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NATIONAL SECURITY COUNCIL

WASHINGTON, D.C. 20506

Meeting of the National Security Council

DATE: August 6, 1990
LOCATION: Cabinet Room
TIME: 5:05 - 6:00 pm

SUBJECT: Minutes of NSC Meeting on Iraqi Invasion of Kuwait (S)

PARTICIPANTS:

State

Secretary Baker

OMB

Director Darman

Treasury

Secretary Brady

DOE

Deputy Secretary Moore

DOD

Deputy Secretary Atwood

White House

Governor Sununu

Brent Scowcroft

Michael Boskin

Justice

Attorney General Thornburgh

CIA

Director Webster

NSC

Richard Haass

JCS

General Powell

The President. What I wanted to do was get a quick update and then talk about economic implications. (C)

General Scowcroft. Before we begin, I want everyone to look at today's headline in the Washington Post (Note: headline refers to covert action options allegedly under consideration). If leaking continues, it will force us to limit the decisionmaking circle. (C)

The President. What this does is risk something very serious and undermines our efforts. (C)

Director Webster. In the last 24 hours, the situation has stabilized. There is no real increase in preparations at the Saudi border. Iraq still has not withdrawn any significant forces from Kuwait and may be augmenting them with units taken from its border with Iran. There are some worrisome developments

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that suggest Saddam may be preparing for major war: reserve call-ups, base preparations near the Saudi border. But we have not yet seen their Republican Guard units reforming for attack. (S)

The President. Between now and yesterday, what are the developments? (C)

Director Webster. There are no significant troop movements. Iraq is shutting down one of its principal pipelines through Turkey. (S)

Henson Moore. We may succeed in reducing the flow of Kuwaiti and Iraqi oil to the market. If that oil (4.5 MB/D) goes off market and is not replaced by surge production (of which 4 MB/D exits), it would result in a price increase of \$10 - \$30 a barrel. We recommend you give serious consideration to allowing us to prepare the SPR. There is an IEA meeting in Paris this Thursday, an occasion that provides an opportunity to discuss drawdowns with the Germans and the Japanese. There are three options when it comes to the SPR: work with IEA, the U.S. alone, or doing nothing. We are already beginning to see some disruptions in the market. (C)

Governor Sununu. I see some inconsistencies in your numbers. (U)

General Scowcroft. The Federal Reserve has a similar study. The price of oil could go up to \$36 a barrel. But the price would fall \$4 a barrel with each million barrels added. (C)

The President. What does getting the SPR ready mean? (U)

Henson Moore. The law requires a presidential declaration. We would also talk with others. (U)

General Scowcroft. Another critical question is the surplus capacity of others. (C)

Henson Moore. We figure there is a surplus of 4 MB/D. 2.5 MB/D is in the Gulf; 1.5 MB/D comes from outside. An additional source of supply is Saudi ability to expand capacity. They could increase it by some .5 - .75 MB/D in three months. (C)

Secretary Brady. The financial markets are down badly. The price of oil is rising. The effect of petroleum and home heating oil price increases is already .5% in the CPI, or .6 - .7% of GNP. This would bring our growth down toward zero. It would also have a big effect on our import bill. As for sanctions, almost every major financial center has acted to freeze Kuwaiti assets. Regarding Iraqi assets, which matter less, the U.S., Britain,

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France and EC have acted. With the U.S., EC and Japan onboard, the embargo of oil products from Iraq and Kuwait is already 60-70%. Although the U.S. and Japan have embargoed trade, others are needed if it is to be effective. On credits, the U.S., Japan and Germany have cut them. (C)

The President. How long can Iraq withstand the pain of this economic isolation? All this military preparation must be expensive for them. This is a question for the intelligence community. (C)

Attorney General Thornburgh. Do we have a prediction of how much of Iraq's oil will get out? (C)

Henson Moore. This would be the second largest disruption involving oil in history, second only to the Iranian revolution. History suggests they will lower their price until they can sell. (C)

General Scowcroft. Iraq oil will only get into the market if they are physically able to do so. (C)

Henson Moore. That is correct. We need to distinguish between an embargo and a blockade. (C)

Secretary Baker. We also need to discuss cheating. The Central Bank of Jordan is allowing Iraq to use Jordanian accounts. We called in the Jordanian ambassador and warned him. (S)

Secretary Brady. I agree. Jordan is our biggest problem. (C)

Secretary Baker. Also, Mark Rich is offering storage for Iraqi crude with the help of Swiss banks. (C)

The President. Now, with international law on our side, we should lean on them. (C)

General Scowcroft. We also ought to think about publicizing what they are doing. (C)

Director Darman. With time, cheating will go up. If things work, the value of cheating will go up. Unless the Saudis increase production, the effect on us will be a recession. The SPR is not a perfect substitute, as it is a depletable resource. In fact, depleting the SPR will increase prices given the influence of market expectations. Democracies and market-oriented economies are less prepared to wage this kind of battle than non-market economies, especially given that modern communications will affect us more than it will them. We need to assess not simply the change in Iraq's welfare, but what it takes to starve them. We will be more responsive to ordinary pain than

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