



OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

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September 20, 1982

NSC review completed - may be declassified in full

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(WITH SECRET ATTACHMENTS)

DHS Review Completed.

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE ATTORNEY GENERAL
THE DIRECTOR, OFFICE OF MANAGEMENT
AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR
POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE ✓

SUBJECT Senior Interdepartmental Group on International
Economic Policy (SIG-IEP)

Attached please find the minutes from the SIG-IEP meeting held September 16.

In addition, please find a new, revised set of minutes for the September 9 meeting. (Please destroy the September 9 minutes sent previously.)

David E. Pickford
David E. Pickford
Executive Secretary

Attachments



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SENIOR INTERDEPARTMENTAL GROUP--INTERNATIONAL ECONOMIC POLICY

September 16, 1982

4:30 p.m.

Old Executive Office Building (Room 305)

ATTENDEES: NSC review completed - may be declassified in fullTreasurySecretary Regan (Chairman)
Marc LelandOffice of the Vice PresidentAdmiral Daniel Murphy
Donald GreggStateSecretary Shultz
James BuckleyUSTR

Ambassador Brock

DefenseSecretary Weinberger
Fred IkleOMB

David Stockman

Agriculture

Secretary Block

White House

Robert C. McFarlane

CommerceSecretary Baldrige
Lionel OlmerOPD

Roger Porter

Justice

Jonathan Rose

CEA

Geoffrey Carliner

CIA

William J. Casey

NSCNorman Bailey
Roger Robinson
Dennis Blair

The Chairman stated the purpose of the meeting was to discuss possible sanctions that might be considered to be imposed by the United States and its allies in exchange for the current U.S. unilateral sanctions imposed in December 1981 and June 1982 in reaction to events in Poland. He stated that it was not the intent of the United States to make any proposals nor was the United States looking for a way out of the sanctions but that since there were indications that the Europeans wanted to discuss alternatives the U.S. Government needed to consider what these alternatives might be.

Secretary Shultz reviewed the overall objectives of the West toward the USSR and analyzed the sanctions that were intended as a reaction to the events in Poland and that were to be lifted in the event the President's conditions for

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-2-

improvement of the situation in Poland were met. He then reviewed the other unified allied actions toward the Soviet Union that might be considered as part of a long range economic relations with the Soviet Union. He stated that, as he was responsible for preparing for the talks with the Europeans, he needed to have a set of measures that would have clarity and would effect the Soviet Union, could be sustained, and could have broad Western support.

The group then reviewed elements that might be included in an alternative sanctions package. The first element was credit on which some work had begun before the Versailles Summit, and on which some progress had been made at Versailles, and on which more work was needed to get agreement on concrete credit restrictions and a monitoring body. The second item was confirming and expanding COCOM. The third area related to restriction of the export of oil and gas technology on any future contracts with the Soviet Union. The fourth area was alternative energy sources. If any alternative package is agreed to, it must be at least as painful to the Soviet Union as the current sanctions and must be broadly supported by Europe and Japan. There was then discussion as to which of the sanctions might have the most impact on the Soviet Union.

Secretary Baldrige raised the problem of specific hardship cases as well as unintended effects of the sanctions.

The group concluded that Secretary Shultz should hold discussions with his allied counterparts with the broad instruction that any alternative package should cause equal pain to the Soviet Union as that presently being inflicted by existing sanctions. If no European offer results from his discussions, the SIG-IEP would then re-evaluate the situation. Any questions about consultations with the Europeans would be referred for response to Secretary Shultz.

The group also decided that there should be an IG to consider the Department of Commerce's guidelines for exceptions to the denial order and come up with suggestions about where and when exceptions might be made.

The CIA was urged to proceed quickly with the intelligence estimate presently underway with the results of the pipeline sanctions.

All agreed that current sanctions will continue to be imposed but that the United States is prepared to listen to any allied proposals for alternative sanctions against the Soviet Union.

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-3-

The meeting concluded with the instruction that a status report for transmittal to the President should be prepared on the alternative package and on the methods for considering alternatives to existing sanctions.

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MINUTES

SENIOR INTERDEPARTMENTAL GROUP ON INTERNATIONAL ECONOMIC POLICY

September 9, 1982

2:00 p.m.

Indian Treaty Room, OEOB

Attendees

Treasury

Secretary Regan (Chairman)
Marc Leland
Peter Wallison

Office of Vice President

Admiral Daniel Murphy
Donald Gregg

State

James Buckley
Robert Morris

USTR

Ambassador Brock
John Ray
Dennis Whitfield

Defense

Secretary Weinberger
Fred Ikle

CEA

Martin Feldstein
Paul Krugman

Agriculture

Secretary Block

OMB

Fred Khedouri
Steve Farrar

Commerce

Secretary Baldrige
Lionel Olmer
Sherman Unger

White House

Robert C. McFarlane

Justice

William French Smith
Jonathan Rose

OPD

Ed Harper

CIA

William J. Casey

NSC

Norman Bailey
Henry Nau
Roger Robinson



The Chairman introduced the sole agenda item, the oil and gas equipment and technology export sanctions on the Soviet Union.

There may be a meeting at foreign minister level with the Europeans. Counsellor Buckley stated that the four areas that were being developed for eventual discussion were: (1) key categories of oil and gas equipment to be jointly embargoed in future; (2) credit restraint; (3) strengthening of COCOM procedures; and (4) development of secure energy sources.

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- 2 -

Secretary Baldrige reported on the situation with reference to penalties imposed on European companies as a result of violation of our sanctions. The denial orders will cover only oil and gas equipment, services and technology. Dresser and Creusot are bringing legal actions to block the denial orders. The effect of the sanctions ranges from \$75 million to \$600 million over three years.

In response to a question, Mr. Baldrige stated that Q's and A's would be provided and also suggested that the measures be referred to as preventive rather than punitive.

Secretary Weinberger then reported on his contacts with European leaders. He stated that Prime Minister Thatcher agrees with our goals but constantly reiterated her unemployment problems. We should find out actual effect on John Brown. She urgently wants a way out of the impasse. We should make the point about the sanctity of the contracts our companies signed with their licensees and also see where we may be able to assign supply contracts to affected European companies.

Ambassador Brock reported on his conversations with representatives of eight European countries. Many European governments are now advising their companies not to use U.S. technology. The Europeans don't want any meeting which will be publicized. The French don't want to meet at all for the time being. They don't think we understand the impact of our measures in Europe and are convinced we are engaging in economic warfare.

All agreed that the negotiating positions must be presented as enhancing or strengthening measures and under no circumstances as the President "caving in."

Secretary Baldrige read the statement he proposed to make to the press at his press conference that afternoon.

A discussion ensued over the reason for sanctions and the public presentation of those reasons.

The Chairman instructed that papers be circulated for an IG-IEP meeting on negotiating positions, followed by a SIG-IEP meeting September 16 to approve them for referral to the NSC.

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[Signature]
 Executive Secretary
 9/22/82
 Date