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## ***Cahiers du GRES***

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**Geopolitics versus business interests: the case of the  
Siberian gas-pipeline in the 1980s**

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**Cahier n° 2003 - 9**

Juillet 2003

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**Géopolitique contre les intérêts d'entreprise : l'affaire du gazoduc sibérien dans les années 1980**

**Résumé**

La découverte d'un énorme gisement de gaz dans le nord de la Sibérie au début des années 1980 bouleverse l'économie européenne, puisqu'une source d'énergie abondante et bon marché desserre un peu plus l'étoupe de la « crise de l'énergie », mais, surtout, ouvre la voie à un vaste débat géopolitique : est-ce que les firmes occidentales doivent procurer à l'URSS en voie de « regel » politique de l'argent, des équipements et de l'ingénierie pour mettre en valeur ce gisement ? Les Etats-Unis tentent d'enrayer les accords, de mettre en branle les textes du COCOM et l'OTAN. Mais les Etats ouest-européens soutiennent les sociétés de leur pays, qui signent de gros contrats avec l'URSS.

**Mots clés : Gaz, URSS, Est-Ouest, Géopolitique, COCOM, OTAN, Relations internationales, Sibérie.**

**Geopolitics versus business interests:**

**The case of the Siberian gas-pipeline in the 1980s**

**Abstract**

The discovery of a huge gas deposit in North Siberia in the 1980s changed somewhat western Europe economy, because an abundant and low cost energy source allowed to alleviate the burden of the “energy crisis” and, above all, paved the way to a large geopolitical argument: could western companies provide to the USSR, although enduring a new wave of political “thaw”, money, equipment and engineering to develop that deposit? The USA endeavoured to stem these agreements, to invoke the texts of the COCOM and the spirit of NATO. But western-Europe states helped the firms of their countries, which concluded important contracts with URSS.

**Keywords: Gas, USSR, West-Est, Geopolitics, COCOM, NATO, International relations, Siberia.**

**JEL : Q400, N700, N400**

## **Introduction**

The renewal of the Cold War in the 1970s-1980s after the invasion of Afghanistan and the new period of ‘thaw’ between the United States and USSR<sup>1</sup> because of military competition reached two summits: the boycott of Olympic Games either in Moscow or in Los Angeles by one of the adversaries; the Siberian gas pipeline affair. Suddenly an anonymous and petty pipe line became a challenge between diplomats and a star in some magazines and newspapers – for readers in fact interested with such an austere topics... Along a business historian’s point of view, that is without the abilities of a historian specialised in international relationship<sup>2</sup>, we intend anyway to scrutinise that case in order to determine how business points of view were confronted to diplomatic ones; besides mere turnover and market shares considerations the stand of companies has to be gauged: are business interests neutral positions which can be promoted whatsoever be the geopolitical environment? Or did businessmen have to consider the geopolitical impact of their decisions to invest in USSR – a totalitarian state?<sup>3</sup> Such a study will introduce the assessment of the challenges which companies had to meet in their commercial relationship, as ‘neutral’ involvements in East-West economic links seems to have been impossible; the competition between German and French firms could’nt develop solely along pure capitalist and free-market criteria: besides the US competitors’ bridgeheads in the intraeuropean exchanges, the US geopolitical interests were to be taken into account, which prevented from the achievement of the motto: “business as usual”...

### **1. On both sides: help demanded**

Already the second gas world producer (422 billions cubic meters after United States with 548 billions), USSR tempted at that times to develop more intensively huge oil and gas deposits held in Siberia and Kazakhstan. But it had to accelerate its investments in order to short sight a general economic crisis due to a lagging productivity and to an extensive type of growth, largely cash overconsuming capital. In the 1970s it lacked thus capital to reach far-fetched objectives of growth as the Brejnev’s team wished to keep contact with the United States and Japan as a great economic power in order to remain one of the key actors of world geopolitics. To help its new industrial sectors to gather momentum USSR had thus to import technologies and capital: it used therefore to buy ready-made plants (chemicals, cars, aluminium, etc.). In the meanwhile USSR had to cash currencies resources as to finance these imports and to get huge amounts of commodities it needed because of the huge variations of its cereals, meat and dairy products output – the proof being the piling-up of dollars, destined to become important parts of eurodollars trading in Western Europe. The Soviet ‘reformist’ strategists – conceiving a strong growth of economy as the very leverage to quell off the people’s demands for welfare, notwithstanding freedom – had to bet on fastly developing

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<sup>1</sup> Cf. the basic study: « Economie et géopolitique. 1. Le retour du stratégique », in *RAMSES 1981 (Rapport annuel mondial sur le système économique et les stratégies). Coopération ou guerre économique*, Institut français des relations internationales, Economica, Paris, 1981 pages 7-36.

<sup>2</sup> On these topics, cf. Pierre Lellouche (eds.), *La sécurité de l’Europe dans les années 1980*, IFRI, December 1980.

<sup>3</sup> We have gathered data on that Soviet gas case within our present European economy history project (for a handbook), as we considered how firms enlarged their multinationalisation to counteract against the industrial crisis of the 1970s-1980s. That case-study originated from a research program set up by the Society for European Business History – in parallel with a study earmarked to East-West banking relationship.

technological imports from the West. Economic relationship with the West had been consequently a key strategy since the 1960s in spite of the realities of East-West politics.

Conversely Western companies reaching the stage of multinationals found in East-West commercial and technological relationship a way to accelerate the process of internationalising their activities and to amplify economies of scale owing to sales of plants, technologies or equipment goods – a sector where the return on output series depends largely upon a few more or less orders. Many firms became thus specialists in exporting patents and goods: Pechiney, Rhône-Poulenc, Charbonnages de France, on the French side, for instance, were deeply involved in Russian business<sup>4</sup>. The Siberian gas pipe raised the question of “business as usual” or not? Whilst diplomatic environment had changed suddenly might multinationals go on trading with USSR on a day to day approach, along a “no hear no see” tactics, that is without taking into account geopolitics demands? Could the Afghan affair or the new missiles affair (SS20) determine the course of pipes’ orders? Of gas purchase?

One can’t ignore moreover the economic environment of these very years. First two ‘petroleum shocks’ had been endured in 1973 and once more in 1979: Third World’s and OPEP’s hydrocarbon ores became suddenly out of price and many companies rushed to find out new deposits or to diversify their suppliers: besides North Sea new sites, USSR offered an opportunity to enlarge gas imports and to counterbalance imports from OPEP countries. These very two reasons led to consider favourably any growth of USSR gas exports – but one had to build equipment to sustain these exports. Second a large industrial crisis had burst out in the midst of the 1970s, which led to huge restructuring of heavy industries, particularly the steel and metallurgy ones, suffering with plants’ closures, immense redundancies and social unrest – in Western Europe as well as in the United States. The Siberian contract could thus help sustain steel difficulties in the wake of the dire recession of 1979-1983, all the more than a new crisis occurred for steel products industrialists when the oil economy crisis choked off outlets because of a rough fall of oil prices in 1986 (“the oil countershock”). Pipes producers longed therefore more intensely for the Soviet orders... – and it was the same for non-welded pipes producers (Mannesmann or Bentler – in Germany –, Vallourec – in France –, Dalmine – in Italy – or British Steel) and Vallourec had to close one of its two plants at Anzin (Nord) in 1987 because of the recession on the steel market, which enticed it to look for fresh outlets, especially on the Soviet market.

## **2. The Siberian gas pipe project (1980)**

That economic and sectorial environment could explain the feverish quest for new resources or outlets.

### **A. Soviet gas exports to France, Italy and Germany?**

Germany and France decided to import Soviet gas to balance imports from The Netherlands (Groningen area) and in parallel with several projects to develop North Sea deposits’ exploitation. Russian gas was imported thus from the Bratislava border through 3,000 kilometres gaspipes across Czechoslovakia, Austria and West Germany up to Lorraine since February 1980, and State-owned (since 1946) French gas monopoly *Gaz de France* intended to expand Soviet imports up to 14% of French gas imports in 1980 – as Soviet gas deposits constituted 40% of world listed deposits. In parallel just recall that USSR exported

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<sup>4</sup> Cf. Marie Lavigne, *Les relations économiques Est-Ouest*, Paris, 1979.

only 49 millions oil tons to Western Europe in 1973 but already 183 millions in 1986 versus 303 millions coming from other parts of the world – even if up to 1992 no Western company might directly explore and produce oil in USSR and had thus to use Soviet oil or gas monopolies to get access to these resources.

This relationship met suddenly a turning point as USSR had discovered an immense deposit in Northern Central Siberia, in Yambourg, and decided to export most of that gas (India, Turkey), notably in Western Europe. That Siberian gas was invested with a key mission to cash foreign currencies and help develop a slowing Soviet oil and gas efficiency: it became essential to Soviet growth and then a real challenge<sup>5</sup>, as USSR intended to push its gas production from 435 billions cubic meters in 1979 to 640 billions in 1985. Northwestern Siberia (around Medveze) and in the Peninsula of Yamal had to relieve the Caucasian deposits and the South-Ural one (Orenburg). Whilst Western Europe imported already 25 billions m<sup>3</sup> of Soviet gas in 1980 (one sixth of its gas imports) it projected to buy 43 billions m<sup>3</sup> more, among which ten would be sold to France. Along a key contract signed in 1980 Siberian gas was scheduled to reach Western Europe in 1985-1986, owing to a new gas pipe 5,500 kilometres long (3,000 miles). If Germany and France were destined to be the main gas importers, less than half of the gas concerned was to be imported by Italy, The Netherlands, Belgium, Austria, Sweden. But as gas grids were intimately interlinked as to ease frequent swaps between companies, all these countries were in fact deeply intertwined in that gas business.

## **B. High level negotiations**

Negotiations were entertained between gas importers and USSR, Ruhrgas and *Gaz de France* in 1980 and especially in the second half of 1981 when the ultimate points had to be fixed out. French *Gaz de France* president Pierre Alby was authorised in July 1980 to go on negotiating that affair with Soyuzgas; in November 1980 a general economic French-Soviet conference was held with 75 French representatives, after a meeting between Brejnev and V. Giscard d'Estaing in Warsaw in February 1980. That large delegation was led significantly by François de Wissocq, the general director of energy and raw materials at the Industry ministry, and one key Russian representative was precisely Oroudjev, head of the ministry of Gas. A Russian financial representative, Yuri Ivanov, head of the Soviet Foreign Trade Bank, was sent to Paris to set up financial agreements in November-December 1980, as the bulk of the expenses had to be covered by Western banks' loans or Soviet bonds issuing (for 10 to 15 billions dollars all in all). He canvassed financial markets places to set up banking consortia, a German one (20 banks with \$5,2 billions) and a French one.

The Franco-Soviet 'great commission', which gathered regularly each year to scrutinise the economic relationship between both countries, held one session (the sixth one) on 14<sup>th</sup> and 15<sup>th</sup> December 1981, with both Trade ministries, Michel Jobert and Nicolas Patolitchev. The key topics were the Siberian gas pipeline. The first contracts were thus reviewed in order to establish a proportional link between orders of French equipment and the value of Siberian gas to be imported by France, as a kind of middle-term swap. In fact France tried to get more orders its trade balance with USSR had been in the red in 1980 for the first time, as energy imports grew rapidly. At that time the third Western commercial partner of USSR (behind Germany and Finland) France promoted its equipment in some kind of competition with its

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<sup>5</sup> Cf. Teodor Orasianu, report on Soviet oil and gas production, Petroconsultants, 1980.

German and Italian neighbours. Thus the Moscow meeting help define the basic lines of the future agreement on the Siberian gas pipeline.

On its side Western Germany, already importing 12 billions cubic meters of Russian gas, would get another 12,5 billions (an amount reduced finally to 10,5 billions, plus 0,7 billion for West Berlin) for 25 years, that is 30 % of its projected gas consumption in 1986. Brejnev paid a visit to Chancellor Helmut Schmidt on November 1981 and one general agreement was signed on 23<sup>rd</sup> November 1981 – after the technical aspects had been concluded in Essen between Ruhrgas and Soyuzgas on 20<sup>th</sup> November. *Gaz de France* needed more time to negotiate the rules of price indexation at it was reluctant to be imposed risks of too rapid prices growth, whilst USSR could argue that *Gaz de France* had just negotiated with Algeria a high-priced contract – but as a way for France to help the new Algerian regime. Finally on 23<sup>rd</sup> January 1982 *Gaz de France* reached an agreement: 8 billions m<sup>3</sup> were to be delivered each year during 25 years, and globally observers estimated that USSR will provide 35% of French gas consumption in the 1990s – but less than 5% of its energy. These deliveries were then estimated to a global amount of FRF 212 billions.

Besides companies' interests (those of *Gaz de France*, Ruhrgas or Soyuzgas), economic geopolitics was then at stake: within the *détente* policy States entertained large negotiations dedicated to prove and show that dialogue was going on and they tried to enhance multilevel agreements in order to link East and West intimately as a way to commit anyone to diplomatic stabilisation. Gas or any commodity was thus a piece of a geostrategic puzzle because dictatorship had to be surrounded by numerous agreements which might be perceived as peaceful lilliputian ties to appease the Soviet giant whilst USSR searched for exports to finance its civil and military investments. The designs of multinationalising gas distributors and importers were therefore mixed with the schemes of geopolitical strategies.

### **3. Cold War versus Soviet gas**

Huge technical points were at stake too as some deposits were to be exploited in the Arctic part of Siberia, 150 miles above the Arctic Circle, which will impose intense pressures on equipment and require imports from the best Western firms, and thus the use of key patents, even more sophisticated than those developed in Alaska. “Lacking the machinery and the experience to build the project on their own, the Soviets have been seeking out Western contractors and suppliers, who are only eager to help.”<sup>6</sup> ‘Sensitive’ equipment was too at stake, such as electronic device to survey the links between the Siberian gas pipeline and other Soviet pipelines. If business historians don't catch the challenge there involved, let us precise that ‘the deal represents the largest commercial transaction in history between East and West and a technical challenge of unparalleled magnitude’<sup>7</sup>. In the meanwhile the 1980s began with the Polish military coup against Solidarnosc trade union and too moderate communist leaders (in December 1981), with the Afghan invasion (1979) and with the argument over euromissiles, which transformed every East-West case into a matter of geopolitics.

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<sup>6</sup> *Time* magazine, 16<sup>th</sup> February 1981.

<sup>7</sup> *Time* magazine, 16<sup>th</sup> February 1981.



## **A. A transatlantic argument**

This helps understand that all at once the Siberian gas pipe project became a stake for American presidential elections. Candidate Reagan chose a hard-stand position against Soviet threats; his deputies denounced on November 1980 the Siberian gas pipeline as a risk of “energy finlandisation of Europe”, that it the risk that USSR could hinder Western Europe production through the cut on gas deliveries; finlandisation meant that, like Finland since World War II, Western Europe could be pushed into political or even military concessions to USSR in order to keep gas flowing to its plants... Overall, Western Europe would have got close to one-quarter of its natural gas from the Soviet Union after the pipeline were built, as compared with 9% in 1980. “We think it will be very unfortunate if the net overall European dependence on Soviet energy increases as much as it probably will when the pipeline is complete” (an American Energy Department official)<sup>8</sup>.

On 20<sup>th</sup> November 1979 president-elected Reagan met head to head German Prime Minister Helmut Schmidt in Ottawa and, among other topics, evoked the Siberian gas pipeline. A special American envoy, Myer Ranish, under-secretary of State in charge with economic affairs, travelled through Europe in May 1980 to persuade its counterparts to consider the project of importing more American coal instead of Soviet gas. Numerous American analysts began to underline the subject and thus the Siberian gas pipeline became a key geopolitics affair and a challenge for United States-Europe relationship. In the meanwhile on 8<sup>th</sup> January 1980, president Carter had decided to put an embargo on American exports of technologies to USSR and to submit any export to a process of ‘advisory licence’ case by case. It seemed as if Western Europe industrialists and particularly French one intended to replace these American exports and enlarge their market shares on Eastern Europe imports...” The fate of the Soviet-Europe agreement will be a good indication about the new balance of power in Occident after the election of R. Reagan.”<sup>9</sup> “Siberian gas to warm Europe causes some shivers.”<sup>10</sup> A American Senate Energy Committee report warned in December 1980 about the risks: “The USSR can strengthen its economic influence over the West and reduce cohesion among the United States and its allies on political, economic and military matters to the extent that it can increase its gas exports to Western Europe.” But German minister of Economics Otto von Lambsdorff asserted: “I have complete confidence that the Soviets will fulfil their responsibilities.” At the Ottawa summit of the Western world leaders in November 1981, the American stands were rejected by the Europeans either as non justified along criteria of real assessment or displaced as some kind of interventionism into Europe’s autonomous choices.

## **B. The Siberian gas pipeline and the COCOM?**

Anyway in the fall and winter 1981 intense debates aroused about the sensitive equipment France intended to provide to USSR, especially electronic devices (automatists, computers linked with machinery, an informatised system of telecontrol to supervise the gas flows, for about FRF 1,8 billion. First Matra won the contract, but that success was hindered

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<sup>8</sup> Quoted by *Time* magazine, 16<sup>th</sup> February 1981.

<sup>9</sup> Pierre Péan, « Les Français doivent-ils avoir peur du gaz russe ? », *Le Nouvel Economiste*, 8<sup>th</sup> December 1980.

<sup>10</sup> *Time* magazine, 16<sup>th</sup> February 1981.

by discontent among French ministries of Defence and Foreign Affairs, which judged that geopolitics was then involved. They underlined the necessity of submitting these contracts to a COCOM's assessment (*Coordinating Committee for multilateral exports control*<sup>11</sup>). Indeed electronic exports to USSR suffered generally speaking from an underevaluation of their technical and financial real levels, which favoured the approval by COCOM<sup>12</sup>; but both ministries argued at that time that the equipment at stake were more than sensitive.

The State ordered then, on 28 September 1981, to Matra to delay the signature. Within a few hours anyway Matra's competitor Thomson renegotiated the contract with USSR and won the affair! The international department manager of Thomson, Philippe Giscard d'Estaing, signed the agreement on 30<sup>th</sup> September; and French authorities were somehow bemused in front of such an offensive. Hard stands were heard among French high circles, especially troubled as a new leftist political majority had just been elected under socialist François Mitterrand. Internal struggles seem to have divided French deciders, all the more as some socialist clan was decidedly on Atlantist positions, favouring good relationship with the United States, whilst gaullists had proclaimed an autonomous way of life since the midst of the 1960s, for instance within NATO.

Thus the Siberian gas pipeline affair became too a challenge for the French internal political scene or for the decision-making process within French administration. As geopolitical considerations were at stake and therefore political debates aroused, companies intending to work with the dictatorship had to insert themselves within lobbies which took part to internal squabbles within the State apparatus itself. This puts a clearcut difference between trade with free States through liberalised circuits and trade with a dictatorship as it reaches rapidly circles of influence and politics, setting thus aside sometimes mere economic considerations. On one side classical socialists bent toward a solution taking more into account American interests as they had been for a long time opponents to gaullists' stands against NATO; on one other side the leftist majority included communists – of course favourable to economic relationship with USSR – and socialists linked with the traditional French 'neo-colbertian' economic groups of interests, attached to the reinforcement of State economic structures, and, in that very case, to the promotion of *Gaz de France* interests; the general secretary of the *Elysée* administration himself – some kind of the equivalent of the chief of staff of the White House – Pierre Bérégovoy (a future Prime Minister but too an ancient executive at *Gaz de France*...) and Mitterrand's adviser for energy affairs Gérard Renon (he too from *Gaz de France* where he was the executive in charge with gas purchase...) led the lobby for the *Gaz de France*-USSR case against the Foreign Affairs administration.

Finally a compromise took shape on 10<sup>th</sup> December 1981: Thomson itself convinced USSR that a huge centralised and informatised control system would be difficult to manage and probably inefficient, which Russians agreed with being provided with less sophisticated (and therefore no more sensitive) equipment: that agreement ripped off the key debated point. The *Gaz de France*-Thomson lobby appears to have won the case as Prime Minister Pierre Mauroy chose to authorise the (FRF 1,87 billion) Thomson contract and thus the deliveries of supposed-to be sensible equipment – and even without presenting the case in front of COCOM.

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<sup>11</sup> In French: *Comité de coordination pour le contrôle multilatéral des exportations*.

<sup>12</sup> Cf. Pr. Luciano Segreto's researches about COCOM's history.



### **C. To die for Dantzig II?**

As the military coup intervened on 13 December 1981 the question raised about the geopolitical opportunity to go on negotiating with USSR. Italy chose to suspend them. France adhered to a controversial position as it signed its contract precisely on 23<sup>rd</sup> January 1982, which might Polish people think they weir case was of no interest for France... International ‘moral’ didn’t prevail then upon *Realpolitik* – and the negotiations about the rescheduling of Polish international debt were to be another key point. There would be no ‘To die for Dantzig II’ among French diplomats – even if a socialist leader (but among antimitterrandist ones) Michel Rocard thought of sending military ship off Poland...

The question is not only about gas but about huge contracts which French firms will get from USSR and Poland too<sup>13</sup>. These contracts could represent thousands jobs, a useful oxygen balloon among a difficult economic environment. Had France to leave room to German Belgian or Japanese firms at a time when French government had pledged to reduce unemployment? USSR did understand admirably that dilemma and is playing it marvellously, so that one reaches a paradoxical situation when political speeches are using back Cold War words whereas, on economic levels, *détente* is going on”<sup>14</sup>, analysed a Paris newspaper. In fact opposition leaders chose to attack the socialists’ decision while some leftists and (non-communist) trade unionists evoked the treason of humanitarian principles. And the American Department of State condemned once more either that agreement or the general Siberian gas pipeline project... But French communists reacted vehemently by accusing the French detractors of the agreements to follow Alexander Haig’s path – Haig being at that time American Secretary of State. In fact these internal debates prove that dictatorship officials gather tricky methods to play Western interests versus anothers in order to rally larger concessions from their counterparts: instead of banal commercial links, companies have to insert their tactics within political powers circuits as a way to mastermind the contents of pending bilateral agreements.

“If you wish to hear me tell that the timing is not relevant, I do agree. But technical problems impose sometimes a calendar, which don’t fit with the political calendar of great world events [...]. We think that to suspend commercial exchanges, to commit to an economic blockade, are in fact to choose a stage of war. I don’t reject that such problems might not arouse if we should meet a more grave situation that the one we are faced to now. But – and I already told it to Parliament – the government decided to avoid such an extreme stand [...]. We’ll defend security and independence of France; we’ll assess too the political evolution taking into account what will occur or not occur in Poland. At any time we’ll be able to reappraise commercial exchanges, notably for any aspect of that gas agreement”, told Prime Minister Pierre Mauroy in January 1982: First Secretary of Socialist Party Lionel Jospin precised “We must dissociate the logic of human rights and the logic of economy”. And the leftists posed as a token of their commitment to principles the conclusion on 3<sup>rd</sup> February 1982 of the huge gas agreement with Algeria (more than 9 billions cubic meters a year since 1983) as it could prove the fidelity to a policy earmarked to cooperation with Third World countries.

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<sup>13</sup> During the 1970s France had been a strong support of Polish Gierek policy of large investment intended to accelerate growth, alleviate standard of life foibles and narrow the gap between the regime and people.

<sup>14</sup> *Le Matin*, January 1982.

## **4. Towards the principle of reality: exports of money and equipment versus embargo**

Within the general frameworks designed by the key agreements, negotiations were held to fix the technical aspects of the contracts: Western States wished that West-European firms won large orders for equipment as a way to swap future gas deliveries and immediate industrial deliveries.

### **A. Financial agreements**

After a first draft sketch on January 1981 but suspended because of the rise on interest rates in the following months, a global agreement was concluded between West Germany and USSR on 24<sup>th</sup> July 1981. A general framework was then designed, with a financial aspect: a consortium led by Deutsche Bank organised the issuing of credits for the Russian purchases of German equipment. Industrial firms set up an export credit to their Russian counterparts (more than 5 billions marks), and they got refinancing by a specialised institution (AKA or *Ausführung Kredit*) owned in fact by Deutsche Bank and some other German banks. The Deutsche Bank consortium provided Soviet importers with a purchasing credit, with one chunk benefiting with the German State guarantee on ten years, the other chunk being assumed by AKA for four years, then by the consortium with the State guarantee. Any institution was thus involved in the agreement: the State itself and the main German banks. And that agreement was confirmed on 13<sup>th</sup> July 1982 when German banks completed the details of the contract (with a credit line of DM 2,8 billions or FRF 7,5 billions; with an extension possible to DM 4 billion).

On the French side *Crédit lyonnais* led the banking consortium (including as co-head managers *Banque française du commerce extérieur*-BFCE and *Banque de l'union européenne*-BUE, that one inserted within the Schneider group whose subsidiary Creusot-Loire was involved in the industrial side of the contract) with a purchasing credit of FRF 10 billions (7,75 %), set up at the end of 1981 within the framework of the general 1980 financial agreement between France and USSR – an interest rate one point under the average minimal level fixed by OCDE members for the export relations with the Eastern Block (called the 'consensus rate'). At that time financial relationship between France and USSR had already strongly gathered momentum (since the end of the 1960s), and Soviet debts towards France reached FRF 20 billions. A complementary financial agreement was reached on 9<sup>th</sup> February between USSR and French banks (still *Crédit lyonnais* and *Banque de l'Union européenne*, but too investment bank *Banque de Paris-&-des Pays Bas*-Paribas) in order to lend \$ 1 400 millions for eight years to cover 15% of the amount of equipment sold to USSR institutions.

### **B. Gas pipes orders?**

Companies involved on the first stage of the affair were pipes producers: USSR needed to import big pipes (with a 1,4 meter diameter). Large gas pipes (56 inches circumference – whereas French Vallourec could not build more that 48 inches) had to be delivered by German firm Mannesmann (for \$ 390 millions) – with too Italian and Japanese firms (through a 1981 agreement). Finsider won a major part of the Soviet affair with an agreement over FRF 18 billions on five years for pipes deliveries. French Vallourec won a contract for FRF 400

million of small pipes in 1982; but later on French *GTS Industrie*<sup>15</sup> reached a lower agreement with USSR on 24<sup>th</sup> May 1984: FRF 4 billions equipments were to be sold to USSR, as it would supply between 15 to 20% (660,000 tons in 1986 and 810,000 tons in 1987) of gas pipes to be delivered in 1986-1990; this represented up to the half of the output capacity (600,000 tons in sheet metal working) in its plant in Pas-de-Calais and a substantial outlet for Usinor's steel plant in Dunkerque.

### **C. Orders for various equipment**

Agreement for pumping stations to pump the gas from the wellheads to the terminal on the German border (at Waidhaus): a contract signed between Soviet Machinoimport and French Creusot-Loire and German Mannesmann (29<sup>th</sup> September 1981, confirmed in December 1981) (FRF 5 billions for 22 stations, or \$780 millions) – 19 other one to be delivered by Italian Nuovo Pignone, a subsidiary of ENI at that time (for FRF 5 billions or \$600 million). French witnesses insisted on the attitude of Italian delegates who canvassed insistently Soviet experts and intensified thus competition between Western firms, a fact of which keen Soviet negotiators could play with... As subcontractors UK John Brown and German AEG were to provide the 140 gas turbines (of 25 MW and 10 millions FRF each) fixed to the pumping stations; AEG-Kanis' part alone reached \$ 320 millions for its 47 elements and John Browne \$ 187 million. French Alsthom-Atlantique provided some parts of these turbines (40 rotors for Alsthom) – but only for future spare parts deliveries. Merlin-Gérin, Hispano-Suiza, CEM and Dresser-France became too sub-sub-contractors too. Refrigeration stations to cool the pipes which were to be lightly heated by gas flows, that in order to avoid the effects of the thaw of the permafrost on the stability of the pipes (FRF 1,5 billion). In December 1981 equipment for an electronic survey of the flows within the pipeline was attributed to Thomson (France) (FRF 1,8 billion). Compressors linked with the turbines (and moved by them) were ordered to Nuovo Pignone (57 – with its own technology), to German Demag (5), French Creusot-Loire – both under an American Cooper patent – and to Dresser-France (21), a subsidiary of Dresser-Texas.

### **D. American geopolitical stands and equipment orders**

On a large level American authorities threatened to impose reprisals on European firms involved in Siberian gas pipeline matters. On 9<sup>th</sup> February 1982, under-secretary of State for external trade, Lionel Ulmer, emitted the idea of retaliation against them, certainly through the constitution of some 'black list', which would have been contrary to every GATT rules, and through the suspension of licenses agreements with American companies. These ideas took shape anyway when the United States imposed a general embargo on technology exports to Eastern countries on 30<sup>th</sup> December 1981: how could Western, Europe firms undermine NATO solidarity through holding on their partnership positions? An intense debate grew among experts in these months: could such sensible exports help USSR to strengthen its

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<sup>15</sup> A French leader of gas pipes was Vallourec, which bought its steel to French leader Usinor, but used an American technology to deliver compressors, machines to stimulate internal flows within the pipes, owing to a common subsidiary with the American firm Dresser. In Germany its competitor was Mannesmann, a public firm, too a leading world producer of steel pipes, and in Italy Finsider-Italsider, a State-owned corporation. But the financial difficulties of Vallourec led to the purchase of its activity in large welded steel pipes by Usinor in October 1984, transformed into a new subsidiary, *GTS Industrie* (GTS= *gros tubes soudés*).

military capacity? Could NATO put brakes on the development of the 11<sup>th</sup> Soviet Plan (1981-1985)?<sup>16</sup>

A meeting of ten European countries on 4<sup>th</sup> January 1982 in Brussels underlined the demands for the return to sound principles in the East, particularly in Poland; but that council rejected any rationalised program of economic sanctions against Russia. Numerous experts precised the fact that, whatsoever reprisals might be, they would only put delays on technological progress in COMECON, without avoiding it. And H. Schmidt confirmed to R. Reagan whom he met in Washington in January 1982 that Germany would not renounce to the Siberian gas pipeline agreement.

<i>The main suppliers of USSR in 1981 (market share in USSR)</i>	
West Germany	18,7 %
United States	11,2
France	10,4
Japan	10,3
Finland	0,1
Italy	5,7
United Kingdom	4,8

Some hypocrisy might be detected in the American position, as the United States were in fact the second supplier of USSR (because of cereals exports, for instance). But R. Reagan was led more and more to harden the American stand and requirements: on 18<sup>th</sup> June 1982 an embargo was put on foreign firms exporting equipment involving American technologies: that inserted a wedge between Germany and the United States, and German Economics minister O. von Lambsdorff expressed his discontent immediately: “The transatlantic confrontation over East-West trade reached a new peak of bitterness when France forcefully declared the French firms would honour their pipeline contracts with the Soviet Union. The government announced that it would ignore Washington’s sanctions against the project, forbidding American or American-licensed equipment to be sold to the Soviets, and ordered the heavy-engineering firm of Alsthom-Atlantique to proceed with the manufacture for the Soviet Union of sophisticated turbine rotors developed by the American General Electric Co. At the same time, American Ambassador Evan Galbraith was summoned by French Foreign minister Claude Cheysson and reprimanded for the envoy’s recent public warnings about the penalties for defying American law.”<sup>17</sup>

The Italian government quickly joined the French one and rejected sanctions too, whilst H. Schmidt asserted during his private visit to the United States at the end of August 1982 – but he met G. Schultz in the meanwhile – that Germany would stick to its contracts, but non one waited for *Ostpolitik* to be frozen by German socialists. In Washington itself some clashes within Reagan’ administration were to be perceived between hard stand people (around military circles and the Foreign Affairs people; but the replacement of A. Haig by Georges

<sup>16</sup> Cf. Patrick Bonazza, « OÙ toucher l’Ours ? », *L’Express* magazine, 87<sup>th</sup> January 1982 [« L’Ours » being USSR, ‘the bear’]. Cf. too: Noël-Jean Bergeroux & Jean Gloaguen, « Gaz : les secrets du contrat russe », *L’Express*, 28<sup>th</sup> January 1982 – with an article of the great intellectual Raymond Aron, « Normalisation commerciale », page 55 – or: « Commercial normalisation », which alluded to the political and social normalisation in Poland). Cf. too: Henri Gibier, « Sanctions : les principes et les affaires », *Le Nouvel Economiste*, 11<sup>th</sup> January 1982.

<sup>17</sup> *Time* magazine, 2<sup>nd</sup> August 1982.

Schultz (summer 1982) could pave the way for a stronger cohesion as Reaganism insisted more on anti-Soviet postures than on transatlantic friendship.

“The ten-nation European Community, which accounted for about two-thirds of the Soviet Union’s \$ 23 billions foreign trade with the industrialised nations in 1980, is now challenging the right of the United States to impose its leadership on a key issue, East-West economic relations”<sup>18</sup>, wrote *Time*, which added: “Washington is resented for trying to force sacrifices on European industry at a time of record unemployment in Western Europe – more than 16,5 million people are out of work, the highest number since the Depression – while the United States continues to sell as much grain to the Soviets as it can” – the United States having sold effectively 14 millions tons of grain between October 1981 and September 1982. The key question is then raised: “Where the West’s true interests in dealing with a Communist system that is failing on a socio-economic level, but has turned into a mighty military power on a par with the United States? Should the West lend a helping hand in the economic development of the Soviet block in hopes of influencing political evolution behind the Iron Curtain? [...]. The pipeline has suddenly become the concrete symbol around which swirls the present intra-allied polemic. For the Reagan Administration, it has emerged as a test of Western European loyalty to American leadership in the alliance.”<sup>19</sup>

Western Union countries – the State and firms altogether – maintained their position – in fact ‘business as usual’, as East-West relationship had to be entertained as a realistic assessment of détente and normalisation and as way to ease tensions in Europe, thus favouring a more relaxed diplomatic and military approach from USSR, in order to deter the obsidian psychology of neo-Stalinist Brejnevians. Conversely the American doctrine became more and more aggressive: a strong and coherent anti-Soviet coalition could help weaken rapidly a decaying Soviet economy and therefore lead to a turnaround of policy in a way that USSR might at term renounce to its hard-line strategy<sup>20</sup>. The stake of the Siberian gas pipeline case changed completely, as it became a piece of geostrategic challenges! Anyway either France – Mitterrand in an interview with *The Washington Post* on 15<sup>th</sup> June 1982 – or Germany rejected the very idea of an economic war with USSR. Still more devastating among Western public opinion was the hypothesis launched in August 1982 about the potential link between the building of Siberian gas pipeline and the Soviet Gulag: were 300 000 prisoners of that Gulag to be involved on the building?

“Certainly we can delay the pipeline, and we may bring the Europeans around to stopping it altogether” (Lawrence Brady, assistant secretary of Commerce, July 1982). Concretely American retaliation had petty effects. Sure the United States imposed ceilings on imports of European steel in Summer 1982... and some American firms or their European subsidiaries had to keep apart from the Siberian gas pipeline business: Caterpillar Tractor cast hopes on \$ 1 billion worth of road-building and pipe-laying equipment, and was replaced by Japanese Komatsu and German Liebherr. In fact the American embargo or restrictive measures exerted some influence on the evolution of the contracts. As General Electric might not provide AEG and John Brown the rights to build gas turbines along its patents, Western Europe firms were confronted to a deadlock – all the more that they had to get some parts from General Electric (the rotors). But AEG had to deliver its first five turbines (small 10 MW ones) as soon as August 1982 and the 25 MW turbines were scheduled on October 1982,

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<sup>18</sup> *Time*, 2<sup>nd</sup> August 1982.

<sup>19</sup> *Time*, 2<sup>nd</sup> August 1982.

<sup>20</sup> Cf. The front-page and several articles of daily *Le Monde*, 24<sup>th</sup> July 1982.

whereas it became clear in February that it would not get the GE rotors... Only Alsthom-Atlantique had got American patents (GE patents for the rotor and Howmet – that one a subsidiary of French Pechiney – ones for the cobalt alloy for the production of the rotor fins) and expertise to build the entire turbine in its Belfort plant without depending on any American embargo rules; but at that time its business calendar was already filled up for two years. That led Russians consider order to Rolls-Royce or Fiat for turbines devoid of American techniques, but clues appeared as early as February 1982 that a two years delay will be necessary...

Similarly Creusot-Loire, Demag and Dresser-France's stations for compression and refrigeration depended on American Cooper or General Electric's technologies. But French ministry of Industry officially urged Dresser-France to deliver its order (21 compressors), which led to blacklisting that firm in the United States... Anyway any American ban on technology exports could hinder French energy global policy, particularly the nuclear strategy launched in 1973, as Creusot-Loire and Framatome, the key firms building nuclear equipment, depended heavily on Westinghouse, Rockwell, Texaco or Allison techniques... On 26<sup>th</sup> August 1982, the United States placed Dresser-France and Creusot-Loire on the black list: they were forbidden to import anything from the United States – even if American authorities proclaimed their will to limit their reprisals to these measures as a token intended to intimidate other firms to deepen their involvement in Soviet relationship.

One can consider that the Siberian gas pipeline case was used by the United States to underline the change of mood since the replacement of Carter by Reagan: hard stances were favoured and East-West policy had to be assessed more vigilantly. Besides these foreign affairs history – which is not our speciality – the very consequences of American measures were to put delays on the building of the Siberian gas pipeline: when AEG-Kanis delivered its first two turbines to USSR in August 1982, it wondered whereas it would be able to produce the other ones as it depended on General Electric's rotors and had only three of them inventoried for 45 turbines to be delivered... In the same time Dresser-France submitted to French government ukase and charged its first three compressors on a Soviet ship in Le Havre and it launched the process of building the 18 other ones – with the support of CGT and CFDT trade-unions, defending the interests of the 800 employees of Dresser's plant in Le Havre.

The clash between the United States and Western Europe ceased anyway on 13<sup>th</sup> November 1982 when R. Reagan lifted the embargo; he recognised thus that US-Europe relationship had been deteriorating for months and that led to distend diplomatic and spirit transatlantic links in front of USSR. In fact the CIA and various sources, experts or institutions converged to assert that sanctions wouldn't be durably effective and that they would only delay the building of the Siberian gas pipeline for two or three years, whilst creating a divide within NATO forces and Western opinion.



## **Conclusion: Much ado about nothing?**

The large Siberian gas pipeline absorbed its first flows Siberian gas pipeline as in January 1984 but only as a token delivery as only four pumping stations were ready and 18 others were quite completed... A few while later, with six months on advance on schedule six gas pipelines began to transport a few gas from Northern Siberia to West (either USSR itself through five pipelines or to Western Europe through the sixth and larger one) in April 1985. The Siberian gas pipeline contracts were thus crowned with success.

It raised the question about the neutrality of trade versus geopolitical commitment: had Western firms to take part to such huge contracts and thus help Soviet economy, favour currency revenues, and USSR growth, which could lead to military strengthening? To Brejnevian totalitarianism's permanence against Western NATO and freedom strongholds? Trade unions claimed their desire to promote employment; firms were concerned with their plants, their turnover, their technological developments. What could have seemed astonishing was the fact that the United States tried to blackmail Europe by imposing a ban on technology exports whilst they explained to European countries that it was to prevent them from the risk of being blackmailed by USSR through a future ban on gas exports... One should too insist on the key links between firms and State authorities as no one – even the United States – could isolate the first from the second: as during the 1930s or the 1940s firms were involved in larger State considerations and strategies. One could finally note that European and American industries were intimately linked through numerous technology links (like later for the Airbus) and that implied an interdependence of which the American Government was not sufficiently conscious.

Along a more historian point of view one could underline the foibles of any embargo policy (as the Napoleonian, Ethiopian, Spanish, South-African cases or else had already proved...): could seriously the Reagan administration impose Western Europe such a ban on technology exports? Either it was unconsciousness or lip service... Conversely one could add that European countries might appear retroactively somehow pathetic in their efforts to pretend fighting against unemployment through such Soviet contracts...whilst lacking a serious reappraisal of their industrial and services strategy (the drift towards the third industrial revolution<sup>21</sup>). A few while later events proved that USSR couldn't financially go on importing equipment and technology as its very economic basis were crumbling... COMECON's had reached \$ 70 billions in 1980 and it began to restrict imports through the contraction of investments<sup>22</sup>: the Soviet system itself was engaging thus into its discreet and slow decline, which condemned European countries' hopes to use Soviet dollars as firmly as petrodollars.

In fact one could therefore conclude that the Siberian gas pipeline case was only the Siberian gas pipeline case in spite of the stakes raised by the United States and the diplomatic postures adopted by USSR... It was a single business of steel pipes and machinery worth of \$ 10 billions and in no way a challenge for East-West balance or a leverage to some key-advantage for USSR for a future war. These pipes were not funnelling any military tanks

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<sup>21</sup> Cf. Hubert Bonin, *Cent mots-clés d'histoire économique*, Belin, Paris, 2000.

<sup>22</sup> Cf. « L'Est réduit à planifier la crise », in *RAMSES 1982*, pages 247-258.

whatsoever their diameter! Firms' initiatives were oriented towards short-term concerns about profits and revenues; but their scope included too economies of scale favoured by the enlargement of their sales to Eastern and COMECON countries, especially for companies involved in equipment goods production; they had to enlarge the amortisation of technological innovations and R&D, they had too to preserve their qualified workforce numbers, all factors which have to be taken into account as parts of a global profitability. This explained the 'business first' desire among the competing community of companies exporting plants or huge equipments to Eastern countries – all the more that the political stability of these regimes, the barter habits, the solvability of combines or State trade or finance entities, the recurrent rescheduling of State debts and the exchange controls provided solid guarantees compared with the instability of numerous Third World outlets. Whereas economic and financial risks were thus alleviated, managers had to ponder the risks raised by the geopolitical and diplomatic environment: to trade with these totalitarian dictatorships supposed to overpass a moral or geopolitical line: it led to admit to trade and treat with the devil – precisely at a time when URSS was being demonised by the USA, NATO and sometimes COCOM – even if the USA's stand was somehow troubled by the active commercial links of American food firms with USSR... Companies had to consider therefore various ways of promoting their interests among the numerous lobbies, political circles and clans, either in France or in Germany, in order to undermine opposition to intense trade with dictatorship: battles of opinion had to be entertained besides commercial and financial struggles. In fact they met hard obstacles: COCOM's reluctance, embargo, dependence on American technologies and patents: capitalist freedom was thus hindered and delays had to be endured or were pending – between two to four years.

In fact companies benefitted with the support of their country's authorities themselves; national solidarity was shaped in order to promote the country's interests: employment, currencies revenues, energy supplies, trade balance, etc. Far from remaining the sad privilege of capitalism, immorality was assumed by the State and became political or geopolitical – *Realpolitik*. On one part policy and geopolitics were set as obstacles to companies' commercial strategies; on a second part they became an asset as the State economic and diplomatic apparatus was called upon to preserve national interests in front of US pressures and argue against the necessities of transatlantic solidarity. Firms got then their 'patriotic label' and their commercial and financial freedom: they got the legitimacy they needed to go pursue their relationship with COMECON dictatorships. This confirms once more that one can't isolate multinational firms' action from the choices of their country's State – whatever the type of dictatorship. And furthermore, at that time, several governments thought that the intensification of commercial links between West and East could contribute to the acceleration of industrial development and thus favor the growth of standard of life, leading at term to internal civilian appeasement: the theme of "convergence" of the regimes owing to the growth of per head revenues – or a modern version of 'goulash socialism' –, that is the idea that the establishment of a consuming society in the East could pave the way to democratisation and to the dismantlement of the obsessional mentalities which constituted the bases of Cold War. Multinationals were endowed therefore with some kind of a mission to contribute to that process: geopolitical interests met business interests!

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