



Why West Germany clinched the Soviet natural gas deal

by George Gregory

The joint West German-Soviet banking commission formed Jan. 28 to coordinate all aspects of financing, financing conditions, and credit guarantees between the Federal Republic of Germany and the Soviet Union reached "basic agreement" on financing the German end of the West Siberian 5,000-kilometer pipeline project which, when completed at the end of the 1980s, will supply the Federal Republic with 12 billion cubic meters of natural gas, and Western Europe as a whole with 40 billion cubic meters annually.

With this "basic agreement," the financing of \$10 billion of credit for the pipeline, pumping stations, and other infrastructure through a consortium of German banks led by Deutsche Bank is signed—the seal merely requires agreement between the German companies and their Soviet counterparts on the detailed bill of materials,

the volume, and pricing of the equipment and materials the Germans will deliver. Klaus Liesen, chairman of the board of Ruhrgas A.G., the company primarily involved in marketing the Russian gas, expects this final stage to be wrapped up by the early summer of 1981. At the end of the 1980s, the Soviets will be supplying 30 percent of the natural gas consumed in the Federal Republic, about 5.5 percent of the total energy consumption.

This new deal, extending and expanding upon natural gas contracts from 1970, 1972, and 1974, has been in preparation since May 1978, when Soviet President Brezhnev met with West German Chancellor Helmut Schmidt in Bonn and signed the 25-year "agreement on the development and intensification of long-term cooperation between the Federal Republic of Germany and the U.S.S.R. in the area of economy and industry." The formal establishment of the joint banking commission during the visit of a Soviet delegation on Jan. 28, under

Pipeline construction in the Soviet Union involves Mannesmann.

Deputy Foreign Trade Minister Viktor Ivanov, had already been envisaged back in 1978 as a means of putting long-term economic cooperation on a secure footing with coordination on financing questions.

However, when the Ivanov delegation arrived, a note of urgency was unmistakable. As the German press reported, the reason for the Soviet deputy foreign trade minister's trip in late January was to ascertain "whether the Feb. 23 Soviet party congress would be able to take the natural gas pipeline business into account in its deliberations on its next five-year plan, or not."

Had Ivanov returned home with a "no" answer, Leonid Brezhnev and other Soviet leaders who favor stable relations with the West would have been forced to go into the party congress without a shred of evidence that the "agreement on cooperation" signed in Bonn two years earlier was anything but an empty declaration of intent. Under those circumstances, it would not have been hard to predict how the prospects for what Chancellor Schmidt and French President Giscard d'Estaing termed their desire to reach a "new East/West equilibrium" would fare in the Soviet party congress and a realigned Politburo.

Despite the fact that both sides were negotiating the terms of agreement on financing in an obviously high-pressure political situation, the German negotiators made it clear that they were not going to allow themselves to be boxed into a bad deal on that account. The Soviets wanted to be sure that Bonn stood firm behind the deal, embedded in the 25-year agreement, and had therefore stalled on responses to Mannesmann/Demag's offers for pipe contracts until the financing with Bonn government guarantees was wrapped up. (Mannesmann will be delivering its specialty seamless cast pipes, the same that will soon be in licensed production by the Colorado Fuel and Iron Steel Corporation in Pueblo, Colorado, since that company recently bought an entire Mannesmann plant for \$25 million.) That brought the crux of negotiations down to the question of interest rates.

The German negotiators began to get pressure from both sides. From behind the scenes, OECD official circles complained bitterly that 7.25 percent interest rates on export credits—approximately the range normally granted to Third World countries—are too low for the Soviet Union, and violate OECD guidelines. The German bankers, also behind the scenes, responded that they would then simply reclassify the credits as import credits for the natural gas, for which no restrictions exist. When the Soviets insisted on 7.25 percent, the German bankers replied, in effect, that they did not really care what the interest rates were, but that the total cost would have to allow the natural gas to be sold at market prices, without their having to incur losses that some one else would have to subsidize.

On that basis, the German-Soviet banking commission signed its "basic agreement." Both sides have agreed on an interest-rate/materials-and-equipment price mix that makes for sound business.

'No strategic dependence'

On Jan. 22, in between negotiations, Bonn's Economics Minister Otto von Lambsdorff issued an official statement dispelling two of the rumors and arguments against the natural gas pipeline deal that were periodically causing nervous flurries in Washington. First, von Lambsdorff stated, all fears that the deal would put the Federal Republic at the political mercy of the Soviets through an "intolerable strategic dependence" on natural gas supplies were "totally unfounded."

Second, he said, it is not true that the United States opposed the deal. Von Lambsdorff's ministry had completed a detailed study in early 1980 on the structure and flexibility of Germany's natural gas and overall energy network. The study concluded that Germany could afford to take 30 percent of its natural gas from the Soviet Union without any appreciable political pressures arising in the case of a total cutoff.

This winter, 30 percent of the present flow of Russian gas onto the German market has been cut, due to technical problems in the pumping stations from the lower Siberian fields. There has been no crunch on prices or availability for the German consumer, since more natural gas is being drawn from the North Sea to fill the temporary gap. The new line is to be equipped with special, heavy-duty pumping stations built by AEG-Telefunken, with electronics supplied by the Japanese. The Japanese themselves extended several billion dollars in credit to the Soviets about three weeks before Ronald Reagan won the presidential elections, to finance the joint German-Japanese equipment. The new pumping stations are designed to handle both the extreme pressures involved in 5,000 kilometers of pipeline, as well as the conditions of extraordinarily severe Siberian winters.

Asked by the West German business daily *Handelsblatt* how long the West could hold out without serious disturbances if the Soviets totally cut supplies of 40 billion cubic meters of gas, Friedrich Spaeth of the Ruhrgas board said, "As long as we want." Reserve capacities and the flexibility of supply sources in Germany are significant enough, said Spaeth, so that "we want this contract because it opens up additional energy sources for the German market," but "the U.S.S.R. knows that its customers, for a total of 40 billion cubic meters, do not need to go for this business at any price."

Present reserve capacity in underground tanks in Germany is 3 billion cubic meters, and new tanks soon to be brought into the system will increase this to 5.5

billion cubic meters. Today's volume, together with that which can be either redirected or substituted, is larger than the total Soviet supply. By the end of the 1980s, it will still be two-thirds of the total Soviet supply.

Objectively, von Lambsdorff's statement that fears of strategic dependency are unfounded is, therefore, correct. Other attempts to suggest that Germany could avoid pursuing this option for diversification of its energy sources, for example, by building nuclear reactors, are treated here in Bonn as a mere sleight of hand.

If the equivalent in nuclear reactors were used for heating, twelve 1,300 megawatt reactors would be required; if used for electricity, four such reactors. Not only is the possibility of a mere autarchical substitution termed unserious here, but Germany today derives over 49 percent of its enriched uranium from facilities in the Soviet Union. This dependency developed over the 1970s, when, due to repeated "technical difficulties," its supply of enriched uranium from the United States dropped by 47 percent. Rather than thinking of substitution, the Germans intend to secure their East-West business, engage in broad economic cooperation with Saudi Arabia and OPEC generally, and also salvage from the mothballs 40 to 50 billion deutschemarks already invested in nuclear power.

The political opposition

Over the course of the Carter administration, the view hardened in Bonn that European and American basic policy perspectives for trade, economic cooperation, and research and development with Eastern Europe were fundamentally opposed.

In mid-1979, when many of the cautious diplomats in the Bonn foreign ministry were still unsure about the appropriate tactics to apply in this situation, Dr. Friedemann Müller, an East-West energy-economics specialist from the foreign ministry's think tank at Ebenhausen, was encouraged to publish an abbreviated study of this issue. His study concluded by saying that "a political situation which, in a certain sense, represents a historical phenomenon, should be mentioned, namely, the fundamental difference in the perspectives of the U.S.A. and Western Europe as regards the political sense of economic relations with Eastern Europe."

Referring to President Lyndon Johnson's 1963 protest, at British instigation, against a similar pipeline deal between the Soviets and the Germans, Müller said that "the Americans were able to assert themselves despite the fact that agreements had already been signed between the Federal Republic of Germany and the Soviet Union. The result of this was, however, that the Federal Republic was more inclined to ignore American wishes in subsequent cases. *The policy of détente of the early 1970s also did not result in any basic change in the*

American attitude." The transition from Kissinger to Brzezinski ended with Brzezinski's "attempt to develop a concept which would not only make the U.S.A.'s willingness to do business with the Soviet Union dependent upon Soviet concessions, for instance, in the area of human rights, but he also attempted to commit the Western European allies to this policy. . . . Europeans should not pass up the chance to make an independent contribution to security in Europe in this area [emphasis added]."

On the inside of deliberations on ways and means of fulfilling the May 1978 agreement on cooperation, there were no basic disagreements even from the more cautious of the diplomatic corps, especially as Müller was emphatic on the point that "one should not lose sight of the fact that this contribution to security in Europe cannot substitute for defense policy. Economic relations can only help to avoid conflicts, but they cannot be used to regulate them." At most, some diplomats thought Müller's publication was a tactical mistake.

At that time, Peter Hermes, the experienced senior diplomat responsible for coordinating Bonn's side of the German-Soviet work in 1978, was the chief adviser to Foreign Minister Hans-Dietrich Genscher. He is now Bonn's ambassador to Washington. A much more extensive development of Müller's arguments is currently in limited circulation among professionals in the West.

At this time, Bonn is looking forward to working with the Reagan administration in the area of East-West cooperation.

The chief source of the domestic opposition to the pipeline business is, therefore, all the more remarkable because it comes from circles typically associated with the Willy Brandt/Henry Kissinger versions of "détente policies." Exemplary is one Ulrich Steger, a "left Social Democrat" counted among the radicals of the SPD allied with Willy Brandt. Steger recently returned from a trip to the United States with the story that even the "man on the street" in America is opposed to the German-Soviet business. He then spent weeks opening doors in the German industries which will be involved in the Soviet deal for Angela Yergin of Washington's Georgetown University, and for Ellen Frost from the Pentagon. The two are reportedly doing studies opposing the natural gas deal.

Apart from being a détente dove turned against long-term economic relations with the Soviets, Steger is among those Social Democrats who have attempted to undermine the German-French agreements on nuclear processing and enrichment of fuels; and most recently Steger has moved to cut budget allocations intended to finally unblock construction of the fast breeder reactor in Kalkar, in the Ruhr.