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NATIONAL SECURITY COUNCIL

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NATIONAL SECURITY COUNCIL MEETING

March 20, 1984, 2:00 p.m.-3:15 p.m., Room 208, OEOB

SUBJECT: Iran-Iraq War: The Energy-Economic Dimension

PARTICIPANTS:

The President

State  
Secretary George Shultz  
Ambassador Richard Fairbanks

CIA  
Director William Casey  
Mr. Maurice Ernst

Treasury  
Acting Secretary R. T. McNamar  
Mr. Charles Schotta

CEA  
Mr. Martin Feldstein

Defense  
Secretary Caspar Weinberger  
Deputy Secretary William Taft, IV

JCS  
General John Vessey  
Admiral Arthur Moreau

Interior  
Secretary William Clark

White House  
Mr. Edwin Meese III  
Mr. James Baker, III  
Mr. Michael Deaver  
Mr. Richard Darman  
Mr. Craig Fuller  
Mr. Robert McFarlane

Commerce  
Under Secretary Lionel Olmer

Energy  
Mr. Don Pearlman

NSC  
Mr. William Martin  
Mr. Donald Fortier  
Dr. Richard Beal  
Mr. Benney Bonk

OMB  
Dr. Alton Keel

USIA  
Mr. Charles Wick  
Mr. James Thurber

MINUTES

President Reagan chaired the NSC meeting dealing with the energy-economic dimensions of a potential escalation of the Iran Iraq war. This NSC meeting is one of a series of NSC, Crisis

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Pre-Planning Group, and interagency meetings to develop U.S. policy to deter the escalation of the conflict into the Persian Gulf if possible. The agenda is attached at TAB A.

Robert C. McFarlane, National Security Advisor, introduced the meeting by alerting the President that the objective of this, and other meetings on the Iran-Iraq war, was to decide in advance with our allies what actions we should take during the first weeks of a crisis to ensure that the economic burden of a disruption is shared fairly by the U.S. and our allies.

Mr. McFarlane reviewed the fighting at the front between Iran and Iraq, indicating that currently the conflict is at a fairly low level of intensity. Principally the fighting is concentrated around the undeveloped Majnoon islands where there is a potential of 5-10 billion barrels of oil. The anticipated Iranian offensive has not commenced for many reasons, not the least of which appear to be logistical transportation problems.

Mr. McFarlane proceed to review the experience handling the oil crises in 1979 and 1980. The differences between these two cases is critical because in 1980, with the experience of 1979 fresh on everyone's mind, the international community was prepared for the oil disruption by declining consumption and increasing oil inventories.

Mr. McFarlane reviewed the framework for current U.S. emergency energy policy established in NSDD-87. NSDD-87 states five policy principles: (1) reliance on free market forces, (2) provision of adequate energy supplies to meet U.S. security needs, (3) utilization of supply enhancing measures such as the Strategic Petroleum Reserve (SPR), (4) commitment to the IEA, and (5) a strong and continued cooperation with other consuming countries.

Mr. McFarlane emphasized that the U.S. has carried a major load by building the SPR, declaring its commitment to keep the Strait of Hormuz open if an attempt were made to close it, and by working with the allies and the Gulf states to ensure a level of cooperation in the eventuality of a crisis. It was, however, important that these other nations commit to taking action to guard against the severe economic implications of a major oil disruption.

Mr. Don Pearlman, speaking on behalf of Secretary Don Hodel who was in the hospital, gave an overview of the oil market and disruption prospects.

- a. He reported that about 25% of the estimated 1984 oil consumption of non-OPEC free world countries will come from the Persian Gulf. For the United States 31-34% of

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our consumption is imported, and 2-4% of those imports transits the Strait of Hormuz. But since the international oil market is an interdependent system the U.S. would be adversely affected by a closure of the Strait, or a major disruption of oil transitting the Persian Gulf.

- b. If the Strait of Hormuz was closed, the estimate is that approximately 4-6 million barrels of oil would be lost assuming offsets from the Saudi-Yanbu pipeline, and outside of the Persian Gulf region.
- c. The impact of the disruption depends on (1) the speed at which the actual supply loss hits individual countries, (2) the speed at which price increases occur, (3) the magnitude of the disruption and price increases, and (4) the duration of the interruption.
- d. Predicting price changes is difficult, but Mr. Pearlman cited two illustrative cases. These cases are presented at TAB B.
- e. The U.S. has an SPR of almost 390 million barrels which could be drawn down for 5 months, at the President's authorization, at a rate of 1.7 MMBD. Japan and West Germany have government-owned strategic reserves, but they are much lower than our own.
- f. The Administration has already publicly announced that the best policy in the case of a major distruption is to engage in an early drawdown of the SPR in large volumes. It is, however, important to remain flexible, consider the domestic strategy in light of the military considerations, and avoid encouraging the allies to rely on an SPR draw while they take no action of their own.
- g. There is a critical Congressional component: they have favored a rapid build-up of the SPR, even faster than the President's budget allows, but they are deeply concerned about the failure of the allies to build up their own stocks. Congress has in the past supported the International Energy Agency (IEA), but absent a willingness of our IEA partners to build and use their own stocks in the case of an emergency, this support may wane.

Ambassador Richard Fairbanks presented the work of the International Energy Security Group (IESG).

- a. He said the IESG formulated three decisions which should govern U.S.-IEA actions during any significant oil disruption.

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1. How should the U.S. approach triggering the IEA sharing system in the event of a severe disruption?
  2. To what degree should the U.S. seek consultation or coordination with the allies on stock draws?
  3. Should the U.S. support coordinated international action to influence the spot market?
- b. The IESG recommends the USG should delay or avoid triggering the IEA sharing system as long as is possible.
- c. Ambassador Fairbanks said the IESG felt the U.S. should consult with the major members of the IEA and seek a general understanding on stock draws, but that no advance agreement on details should be made.
- d. Regardless of how serious it may be in the short term, there was no consensus within the IESG, according to Ambassador Fairbanks, on whether to attempt to influence the spot markets.

Discussion among the members of the National Security Council centered around the three issues introduced by Ambassador Fairbanks. Virtually everyone who spoke agreed with the position taken by Secretary Shultz, which was to approach triggering the IEA system very cautiously, to coordinate with the allies and to identify a formula for burden sharing, and to move fast to draw down stocks, but to remain flexible with regard to the specific drawdown rates.

President Reagan asked on several occasions what our total assets really were, and whether we were developing our resources as effectively as we could. Secretary Clark and others indicated that we were not developing our North Slope, and our offshore resources as vigorously as we might. At one point the President turned to Secretary Weinberger and observed that the best policy would be simply to keep the Strait open.

#### SUMMARY

The purpose of the augmented-NSC meeting was to integrate the domestic energy policy with the international energy and economic aspects of an escalation of the Iran-Iraq war. The domestic consequences of a six-month oil disruption would be extensive, touching directly our allies, and indirectly the America market because of the highly interdependent world oil market.

Consensus on the three international emergency energy issues emerged from the meeting. First, the United States should avoid triggering the IEA sharing system as long as possible. Second,

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U.S. policy should be to draw down its stocks in an emergency, and to consult with the allies on this policy, but without making detailed agreements on the mechanisms or rates of our stock draws. The approach should be flexible, and emphasize burden sharing among the allies, especially because they have not built up their government-owned reserves. And thirdly, United States policy should allow market forces to work, and not expect jawboning the oil companies to influence the spot markets.

Attachments

Tab A - Agenda

Tab B - Energy Cases

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National Security Council Meeting

Tuesday, March 20, 1984

2-3:00 p.m.

Room 208, OEOB

AGENDA

- Introduction (5 minutes) . . . . . Robert C. McFarlane
- Overview of Oil Market Situation  
and Prospects (5 minutes) . . . . . Donald Pearlman
- International Energy Issues and  
Policies (10 minutes) . . . . . Richard Fairbanks
- Discussion (35 minutes). . . . . Principals
- Conclusion (5 minutes) . . . . . Robert C. McFarlane

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Sec. 3.4(b), E.O. 12958, as amended  
White House Guidelines, Sept. 11, 2008  
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103299	TABLE OF CONTENTS	ATTACHMENT TO 103298	1	ND	B1
103300	PAPER	RE ALLOCATION (ATTACHMENT TO 103298) <b>R 11/30/2012 M325/2</b>	5	ND	B1
103301	ISSUE PAPER	RE US APPROACH (INCLUDES 2 P. OF TABLES) (ATTACHMENT TO 103298) <b>R 11/30/2012 M325/2</b>	7	ND	B1
103305	ISSUE PAPER	RE CONSULTATIONS (ATTACHMENT TO 103298) (INCLUDES 1 P. TABLE) <b>R 11/30/2012 M325/2</b>	5	ND	B1
103306	ISSUE PAPER	RE US SUPPORT (ATTACHMENT TO 103298) <b>R 11/30/2012 M325/2</b>	3	ND	B1
103309	ISSUE PAPER	RE CONSULTATIONS (ATTACHMENT TO 103298) <b>R 11/30/2012 M325/2</b>	2	ND	B1
103310	ISSUE PAPER	RE STOCKS (ATTACHMENT TO 103298) (INCLUDES 1 P. TABLE) <b>R 11/30/2012 M325/2</b>	4	ND	B1

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103322	ISSUE PAPER	RE ENERGY CRISIS MANAGEMENT (ATTACHMENT TO 103298)	3	ND	B1 B3
103324	MINUTES	OF NSC MEETING <i>R 9/26/2013 M325/2</i>	5	3/20/1984	B1
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