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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
169002	MEMO	W. MARTIN TO W. CLARK: SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION UPDATE #26 ***PAR 1/27/2012 CREST NLR-748-19-42-1-0***	3	6/11/1982	B1
169003	CABLE	BUDAPEST 3296	1	6/9/1982	B1
169004	REPORT	EXCERPT FROM NID ***PAR 10/8/2010 CREST NLR-748-19-42-3-8***	1	6/10/1982	B1
169005	CABLE	RE USSR	3	6/3/1982	B1
169006	CABLE	031843Z JUN 82	1	6/3/1982	B1
169007	CABLE	RE USSR	4	6/9/1982	B1
169008	REPORT	INTERNATIONAL ECONOMIC AND ENERGY WEEKLY, PAGES 11-16 ***PAR 10/8/2010 CREST NLR-748-19-42-4-7***	6	6/4/1982	B1

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169010	CABLE		4	6/8/1982	B1
169012	CABLE		9	6/3/1982	B1
169013	CABLE		3	6/4/1982	B1

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1 MW

MEMORANDUM

4010

NATIONAL SECURITY COUNCIL

16900?

June 11, 1982

~~SECRET~~

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: WILLIAM F. MARTIN WFM

SUBJECT: Soviet Bloc Economic and Financial Situation Update #26

Soviet Union

-- The Soviets fear that agreement among Western leaders to limit credits and/or trade with the USSR could hinder their economic development. They are seeking to exploit issues which divide the West and thus underscore the value of economic ties with the Kremlin (Tab A). ~~(C)~~

-- Soviet Prime Minister Tikhonov's rejection of Western pressure to "disrupt Comecon unity and extort political concessions" was the focus of the opening session of the 36th session of Comecon in Budapest June 8 (Tab B). ~~(C)~~

-- The USSR has lined up about 18 million tons of the 30 to 40 million tons of grain that it will need over the next year. Canada has agreed to export a minimum of 10 million tons. Accords with Argentina, Eastern Europe, Thailand and Brazil will provide another 6 million (Tabs C and D). ~~(S)~~

-- The Soviets continue to demand short term credit for grain purchases. Canadian banks, backed by government guarantees, will extend about $1 billion in 180-360 day financing at 1 percentage point below the Canadian prime rate. [redacted] claim that U.S. and West European banks provided the Soviets with some $14 million in 270 day loans last month for new grain contracts (Tabs D and E). ~~(C)~~ 25X1

-- Depending on whether U.S. competitors are able to offer more generous financing, U.S. wheat deliveries in 1982-83 could fall below the 16 million tons expected to be sold in 1982 (Tab C). ~~(S)~~

-- Western Europe could avoid any additional purchases of Soviet gas in the 1990's if alternative gas supplies, especially from Norway, are given some encouragement (Tab F). ~~(S)~~

~~SECRET~~
Review June 10, 2012
Derivative Classification by CIA

~~SECRET~~

-- Another report indicates that falling gas demand and the Dutch need for budget revenues have forced a dramatic shift in gas conservation policy suggesting that they may be able, through increased exploration efforts, to provide more gas to world markets during the 1980's and beyond (Tab G). (S)

5X1

Eastern Europe

5X1

-- Industrial investment in Romania appears to be at a standstill (Tab K). (S)

-- East Germany's major concern may well be its weakening economic situation aggravated by the need to send aid to Poland (Tab L). (C)

-- East German Communist party officials have stated that their commitments to Poland are hurting the GDR economy, particularly since the U.S. embargo against Poland has placed more pressure on East Berlin to make up for the loss of American goods (Tab M). (S)

-- The Soviets have reportedly offered $4 billion in hard currency to Poland, but the political terms are tough: Solidarity and other free trade unions must be declared illegal (Tab N). (S)

-- A Polish official has reported that the Gdansk shipyards have been working at well under 50 percent of capacity (Tab O). (S)

-- Coal production appears to be steady in Poland, but exports have seriously declined due in part to Poland's failure to honor contracts in 1980-81 (Tab P). (S)

5X1

25X1 [redacted]

Attachments (available on request)

Tab A State Cable re Versailles Summit
Tab B State Cable re Comecon
Tab C CIA Report re Grain Imports
Tab D [redacted]
Tab E
Tab F 25X1
Tab G State Cable re Dutch Negotiations on Gas Deliveries
Tab H [redacted]
Tab I
Tab J 25X1
Tab K
Tab L State Cable re EC Working Group Meeting
Tab M [redacted]
Tab N
Tab O
Tab P
Tab Q
Tab R 25X1
Tab S
Tab T
Tab U
Tab V
Tab W
Tab X

cc: Tom Reed, Don Gregg, Norm Bailey, Dick Pipes, Paula Dobriansky, Roger Robinson, Henry Nau

A

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Backups for # 4010

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update

A

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E.O. 12065: GDS 06/04/88 (SEMLER, PETER) OR-E
TAGS: PEPR, PROP, ECON, UR, US
SUBJECT: MOSCOW ON VERSAILLES SUMMIT.

1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY: THE SOVIETS LOOK WITH NERVOUSNESS AT THE VERSAILLES SUMMIT, FEARING AGREEMENT AMONG WESTERN LEADERS TO LIMIT CREDITS AND/OR TRADE WITH THE U.S.S.R. THEY SEEK TO EXPLOIT ISSUES WHICH DIVIDE THE WEST AND THUS UNDERSCORE THE VALUE OF ECONOMIC TIES WITH THE KREMLIN. MOSCOW PARTICULARLY ATTACKS AMERICAN SANCTIONS POLICIES, ALLEGED "UNRELIABILITY AND INSTABILITY," AND RESPONSIBILITY FOR THE PLIGHT OF THE WORLD ECONOMY. THE SOVIET MEDIA INTERPRET HIGH U.S. INTEREST RATES AND ADMINISTRATION EFFORTS TO LIMIT CREDITS TO THE EAST AS U.S. EFFORTS TO DESTROY THE ECONOMIES OF WESTERN EUROPE AND JAPAN AND REGAIN SUPREMACY OVER THEM. FAR FROM MERE PROPAGANDA, THIS SLICK SOVIET EFFORT IS DESIGNED TO WARN WESTERN EUROPE OF SEVERE CONSEQUENCES SHOULD THEY SIDE WITH THE U.S. ON CREDITS AND TRADE WITH THE EAST, CONTINUING AN ECONOMIC "WEDGE-DRIVING" CAMPAIGN WHICH GAINED PROMINENCE AFTER THE ADMINISTRATION IMPOSED SANCTIONS OVER POLAND. END SUMMARY.

3. SOVIET REPORTING ON THE VERSAILLES SUMMIT HAS DIVIDED INTO TWO TYPES THE ISSUES WHICH THAT MEETING WILL ADDRESS--WESTERN ECONOMIC PROBLEMS, HIGH U.S. INTEREST RATES, SLOW GROWTH AND UNEMPLOYMENT ON THE ONE HAND, AND EAST-WEST TRADE ON THE OTHER. IN DEALING WITH THE FORMER, THE SOVIETS:

- -- HIGHLIGHT INFLATION, UNEMPLOYMENT AND SLOW (OR NEGATIVE) ECONOMIC GROWTH IN EACH OF THE SUMMIT COUNTRIES, AT LEAST PARTLY TO SHOW SOVIET CITIZENS THAT THE U.S.S.R. ISN'T THE ONLY COUNTRY WITH PROBLEMS;
- -- STRESS GROWING DIVISIONS AMONG WESTERN POWERS ON SUCH ISSUES AS INTEREST AND EXCHANGE RATE POLICIES, PROTECTIONISM AND ECONOMIC STIMULATION, PITTING ONE COUNTRY AGAINST ANOTHER, BUT ESPECIALLY THE U.S. AGAINST THE REST TO THE EXTENT THAT AN "ECONOMIC WAR" AMONG THEM "PRACTICALLY EXISTS;" AND
- -- EMPHASIZE THAT THESE DIFFERENCES ARISE AS A RESULT OF PREDICTABLE STRUGGLES AMONG CAPITALISTS FOR MARKETS, AND PARTICULARLY OF U.S. MONOPOLIES ATTEMPTING TO (A) RESTORE THE U.S. ECONOMY TO PRIMACY OVER THE EEC AND JAPAN, (B) REGAIN LOST MARKETS AROUND THE WORLD, AND (C) MAKE EUROPE DEPENDENT UPON THE U.S. FOR SUPPLIES (ESPECIALLY ENERGY) AND OVERALL ECONOMIC HEALTH.
-

4. THE SOVIETS REGARD WITH TREPIDATION POSSIBLE WESTERN AGREEMENT TO LIMIT CREDITS AND/OR TRADE WITH THE USSR, ATTACK WITH ANGER AND VIGOR U.S EFFORTS TO GAIN A CONSENSUS ON THIS ISSUE, EMPHASIZE THAT WESTERN EUROPE'S GENUINE ECONOMIC INTERESTS REQUIRE COOPERATION WITH THE EAST AND POINT OUT THE DANGER OF CONTRARY ACTION. TYPICAL POINTS INCLUDE THE FOLLOWING:

- -- SANCTIONS AND BOYCOTTS DO NOT WORK, AS ILLUSTRATED BY THE NATURAL GAS "DEAL OF THE CENTURY" WHICH IS A SIGNAL CONTRIBUTION TO THE WEST'S ECONOMIC HEALTH.
- -- REAGAN ADMINISTRATION EFFORTS "TO UNDERMINE THE FINANCIAL FOUNDATION OF TRADE WITH THE EAST ARE REALLY AN ATTEMPT TO FIND "A CURE FOR (THE UNITED STATES') OWN ECONOMIC ILLS BY IMPOSING A POLICY OF INTERNATIONAL CONFRONTATION, HOPING THAT THIS WILL FURTHER WEAKEN ITS COMPETITORS."
- -- THE UNITED STATES IS UNRELIABLE, AS EVEN THE U.S. PRESS "CITES EXAMPLES OF ARBITRARINESS AND MUDDLE IN THE

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UNITED STATES' FOREIGN ECONOMIC POLICY," DEMONSTRATING A "LACK OF STABILITY AND CONTINUITY." IN CONTRAST, THE KREMLIN "UNSWERVINGLY COMPLIES WITH AND WILL CONTINUE TO COMPLY WITH OBLIGATIONS IT HAS ASSUMED."
- -- THE "ADVENTURIST POLICY" OF GOING ALONG WITH AMERICAN ATTEMPTS TO LIMIT CREDITS AND TRADE "MAY CAUSE GRAVE DAMAGE" TO WESTERN EUROPE AND JAPAN. INDEED, EMBARGOES, BOYCOTTS AND SANCTIONS "MAY ONE DAY BE DIRECTED AGAINST ANY STATE."
-

5. THUS, THE SOVIETS ARE NOT TOO SUBTLY POINTING OUT THAT:
- -- THEY REGARD U.S. ECONOMIC SANCTIONS POLICIES AS TANTAMOUNT TO "ECONOMIC WAR;"
- -- REAGAN ADMINISTRATION EFFORTS TO LIMIT CREDITS AND/OR TRADE WITH THE EAST ARE NOT SOLELY OR EVEN PRIMARILY DIRECTED AGAINST THE USSR, BUT AT ACHIEVING OR REGAINING ECONOMIC SUPERIORITY OVER WESTERN EUROPE AND JAPAN;
- -- PARTICIPATION IN US-SPONSORED SCHEMES VIS-A-VIS THE EAST WILL SERIOUSLY DISRUPT THE POLITICAL BASIS FOR TRADE WITH THE SOVIET UNION WHICH SOME WESTERN STATES ENJOY;
- -- IN LIGHT OF ALREADY DIFFICULT ECONOMIC CONDITIONS IN THE WEST, A CUTBACK IN TRADE WITH THE USSR WILL ONLY WORSEN THE ECONOMIC SITUATION IN THESE COUNTRIES; AND
- -- THE SUMMIT WILL SHOW "WHETHER THE LEADERS OF THE WEST HAVE RESTRAINT AND RESPONSIBILITY." ZIMMERMANN
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169004

Excerpt from NID, June 10, 1982

USSR: Lining Up Grain Imports

The USSR has lined up about 16 million tons of the 30 to 40 million tons of grain that it will need during the marketing year beginning in July. [redacted] 25X1

An agreement concluded last week with Canada guarantees the Soviets a minimum of 10 million tons of wheat and barley. Long-term accords with Argentina, Eastern Europe, Thailand and Brazil will provide another 6 million tons. [redacted] 25X1

The Soviets continue to demand credit from Western banks and governments for grain purchases. Canadian banks, backed by government guarantees, will extend about $1 billion in 180- to 360-day financing at 1 percentage point below the Canadian prime rate. [redacted] 25X1

Comment: With a large share of requirements for 1983 met and ample additional supplies expected to be available from Argentina, Australia and the EC, Moscow can further reduce its reliance on US grain in 1982-83. Suppliers other than the US probably could supply roughly 30 million tons of grain to the USSR. Depending on whether US competitors are able to offer more generous financing, US deliveries in 1982-83 could fall below the 16 million tons expected to be sold in 1982. [redacted] 25X1

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169008

West European Natural Gas Requirements: Looking to the 1990s (U)

Summary

West European gas demand in the 1990s will probably not reach the high levels forecast by most analysts only a year or two ago. Consequently, West European countries that still need to line up additional supplies of natural gas to meet their needs in the 1990s will have greater-than-expected flexibility to choose among potential suppliers on the basis of economic and security considerations. Western Europe could avoid any additional purchases of Soviet gas in the 1990s if alternative gas supplies are given some encouragement. Norway alone could supply more than half the additional gas needed. (~~C~~)

Natural Gas Export Prices, 1982 [a]

US $ Per Million BTU

Exporter	Price	Comment
Algeria	5.10	Price of LNG to France, f.o.b.
Netherlands	4.45	Price at Dutch border
Norway	4.25	Price at Emden, c.i.f.
USSR	4.65	Basis of new contract with West Germany

[a] Price per million BTUs can be converted to price per barrel oil equivalent by multiplying by 5.62.

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Changing Outlook

A sharp runup in natural gas prices, coupled with sluggish economic growth caused an unprecedented drop in West European natural consumption in 1980 and 1981. The two-year decline in gas consumption, however, is expected to bottom out this year.[1] Once economic recovery begins, demand is expected to revive, albeit at a more moderate pace than previously anticipated. For one thing, economic growth during the balance of the decade is apt to be slower than was forecast a few years ago. Higher natural gas prices will also influence the level of demand in the years ahead. Upward pressures on gas prices are likely to persist throughout the next decade as the Europeans increasingly shift to greater volumes of more expensive imported gas. (C)

The most recent West European government forecasts point to 1990 West European requirements of 4.9 million barrels per day oil equivalent (b/doe).[2] These government projections, however, will almost certainly prove too high because prices will be substantially higher than was assumed when the forecasts were made. Recent private-sector projections contain more realistic price assumptions; those 1990 projections, consequently, are much lower than the available government forecasts:

- Both Data Resources and Mobil Oil project West European 1990 requirements at 4.3 million b/doe.
- Exxon places 1990 requirements for the Europeans at 4.5 million b/doe, but the company admits informally that even this may be high. As recently as 1980, Exxon had been projecting 1990 requirements of 6 million b/doe.
- Royal Dutch Shell has also become bearish on the demand for natural gas; in January they dropped their 1990 West European forecast to only 4.3 million b/doe. (~~C NF~~)

[1] Data are for 15 West European members of the IEA plus France. (U)

[2] Europeans usually measure gas quantities in billion cubic meters. 1 billion cubic meters per year is approximately 16,700 b/doe. (U)

Excerpt from International Economic & Energy Weekly

Review June 4, 2002

Selected West European Countries: Natural Gas Requirements — *Thousand b/d Oil Equivalent*

	1979	1981	1982 [a]	1990 [b]
West Germany	946	846	816	940
United Kingdom	824	784	782	850
Netherlands	668	594	576	620
Italy	462	426	420	620
France	402	418	426	580
Belgium	190	174	166	220
Austria	80	78	82	130
Spain	32	42	44	100
Switzerland	16	20	18	30

[a] Estimated.
[b] Projection based on most recent private-sector forecasts available for each country.

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If the most recent private forecasts prove to be accurate, total West European natural gas consumption will increase by no more than 1 million b/doe between now and 1990. As domestic supplies are depleted or shut in and countries turn increasingly to imports, import dependence will grow from less than 15 percent currently to about 50 percent for all of Europe by the turn of the century. Although progressively less gas will be used in electrical generation, industry will come to rely on gas for about one-fourth of fuel needs. Continent wide, the residential sector would be even more heavily dependent on gas. (C)

Impact on Pipeline Negotiations

These more realistic assessments of future gas requirements are having some impact on the Soviet gas deal. Most West European countries have scaled back their proposed purchases, and some are seeking reduced volumes in present contract negotiations. As a result, the West European countries have reduced their planned Yamal pipeline purchases to 520,000 b/doe or less. Originally, the pipeline was to have provided an additional 670,000 b/doe. Including purchases under previous deals, West Europeans could be taking nearly 1 million b/doe of Soviet gas. (C)

Even with this scaling back, continental Europe [3] will depend on the USSR for 25 to 30 percent of total 1990 gas requirements if the pipeline proceeds as now planned. For several countries, levels of dependence will be higher; Italy and West Germany, for example, will depend on the Soviets for 40 percent of their total gas requirements by the end of the decade. (C)

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Alternative Supply Options

Even at the lower end of the Shell forecast, Western Europe will need to contract for additional

[3] Western Europe excluding the United Kingdom. (U)

Soviet Gas Contract Negotiations: Status Report

Austria *and the Soviet Union have reached agreement on a gas delivery contract which will run for 20 years. The Austrians will take an additional 22,000 b/doe, with an option for an additional 17,000 b/doe. The price of the gas, however, has yet to be settled. Austria had been originally negotiating for an additional 83,000 b/doe. In 1981, the USSR provided Austria with 30 percent of its total gas imports.* (C)

Belgium is negotiating with the Soviets for the delivery of gas supplies to begin in 1984. To ensure flexibility of supply, Belgium has decided to limit Soviet imports to a maximum of 33,000 b/doe, or one-sixth of their projected 1990 gas consumption. Brussels expects gas demand to grow by less than 1 percent a year, with 1990 consumption only marginally higher than 1979 use. (C)

France *recently concluded a contract with the Soviet Union for 140,000 b/doe of natural gas per year. The contract will run for 25 years, and the price will be linked to crude oil and oil product prices. The contract, however, permits French purchases of as little as 105,000 b/doe each year without Soviet authorization or penalty. The level the French ultimately take will depend almost entirely on the price of gas supplies from other available sources.* (S)

West Germany, *the first country to contract for Soviet gas from the pipeline, agreed to import 175,000 b/doe per year at a price linked to oil prices. The West Germans, however, do have an option under the contract to reduce purchases by up to 20 percent if the Soviets are notified at discussions in October. Several energy companies holding shares in Ruhrgas are pressuring the firm to exercise this option.* (S)

Italy *and the Soviets reached "technical agreement" on a gas contract in late January. SNAM, the Italian gas distributor, and the Soviet gas exporter agreed on a price and quantity of gas. The Italian Government, however, has yet to grant final approval. The considerable opposition which exists within the Italian Government to the Siberian gas deal is based in part on Socialist desires to conclude the contract with Algeria first. The Soviet Union has given the Italian Government until 1 July to sign the gas supply contract.* (C)

The Netherlands *was negotiating with the Soviet Union for 33,000 b/doe of natural gas annually. With weak industrial demand for gas and the overall decline in gas consumption, however, it is very likely the Dutch will not take any Soviet gas. Gasunie, the Dutch gas utility informed Moscow that they are no longer interested in purchasing Soviet gas. The Dutch feel slighted by the Soviets for the apparent snubbing of Dutch industry when contracts were awarded for the pipeline.* (C)

Spain *recently requested that the Soviet Union open talks on gas supplies. The Spanish Government, however, has postponed the talks until at least July, arguing that political and economic considerations indicate the need for more detailed study. At present, Spain plans to import 33,000 b/doe per year. The price must compete favorably with the $4.50 per million BTU Spain now pays for liquefied natural gas from Algeria and Libya. Madrid expects gas consumption to increase sharply, primarily for use in the chemicals industries and as a boiler fuel. For gas use to increase, however, an extensive infrastructure must be developed.* (U)

Greece *is also interested in purchasing Soviet gas. Preliminary talks have just been concluded in Moscow for a possible supply of 33,000 b/doe a year for seven years. However, an entire gas infrastructure must be built if gas is to become an important energy source in Greece. At present, Greece consumes no natural gas.* (U)

Switzerland *plans to import Soviet gas via West Germany. The Swiss and the West German utility, Ruhrgas, have agreed in principle on a delivery contract. The Swiss would purchase 8,000 b/doe annually, with an option to take another 3,000 b/doe. Deliveries would begin in 1988. The Swiss purchases, however, would require Ruhrgas to sign an additional contract with the Soviet Union since the original West German–Soviet contract prohibits Ruhrgas from exporting Soviet gas.* (C) supplies from the Soviet Union or elsewhere for the period after 1990. With demand increasing and domestic production expected to fall, especially in the United Kingdom, the decision by the Netherlands not to renew contracts for export gas confronts the other Europeans with a widening gas supply gap of 1.1-1.5 million b/doe in the year 2000. Although new supplies must be lined up fairly soon, the next two to three years offer a window of opportunity during which projects could be launched that would obviate the need for additional European purchases of Soviet gas in the 1990s. These new supplies might account for 850,000-1.5 million b/doe by the year 2000. (C)

Maximizing non-Soviet supplies will depend on assessments of the relative costs of alternative gas supplies. This in turn will depend heavily on assumptions about the interest rates charged for project financing. If West Europeans continue to offer subsidized financing to Moscow, for example, they are likely to end up with a second Yamal pipeline even though alternative supplies could be obtained. In the case of Yamal, the subsidy in effect shaved 3 to 5 percentage points from market interest rates Moscow would otherwise have had to pay. This in turn cut 10-15 percent from the estimated cost of delivering gas to Europe. If alternatives to Soviet gas are to be developed, similar interest rate subsidies must be offered for these alternative projects; or, at a minimum, their competitive position will have to be protected by not providing subsidies to the USSR. (C)

North Sea Options

The Netherlands, currently Europe's largest gas supplier, would be the most reliable and economical source of additional gas. Under current government policies designed to conserve gas resources, the volume of Dutch gas available for export in the late 1990s will dwindle to less than 170,000 b/doe. This situation could change:

- Gas deliveries under existing contracts—due to phase out in the early 1990s—can probably be stretched through the mid-1990s by deferring gas deliveries from earlier years when available supplies exceed demand.

- Given the size of Dutch gas reserves and the budgetary pressures confronting The Hague, we believe new export contracts might be authorized. (C)

Norwegian gas offers a secure but costly alternative to Soviet gas. Norway could potentially supply an additional 670,000-830,000 b/doe:

- Norway has huge gas reserves—presently about 18 billion barrels oil equivalent—and the government believes there is considerable potential to add to this total.

- Norway's new conservative government has already taken steps to accelerate resource development; however, additional measures would be required to reach full export potential.

- If a triangular gas deal can be arranged—using the United Kingdom as a conduit for delivering gas to the Continent—substantial savings of time and money could be realized in delivering 170,000-250,000 b/doe of gas to Europe beginning in the early 1990s.

- Given the high cost of developing Norway's gasfields and building major trunklines to the Continent, large additional supplies of Norwegian gas would probably cost 15 to 20 percent more than Soviet gas if no interest rate subsidies were offered for the Norwegian project. (C)

African–Middle East Options

Algerian gas can be produced and delivered to Europe at well below the cost of Norwegian gas. An additional 80,000-100,000 b/doe could probably be delivered through existing Trans-Mediterranean pipelines and up to 250,000 b/doe through a new pipeline to Spain. Field development costs

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are relatively low and the feasibility of undersea pipeline connections to Western Europe has been proven. However, Algeria's militant pricing policy and its unilateral suspension of gas deliveries to France and the United States in 1980 label it as a potentially unreliable supplier. (c)

Proposed gas pipelines from Africa or the Middle East to Western Europe are probably not politically or economically practical at this juncture. Any such pipeline would probably cross several unstable countries and could cost from $30-$60 billion. Supplies from a Trans-African pipeline, carrying gas from Nigeria and Cameroon to Europe, would be subject to disruption in any of the countries crossed and would probably face high transit fees. Given the lowering projections of demand, it will be difficult to line up European support for these systems. (c)

LNG and Coal Options

All the LNG projects under consideration to supply Western Europe would probably be expensive because of high delivery costs. Some of the projects must also overcome political uncertainties:

- Canada could supply 80,000 b/doe of gas to Europe beginning in 1990 if technologies for exporting LNG from arctic waters are proven.
- Although the original proposal for Nigeria's Bonny LNG project has collapsed, a scaled-down version of the project—to deliver 135,000 b/doe—might be completed.
- The Cameroon's Kribi LNG project could supply 115,000 b/doe in the early 1990s if political and institutional problems can be overcome.
- Qatar has huge gas reserves in its North gasfield and might supply 135,000 b/doe late in the 1990s. (c)

Aside from these options the West Europeans could make greater use of coal to meet their 1990-2000 energy requirements. Reasonably priced steam coal is available in virtually any quantity from the United States, Australia, and other exporting countries. Market studies show that the use of imported coal will grow in the West European utility and industrial sectors. In the residential sector, more direct use of coal does not seem likely in the absence of some technological improvements. Coal can provide a greater portion of residential energy needs indirectly through electricity from central generating plants and possibly later through the production of synthetic gas or liquids from coal. (c)

Security of Supply Implications

The West Europeans are certainly aware of the dangers of becoming overly dependent on the Soviet Union for imported gas and probably would be willing to pay a premium for security. The French and West Germans have indicated this willingness in talks with the Norwegians. If West European governments take advantage of the options available, they can substantially reduce their dependence on Soviet gas and, in turn, reduce the amount of hard currency the USSR will earn from gas exports. Possible patterns of gas supply and demand during the next two decades indicate that in the case of Italy, enough alternative gas can be found to reduce dependence on Soviet supplies from about 40 percent in 1990 to only about one-third in the year 2000. In the case of France, dependence could be reduced to 25 to 30 percent; and for continental Europe as a whole, dependence would not exceed 25 percent. If, on the other hand, the West Europeans agree to a second Yamal pipeline to help fill the 1990-2000 supply gap with Soviet gas, the level of dependence on the USSR would increase greatly. For continental Europe as a whole, dependence on Soviet gas would exceed 35 percent by the mid-1990s, assuming that a second Yamal line matches the first in capacity. (c)

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The factors that led the Soviets to conclude the first Siberian gas deal—huge gas reserves and continued needs for hard currency earnings and technology—will probably eventually lead to a proposal for a second pipeline. Judging by Soviet behavior in negotiating the first Yamal pipeline, additional gas supplies would be offered at a base price near the low end of the market. By accepting a relatively low price initially, the Soviets would increase their market penetration and secure hard currency earnings. This move would partially counteract an expected falloff in earnings resulting from declining oil exports in the 1990s. If future gas prices were also linked to oil prices, the Soviets could expect to increase earnings substantially over the following years of long-term gas contracts. (C)

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EXDIS
E. O. 12Ø65: GDS 6/8/9Ø (DYESS, WILLIAM J.) OR-E
TAGS: ENRG, EEWT, NL, GW, BE, NL
SUBJECT: DUTCH NEGOTIATING WITH NORWEGIANS TO INCREASE GAS DELIVERIES TO EUROPE
REF: (A) THE HAGUE 3914, (B) BRUSSELS 6863, (C) BRUSSELS 6567, (D) THE HAGUE 2538

1. (S - ENTIRE TEXT.)

2. SUMMARY. FALLING GAS DEMAND AND THE DUTCH NEED FOR BUDGET REVENUES HAVE FORCED A DRAMATIC SHIFT IN GAS CONSERVATION POLICY. NOT ONLY IS THE DUTCH GOVERNMENT NOW ACTIVELY PUSHING GAS AT HOME, IT IS ALSO RESPONDING TO BELGIAN DESIRES FOR MORE DUTCH GAS. EVEN MORE IMPORTANT, THE DUTCH ARE TRYING TO WORK OUT A LONG TERM ARRANGEMENT WITH THE NORWEGIANS FOR POOLED GAS EXPORTS. IF SUCCESSFUL, THIS COULD ELIMINATE THE RATIONALE FOR THE SECOND STRAND OF THE SIBERIAN PIPELINE. THIS MAKES THE U.S. AND THE DUTCH ALLIES IN WANTING TO STOP THE SECOND STRAND, BUT THE DUTCH MOTIVATION IS PREDOMINANTLY ECONOMIC (PRESUMABLY, THE NORWEGIAN MOTIVATION IS SIMILAR). THE DUTCH FEAR THAT ANY PERCEPTION OF POLITICAL COLORATION IN THE DEAL (OR THAT THE U.S. HAD PUSHED THEM INTO IT) MIGHT SCUTTLE THIS DEVELOPMENT OF COMMON INTEREST. END SUMMARY.

3. THE URGENT AND PROBABLY CONTINUING NEED FOR INCREASED BUDGET REVENUES HAS CAUSED A DRAMATIC SHIFT IN DUTCH PRIORITIES ON THE EXPLOITATION OF NATURAL GAS. THE FIRST EFFECTS OF THE CHANGE WERE ON THE HOME MARKET WHERE THERE HAS BEEN AN EFFORT TO FORCE MORE GAS ON THE ELECTRIC POWER COMPANIES. IT IS NOW BEGINNING TO SPILL OVER INTO GAS EXPORT POLICY.

4. THE CONSEQUENCES OF THIS ARE FAR-REACHING. RIGHT NOW IT IS CAUSING THE DUTCH TO BE RECEPTIVE TO BELGIAN DESIRES FOR A LARGER SECURE SUPPLY OF GAS FROM THE NETHERLANDS (REFS B AND C). MORE IMPORTANTLY, A HIGH DUTCH ENERGY OFFICIAL (J. CAMPEN, DEPUTY DIRECTOR GENERAL AND DIRECTOR OF ENERGY POLICY IN THE MINISTRY OF ECONOMIC AFFAIRS -- STRICTLY PROTECT) CONFIDED TO THE AMBASSADOR

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THAT THE DUTCH AND THE NORWEGIANS ARE DISCUSSING WAYS TO POOL THEIR GAS RESOURCES TO MEET A LARGE PART OF WESTERN EUROPE'S ENERGY NEEDS FOR A LONG TIME TO COME, ESPECIALLY GERMANY'S AND BELGIUM'S NEEDS. DETAILS ARE SCANTY, BUT ESSENTIALLY THIS WOULD INVOLVE AN INCREASE IN DUTCH GAS EXPORTS AND A MORE RAPID DEVELOPMENT OF NORTH SEA GAS RESERVES WHICH WOULD BE DISTRIBUTED THROUGH THE DUTCH GAS PIPELINE SYSTEM. SOME MIXING OF THE CLEANER DUTCH GAS WITH NORWEGIAN GAS MAY ALSO BE INVOLVED. IN WHAT WOULD HAVE BEEN UNTHINKABLE IN THE CONSERVATION-MINDED ATMOSPHERE OF THE NETHERLANDS UNTIL VERY RECENTLY, CAMPEN SAYS THAT THERE IS NO OPPOSITION IN THE RELEVANT COMMITTEE OF PARLIAMENT AND EVEN THE CURRENT MINORITY GOVERNMENT CAN PROCEED WITHOUT SERIOUS OPPOSITION.

5. WHILE THESE LATEST DEVELOPMENTS GIVE THE U.S. AND THE DUTCH AND NORWEGIANS A COMMUNITY OF INTEREST IN SEEING THAT THE SECOND STRAND OF THE SOVIET LINE IS NOT BUILT, THE MOTIVATIONS ARE DIFFERENT. THE DUTCH WANT TO SELL MORE GAS AND WANT TO ENTER INTO ARRANGE-MENTS THAT WILL GIVE OTHERS CONFIDENCE IN THE DUTCH SOURCE OF SUPPLY FOR COMMERCIAL AND REVENUE REASONS, AND FOR THE MOST PART THAT IS THE WAY ITS SUPPORTERS WILL HAVE TO SELL IT IN THE NETHERLANDS. ACCORDING TO OUR SOURCE, ANY SUGGESTION OF A POLITICAL MOTIVE IN THE DUTCH/NORWEGIAN NEGOTIATIONS COULD ONLY COMPLICATE THE CONDUCT OF THE SENSITIVE NEGOTIATIONS. HE ADDED THAT THE AVOIDANCE OF ANY POLITICAL COLORATION WAS ESPECIALLY IMPORTANT FOR THE NORWEGIANS IN VIEW OF THE STATUS OF THE NORWEGIANS AS A NEIGHBORING COUNTRY TO THE USSR. HE FEARED THAT "ANY PRESSURE" FROM THE U.S. WOULD PROB-ABLY BE COUNTERPRODUCTIVE, SINCE IT COULD GIVE A POLITICAL COLORATION TO THE DEAL.

6. THE FACT THAT NEGOTIATIONS WITH A PREVIOUSLY RESERVED NORWAY ARE TAKING PLACE SEEMS TO CONFIRM WHAT OUR SOURCE REFERRED TO AS AN "EVOLUTION IN THE NORWEGIAN ATTITUDE." PERHAPS EMBASSY OSLO CAN ADD SOMETHING TO OUR UNDERSTANDING OF THIS ASPECT, KEEPING IN MIND THE NEED TO PROTECT THE CONFIDENTIALITY OF OUR SOURCE AND
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E.O. 12Ø65: RDS-1 6/4/12 (BILLO, CHARLES)
TAGS: EEC, PEPR, PL, GE, UR
SUBJECT: EC POLITICAL COOPERATION: EC WORKING GROUP MEETING ON EASTERN EUROPE, JUNE 1Ø-11

REF: BRUSSELS 6988

1. C - ENTIRE TEXT.

2. YOU MAY PROVIDE MFR FOLLOWING POINTS IN CONNECTION WITH SUBJECT MEETING.

3. GDR.
-- THE SITUATION IN THE GDR HAS NOT CHANGED DRAMATICALLY SINCE THE END OF MARCH.
-- THE GDR IS STILL NERVOUS ABOUT POLAND'S POLITICAL AND ECONOMIC FUTURE, BUT THE MILITARY GOVERNMENT'S CRACKDOWN ON SOLIDARITY HAS CALMED EAST BERLIN'S WORST FEARS FOR THE TIME BEING.
-- POLAND ASIDE, THE EAST GERMAN REGIME IS WORRIED ABOUT HOW TO PLAY THE PEACE ISSUE. ITS MARCH CRACKDOWN ON WEARERSOF THE UNAUTHORIZED PEACE BADGE SEEMS TO HAVE TEMPERED SOME PEACE MOVEMENT ACTIVITIES, BUT ALSO TO HAVE THREATENEDTHE DELICATE MODUS VIVENDI BETWEEN THE STATE AND THE LUTHERAN CHURCH.

-- THE GDR'S MAJOR CURRENT CONCERN MAY WELL BE THE WEAKENING ECONOMIC SITUATION WHICH HAS BEEN AGGRAVATED BY THE NEED TO SEND AID TO POLAND AND BY THE EAST EUROPEAN CREDIT CRUNCH THAT FOLLOWED POLAND'S NEAR DEFAULT ON PAYMENTS TO THE WEST.
-- NOW THAT THE SITUATION IN POLAND SEEMS MORE MANAGEABLE FOR THE GDR, THE GDR'S RECENT RELUCTANCE TO PURSUE BETTER RELATIONS WITH THE WEST SEEMS TO HAVE EASED, BUT NOT BY MUCH.
-- NONETHELESS, THE GDR CONTINUES TO PORTRAY ITSELF AS LIMITED IN WHAT IT CAN DO WITH THE WEST AT THIS TIME, ESPECIALLY IN THE WAKE OF POLAND.
-- THE GDR HAS NOT EXPLAINED WHAT THESE LIMITATIONS ARE, WHAT THEY ARE SUPPOSED TO ACHIEVE, OR WHETHER THEY ARE SELF-IMPOSED, BUT THE ALLUSIONS SUGGEST THAT THE SOVIET UNION HAS INSTRUCTED THE GDR NOT TO PURSUE MAJOR INITIATIVES WITH THE WEST.
-- IT IS NOT UNKNOWN, HOWEVER, FOR THE GDR, WHICH IS EVER EAGER TO ANTICIPATE AND TO ALLAY POSSIBLE SOVIET CRITICISM OR DOUBTS, TO VOLUNTARILY TAKE STEPS TO PROVE ITS UNSWERVING, SELF-SACRIFICING LOYALTY TO THE SOVIET UNION.
-- THE GDR'S WILLINGNESS IN RECENT WEEKS TO SHOW RENEWED BUT CAUTIOUS INTEREST IN BILATERAL RELATIONS WITH WESTERN NATIONS MAY BE TIED TO ITS NEED FOR WESTERN FINANCIAL HELP.
-- 1982 WILL BE A TOUGH YEAR FOR THE GDR.
-- AID TO POLAND'S MILITARY GOVERNMENT HAS BEEN A HEAVY, ADDITIONAL BURDEN ON THE GDR'S ALREADY HARD-PRESSED ECONOMY.
-- THE GDR'S EFFORTS TO CUT BACK HARD CURRENCY EXPENDITURES, EXCEPT FOR THOSE THAT CAN HELP INCREASE THE PRODUCTION OF EXPORT GOODS, HAS ALREADY HAD A NOTICEABLE NEGATIVE EFFECT ON THE LIVING CONDITIONS IN EAST GERMANY.
-- A DECLINE IN THE AVAILABILITY OF CONSUMER GOODS AND SERVICES WILL CAUSE NEW GRUMBLING BY THE HARD-PRESSED WORKERS WHO ARE URGED TO WORK HARDER WITHOUT EXPECTATION OF INCREASED REWARDS.
-- EAST GERMAN ATTITUDES MAY BE SOURED FURTHER BY DECREASED CHANCES FOR RECREATIONAL TRAVEL, ALREADY TIGHTLY LIMITED, AND NOW WORSE, THANKS TO RESTRICTIONS IN TRAVEL TO POLAND.
-- THE FUTURE OF THE EAST GERMAN PEACE MOVEMENT REMAINS UNCLEAR.
-- EVEN SOME SED MEMBERS REPORTEDLY BELIEVE THAT THE CRACKDOWN ON PEACE BADGE WEARERS WAS BADLY HANDLED.
-- WHILE THE CRACKDOWN AND HARASSMENT OF BADGE WEARERS MAY MAKE MOVEMENT MEMBERS MORE CAUTIOUS AND CIRCUMSPECT, IT HAS NOT QUELLED THE MOVEMENT.

-- THE CRACKDOWN DID EXPOSE THE HYPOCRISY OF THE REGIME AND EARNED THE GDR SOME EMBARRASSING PUBLICITY IN THE WEST.
-- THE CRACKDOWN ALSO DISTURBED THE SENSITIVE MODUS VIVENDI IN RELATIONS BETWEEN THE STATE AND THE LUTHERAN CHURCH, SINCE THE CHURCH PUBLICLY EXPRESSED OPPOSITION TO THE STATE'S ACTION.
-- IT NOW SEEMS THAT THE REGIME WILL TRY TO CO-OPT THE NON-REGIME CONTROLLED PEACE MOVEMENT BY STAGING STATE-SPONSORED DEMONSTRATIONS AND RALLIES.
-- AT THE SAME TIME, THE REGIME WILL TRY TO CONVINCE THE CHURCH TO DISTANCE ITSELF FROM THE MOVEMENT IN ORDER TO PRESERVE THE GAINS THE CHURCH HAS MADE OVER THE PAST FOUR YEARS.
-- THE OUTCOME IS UNPREDICTABLE, BUT IT SEEMS LIKELY THAT THE GDR MAY HAVE TO WRESTLE WITH THE DILEMMA OF THE PEACE MOVEMENT FOR SOME TIME LONGER.
-- DESPITE THESE PROBLEMS, THERE IS LITTLE REASON TO EXPECT DISCONTENT TO RISE TO A LEVEL THAT COULD THREATEN THE REGIME'S CONTROL IN THE NEAR FUTURE.
-- THOUGH UNHAPPINESS MAY INCREASE, THE EAST GERMANS WILL PROBABLY CONTINUE TO PUT UP WITH THEIR LOT, WHICH PROVIDES THEM WITH A HIGHER DEGREE OF MATERIAL COMFORTS THAN OTHER EAST EUROPEANS ENJOY.
-- AT THE MOST, DISCONTENT--OR THE FEAR OF PERCEPTION OF DISCONTENT--MAY STRENGTHEN THE HAND OF THOSE IN THE SED WHO FAVOR TIGHTER INTERNAL SECURITY MEASURES IN ORDER TO GUARD AGAINST ANY "INFECTION" FROM THE WEST OR POLAND,.
-- ECONOMIC DIFFICULTIES COULD ALSO CAUSE A MOVE AWAY FROM THE "CONSUMERIST" POLICY WITH WHICH HONECKER HAS BEEN CLOSELY IDENTIFIED.
-- SUCH A SHIFT OF INFLUENCE WITHIN THE SED COULD AFFECT HONECKER'S POSITION, THOUGH NO THREAT TO HONECKER'S

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LEADERSHIP IS FORESEEN.

4. BREZHNEV SUCCESSION.

-- IDEOLOGY BOSS SUSLOV'S SUDDEN DEATH OPENED A MAJOR VACANCY IN THE CPSU CENTRAL COMMITTEE SECRETARIAT. BREZHNEV'S VARIOUS ILLNESSES AND PHYSICAL DECLINE HAD ALREADY AFFECTED THE LEADERSHIP'S ABILITY TO MAKE CRUCIAL DECISIONS EXPEDITIOUSLY, BUT SUSOV'S DEATH LEFT THE MASSIVE IDEOLOGICAL EMPIRE WITHOUT SUPERVISION. KIRILENKO'S TWO-MONTH ABSENCE IN MARCH AND APRIL LEFT ONLY TWO SENIOR PARTY SECRETARIES, CHERNENKO AND GORBACHEV, WORKING FULL-TIME.

-- WITH BREZHNEV'S OBVIOUS SUPPORT, CHERNENKO SEIZED THE OPPORTUNITY CREATED BY SUSLOV'S DEATH AND STEPPED UP HIS CAMPAIGN TO SECURE THE POSITION OF HEIR APPARENT. CHERNENKO BECAME ACTIVE IN MATTERS CONNECTED WITH IDEOLOGY AND PROPAGANDA, NOT NECESSARILY IN ORDER TO ACQUIRE SUSLOV'S PORTFOLIO FOR HIMSELF, BUT CHIEFLY AS A WAY TO REGISTER INCREASED STATUS PUBLICLY. AT THE SAME TIME, HE WAS ABLE TO FORGE AHEAD OF KIRILENKO IN LEADERSHIP RANKING.

-- FACED WITH CHERNENKO'S BID FOR NO. 2 STATUS, KGB CHIEF ANDROPOV, OR CIRCLES AROUND HIM, OBVIOUSLY CONCLUDED THAT THE MOMENT TO ACT HAD ARRIVED. ANY COMPARISON OF ANDROPOV'S AND CHERNENKO'S CREDENTIALS FOR LEADERSHIP SHOW ANDROPOV'S AS FAR MORE SUBSTANTIAL. FURTHERMORE, THE SENIOR POLITBURO MEMBERSHIP, WITH THE EXCEPTION OF BREZHNEV, REPORTEDLY ACCORDS CHERNENKO LITTLE RESPECT AS A FUTURE NATIONAL LEADER.

-- ANDROPOV'S MANEUVERINGS BETWEEN THE TIME OF SUSLOV'S DEATH AND THE MAY PLENUM ARE NOT FULLY UNDERSTOOD, BUT THE FOLLOWING EVENTS ARE CLEAR:

- A. ANDROPOV PROBABLY WAS BEHIND THE MOSCOW RUMORS OF GALINA BREZHNEVA'S LINKS WITH DIAMOND SMUGGLERS, A CATEGORY OF CRIME FALLING WITHIN THE KGB'S JURISDICTION. THE PURPOSE BEHIND THE LEAKS APPARENTLY WAS TO THREATEN BREZHNEV, AND BY ASSOCIATION, HIS PROTEGE CHERNENKO.

- B. A SUBSEQUENT INDICATION OF ANDROPOV'S PROGRESS TOWARD A SEAT ON THE SECRETARIAT CAME ON APRIL 22 WHEN HE GAVE THE TRADITIONAL LENIN BIRTHDAY SPEECH, AS HE HAD IN 1964 AND 1976. GORBACHEV, DOLGIKH, AND RUSAKOV ARE CPSU SECRETARIES WHO HAVE NEVER HAD THAT OPPORTUNITY. THERE IS A STRONG HISTORICAL PATTERN FOR THE LENIN BIRTHDAY SPEECH TO BE GIVEN BY CPSU SECRETARIES OR THOSE ABOUT TO BECOME SECRETARIES (THE ONLY RECENT EXCEPTION WAS SOLOMENTSEV IN 1978).

- C. FINALLY, THE PERSONNEL CHANGES MADE AT THE MAY 24 PLENUM SMACK OF A COMPROMISE BETWEEN BREZHNEV AND ANDROPOV WHEREBY BREZHNEV GOT MAJOR ELEMENTS OF HIS LONG-SOUGHT "FOOD PROGRAM" AND ANDROPOV GOT HIS SEAT ON THE SECRETARIAT. AT THE SAME TIME, CHERNENKO PROBABLY ALSO GAINED FROM WHAT APPEARS TO BE A STEP TOWARD REPLACING THE AGED KIRILENKO, I.E., THE NOMINATION OF CPSU SECRETARY DOLGIKH AS CANDIDATE MEMBER ON THE POLITBURO.

-- A CAREER KGB OFFICER--VITALIY FEDORCHUK--SUCCEEDED YURIY ANDROPOV AS CHIEF OF THE KGB. THE APPOINTMENT APPEARS TO BE-A PLUS-FOR-ANDROPOV. THE HERETOFORE RANKING KGB DEPUTY OFFICER, A REPUTED CRONY OF BREZHNEV, WAS PASSED OVER. FEDORCHUK'S POLITICAL ALLEGIANCES ARE NOT KNOWN TO US, BUT HE HAS WORKED UNDER ANDROPOV SINCE 1967.

-- ANDROPOV PROBABLY WILL REMAIN THE KGB'S SPOKESMAN ON THE POLITBURO. FEDORCHUK -IS NOT A CENTRAL COMMITTEE CPSU MEMBER, AND THE FAILURE OF THE MAY 24 PLENUM TO PROMOTE HIM TO THE CENTRAL COMMITTEE INDICATES THAT SOME TIME IS LIKELY TO ELAPSE BEFORE HE WORKS HIS WAY UP THE PARTY HIERARCHY TO THE POLITBURO.

-- THE 64-YEAR-OLD FEDORCHUK BEGAN HIS KGB SERVICE IN 1939 WITH THE BATTLE OF KHALKIN GOL IN MONGOLIA. HIS WORLD WAR II CAREER IS NOT KNOWN. WHILE SERVING AS CHIEF OF THE KGB'S MILITARY COUNTERINTELLIGENCE DIRECTORATE IN THE 1960'S, HE PUBLISHED SEVERAL ARTICLES ON THAT SUBJECT. DURING THE PERIOD OF HIS SERVICE AS CHIEF OF THE UKRAINIAN KGB (HE IS AN ETHNIC UKRAINIAN), SUPPRESSING UKRAINIAN NATIONALISM WAS A MAJOR KGB MISSION. HE PRESUMABLY WAS INVOLVED IN THE FALL OF UKRAINIAN PARTY LEADER PETR SHELEST IN 1973, WHO WAS ACCUSED OF UKRAINIAN NATIONALISM.

5. POLAND.

-- THE SITUATION IN POLAND REMAINS VERY PRECARIOUS. THE GOVERNMENT APPEARS TO HAVE SUCCEEDED IN RESTORING A SEMBLANCE OF CALM WITHIN POLAND IN THE WAKE OF THE NUMEROUS DEMONSTRATIONS DURING THE FIRST PART OF MAY. BUT BENEATH THE SURFACE, THE SITUATION IN POLAND CONTINUES TO BOIL, AND IT IS ALWAYS POSSIBLE THAT OPPOSITION TO THE REGIME COULD INCREASE, OR THAT A SEEMINGLY UNIMPORTANT INCIDENT COULD QUICKLY ESCALATE INTO A MAJOR CONFRONTATION BETWEEN THE AUTHORITIES AND THE POPULACE. IN BOTH CASES THE RESULTS WOULD BE UNPREDICTABLE.

-- WE CONTINUE TO GET REPORTS OF OPPOSITION TO JARUZELSKI WITHIN THE POLISH POLITICAL LEADERSHIP, PRIMARILY FROM THOSE WHO ADVOCATE TAKING A HARDER LINE TOWARD OPPOSITIONAL ELEMENTS IN POLAND. THE GENERAL'S PRIMARY ASSET AT THIS POINT IS THE ABSENCE OF AN ALTERNATIVE LEADER. NEVERTHELESS, HIS CONTINUING FAILURE TO ACHIEVE POLITICAL RECONCILIATION OR TO PUT THE ECONOMY BACK ON ITS FEET MEANS THAT HIS SUDDEN REMOVAL AT SOME POINT CANNOT BE RULED OUT.

-- DESPITE PRIMATE GLEMP'S CALL FOR POLES TO AVOID CLASHES WITH THE GOVERNMENT, PUBLIC SUPPORT FOR THE CHURCH REMAINS STRONG AND RELIGIOUS SERVICES ARE OFTEN FILLED BEYOND CAPACITY. REPORTS FROM ROME INDICATE THAT THE POPE IS PLANNING TO VISIT POLAND THIS AUGUST. IF THE VISIT ACTUALLY GOES THROUGH, THE POSITION OF THE CHURCH WITHIN THE COUNTRY IS LIKELY TO BE FURTHER STRENGTHENED.

-- ACCORDING TO REPORTS WE HAVE RECEIVED FROM POLAND, WALESA IS NOW BEING HELD IN A HUNTING LODGE NEAR THE CZECHOSLOVAK-SOVIET BORDER. HE APPEARS TO BE IN GOOD HEALTH, AND DESPITE RUMORS THAT HE MAY BE PERMITTED TO PLAY A ROLE IN HELPING RESOLVE POLAND'S MANY PROBLEMS, WE SEE NO INDICATION THAT THE GOVERNMENT HAS ANY INTENTION OF OPENING A MEANINGFUL DIALOGUE WITH HIM OR SOLIDARITY.

IN FACT, GOVERNMENT OFFICIALS TELL US PRIVATELY THAT FOR PRACTICAL PURPOSES, SOLIDARITY IS DEAD.

-- POLAND'S ECONOMIC DECLINE IS CONTINUING UNABATED. INDUSTRIAL PRODUCTION IS PARTICULARLY HARD HIT. APRIL OUTPUT IS 7.5 PERCENT BELOW LAST YEAR'S POOR PERFORMANCE AND POLISH ESTIMATES POINT TO A 25 PERCENT DECLINE IN LIVING STANDARDS THIS YEAR. IF THIS IS NOT ENOUGH TO PROVE THAT MARTIAL LAW IS FAILING TO RESUSCITATE THE ECONOMY, THE FAILURE OF WARSAW'S ANNOUNCED ECONOMIC POLICY MEASURE TO DEAL WITH THE DECLINE WILL UNDERSCORE THE FACT. THE REGIME HAS ANNOUNCED ITS PRIMARY RESPONSE TO WESTERN ECONOMIC SANCTIONS: GREATER RELIANCE ON COMECON THROUGH REORIENTATION OF POLISH TRADE TO THE EAST. BUT FIRST QUARTER TRADE FIGURES SHOW THAT THIS TACTIC IS AN ABJECT FAILURE. POLAND'S COMECON ALLIES ACTUALLY HAVE REDUCED POLAND'S TRADE DEFICIT WITH THEM TO ONE-THIRD OF THE FIGURE FOR THE SAME PERIOD LAST YEAR

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WHILE INCREASING THE PROCES OF THEIR EXPORTS TO POLAND BY MUCH MORE THAN POLAND'S EXPORTS TO COMECON. THE RESULT IS A LARGE NET REDUCTION IN RESOURCE FLOWS TO POLAND. FURTHER, A POLISH STUDY BY A MINISTRY OF FOREIGN TRADE RESEARCH INSTITUTE CONCLUDES THAT ONLY 8.5 PERCENT OF POLAND'S IMPORT NEEDS FROM THE WEST COULD BE REPLACED BY IMPORTS FROM COMECON. THIS REMARKABLE FACT WAS PUBLISHED IN THE AUTHORITATIVE POLISH JOURNAL "POLIYTIKAALONG" WITH THE AUTHOR'S COMMENT THAT PERHAPS POLAND SHOULD TAKE THE NECESSARY POLICY STEPS TO PERMIT RENEWED ACCESS TO WESTERN TRADE AND CREDITS THAT REMOVAL OF SANCTIONS WOULD MEAN. CLEARLY, WESTERN ECONOMIC SANCTIONS ARE WORKING WHILE THE REGIME'S POLICY RESPONSES ARE NOT. THE CONCLUSION THAT CLEARLY STANDS OUT FROM THIS IS THAT THE WEST HAS REAL LEVERAGE ON THE JARUZELSKI REGIME, THE EFFECTIVENESS OF WHICH WILL BE MAXIMIZED BY CONTINUED UNITY IN MAINTAINING THE PRESENT ECONOMIC SANCTIONS.

-- THERE IS ONE DANGER INHERENT IN THE PRESENT POLISH ECONOMIC SITUATION. INDUSTRIAL CAPACITY UTILIZATION IS ONLY 5Ø-6Ø PERCENT. THIS LEAVES THE REGIME WITH A DIFFICULT DILEMMA: EITHER CONTINUE TO PAY LARGE NUMBERS OF ESSENTIALLY IDLE INDUSTRIAL WORKERS, AND RISK REKINDLING LAST YEAR'S RAGING INFLATION, OR PERMIT GROWING UNEMPLOYMENT; AN EXPLOSIVE SOCIAL AND POLITICAL ISSUE. STOESSEL

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