

THE SECRETARY OF STATE  
WASHINGTON

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November 5, 1982

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MEMORANDUM FOR: THE PRESIDENT

From: George P. Shultz *WS*  
Malcolm Baldrige *MB*

Subject: Modification of the Sanctions

Assuming that an agreement can be reached with our European and Japanese allies sufficient to justify easing our sanctions, we should be prepared to modify the sanctions in such a way as to resolve our differences in a manner consistent with our long-term objectives in East-West trade.

We have looked at options for modifying the sanctions, including a complete rollback of both December and June controls on oil and gas equipment and technology, and several measures short of that. We believe a complete rollback would go too far. It would undercut our efforts to work out a multilateral system of controls on certain strategic equipment, including oil and gas items.

Accordingly, we favor an approach that would maintain pre-June controls on export and reexport of U.S.-origin oil and gas equipment and technology, but would address the European and Japanese concerns through exceptions to a general policy of denying such exports and reexports. Such an approach could be accomplished through amendments to Commerce Department regulations.

This strategy would involve lifting entirely the June controls on foreign subsidiaries and licensees and terminating enforcement measures stemming from the June and December controls. We would also lift the December order which suspended the licensing of all exports and reexports to the USSR. However, we would keep in place the requirement that licenses be sought for all goods and technology covered by December or earlier foreign policy and national security controls.

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BY RW NARA DATE 7/7/10



We would then institute a general policy of denial for exports and reexports to the Soviet Union which are currently subject to a license requirement with the following exceptions:

-- export and reexport of U.S. oil and gas exploration, production, transmission, and refining equipment contracted for delivery by a U.S. supplier before the December controls were imposed (e.g., GE rotors, Caterpillar pipelayers, John Brown turbines);

-- export and reexport of oil and gas equipment and technology necessary for the Japanese firm SODECO to meet its obligations as supplier under the 1975 Sakhalin general agreement with the Soviets, with license applications to be examined on a case-by-case basis for particular future transactions;

-- export and reexport of non-COCOM technology not proposed for multilateral control by the U.S. (e.g., Fiat-Allis bulldozer manufacturing technology), and of non-sensitive products readily available from a competing foreign source (e.g., Caterpillar pipelayers are readily available whereas rotors and submersible pumps are not); and

-- carefully limited situations, on a case-by-case basis, where a further exception is justified under criteria to be established (e.g., the performance of service contracts for equipment exported or reexported to the USSR before December 29, 1981).

Such an approach, by removing the inflexibility of the suspension order and then instituting an appropriate licensing policy, would allow us to resolve the major problems of our European and Japanese allies, as well as those U.S. firms hardest hit by the retroactive effects of the sanctions. At the same time, we would avoid undercutting our efforts to obtain future multilateral controls on strategic oil and gas equipment and technology.

While in a technical sense we would retain a small measure of the retroactive and extraterritorial effects of the December controls, to which our allies would object in principle, we would have met their primary concerns on a practical level and would have put the world at large on notice of our intent to control future access to U.S. oil and gas equipment and technology by the Soviet Union.



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Maintaining the licensing requirements would serve to diminish the risk of the modification of the controls being seen as a U.S. backdown on the issue. It would also retain an element of leverage useful in the process of negotiating future multilateral controls.

In explaining our actions, we would emphasize the importance of multilateral measures agreed to by our allies in place of those unilateral controls removed by our sanctions modification. Our action, coupled with allied agreement on a common East-West approach would increase, not diminish, the net burden on the Soviets.

We have discussed this with Secretary Regan who concurs in our recommendation. We seek your approval of the outlined approach in modifying the sanctions in the event we reach an agreement with our allies.

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

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