The Siberian pipeline embargo: who has whom over the economic barrel?

by George Gregory, Bonn Bureau Chief

Helmut Schmidt told an audience at the Friedrich Ebert Foundation in Bonn recently that "East-West trade provides no leverage to force the Soviets to do anything. It will take time, but gradually the Americans will learn to understand this." These remarks by the West German Chancellor, whose governing Social Democratic-Free Democratic coalition has just survived a budget-negotiation crisis despite the resolve of many in London and Washington to bring down his government, reflect a certain bottom-line of reality in the melee of intra-alliance crisis in the wake of the Reagan administration's decision to embargo re-export of natural-gas compressor turbines and parts produced on U.S. license to the Soviet Union.

The bottom line is that the policy cannot succeed in achieving the strategic goals it was ostensibly designed for. A wrong policy, at the wrong time, directed against the wrong people, the pipeline embargo destroys another sphere of American influence, following Latin America and the Mideast.

The embargo, according to the President, ought to curb Soviet foreign-exchange earnings from sales of natural-gas to the West, currently about 11 billion deutschemarks, and projected to reach at least 30 billion D-marks at a peak in 1988. Yet the embargo will not stop the pipeline, nor Soviet earnings.

There are dozens of ways the Soviets can do without General Electric rotor blades for the compressor-station turbines along the new Yamal-Urengoi pipeline and still deliver their contracted 30-35 billion cubic meters of natural gas, contracted for 25 years—at a price of course. But, delay or no delay, there is no doubt they can do it. Soviet gas deliveries to Western Europe will increase in phases over already existing lines before the new pipeline is completed in late 1983. In 1981, the Soviets exported 59 billion out of a total production of 465 billion cubic meters, and this year will export (according to deliveries contracted) 65 billion out of 492 billion cubic meters produced, and continue that rate of growth while phasing in the new Yamal-Urengoi line. At this time, it is also likely that earnings on gas sales will augment, rather than substitute for, earnings on oil exports, contrary to CIA assumptions.

"With this embargo, the U.S. is really trying to prove to the world that the Soviets are not creditworthy," noted H. A. Sieman, manager of the Association of German Exporters. The short-term consequence of the embargo is one additional measure of financial harrassment of Comecon debt-service payments for the late 1982-early 1983 period, which, were the U.S. to drive it to the brink, is far more dangerous to the U.S. and the Western banking system than to the Soviets.

It is a fact that the Soviets are currently scrambling for short-term funds to roll over their own debt, of which $16.3 billion is due this year, covered by only $8.7 billion in deposits with Western banks, according to the Bank for International Settlements. The East bloc as a whole owes 42 percent of $60.8 billion within this year. The Soviets are not getting new credits for new business because of "political risks." With the last 5 billion deutschemark tranche of West German financing for the pipeline approved on both sides, credit for that project is flowing, and as Hans Friderichs of the Dresdner Bank, who pulled it through, said, "No one doubts that the Soviets *are* basically creditworthy." To finance short-term liquidity requirements, the Soviets are being forced into gold-swap arrangements with especially the Swiss, often putting up 150 percent of the value of the loans, while scattered low-volume requests for short-term funds from banks are generally getting the cold shoulder.

The world debt situation is tight, with or without economic financial warfare. The very existence of the Kasten-Moynihan amendment to the appropriations bill, which would force U.S. companies and banks to call Poland in default prior to drawing on credit-insurance funds, is supposed to be a message to West Europe that the U.S. could pull the plug on Poland if Europe does not agree to ironclad credit and trade restrictions for the indefinite future. But there is no debt-weapon or leverage of that kind: the moment the U.S. calls Poland in default, there is not one European bank that will honor cross-default clauses on syndicated loans to Poland. Europeans will make their own arrangements with the Soviets and other East European countries. "The Bank for International Settlements," reports sources linked to the Bank of England, "are handling the Russians for Europe," such as the official bridging credit for over $500 million for Hungary, while also issuing the short-term debt statistics which ostensibly show that such a debt-weapon exists. The Pentagon's Fred Iklé has turned up in German interviews calling for a Polish default, prompting the counter-threat from Otto Wolff, President of the German Chambers of Commerce, that the Europeans could damage U.S. banks in Latin America where the U.S. is more exposed than Europe. The counter-threat, issued to warn the U.S. against "playing with fire," and the Iklé threat are each dangerous bluffs.

Far more serious in the short-term is the political effect on the Soviets of the embargo and financial harrassment. "In the Soviet Union," says U.S.S.R. economic specialist Alec Nove at Edinburgh University, "it is an increasingly attractive option to sever all links with the West, and thus also to order a Polish default. In fact, I am surprised that the Russians have not done it yet. They are being pushed into autarchy." The Soviet magazine *New Times* underlined the point in reporting on how relatively "insignificant" their trade with the West is: 1.5 percent of GNP, 5-6 percent of total Soviet imports. Another British expert, Phillip Hanson, pointed out that the "autarchist" tendency per se is not new, but it has accelerated since 1975. The Soviets have cut down their machinery purchases in the West and increased their food imports, picking up what they could wherever they could. (To really squeeze the Soviets, Hanson therefore recommends that the U.S. also declare a new grain embargo.) The U.S. embargo on turbine technology encourages this policy direction and the possibility of a reckless, adventurous Soviet leadership, which does not now exist. That is one reason why the idea of pressuring the Soviets to "liberalize" in Poland is worse than silly.

Thus, even if the Soviets used some foreign-exchange earnings from gas sales to cover debt, the U.S. achieves none of its strategic objectives. The overall restriction of trade and credits can be achieved, but the U.S. does not win any leverage with which to "tame" the Soviets on that count either.

Who gets hurt?

West German trade with the East in general is now lower than it was in 1960 as a proportion of overall trade and exports. In 1975, at the peak, the Comecon took 8.9 percent of total German exports. Now the percentage is only 5.1 percent. A shift has also occurred in the trade pattern: as far as in-depth "dependence" is concerned, the Soviets probably do more capital-intensive trade with West Germany than anyone else. But since 1978, when German agricultural exports to the Soviets were a mere 0.5 percent of total exports there, they are now 12.5 percent and total exports to the Soviet Union represent only 1.5 percent of West German industrial goods sales. Such figures do not prove that a further contraction of East-West trade will not do severe damage to the West German and West European economies, but they do prove that the Soviets are more free to go their own way than ever before.

Some Anglo-American strategists admit that the real target of the pipeline embargo is not the U.S.S.R., but Western Europe. "We want people to get angry," said one Pentagon official involved in the pipeline decision. "We want a basic agreement on trade and credit policies, an agreement with more teeth than what we got at Versailles." To get such an agreement, "first drop the bombs . . . they can't do anything against our sanctions," and then offer deals. Even though the effect of the embargo on the pipeline is strategically nil, people like Richard Pipes at the NSC, Iklé at the Pentagon, and the British-controlled Heritage Foundation are offering to lift the embargo in exchange for ironclad restrictions, or offer to keep Poland off the brink of default if Europe agrees to cut credit for the long haul.

British behavior, after its agents pushed through the embargo, is instructive. Britain has the least objective interest in East-West trade of all Western European nations, no interest at all in Russian gas, and the smallest share of the contracts for the pipeline itself. British Trade Secretary Lord Cockfield, notwithstanding, last week invoked the "Protection of Trading Interests Act" of 1980 against the "extraterritorial" application of U.S. law against European companies, and stated the U.S. embargo is "against United Kingdom trading interests." Trade Minister Peter Rees arrived at the New York Council on Foreign Relations, and then went to Washington to see how this "good measure of bluff" (as London trade office spokesmen described it) was landing. Former Prime Minister Edward Heath told his conservative group in London that the pipeline embargo and countervailing duties on European exported steel were aspects of "the most misguided policies since the beginning of the Western alliance." Heath, who expects a U.S. financial crash early next year at the latest, "does not like the Soviet pipeline either," according to a senior aide. "But you really don't expect us to pass up a chance like this with the U.S. making such an ass of itself, do you?" Romping in to seize American positions wherever they become vacant was also Francis Pym, in Belgrade no less, who expressed his "understanding" for the pipeline embargo, but appealed to President Reagan to "reconsider the embargo decision." All of this "holier and more European than thou" British PR work is naturally earning points in Moscow too.