21 May 1988

MEMORANDUM FOR: DCI

25X1

FROM: SA/DCI [redacted]

SUBJECT: NSC Meeting on Monday to Discuss the Versailles Summit and East-West Economic Relations

1. At 1500 hours on 21 May, we were informed that there would be an NSC meeting chaired by the President on Monday, 24 May; the Versailles Summit and East-West Economic Relations will be discussed. We were told that the working papers for this meeting would be sent to CIA Hqs. by about 1200 hours on 22 May.

2. In the absence of NIO/Economics [redacted] STAT
25X1 [redacted] and DDI's [redacted] are the action officers. Upon receipt of agenda particulars from the NSC, [redacted] will draft and oversee the 25X1
preparation of relevant background papers and talking points for you. SOVA is presently drafting an updated paper on the Yamal pipeline.

25X1
3. By way of background, [redacted] discovered (from a contact on the NSC Staff) that State was pushing for the lifting of all oil and gas sanctions against the Soviets in exchange for support from all our European allies on credit restrictions for the Soviets; thus a quid pro quo proposition for our European allies. The NSC reportedly opposes this State position and hurriedly called this NSC meeting; the NSC is preparing a detailed option paper on this subject which we should receive on 22 May.

4. I've enclosed the following information which should be of background use for this NSC:

Tab A: DDI's Versailles Summit Update for the 18 May SIG on this subject; Talking Points for the Versailles Summit SIG meeting on 18 May;

Tab B: SOVA 20 May memorandum on the Status of the Soviet-Western Europe Export Pipeline Project;

Tab C: ANIO/USSR-EE's 20 May memorandum on the Japanese Request for an Exemption to US Sanctions;

Tab D: Your 17 May memo to ExDir on the Yamal pipeline (which was
25X1 given to [redacted] with a copy of the SOVA 20 May paper, Western Alternatives to Soviet Natural Gas: Prospects and Implications);

Orig Cl By Signer
Rvw 21 May 1988

Tab E: Background papers on the Versailles Summit from the NSC on 5 April: (1) "Strategy Paper" for the Versailles Summit" and a tasking memorandum, and a tasking schedule for the President's briefing book; (2) Versailles Summit paper on East-West Economic Relations;

Tab F: Memo for the Cabinet Council on Economic Affairs on the Versailles Summit Issues;

Tab G: Summary of conclusions on the 6 April SIG meeting on the Versailles Summit.

5. On Monday morning you will have updated information for the meeting and a briefing [redacted]

25X1

SUMMIT UPDATE NO. 5 [redacted] 25X1

18 May 1982

A Versailles Summit SIG meeting was held on 17 May at OEOB,
25X1 attended by the DDI and [redacted] The meeting, as usual, was co-chaired by Hormats (State), Nau (NSC), and Sprinkel (Treasury). The meeting was extremely frustrating as it became obvious early on that the participants were to learn no details of the Summit negotiating process. Hormats stated that "the White House" had ordered a clampdown on information, including no circulation of the draft final communique. As a result, the meeting was quite sterile.

Hormats led off by quickly running through the five meetings that had taken place the previous week.

1. OECD Ministerial -- "We got what we wanted, or at least avoided what we didn't want." In particular, the US was able to obtain agreement that inflation was the number one priority but more as a step toward a solution to economic problems generally than as an either/or trade-off between inflation and unemployment.

2. Helsinki/G-5 Meeting -- Controlling inflation again agreed as the primary objective; they also agreed that better coordination of policies was necessary. At both the Helsinki and OECD meetings, Sprinkel noted that the US was able to beat down pressure for positive statements concerning short-term fine tuning of the economy.

3. Quadrilateral Trade Meeting (US/EC/Japan/Canada) -- At this meeting, held outside Paris, the US, according to Hormats, made some progress; some recognition of need to improve services trade, for example, but less willingness to move on investment because of French and Canadian refusal to discuss the issue. Hormats opined that in part because of French and Canadian refusal to discuss liberalizing investment, Reagan should put some stress on this at the Summit. The French have even gone so far as to bracket some extremely bland language on foreign investment in the draft final communique.

4. Political Preparatory Meeting (Stoessel) -- The political directors tentatively agreed on general political topics for discussion at the informal dinner/lunch meetings, e.g., East-West, terrorism, disarmament, etc.

5. Economic Preparatory Meeting (Sherpas):

   a. Macroeconomic/Monetary -- The "Sprinkel/Camdessus Initiative" appears on track. Sprinkel, while refusing to go into detail, described the initiative as a very positive development, which had been promoted from a Finance Ministers' initiative to a Heads of State initiative, and which was "a subtle export of Reaganomics." See Paul Lewis's 18 May NYT article, attached, which provides much more detail than did Sprinkel.

b. Trade -- There will be some agreement on trade, but again no details.

25X1

c. East-West -- We actually have lost ground because of [redacted] 25X1 The US side still thinks there is some hope for a compromise, however, and the US is clearly threatening to make waves with the pipeline or with other independent action if we don't get our way on credits.

d. North-South -- Another problem area. All the countries are pushing Global Negotiations, which the US is convinced is simply a gimmick to quiet South demands for tangible progress. The US is standing alone in refusing to agree to GN.

25X1

e. Technology -- Nary another country supported the French proposals on technology. [redacted] 25X1 As a form of courtesy, and in hopes of buying the topic, the Summit leaders will agree to form a task force, one member per country, to look at the issue of technology and report to next year's summit. The mandate of the group will be extremely vague, and broad, covering all areas of technology and not simply those brought up in the French paper.

And that was it. <u>All</u> the briefing papers are in to State, although some still await final clearance/coordination. <u>At this point</u>, the only hassle remaining for us is printing, in 900 sets, 17 graphics plus 17 pages of descriptive text. However, the briefing papers are being sent to the White House today, and they may have all kinds of new or different demands for papers. In addition, 25X1 [redacted] EURA/EI/EI, has been charged with sending daily briefing cables to the Agency briefing team [redacted] 25X1 25X1 at Paris/Versailles; he will be contacting many of you soon to help with collecting relevant information. Everyone has been very helpful throughout the process. Thanks. 25X1

[redacted]

THE NEW YORK TIMES, TUESDAY, MAY 18, 1982

Nations Seek Stability For Dollar, Economies

By PAUL LEWIS

Special to The New York Times

PARIS, May 17 — The United States and other major industrial countries are near a new monetary agreement that would stabilize the dollar's value in currency markets and provide for tighter coordination of economic policies, officials close to the negotiations said today.

These countries hope to complete the pact at the economic summit meeting that starts at Versailles June 4. The meeting will be attended by President Reagan, President Francois Mitterrand of France, Chancellor Helmut Schmidt of West Germany and the Prime Ministers of Belgium, Britain, Canada, Italy and Japan.

The essence of the emerging accord, the officials said, is a bargain between the United States and the seven other countries attending the Versailles talks.

The Reagan Administration, they said, will reconsider its previous policy of letting the dollar float freely in currency markets and perhaps will offer to intervene to smooth out its fluctuations. In return, they said, the other countries will accept stricter international surveillance over their economic policies, probably within the framework of the International Monetary Fund.

The goal, the officials explained, is to promote a closer convergence between the economic policies of the major industrial nations, making violent currency swings less likely and reducing the need for the United States to manage the dollar's exchange rate.

The new agreement expands a similar accord that was adopted at the first Western economic summit meeting, held at Rambouillet, France, in 1975. The revised pact is being negotiated by the small group of senior officials who meet discreetly from time to time to prepare these annual meetings. The group is nicknamed the Sherpas, after the Nepalese porters who assist climbers trying to reach the summit of Mount Everest. The group's final round of pre-Versailles talks was held here last weekend.

The new plan is also likely to be discussed during the talks that George P. Shultz, former United States Secretary of the Treasury, will be holding with government heads invited to the Versailles meeting. He will visit them later this month as President Reagan's special envoy.

The latest Sherpas meeting made progress on policy coordination and

Continued From First Business Page

stabilizing the dollar, according to officials, but there was less agreement on what promises to be the second major topic at the Versailles meeting. This is President Raagan's call for a general tightening up on trade with the Soviet Union and its allies, notably by denying them subsidized trade credits and by limiting Western loans.

Continuing Efforts Seen

Efforts to secure such a consensus at Versailles are expected to continue over the next few weeks. If other countries finally accept the American view, the officials said, there are indications the Reagan Administration may turn a blind eye to Europe's controversial plan for importing large quantities of Soviet natural gas later this century and may lift its embargo on the export of vital American equipment needed for the proposed pipeline that is to carry the gas to Germany, Italy and France.

By offering to modify its "hands-off" policy toward the dollar's exchange rate, officials said, the Reagan Administration is trying to meet mounting European complaints that it has allowed the dollar's value to fluctuate violently in relation to other currencies, hindering trade and investment. In recent months, many European countries feel that the dollar has risen to unjustified peaks, forcing them to raise interest rates and unnecessarilly deepening the recession.

In the past, the Reagan Administration has taken the position that the dollar should be left free to find its own level in currency trading, with the Federal Reserve only intervening to steady it at moments of exceptional crisis, such as the attempt on President Reagan's life.

New Study Suggested

But the first public signs of a shift in emphasis came last week when Treasury Secretary Donald T. Regan said at a news conference here that the Administration was prepared to "look at the evidence again" and called for a new study to be made on the effectiveness of intervention in the currency markets.

In return for being more flexible about intervention, the Reagan Administration's economics team want other industrial countries to make a more serious attempt than previously to work out jointly agreed policies to combat inflation, preserve free trade and strengthen their economic structure by phasing out uncompetitive industries. Only by securing such cooperation of economic policies will the West be able to return to sustainable economic growth and bring about a permanent reduction in unemployment, officials have argued.

So far there is no detailed agreement among the eight Versailles countries on how to strengthen economic cooperation. But officials say the Reagan Adminsirtation favors stricter surveillance of each nation by its peers.

Remarks by Regan

Special to The New York Times

WASHINGTON, May 17 — Treasury Secretary Regan, just returned from meetings last week of finance ministers in Paris and in Helsinki, Finland, said today that every one of his European counterparts had complained about high interest rates in the United States. Many of them, he said, suggested a relaxation of the Federal Reserve's monetary policy to bring rates down.

Mr. Regan, meeting with a group of reporters, also elaborated on what appears to be a major shift in the United States policy of intervening in currency markets only in extreme situations.

He said there had been four occasions since the Reagan Administration took office in which the United States almost intervened — apart from the assassination attempt, when it actually did so. He said this policy of minimal intervention was being reviewed.

"We're going to surface this at the summit," Mr. Regan said, referring to the approaching Versailles conference.

Memorandum for: Bob Gates, DDI

Per your request, the attached reflects how I see tomorrow's Versailles Summit SIG meeting. I would guess the Agency will have to say little, with the probable exception of reporting on the graphics.

[redacted] 25X1

Deputy Chief,
Western Europe Division

17 May 1982

EURA

Office of European Analysis

[redacted] 25X1

Talking Points - Versailles Summit SIG Meeting, 18 May 1982

1. The meeting will be chaired by Robert Hormats (Assistant Secretary of State for Economic and Business Affairs and the President's Personal Representative (Sherpa) for the Versailles Economic Summit) and Henry Nau (NSC). They will summarize their meetings over the week-end in Paris with the other Personal Representative teams; the Paris meeting was the last formal preparatory meeting before the Summit. [redacted] 25X1

25X1

2. The key issues at the Summit are:

- Macroeconomic and International Monetary -- The West Europeans claim that high US interest rates are forcing them to protect their currencies with their own high rates, thus dimming chances for an economic recovery. At the same time, the US refuses to intervene on foreign exchange markets. The US, through Treasury Under Secretary Sprinkel, is proposing a quasi-official international group to discuss policy coordination among countries.

- East-West -- The US, through the Buckley Group, is trying to obtain agreement to tighten credit (especially on official subsidies) to the Soviet Union and to have this agreement blessed at Versailles.

- North-South -- The US appears to be isolated in its stand against Global Negotiations at the UN, although our differences with the Europeans are largely tactical or diplomatic.

- Trade and Investment -- The US is pushing for a strong anti-protectionist statement and a commitment to talks this fall on liberalizing trade in services. The other key issue is pressure on Japan to increase foreign access to its domestic market. Tokyo is likely to announce a package of trade liberalizing measures prior to 4 June.

- Energy -- This subject is taking a back seat this year. The leaders may discuss possible joint measures to maintain momentum on conservation and alternatives to oil if oil prices resume their slide. The major point of potential controversy would be if the US once again raises its opposition to the Yamal pipeline, perhaps in the guise of discussions on European energy security. [redacted] 25X1

3. At the week-end preparatory meeting, the US may have received additional indications of how these issues will play at Versailles. (There has been some talk of an informal agreement or trade-off, whereby the US pledges to reduce its budget deficit and to intervene more on foreign exchange markets, and the Europeans in turn agree to US proposals on reducing officially supported credit to the Soviet Union.) Other items still up in the air include (a) the length of the communique -- the French are talking about one page as opposed to previous communiques of 25-30 pages; and (b) the

25X1

[redacted] 25X1

subject of technology -- this is a pet of Mitterrand and his Personal Representative, Jacques Attali. Their paper on this subject is very government oriented and idealistic. The US has been pushing for a paper more agreeable to all the participants, in particular by putting greater accent on private initiative. Much of this may not be important in the greater scheme of things, but the US side is concerned about losing absolute as well as public relations control of the deliberations. [redacted] 25X1

4. The SIG meeting is likely to turn fairly quickly to the briefing materials for the US delegation: which agencies are delinquent with which papers.

- o We are up to date. We were specifically tasked with only one briefing paper, on European energy supplies. The paper, prepared by OGI, has been cleared, coordinated, and passed to State.
- o We have coordinated most other agencies' papers, but a few are still drifting in. (The deadline for passage to State was 17 May.)
- o We have also undertaken to supply 17 graphics (plus 17 pages of explanatory text, one per graphic) for the unclassified briefing books. These were culled from a NIC paper, "The United States in the World Economy: Elements of Strength," currently being printed. Marshall Casse at State approved the set of suggested graphics on 14 May. The print shop is not totally sure they can have the package (850 sets, 34 pages per set) by 25 May, a firm deadline, but they appear to be doing their best. [redacted] 25X1

5. Other support planned by the Agency includes:

- o Agency briefing team in Paris/Versailles, to meet with senior officials or their assistants prior to each day's sessions and to remain on call throughout the day to deliver traffic or new information. The team is the same as last year's at Ottawa: [redacted] 25X1 25X1 25X1
- o In addition to culling information in the field, the team will be supported by a small group in Headquarters led by [redacted] Chief of the Economic Issues Branch/European Issues Division/EURA. Larry will work with the energy and economic people in OGI and with 25X1 [redacted] to gather pertinent information (Summit-related and other) and cable it to Versailles daily starting on 3 June. He performed a similar function for the Venice and Ottawa teams in 1980 and 1981. [redacted] 25X1

[redacted] 25X1

SECRET [redacted] 25X1

9

20 May 1982

MEMORANDUM FOR THE RECORD

SUBJECT: Status of the Soviet-Western Europe Export Pipeline Project

25X1 At the request of [redacted] Acting NIO/USSR-EE, we prepared a review of recent developments affecting the Soviet export pipeline project, with a updated assessment of pipeline completion and West European offtake. This request was related to a SIG agenda item concerning policy toward the pipeline project. [redacted] 25X1

[redacted] 25X1

Chief
Resources Branch
Soviet Economy Division
Office of Soviet Analysis

Attachment:
SOVM82-10080

25X1 [redacted] 25X1

SECRET [redacted]

Page Denied

Approved For Release 2008/01/03 : CIA-RDP84B00049R000300530003-3

 25X1

Status of the Soviet-Western Europe Export Pipeline Project

Summary

Moscow has been stressing the high priority accorded the natural gas export pipeline project by Kremlin leaders. It is now more than ever a matter of national prestige, and the pipeline is going forward in the face of delays and rising costs. Since January the Soviets have been very active in efforts to circumvent the US embargo on critical gas turbine parts. Nonetheless, difficulties in lining up substitute parts may delay for some two years the date for the turbines (which will drive gasline compressors) to be operational. While this would cause completion of the export pipeline to slip past the original 1984 target, completion could still occur in 1986 as we have projected, based on expectation of normal construction delays.

Measures, internal and external, are being taken to guarantee that gas exports to Western Europe commence on schedule in October 1984, or sooner if at all possible. Large quantities of gas can be delivered through the export pipeline with only a fraction of the compressor power on line. Moreover, gas can be supplied to the export terminal by "domestic" pipelines, albeit at the cost of lowering gas supply to the Soviet economy. Some reluctance on the part of West European buyers to commit themselves to more Soviet gas is now emerging as the biggest deterrent to an early start-up on gas deliveries. Re-evaluation of the energy market outlook, disappointment over profits from 25X1

SOVM82-10080

SECRET

25X1

equipment supply contracts, and strategic considerations have dampened enthusiasm for the project. Thus far, only the West Germans and French have signed contracts, although Italy, Austria, and Belgium are expected to sign agreements in the near future.

25X1

25X1

Page Denied

Next 18 Page(s) In Document Denied

 25X1

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

DDI #3951-82
20 May 1982

MEMORANDUM FOR: Director of Central Intelligence

FROM : [redacted] 25X1
Acting National Intelligence Officer for USSR-EE

SUBJECT : Japanese Request for an Exemption to US Sanctions

1. The purpose of this memo is to acquaint you with a Japanese consortium's request for an exemption from the embargo of US oil and gas technology to the USSR. The embargo, which was imposed on 30 December 1981 in retaliation for the Soviet role in the Polish martial law declaration, is affecting planning for the joint Soviet-Japanese exploration of off-shore Sakhalin Island oil and gas fields. You will recall that an NSC meeting on the subject had originally been scheduled for 13 May. As of now, it is unclear when the meeting will be held and whether the Sakhalin issue will be subsumed into a more comprehensive discussion of East-West trade and credit issues. Nevertheless, I am sending you this memorandum now so that you can familiarize yourself with the specific issue of the Sakhalin project at your convenience.

2. In preparation for the cancelled 13 May meeting, the NSC had proposed the following options (presented here in summary form):

--Deny the Japanese request for now and concentrate on creating an alternative energy package for Japan.

--Hold the Japanese request as leverage for use in other aspects of US-Japan relations.

--Accede to the request essentially to gain Japanese good will. (The Options fully spelled out are on p. 5 of the NSC memo, Att. 1) 25X1

[redacted]

Derv Cl By Signer
Revw on May 88

 25X1

Page Denied

Next 5 Page(s) In Document Denied

 II

90302

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

Executive Registry
82-4968/1

CONFIDENTIAL WITH
SECRET ATTACHMENTS

May 10, 1982

MEMORANDUM FOR MS. NANCY BEARG DYKE
Assistant to the Vice President
for National Security Affairs

MR. L. PAUL BREMER III
Executive Secretary
Department of State

LIEUTENANT COLONEL ROBERT P. MEEHAN
Assistant for Interagency Matters
Office of the Secretary of Defense

MR. WILLIAM SCHNEIDER
Associate Director for National Security
and International Affairs
Office of Management and Budget

25X1

Executitve Secretary
Central Intelligence Agency

MS. JACQUELINE TILLMAN
Executive Assistant to the United States
Representative to the United Nations

COLONEL CHARLES F. STEBBINS
Executive Assistant to the Chairman
of the Joint Chiefs of Staff

SUBJECT: Japanese Request for an Exception to the December 30, 1981, Sanctions on Oil and Gas Equipment Exports to the Soviet Union (C)

The addressal of START by the NSC has been tentatively rescheduled for Friday, May 21, at 1:30 p.m. in the Cabinet Room. The NSC meeting on Thursday, May 13, at 3:15 p.m. in the Cabinet Room will instead address the above. Attached is a draft background paper for the meeting. Please provide comments on this draft paper by 10:00 a.m. Wednesday, May 12. (C)

Michael O. Wheeler

Michael O. Wheeler
Staff Secretary

Attachments

CONFIDENTIAL WITH
SECRET ATTACHMENTS
Review May 10, 1988

SECRET

Japanese Request to Approve U.S. Export Licenses for the Sakhalin Project

The Japanese consortium (SODECO) established seven years ago to jointly explore and develop the gas and oil deposits off the Sakhalin continental shelf sent a letter to Don Gregg on 3/30/82 (Tab A) urgently requesting that we approve critical U.S. export licenses for equipment and spare parts valued at approximately $2 million by May 1 in order to facilitate 1982 exploratory work for Sakhalin.

SODECO claims that failure to obtain the U.S. licenses would mean the inability to commence 1982 exploratory efforts on the secondary geological structure ("Odoptu") and result in Soviet abrogation of the 1975 General Agreement governing the project. According to the correspondence, this denial would also reportedly result in the loss of up to $500 million in "front-end" capital investment by the consortium and permit the Soviets to proceed alone with the development of the proven reserves of the primary structure ("Chaivo") for which the exploratory work was completed in October 1981. Moreover, SODECO claims that the Soviets will be able to sell the Chaivo gas and oil to third countries at "full market prices." We calculate potential Soviet hard currency earnings from deliveries of LNG to Japan over the prescribed twenty year period of between $60-80 billion (see percentage ownership of SODECO at Tab B).

We have obtained the information below from private sector sources participating in the consortium which dispute several of these claims by SODECO.

1. A May "deadline" for the release of U.S. licenses is rigid if 1982 exploratory work on Odoptu is to proceed (Tab C -- cable from our Embassy in Tokyo). However, Odoptu is a redundant geological structure, the development of which is not required to meet the delivery schedule of LNG and crude oil envisioned in the 1975 General Agreement. The Japanese reportedly have been attempting to resist Soviet pressure to proceed with Odoptu drilling for at least the past year. The Soviets were pressing for Odoptu exploration to begin in the summer of 1981. When repeatedly asked by the consortium why Odoptu is perceived as necessary when Chaivo has more than sufficient proven reserves to fulfill the terms of the 1975 General Agreement, the Soviets could only respond that they cannot defend separating the structures to their "National Committee." The source described this Soviet rationale as "reasons we cannot understand." No exploratory work has as yet begun on Odoptu. The Soviets have insisted on the drilling of five wells

SECRET
Review May 6, 1988
Classified by Norman A. Bailey

SECRET

at Odoptu in 1982 and six wells in 1983. They threatened to abrogate the agreement if this schedule is not observed. The original Japanese position was reportedly to resist any drilling at Odoptu, however, confronted with the abrogation threat, reluctantly agreed to the drilling of five wells in 1982 but reserved the right to have a new decision taken concerning 1983.

2. It was reported that deferring or even cancelling Odoptu exploration would probably not result in the abrogation of the 1975 General Agreement even if it is confirmed that the Soviets have such a right under the terms of the Agreement. One Tokyo-based firm involved in Sakhalin has reportedly already received guidance not to take soil borings at Odoptu because of the probability that U.S. licenses would be withheld.

3. It is regarded as "highly questionable" that the Soviets can undertake the development and production phase of the Chaivo structure beginning in 1983 should the General Agreement be abrogated because of the possible inability to mobilize the financing required of between $2-3 billion to cover development costs. In addition, substitution of the U.S. export items (probably in Germany and France) would result in a costly delay of up to 2 years.

4. No Far Eastern markets other than Japan reportedly exist for Sakhalin gas (100% scheduled to be exported to Japan). Only the very modest crude oil production could be used domestically by the USSR or sold for hard currency.

5. The Soviets, with the possible cooperation of SODECO, are very likely "testing" the U.S. export licensing policy with the hope of stampeding the U.S. into granting an exemption for this project well in advance of the genuine requirement to obtain licenses about 90 days prior to a December 1982 signing of the development and production phase of the Chaivo structure.

6. The Soviets reportedly placed a full work crew on at least one of the two drill rigs at the Odoptu site six months ago, and without the approval of U.S. licenses in early May, this skilled work force would be idle for at least one year. This delay would be caused by climatic conditions which limit the Sakhalin work schedule to between June and October.

7. It is estimated that the abrogation of the General Agreement prior to the Chaivo production phase would probably represent a loss of roughly $170 million to the consortium rather than the $500 million figure provided by SODECO. In addition to the $170 million in the project to date, $15 million has been earmarked for 1982 Odoptu exploratory work.

8. Japan is presently facing an oversupply of LNG. The most authoritative figure on projected LNG demand by 1990 is said to be 38.5 million metric tons (estimate of the Energy Institute of Japan). MITI's estimate of 43.0 million metric tons of LNG is considered somewhat overstated. The tables attached (Tab D) describe: (1) LNG imported in 1981, (2) contracted LNG to be brought on stream, (3) new projects in the advanced planning stages. Despite the oversupply situation illustrated by the tables, the Japanese government has reportedly given priority to Sakhalin because (1) it has a 44% ownership share of SODECO, (2) it has provided the bulk of the $170 million venture capital, (3) the project has been under active discussion and exploration since 1975 and abrogation due to U.S. licensing policy would probably create political difficulties both in the Parliament and with the Japanese business community. (Without minimizing the importance of these considerations, they do not change the fact that Japan does not need Sakhalin LNG or take into account a potential U.S. energy offset package to assist in mitigating the adverse political and bilateral repercussions.)

9. SODECO's claim that they were exempted from export controls in 1980 and 1981 is inaccurate. No embargo existed for oil and gas related equipment in 1980 or 1981. The licenses for Sakhalin during that period were processed according to standard procedures.

Efforts are still underway to corroborate portions of this information, particularly concerning the abrogation question (principally by the Agency, Japanese sources and an American firm). The issue for decision before the Administration at this juncture is whether or not to permit the interruption of 1982 Odoptu exploratory work and the possible but, at this writing, unlikely abrogation of the 1975 General Agreement. If the information outlined above is deemed sufficiently accurate, it is recommended that we not approve the U.S. export licenses for Sakhalin at this time. There is little doubt that SODECO and the Japanese government will register strong displeasure with this decision, but the major arguments which support this decision are: (1) the reintroduction of curfews and imposition of other restrictions in Poland in response to a new round of potentially serious social unrest and violence, (2) original and perhaps continuing Japanese resistance to exploration of the redundant Odoptu structure, (3) the reported probability that our withholding of export licenses will not result in abrogation of the General Agreement, (4) the relatively modest venture capital committed to date, (5) indications that the Japanese are open to discussions of various quids, (6) to preserve the integrity of our across-the-board withholding of U.S. licenses for oil and gas related equipment to the USSR for, at least, a few more valuable months to permit efforts to structure a viable U.S. energy offset package should Soviet behavior call for a decision to permit abrogation in December 1982, (7) the probability that the Soviets and SODECO will respond to this decision by abandoning the more ambitious strategy of circumventing U.S. controls without any harm to the project and begin to concentrate efforts on having the licenses approved prior to the critical December 1982 signing date for the production phase of Chaivo.

Should the Administration decide to continue to maintain controls on all oil and gas related equipment to the USSR through 1982, as mentioned earlier it would probably result in the interruption of the entire Sakhalin joint venture. The downside impact of this decision on U.S.-Japanese relations could potentially be mitigated by structuring an alternative U.S. energy package designed to offset Sakhalin deliveries and provide compelling inducements for the Japanese to permit abrogation.

Although not an expert on these matters, a U.S. energy package could perhaps include: (1) a reappraisal of the Alaskan-Mexican crude oil "swap," with the objective of making available to Japan some 500-600,000 barrels per day of Alaskan crude. Should the "swap" arrangement prove infeasible, we could explore the release of some portion of Alaskan crude presently destined for the Gulf ports. The Congress perhaps could support offset efforts to interrupt the Pacific equivalent of the Urengoi-Yamburg gas pipeline project, particularly if we could secure meaningful quids from the Japanese; (2) encourage Japan to undertake an LNG project in Alaska in the interest of promoting a "Western energy security" policy framework. This LNG project would provide the offset amount of 3 million tons of LNG per annum for 20 years; and (3) increased U.S. exports of multi-use steam coal from the present level of 3.5 million tons to a level desired by the Japanese.

This broader strategy concerning Sakhalin could also have several positive effects consistent with other important U.S. policy objectives. These benefits could potentially include: (1) denial of $60-80 billion in Soviet hard currency earnings and $2.7-3 billion in subsidized development financing and sophisticated Western equipment and technology; (2) a dramatic easing of bilateral trade tensions due to newly generated multi-billion U.S. energy exports; (3) upgraded military integration and improved leverage to seek greater concessions concerning defense spending; (4) demonstration to the European allies that the U.S. can act in a comprehensive framework to advance Western energy security; and (5) critical new leverage over the completion of the Urengoi-Yamburg gas pipeline project which depends on the export of some 400 Komatsu pipelayers and annual deliveries of

750,000 tons of wide-diameter steel pipe (about 50 percent of total annual import requirements of pipe for the project).

However, should the Administration judge that broader considerations favor the fall/winter exemption of U.S. licenses for Sakhalin, we would have substantially increased our leverage by delaying this decision and thereby can exact more meaningful concessions from Japan. It should be noted that the "across-the-board" lifting of sanctions on oil and gas related equipment to the USSR would remove any U.S. leverage over Sakhalin and make the recommendations outlined above impracticable.

Based on the aforementioned considerations and the ability to corroborate portions of the information provided, the following options are available at this time for interagency review and comment:

1. Deny SODECO's request for a "special" approval of U.S. export licenses in May and begin to structure a U.S. energy offset package designed to dissuade Japan from proceeding with the production phase of Sakhalin. (This approach leaves open the option of approving the licenses in the third/fourth quarter of 1982 in return for more substantial quids from Japan.)

2. Should it be judged necessary to eventually approve the licenses to prevent abrogation of the General Agreement, we should concentrate our negotiating efforts on receiving various quids from Japan among them being the opening of the Japanese capital market for major untied financings in the U.S., particularly in the energy sector.

3. Approve the U.S. export licenses for Sakhalin in May for more limited political benefits and economic and trade concessions.

Prepared by:
Roger W. Robinson

Since the preparation of the above paper, two documents have been obtained which should be incorporated into your agency's review. The first is a summary of the CIA's findings (Tab E) and the second is an intelligence report (Tab F) which records an incident also of relevance to your assessment.

NEW KOKUSAI BLDG.
4-1, 3-CHOME, MARUNOUCHI,
CHIYODA-KU, TOKYO 100

SAKHALIN OIL DEVELOPMENT
COOPERATION CO., LTD.

TELEPHONE : (213) 1231
TELEGRAMS : SAHAOIL TOKYO
TELEX : J 25244

OUR REF.: SGK-2040

March 30, 1982

Mr. Donald Greg
Director of Intelligence
National Security Council
The White House
Washington, D.C. 20500

Dear Mr. Greg:

I am writing you this letter in reference to the recent meeting you had with Mr. Chikara Higashi concerning the necessity of prompt approval of SODECO's export licenses for the Sakhalin oil project. Included as an attachment to this letter are two documents. The first, the Status Report, is a summary of the project from its beginning in 1975 to present. It describes the General Agreement with the Soviet Union and explains why a Japanese breach at this stage in the project would be so beneficial to the Soviets. The second, Talking Points, presents SODECO's reasons why the prompt granting of licenses is essential.

As you will see in the Status Report, Japan is obligated by the General Agreement to supply materials, equipment and services in the exploration of the Sakhalin continental shelf. After seven years, the exploration period is almost complete. It lacks only some drilling during this summer, before the exploratory phase ends next year. If the export licenses are not granted promptly, Japan will be unable to complete the final drilling by the end of the period. Thus, it will be in breach of the General Agreement.

Such a breach will rpovide the Soviet Union with the opportunity to terminate the Agreement. This will result in great loss to Japan, and great benefits to the Soviet Union. The Soviets will gain sole and exclusive right to the oil and gas that has been discovered during the past seven years. It will be able to sell this oil and gas at full market prices. Finally, the Soviets will be relieved of its obligation under the Agreement to pay Japan over one-half billion dollars.

For its part, a breach will deprive Japan of its guaranteed access to 50% of an estimated 1.3 billion barrels of oil and gas over the next decade and beyond. This guaranteed access is at significant discounts. Further, Japan will forfeit $190 million in credits, some $22 million in other loans would be in jeopardy, and $292 million in compensation would be lost.

It is our belief that application of the U.S. government's sanctions to these export licenses will injure only Japan, and not the Soviet Union. It will, in fact, greatly benefit the Soviet Union. At the price of perhaps a short and momentary delay in the development of this oil and gas source, the Soviet Union will recieve all the benefits on the Agreement and Japan's previous performance and investments. The purpose of the U.S. government's sanction program is not, of course, to confer such immense benefits on the Soviet Union at the expense of an ally.

Time is an important consideration. Due to climatic conditions, the work period is only between June and October. To complete this year's drilling, Japan must adhere strictly to the work schedule. There is not enough time left before the end of the exploratory phase to compensate for delays in this year's program. Thus, Japan must receive the licenses by early May.

I will be coming to the United States personally in the next few weeks. It is my hope that this matter can be resolved at that time. In the meantime, please do not hesitate to contact me personally on this matter for any furhter information you may need.

Yours sincerely,

S. Kobayashi

S. Kobayashi
President

Sakhalin Oil Project

Present Status

1. On January 28, 1975, Japan and the Soviet Union signed a General Agreement for the mutual exploration, development, production and supply to Japan of oil and gas from the Sakhalin Island Continental Shelf.

2. The Japanese party is the Sakhalin Oil Development Cooperation Co., Ltd., (SODECO), a consortium of the Japanese government and private companies. The Japanese government (Japan National Oil Corporation) owns 44% of SODECO stock. To date, 70% of the project's financing has been provided by the Japanese government.

3. Exploration is occurring in two structures — "Chaivo" and "Odoptu". The General Agreement requires Japan to supply equipment, machinery, materials, supplies and services during the exploratory period, which now extends to December 1982 for the Chaivo area and December, 1983 for the Odoptu area.

4. Japan is obligated to finance the exploration by providing the Soviets credits redeemable when successful (CRWS). The credits are repaid when and only if the project results in the joint production of oil and gas. As of early 1982, Japan is obligated to supply $185 million in CRWS. To date, $163 million CRWS have actually been invested.

5. The Soviet Union is obligated to sell to Japan 50% of the annual joint production of oil. The oil price is based

on the posted price of Persian Gulf oil of comparable quality, less prevailing discounts and comparative freight. The price is further reduced by 8.4%. This discount reduction is applied to 50% of produced oil and gas for a period of 10 years as compensation. The Soviet Union is obligated to redeem the CRWS only if the fields are jointly developed and produced with Japan.

6. The maximum compensation for Japan under the General Agreement is $292 million.

7. The Japanese are further guaranteed access to 50% of the annual joint production for a period of 10 years after the CRWS have been redeemed.

8. Total estimated reserves of oil and gas in the Chaivo and Odoptu structures currently amount to about 2.6 billion BBL of oil (1.2 billion) and oil equivalent of gas (1.4 billion). Under the General Agreement, Japan has guaranteed access to at least 1.3 billion BBL.

9. In the event of commercial gas production, Japan is guaranteed a supply at prices and quantities to be determined by separate agreement for the redemption of CRWS and for an additional 10 year period following redemption. It is possible for Japan to receive all of the gas produced from both fields.

10. Japan is further obligated and has provided credits for exploration and local needs. The credit extended thus far amounts to $70 million. $22 million in credits is still outstanding.

11. Under the exploratory phase, 18 wells have been drilled, of which 12 have been successful. All five of the wells drilled in the second half of 1981 were successful. The Chaivo structure contains oil and gas and an estimate of recoverable reserves is expected shortly. The decision to develop this structure will be made this year. The exploration of the Odoptu continues until December, 1983. By this time, the exploration, appraisal and economic evaluation stage of the 1975 General Agreement will be completed.

12. To complete Japan's obligations under the exploratory phase of the General Agreement, it must provide machinery, equipment, supplies, materials and services for the work required in 1982. Due to climatic conditions, the 1982 work period extends only from June to October. Japan's failure to complete the remaining work during the 1982 work period means that it cannot complete its obligations under the exploratory phase before that phase ends in 1983.

13. To conduct operations in 1982, Japan must provide $20 million of goods and services. Approximately $2 million of this amount consists of items requiring export licenses for the U.S. Eighty percent of this amount represents short-term leased equipment, spare parts and consultant services. Failure to obtain export licenses for these items by early May will preclude Japanese operations during the 1982 work period. Because of the large amount of drilling to be done in the short time remaining to the exploratory period, a delay caused by the failure to obtain the licenses promptly will make it impossible for Japan to fulfill its obligations under the exploratory phase of the General Agreement. This will cause a Japanese breach of the General Agreement.

14. The parties are excused from performance of their obligations only by force majeure phrase which contracts state "as only natural phenomena".

15. Japan has secured export licenses from the United States during the entire previous seven year period of the project including exceptions from U.S. embargoes during 1980 and 1981.

16. To date, work under the General Agreement has resulted in $72 million of American equipment and services having been provided under export licenses.

Talking Points

1. Under the General Agreement signed between Japan and the Soviet Union on January 28, 1975, for the exploration and development of oil and gas in the Sakhalin Island Continental Shelf, the parties have mutual obligations for the exploration, development and production in the area.

2. Japan has invested, obligated or loaned about $212 million thus far. A total of $190 million of this is in credits which are repaid only from joint production. The balance is in the form of other loans and credits.

3. In the event of a breach caused by non-performance, Japan stands to lose at least $190 million in the redeemable credits already obligated. Other loans and credits, now outstanding in $22 million, will also be jeopardized.

4. The General Agreement provides to sell 50% of oil and gas produced for a period of 10 years at a discounted price as financial compensation to Japan until such compensation reaches approximately $290 million, payment of which is also dependent upon joint production. In the event of a breach caused by non-performance, Japan will lose this amount.

5. In all, a breach will cost Japan a total of over $500 million.

6. The government of Japan itself has a 70% interest in the project. Thus, the greater portion of the loss will be borne directly by the government. It could be a serious political issue in the Japan's Parliament.

7. The General Agreement also provides Japan guaranteed access to 50% of all production for a period of 10 years after the redeemable credit has been redeemed. Based on present estimates of Sakhalin reserves, this translates into 1.3 billion BBL of oil and gas. Japan's breach thus will result in loss of access to over 1.3 billion barrels of oil and gas.

 ...e last five additional wells will be drilled in 1982. A decision to develop and produce the Chaivo structure with an estimate reserve of 1.6 billion BBL will be made this year. A decision to develop the Odoptu structure, with reserves of about 1.0 billion BBL, will be made shortly. Thus, the period of risk and uncertainty is essentially over. This risk has been borne by the Japanese over the previous seven years of the project.

9. The failure of Japan to fulfill its obligation under the last stages of the exploratory phase will cause a breach of the Agreement that frees the Soviet Union from its obligations to repay credits, provide risk compensation, and supply oil and gas to Japan. In effect, this means that Japan will have borne all the financial risk at no cost to the Soviet Union. The Soviet Union will also have the benefit of Japanese and Western machinery, equipment, technology and expertise in establishing these oil reserves free of any obligation under the General Agreement to Japan. Forcing the Japanese to withdraw confers great benefits to the Soviets, while penalizing only the Japanese.

10. The granting of U.S. export licenses for leased equipment, spare parts and consultant services is critical to prevent offering the Soviet Union a power in right to declare a Japanese breach. The exploratory phase ends in December, 1983. Japan must complete its final drilling under the exploratory phase during the short work-period from June to October of 1982. Failure to obtain export licenses by early May, 1982 means Japan cannot complete the drilling under the exploratory phase because of the short time remaining before this phase ends.

11. The General Agreement does not contain any provisions excusing Japanese non-performance due to failure to obtain U.S. export licenses for necessary equipment and services.

12. The value of the equipment and services requiring U.S. export licenses is negligible compared to the size of the investment already made by Japan and the great benefits available to Japan under the General Agreement.

13. [...]ion by the Soviet Union will be delayed somewhat. However, the critical risk stage of the exploration is essentially completed. The Soviet Union has consistently maintained that it can complete the remaining exploration and move to development and production by itself. At the least, it could obtain the aid of third countries. The project is so advanced that refusal to grant export licenses will not deprive the Soviets of the benefits from the discovery and development of Sakhalin oil fields.

14. Rather than penalize the Soviets, a Japanese breach greatly benefits the Soviet Union:

A. The Soviet Union is freed from the obligation to redeem the Japanese risk credits of $190 million.

B. The Soviet Union is freed from the obligation to sell oil and gas from the Sakhalin fields at significant discounted price below market. Thus, the Soviet Union is freed from the obligation to provide compensation for Japanese risk investment of over $290 million.

C. The Soviet Union is freed from the obligation to provide Japan guaranteed access to 50% of production (approximately 1.3 billion BBL of oil and gas).

D. The Soviet Union gains exclusive right to the entire 2.6 billion BBL of oil and gas for its own use, or for sale at full market prices.

15. A cancellation of the General Agreement due to Japanese non-performance will enable the Soviet Union to negotiate a replacement agreement with third countries at vastly more favorable terms than presently obtains in the contract with Japan. Renegotiation with the Japanese will also result in a substituted contract on more favorable terms than the existing Agreement.

16. Thus, at worst, Japanese failure to obtain U.S. export licenses will result in the Soviet Union gaining sole and exclusive access to 2.6 billion BBL of oil and gas to use or sell at world prices.

In return, development and production will be subject to a modest delay, which may well be only temporary.

17. The value of the items needing U.S. export licenses for the 1982 drilling program is only $2 million, 80% of which is represented by short-term leases, spare parts and consulting services. No high technology is being exported or transferred. No COCOM items are involved.

18. Japan has received export licenses for all previous items obtained from the U.S. and used in the project. Exceptions have been granted under previous economic sanctions imposed by the U.S. against the Soviet Union. The value of the export licenses required in 1982 is small compared to the value of licenses already granted. Almost all key items of equipment supplied thus far in the project have come from the U.S.

19. Although the value of the U.S. items needed in 1982 is insignificant compared to the amount of money already invested by Japan — and the benefits Japan gains under the General Agreement — $500 million and over 1.3 billion barrels of oil and gas — the timely (early May) granting of export licenses is essential if Japan is to protect its interests under the project.

20. This project is extremely important to Japan. In addition to the large financial investment Japan stands to lose, termination by the Soviet Union deprives Japan of guaranteed access to nearby oil and gas supplies of significant quantities.

21. Japanese access to Sakhalin will ease its dependence on oil supplied from geographic areas of international instability.

SODECO Major Shareholders

44%	–	Japan National Oil Corporation (100% government owned)
10.2%	–	Japan Petroleum Exploration Corporation (50% government owned)
10.2%	–	Overseas Petroleum Development Corporation (private)
7.5%	–	C. Itoh (project coordinator and major trading company shareholder)
5.6%	–	Gulf Oil Corporation
2.2%	–	Marubeni
1.4%	–	Nissho Iwai
18.9%	–	Miscellaneous (several private companies)
100%		

303664 2523134 715

O 282353Z APR 82
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC IMMEDIATE 8447
INFO AMEMBASSY MOSCOW IMMEDIATE

C O N F I D E N T I A L TOKYO 07337

E.O. 12065: GDS 4/27/88 LANGEVINE, CHARLES OR-E
TAGS: EENT, JA
SUBJECT: SAKHALIN OIL DEVELOPMENT PROJECT

REF: STATE 111143

1. CONFIDENTIAL - ENTIRE TEXT.

2. ADDITIONAL INFORMATION HAS BEEN PROVIDED TO EMBOFF BY MOFA SOVIET AFFAIRS OFFICER RESPONSIBLE FOR THE SAKHALIN PETROLEUM DEVELOPMENT PROJECT. THIS INFORMATION CONCERNS THE URGENT NEED FOR A DECISION BY MAY 1, (OR MAY 15 AT THE LATEST) ON THE EXPORT LICENSE FOR U.S. SUPPLIED DRILLING EQUIPMENT.

3. THE DRILLING LOCATION IS OFFSHORE NORTHWEST SAKHALIN, AN AREA VERY REMOTE FROM BOTH MAJOR JAPANESE AND RUSSIAN PORTS. DUE TO THICK ICE PACKS IN THE AREA THE DRILLING SEASON IS LIMITED TO THE PERIOD FROM JUNE TO MID-OCTOBER. DURING THIS PERIOD FIVE WELLS MUST BE DRILLED BY TWO RIGS, THE JAPANESE "DAINIHAKURYU" AND THE RUSSIAN "OKHA". THE DAINIHAKURYU IS CURRENTLY UNDER CONTRACT FOR OIL DRILLING WORK OFF AKITA PREFECTURE OFF NORTHWEST JAPAN UNTIL JUNE 10. THE WHEREABOUTS OF "OKHA" ARE UNKNOWN.

4. THE DAINIHAKURYU IS SCHEDULED TO LEAVE FOR SAKHALIN ON JUNE 10 AND PLANS TO ARRIVE ON JUNE 22 SO THAT IT CAN BEGIN DRILLING JUNE 25. SOME OF THE EQUIPMENT REQUIRING LICENSES, INCLUDING CRITICAL ITEMS LIKE GENERATORS, PUMPS AND KELLEYS, ARE VERY LARGE AND MUST BE TRANSPORTED BY SHIP. THE MOFA OFFICIAL GAVE THE FOLLOWING ESTIMATED TIMETABLE BASED ON A MAY 1 APPROVAL.

MAY 1: LICENSE
MAY 4: ARRANGE TRANSPORTATION
JUNE 5: EQUIPMENT ARRIVES IN YOKOHAMA
JUNE 15: EQUIPMENT ARRIVES BY SHIP AT BASE IN SAKHALIN
JUNE 20: INSTALLATION OF EQUIPMENT COMPLETED
JUNE 22: RIGS ARRIVE AT DRILLING SITE
JUNE 25: DRILLING BEGINS

5. IT IS OUR VIEW THAT DUE TO THE VAST DISTANCES INVOLVED, AND THE NECESSITY OF SHIPPING THE HEAVY EQUIPMENT AS OCEAN FREIGHT, THAT THE MAY 1 DEADLINE IS VERY REAL. FAILURE TO REACH A DECISION BY THAT DATE (OR AT THE VERY LATEST BY MAY 15) WOULD HAVE THE SAME EFFECT AS A DECISION TO DENY THE LICENSE. THE SENSE OF URGENCY WHICH THE COMPANY HAS EXPRESSED IS MOST CERTAINLY SHARED BY THE GOJ.

CONFIDENTIAL

Japan

I. LNG Imported in 1981 (million metric tons)

Alaska	0.96
Brunei	5.14
Abu Dhabi	2.06
Indonesia	8.8
Total	16.96

II. Contracted LNG (million metric tons)

Sarawak	6.0	beg. 1983
Indonesia	6.5	beg. 1983
Australia	6.0	beg. 1987
Total	18.5	

III. LNG Projects in Planning Stage

Canada	2.9	
Sakhalin	3.0	
Quatar	6.0	
Thailand	2.5	
Total	14.4	(all scheduled to materialize by 1990)

Grand total of LNG supplies by 1990 -- 49.86 million metric tons

IT 7108 1400909Z FRP NIO/EAI

25X1 I4/ / CONFIDENTIAL FRP: , , ,4,5,6, ,

STATE

[redacted]

32 8657108 SCO PAGE 001 NC 8657108
TOR: 200857ZMAY 82

MAY 20 5 40 AM '82

OORUEATIB
ZNY CCCCC ZOC STATE ZZH
STU2212
OO RUEHC
DE RUEHKO #8412 1400844
ZNYCCCCC ZZH
O 200843ZMAY82
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1150
INFO RUEHMO/AMEMBASSYMOSCOW6474
BT
C O N F I D E N T I A L

LIMITED OFFICIAL USE TOKYO 08412

E.O. 12065: N/A
TAGS: EEWT, EPET, JA
SUBJECTL SAKHALIN - PRIME MINISTER'S LETTER TO PRESIDENT

1. AS MENTIONED SEPTEL, FOLLOWING IS TEXT OF PRIME MINISTER'S LETTER TO PRESIDENT ON SAKHALIN.

BEGIN TEXT:

DEAR MR. PRESIDENT:

SINCE THE POLISH AUTHORITY PROCLAIMED MARTIAL LAW IN DECEMBER LAST YEAR, WESTERN COUNTRIES, INCLUDING THE UNITED STATES AND JAPAN, HAVE EXPRESSED THEIR GRAVE CONCERN THAT DEVELOPMENTS

CONFIDENTIAL

OF THE POLISH SITUATION COULD AFFECT SERIOUSLY THE EAST-WEST RELATIONS IN GENERAL, AS WELL AS THE WORLD PEACE, AND ACCORDINGLYHAVE TAKEN CONCRETE MEASURES AGAINST THE SOVIET UNION WHILE POINTING OUT ITS RESPONSIBILITYFOR THE SITUATION. THIS SHOWS THE UNITYAND COOPERATION AMONG WESTERN COUNTRIES, WHICH, I BELIEVE, IS HIGHLY VALUED.

- IN THIS CONTEXT I WOULD LIKE TO REFER TO THE QUESTION OF THE RENEWAL OF THE LICENSES WITH REGARD TO THE SAKHALIN EXPLORATION PROJECT, WHICH HAS BEEN A PENDING ISSUE IN VIEW OF THE MEASURES TAKEN AGAINST THE SOVIET UNION WHICH YOU ANNOUNCED LATE LAST YEAR. I HAVE PERSONALLY EXPLAINED OUR CONCERN AND ASKED THE COOPERATION OF THE US SIDE TO VICE PRESIDENT BUSH WHEN HE VISITED JAPAN RECENTLY.

- THE SAKHALIN PROJECT IS A ONGOING PROJECT WHICH HAS BEEN GOING ON SINCE 1975, AND IF THE LICENSES OF YOUR GOVERNMENT ARE NOT ISSUED IN THE VERYNEAREST FUTURE, IT SEEMS INEVITABLE THAT THE EXPLORATION WORKS FOR THIS YEAR WILL VIRTUALLYBECOME IMPOSSIBLE. I WOULD LIKE TO ASK YOUR UNDERSTANDING THAT, DESPITE OF THE INTENTION OF YOUR GOVERNMENT IN TAKING THE MEASURES AGAINST THE SOVIET UNION, IT WILL THEN BE THE JAPANESE SIDE RATHER THAN THE SOVIET SIDE WHO WILL BE MOSTLY DAMAGED BYSUCH AN OUTCOME.

- I AM FULLY AWARE OF YOUR VARIOUS DIFFICULTIES INVOLVED IN THIS QUESTION. HOWEVER, IN VIEW OF THE URGENCYINVOLVED IN THE TIMING OF THE ISSUE, I WOULD LIKE TO ASK YOU, MR. PRESIDENT, YOUR PERSONAL COOPERATION IN BRINING A FAVORABLE OUTCOME ON THIS ISSUE. IN THIS CONNECTION, I WOULD LIKE TO ASK YOU TO TAKE INTO CONSIDERATION THAT JAPAN HAS BEEN MAINTAINING A MOST CORRECT POSTURE TOWARDS THE SOVIET UNION SINCE THE AFGHANISTAN INCIDENT, EVEN COMPARED WITH THE COUNTRIES OF WESTERN EUROPE, AND FURTHER THAT, WE HAVE BEEN BASICALLY TAKING A COOPERATIVE POSITION

WITH REGARD TO THE QUESTION OF RESTRAINING THE EXTENTITON OF OFFICIAL CREDITS TO THE SOVIET UNION, WHICH ARE NOW BEING DISCUSSED AMONG THE WESTERN COUNTRIES CONCERNED.

-- I LOOK FORWARD TO SEEING YOU AGAIN AT VERSAILLES EARLYNEXT MONTH.

-

SINCERELY,
ZENKO SUZUKI
PRIME MINISTER OF JAPAN

MANSFIELD

END OF MESSAGE