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File Folder EAST-WEST TRADE (07/09/1981-07/31/1981)

FOIA F99-078/3 ZUBER 5

Box Number 5

ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
45552 MEMO	WILLIAM CASEY TO PRESIDENT, ET AL RE ATTACHED PAPER	1	7/9/1981	B1
45553 PAPER	SUMMARY	1	7/8/1981	B1
45554 PAPER	TAB A	2	ND	B1
45555 PAPER	TAB B	3	ND	B1
45556 MEMO	NORMAN BAILEY TO ALLEN LENZ RE PIPELINE	1	7/14/1981	B1
45557 MEMO	CASPAR WEINBERGER TO THE PRESIDENT RE NSC STAFF PAPER	2	7/14/1981	B1
45558 MEMO	RICHARD PERLE TO MAJOR GENERAL SCHWEITZER RE PIPELINE	1	7/27/1981	B1
45559 DRAFT	WHITE HOUSE PRESS RELEASE	1	ND	B1
45560 DRAFT	COMMERCE DEPARTMENT PRESS RELEASE	1	ND	B1

The above documents were not referred for declassification review at time of processing

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ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
45553	PAPER SUMMARY	1	7/8/1981	B1

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45554	PAPER TAB A	2	ND	B1

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45555	PAPER TAB B	3	ND	B1

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45556	MEMO NORMAN BAILEY TO ALLEN LENZ RE PIPELINE	1	7/14/1981	B1

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45557	MEMO CASPAR WEINBERGER TO THE PRESIDENT RE NSC STAFF PAPER	2	7/14/1981	B1

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Norm Baily
from DJF

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CHRISTIAN SCIENCE MONITOR 16 JULY 1981 Pg.4

? S-W

US drops opposition to W. European-Soviet gas deal

By Elizabeth Pond
Staff correspondent of
The Christian Science Monitor

Bonn

With the $10-15 billion Soviet-Western European gas-for-pipeline deal approaching its final stages, the US has dropped its former tacit opposition to the whole package.

Washington is now focusing instead on ensuring that West German consumption of the Soviet gas would be sufficiently dispersed so no single region became excessively dependent on it.

This shift became clear in the maiden press conference of the new US ambassador to West Germany, Arthur Burns, July 9. It comes at a convenient time for the Europeans and the Soviets, who want to close the biggest ever East-West deal quickly, as well as the Americans, who, in view of their own trade with the USSR, want to avoid any impression of a double standard.

Although Mr. Burns first issued the disclaimer that the decision is not America's but West Germany's (and the other participating governments'), under questioning, he had some premeditated advice to offer in case the West Germans ask his opinion.

It would be best, he suggested, to distribute the Siberian gas evenly among West German regions and to channel it more to industry than to private homes. That way energy dependence on the Soviet Union — and thus vulnerability to Soviet blackmail — would be minimized.

This, of course, has been the chief American fear: that West Germany — whose 30 percent share of the eventual 40-45 million annual cubic meters of Soviet gas would give it a 30 percent gas dependence on Soviet imports and a 6 percent primary energy dependence on Soviet imports by 1990 — would become politically vulnerable to Soviet threats to turn off the spigot.

This concern would be alleviated if in any emergency gas consumers could be switched quickly to other energy sources. This is an easier task for concentrated industries than for scattered households. It is also an easier task for a Ruhr region that has a variety of fuels and foreign suppliers, for example, than a Ruhr that draws the bulk of its energy from a single fuel imported from a single country.

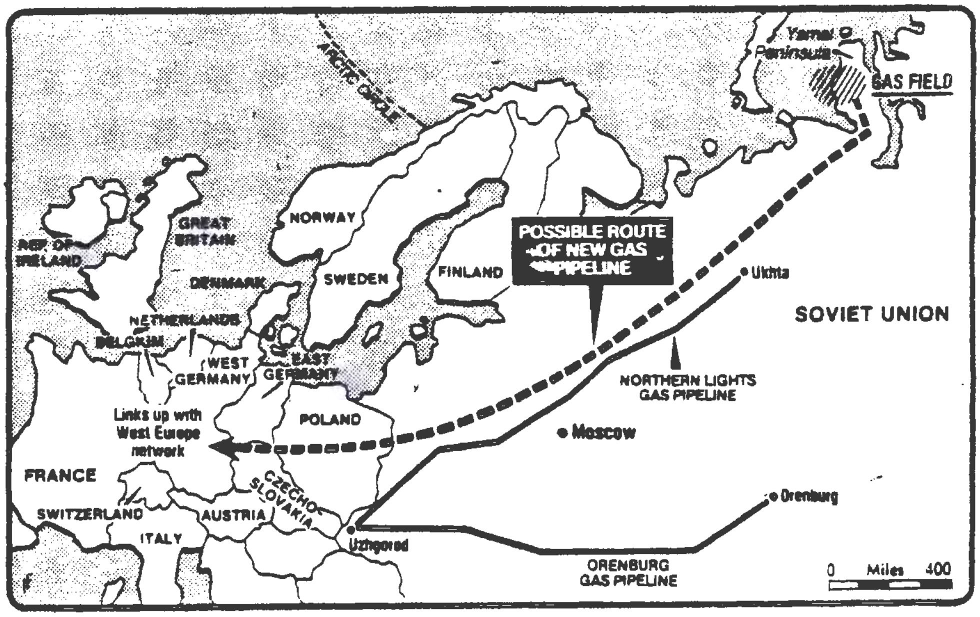
Burns said a 6 percent West German dependence on Soviet energy would not of itself be excessive, as long as it did not mean a 1 or 2 percent dependence in one region, and a 15 or 20 percent dependence in another.

And, of course, Burns counseled Western Europeans to "watch the financing very carefully." It is Soviet insistence on obtaining credits at interest rates well below the prevailing bank rates that has held up the final contracts since the beginning of 1981.

Washington's shift from its earlier blanket unhappiness about the deal to more pragmatic evaluation of its detailed terms should avert any major US-European — and especially US-German-clash on the issue. It should also avert any European perception of an American double standard, since Washington is approving US grain and possibly (indirect) cut-rate US butter sales to the Soviet Union. The American accommodation is also timely, since both sides hope to close the gas-for-pipe deal well before Soviet President Brezhnev's visit to Bonn in the late fall.

The new movement is indicated by the sudden flurry of visits back and forth by Western European and Soviet negotiators. It is also indicated by reports from Tokyo this month that private Japanese companies have finally agreed to a package for sales of steel pipe to the Soviet Union involving 10-year interest rates of about 7.75 percent. This was the reported approximate rate agreed on tentatively by the Soviet Union and Western European banks by early 1981.

Some West German bankers suggested at the time that the real interest rate could be brought closer to 9.75 percent by compensatory hikes in the prices of Western pipe, compressors, and refrigeration equipment for the 3,600-mile pipeline, or by reductions



Light at the end of the pipeline for Soviet-West European gas-for-pipe deal

PIPELINE...Pg.12

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The Washington Star - July 29, 1981

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U.S. to Offer Allies Alternatives to Soviet Gas

Secretary of State Alexander M. Haig Jr. said yesterday the United States is continuing to urge its European allies to consider alternative energy sources, including American coal, before financing a 3,500-mile pipeline that would transport Siberian natural gas to Western Europe.

Haig told a Senate trade subcommittee that the Reagan administration is urgently drafting proposals offering the Europeans greater access to coal, nuclear energy and non-Middle Eastern oil and gas supplies in hopes of forestalling "the possibility of over-reliance" on the Soviet Union.

The idea was originally proposed to the Western Europeans by President Reagan at last week's Ottawa summit – and encountered a rather cool response.

West German officials said that while American energy souces might complement other non-European supplies, they were not a real alternative to natural gas from the Soviet Union.

Chancellor Helmut Schmidt of West Germany has given his country's banks a green light to continue negotiating credit terms with the Russians to support the project. Last Friday in Bonn a consortium of German banks announced what was described as a broad agreement with the Soviets.

The pipeline, which would bring natural gas from Siberia's Yamal peninsula to terminal points in West Germany and elsewhere in Western Europe, would cost upwards of $10 billion and would rank as the biggest East-West trade transaction in history.

The agreement with the German banks, which still has to be completed in final detail, reportedly involves $2 billion.

While conceding that the United States cannot block the project, Haig suggested to the Senate panel that the American alternative, combined with high financing costs, may reduce dimensions of the pipeline project "substantially from that originally visualized."

As secretary of state, Haig has taken a great interest in trade issues. In a telegram sent to all foreign missions urging ambassadors promote trade, Haig said:

"The strength of the United States in developing and defending its position on international issues, including political and security aspects, depends very directly and heavily on its strength in international commercial and financial markets.

"To achieve the vigorous, effective foreign policy we all desire, each ambassador must contribute to this commercial dimension."

Aides said it was unusual for such a message to be sent out personally from a secretary of state.

Haig developed a similar theme yesterday in his remarks to the senators.

It was his first appearance, however, before a congressional trade panel. Haig is not the administration's chief spokesman on trade issues – that job falls to U.S. Trade Representative Bill Brock.

Sen. John C. Danforth, R-Mo., chairman of the Senate panel, called on Haig as the last of a group of administration witnesses involved in trade matters for a trade policy review.

In discussing the energy alternative to the Soviet pipeline, Haig did not reveal what other natural gas and oil supplies might be tapped, except to say that they would not be from countries that are members of the oil producers' cartel, the Organization for Petroleum Exporting Countries.

Haig said the United States and its allies have drawn up contingency plans in case the Russians intervened militarily in Poland.

He warned that there could be "damage to the U.S. economy" if the Soviets reacted in turn by reneging on Soviet block debts to Western banks and financial institutions. He placed the overall debt of the Soviet and Eastern European countries at $70 billion.

"Banks could be vulnerable," he said. "Financial institutions of governments could be vulnerable. Clearly production in the private sector and trade levels could be affected."

He added, however: "Our vulnerability does not surpass the failure to react to another blatant act of Soviet aggression."

He said the United States would raise no objections if Poland asked to join the International Monetary Fund, a 140-nation agency that lends to countries with balance-of-payments problems.

Asked about trade relations with Cuba, Haig said, "I have seen nothing in recent Cuban activities in this hemisphere, Africa or elsewhere which would suggest a further loosening" of trade sanctions. "Perhaps," he added, "we should be looking at a further tightening."

Asked by reporters later whether he was suggesting that the United States embargo the sale of food and drugs to Cuba, he merely repeated that "we ought to be looking for additional restrictions" but was not specific.

Haig also said the United States would welcome China as a signatory to the General Agreement on Tariffs and Trade, the international trade charter.

An East-West trade policy paper submitted to Congress Monday by the administration noted that China had replaced the Soviet Union as the biggest Communist trading partner of the United States.

New York Times Service

E-W

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45560	DRAFT COMMERCE DEPARTMENT PRESS RELEASE	1	ND	B1

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WSJ 7/30/81 E-W 19

White House Approves Caterpillar's Sale Of Pipeline-Laying Gear to Soviet Union

By TERRY MINSKY
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Reagan administration has given the green light to Caterpillar Tractor Co.'s request to sell $40 million of pipeline-laying equipment to the Soviet Union.

The decision ends a long-running dispute between the Pentagon, which opposed the sale, and the State Department. Pentagon officials argued that the equipment could be used on pipeline projects that would bolster Soviet defense production. State Department officials countered that Moscow already owns similar equipment and that if the U.S. doesn't sell the pipeline-laying equipment, Japan will.

Republican Sen. Charles Percy of Illinois, where Caterpillar is based, announced the administration decision yesterday after a conversation with Secretary of State Alexander Haig. The State Department, which intended to hold off public disclosure of the decision until next week, declined comment for the record, but officials confirmed privately the decision had been made.

The decision clears the way for Caterpillar to sell 100 pipe laying machines valued at about $40 million.

The decision to sell the pipe laying equipment to Moscow almost certainly will be cited by European leaders as justification for proceeding with a project to build a pipeline to bring natural gas from the Soviet Union to western Europe. The U.S. has tried to discourage the pipeline project by encouraging Europe to seek alternative sources of energy. Administration officials argue that the pipeline would make West Germany and France dangerously dependent on Soviet gas and wold provide Moscow with badly needed foreign currency.

U.S. policy toward the proposed Soviet pipeline and the sale of the Caterpillar equipment emerged from a divisive debate between the Defense and State departments over the issue of western trade with the Soviet bloc. This tolerant policy represents a victory for Secretary Haig.

Caterpillar has been seeking a license to export the pipeline laying equipment since February but the request was caught up in the administration's effort to formulate an East-West trade policy. Last year, Caterpillar got a license from the Carter administration to sell 200 pipe laying tractors to the Soviet Union for use on the proposed pipeline from Siberia to western Europe. But negotiations on the sale were suspended while Moscow sought to arrange financing.

~~Bailey~~

The Two Trade Policies

THE REAGAN administration has now announced its basic policy in respect to East-West trade. Actually, it's announced two basic policies. One is to limit trade with the Soviet bloc so as not to build up its military and adventurist potential. The other is to widen trade for economic reasons and to accommodate the United States' more trade- and detente-minded allies. Sound like the familiar old contradiction of administrations past? You bet it does. It's just as well, too. Only ideologues and the naive dream of building policy on just one of those strains. Accepting that they both must be juggled is the beginning of wisdom. It leads you to the hard cases.

The hardest currently going is the 3,500-mile pipeline the Soviets want the West to build to carry Siberian natural gas to Europe. To Moscow, this multi-billion-dollar project, the biggest East-West deal ever considered, is the key to development of a huge energy and hard-currency asset. To Washington, it would make Europe dependent on the Soviets. Uncomfortable, Western Europe, especially West Germany, seeks to put on the United States the burden of locating alternate supplies. But there are no energy rabbits to be pulled quickly out of reliable, non-communist, non-Middle Eastern hats. As the grain embargo shows, moreover, Washington is no stranger to the domestic pressures pushing Bonn toward Siberian gas. The more time Moscow gives Poland, the more the case against the pipeline deal weakens.

Sparing the West vulnerability to Soviet whim is a worthy objective, taken by itself. But in the trade field nothing can be taken by itself. One does not have to accept the silly argument that trade melts political tensions in order to grasp the strategic and economic imperatives for doing everything possible to expand the world's energy supplies. That means helping bring Siberian gas to Western terminals. It also means selling the Kremlin technology to expand its own energy production—the better to reduce its appetite for foreign oil.

The argument for letting the Soviets stew in their own backwardness is much stronger in respect to non-energy technology. Technological innovation is an ever tighter bottleneck of the Soviet economy, a systemic problem. It is not possible to conceive of Polish-type ferment or, for that matter, real destabilization coming out of it. But the industrial democracies should not go out of their way to rescue the Soviet system from its own failings, unless there are real gains for the West. Energy is one area in which this principle can be applied.

Taking Up the Collection

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