



INTERNATIONAL SECURITY POLICY

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

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MEMORANDUM FOR THE SECRETARY OF DEFENSE

THROUGH: UNDER SECRETARY FOR POLICY 703 FEB 1982

SUBJECT: Clarification of Sanctions on Oil and Gas Equipment
NSC Meeting, 1530 hrs., Thursday, February 4, 1982

(8) At stake in Thursday's National Security Council meeting is whether the President's guidance to work toward blocking the West Siberian pipeline can be implemented. The outstanding issue is "extraterritoriality" -- that is, whether the United States can oblige companies abroad under license to U.S. firms to conform with U.S. export law. For example, can the United States require that a French turbine manufacturing firm such as Alsthom Atlantique not export turbines and compressors to the Soviet Union if those turbines and compressors are manufactured under U.S. license.

(9) Should a decision be made that we cannot enforce such a requirement then there is no hope of implementing the President's guidance on the pipeline as the key components of the turbines proposed for the pipeline will be manufactured in Europe.

(10) Most turbines are produced under license from the General Electric company, save a specialized compressor made by Rolls Royce and derived from U.S. jet engine designs. All manufacturing associates except for Alsthom Atlantique in France, buy their "two stage" rotors from General Electric (USA).

(11) Under the terms of Alsthom's contract with General Electric, Alsthom is obliged to conform to U.S. export laws. The actual contract states: "ALSTHOM hereby gives its assurance ... that unless prior authorization is obtained from the United States Office of Export Administration, ALSTHOM will not knowingly re-export" to proscribed countries if the product requires a U.S. validated license. The agreement further states that "ALSTHOM further undertakes to keep itself fully informed of the Regulations (including amendments and changes thereto) and agrees to comply therewith."

(12) The State Department, and to some extent Treasury, will take legal issue with requiring Alsthom and others to abide by this contract. However, the real reason for the objection is neither technical nor legal. State is under strong pressure from the allies, and Treasury is under pressure from banking interests, to approve the sale, through some mechanism, of the turbines and compressors required for the pipeline.

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(S) State, and possible Treasury, will also argue that even if we hold firm on the turbines and compressors, some way will be found either by the Europeans or the Soviets or both to get around the problem. For example, Rolls Royce will be brought up as well as the possibility of the Soviets Jerry-rigging their own compressor-turbine combination.

(S) The vital point is that it is not merely a matter of halting or delaying the construction of the pipeline. The objective ought to be (a) leading the alliance by demonstrating our firm intent not to contribute to the pipeline project either directly or under the table and (b) making the entire venture less demonstrably beneficial to the West Europeans, thereby undermining the support of Western financial institutions for the project. In this connection, delays add to the cost and delay repayment of the financing for the pipeline, as financing is tied directly to the actual delivery of natural gas to the Soviet Union. In these circumstances, Jerry-rigged lines almost surely will be less efficient and remain behind the time curve, undermining the viability of the project and reducing the profitability both for the financial institutions supporting it as well as for the consumers.

(S) Some in CIA have been promoting the unproven notion that the Soviets might make use of spare Backfire Bomber engines to run the pipeline. Such a project would take years to perfect. As a concrete example, the Rolls Royce jet derived compressor has been found unreliable by the Soviets who purchased some in the past. Moreover, because Soviet engines are made largely by hand and do not rely on advanced metallurgical processes such as Gatorizing, sustained operation in a pipeline is almost impossible.

Richard Perle
Richard Perle

Tab A -- Alstom Atlantique Contract with General Electric

Tab B -- General Counsel on the legal issues

Office of the Secretary of Defense
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