Gorbachov's Russia to pay Czarist debt

by William Engdahl

On July 15 in London, Soviet Foreign Minister Eduard Shevardnadze signed an agreement with the British foreign minister ending a 69-year-old repudiation of pre-revolutionary debts. While media accounts have treated the matter in a passing or comical manner, there appears to be nothing comical in the reasons motivating the Soviet state to recognize the most sacrosanct form of capitalist paper—state-bonded debt titles.

"The Russians definitely did this, now, after refusing for almost 70 years," a spokesman for one of the largest French banks told us, "because they intend to become more respectable in order to borrow more" on select Western capital markets. A senior person at the London merchant bank, Morgan Grenfell, confirmed, "We assume they are clearing the decks for something big. Most of our clients are American or Arab, so we wouldn't touch Russian paper. It would have to be the large international houses with placing power in securitized markets—Crédit Suisse First Boston or Merrill Lynch Capital Markets."

According to specialists in the esoteric world of London finance, the latest Moscow overture was made in a precisely targeted manner aimed at the huge offshore financial market known as the City of London. While the face amount at stake in Czarist Russian bonds is tiny in today's global terms—perhaps some $60 million—and it may take years to trace down surviving descendants of holders in the West—the interesting question is "Why now?"

Collapsing energy revenues

Since the 1970s, when the Western world price for petroleum artificially soared from an average below $2.50/barrel in 1973 to almost $40 in 1980, Soviet earnings of Western "hard currency"—principally dollar holdings—were vectored overwhelmingly to energy exports to the West. The controversial Siberian natural gas pipeline of the late 1970s was only part of this strategy. Billions of dollars of Western oil equipment, pipe, and drilling and refining technology were bought to increase output from huge but remote Siberian oil and gas fields. In the early 1980s, Moscow became a factor, if marginal, in Western crude and refined oil product markets, dumping an estimated 2 million barrels daily onto Swiss and London oil "spot markets." More than 60% of official Soviet hard currency earnings by the early 1980s flowed from oil and gas sales to the West. Since last January, with the catastrophic drop of Western oil prices from some $28/barrel to even less than $10, Soviet energy earnings have been severely hit.

The Vienna Institute for International Comparative Economics in Austria monitors East-West trade developments. According to Dr. Raimund Dietz of the institute, "The Soviet Union will lose $10 billion in 1986 compared with 1984" only from energy export prices. As oil in the West is traded and priced in dollars by convention, Dietz further calculates that losses, if calculated for Moscow's main Western European trade partner, West Germany, are far greater. As the dollar parity level with the West German mark has plunged more than 30% over this time span along with the oil price, Dietz reckons hard currency income losses from energy export to the West will plunge. "We calculate they will go from DM 66 billion in 1984 down to only DM 32 billion this year," he said. "This is drastic." And it assumes an average oil price of $16 this year, an optimistic projection.

To compensate for this sudden loss, the Russians can simply cut back on orders of capital goods and agriculture from Western markets. Already there have been signs they will unilaterally renege on a part of their huge grain contract with Washington. Until now, none of the major technology contracts with West German and other European firms, said to be so promising only four months ago, has been signed. "There are signs of cutbacks already," Dietz added. "Big Austrian firms, ones which have traded with Moscow for years, are being told, 'No, wait until next year. . . .'"

Dietz calculates there are limited options to gain new Western currency. One of the largest potentially, would be further export of gold. On May 9, London gold bullion dealer Samuel Montagu reported evidence that Moscow had sharply increased gold sales to the West from 120 tons in 1984 (Imperial) to 225 tons already in 1985, when energy export earnings first began to drop. Since the present world gold market is very soft and dominated by South African production, maximum revenue gain possible from this source to offset oil losses to the West would be only $3 billion, for a total estimated at $4.5 billion sales this year. "They can export a maximum of 200 to 250 tons before they began to undercut the market prices."

This could explain one aspect of the involvement of Russian "ambassador without portfolio" Armand Hammer in pushing the British royal family to demand drastic economic sanctions against South Africa. South Africa and U.S.S.R. are repositories of the vast share of known world reserves of gold, diamonds, and also coal, platinum, manganese, titanium, and other industrially strategic raw materials. Moscow is backing the African National Congress terrorist organization inside South Africa to create industrial chaos.

Another Russian option would be to go onto the most preferred Western capital markets—bond markets, where costs of capital to finance industrial imports are far lower than for conventional bank credit.

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