payment arrangements, total about $280 million, of which $60 million are overdue. North Korea has asked Japan for a grace period of two years for the overdue portion of the debts and offered to pay interest for that part at a rate which was lower than the internationally prevailing rate.

Japan consented to extend a two-year period of grace but rejected the proposed interest rate. Negotiations are under way.

Collections of bills from the communist bloc involves complicated political problems. New Zealand Prime Minister Robert Muldoon during his visit to Japan at the end of April said, when conferring with Prime Minister Miki, that (1) should a war break out in the Korean Peninsula, its cause would possibly be the worsening of the North Korean economy; (2) so it was unwise to drive the North Korean economy to bay; and (3) the West should be lenient in collecting trade accounts from North Korea. Prime Minister Miki said he agreed with this opinion.

The economic relations between West Europe and East Europe can be likened to those between Japan and North Korea. Should West European countries try to forcibly collect bills from East Europe, trouble would develop in the economies of East Europe, and the whole of Europe might be faced with an undesirable situation. East-West trade poses many problems for Japan, too.

Exclusive NSIPS Translation:

Comecon: Increased Economic Integration

July 17 (NSIPS) — The following is excerpted from an article appearing in the July 13 French daily Le Figaro. The article was datelined Berlin and written by the paper's special correspondent Jean-Paul Picaper.

Five "common programs" have been adopted (at the Comecon meeting), all covering a fifteen-year period. These include: an increase in raw material resources and energy reserves which presently constitute — especially the latter — the main bottle-neck for the countries of the East; a numerical increase in high-technology machines; a joint effort in the food sector; a schema for an integrated system of electrical energy, as well as the improvement of the road and railroad network of the member countries.

... Finally, the Comecon "is impatiently waiting for an answer from the European Economic Community" to its proposal to conclude an agreement between the two economic blocs. This is what Mr. Faddeiv, Soviet Comecon Secretary, declared in a press conference. collaboration in this framework would be the logical follow up on the Helsinki conference.

..."Exchanges,"properly speaking, only take place with the West with large amounts of Western credits; Comecon debts (excluding East Germany) to the Federal Republic of West Germany alone amounted to some 18 billion Francs in 1975 (the East German debt to the BRD is close to 5 billions)....

With only Rumania having taken legislative steps to allow Western capital's participations in their economy, trade with the East is only financed by Western credits whose irresponsible multiplication poses a political problem: by postponing their (debt) repayment, or even by not renewing contracts and thereby create unemployment in the EEC, the Soviets would have available an excellent means of pressure.

Journal of Commerce Psywar On Soviet Debt

July 17 (NSIPS) — Following are excerpts from the page one lead article in the July 15 Journal of Commerce, which appeared under the headline, "Soviets Reportedly Seeking 5 Billion Dollar Loan in W. Europe." Appearing under the byline of Journal of Commerce staff writer Charles Fuller, the atricle was admittedly based entirely on unsubstantiated rumors floated by unnamed sources in the U.S. and denied or discounted — the article further conceded — by every authoritative identifiable source available in both Europe and the U.S.

The Soviet Union is reportedly sending out feelers in Western European capitals for a massive loan of up to 5 billion dollars in order to pay for heavy grain purchases and to roll over a portion of its foreign debt.

In Europe, however, bankers contacted by the Journal of Commerce were unable to substantiate the reports.

Several sources here told this newspaper that the Soviets have approached European central bankers for the funds, but have encountered considerable resistance in light of the U.S.S.R.'s heavy foreign debts and its poor balance of payments position.

One source said the Europeans would put up the foreign exchange only if the Soviets pledged 5 billion dollars in gold as collateral or, alternately, simply trade the gold for the currencies at a price favorable to the European. He indicated that a deal may already have been worked out, with the Bank for International Settlements (BIS) handling the gold transactions.

A European correspondent for this newspaper was told that at the BIS board meeting Tuesday, the indebtedness of Eastern European countries was discussed in a general way. However, it is said that nothing has transpired which would indicate that the BIS has any application for such financing...

If reports that the Soviets are indeed searching for 5 billion dollars are true, such financing could mean that crops in the Soviet Union are worse than generally believed. If so, additional — and unexpectedly high — purchase of U.S. grains and soybeans could be around the corner...

A demand for gold in light of heavy loans to the Eastern Bloc nations in recent years is not viewed by observers as being out of keeping with the credit markets. West German chancellor Helmut Schmidt has expressed anxiety about any further loans to the Communist nations. In only a few years, their debts have soared from virtually nothing to about 40 billion dollars.

A spokesman for the New York Federal Reserve Bank said he had no indication that a multibillion dollar loan to the Soviets is being considered in Europe. He said Federal officials who returned this week from the BIS monthly meeting had heard nothing of such a loan request... A spokesman for the U.S. Department of Agriculture said current USDA estimates for the Soviet grain crop indicate that the U.S.S.R. will harvest about 195 million tons this year, close to the second highest crop on record...

NEW YORK, July 15 (NSIPS) — In an interview this afternoon, Journal of Commerce staff writer Charles A. Fuller elaborated on his lead article in the morning's edition of the Journal of Commerce, which reported rumors that the Soviet Union is seeking a $5 billion Eurodollar loan secured against Soviet gold reserves to finance forthcoming grain purchases from the U.S.

Fuller: The Soviets are doing this from a position of extreme weakness, and the Europeans, essentially the West Germans and Swiss, who have the money to lend, are putting the screws on the Soviets, demanding the gold. The Soviets will have an 8 billion dollar hard currency deficit this year on top of a 5 billion dollar one last year and have well below 10 billion dollars in foreign reserves, according to a U.S. Department of Agriculture estimate. They don't want to ship a quarter of their gold reserve to the BIS (Bank for International Settlements - ed.), but if they need grain to feed their people, they'll do it.

My source on the loan report also told me that the Soviets are going to have a much larger grain deficit this year than anyone imagines and want to stock up on money with which to buy grain before someone realizes this. West German Chancellor Schmidt's recent statement that the debt of the East bloc is now 32 billion dollars and will rise to 40 billion dollars next year tends to bear out my source's report. The next loan the Soviets ask for will require political conditions ... such as moderating their role in Africa or elsewhere, the Europeans say.

West German Press Attacks Soviets On Debt Question

July 17 (NSIPS) — With a unanimity and coordination remarkable even in tightly Atlanticist-controlled West Germany, the entire West German press, together with Chancellor Helmut Schmidt, chorused in unison at the end of the week that West Germany must reevaluate its policy of issuing credits to the Soviet Union and other East European nations. Highlights follow.

***July report of the Bundesbank (West German central bank):** elaborates the socialist bloc's 20 billion deutschemark debt to the Federal Republic, and makes clear that West German-socialist bloc trade has reached its limits unless the socialist nations deliver "more and better goods." The reports takes as its model for this the decision of Poland to sign over significant amounts of its copper to a West German development project.

***Handelsblatt, July 15:** a story headlined "BRD Fulfills Comecon's Plan" bewails the Comecon's growing debt to the BRD contrasted with the high-quality goods the socialist nations received in return.

***Deutsche Zeitung, July 15:** charges that "the West now delivers the goods and pays for them" in trade with the East bloc, echoing Chancellor Helmut Schmidt's recent speech claiming that expanded exports to the socialist nations reduce West Germany's standard of living. "Reduction of the East's debt" is the Deutsche Zeitung's solution, including "direct co-production on Communist soil."

***Frankfurter Allgemeine Zeitung, July 15:** reprints in full Secretary of State Henry Kissinger's speech at the London Institute for Strategic Studies last month, where Kissinger kicked off the outcry against East bloc indebtedness and called for country-by-country Western subversion of the socialist nations of Eastern Europe.

***Frankfurter Allgemeine Zeitung, July 16:** claims that "big Euromarket banks, again, institutions with a big interest in gold, have for some weeks demanded higher interest rates from the Soviet Union for Eurocredits." The article further claimed that these institutions were embarking on "demonstrative support purchases" of gold to sucker the Soviets into selling gold at high prices to raise cash in lieu of the high-priced loans, and then moving quickly to undercut gold prices so the Soviets take a beating and they pick up Soviet Gold at premium prices. "Das Geschäft soll den Russen verdorben werden" (the business must be spoiled for the Russians) is the slogan of the day, the Frankfurter Allgemeine Zeitung claimed.

***Chancellor Helmut Schmidt, July 15:** speaking at the National Press Club during his tour of the U.S., Chancellor Schmidt "declined to comment" when questoined as to "whether the Soviets might soften their interventionist policies, such as in Angola, if Western nations threatened to cut off trade with Moscow." "He noted, however," according to the report in the Journal of Commerce, "that the Soviets are becoming increasingly dependent on Western trade, and that they rely more on the West for goods and services than the West depends on them."

Exclusive NSIPS Interviews:

Hysteria Over Economic Initiatives

The following interviews obtained this week by NSIPS reveal widespread hysteria in western banking, government and think-tank layers to recent economic initiatives by the Soviet Union.

MR. COBB, DEPUTY DIRECTOR OF THE STATE DEPARTMENT'S OFFICE OF EAST-WEST TRADE.

Q: Isn't it true that most banks really consider the Soviets a pretty good credit risk and the 10 per cent legal spending limit is bunk due to the proliferation of funds on the Euromarkets?

Cobb: It's quite true that there is no lending limit issue, especially with the money creation on the Euromarket, but we believe that quite a few banks have reached internal limits beyond which they do not care to lend. They don't feel the Soviets will pay.

Q: Won't (Secretary of State) Kissinger's pressure on the question of Soviet sector debt re-payments bring the Soviets to support Third World debt moratoria?

Cobb: That's outlandish! We're not pressuring the Soviets on anything. We're just saying Western governments should apprise each other of loans going on, share information on conditions, and be concerned about how dangerous the situation might be.

Q: What do you mean by dangerous? What would the Soviets do?

Cobb: Well, you've just laid out all sorts of scenarios yourself, haven't you?

PROF. FRANK HOLTZMAN, HARVARD RUSSIAN RESEARCH INSTITUTE, (an attendee of June 16-19 State Department Budapest Conference to discuss opposition to Hungary's integration into the Comecon.)

Q: What are the Europeans and the Third World doing on the transfer-ruble question?

Holtzman: Europe wants nothing to do with it. Sure the Soviets would like transfer ruble-based trade, but they aren't pushing it because no one in Europe wants toilet paper. I talked to the Ghana Foreign Trade Minister Peter Ablom last week — he's at Oxford now — and he said "We're holding these ruble surpluses with the Russians, we can't do a thing with them, and we're left holding the bag." It's like any Eastern European country. That's why Hungary doesn't want multi-lateral transfer-ruble convertibility with Comecon, because the transfer ruble itself isn't freely convertible into commodities.