

NATIONAL SECURITY COUNCIL MEETING

DATE, TIME AND PLACE: November 9, 1982, 5:15 p.m.,
Cabinet Room

SUBJECT: NSC Meeting regarding the Allied Agreement
on East-West Trade and Poland-related
Sanctions

PARTICIPANTS:

The President

The Vice President

State:

Secretary George P. Shultz

Treasury:

Secretary Donald T. Regan
Mr. Marc E. Leland

Defense:

Secretary Caspar W. Weinberger
Dr. Fred C. Ikle

Commerce:

Secretary Malcolm Baldrige
Mr. Lionel Olmer

USTR:

Ambassador William E. Brock

OMB:

Mr. Joseph Wright

CIA:

Mr. John McMahon

OPD:

Mr. Roger Porter

JCS:

General John W. Vessey

White House:

Judge William P. Clark
Mr. Edwin Meese, III
Mr. James A. Baker, III
Mr. Robert C. McFarlane

NSC:

Admiral John Poindexter
Col. Michael O. Wheeler
Mr. Roger Robinson
Cdr. Dennis Blair

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Minutes

National Security Adviser Clark opened the meeting, noting that the next decision point on the sanctions issue had arrived after the decisions of December, 1981 and June, 1982. He said that Secretary Shultz would review the status of consultations with the Allies. Although the President might not be ready to make a decision at the meeting, he continued, the Secretary of State needed a selection by the President from among the four options in order to inform the Allies. ~~(C)~~

Secretary Shultz said that although during the consultations, the Allies ~~there~~ had been careful not to discuss the pipeline sanctions, they were now "curious" to know what action the President would take to modify the sanctions. The consultations with the Allies, he continued, had identified the common ground in the area of East-West economic relations. This common ground enabled the Allies to feel that they had not been negotiating with the United States under duress, and the United States for its part was able to put forward an agreement in a positive, upbeat manner. The Secretary stated that he would address four topics: the status of the discussions with the Allies; a review of the non-paper; the side letters to the paper; and the Poland-related sanctions. ~~(C)~~

Concerning the status of the discussions, the Secretary pointed out that although the paper was in a final form, final Allied approval depended on U.S. sanctions modifications. He pointed out that certain words in the text of the paper such as "subsidize" and "strategic interests" were ambiguous. There was an inherent ambiguity in these words that could only be worked out as the paper became "concrete and operational." There were several side letters to be written in conjunction with the paper: the ~~██████████~~ wanted reassurance that the contracts covered in the "pause for reflection" which they had instituted would not be considered "new contracts," therefore subject to the agreement of the non-paper. The ~~██████████~~ wanted similar reassurances on an imminent gas agreement ~~██████████~~. The ~~██████████~~ wanted assurances concerning the ~~██████████~~ project, for which contracts were signed on a yearly basis. The ~~██████████~~ wanted an assurance for contracts similar to those of Italy. Secretary Shultz pointed out all these situations were straightforward, legitimate, in good faith and that the countries concerned were seeking reasonable assurances. Concerning the interpretation of the word "subsidize," the side letter would point out that the definition of the word is not identical among all the governments. Secretary Shultz thought that this side letter might be better handled by other means during the consultations. There was also a potential side letter concerning the phrase "common approach." The United States was concerned that this phrase not be interpreted to mean that countries could only take actions which were agreed by all of them.

The United States had asserted in the consultations that it might still be necessary to take unilateral actions. Secretary Shultz then stated that Under Secretary Wallis had rejected a European proposal on a joint examination of the legal aspects of extraterritoriality. Under Secretary Wallis had said that such a study could be undertaken as a separate effort, but not as part of the non-paper. ~~(C)~~

Secretary Shultz next reviewed the contents of the non-paper for the members of the National Security Council. He covered the introduction, the section listing criteria for East-West trade, a list of areas for study, and the near-term undertakings in the study. He concluded this description by pointing out that the United States would attempt to remove or make side letters unnecessary, but that if this were not successful, he would have no hard objection to the side letters. ~~(C)~~

Secretary Shultz then turned to the schedule for further consultations. He said that a meeting had been scheduled for tomorrow, November 10, with the four European countries affected by the American temporary denial orders. He said at that meeting he hoped to inform those countries what the President's intentions were for modifying the sanctions. Later in the afternoon of November 10 there was a meeting of the "Seven plus two" in which the entire package would be reviewed. In an effort to avoid the disagreements which had followed the Versailles Summit, all the Allies would agree on what they would say publicly. The American preference was to distribute the non-paper. The [redacted] had objected. As an alternative, the State Department had distributed to the Allies a precis of the paper in the form of talking points which the President would use, and had asked for a similar paper from each of the Allies by tomorrow. At the 10 November afternoon meeting, the task was to put the papers together and to coordinate the public pronouncements. The Secretary noted that the non-paper would in due course become public through leaks in any case and that this was nothing to be worried about since it was a good paper, one to be proud of. Secretary Shultz concluded that by tomorrow afternoon the Allies could be very close to a final agreement on all elements in the package requiring only a few cables, among foreign ministers and capitals to wrap it up. ~~(C)~~

Judge Clark asked if the Secretary considered it worthwhile for the President to send a message through his channels to the other heads of state. ~~(C)~~

Secretary Shultz said that the basic public line of all the heads of state should be that the paper represented a victory for the Alliance, not for any individual country. It was necessary to have an upbeat, positive presentation. It would be good for the President to emphasize this interpretation to his counterparts.

The Secretary had met earlier in the afternoon with German Defense Secretary Manfred Woerner and had given him this message concerning public handling of the issues. Woerner had promised to take this message back to Chancellor Kohl. In conclusion, Secretary Shultz said messages from the President to his counterparts would be desirable. ~~(C)~~

Judge Clark reviewed the manner in which the U.S. would announce the arrangement. The President would announce the overall agreement on East-West trade, then the "action would shift" to the question of modifying the U.S. sanctions, and the announcement on this subject would be handled by Secretary Shultz and Secretary Baldrige, who actually was responsible for administering the sanctions. The idea would be that the President would announce the broad outlines of the agreement, and then give directions to his departments to implement them. This was similar to the way in which these sanctions had been imposed. ~~(C)~~

Secretary Shultz said that he would be giving a background briefing with Secretary Baldrige. He would elaborate on the overall agreement, and Secretary Baldrige would field the questions on the sanctions themselves. ~~(C)~~

Before the views of the other members of the NSC were given, the President stated that what he wanted to know was whether the agreement which Secretary Shultz had worked out was superior to what the United States now had in place. He recalled that Under Secretary Buckley had gone to Europe to work out common measures. If he had succeeded there would have been no need for U.S. sanctions. Neither had there been any success at the Versailles or Bonn Summits in working out common sanctions. ~~(C)~~

Secretary Shultz said that the agreement was basically a good one. It was, of course, impossible to say whether the work program laid out in the agreement would meet all U.S. objectives. However, a certain momentum was being generated and it looked promising. As for the concrete content of the agreement, the improvements to COCOM were actually in progress. The agreement that there be no new gas contracts signed for the course of the study was a clear commitment. Basically, the paper was a commitment by the Alliance to work out an economic strategy to complement the military strategy and the strategy on values which the Alliance already had. It was appalling to him that the Alliance did not have one already. As for the studies, the Secretary recommended strongly that they go forward and that the U.S. government assign their best people to them. Properly done, the studies could be of great significance. There was always the possibility that they could peter out and produce no concrete results, but the Secretary doubted it. The agreement on credit policy was a plus, in the Secretary's view. He hoped that an arrangement could be worked out. Other credit agreements having nothing to do with the Soviet Union had been negotiated

from time to time and had not been terribly successful, but it was worthwhile trying again. Concerning the agreement to study controls on high-technology items outside the military sector, specifically oil and gas controls, the Secretary thought that the possibilities were good of obtaining some positive commitments. He did not expect sweeping controls, but some individual items could be identified. The Secretary continued to say that the United States had "gotten a lot of mileage" out of the pipeline controls. They had focused the attention of the Allies and they had focused world attention on Poland. There had been damage done to the pipeline in terms of delaying it and creating difficulties for it, although the intelligence community had different views on the exact nature of these effects. In the end, however, the Soviets would complete this pipeline, as they had many other pipelines. When the Soviets completed the pipeline, the United States did not want to have its pipeline sanctions in place, since this would give the appearance of failure. There was a point, therefore, when it was important to modify the pipeline sanctions. In the Secretary's judgement, we had just about reached that point. (C)

Secretary Weinberger agreed that the non-paper had good potential. The criteria were especially good. However, he pointed out that the paper was basically an agreement to consider an agreement, with the exception of the commitment not to sign new gas contracts. The undertakings on COCOM were nothing new. The agreements on credit, an ex post review and a harmonization of policies, would be good if they were fulfilled. The studies had potential to have greater results, Secretary Weinberger felt, if the U.S. sanctions were lifted in a way that retained leverage in U.S. hands. More leverage was needed than simply assigning good people to do the studies. After the Versailles Summit, the agreements had been disavowed by some of the participants. Secretary Weinberger pointed out that some French officials were already saying privately that the paper contained nothing new. Very little could come from the paper and the studies unless the United States retained some leverage. He agreed with Secretary Shultz that the sanctions that the United States had imposed had given positive results. Without the pain they had inflicted there would have been no movement on the common agreement. The manner of lifting the sanctions would give the opportunity to ensure the studies were completed and gave concrete commitments. In summary, the United States should get something solid in return for lifting its sanctions. Secretary Weinberger, therefore, recommended a variation on option four: that the temporary denial orders be rescinded and that enforcement of the June 18 measures be suspended pending completion of the studies. When these studies resulted in concrete commitments, the rest of the sanctions would be eliminated. This leverage would be retained to prevent a repetition of Versailles. (C)

Secretary Baldrige pointed out that the effectiveness of the sanctions was now at its height. Within a couple of years it would diminish as companies and countries figured out ways to work around the sanctions. In his opinion if the studies showed promise, then it was sensible to drop these sanctions before they became weaker. Although he had signed a memo with Secretary Shultz which recommended option 2, he was now changing his recommendation to option 1. Option 4 simply penalized American companies while European companies took their business. If the agreement was in fact better than the sanctions, then the clean, unambiguous action of option 1 should be taken. Even under option 1 the Afghanistan sanctions relating to oil and gas equipment would still be in place, as would the export control mechanisms. The important thing was to relieve the uncertainty for American businessmen and customers. Uncertainty prevented from going ahead with their plans. If the December sanctions were retained, the effect would be that Alstom Atlantique would take over contracts for rotors which General Electric was unable to compete for. ~~(C)~~

Secretary Shultz stated that he supported option 2. ~~(C)~~

Mr Baker asked whether the President himself would announce both the overall agreement and lifting the sanctions. Judge Clark replied that the President would announce the overall agreement and the Commerce Department would announce the sanctions modifications. Mr. Baker replied that from the press point of view the government would not be successful in separating the two pronouncements. (C)

The President stated that it was necessary to say publicly that the United States would have preferred to have had an agreement like this in the first place, before it imposed its unilateral sanctions. ~~(C)~~

Secretary Shultz pointed out that instead of saying that the United States had obtained this agreement from its Allies, he could therefore lift the sanctions, he could say something like "in the light of this agreement..." ~~(C)~~

Mr. Baker concluded that it was opinion that the President should announce both the agreement and the modification of the sanctions in his statement. ~~(C)~~

In reply to a question from Counsellor Meese, Secretary Baldrige said that option 2 would solve some but not all of the problems of U.S. companies which had been affected by these sanctions. It would not solve General Electric's problem with its rotors. He frankly said he did not understand what leverage over the Allies would remain with option 2. ~~(C)~~

Counsellor Meese said that option 2, the "broad exception" option, would give the U.S. flexibility. The concept as he understood it was a gradual loosening of U.S. controls except for selected areas of high technology. Secretary Shultz agreed that this was the case, and that option 2 would allow Caterpillar and Allis-Chalmers to compete for contracts. Secretary Baldrige interjected that the effect was still to leave U.S. companies under controls but not European companies. (C)

Secretary Shultz said that controls would remain in place, but that companies would proceed with their contracts under the exceptions. The United States would restrain certain high technology items. It was true that some of our companies would be penalized, but this would be a form of leverage. A structure would also be in place so that further actions could be taken if necessary. (e)

Secretary Baldrige said that the structure for controls would exist in any case. He still failed to see why how controlling U.S. companies but not European companies gave us leverage over European governments. (e)

Counsellor Meese stated that his recommendation was option 2. (e)

Secretary Regan said that he agreed with Secretary Shultz's analysis of the importance of the agreement. His recommendation was option 2. He pointed out that under option 2 companies would still be competing for many non-Soviet contracts and for Soviet contracts under the exceptions policy. (C)

The Vice President inquired whether option 2 would allow the Cameron Company to sell blowout preventers to the Soviet Union. Secretary Shultz replied that these were high technology, U.S.-origin items and would be candidates for remaining under controls. The Vice President said that a lot of money was involved in these contracts and that it was not entirely clear that they were sensitive technology and should be controlled. (C)

Under Secretary Olmer said that the blowout preventers could be sold. The only items which would be held would be rock bits and submersible pumps under option 2. Secretary Shultz said that option 2 would retain controls over more than just bits and pumps; there was a list of additional equipment which would be covered. (C)

Under Secretary Olmer continued that the U.S. would be attempting to obtain multilateral controls on this type of equipment, but that if they were unsuccessful, then the equipment would be allowed to be shipped as an exception. (e)

Mr. McMahon said that he was relaying Director Casey's views. Director Casey considered it a major achievement that the Allies were sitting down to work out a common economic policy towards the East. He suggested that as many reviews as possible be conducted in the NATO context in order to emphasize the security context. He said that tightening COCOM restrictions alone is a tremendous achievement. He thought the paper itself was a very positive step. (C)

General Vessey said that the options were basically not a military matter. It would be an advantage for overall NATO cooperation to have an agreement with the Allies, but if the studies failed to control high technology items, then the military tasks of the United States would be more difficult. From his point of view options 2, 3, or 4 would be acceptable. (C)

Ambassador Brock said that, in answer to the President's question, the agreement was better than what the United States now had. He favored option 1. The problem of businessmen was uncertainty, and the exceptions policy of option 2 retained this uncertainty. Controls would still remain under option 1 to prohibit the export to the Soviet Union of sensitive high technology products which were unique and controlled by the U.S. He said the effect of options 2, 3, or 4 would be simply to put additional U.S. products under controls which other countries could manufacture and win U.S. contracts.

The President asked for a clarification of the difference between option 1 and option 2. Under Secretary Olmer explained that under the 1978 Afghanistan sanctions and prior controls, the United States prohibited the export to the Soviet Union of oil and gas exploration and production equipment and technology. It did not under these controls, prohibit export of equipment for refining or transmission and had not controlled foreign subsidiaries and licensees. The measures taken in June controlled subsidiaries and licensees. The measures of December 1981 controlled refining and transmission equipment. Therefore, under option 1, two of the four oil and gas equipment areas would remain under controls, whereas under option 2, all four areas would remain under control. In addition, under option 2 there would be a small amount of additional leverage concerning extraterritoriality. Concerning G.E.'s rotors, the hope would be that the agreement reached after the studies on high technology items would prevent Alsthom-Atlantique from displacing General Electric in the world market. (C)

Secretary Weinberger said that Secretary Baldrige had asked what leverage the United States would retain under option 2. He pointed out that despite all the talk that Alsthom Atlantique could replace General Electric, there had been no sign in the four months since the June measures that it was able to do so. Most observers believed it would take at least two years to accomplish this. In addition, Secretary Weinberger pointed out that the situation in Poland was getting even worse. He reiterated that under option 4 the December sanctions would be removed once solid commitments had emerged from the studies. (C)

Secretary Shultz said that the wording of option 1 was not completely correct. It was not true that "all sanctions" would be lifted. It was more accurate to say that the measures taken in December 1981 and June 1982 would be lifted. ~~(C)~~

Secretary Baldrige, in reply to Secretary Weinberger's remarks, said that it was not a four-month proposition to build high-speed rotors. If Alsthom-Atlantique saw that G.E. was being excluded from the world market, it would move right in. (C)

The President closed the meeting by hoping that everyone else would have a pleasant evening. ~~(C)~~

On November 16 the President signed NSDD 66 which approved the "Summary of Conclusions" on East-West economic relations resulting from consultations with the Allies by Secretary Shultz; approved cancellation of the December 30 sanctions and the June 22 amendment; and laid out the President's objectives for the studies with the Allies in the area of East-West economic relations. In his radio address on November 13 the President announced the agreement and the lifting of the sanctions. ~~(C)~~