 by William Engdahl

Banks perplexed on loans to Moscow

The Russians don't want to become a "new Brazil," despite the dreams of some Western bankers.

During 1988, Western banks and governments began falling over one another to throw multibillion-dollar credit lines to Moscow for its *perestroika*. Last October alone, banks from Italy, France, West Germany, and Britain alone, threw almost $10 billion of credit offers to Moscow with the apparent hopes of increasing trade with the East. First came a DM 3 billion credit line from a consortium of German banks headed by Deutsche Bank, formally signed in Moscow late October, to finance German machinery imports. France's Mitterrand followed Germany's Kohl to Moscow in November with similar offers of frankincense and myrrh. Italian Premier Ciriaco De Mita even threw in promises of some kind of "Marshall Plan for the East" with his $800 million credit offer. And Sir Michael Palliser, chairman of Britain's Midland-Montagu bank, announced hours later that a group of U.K. banks were "close" to signing for a $1.8 billion (£1 billion) trade credit with the Soviets.

From the U.S. side, RJR Nabisco joined with Chevron Oil, Dwayne Andreas' Archer Daniels Midland grain giant, Ford Motor, and Kodak, to form an ambitious entity called American Trade Consortium, led by James Giffen of a little-known New York bank called Mercator. Armand Hammer chimed in that his Occidental Petroleum, along with Italy's Ferruzzi-Montedison, had won a bid to build a $6 billion chemical polymer plant at Tenghiz near the Caspian Sea.

Now, only months later, all indications are that the big promises of access to the riches of the East markets are simply either calculated Moscow propaganda to keep Western allies divided and confused over common strategy for dealing with the Warsaw Pact, or simply a dead letter in the midst of the growing economic crises in the Comecon. "After the Polish shock, and the announcement of the 100 billion ruble [Russian] deficit, it is clear to us that the Russians do not want to depend on the West," stressed a senior German banker involved in Soviet negotiations to a private March 11 gathering of the Anglo-German Society. "Russia today is a country which we want to help, but which does not want to, or cannot, be helped. More Western credits will simply aggravate the situation."

This German banker was confirming remarks from a high Russian Communist Party official only days earlier. Writing in the party theoretical journal *Kommunist,* Otto Latsis warned that the U.S.S.R. is threatened with becoming "ungovernable like Poland" if it continues to try to solve domestic economic problems by drawing on Western economic aid. Latsis said the country is faced with real threat of "overall collapse of the economy" over the next several years.

"The Soviet officials who are in charge of credit are in true panic over their situation. Their terms of trade have markedly deteriorated in the last years with the fall in oil prices and the dollar," a senior Western banker dealing with Soviet finance told me recently. "Some Soviet politicians toy with accepting $40 billion in credits from the West. Some officials fear this will convert Russia into Third World debtor status. This is the reason, we have been told, that the Vnesheconombank [Bank of Foreign Economic Affairs] plans to refuse these new loans from the West. The U.S. Mercator project of the American Trade Consortium is a perfect example of this confusion inside the Soviet Union. The Russian politicians say 'yes,' but Vnesheconombank says it will die a happy death soon."

Indicative of some Western bankers' zeal is the bizarre history of the British banks' negotiations. On Feb. 9 the *Financial Times* wrote that "After months of blowing hot and cold on the question of export credits from the West, the Soviet Union was due last night to sign a trade finance protocol with a group of seven leading British banks. . . . Bankers involved . . . said the sudden decision to sign a high-profile arrangement followed top-level pressure . . . believed to stem directly from Mr. Mikhail Gorbachov who will visit the U.K. in April." Sir Michael Palliser, vice chairman of Midland Bank, headed the U.K. bank group negotiating the deal, first made public last October.

But I have been told by knowledgeable London bankers that there is no bilateral U.K.-Moscow credit deal for $1.7 billion to finance British exports. Privately the consortium members are furious with Sir Michael for misrepresenting what amounts to an agreement by Moscow to refinance some old loans into multi-currency denomination, including the pound sterling. One informed British journalist conceded that Palliser had made the scheme out of "PR puffery." Palliser, a Trilateral Commission heavy who chairs the International Institute of Strategic Studies, presumably knows the difference between a real loan and a "statement of willingness" to discuss a loan.