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NATURAL GAS PIPELINE TO SIBERIA

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I would like to thank you for so graciously giving me the opportunity to come here today to talk about a matter which has generated tensions in transatlantic economic and political relations which cannot be ignored.

Purely in a personal capacity, and in the spirit of Jean Monnet and Walter Hallstein, I would like to consider the opportunities and challenges implicit in this crisis, rather than reiterate the exasperation and bitterness which seem to have afflicted the protagonists in official and business circles as disagreement has heightened in the last months and weeks. Nor am I going to say anything about the legal aspect. The E.C.'s legal position, based on the unanimous opinion of all the member states and Community institutions, remains as it was presented in the Commission's memorandum of August 12 of this year. I would merely like to remind you that the origin of the present crisis dates back to the times before the Carter Administration. At that time, the U.S. strongly supported the European-Russian gas pipeline project, which was linked to Iranian gas deliveries to the southern Soviet Union: the tripartite gas project of the late Shah Reza Pahlavi.

On both sides of the Atlantic, all comments and criticisms already voiced, justifiably, on previous occasions can also be applied to the origins of the current dispute.

1. The unpredictability and unreliability of the decision-making processes in both Washington and Europe, which involve so many people.

2. Non-existent or inadequate transatlantic consultation and a lack of effort to achieve an Atlantic consensus.

3. The lack of tested procedures or structures to cope with economic crisis management, due to a great extent to the reluctance on both sides to allow outside influences to affect decision-making procedures at an early stage.

4. A host of other personal, psychological and domestic policy considerations and imponderables could be added to this list.

5. The permanent battle between economic and foreign policy makers here and in the ten Community capitals. Economists tend to think that the national interest is nothing more than the sum of industrial and business interests. Foreign and defense policy experts, on the other hand, sometimes seem to believe that one can simply turn the spigot of economic flows on and off without measuring its extent or calculating its cost. It is then easy to criticize the "business as usual" brigade, on the one hand, and the "ideologues" and "cold warriors" on the other.

However, the following points can be made:

1. For at least 25 years, there has been no fundamental or far-reaching debate on the NATO allies' economic relations with the Eastern bloc. Nor has the matter been discussed fully at the Western economic summits. Even within the European Community and the European Political Cooperation framework, talks on a common economic policy towards the East have never reached the point where consensus can be achieved on an overall approach.

2. On both sides, there have been persuasive reasons for pragmatism and "muddling through". Rather than lambasting each other blindly, we should consider such a common economic policy as a serious challenge. This should be all the more possible since, with the lessons of the unsuccessful 1962 pipeline embargo and the Iran, Afghanistan and Poland crises behind us, in addition to the discussions currently going on in COCOM and among consortia of worried bankers, we have a considerable foundation of experience on which to build. Yet, all this has not been enough to prevent the current dispute from arising.

3. Even within the European Community, signs of progress on a common policy towards economic relations with the Eastern bloc is increasingly evident. Compared with the resounding silence which accompanied the Afghanistan crisis, the limited, but in itself significant, ban on the importation of various Soviet manufactures, adopted this spring by majority vote under Article 113 of the E.E.C. Treaty, represents, in European terms, striking progress within a

relatively short period of time.

4. Neither side should be content simply to get the current issue resolved one way or another. We have to work out a crisis-proof consensus-oriented procedure and a coordinated policy towards economic relations with the Eastern bloc which would prevent any repetition of such discord. These would also credibly demonstrate our firmness to the Soviet Union. Otherwise, the Russians, on the sideline, will continue to be the main beneficiaries of these avoidable dissensions in the Atlantic camp. This is a challenge not only for transatlantic relations, but for the European Community itself. Progress in this direction will help pave the way for a solution of the pipeline dispute. Urgently, and without panic, we need to sit down together to take a cool, constructive look at our common problems, remembering that, unless we have mutual respect for each other and a partnership of equals, there can be no lasting, sound, crisis-proof Atlantic relationship. Partnership, by the way, does not exclude leadership. But leadership within a partnership has to be exercised through persuasion and circumspection, taking account of the interests of the Alliance as a whole and of its individual members.

At this stage, I cannot give you any detailed picture of possible solutions. Such an attempt would be doomed to failure. But perhaps it might still be useful to identify both a number of problems and areas of common agreement, to enable us to get at the heart of this contentious matter.

1. The Soviet Union is no ordinary trading partner. It is neither a member of GATT nor bound by the rules of a liberal world economic order.

2. The Soviet economy is more "politicized" than any other. Leninists regard any economic policy as having political objectives.

3. Consequently, the economy of the USSR is put fully at the disposal of an expansionist - not to say imperialistic - foreign policy and its associated bid for power.

4. This function of the Soviet economy is clearly reflected in the unusually high proportion of the national product devoted to defense spending: 12-15% would be a conservative estimate for the 1970s. Given the difficulty of calculating many expenditures, there is reason to think the real figure could be even higher.

5. This massive Soviet armament program, extending over more than a decade and beyond any possible requirements for defense, has created the fear that the United States and its allies may be dangerously outpaced and outclassed. I need not here to go into detail regarding aspects of individual weapons superiority or the controversy about the precise size of the "window of vulnerability". Looking beyond narrow statistics to the whole dynamic of defense developments, there can be no doubt that an imbalance exists.

6. On the part of the Soviet Union, the struggle for military superiority has been quite coldly calculated. A look at COMECON forward planning from 1970 to 1981 leads to this conclusion. It is also clear that planned improvements in performance have mainly benefitted the military sector. Overall, Eastern bloc economies have not performed up to expectations. It is scarcely an exaggeration, therefore, to say that the Soviet economy is increasingly turning into a military economy which is also responsible for feeding and clothing its civilian population.

7. In the confrontation with Soviet power politics, the security of the West is threatened on the economic front by the Soviet Union's ability to keep on spending a huge, and still increasing, proportion of its gross national product on defense.

This is compelling the West in turn to maintain a certain level of defense spending, thereby imposing a heavy burden on its economic, financial and social structures, causing public sector deficits, increases in interest rates, cuts in social and development aid spending, and inefficient use of resources.

8. It is therefore necessary to keep an eye on our economic relations with the Eastern bloc to see whether or not, and to what extent, they maintain or even strengthen the Soviet Union's military capacity. Any commercial or political advantages to the West must be measured against such a potential development. To monitor developments in this way we need a reference system which must be

comparable, if not identical, in each country. Such data would serve as a basis for periodical reviews of East-West economic relations.

9. Similarly, we must continue with the COCOM system, updating it to keep pace with the development of defense systems and defense technology. It is essential to concentrate on making COCOM more effective. Adequate sanctions must be applied against all attempts to circumvent the rules.

10. There are broad differences of opinion in Europe and the United States as to the effectiveness of trade sanctions in general, and in particular regarding embargoes against the Eastern bloc. On the whole, Europe tends to take a more skeptical view than the United States. This skepticism is caused by a long experience - from Napoleon's blockade of Britain, the Continental System, through the unsuccessful attempts at embargoes by the League of Nations against Italy in 1935 or by the U.N. against Rhodesia in the 1960s and 1970s, up to the more recent Iranian hostage crisis and the invasion of Afghanistan.

At the same time, Europeans tend to forget about the U.S., British and Dutch boycott against Japan before Pearl Harbour and the considerable damage inflicted on Germany and the Central European powers in the First World War as a result of the allied blockade. The Community, however, is not totally opposed to the use of economic sanctions. They were applied against Rhodesia, Iran,

and Argentina following the Falklands invasion.

I believe that if we sat down together and examined the problem we could considerably narrow down, if not altogether eliminate, our differences of opinion, assuming we could agree on the following basic premises:

- (i) A boycott can be an effective weapon provided that:
 - (a) potential suppliers are sufficiently firm and disciplined to prevent any breaking of the ranks or major circumvention of the boycott; and
 - (b) the country against which the measures are being taken is vitally dependent on the imports of the embargoed products (as Japan was on oil, copper, and scrap iron in 1941). In that case, it will have its back to the wall, and its only alternatives will be compliance or war.

- (ii) If the sanctions are not watertight, on the other hand, or if the target country is not vitally dependent on the embargoed products - as is usually the case with the Eastern bloc countries - then problems regularly arise from differences in the political and economic assessment of the measures. One criterion would have to be the effect of the embargo on the pattern of resource allocation within

the economy of the target country - in this case the Soviet Union.

For instance, if the West were able to implement an effective ban on grain supplies, the Soviet Union would have to divert resources away from other sectors permanently - including probably defense - to agriculture. It might even have to contemplate a change in its whole farming system, encouraging more decentralization and private initiative, or an adoption of certain other elements of the market economy. But, as the Afghanistan situation has shown, the West's problem is that it is almost impossible to guarantee that such an embargo will be complied with. In any event, I cannot imagine a transatlantic consensus on a common East-West trade policy without coherent rules on agricultural exports.

- (iii) Again, we should bear in mind that an attempted embargo may hit the suppliers harder than the country against which it is aimed. At a time of economic crisis, for instance, halting exports could result in job losses or damage to the economy in certain areas, with no prospect of early relief. Meanwhile the Soviet Union has no problem in finding supplies elsewhere, at little extra cost. Just as it is important to measure the social cost of sanctions in the United States and in Europe by means of the same yardstick, so it is

equally important, in my opinion, to respect a decision by a government, on either side that that cost would be unbearable.

- (iv) It is no surprise, therefore, that a policy of total refusal of economic relations, a trade war or an all-out blockade is rarely advocated. To begin with, it is not feasible because of its likely lack of effectiveness. Besides, total refusal would provide the Soviet Union with a considerable lever. In domestic policy, it would burden the Soviet consumer, forcing him to become self-sufficient, if necessary by using the repressive measures of the Stalin era. It might appeal to the citizens' sense of patriotism, possibly making the Soviet Union politically even stronger than before, a point that has been made by Ota Sik, the economic brain of the Prague Spring of 1968. Those who advocate total refusal of economic relations will have to realize that they create a pretext for all Eastern bloc debtors to discontinue debt service. The possible repercussions on our banking system need no elaboration.

- (v) Reflection on the pros and cons of acquiring primary energy from the Soviet Union need not go further. If it is true that oil and natural gas are limited

resources, and if it is true that the OPEC states still have a political hold over Europe, then obtaining primary energy from the Soviet Union should not be dismissed out of hand but subjected to discriminating examination.

Suppliers would be considered as having a hold over Europe only if a sudden cut-off of supplies would lead to social and political destabilization in the customer countries. There is no need to fear such a development if sufficient reserve capacity, flexibility of consumer structures, stocks and other suitable precautionary measures are taken care of, since such measures would take the sting out of any interruption of supply.

Many steps have been undertaken, for example in West Germany over the last four years, to reduce vulnerability to such an eventuality considerably. Those steps also need to be implemented in other European states.

Thus far, the discussion has not dealt with the possibility that, if the Soviet Union had a larger share of the European market for gas, it could initiate the creation of producer alliances whose aggregate share could be enough to give them a stranglehold over the West (e.g. Algeria, Iran, Nigeria, the MiddleEast). It is also possible that the producers of several energy sources (oil and gas) could get together in new kinds of producer alliances. It is very difficult

to see what will happen over a 25-year timespan.

Europe is still in need of effective safety precautions here.

12. I do not think that industry either in this country or in Europe can be given an ironclad guarantee, as is occasionally demanded in Europe, that no sanctions against Eastern bloc countries or any other potential target country will be imposed. Quite apart from anything else, such an undertaking would amount to giving the Soviet Union "carte blanche", politically speaking, to pursue its power politics with even less regard for the consequences than hitherto and thereby to endanger peace.

The business community, therefore, must assess the risks involved in business transactions with the East differently and continue to rate them as having much higher risks than those with other countries. It can be expected to shape its business relations with the Eastern bloc countries accordingly.

13. I think there is an urgent need in economic relations to deal separately with the Soviet Union and the individual Eastern bloc states. Any tendency to treat the Eastern bloc as a single entity would be tantamount to a political reward for the Soviet Union. We all know that, ever since the creation of the CEPA, the Soviet Union has been trying to exercise a commercial tutelage over the Eastern bloc that

would be politically as well as legally acknowledged by the West. We must make a determined stand to prevent this from occurring.

This also explains why there are no diplomatic relations between the European Community and the Soviet Union. We have no interest in preventing peaceful change in Eastern Europe.

14. Dealing separately with the Soviet Union and the individual Eastern bloc does not preclude, for example, the taking of measures to re-establish sound conditions, laying squarely at the door of the Soviet Union the burden of rectifying economic errors in those states which are condemned to follow the communist economic system. If the Soviet Union then says it cannot pay its debts, this will leave the way clear for a more constructive solution to the economic problems of the heavily indebted states of the Eastern bloc. In this respect, the conditionality of loans granted by the IMF would take on particular significance. For I consider it intolerable that the terms for Eastern bloc borrowers should turn out to be less strict, taking account of the communist economic system, than those that must be borne by other states in a similar situation.

In judging Soviet economic policy towards the West, we should not ignore the synergistic effect caused by Europe's geographical and geopolitical situation in relation to the energy-rich Soviet Union.

The Soviet practice of taking a long-term view of all kinds of infrastructure problems and basing its solution on the requirements of

the entire continent of Eurasia means that such planning also embraces the Eurasian peninsula of Europe, either directly or indirectly. Seen from Europe's point of view, this practice can also be interpreted as a Soviet penetration strategy. We should look beyond the controversial gas pipeline question and think about the high voltage transmission systems and the future possibility of modern coal transportation systems, looking at them in the same context as the penetration of inland waterways via the Danube, Rhine and Main rivers, the extension of coastal shipping services in the Black Sea and the Baltic, or plans for a larger railway network.

If Western Europe wants to retain its independence in the face of these risks of penetration, it will have to take the necessary precautionary measures to build up its own overall strategy so that the penetration does not impose a political burden or even impair its freedom of action.

It is worth mentioning in this context that a whole series of arrangements resulting from Basket Two of the Helsinki Act, on reciprocal opportunities for establishment and free access to markets, data and other facilities, are being implemented in a highly unbalanced manner.

In Western European ports, there are complete networks of Soviet services. Yet, there is nothing to match them in Soviet or Eastern European ports, let alone any comparable business opportunities in Moscow.

The totally unbalanced situation as far as costs are concerned also plays an essential part here. Lately, the Soviet union has even been gradually withdrawing the meager concessions it made in Helsinki, as is shown by the drastic reduction of telephone conversations. This makes the lack of reciprocity in the services sector even more difficult to overlook.

16. Besides Europe has make mistakes of historic proportions in the matter of the gas supply contracts, due to a lack of unanimity and farsightedness. Indeed, the individual European states or supplying firms negotiated separately, so that the Soviet Union was able to play them off one against the other. Europe could have used its level of demand much more profitably, economically and hence also politically, since it is the only customer which can purchase 40,000 million cm³ worth of gas over the next 25 years and still pay for it in hard currency. Consequently, the Soviet Union did not need to pay any political price for 25 years of certainty about this source of its foreign exchange.

In this respect, certain parallels come to mind concerning the talks I have already referred to on rescheduling the loans on which individual Eastern bloc states have defaulted.

17. As far as access to modern oil and gas equipment technology in particular is concerned, I think the arguments in favor of restricted access are compelling. The fears that were expressed at the time of - shall we say - the first Dresser case in 1979/80 here in Washington, but

also in Europe, about the consequences of a restrictive Western stance, seem to me to have been exaggerated. The Soviet position concerning oil and gas supplies is not so desperate that the refusal to supply modern technology would have forced - or will in the future force - it to take military action in the Persian Gulf or the Middle East. However, an embargo would probably have forced the Soviet Union to make a bigger investment effort than it would have with Western coal and gas equipment technology.

18. The biggest controversy between Europe and the United States is over the volume of credit given to the Eastern bloc. Apart from the fact that the sobering experience of the banking community with Poland and Romania offers quite a good guarantee against any further irresponsible credit policies, I believe that the European states should put a stop to loans granted, on preferential terms, to the Soviet Union, as was hoped for at the Versailles Conference. The moot point is the assessment of export risk guarantee systems which work on a commercial basis. But it should be possible to find satisfactory solutions to this too. The real problem is that interest rates vary enormously in the big supplier states and that those supplier states with high interest rates cannot accept being edged out of business with the Eastern bloc for this reason. Therefore, if the capital markets of the supplier states with low interest rates were liberalized and were open to the suppliers from the states with high interest rates, there would be no need to comply with their wish to reach agreements on comparable credit terms. Since this process is not yet completed, it will be necessary to hold further consultations on the basis of the OECD consensus.

To conclude this by no means complete list of points, on which a consensus should be obtained once and for all, I believe that an economic policy vis-a-vis the East, based on these ideas, would not drive the Soviet Union into a corner from which there is no escape. It would always have the opportunity, for example, through more constructive disarmament negotiations, to create a climate in which economic relations with it would again become worthwhile and enable long-term calculations to be made. However, as long as the Soviet Union continues forcing us to arm at a totally unreasonable rate, it cannot expect to benefit, without making political concessions, from the advantages of a world economic system based on the division of labor.

I am fully aware of the fact that the Soviet Union could probably be the most promising market in the world if the system there were democratic, devoid of pretensions to world dominance and of an imperialistic foreign policy.

However, several decades could pass by before this happens and those economic circles which are already trying to anticipate such a development in the long-term planning of their business relations might do well to postpone their hopes for a liberalization of the Soviet Union to the distant future.

In conclusion, I would like to repeat that the opinions expressed here are purely my own. However, they derive from many a speech I was privileged to make on this subject in the Bundestag as spokesman for the opposition in the years between 1976 and 1980, at a time when

such observations did not arouse as much interest in the United States as I would have liked them to.

To end my personal remarks about this thorny and complicated subject, I would like to come back to my European foster fathers, Jean Monnet and Walter Hallstein, and say that I am convinced that our common problems are soluble if we work together. The refusal to talk, the escalation of action and counteraction or attempts to exert massive pressure would be more than just dangerous, they would constitute a rejection of the values which unite us across the Atlantic.