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.

SOVIET LOAN OFFICER AT A "TOP FIVE" NEW YORK BANK

Q: I can't see the financial justification for all these insulting articles on the Soviets' credit ratings in the international press. Did the State Department originate the story?

A: Of course not, it started right here in the financial community. We're the ones lending the money to them, not the State Department. After the CIA invited a group of bankers down to talk the matter over earlier this year we began to speculate that more should be found out about the situation. I don't even know how much foreign exchange reserves they have, no one does.

Q: Under what terms will you lend to the Sovets?

A: No one will loan anyone $5 billion, as reported by the Journal of Commerce yesterday, without a gold pledge, that's for sure. However, I doubt they are looking for a loan that big. We haven't heard of it. Generally, they have been demanding interest rates one and one-quarter per cent over the London interbank rate of banks on the Euromarket, and have gotten it until as recently as the Bankers Trust syndication of a $250 million loan to the Soviets last month. Now, we and other banks feel we've reached the limit of loaning to them at those rates, considering the other available loan opportunities on the market. So they will have to pay more. And they might cut their huge imports some, and start providing more data on their debt, reserves, and so on, to encourage lenders and discourage all this speculation.

Interview with Curtis Hoxter, Zbigniew Brzezinski's International Finance Advisor

NSIPS: What is the status of negotiations between the Soviet Bloc and Western Europe on the use of the transfer ruble? What is the response of the Ruhr industrialists in West Germany? What about the Bank for International Settlements?

Hoxter: I've seen the Deutche Zeitung article criticizing the dollar and debt last week) Yes, German industry is very open to accepting the transfer ruble from the CMEA. It would have to be done European-wide, however, for example, through the Bank for International Settlements (BIS).

NSIPS: Are they open to the transfer-ruble on a state to state level, no foreign exchange trading, as a unit of account for specific long term credits?

Hoxter: Yes, they are open, but the Soviets haven't offered it.

NSIPS: I have noted several articles in the Soviet press, and U.S. government statements that they have.

Hoxter: I know, I know. Look, call up the Soviet Gosbank and ask them. Its not yet officially done. They talk all the time, but the Soviets are against this.

NSIPS: Would you agree with the Italian weekly magazine L'Europeo of last week that (Italian industrialist Eugenio) Cefis has indeed secured all of Italy's $8 billion annual oil imports through long term barter arrangements with the Soviets, Iraq, Algeria, and Libya?

Hoxter: Yes I would. There's no more market for Montedison in Italy, he has to expand to the Soviet bloc, and also into the U.S. and Canada.

NSIPS: What about the prospects for an Italian debt moratorium and Cefis-directed transfer-ruble based trade agreements under the new government of (Premier-designate) Andreotti?

Hoxter: Italy will never declare a debt moratorium...Cefis is talking barter only.

NSIPS: Isn't true the W. Germans want reserve requirements on the Euromarkets?

Hoxter: Yes, they're pushing hard for it... on a slow but sure basis, even the Social Democrats. The Euromarket causes tremendous inflation on W. Germany and elsewhere in Europe.

NSIPS: If the Euromarkets are regulated, there can be no more rollovers, a sure impetus to Third World debt moratoria, which many West Europeans support as well.

Hoxter: The Euromarket doesn't work that way, it is getting smaller and smaller, and we can collect. Look at Argentina, they're doing fine...We can have that everywhere. I don't take the Algerians seriously. They're just talking, I've seen their declaration (of Third World rights, supporting debt moratoria — ed.). Africa is in bad political shape with this Ugandan thing. The declaration is a public relations job. The Algerians are putting up a show.

NSIPS: The declaration was issued before the Uganda hijacking. What about Mexico, Peru, Italian support for debt moratoria?

Hoxter: Mexico, only very, very guardedly supports Algeria. Peru is not significant. Look, if the Soviets, Europe, and the Third World were going to do this ruble thing, they could have dine it long ago.