably also raise the costs of association with us in the eyes of those Arab states most willing to work with us on security matters -- Egypt and Oman.

The responses of our NATO allies to a U.S. military action against Libya will be strongly shaped by the character of the Libyan action. The more clear the Libyan responsibility and the more serious their action, and the more proportionate the U.S. response, the more supportive our allies are likely to be. The less clear the Libyan responsibility, the more we will see the allies distancing themselves from our action and calling for restraint on our part.

B. Dealing With Continuing Libyan Threats in the Region.

Differing kinds of military measures must also be considered for dealing with continuing Libyan efforts to threaten and destabilize regimes in the area. These measures include:

- providing greater assistance to local states threatened by Libya;
- increasing U.S. military presence in the area;
- expanding military and intelligence cooperation with regional governments; and
- engaging in joint contingency planning with at least Egypt.

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Assistance. In response to burgeoning Libyan threats, the U.S. has already increased security assistance to local states. More will clearly be needed as the states most threatened by Qadhafi (Sudan, Tunisia, etc.) are highly vulnerable and have limited military and economic means. Decisions on increased security and economic assistance, however, will have to be addressed in the budget cycle, where funds remain extremely tight.

The area of economic assistance is one where our allies could be very helpful. Rather than asking the allies to join us in employing sanctions against Libya -- at a time when they are reluctant to consider sanctions on Poland -- it makes far more sense to ask them to provide economic assistance to the vulnerable regimes threatened by Qadhafi. Because providing economic assistance to states critically in need like Sudan may ameliorate many of the sources of local instability, it may also appeal to the allies.

Increased Presence. An increased U.S. force presence in the region could serve to deter overt Libyan adventurism and also reassure local states threatened by Qadhafi. More than this, it might put increased pressure on Qadhafi at a time when our actions have already made him quite nervous. Though he has not altered his policies in any fundamental way, this nervousness has led him to put out feelers to us and to become more circumspect in waging his campaign of terror. Increased presence and/or exercises that essentially amount to shows of force in the area (e.g., another Gulf of Sidra exercise) might thus push him to effect some positive changes in Libyan policy. At the same time, it should be noted that putting more pressure on Qadhafi in this manner could allow Qadhafi to portray himself as standing up to U.S. pressure directed not just against him but the "Arab nation" generally -- and this could have some effect on the Gulf states.

Examples of such measures include:

-- A return to exercises in the Gulf of Sidra which have been infrequent since 1979.

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-- An increase in Special Forces, Airborne, Marine, Navy and Tacair exercises, some jointly with friendly local states.

Expanded Cooperation. Expanded security cooperation with local states would signal our support for them and our determination to work with them to counter the threats they confront. One option for expanding cooperation with the states threatened by Libya would be to establish a Regional Training Center (RTC) in Egypt. The RTC, proposed by the Egyptians, would be a training site built with U.S. funds and jointly used by U.S., Egyptian, and other friendly regional forces. Another option for expanding cooperation would be to initiate military unit exchanges with regional states. This would require legislative changes since unit exchanges are currently restricted by law. A third possibility is to expand intelligence collection and sharing with friendly states in the region.

Contingency Planning. Contingency planning with Egypt could be very important for dealing with major Libyan threats to Egypt, the Sudan, and possibly also Chad. While the Mubarak government seeks no military confrontation with Libya -- and contingency planning for military actions against Libya may no longer rank high on its agenda -- circumstances may change. Certainly any direct Libyan threat to the Sudan would rekindle the Egyptian inclination to respond militarily to the Qadhafi menace. Putting ourselves in a position where we have developed with the Egyptians the joint plans and capabilities for responding to these contingencies will, therefore, continue to be very important.

All such contingency planning with Egypt should be guided by two principles: (1) The need to improve Egypt's combat and logistic capability to deter/counter Libya's provocative or direct attacks without commitment of direct U.S. combat support, e.g., tacair. (2) The importance of further analyzing the Egyptian deficiencies in the western military district and estimating financial and political costs required to correct them.

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VIII. CONGRESSIONAL AND PUBLIC AFFAIRS STRATEGY.

We need a public affairs and Congressional strategy that prepares the ground for the announcement of new measures directed at Libya. And we need to formulate the announcement itself so that it reflects a balanced and well-rounded approach, rather than a set of random negative sanctions. If we fail to build public interest and support prior to our announcement, we may find we have inadequate thrust to sustain the takeoff of the second phase of our Libyan policy -- a difficult predicament from which to recover.

The principal criticisms are relatively easy to anticipate. Some are sure to argue that we are both provocative and erratic; others may suggest that we are merely trying to distract attention from domestic problems, or that we are compensating for our weakness on Poland and other hard issues by striking out episodically against the Libyans. Moreover, we are dealing with a public acclimatized by the media to associate foreign policy decisions with certain specific, often dramatic, precipitating events. When no such single event can be immediately discerned, it becomes easier for critics to speculate that the decision was driven by some hidden political agenda. This means our immediate problem is complicated, since we are in fact responding to a broad, continuing, and not always very visible pattern of subversive activity. But this is an opportunity as well as a problem. Indeed, part of the solution consists of our using the lack of any sudden precipitating event to our advantage, showing that we have a strategy rather than a Pavlovian response to random incidents. At the same time, it is essential to be as concrete as possible in focusing prior to our announcement on behavior that alarms us -- particularly on provocations that are themselves representative of the broader Libyan program of regional stabilization.

In the public's mind, our initial measures were linked -- unintentionally and, in many ways unhelpfully -- to the assassination-terrorist dimension of the Libyan threat. As a result, the broader strategic problem that Libya poses has not as yet been fully absorbed. To correct this, we should -- in advance consultations with the Congress, and through an increase in the tempo and specificity of Administration statements -- begin

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to direct attention to recent Libyan threats against Oman, to provocative Libyan broadcasts into Egypt, and to Libyan subversive activity in Sudan. These statements should have an admonitory and stage-setting character. They provide the occasion for driving home our broader arguments: namely that threats to Sudan reverberate in Egypt; that Libyan threats against Somalia and Oman are designed to undermine those states willing to help us protect vital resources; that Libyan activity in Yemen places a sharp dagger in the side of our Saudi friends; and that Libyan arms to the PLO in Lebanon destabilize the country, threaten Israel, and upset the prospects for peace, and that Libya is active in Central America. The point here is to show that Libyan activity conforms to a certain pattern and has a strategic coherence.

Of course one of the best ways to remind others that we face a broad problem is to focus attention on the breadth and continuity of our response. This means assuring that the announcement of new measures includes reference to the security and developmental assistance we are already giving. Such a reference would highlight the positive overtones of our policy -- deterrence and the effort to reduce the internal discontent upon which subversion feeds. Additionally, to reinforce the dualism between "peace and security" we should draw attention to our support to peacekeeping efforts in Chad, and perhaps consider ways to bolster that support simultaneously with the enactment of new punitive measures. These themes should be given sufficient prominence in the President's announcement that they become difficult for critics to discount or ignore.

In preparing for the announcement of the initial decisions on Libya, we were constrained -- because of time and the fear of leaks that could cause harm to American citizens in Libya -- from engaging in a serious dialogue with the Congress prior to action. This time we should think of two distinct phases of consultation.

The first phase would be educational and designed to give key members a sense of involvement in our decision process and -- thereby -- a stake in the outcome. Here we would share as much intelligence data as possible; discuss the threat our friends in the region feel; show how Libyan success in various places will complicate our strategic position; and indicate the decisions that the President is leaning toward taking.

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The second phase would, then, consist of standard, courtesy calls a day or so before the actual announcement of new measures. The second phase is essential, but cannot substitute for the more consensus producing consultations described in phase one.

IX. TIMING.

Except for the Gulf of Sidra exercise, the military measures described above are all either in various stages of implementation or are planned on a contingency basis. Crucial decisions will have to be made regarding the timing of the economic steps. The oil embargo and export controls, if decided upon, could be implemented simultaneously for maximum impact and to demonstrate that the U.S. is ending "business as usual" with Libya. The same can be said if transaction controls are added to this list. Alternatively, we may want to implement a phased program: oil embargo now, export embargo later, transaction controls still later. There are two arguments in favor of this approach. First, the economic sanctions most painful to the allies (because of their fears of extraterritorial application) and to U.S. business would be delayed until the initial impact of the sanctions undertaken to deal with the Polish crisis have passed. Second, if there is a possibility that Qadhafi will reduce his support for terrorism in response to U.S. pressure, there is an advantage in steadily increasing the pressure and in holding some measures in reserve.

The issue of timing also arises with respect to implementation of whatever decisions on next steps toward Libya are taken at this NSC meeting. As argued in the section on Congressional and Public Affairs strategy above, we may want to delay implementation for a period of time (30 days, for example) in order to build support among a public currently relieved by the diminished assassination threat against U.S. leaders and distracted in its attention by events in Poland.

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ECONOMIC AND SECURITY POLICY TOWARD LIBYA
SUMMARY DECISION SHEET

<u>Option</u>	<u>Approve</u>	<u>Disapprove</u>
1. <u>Implement Unilateral US Oil Embargo</u>		
a. Immediately (NSDD 4a)	_____	_____
b. Implementation Delayed While Building Public Support	_____	_____
2. <u>Implement Tightened Export Controls Against Libya</u> (Prohibiting Export of Dual Use Items; Instituting Licensing Requirements).	_____	_____
3. <u>Implement Full Embargo of US Exports to Libya</u> (NSDD 4b)		
a. With extraterritorial enforcement	_____	_____
b. <u>Without</u> extraterritorial enforcement	_____	_____
c. With extraterritorial application only to oil and gas technology.	_____	_____
4. <u>Mandatory Withdrawal of Americans</u>		
a. Unnecessary	_____	_____
b. Combine with other IEEPA-mandated Restrictions (Oil Embargo and/or Embargo of US Exports)	_____	_____
5. <u>Implement Transaction Controls on US Firms Doing Business in Libya</u>	_____	_____

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	<u>Approve</u>	<u>Disapprove</u>
6. <u>Timing of Economic Measures</u>		
a. Simultaneous	_____	_____
b. Phased	_____	_____
7. <u>Enhanced US Security Assistance</u>	_____	_____
8. <u>Enhanced US Economic Assistance</u>	_____	_____
9. <u>Increased US Military Presence</u>	_____	_____
a. Special Forces, Airborne, Marine, Navy and Tacair Exercises, some Jointly with Friendly States	_____	_____
b. <u>Exercises in the Gulf of Sidra</u>		
1. Resume as soon as possible	_____	_____
2. Delay so as not simul- taneous with Economic Measures	_____	_____
10. <u>Expanded Security Cooperation</u> with Local States (e.g., Regional Training Center in Egypt)	_____	_____
11. <u>Contingency Planning with</u> Egypt and Others to Respond to Libyan Threat	_____	_____
12. <u>Validation of JCS Options</u> for Responding to a Libyan Provocation Against US Targets (NSDD Item 5)	_____	_____
13. <u>Diplomatic Initiatives Against</u> Libyan Peoples' Bureaus in Other Countries	_____	_____

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TAB AImplementation of December 10 Steps

On December 10, the President directed that three steps be taken immediately to reduce the threat that Libya poses to U.S. security (Items 1-3 of NSDD 16). These steps have been implemented and there has been good progress in securing the withdrawal of American citizens from Libya. They include:

1. Demarche to Libya: A demarche was delivered to the Libyans on December 10 by the Belgian Ambassador, warning against plotting of terrorist actions against U.S. citizens or facilities. The Libyans firmly rejected our accusations. While we are unable to assess the impact of the demarche on Qadhafi, the CIA believes that it along with other actions may have caused Libya to suspend its activities, at least against U.S. personnel. There is no indication, however, that such a suspension is anything more than a tactical maneuver, or that Qadhafi would fail to resume such methods later.

2. Request for Withdrawal: The President requested on December 10 that U.S. corporations operating in Libya facilitate the rapid withdrawal of their American employees. Most of the companies have moved rapidly to comply with this request. As of January 21, about 400 U.S. employees/dependents remained in Libya of the approximately 1200 who were there on December 10, and by early February, we expect this number to drop to less than 100. In addition, there were another estimated 300 American citizens in Libya on December 10, primarily U.S. citizen spouses of Libyans and Americans working directly for the Libyan Government (e.g., technicians, professors, etc.) While their numbers have declined since then, we do not know by how much. A small number of workers (perhaps two dozen) who refused to leave are being terminated by their U.S. employers and will work for the Libyan National Oil Company or other Libyan enterprises.

3. Invalidation of Travel: Effective December 11, the State Department invalidated U.S. passports for travel to Libya. Most Americans intending to travel to Libya have complied with this order, although some individuals are entering Libya without their passports. A number of special validation requests have been granted, for journalists, spouses, and individuals designated by their companies to coordinate the withdrawal effort.

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