The State Of East-West Trade:

Siberian Project Intersects Trade Finance Fight

A March 20-21 meeting in Moscow marked progress in the Soviet-American-Japanese project to develop the natural gas resources of Eastern Siberia, one of two huge Siberian natural gas deals conceived in the early 1970s. The consortium partners, Occidental Petroleum and El Paso Co. of the United States and Tokyo Gas of Japan, reportedly received the news that Soviet studies have confirmed at least one trillion cubic meters of natural gas in the Yakutsk region fields — enough to make the multi-billion-dollar commitment worthwhile.

But whether U.S. firms will be able to take part in the Yakutsk and other projects remains in question, given the profound opposition to expanded East-West cooperation among important groupings in the U.S. government.

At the next Yakutsk consortium meeting, set for May in Tokyo, negotiations will proceed on planning and financing the second stage of the project, starting with determining feasibility of constructing a pipeline (as long as the Alaska oil pipeline) from Yakutsk to the Pacific coast. Extraction and liquefaction facilities will also be projected. This stage will reportedly run approximately $4 billion (estimates of the Yakutsk projects ultimate size range from $10 to $20 billion), a magnitude of investment requiring a more binding commitment than did the $100 million invested in the initial exploration phase.

Can the U.S. Participate?

On the part of the USSR, the green light for Yakutsk signals readiness to resume détente with the U.S., provided that Washington turns away from the confrontation course being charted by National Security Council head Zbigniew Brzezinski. Soviet spokesmen affirm that Moscow is looking for stable long-term cooperation in developing the Siberian resources. The head of the Japanese delegation to the Moscow talks on Yakutsk was told by Soviet officials that the deal could yield 25 to 30 billion cubic meters of gas per year to Japan (more than double original forecasts) and supply Japan's liquefied natural gas needs for 50 to 60 years.

But the American firms interested in joining the Yakutsk development project must surmount a political barrier before U.S. participation becomes possible.

Billions for Siberian development could be a significant part of the sort of massive U.S. export expansion program that U.S. Export-Import Bank chief John Moore and many officials in other government departments believe as the solution to the continuing decline of the dollar.

And politically, Siberian investments, combined with a revival of U.S.-Soviet high technology research and development cooperation, would put firm ground under a new SALT agreement.

Thus on both counts the Siberian project turns up at the eye of the factional storms in Washington.

The Soviet Trade Issue in the U.S.

One of the flagship deals of the détente era, the Yakutsk project was stymied four years ago by passage of the Jackson-Vanik amendment to the Trade Act of 1974 and the Stevenson amendment to the Eximbank Act, which crippled the Exim facility and made lending to the USSR dependent on "freer" Soviet emigration policies. Without key Eximbank guarantees, commercial banks would not risk such an expensive long-term investment as the Yakutsk project — and the Japanese could not afford to foot the bill alone.

In the *closing months of 1977,* as the first decline in Soviet-American trade became apparent, an effort was mounted by influential U.S. business interests to repeal the Jackson-Vanik amendment. One possibility considered was to suspend the legislation for a trial period. Another was to "soften" its terms. Representative Vanik was himself understood to be amenable to changes in the restrictions.

When Secretary of Commerce Juanita Kreps addressed the Los Angeles session of the U.S.-USSR Trade and Economic Council in November, she called the large Siberian development projects "positively seductive," in light of U.S. large fuel import requirements. Kreps's speech, in which she urged all possible measures to expand trade even despite the persistence of the obstacles imposed by Congress, was read in East-West business circles as an invitation from the Administration for business to take an initiative on one or more large projects.

Attempts to break the trade deadlock coincided with the October issuing of a Soviet-American joint statement on reaching a comprehensive Middle East settlement and reports of progress on SALT following the visit of Soviet Foreign Minister Gromyko to Washington.

Soviet-American relations were turning for the better on all fronts.

Scoop and Zbig Run Interference

Scarcely were the trade moves charted, however, when all the machinery of the confrontationist faction went into motion. Chase Manhattan's *East-West Markets* was warned by a White House official in December that financial initiatives on any big energy deal with the Russians — such as Yakutsk — would trigger the formation of a National Security Council *ad hoc* committee to review its security impact.

The idea of easing the Jackson-Vanik restrictions was attacked by Senator Henry Jackson, who (sitting on the Armed Services and Energy Committees of the Senate), reportedly threatened to block Senate approval of Carter's energy package and ratification of any SALT treaty in return!

Nevertheless, *Platt's Oilgram* reported March 31 that the Bank of America is presently considering an investment in Yakutsk to the amount of $2 billion; Bank of America is willing to go in without the Exim guarantees. But for the Bank of America's commitment to stick, for its example to be followed by other banks and firms, the combined public and private sector political drive for an industrial growth and export policy in the United States is crucial.

—Rachel Berthoff

Soviet-American Trade Drops Sharply

The volume of trade between the United States and the Soviet Union fell off by *26.5 percent* in 1977, according to preliminary figures released by U.S. commercial officials in Moscow. The steep slide reversed the trade expansion between the two great powers, which took off at the start of this decade and then stagnated under the weight of legislative strictures and recession in the West.

As of the third quarter last year, Soviet trade with its biggest Western European trading partner, West Germany, was declining about seven percent below 1976 levels, while Franco-Soviet trade was holding steady. Japan fared slightly better, gaining 21 percent in total volume, 15 percent in exports to the USSR. (The pace of Japan's steel sales to the USSR, however, did not hold up.)

All of these countries did more business with the Soviets than the U.S.; the West Germans, almost doubled.

In reporting the 1977 decline in Soviet-American trade, the business pages of many American newspapers took note of the smaller Soviet purchases of U.S. grain, which resulted from the superior wheat and corn harvest in the USSR in 1976. Hopes are voiced that 1978 will see Moscow place more grain orders, after their modest 1977 crop fell short of the Soviet plan target. Trade publications are even praying that Soviet grain buys will spark a trade recovery.

This speculation fails to face up to the sorry state of affairs in which two-thirds of U.S. exports to the other greatest industrial power in the world is made up of foodstuffs. What's more, the 40 percent drop in U.S. agricultural exports to the Soviets was matched by a 25 percent decline in industrial exports. U.S. industrial technology delivered to the USSR amounted to just $500 million in 1977.

Given today's scale of U.S. trade deficit, the Soviet-American trade decline is but a tiny symptom of the malaise blighting U.S. exports. The 26.5 percent figure, after all, is a dollar volume drop to $1.86 billion from a high of only $2.5 billion; U.S. exports to the USSR were $1.6 billion in 1976 and $2.3 billion last year.

It is necessary, therefore, to consider not just what has been lost from 1976 to 1977, but where Soviet-American trade would stand if even the potential defined by the 1972 Trade Agreement had been realized. At the 1972-73 rate of expansion, Soviet-American trade would now be in the *$13 billion* range.

Soviet Deputy Foreign Trade Minister Vladimir Sushkov gave a mid-1977 estimate of $6-12 billion for the value of projects currently under discussion between U.S. firms and Soviet trade and industrial organizations. These are the big projects — the Yakutsk natural gas deal, petrochemical complexes in Western Siberia — which have been blocked by U.S. law. These projects would immediately send Soviet-American trade upward again, not through grain sales, but through strong U.S. industrial exports. This would mean jobs and business on the U.S. side, and the generation of Soviet export capacity — an important outcome of Siberian resource development — and future Soviet demand for still more American exports, as both economies strengthen and world trade expands.