U.S. FOREIGN POLICY AND THE SOVIET GAS PIPELINE TO WESTERN EUROPE

THESIS

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By

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This paper surveys U.S. foreign policy in the late 1970s and early 1980s as the American administration reacted to the Soviet Union's interventions in Afghanistan and Poland and to its planned gas pipeline to Western Europe. Chapter I outlines the origins of the pipeline project; Chapters II and III describe U.S. foreign policy toward the Soviets during the Carter and Reagan administrations. Chapter IV focuses on the economic sanctions imposed against the Soviet Union by the United States and their failure to block or delay the pipeline, and Chapter V stresses the inability of economic sanctions--in this and other instances--to achieve political ends.
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In 1945, the United States and the Soviet Union emerged as superpowers engaged in an ideological cold war that lasted for almost three decades. Various conflicts of interest in most parts of the world dominated U.S.-Soviet relations, particularly in strategic areas such as the Middle East, Africa, and Europe. In the midst of these conflicts, however, after nuclear weapons were developed, both the United States and the Soviet Union became more aware of the danger such weapons posed and the destruction that could be brought about by their use. Perhaps the 1962 Cuban missile crisis contributed most significantly to modifications in the behavior of the two antagonists, who attempted to carry on more cooperative relations, especially after the Partial Nuclear Test Ban Treaty was signed in 1963. The cold war era finally ended when President Richard M. Nixon signed the Strategic Arms Limitation Talks Treaty (SALT I) in Moscow in 1972.

In 1973, when war broke out between the Arabs and the Israelis, the United States and most of the nations of Western Europe supported Israel economically, politically, and militarily. In retaliation, the Arab members of the Organization of Petroleum Exporting Countries (OPEC) cut
off oil supplies to the United States and Western Europe. As a result of the oil embargo, the economies of these countries were severely damaged by the ensuing energy crisis. By the time the oil embargo ended in 1974, the United States and its Western European allies had realized how vulnerable their economies were to unreliable energy suppliers, and they began to search for more dependable sources.

In 1978, the U.S.S.R. offered to provide the nations of Western Europe with natural gas as a safeguard against another energy crisis like that caused by the 1973 embargo. The timing of this proposal, which constituted the largest commercial transaction ever undertaken in the context of East-West relations, demonstrated the Soviets' perennial desire to create a gap between the United States and its allies, and the pipeline project may represent the end of U.S.-Soviet détente and the beginning of détente between the U.S.S.R. and Western Europe.

This study analyzes U.S. foreign policy toward the Soviet gas pipeline. Its significance stems from the fact that the United States attempted to dissuade its Western European allies from participating in the project, which created an extremely complicated issue not only in East-West relations but in West-West relations as well. The United States used many methods and tactics to delay or
block the pipeline, such as imposing economic sanctions against the Soviet Union and offering American coal and nuclear energy to Western Europe as substitutes for Soviet natural gas.

Because of the impact of the significant international events that occurred between 1978 and 1982—notably the Soviet invasion of Afghanistan in 1979 and the Polish crisis of 1980-1981—and the consequences and developments of these events, this study is chronologically organized. Chapter I traces the origins of the Soviet gas pipeline project and its importance to both the U.S.S.R. and the nations of Western Europe. Chapter II outlines changes in U.S. foreign policy in the aftermath of the Soviet invasion of Afghanistan, focusing on the economic restrictions imposed on the U.S.S.R. by President Jimmy Carter, and Chapter III explicates the foreign policy of the Reagan administration as carried out in the National Security Council Meetings of 1981, the Ottawa Economic Summit, and the U.S. delegation's offer of alternative energy sources to the Western European nations involved in the pipeline project.

Chapter IV surveys the Reagan's administration reaction to the Polish crisis, especially the imposition of martial law in that country, in the form of economic sanctions against the Soviet Union as a result of its direct
involvement in Poland. This chapter also describes Western European reactions to sanctions that included U.S. firms operating in Western Europe and Western European firms licensed by U.S. companies to produce energy-related equipment. Finally, Chapter V highlights the ineffectiveness of U.S. economic restrictions against the U.S.S.R. and summarizes the positions of various U.S. officials concerning them. The conclusion of the analysis indicates that economic sanctions are difficult to implement in accord with political ends.

It should be noted that, because the events surrounding the planning and development of the Soviet gas pipeline to Western Europe are relatively recent, few comprehensive studies of them are available as yet. Therefore, in preparing this paper the researcher relied heavily upon sources that were published as the events occurred: articles in weekly periodicals such as the *Oil and Gas Journal* and *Business Week* and in major newspapers such as the *New York Times* and *The Washington Post* and, most importantly, public documents such as the *U.S. Department of State Bulletin* and the records of numerous Congressional hearings held in 1980, 1981, and 1982.
CHAPTER I

ORIGINS AND EVOLUTION OF THE SOVIET GAS PIPELINE PROJECT

Historical Background

Since the 1973 Arab-Israeli war in the Middle East and the oil embargo declared by the Organization of Petroleum Exporting Countries (OPEC), most, if not all, Western European countries—as well as the United States—have been searching for alternative sources of imported energy. The worldwide energy crisis that broke out at the end of 1973 can be attributed to several precipitating factors: first, the drastic increase in oil prices that occurred during that year; second, the intimation that oil supplies would be manipulated in the future to maintain the new price level; and, third and most important, the outbreak of the Arab-Israeli war on October 6, 1973, which created instability in the Middle East and divided the loyalties of other nations throughout the world between the combatants. The beginnings of the Western energy crisis, however, are to be found long before 1973, when consumption began to increase in the 1960s and the members of the European community (EC) became more and more dependent on imported oil. The United States and the nations of Western Europe—
notably the German Federal Republic, France, and Italy—were using Arab oil in ever-larger quantities, and a severe crisis resulted when that source of supply was cut off after the Arab states decided to use their oil as a political weapon.

Three key eastern Mediterranean pipeline terminals had been shut down earlier in 1973, and, after the outbreak of the Yom Kippur War on October 6, 1973, individual announcements of an oil embargo against the United States and Western Europe were made by Arab oil exporting nations in support of Egypt and Syria against Israel: by Libya on October 19th, by Saudi Arabia and Algeria on October 20th, and by Kuwait, Bahrain, Qatar, and Dubai on October 21st. On November 4th, the embargo was extended to include other countries in the Mediterranean and Far East that had supplied fuel to the United States Navy's sixth and seventh fleets.

The general OPEC embargo continued until March 18, 1974, at which time six Arab countries—Saudi Arabia, Algeria, Abu Dhabi, Bahrain, Kuwait, and Libya—again publicly condemned the Western European countries and the United States for their support of Israel and chose to

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extend their embargos on an individual basis. The energy crisis affected life in the United States and Western Europe, both of which were large consumers of oil in general and of Arab oil in particular. In 1972, the United States alone consumed 16.4 million barrels daily, which represented 40 per cent of the world’s supply, and Western Europe’s level of consumption was similarly high. Thus, the 1973 embargo impeded aspects of domestic life, business operations, and transportation for both Americans and Western Europeans.

The economies of West Germany, France, Italy, the Netherlands, Belgium, Sweden, and Austria were seriously affected by the 1973 oil crisis, leading to their determination to search for alternative sources of imported energy in order to protect their economic and national stability. In addition, the 1973 war and subsequent embargo showed Western Europe how vulnerable it was to the actions of unreliable foreign suppliers such as the Arab members of OPEC. After the 1973 oil crisis, the Western European nations decided that the diversification of energy imports was one of the most important components of their national security.

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4Ibid., p. 69.
Five years later, the Soviet Union offered the nations of Western Europe its natural gas as an alternative solution to the energy crisis that they faced in 1973.5 Since natural gas was one of the U.S.S.R.'s most important energy resources and proven Soviet gas reserves were extensive--on a par, in fact, with Saudi Arabia's oil reserves--the potential for export was promising; and there appeared to be no significant technological barriers to increased Soviet gas production. Thus, during the first half of 1978, the Soviet Union initiated discussions concerning a proposed gas pipeline to be constructed from western Siberia to Western Europe. Planning for this pipeline accelerated following the collapse of the second Iran gas trunk line (IGAT II) project, which would have brought 10.9 billion cubic meters of Iranian gas to Western Europe through the U.S.S.R.6 The failure of IGAT II, however, was not the impetus for the Soviet offer; rather, its origin lay in the "North Star" project, the product of détente and large-scale U.S.-Soviet commercial relations, which would have delivered 20 billion cubic meters of liquefied gas from the Urengoy field in the U.S.S.R. to


the United States. With the demise of the North Star plans, Western Europe sought to revive the undertaking on a larger scale. Its interest sprang, in part, from past experience in energy dealings with the Russians; czarist Russia had supplied oil to Europe as early as the 1890s, and the Soviets began to export natural gas to the West in 1968. Furthermore, the U.S.S.R. had been the world's largest oil producer since 1974 and was second only to Saudi Arabia among oil exporters.

Thus, the nations of Western Europe regarded the Soviet Union as an attractive and reliable supplier for their community, especially since it had provided energy to them throughout the 1970s. Table I presents an overview of western European dependence upon Soviet energy in 1979, the year after discussions on the gas pipeline began.

Soviet-Western European transactions became increasingly important when growing exports of natural gas supplemented Soviet oil exports. These exports brought more hard currency to the Soviet Union, which it used to import Western European energy-related equipment, thus stimulating

7Ibid., p. 23.


9Ibid., p. 354.
<table>
<thead>
<tr>
<th>Country</th>
<th>Oil and Oil Products</th>
<th>Natural Gas</th>
<th>Hard Coal</th>
<th>Nuclear</th>
<th>Geothermal, Hydroelectric, and Imported Electricity</th>
<th>Total Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Republic of Germany (West Germany)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total energy requirements</td>
<td>145.4</td>
<td>49.6</td>
<td>83.3</td>
<td>3.4</td>
<td>1.6</td>
<td>283.3</td>
</tr>
<tr>
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<td>150.8</td>
<td>33.5</td>
<td>6.0</td>
<td>...</td>
<td>...</td>
<td>190.3</td>
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<tr>
<td>Total imports from U.S.S.R.</td>
<td>9.3</td>
<td>8.0</td>
<td>0.1</td>
<td>...</td>
<td>...</td>
<td>17.4</td>
</tr>
<tr>
<td>Imports from U.S.S.R.; % of total imports</td>
<td>6.2%</td>
<td>23.9%</td>
<td>1.7%</td>
<td>...</td>
<td>...</td>
<td>9.1%</td>
</tr>
<tr>
<td>Imports from U.S.S.R.; % of total energy requirements</td>
<td>6.4%</td>
<td>16.1%</td>
<td>0.1%</td>
<td>...</td>
<td>...</td>
<td>6.1%</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total energy requirements</td>
<td>117.8</td>
<td>22.7</td>
<td>34.2</td>
<td>3.2</td>
<td>7.0</td>
<td>184.9</td>
</tr>
<tr>
<td>Total energy imports</td>
<td>139.1</td>
<td>16.1</td>
<td>20.2</td>
<td>...</td>
<td>1.4</td>
<td>176.8</td>
</tr>
<tr>
<td>Total imports from U.S.S.R.</td>
<td>6.5</td>
<td>1.6</td>
<td>0.5</td>
<td>...</td>
<td>...</td>
<td>8.6</td>
</tr>
<tr>
<td>Imports from U.S.S.R.; % of total imports</td>
<td>4.7%</td>
<td>9.9%</td>
<td>2.5%</td>
<td>...</td>
<td>...</td>
<td>4.9%</td>
</tr>
<tr>
<td>Imports from U.S.S.R.; % of total energy requirements</td>
<td>5.5%</td>
<td>7.4%</td>
<td>1.5%</td>
<td>...</td>
<td>...</td>
<td>4.7%</td>
</tr>
<tr>
<td>Country</td>
<td>Oil and Oil Products</td>
<td>Natural Gas</td>
<td>Hard Coal</td>
<td>Nuclear</td>
<td>Geothermal, Hydroelectric, and Imported Electricity</td>
<td>Total Energy</td>
</tr>
<tr>
<td>---------</td>
<td>---------------------</td>
<td>-------------</td>
<td>-----------</td>
<td>---------</td>
<td>--------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total energy requirements</td>
<td>93.4</td>
<td>24.1</td>
<td>10.6</td>
<td>0.2</td>
<td>4.2</td>
<td>132.5</td>
</tr>
<tr>
<td>Total energy imports</td>
<td>120.9</td>
<td>13.2</td>
<td>9.1</td>
<td>...</td>
<td>0.6</td>
<td>143.8</td>
</tr>
<tr>
<td>Total imports from U.S.S.R.</td>
<td>6.8</td>
<td>5.7</td>
<td>0.6</td>
<td>...</td>
<td>...</td>
<td>13.1</td>
</tr>
<tr>
<td>Imports from U.S.S.R.; % of total imports</td>
<td>5.6%</td>
<td>43.2%</td>
<td>6.6%</td>
<td>...</td>
<td>...</td>
<td>9.1%</td>
</tr>
<tr>
<td>Imports from U.S.S.R.; % of total energy requirements</td>
<td>7.2%</td>
<td>23.7%</td>
<td>5.7%</td>
<td>...</td>
<td>...</td>
<td>9.9%</td>
</tr>
</tbody>
</table>

Western Europe's economy. Exports of energy-related equipment have constituted an important element of Western European foreign trade in the 1970s (see Table II).

**TABLE II**

**WESTERN TRADE WITH THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE, 1979-1980 (U.S. $ MILLIONS)**

<table>
<thead>
<tr>
<th>Exports</th>
<th>U.S.</th>
<th>Japan</th>
<th>France</th>
<th>West Germany</th>
<th>Italy</th>
<th>U.K.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A--Energy-related exports to the Soviet Union</td>
<td>237</td>
<td>1,097</td>
<td>474</td>
<td>906</td>
<td>408</td>
<td>90</td>
</tr>
<tr>
<td>B--Total exports to the Soviet Union</td>
<td>3,607</td>
<td>2,442</td>
<td>2,005</td>
<td>3,619</td>
<td>1,217</td>
<td>889</td>
</tr>
<tr>
<td>A/B</td>
<td>6.5%</td>
<td>44.9%</td>
<td>23.6%</td>
<td>25.0%</td>
<td>33.5%</td>
<td>10.1%</td>
</tr>
<tr>
<td>C--Total exports to C.M.E.A. 6 + U.S.S.R.</td>
<td>5,672</td>
<td>3,243</td>
<td>4,028</td>
<td>11,270</td>
<td>2,633</td>
<td>2,059</td>
</tr>
<tr>
<td>D--Total exports to the world</td>
<td>181,801</td>
<td>102,802</td>
<td>97,981</td>
<td>174,092</td>
<td>72,123</td>
<td>90,810</td>
</tr>
<tr>
<td>C/D</td>
<td>3.1%</td>
<td>3.1%</td>
<td>4.1%</td>
<td>6.4%</td>
<td>3.6%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

In 1982, Western Europe imported 11 per cent of its natural gas, 10 per cent of its oil, and 9 per cent of its coal from the Soviet Union and other Council for Mutual Economic Assistance (C.M.E.A.) members.\textsuperscript{10} West Germany supplied 28 per cent of Soviet imports of energy-related equipment; Italy, 16 per cent; and France, 13 per cent.\textsuperscript{11} From the Western European standpoint, the sale of energy-related equipment to the Soviet Union was economically useful, partly because it facilitated the availability of energy for the Western European community in particular and for the rest of the world in general. Nevertheless, some concern arose regarding the magnitude of Western European dependence on imported Soviet oil, natural gas, and coal, focusing upon Western Europe's vulnerability and sensitivity to the Soviet Union, which would, in turn, affect its interests and national security.

For the past ten years Western Europe had been strengthening its relations with the Soviet Union in the energy field; Western European governments had determined that it would be healthy for their economies to assist in the development of Soviet energy resources because to do so would bring them the energy they needed, exempt them from high OPEC prices, and enable them to avoid any possible oil embargo by the Arab members of OPEC.

\textsuperscript{10}Ibid., p. 252. \hspace{1cm} \textsuperscript{11}Ibid., p. 253.
The United States, however, under the administrations of Presidents Jimmy Carter and Ronald Reagan, opposed the strengthening of the Soviet-European energy link, claiming that Western Europe would be subsidizing the Soviet Union's economy by exporting energy-related technology and, as a result, strengthening its military sector as well (U.S. policy will be described in greater detail later in this paper).

The dispute between the United States and its major European allies crystallized after the Soviet Union invaded Afghanistan in December of 1979. Early in 1980, the United States announced a technology embargo against the Soviet Union and requested Western Europe to join it, but the Western European nations did not do so, largely because they were more dependent than the United States upon East-West trade.

The Consultative Group-Coordinating Committee, an informal Western group (membership consisting of the N.A.T.O. countries--with the exception of Iceland--and Canada) that monitored Western export control policy toward the Soviet Union during the 1970s, however, did announce its refusal to export any energy-related equipment to the U.S.S.R.

pending the Soviet army's withdrawal from Afghanistan.\(^{13}\)
The United States and the Western European committee agreed to make one exception to its so-called "no exception policy," namely, that Western exports in support of the existing Soviet oil and gas pipeline to Western Europe would continue. But, after the imposition of martial law in Poland in 1981, the Consultative Group-Coordinating Committee decided to curtail its exports to the U.S.S.R. and reassess the exception that it made in 1979.\(^{14}\)

The Soviet Union initiated discussions concerning the Western Siberia-Western Europe gas pipeline project in 1978. These discussions became official negotiations when West Germany's Chancellor Helmut Schmidt visited Moscow on June 30, 1980.\(^{15}\) Plans for the pipeline called for the provision of natural gas to Western European countries from West Siberian fields in the Yamal Peninsula, transported via the northern tundra and Eastern Europe.\(^{16}\) At the present time, Western Europe imports 24.5 billion cubic meters of gas per year from the Soviet Union;\(^{17}\) it is estimated that, by 1986, after the

\(^{13}\)Ibid., p. 51.

\(^{14}\)U.S. Congress, p. 372.


\(^{17}\)Ibid., p. 29.
anticipated completion of the pipeline, that figure would rise to 65 billion cubic meters per year. This projected increase would represent 35 per cent of Europe's natural gas and 5 per cent of its total energy consumption. Table III presents estimates of Soviet natural gas exports to Western Europe between 1980 and 1990, including gas from the pipeline, and Table IV projects gas exports from the U.S.S.R. to three Western European nations in 1990.

**TABLE III**

SOVIET EXPORTS OF NATURAL GAS TO WESTERN EUROPE, 1980-1990 (BILLIONS OF CUBIC METERS*)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Existing Transit Pipeline and Additions</th>
<th>Planned New West Siberia (Yamburg) Pipeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>24.5</td>
<td>24.5</td>
<td>.....</td>
</tr>
<tr>
<td>1982-1983</td>
<td>25</td>
<td>25</td>
<td>.....</td>
</tr>
<tr>
<td>1984</td>
<td>32-46</td>
<td>32-46</td>
<td>.....</td>
</tr>
<tr>
<td>1985</td>
<td>53</td>
<td>53</td>
<td>.....</td>
</tr>
<tr>
<td>1986</td>
<td>62-76</td>
<td>53-58</td>
<td>9-18</td>
</tr>
<tr>
<td>1987</td>
<td>71-91</td>
<td>53-63</td>
<td>18-28</td>
</tr>
<tr>
<td>1988-1990</td>
<td>90-105</td>
<td>53-68</td>
<td>37</td>
</tr>
</tbody>
</table>


Ibid., p. 30.
TABLE IV

SOVIET EXPORTS OF NATURAL GAS TO THREE WESTERN EUROPEAN NATIONS, 1990 (BILLIONS OF CUBIC METERS)*

<table>
<thead>
<tr>
<th>Country</th>
<th>Contracted</th>
<th>+</th>
<th>Probable or Maximum</th>
<th>=</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>7.6</td>
<td>3.1</td>
<td>6.0</td>
<td></td>
<td>10.7-13.6</td>
</tr>
<tr>
<td>Italy</td>
<td>7.0</td>
<td>....</td>
<td>3.0</td>
<td></td>
<td>7.0-10.0</td>
</tr>
<tr>
<td>West Germany</td>
<td>15.2</td>
<td>10.0</td>
<td>12.0</td>
<td></td>
<td>25.2-27.2</td>
</tr>
</tbody>
</table>


Western opinions concerning the energy future of the U.S.S.R. were divergent. For example, the Economist Intelligence Unit in London estimated that Soviet oil production would increase 17 per cent by 1985, but the U.S. Central Intelligence Agency suggested in a controversial study that the Soviet Union would be a net importer of oil by that year. The Soviets themselves, according to estimates published in Moscow in 1981, anticipated a 20 per cent drop in oil production for export by the end of 1985, but this did not imply a decline in

19Ibid., p. 72.

revenues because decreased oil production would be offset by growth in natural gas deliveries to Western Europe that would result in an increase in hard currency earnings.\textsuperscript{21}

It was anticipated that Western Europe would continue to play an important role in the U.S.S.R.'s development because the Soviets needed Western equipment to exploit their gas reserves in Western Siberia. Statistics on Soviet purchases of oil and gas equipment from Western nations and Japan between 1976 and 1980 are presented in Table V. These purchases have stimulated the economies of Western European countries as well by generating national income and reducing unemployment.

The U.S.S.R. began construction on the gas pipeline despite U.S. opposition to the project, for both Soviet and Western European leaders wished to expand their energy relations. Oil and natural gas exports would bring considerable amounts of hard currency to the U.S.S.R., and, in turn, Western European exports of energy-related equipment to the U.S.S.R. would stimulate the sluggish economies of those countries. In short, this strengthening of economic ties would be of mutual benefit to the U.S.S.R. and to the nations of Western Europe.

TABLE V

SOVIET ORDERS FOR LARGE-DIAMETER PIPE AND OIL
AND GAS EQUIPMENT, 1976-1980 (U.S.$ BILLIONS)*

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>11</td>
<td>0.8</td>
</tr>
<tr>
<td>West Germany</td>
<td>35</td>
<td>2.6</td>
</tr>
<tr>
<td>France</td>
<td>8</td>
<td>0.6</td>
</tr>
<tr>
<td>Japan</td>
<td>34</td>
<td>2.5</td>
</tr>
<tr>
<td>Others</td>
<td>12</td>
<td>0.9</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>7.4</td>
</tr>
</tbody>
</table>


The Significance of the Pipeline Project
to East and West

The Soviet Union's Interest in the Gas Pipeline

Natural gas represents the key to the energy future of the Soviet Union in the 1980s, playing a vital role in the U.S.S.R.'s domestic energy plans and in its export prospects; increasing the Soviet gas pipeline network is central to both of these concerns. Since oil and coal production are slated to rise only modestly, incremental domestic energy demand in the Soviet Union must be covered
by large projected increases in natural gas. Soviet gas is significant in two respects. First, it can replace oil as a hard currency-earning export since domestic oil consumption is likely to grow faster than domestic oil production, and it can also be substituted for oil in domestic applications. Second, Soviet planners view natural gas as the U.S.S.R.'s single most important source of hard currency. According to the Wharton Econometric Forecasting Associates in 1979, Soviet earnings from natural gas sales reached about $1.5 billion, or 11 per cent of the U.S.S.R.'s total hard currency receipts.\textsuperscript{22} By 1990, after the Soviet gas pipeline is completed, that proportion is projected to rise to 35 to 40 per cent while the share of other energy resources such as oil and coal will rapidly decline.\textsuperscript{23}

The Soviet Union's supply of hard currency, the major source for which has been oil for the last two decades, has not been adequate in recent years; for example, earnings from Soviet oil sales to the West dropped from $17 billion in 1981 to $15 billion in 1982 because of falling oil prices.\textsuperscript{24} Furthermore, declining Soviet gold sales in

\textsuperscript{22}U.S. Congress, p. 310.

\textsuperscript{23}Ibid., p. 312.

\textsuperscript{24}Lawrence Minard, "Embracing the Bear," \textit{Forbes}, June 7, 1982, p. 120.
1979 and 1980 also resulted in a loss in revenues.\textsuperscript{25} Soviet earnings from gold sales in 1982 were only $4 billion, creating a $10 billion shortage for the U.S.S.R's imports of Western grain.\textsuperscript{26}

Soviet allies such as East Germany, Czechoslovakia, Hungary, Poland, Romania, and Bulgaria financed their growth through the Soviet Union and the Western world in the 1970s, accruing unpaid debts of $60 billion to Western banks.\textsuperscript{27} As a result, these Eastern nations cut back their imports from the West and turned to the Soviet Union for funds. These developments have reduced the U.S.S.R.'s hard currency earnings still further because the Soviet Union found it necessary to subsidize its allies in order to keep them intact. For example, with the exception of Romania, the countries of Eastern Europe do not produce oil, but they consume over 2.0 million barrels of oil per day.\textsuperscript{28} The Soviet Union, the world's largest oil producer, produces 13 million barrels of oil per day, consumes 10 million barrels per day, and exports 1.2 million barrels

\begin{itemize}
\item \textsuperscript{25}Ibid.
\item \textsuperscript{26}Ibid., p. 122.
\item \textsuperscript{27}Ibid., p. 124.
\item \textsuperscript{28}"Soviets Preparing for Big Pipelay Job," \textit{Oil and Gas Journal}, February 22, 1982, p. 51.
\end{itemize}
per day to the West to earn hard currency.29 At the same
time, however, it delivers more than 1.6 million barrels
per day to its Eastern European allies at very modest
prices compared to those paid by the West.

According to the Wharton Associates and Northwestern
University's Professor Michael Marrese, the U.S.S.R. sub-
sidized its Eastern Europe satellites with more than $39
billion from 1976 to 1979, an additional $22 billion in
1980, and a similar amount in 1981.30 If the Soviets cut
off oil deliveries to their allies or even charged them
standard market prices, Moscow would increase its hard
currency earnings considerably, but a preferable alterna-
tive, from the Soviet point of view, is the gas pipeline
to Western Europe, which would earn nearly $8 billion in
hard currency per year after all construction costs are
paid.31

With these revenues the U.S.S.R. would be able to
buy U.S. wheat and finance other purchases related to
high technology from Western Europe by 1990. It is also
projected that, by that year, Soviet gas exports to both
Japan and Western Europe will increase to 92.4 billion
cubic meters annually.32 In turn, the U.S.S.R. would use
these hard currency earnings to solve its Eastern European

29Minard, p. 125. 30Ibid., p. 126.
energy problems by supplying natural gas to its allies or redeploymemt some of the oil it now sells to the West. Eventually, the Soviet Union would use the hard currency earned from its natural gas sales to Western Europe to strengthen its own economy.

The Importance of the Gas Pipeline to Allies of the United States

Some of the major allies of the United States—-the Federal Republic of Germany (West Germany), France, and Italy—have been involved in the Soviet gas pipeline project, each of them prompted by a different interest or purpose. The three nations, however, also share one common interest, namely, the diversification of energy sources in order to avoid any future energy crisis such as that which took place in 1973. These U.S. allies adopted a course of diversifying their energy sources as a main component of their national security strategies. The motivations of each of the three countries are described individually below.

West Germany.--West Germany has at least three crucial reasons for cooperating with the Soviet Union in the gas pipeline project. First, it does not have many domestic energy sources to rely upon during critical periods, so one of the country's most important national security goals is to diversify its energy sources so that it can
overcome any energy crisis that might be caused by unreliable suppliers in the future.

The second reason for West Germany's interest in the pipeline project is political. West Germany has a vital interest in providing the U.S.S.R. with incentives to moderate its behavior in Europe and to help foster improved relations concerning Berlin. In addition, the stance of most German political parties is that détente with the Soviet Union and its allies has maintained strong ties between East and West, and West German Chancellor Schmidt believes that the gas pipeline may act as a deterrent to Soviet action in Poland or elsewhere.

The third reason for West Germany's cooperation with the Soviet Union is exports. The heavy dependence of West Germany on foreign trade is well known; approximately 30 per cent of its gross national product (GNP) stems from foreign trade with a large number of countries, particularly in products related to the oil and gas industry such as steel pipe, compressor stations, and the like. Most important, the German Institute for Economic Research emphasized that economic cooperation with the U.S.S.R. had created 200,000 jobs in West Germany since

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1970, and the pipeline project would open more than 2,500 jobs for Mannesmann steel workers alone. Another German firm, AEG-Telefunken, which sells compressors and other equipment to the Soviet Union, has assured the German government that the pipeline project would create more than 20,000 jobs by 1978.\textsuperscript{34} Finally, West German officials believe that the Soviet gas pipeline project would compensate for the failure of the earlier Irian-Soviet-German IGAT II natural gas deal.

France.--France is less dependent on Soviet energy than is West Germany because of its growing production of power, but France's interest in the Soviet gas pipeline nevertheless appears to be substantial. France needs Soviet gas because of the scarcity of its indigenous resources and its attempt to diversify its energy imports for national security reasons. The need for a diversification of energy supplies stemmed from the readjustments forced on France during the 1973 oil crisis. France also needs Soviet gas because of the severe opposition to nuclear energy-related activities and programs that has been raised by the country's socialist unions and the majority of French citizens.

In addition, France, like West Germany, is highly dependent on exports and foreign trade with many nations. France's trade with the Soviet Union and the C.M.E.A., the economic association of East European countries, constitutes 4 per cent of its total trade. Moreover, the French government wishes to maintain its ties with the Soviet Union, and its officials believe that the Soviet gas pipeline will improve political relations between the two nations through exports and imports. Finally, France needs the Soviet gas pipeline because of the opportunity it will provide to export energy-related equipment, which, in turn, will stimulate the French economy.

Italy.--Italy also has three major reasons for its involvement in the Soviet gas pipeline project. First, Italy needs the Soviet gas deal for import purposes and as a means of diversifying its energy sources. Second, Italy's interest in energy cooperation with the U.S.S.R. stems from its need to export energy-related equipment to the Soviets and gain the revenues expected from those exports. Most important, cooperation between Italy and the Soviet Union in the gas pipeline project would solve Italy's steel industry problems, especially since Italy has been the U.S.S.R.'s most important European supplier of large-diameter

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pipe after West Germany and France. Finally, the Italian government believes that improving economic relations with the Soviet Union would help to moderate Soviet behavior and make it more predictable.

The Soviet Gas Pipeline Project

**Western Siberia and Its Natural Gas Reserves**

The Soviet gas pipeline is planned to run from the natural gas field near the city of Yamburg on the Yamal Peninsula through Eastern Europe to Western Europe. The Yamal Peninsula is a remote tongue of land extending from Western Siberia approximately 400 miles toward the Arctic Ocean. The temperature drops to \(-50^\circ C\) during the nine-month winter season, and the soil is frozen\(^{36}\) and covered by thick permafrost during most of the year, requiring the use of special groundbreaking and drilling equipment. Geographically, Western Siberia is one of the largest plains in the world, covering an area of about 3.2 million square kilometers that consists of 2.8 million square kilometers of land, including lakes and rivers, and 0.4 million square kilometers of water surface.\(^{37}\) The region stretches from the Ural Mountains in the west to


\(^{37}\)Ibid., p. 72.
the Yenisey River in the east and from the Kara Sea in the north to Kazakhstan and the Altay Plateau in the south.\textsuperscript{38}

The oil- and gas-producing oblasts of Tyumen and Tomsk operate in Western Siberia, and the Soviet government claims that a reserve of approximately 750 trillion cubic feet of natural gas is present in a proven undeveloped Western Siberian field.\textsuperscript{39} At least fifty compressor stations are required to pump the gas from the wellheads to a terminal in Waidhause, West Germany.\textsuperscript{40}

\textbf{Western European Participants in the Gas Project}

As of 1980, ten Western European countries were actively engaged in the Soviet gas pipeline project and expected to purchase supplies from it: West Germany, France, Italy, Sweden, Switzerland, the Netherlands, Greece, Austria, Finland, and Belgium; among this group of nations, the first three were the principal participants.

In 1980, West Germany asked for approximately 435-530 billion cubic feet of gas annually, divided among a five-member consortium composed of Ruhrgas (the

\textsuperscript{38}"Soviets Preparing for Big Pipelay Job," p. 57.


\textsuperscript{40}\textit{Ibid.}, p. 41.
consortium leader), Salzg:Har Ferngas, Thyssengas, Deutsche
BP, and the Exxon-Shell Venture-BEB Geweks Chaften Brigitta
and Eleweruth, for the purpose of distribution throughout
the country. The U.S. Office of Technology Assessment
projects that West Germany's dependence on gas from the
U.S.S.R. will rise to 30 per cent by 1990 and that Soviet
gas will constitute 5 per cent of the nation's total
energy requirements.42

Also in 1980, the French government asked for approxi-
mately 353 billion cubic feet of natural gas per year from
the Soviet pipeline under the supervision of state-owned
Gaz de France.43 This means that, by 1990, the pipeline
would supply 28 per cent of France's natural gas and 5
per cent of its total energy needs.44

Italy has requested approximately 250 billion cubic
feet of natural gas annually from the Soviet pipeline, and
Italy's state-owned energy agency, Ente Nazionale Indro-
carburi, was already importing 250 billion cubic feet of
natural gas from the U.S.S.R. at the end of 1982.45 This
Italian dependence on the Soviets would mean that 2 per
cent of Italy's total energy needs would be imported from

41 "Moscow Baits Bonn with a Siberian Gas Deal," Business
Week, July 7, 1980, p. 38.
42 U.S. Congress, p. 374.
43 Ibid., p. 372.
44 Ibid., p. 375.
the U.S.S.R. by 1986. Belgium has requested approximately 180 billion cubic feet of natural gas from the Soviets annually through Distrigaz and nine other companies led by the Société de Traction.\textsuperscript{46} The Netherlands, too, has requested 180 billion cubic feet of Soviet gas per year through the Gasuine company,\textsuperscript{47} and Spain, Switzerland, and Austria have also asked to participate in the Soviet gas deal.

Western European companies have been providing the gas pipes and other equipment required to implement the Soviet gas project at Yamal such as gas-turbine compressor stations, measuring controls, and the like. For example, Mannesmann-Röhrenwerke of West Germany sells steel pipe to the Soviets, and AEG Telefunken and the publicly-owned Salzgitter provide gas-turbine compressor stations and some electrical equipment.\textsuperscript{48} Technip and Creusot-Loire of France supply all of the measuring equipment needed for the Soviet project, and Vallourec also provides steel pipe.\textsuperscript{49} Finally, Nuovo Pignone of Italy supplies compressors, and Ente Nazionale Indrocarburi is assisting in the construction of the pipeline.

\textsuperscript{46}Hormats, p. 268. \textsuperscript{47}Ibid., p. 269. \textsuperscript{48}Taylor, p. 73. \textsuperscript{49}Ibid., p. 75.
Financing the Soviet Gas Pipeline

The gas pipeline project represents the largest commercial transaction in history between the Soviet Union and Western Europe and the largest politico-financial contract ever made between the East and the West. Arranging this massive deal required complicated negotiations for both the U.S.S.R. and the Western European nations. It was initially estimated that the Soviet gas pipeline project would cost approximately $15 to $20 billion. From the beginning the Soviets assumed that such a huge project was beyond the technological and human capabilities of their gas industry and thus requested assistance in the form of Western technology. The U.S.S.R. also sought loans from Western European capitals at the lowest possible interest rates to fund the construction of the pipeline.

Soviet officials sought Western European financial backing throughout 1980, beginning with a Soviet team that participated in negotiations with German financiers in Bonn concerning the interest rate at which West German officials were willing to lend money to the Soviet Union for the pipeline project. Initially, in December of 1980, West Germany's Deutsche Bank headed a group of approximately twenty German financial institutions that

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50 U.S. Congress, p. 272.
discussed giving $5.2 billion in credit to the Soviet Union for the construction of the pipeline. Another group of French financial institutions discussed providing $4 billion in credit to the U.S.S.R. to enable it to purchase the equipment needed for the project. In addition, the government and private banks in Belgium also discussed giving $1 billion in credit to the Soviets.

As stated previously, financing the Soviet gas pipeline involved a series of extremely complex negotiations fraught with difficulties stemming largely from the high interest rates prevailing in the West throughout 1980. Moreover, during that year the Deutsche Bank engaged in a number of unsuccessful negotiations with Soviet officials concerning these high interest rates, which created divisions between the two parties.

Thus, in 1980, the Soviet delegation, headed by Yuri Ivanov, director of the Soviet Foreign Trade Bank, turned to Japanese financial institutions and requested $3 billion in credit from them. Ivanov also asked Japanese bankers to make the loan at an interest rate of 7.75 per cent for ten years, whereas the prevailing rate was 9.75 per cent

52Ibid.
for only eight and one-half years. Because the Japanese government did not intend to purchase gas from the Soviet Union and the interest rate requested by Ivanov was not profitable to the Japanese financial institutions concerned, the two sides failed to reach an agreement.  

The Soviet delegation also visited the United Kingdom in 1980, but, like the Japanese, the British did not need gas from the pipeline and, again, no agreement was reached.

Finally, Ivanov's delegation visited Paris in December of 1980 to seek credit from the French. The Franco-Soviet commission met on December 10, 1980, and discussed the loan that France intended to make to the Soviet Union. Because the French government needed Soviet gas to diversify its energy supplies, the French commission was willing to finance the loan of $4 billion on moderate terms at a 7.75 per cent interest rate for ten years. After these negotiations were concluded, the Soviets assumed that their main source of credit would be the French government.

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56 "How to Embargo Russia," The Economist, July 17, 1981, p. 11.
At the beginning of 1981, however, the Soviet government announced that it was delaying the development of the Yamburg gas field and would instead concentrate upon the development of the huge Urengoy field approximately 150 miles to the south.\(^5\)\(^7\) The Soviets stated that this strategy would not affect the availability of natural gas to Western Europe, nor would it alter the nature of the negotiations that had officially begun during Chancellor Schmidt's visit to Moscow in June of 1980. The planned route of the pipeline was to cross the Ural Mountains, which divide Europe and Asia, to reach the Soviet Union's western frontier in the Carpathian Mountains, but the new pipeline was to be scaled down close to the Soyuz pipeline, which had been transporting Soviet gas to Eastern European countries since 1979.\(^5\)\(^8\) It would cross 561 streams; a number of major rivers such as the Ob, the Volga, the Kama, the Don, the Dnieper, and the Dniester;\(^5\)\(^9\) and 417 roads and railways. Forty compressor stations would be required to handle 1,129 trillion cubic feet of gas per year.\(^6\)\(^0\) The Urengoy field was designated to provide


\(^{58}\) Ibid.


\(^{60}\) Ibid.
Western European countries with natural gas, and its production was to be expanded to 1.412 trillion cubic feet of gas annually.

The second stage of financing the Soviet gas pipeline project took place in 1981. It was even more complicated than the first phase because of the disagreements that developed between the Soviet delegation headed by Ivanov and the officials of West Germany, France, Sweden, and Belgium. Initially, Ivanov sought financing in several Western European capitals. In 1981, a consortium of twenty West German banks considered lending $5.2 billion in credit to the Soviets and a group of French banks agreed to provide $4 billion. After these offers were made, Ivanov continued to seek financing for the two loans at a 7.75 per cent interest rate for ten years instead of the higher prevailing rate.\textsuperscript{61} Admittedly, the U.S.S.R. was in a powerful bargaining position since Western Europe badly needed Soviet gas; thus, a consortium of fourteen West German banks, headed by Deutsche Bank, finally agreed to provide $5.2 billion in 1981 on the terms requested by the Soviets.\textsuperscript{62} Unfortunately for the Soviet delegation,


\textsuperscript{62}Six banks had 8.5 per cent shares in the total credit package (Deutsche Bank, Dresdner Bank, Commerzbank, Westdeutsche Landesbank, Bayerische Landesbank, and Deutsche Genossen Schaftsbank), and eight banks had 4.5 per cent shares (Norddeutsche Landesbank, Bayerische Vereinsbank,
however, in March of 1981, an official of Deutsche Bank announced that, because of a sudden rise in interest rates in West Germany, the offer made by the German consortium was being withdrawn.  

On April 6-10, 1981, Soviet Prime Minister Nikolai A. Tikhonov visited Vienna in search of loans from Austria at a 7.7 per cent interest rate for ten years, but no agreement was reached.  Moreover, a preliminary agreement between the Soviet delegation and the Netherlands for $1.3 billion in credit lapsed in April of 1981. Finally, the agreement between the Soviet and Japanese governments concerning the provision of 3.5 million tons of large-diameter pipe also lapsed in the following month.

By July 23, 1981, the Soviet delegations headed by Ivanov and Prime Minister Tikhonov had almost run out of alternatives for financing the largest commercial transaction in history between the East and the West, but, on July 24, the Soviet delegation reached an agreement with West German officials for financing German pipe and


delivery of equipment. According to the new strategy developed by the Germans, because West Germany did not officially subsidize rates of interest on credit to Council for Mutual Economic Assistance countries, a consortium of about twenty German banks, headed by Deutsche Bank, would reduce the amount of its original loan to $1.6 billion to cover only supplies of compressor stations and other equipment that the Mannesmann Company would sell to the Soviet Union. In addition, the loan was to be financed at a floating rather than a fixed interest rate. Soviet purchases of steel pipe delivered by the Mannesmann group were to be negotiated annually under prevailing market terms.

On July 24, 1981, an agreement was concluded for a loan of DM 2.2 billion to the U.S.S.R. at the current West German interbank rate of 13 per cent with the possibility that that rate might fall when the equipment was delivered. If the interest remained constant, it was specified that the German firms producing the pipe and compressor stations would have to make up the difference because the Soviet Union would not pay more than 9.75 per

66Ibid.
In addition, the Bundesbank raised from DM 3 to 5 billion in the rediscounting facilities it provided for AKA Ausfurchkredit GmbH, which acts as a private discount bank; AKA would offer an additional DM 1.2 billion in credit at 9.18 per cent interest, for which the Soviet Union agreed to make a DM 600 million down payment, raising the total credit package to DM 4 billion. The Soviets also agreed to make up the difference between the 9.18 per cent rate and the current rate of interest either by paying more for the equipment they purchased or by charging less for the gas they provided.\(^6\)

In September of 1981, a consortium of Western European companies signed a number of agreements with the Soviet Union that committed both sides to proceed with the Soviet gas pipeline. At this stage, the 3,500-mile pipeline project was divided into two major sections by Soviet experts, the Siberian and the Western.\(^7\) The Soviets made this division because of the increased demand for jobs arising from the construction of the pipeline and as a means of cutting down construction costs by signing

\(^{6}\)Geddes, p. 21.


\(^{7}\)"Europe Signs Up to Build the Siberian Pipeline," Business Week, October 12, 1981, p. 45.
contracts with a number of companies to secure the lowest possible prices. The U.S.S.R. signed separate contracts with several Western European firms; for example, Italy's Nuovo Pignone was to work on the Western division under a contract for $450 million, the West German-French partnership of Mannesmann Anlagenbau and Creusot-Loire was to work on the Siberian division under a contract worth $1 billion, and the Caterpillar Tractor Company received $40 million for sending 100 pipelaying bulldozers to the Soviet Union.

Eventually, the financing strategy of the Western European countries with regard to the Soviet gas pipeline had the following results.

West Germany.---Because, as mentioned earlier, the West German government does not officially subsidize the rates of interest on credit to C.M.E.A. countries, West Germany had to loan the Soviet Union $1.6 billion at floating interest rates through private financial institutions and banks such as the Hermes Company. Moreover, the Soviet Union was required to negotiate the financing of any additional pipe purchases annually at prevailing market terms.


France.--Unlike West Germany, France does subsidize interest rates on credit to C.M.E.A. nations; therefore, in 1981, a consortium of three French banks (the Banque Française du Commerce Exterieur, Crédit Lyonnais, and the Banque de l'Union Européenne) gave the Soviet Union the opportunity to finance 85 per cent of the pipe required for the project at 7.8 per cent interest for ten years.\textsuperscript{73} In 1981, the Soviets also signed a $140 million credit agreement with Crédit Lyonnais, the Banque de Paris et de Pays Bas, and the Banque de l'Union Européenne to finance the remaining 15 per cent of equipment costs on terms differing from those of the previous contract in that the interest rate was not guaranteed by the French government; in other words, the Soviets would have to pay the prevailing interest rate in France and would be obligated to repay the loan within eight and one-half years.\textsuperscript{74} Finally, in January of 1982, Gaz de France signed an agreement with the Soviet Union for the purchase of 8 billion cubic meters of Soviet natural gas during a twenty-five-year period.\textsuperscript{75}

Sweden.--On February 15, 1982, the Soviet news agency Tass announced that Sweden had agreed to loan the U.S.S.R. $206 million through its banks and financial institutions


\textsuperscript{74}Ibid., p. 10.

\textsuperscript{75}Ibid., p. 11.
to fund the purchase of equipment needed for the pipeline project.\textsuperscript{76}

\textbf{The Payback System}

The loans made by West Germany were not given to the Soviet Union directly; rather, they were made to West German corporations that produce energy-related equipment and were to be used only to finance the purchase of equipment needed for the Soviet gas pipeline. The Deutsche Bank's provision of credit to the U.S.S.R. was not contingent upon the flow of Soviet gas; thus, if the Soviet Union could not make its scheduled deliveries of natural gas to West Germany, it was nevertheless obligated to continue to repay its debts at the full contracted rates. Moreover, the agreement with the Hermes Company, which is privately owned but guarantees credit for the West German government, could be made only for a guaranteed payback, regardless of the supply of Soviet gas. When Soviet gas begins to flow, four years after the extension of West German credit, not all of the gas will be used to repay the loans so that the U.S.S.R. can begin to earn hard currency from its gas supplies as soon as they are transported to Western Europe.

\textsuperscript{76}"Soviets Preparing for Big Pipelay Job," p. 50.
Summary

After the 1973 oil crisis, many of the nations in Western Europe became eager to decrease their dependence on OPEC oil and began seeking to diversify their energy sources both by type of energy and by supplier; West Germany, France, and Italy regarded importing increased quantities of Soviet gas as a method for accomplishing both of these objectives. It must be understood that the decision to participate in the Soviet gas pipeline project has been given great consideration by major Western European allies of the United States because, as a fuel, gas is greatly preferable to either coal or nuclear power. Increased coal supplies have been largely rejected on environmental grounds, and the growth of nuclear power production is impeded by extremely strong and growing anti-nuclear movements throughout the Western world. In addition, past experience has proven the Soviet Union to be a reliable supplier of natural gas, and its potential for continued reliability was judged to be the best by its European clients. As a result of these factors, despite the problems encountered in making financial negotiations for the pipeline project in the early 1980s, contracts and agreements were concluded in 1981 and 1982 for loans and equipment to be provided to the Soviets to construct the gas pipeline by public and private institutions in several
Western European countries, including West Germany, France, Italy, and Sweden.
CHAPTER II

U.S. FOREIGN POLICY TOWARD THE SOVIET UNION DURING PRESIDENT CARTER'S ADMINISTRATION

The Soviet Invasion of Afghanistan

Discussions concerning the Soviet gas pipeline began in 1978 and were solidified as official negotiations when West Germany's Chancellor Helmut Schmidt visited Moscow in 1980. During President Jimmy Carter's administration, the United States displayed little concern about the details or consequences of the Soviet project, partly because it had not taken concrete form by the 1980 presidential election. In general, however, U.S. policy on East-West trade was not favorable.

The most significant event affecting Soviet-Western relations during this period was the Soviet military invasion of Afghanistan. At the beginning of December, 1979, the U.S. Central Intelligence Agency (C.I.A.) informed the government that Soviet troops were massing on the northern bank of the Amu Darya River, the boundary between the Soviet Union and Afghanistan.¹ As the troop

The buildup continued, diplomatic notes were sent to the Soviet Union from the United States warning of unspecified consequences if the Soviets invaded Afghanistan.

The Soviets began to move toward Afghanistan on December 25, 1979, with an armed force of 85,000 soldiers. \(^2\) Within four days the troops had invaded all of Afghanistan's major cities, including the capital of Kabul. The public justification for the invasion offered by the Soviets was that the aftereffects of a coup d'état in April, 1978 had not been able to suppress rising Islamic resistance to the Afghani government. As a result, the choices open to the Soviets were to allow a Marxist-oriented regime to be ousted or to oust the regime themselves and install a more pliable government by military means. \(^3\) On December 27, 1979, the Soviet Union invaded Afghanistan and installed Communist Babrak Karmal, who had been living in exile in Eastern Europe, as the nation's third president. \(^4\)

**U.S. Reaction**

The Carter administration's response to the Soviet action was not born in a vacuum. The intelligence agencies of the North Atlantic Treaty Organization (N.A.T.O.) had warned the U.S. government that the Soviet Union might

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\(^3\)Ibid., p. 165.

\(^4\)Ibid.
intervene in the Arabian Gulf region, an area vital to the interests of the West.\textsuperscript{5} The fall of the monarchy in Iran in February, 1979, constituted a severe political, strategic, and economic setback to the United States, and, in the view of the Carter administration, the loss of Iran as a U.S. ally was a major gain for the Soviets, although they had no clout in the religiously aroused nation, nor were they involved in bringing about the collapse of the Shah's regime.\textsuperscript{6} Subsequently, the Carter administration initiated a series of strategic and political moves in 1979 whose aim was simultaneously to protect the vital interests of the United States and its Western allies in the Gulf-Middle East region, to minimize its losses in Iran, and to meet any Soviet military move southward towards Iran.\textsuperscript{7}

After the downfall of the Shah, the Pentagon prepared a comprehensive study of the comparative military advantages and disadvantages of the two superpowers in the

\begin{itemize}
\item \textsuperscript{5}Syed Shabbir Hussain, Abdul Hamid Alvi, and Absar Hussain Rizvi, \emph{Afghanistan under Soviet Occupation} (Islamabad, Pakistan, World Affairs Publications, 1980), p. 13.
\item \textsuperscript{6}R. W. Apple, Jr., "Iran\'s Premier Says He will Go to Paris and Meet Khomeini," \emph{New York Times}, January 28, 1979, p. 4.
\item \textsuperscript{7}Craig R. Whitney, "Russia Warns U.S. against Threats to Iran," \emph{International Herald Tribune}, December 6, 1979, p. 1.
\end{itemize}
Arabian Gulf region. The conclusion reached in the study was that U.S. forces could not stop a Soviet thrust towards the Gulf region through Iran except by tactical nuclear weapons. The so-called "Carter Doctrine" to contain Soviet expansionism was presented in the form of a brief, cogent declaration: "Any attempt by an outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and it will be repelled by use of any means necessary, including military force." President Carter based his statement primarily on U.S. military power in what amounted to a unilateral renewal of military globalism.

The five specific goals of the Doctrine were enumerated by Carter as follows: first, the quick assembly of a military development force; second, enhanced naval presence in the Indian Ocean and acquisition of base facilities in the Arabian Gulf and northeast African littoral; third, a commitment to the defense of Pakistan and transfer of significant quantities of arms and dollars to that country; fourth, strong military and political ties with other countries in the region; and, fifth, a collective security
framework for the region under U.S. auspices.\textsuperscript{11} The "Carter Doctrine" was perhaps not as implacable as it sounded, however, for, after making his formal statement, the President confessed to a group of Congressional leaders, "I don\'t think it will be correct for me to claim that at this time, or in the future, we expect to have enough military strength and enough military presence there to defend the region unilaterally.\textsuperscript{12}

As another aspect of its reaction against the invasion of Afghanistan, the Carter administration attempted to block the proposal of a Soviet gas pipeline to Western Europe, for which official negotiations had not yet begun. In addition, on January 7, 1980, President Carter wrote a memorandum to Secretary of Commerce Philip Klutznick ordering that 17 million metric tons of American grain scheduled for export to the Soviet Union not be delivered.\textsuperscript{13} The sale of only 8 million metric tons of grain--to which the United States was committed under the terms of the 1975 U.S.-U.S.S.R. Grain Agreement--would be made.\textsuperscript{14}

\footnotesize{\textsuperscript{11}Bhabani Sen Gupta, \textit{The Afghan Syndrome} (London, Croom Helm, 1982), p. 9.}
\footnotesize{\textsuperscript{12}Ibid., p. 16.}
\footnotesize{\textsuperscript{14}Ibid., p. C.}
At the same time, exports of agricultural commodities and products were halted so that other commodities might be identified that could be held back in commercial sanctions to prevent any further aggression by the Soviet Union. The commodities prohibited included wheat, feed grains and seeds, soybeans, and animal feed. Shipments of meat, dairy products, and animal fats to the Soviet Union were also restricted.

In February of 1980, the Carter administration announced a modification of its original trade restrictions which would allow only the export of some commodities that could not be used to fill all of the Soviets' commodity needs. All of the commodities whose sale to the Soviet Union was prohibited or restricted were placed under validated license control—that is, all exporters were required to apply for and obtain a validated license from the U.S. Department of Commerce before making any shipments. This licensing policy was implemented to ensure that shipments to the Soviet Union would not exceed the

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8 million metric ton ceiling set by the Carter administration.\textsuperscript{17}

In January of 1980, President Carter ordered a review of United States export licensing policy regarding exports of high technology to the Soviet Union. The review was prepared in March of 1980, and the Carter administration then adopted restrictive new criteria to control such exports. The administration also established a case-by-case review procedure for outstanding validated export licenses.\textsuperscript{18} Another restrictive policy was formulated by Commerce Secretary Klutznick, in cooperation with the Departments of Agriculture, State, Defense, and Treasury and the U.S. Trade Representative, whose purpose was to review the criteria used in export licensing in order to pinpoint exports that might contribute greatly to Soviet military potential.\textsuperscript{19} Then, after the review of export policy was completed, on March 18, 1980, the Carter administration announced a new policy prohibiting the export of computers, manufacturing technology critical to the production of high-technology defense goods, and sales


\textsuperscript{19}Ibid., p. 4.
of technology that could be used to manufacture equipment for oil and gas production to the Soviet Union.\textsuperscript{20}

After President Carter's announcement of the embargo on grain exports to the Soviet Union on January 4, 1980, the National Farmers Organization issued a statement supporting Carter's stand.\textsuperscript{21} This endorsement was made after the President initiated measures to offset the domestic impact resulting from the grain embargo and to protect U.S. farmers and exporters against losses. The first of these measures was the federal government's offer, with the cooperation of the Commodity Credit Corporation (CCC), to assume the contractual obligations of U.S. exporters for undelivered grain.\textsuperscript{22} Second, the government undertook to isolate grain still owned by farmers from the marketplace to encourage them to place additional grain in


reserve instead of on the market.\textsuperscript{21} The third action consisted of measures to expand long-term U.S. grain exports without reducing exports to traditional customers and to developing nations in order to meet more of their import needs through commercial contracts.\textsuperscript{24}

In contrast, U.S. firms that produced computers and high-technology equipment strenuously opposed the U.S. high-technology embargo against the Soviet Union.\textsuperscript{25} Their justification for this stance was the opinion that, if U.S. computer producers did not export high-technology equipment to the Soviet Union, manufacturers in other countries would, thus causing losses to American firms without having the punitive effect upon the Soviets that the embargo was designed to produce.

James Ozanne, President of the North American Car Corporation of Chicago, Illinois, also opposed the grain embargo on the grounds that it was damaging to the transportation system of the United States, especially the railroad industry--he claimed that 60 per cent of the 117 metric

\textsuperscript{23}Ibid., p. 57. \hspace{1cm} \textsuperscript{24}Ibid., p. 58.

tons of grain exported by the United States in 1979 was shipped by rail. In Ozanne's words,

The transportation industry is a very capital-intensive industry. I think if you look at the rail industry, the barge transportation industry, or air transport, you will find that to be the case. Heavy capital intensity also results in very high fixed costs, specifically depreciation and interest charges which are incurred whether the business is operating or whether it is in a shutdown mode. Variable costs are extremely low. As a result, the cash flow impact of lost volume is significant. The product offered by the rail transportation industry--service--cannot be stored. It is unlike grain, and, specifically, if it is not used, it is lost. The rail transportation industry, as I said before, has expanded its capacity. It perceived exports of grain at 135 million metric tons in 1980, up 15 to 20 percent over 1979. At this point, those exports obviously will not occur. The ICC estimates the lost revenue to the railroad industry at $139 million. The American Association of Railroads estimates that loss at $100 million.

In addition, Ozanne offered a number of recommendations to minimize the severity of American private companies' losses resulting from the embargos against the Soviet Union. First, the U.S. government should seek other buyers for the 17 million tons of grain held back from the Soviets, such as China, India, Mexico, and Pakistan. To accomplish this difficult task, Ozanne suggested that President Carter should use his executive power (1) to expand CCC credit to exporters and to foreign buyers, (2) to temporarily lower the interest rate on CCC loans in an

\[26\text{Ibid., p. 141.} \quad 27\text{Ibid., p. 143.} \quad 28\text{Ibid., p. 145.}\]
attempt to create greater demand, (3) to extend the CCC credit loan period to five years instead of three, (4) to provide CCC credit approval to China, (5) to initiate Public Law 480 credit revisions which would increase Title 1 loan availability for developing nations to $3 billion, (6) to increase matching funds for market development programs, and (7) to establish U.S. trade offices overseas. \(^2\)\(^9\)

An important change in U.S. policy occurred when the Carter administration announced, in April of 1980, that the United States intended to submit only a few exception requests to the Coordinating Committee of Western Allies, the body that coordinates controls on exports to the Soviet Union. \(^3\)\(^0\) The new policy also stated that any future exception requests would be limited to items essential to health or safety for all Eastern European nations (with the exception of Yugoslavia) and the People's Republic of China. \(^3\)\(^1\)

The nations of Western Europe and Canada supported the decisions made by the Carter administration, and the President received assurances from his allies that Western European governments would stand with the United States

\(^2\)\(^9\)Ibid.

\(^3\)\(^0\)Clayton and Perry, p. 91.

as long as the Soviet military intervention in Afghanistan continued.\textsuperscript{32} The United Kingdom's Prime Minister Margaret Thatcher called for the Soviet Union's immediate withdrawal from Afghanistan, and, at a meeting in Strasbourg, France on January 17, 1980, the European Parliament condemned the Soviet invasion of Afghanistan and demanded complete withdrawal.\textsuperscript{33} This body also suggested a reassessment of the commercial and financial relations between the European economic community and the Soviet Union.\textsuperscript{34}

Moreover, Rey Jenkins, President of the European Commission, and President Carter declared that a collective policy against the Soviet Union must be reached by the United States and its allies, and West German Foreign Minister Hans-Dietrich Genscher agreed with the President to take strong action in the wake of the Soviet invasion.\textsuperscript{35}

In February of 1980, however, Under-Secretary of Defense William Perry maintained that the Coordinating Committee of Western Allies had not implemented many of the changes that the Carter administration planned to make. Perry also stated that the Carter administration was proposing additional guidelines for restriction of computer

\textsuperscript{32}U.S. \textit{Department of State Bulletin} (March, 1980), p. 49.

\textsuperscript{33}Hussain, Alvi, and Rizvi, p. 12.

\textsuperscript{34}Ibid., pp. 12-13.

\textsuperscript{35}Ibid., p. 13.
technology and all energy-related equipment exports to the Soviet Union.\textsuperscript{36} On February 5, 1980, Commerce Secretary Klutznick announced that President Carter had ordered an embargo for an unstated period of time against the Soviet Union on the export—or re-export from other countries—of U.S.-origin phosphate rock, phosphatic acid, and phosphatic fertilizers.\textsuperscript{37} This new embargo became effective after the Department of Commerce suspended the issuance of validated export licenses for these products.

At the beginning of March, 1980, during a visit to Colorado Springs—the home of the U.S. Olympic Committee—President Carter discouraged the participation of American athletes in the upcoming summer Olympic games to be held in Moscow, and the Carter administration asked the U.S. Olympic Committee to lead a worldwide effort to move the summer games to another location.\textsuperscript{38} In March the administration also ordered the Department of Commerce to halt all exports of goods and technology for the Olympics as well as other transactions and payments associated with

\textsuperscript{36}Clayton and Perry, p. 90.


Olympic-related exports. In response to this order, Commerce Secretary Klutznick established a requirement that validated licenses be obtained for export of Olympic-related items and allowed only materials for medical treatment to be exported without licenses. The complications surrounding commercial sanctions were increased further when the scheduled meeting of the U.S.-U.S.S.R. Commercial Commission in Moscow was postponed, and the U.S. trade exhibition, also scheduled to be held in Moscow, was cancelled.

The impact of the numerous export restrictions imposed by the United States on the flow of U.S.-Soviet trade can be more clearly understood by extrapolating from the information in Tables VI and VII. The former lists the top ten U.S. exports to the Soviet Union in 1979, and the latter presents the top ten U.S. imports from the Soviet Union in the same year. Before the U.S.S.R.'s invasion

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39 Ibid., p. 15.


TABLE VI  
TOP TEN U.S. EXPORTS TO THE SOVIET UNION, 1979  

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Value (Millions of Dollars)</th>
<th>Share (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Corn</td>
<td>1,402</td>
<td>38.9</td>
</tr>
<tr>
<td>2. Wheat</td>
<td>812</td>
<td>22.5</td>
</tr>
<tr>
<td>3. Soybeans</td>
<td>489</td>
<td>13.6</td>
</tr>
<tr>
<td>4. Phosphoric acid</td>
<td>93</td>
<td>2.6</td>
</tr>
<tr>
<td>5. Tallow</td>
<td>58</td>
<td>1.6</td>
</tr>
<tr>
<td>6. Pressure-sensitive tape</td>
<td>50</td>
<td>2.4</td>
</tr>
<tr>
<td>7. Molybdenum ore</td>
<td>41</td>
<td>1.9</td>
</tr>
<tr>
<td>8. Barley</td>
<td>31</td>
<td>0.9</td>
</tr>
<tr>
<td>9. Parts for oil/gas drill machines</td>
<td>28</td>
<td>5.8</td>
</tr>
<tr>
<td>10. Parts for track-laying tractors</td>
<td>28</td>
<td>9.8</td>
</tr>
<tr>
<td>Total exports</td>
<td>3,032</td>
<td>100.0</td>
</tr>
</tbody>
</table>

of Afghanistan on December 27, 1979, it was anticipated that U.S.-Soviet trade would increase in 1980, with exports rising from $3.6 to $4.8 billion and imports from $873 million to $1.25 billion. After the invasion, however, U.S. exports to the Soviet Union dropped sharply

Ibid.
TABLE VII
TOP TEN U.S. IMPORTS FROM THE SOVIET UNION, 1979

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Value (Millions of Dollars)</th>
<th>Share (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gold bullion</td>
<td>548</td>
<td>62.8</td>
</tr>
<tr>
<td>2. Palladium</td>
<td>62</td>
<td>9.1</td>
</tr>
<tr>
<td>3. Ammonia</td>
<td>56</td>
<td>6.4</td>
</tr>
<tr>
<td>4. Nickel</td>
<td>25</td>
<td>2.9</td>
</tr>
<tr>
<td>5. Metal coins (gold)</td>
<td>25</td>
<td>2.9</td>
</tr>
<tr>
<td>6. Platinum group metals</td>
<td>16</td>
<td>1.8</td>
</tr>
<tr>
<td>7. Chrome ore (not over 40%)</td>
<td>11</td>
<td>2.0</td>
</tr>
<tr>
<td>8. Rhodium</td>
<td>10</td>
<td>6.1</td>
</tr>
<tr>
<td>9. Gasoline</td>
<td>9</td>
<td>1.0</td>
</tr>
<tr>
<td>10. Aluminum</td>
<td>9</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total imports</strong></td>
<td><strong>771</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

to $1.25 billion; imports increased to $1 billion since they had not been directly affected by the Carter administration's commercial trade sanctions. As shown in Table VII, over half of the United States' imports from the Soviet Union in 1979 consisted of gold bullion--$548 million of the $771 million total. The U.S. 1979 ammonia imports of $56 million rose in 1980 as Soviet
deliveries of ammonia to the United States increased under a fertilizer countertrade deal.

At this point it is desirable to examine the regulations imposed on exports to the U.S.S.R. as they affected U.S. foreign policy with regard to East-West trade, particularly their impact upon the Soviet gas pipeline. First of all, after the Carter administration curtailed commercial relations with the Soviet Union, the sanctions imposed heightened interest within the United States in the mechanics of the Export Administration Act of 1979, which gave the President the authority to regulate and organize U.S. exports.\(^4\)\(^5\) Under the provisions of this Act, the U.S. Department of Commerce controlled the export of dual-use items, i.e., those that have both civilian and potential military applications. The Act also dictated that the export of dual-use items should be restricted for three reasons: to protect U.S. national security, to further U.S. foreign policy, and to protect the U.S. domestic economy from an excessive drain of scarce materials.\(^4\)\(^5\)

In fact, dual-use items appeared on the government's Commodity Control List (CCL), and all items with potential military applications were determined and administered by


\(^{4,5}\)Ibid., p. 47.
the State Department. A few types of exports required
the issuance of a validated license by the Commerce
Department; commodities that both required a validated
license and appeared on the CCL fell into three cate-
gories.

1. All those products that make a major or minor
collection to military capabilities were controlled by
an informal international organization called COCOM, con-
sisting of the N.A.T.O. nations, with the exception of
Iceland, and Japan. Other items which are regarded as
sensitively and uniquely available in the United States
were controlled by the United States alone.

2. All items such as nuclear-related devices and
facilities were controlled for foreign policy reasons.

3. Oil and gas products were restricted and con-
trolled for reasons of short supply. 46

The Office of Export Administration within the U.S.
Department of Commerce was given the authority to process
applications for the export of items on the Commodity
Control List. This Office's licensing specialists
examined all applications in the light of the following
factors: the item's uses and functions, its level of

46Export Administration Bulletin, No. 207 (July, 1980),
sophistication, and its use in the civilian and military fields.  


1. The United States imposed commercial sanctions against the Soviet Union to help deter similar aggression elsewhere. These restrictions included grain, technology, Olympic-related items, fisheries, and many others. In addition, the Soviet Union's action was condemned by the United States and an overwhelming majority of other nations in the world.

2. The purpose behind U.S. commercial sanctions was to bring about the complete withdrawal of all Soviet forces from Afghanistan. All commercial restrictions were to remain in effect as long as the Soviets continued to occupy Afghanistan.

3. U.S. foreign policy would maintain penalties against acts of aggression for as long as necessary. President Carter, however, reemphasized to the Soviets the United States' continuing commitment to ratification of the SALT II Treaty, an agreement which served U.S.

\[4^{7}\text{Ibid.}, \text{p. 28.}\]
security interests. In accordance with international law, the United States intended to take no action pending ratification that would defeat the objectives of the treaty.

4. The United States wished to improve relations with Southwest Asia in order to strengthen that area's regional security, stability, and independence. ⁴ ⁸

The Paradox of U.S. Policy

The paradox of U.S. policy during President Carter's administration stemmed from the government's continuation to issue licenses for export of U.S. equipment to the Soviet Union. Initially, the Carter administration did not take into consideration the potential threat inherent in enhancing Soviet strength through the export of high technology. A striking example of the administration's failure to recognize this danger was a trade deal between the Soviet Union and the United States in which the Swindell-Dressler division of Pullman, Inc., transferred three foundries for the Soviet Union's Kama River truck plant. Critics of this transaction stated that, as a result of the transfer, the Soviet Union accelerated production of high-quality trucks, many of which were used to

⁴ ⁸Ibid., p. 32.
transport troops to Afghanistan on December 27, 1979. Evidence of internal disagreement at the federal level appeared when Lawrence Brady, former Deputy Head of the Office of Export Administration, resigned on January 21, 1980, because the Carter administration was still issuing licenses for the export of American technology to the Kama River plant.

According to critics, the Carter administration underestimated the impact of technology transfer to the Soviet Union on the modernization of its military forces. The tactics and techniques of U.S. policy operated in a paradoxical fashion by seeking arms control while simultaneously pursuing liberal trade arrangements. The inconsistency of U.S. policy was revealed again in November of 1980, when, just after his defeat in the election earlier that month, President Carter permitted the Caterpillar Bulldozer Company to sell the Soviet Union 200 pipelaying machines on the condition of the Soviets' guarantee that they would not be used in the Siberian gas project. Moreover, during his 1976 presidential campaign, Carter had pledged never to embargo U.S. grain shipments because of the harmful effects that such an action would have on American farmers, but, a few years later, he ordered the

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49 Klutznick, Furtado, and Moyer, p. 40.
50 Ibid.
most massive cancellation of contracts for grain exports in history.

The complexity of President Carter's decisions was conveyed in a letter focusing on issues related to the strategic balance between East and West sent to Senator Henry Jackson of Washington, who had asked for the President's views on Section 402 of the Trade Act of 1974, the Jackson-Vanik Amendment.\(^5\) This amendment banned the granting of most-favored-nation trading status and subsidized loans to countries that discouraged their citizens from emigrating, and the Soviet Union was its primary target.\(^5\) Carter's letter included the following statement.

> After the Afghanistan invasion, I took a number of steps, including the suspension of grain sales and the restriction of high-technology exports to the Soviet Union, to make quite clear to the Soviet Union that we cannot conduct business as usual with them while their troops are occupying another country.

> With the Soviet troops still in Afghanistan and with unacceptable denials of free emigration, it is totally inappropriate to consider any changes to Section 402 of the Trade Act of 1974, and I have no intention of doing so.\(^5\)

In an analysis of the Carter administration's behavior toward East-West trade, Gary K. Bertsch, Professor of


\(^{5\text{2}}\)Ibid.

\(^{5\text{3}}\)Ibid., p. 47.
Political Science at the University of Georgia, suggested that many different perspectives could be taken on the feasibility of using trade as a bargaining lever, but only two different groups could obtain them. The first group, called "bargainers," includes both "comprehensive bargainers," who have a strong tendency to employ trade to attain specific political goals, and "selective bargainers," who tend to differentiate between exports on the grounds of sensitivity and the potential danger of such exports to the Soviet Union. The second group is divided into "pro-traders," who prefer to enhance trade relations with the Soviet Union, and "anti-traders," who oppose the idea of exchanging commodities with the Soviet Union under any circumstances. According to Bertsch, the Carter administration should be classified as a "comprehensive bargainer" because it employed trade as a bargaining tool in all aspects of the economy.

Another political scientist, Samuel Huntington, regarded the Carter administration's behavior on East-West trade as economic diplomacy. Huntington based his statements on his research and analysis of the administration's policies. 

55Ibid.
56Ibid.
57Samuel P. Huntington, "Trade, Technology, and Leverage: Economic Diplomacy," Foreign Policy, XXXII (Fall, 1978), 79.
opinion on three assumptions: first, U.S.-Soviet relations have always been characterized by conflict and cooperation; second, because the Soviet Union lacks high technological skills related to its industry, it is dependent on the United States and its allies; and, third, if the United States employs trade effectively, it can be used as a bargaining lever to alter Soviet foreign and domestic behaviors.58

According to Bertsch, because the Soviet Union is dependent on the United States, the "comprehensive bargainer" seeks to use trade against the Soviet Union in an attempt to adjust Soviet foreign policy toward the Third World. A study conducted by the Defense Intelligence Agency presented the view that the Soviet Union's dependence has tended to exceed the economic realm to reach the military sector as well. "The Soviets needed Western trade, capital, and technology--notably advanced U.S. technology--not only for economic reasons. They value economic strength largely for its contribution to Soviet political and military power."59

Therefore, Carter's Presidential Directive No. 18 of August, 1977, included policy guidelines stating that this

58Ibid., p. 76.

increased dependence gave the United States a powerful economic instrument to use against the Soviet Union to contain its expansionism and to encourage Soviet cooperation in resolving regional conflicts.\textsuperscript{60} In Huntington's words, "Economic capabilities and economic relations must serve the basic U.S. foreign policy objectives of encouraging East-West cooperation, containing Soviet expansion, and promoting American values."\textsuperscript{61} Huntington argued, however, that, in order for the United States to exert this bargaining leverage, certain changes in its policy must be considered. First, the authority of the executive branch should be expanded to enable it to play a more effective role in East-West economic relations.\textsuperscript{62} Second, Huntington suggested an examination and review of export control lists, followed by export bans on items with potential danger and applicability to the Soviet military sector, such as oil and gas extraction technology and equipment.\textsuperscript{63} In the summer of 1978, all items relating to high-technology equipment were in fact added to the U.S. Commodity Control List,\textsuperscript{64} but the Carter administration's paradoxical stance stemmed from the fact that the government did not deny any export license applications for

\textsuperscript{60}Bertsch, p. 157. \textsuperscript{61}Huntington, p. 65.  
\textsuperscript{62}Ibid., p. 75. \textsuperscript{63}Ibid., p. 76.  
\textsuperscript{64}Ibid.
items related to the Soviet military sector, even after these items were added to the CCL, until President Carter's massive cancellation of export license applications on January 7, 1980.

In addition, Huntington recommended the establishment of a flexible credit policy that would permit U.S. officials to use American economic superiority as a tool in dealings with the Soviet Union. To make U.S. trade more effective as a bargaining tool, Huntington declared, the government should expand U.S.-Soviet trade, and this expansion depends upon the availability of credit. Finally, Huntington argued that the executive branch must have full authority in turning such credit on and off, and he advised the government to engage in serious consultations with the United States' allies in Western Europe to aid in making its trade more effective and efficient.

The analysis of the U.S. response to developments in the Soviet gas pipeline project will continue in Chapter III. That chapter presents a discussion of U.S. policy toward the pipeline under the Reagan administration.

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\(^{65}\text{Ibid., p. 77.}\) \(^{66}\text{Ibid., p. 78.}\)
CHAPTER III
U.S. FOREIGN POLICY TOWARD THE SOVIET UNION DURING
PRESIDENT REAGAN'S ADMINISTRATION

Early Developments

One of the major concerns of President Ronald Reagan, who took office on January 20, 1981, was to dissuade the major allies of the United States from participating in the Soviet gas pipeline deal.\(^1\) Reagan took this stance in part because experts in the U.S. Department of Energy warned him that the Soviet gas pipeline to Western Europe represented a major threat not only to the security of the Western alliance in general but to U.S. national security in particular.\(^2\) In addition, in January of 1981, the Energy Committee of the U.S. Senate sent a written report to President Reagan stating that the Soviet pipeline to Western Europe would weaken the N.A.T.O. alliance.\(^3\) Because the Soviet Union had obtained numerous advantages

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\(^3\) Ibid., p. 15.
by expanding East-West commercial relations and imports of expertise and equipment had enabled it to benefit from the technological innovations of Western nations, the infusion of such innovations into the Soviet industrial base could be translated into increases in military and strategic capabilities.  

The Soviet Union had also realized that significant gains could be achieved from trade with the West. Soviet trade is state controlled and politicized, and, by virtue of the nature of its command economy, the Soviet Union was successful in coordinating trade, defense, and international relations policies to achieve its foreign policy goals. Lawrence Brady, Assistant Secretary for Trade Administration within the U.S. Department of Commerce, suggested that Western industry's excessive dependence on Soviet markets would give the Soviet Union the opportunity to encourage the West to emphasize commercial interests over security considerations, and that the Soviets would be able to exploit vulnerabilities produced by increased

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6 Ibid.
global economic interdependence. It was possible, Brady stated, that the Soviet Union would seek to destroy the cohesion of the Western alliance by endeavoring to increase European dependence on its Siberian resources (such as the gas pipeline to Western Europe) or by instigating turmoil in areas of the world from which the United States and its allies obtained raw materials and energy essential to their economies.  

The Reagan administration opposed the Soviet gas pipeline project even before any agreements were reached between the Soviet Union and the nations of Western Europe, but the president did not feel that he had the authority to tell the sovereign allies of the United States how to go about meeting their energy needs. The Reagan administration did, however, decide to pursue a flexible policy toward its allies by asking them to take greater care in dealing with the Soviet Union on economic issues. President Reagan initiated this flexible policy by lifting

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7Ibid., p. 8.  
8Ibid.  
9Robert Ball, "Europe Warms to Soviet Gas," Fortune, CIII (June 1, 1981), 76.  
10Rashish, p. 22.
limitations on additional agricultural sales to the Soviets on April 22, 1981.\textsuperscript{11} Reagan stated,

I'm today lifting the U.S. limitations on additional agricultural sales on the Soviet Union as I promised to do during last year's presidential campaign. My administration has made a full and complete study of this sales limitation, and I reached my decision after weighing all options carefully and conferring fully with my advisors, including members of the Cabinet and National Security Council. We have also been consulting with our allies on this matter.\textsuperscript{12}


Subsequently, in two National Security Council meetings on July of 1981, President Reagan; then-Secretary of State Alexander M. Haig, Jr.; Secretary of Defense Caspar W. Weinberger; the National Security Council staff; the Office of the Special Trade Representative; the Central Intelligence Agency (CIA); and representatives of the Treasury, Commerce, and Energy Departments entered into discussions of the Soviet gas pipeline project, U.S. strategic export control policy, and the Caterpillar contract to supply pipelaying tractors to the Soviet Union.\textsuperscript{13} These two


\textsuperscript{12}Ibid.

\textsuperscript{13}The description of the July, 1981 National Security Council meetings on pp. 69-79 was obtained from Leslie H. Gelb, "Reagan at Ottawa Talks for Caution in Allies' Soviet Trade," New York Times, July 19, 1981, p. 10. Details concerning these meetings have not been released to the
meetings were held during the first half of July, 1981, prior to President Reagan's visit to Ottawa on July 19 to meet with Western European leaders. In the course of the discussions a major disagreement arose between Secretary of State Haig and Secretary of Defense Weinberger concerning the issue of the Soviet gas deal with Western Europe. Weinberger suggested that any conditions related to economic relations with the Soviets must be treated as pure military competition and stated that an embargo should be imposed on the Soviet Union that would include both strategic equipment such as pipelayers and critical technology that might be used for military purposes.

In contrast, Haig advocated a more receptive stance with regard to the pipeline issue, seeking to formulate an effective and forceful common policy among the United States and its allies. He also argued that the U.S. attitude toward the Soviet Union should not be totally confrontational, particularly if its allies were involved, because the Soviet Union's and Europe's history of mutual economic relations dated back to the 1890s.

President Reagan was inclined to assume a flexible attitude toward the United States' Western European allies, public, and in response to an inquiry from the author the National Security Council in Washington stated that such details were confidential. Thus, the New York Times article is the only available source of information concerning the meetings.
as noted above, because their need for natural gas would lessen the likelihood of their curtailing trade with the Soviet Union, but, before he made a final decision regarding the pipeline project, he ordered a two-month policy review by a group of agencies (the Policy Planning staff, the Pentagon, the National Security Council staff, the Office of the Special Trade Representative, the CIA, and representatives of the Treasury, Commerce, and Energy Departments). This interagency group was headed by the State Department.

The Policy Planning staff and the Bureau of Politico-Military Affairs agreed with the Pentagon and opposed the European Bureau and the Bureau of Economic and Business Affairs; Secretary of State Haig and Myer Rashish, Under-Secretary for Economic Affairs, on the other hand, agreed with the European and Economic Bureau staffs. The Pentagon strongly recommended a complete embargo on every item that might serve Soviet military purposes either directly or indirectly. After the National Security Council meeting dates were set for July 7 and 9, 1981, President Reagan asked the Pentagon and State Department staffs to prepare separate papers outlining their positions that would enable him to weigh their individual strengths and weaknesses before making a final decision concerning the Soviet pipeline.
At the first meeting, Reagan asked the participants to present their views. In general, they agreed that Western technology and energy-related equipment have always been crucial to the Soviet Union because it cannot produce such equipment and that, therefore, the export of all materials and items considered sensitive or critical must be curtailed. The participants, however, did not agree on the question of terminating energy-related exports to the U.S.S.R. because of the possibility that the Soviets might react by allocating more of their scarce resources to peaceful economic pursuits or by putting more pressure on the Arabian Gulf area to obtain energy.

Secretary of State Haig reiterated his opinion that the United States should not maintain an inflexible attitude toward its allies or toward the Soviet Union. If the Reagan administration pursued a hard-line policy, Haig declared, the Soviet political and economic response would be unpredictable and, in turn, would create many problems for American foreign policy in the early stages of the administration. The view of the State Department was that the United States lacked the power to direct its sovereign allies in matters related to their energy programs, especially those nations that badly needed Soviet gas. Furthermore, the Soviet Union (and, before it, czarist Russia) had been exporting oil to Europe since the 1890s,
and the allies of the United States considered the Soviets to be reliable exporters.

Finally, Secretary of Defense Weinberger stated that the Soviet Union had consistently caused trouble in the Arabian Gulf area, irrespective of U.S. actions in East-West trade, and claimed that an embargo on strategic trade would force the U.S.S.R. to divert funds from its military sector. Weinberger also argued that through an embargo the United States would be able to slow the arms race that had always been initiated by the Soviet Union.

In short, the first National Security Council meeting resulted in no decision concerning whether the United States would pursue a flexible or inflexible policy toward its allies and the Soviet Union, although all of the participants agreed that they did not intend to subsidize Soviet economic development.

At the second National Security Council meeting, three items were included on the agenda: (1) strategic export controls policy, the West European-Soviet pipeline project, and the Caterpillar contract to supply pipelaying tractors to the Soviet Union. The first of these topics was discussed in light of the Export Control Act of 1979, under whose provisions advanced technology products could not be exported without prior approval and licensing by a specialist in one of three commodity licensing divisions:
the Computer Division, the Electronic Equipment Division, or the Capital Goods and Production Material Division. Licenses could be refused on foreign policy or national security grounds. Controls on oil and gas technology, however, created a critical situation for the Reagan administration as it confronted the question of whether to help or hinder the Soviet Union's energy development.

During the second National Security Council meeting, Under-Secretary for Economic Affairs Rashish argued that, in an energy-scarce world, it would be better for the United States if the U.S.S.R. had sufficient domestic energy supplies so that the Soviets would not be tempted to compete with the United States for Arabian Gulf oil. This author feels that Haig's and Rashish's arguments were not logically based because the Soviet Union has always competed with the United States for strategic locations and resources all over the world, regardless of whether its domestic energy supplies were sufficient.

In contrast, Secretary of Defense Weinberger declared that helping the Soviet Union to develop its energy resources by supplying it with energy-related equipment would jeopardize the national security of the United States since Soviet energy exports provide as much as half of its hard currency, which would be used to buy Western technology
and would subsequently enable the U.S.S.R. to spend more on military expansion.

Secretary of State Haig claimed that adding specific items to the embargo list imposed by President Carter's administration, such as silicon chips used in computers, would be effective since the United States' allies in the Coordinating Committee for East-West Trade would agree to these technology controls but would not accept more extreme measures. In response, Secretary of Defense Weinberger maintained that a complete embargo should be imposed on all items and materials that could be utilized for military purposes. He also suggested that the president should make such an embargo a major issue with the Coordinating Committee for East-West Trade, including Japan and all of the N.A.T.O. countries except Iceland. Finally, Republican Senator Charles H. Percy of Illinois, Chairman of the Foreign Relations Committee, argued,

The law reads . . . that as long as equipment was available in other parts of the world and was not a unique technology that only the United States had available, and was not contributory to [Soviet] security interests, American manufacturers should have the same right as German, Japanese, British, French, and other manufacturers to compete for that business. 14

In short, at the second National Security Council meeting, the "hard-liners" in the Defense Department and

14 Ibid.
the National Security Council staff favored a complete freeze in East-West economic relations on the grounds that the West must wage economic war with the Soviet Union. In contrast, Secretary of State Haig advocated a moderate position, stating that the United States should not press its allies too hard because of the energy shortage they had been experiencing since 1973 and their need for the Soviet gas pipeline to diversify their energy imports. In addition, Haig and Under-Secretary for Economic Affairs Rashish argued that the United States would isolate itself in the arena of East-West trade by pursuing an aggressive policy on this issue.

The second topic that was discussed during the meeting was the West European-Soviet pipeline deal. Initially, Secretary of Defense Weinberger and William J. Casey, Director of the CIA, strongly argued that the Soviet gas pipeline to Western Europe should be prevented. Both Weinberger and Casey criticized the Soviet gas deal on the grounds that the United States' allies would be the weakest part of the entire Western bloc if the Soviet Union cut off gas supplies. Such an action would place Western European nations in a very critical position by obliging them to find alternate sources to meet their immediate energy needs. Weinberger and Casey believed that the Soviet Union might cut off gas supplies in an attempt
to exert more control over Western European economies or to place pressure on the allies of the United States and then force them to demand the removal of American troops from their territory. Weinberger and Casey were also convinced that the U.S.S.R. would employ most of the hard currency it earned from sales of natural gas to improve its military. Finally, Weinberger and Casey pointed out that, by 1990, West Germany would be receiving about 29 per cent of its gas from the Soviet Union.

Most of President Reagan's key advisors agreed that the Soviet gas deal with Western Europe should be prevented and that it should be prevented, if necessary, through offers of alternative energy sources such as coal or nuclear power. Secretary of State Haig was the only American official to insist on pursuing a flexible policy toward the pipeline rather than an inflexible one. He argued that the United States' allies would go ahead with the Soviet gas deal in any case and that the American government must devise a means of reducing Western Europe's vulnerability in the area of energy.

Haig also outlined a "Safety Net Concept" to deal with the Soviet pipeline question, the most complicated international issue that had arisen since President Reagan took office. The first requirement of this concept was to convince the United States' allies to reduce their
dependence on Soviet gas as much as possible in order to protect their national security so that, if the Soviet Union cut off gas supplies, they would not experience a significant energy shortage. The second point of Haig's "Safety Net" was to build a six-month emergency energy supply that could be used in case of a possible crisis. This would give the United States' allies more time to find alternate sources of energy from suppliers other than the Soviet Union such as Algeria, Nigeria, Libya, Norway, or the Netherlands. The third element of the "Safety Net Concept" was to make sure that the major gas consumers in Western Europe were industries rather than residences because the former would be able to use oil instead of gas, and the fourth was to ensure the establishment of a Western European gas network separate from the Soviet pipeline so that West Germany and the United States would be able to secure gas supplies from the Netherlands and Norway. President Reagan expressed approval of Haig's "Safety Net Concept" and described it as a unique approach for dealing with the United States' allies regarding the Soviet gas pipeline deal. Reagan also decided that he would present this concept to the allied leaders in Ottawa on July 19, 1981.

The last item on the agenda of the second National Security Council meeting was the proposed sale of 100 pipelaying tractors to the Soviet Union for $40 million.
Secretary of Defense Weinberger opposed this sale on the grounds that the tractors would not be used for work on the West European pipeline but, rather, in existing Soviet gas fields, and he recommended that a license not be issued for the transaction. In contrast, Secretary of State Haig pointed out that the Soviet Union had already bought 1,000 pipelaying tractors from the United States and another 500 from Japan. In comparison to these sales, the deal that the Soviets were currently seeking was small, and Haig claimed that the sale of 100 pipelayers would benefit the United States by stimulating American industry; furthermore, if the United States did not sell the tractors to the U.S.S.R., Japan would.

Eventually, after the three agenda items—U.S. strategic export controls policy, the West European-Soviet pipeline deal, and the Caterpillar contract to supply pipelaying tractors to the Soviet Union—were discussed and after long arguments focused between Secretary of Defense Weinberger and Secretary of State Haig, President Reagan faced the question of how to resume grain sales to the Soviet Union while pursuing an inflexible stand toward the sale of industrial products. The only justification that could be offered for such an apparently contradictory policy was that industrial product and grain sales were different politically.
On July 19, 1981, President Reagan left for Ottawa, Ontario to meet with allied leaders President François Mitterand of France, Chancellor Helmut Schmidt of West Germany, Prime Minister Giovanni Spadolini of Italy, Prime Minister Zenko Suzuki of Japan, Prime Minister Margaret Thatcher of Great Britain, and President of the Commission of European Communities Gaston Thorn.\(^5\) The announced purpose of this summit meeting was to discuss East-West relations in general and the proposed Soviet gas pipeline to Western Europe in particular.\(^6\) In actuality, the major concern of the Western European participants in the conference was the United States’ high interest rate in loaning money and how it could be reduced, and the major concern of the United States was consultation on East-West trade and an attempt to dissuade Western European countries from participating in the Soviet gas pipeline project.\(^7\)

President Reagan discussed East-West relations with President Mitterand, Chancellor Schmidt, and Prime Minister Spadolini during the Ottawa conference. He began by calling their attention to the fact that excessive dependence on Soviet gas would create a dangerous threat to the unity of


\(^6\)Ibid.

\(^7\)Ibid., p. 7.
the Atlantic alliance because such dependence would solve the Soviet Union's impending energy crisis and, in turn, strengthen the military sector of its economy. Reagan also warned Western European leaders that the proposed Soviet gas project would weaken the N.A.T.O. alliance because too great a dependence on the pipeline would make their countries vulnerable to the U.S.S.R. and an energy crisis could arise if the Soviets cut off gas supplies in an attempt to exert economic and political leverage over the nations of Western Europe. These nations could become isolated from the United States as more and more of their energy needs were met by the Soviet Union.

During the discussions among President Reagan, President Mitterand, Chancellor Schmidt, and Prime Minister Spadolini concerning the Soviet gas pipeline, Reagan suggested various alternatives for Western European countries to reduce their dependence on the Soviet Union. When asked what President Reagan was offering Western Europe as an alternative to the Soviet gas pipeline, Secretary of State Haig stated, "In general, we are talking about coal,

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20 Ibid.
a peaceful nuclear power, plus alternative gas and fuel oil solutions, where we are somewhat more limited, as are they."

One projection of how the Soviet gas pipeline would alter the energy security of the Western European countries involved in the project was made by Robert Hormats, Assistant Secretary for Economic and Business Affairs in the U.S. State Department. His projection is presented in graphic form in Table VIII. According to these predictions, after the completion of the pipeline, West Germany's dependence on Soviet gas would grow from 14 per cent to 29 per cent of its total gas imports between 1979 and 1990, and 6 per cent of its total energy requirements would be met by gas from the U.S.S.R. France's dependence would increase from zero to as much as 28 per cent of its total gas imports, and Soviet gas would constitute 4 per cent of its energy requirements. Italy's dependence would remain at its current level (29 per cent of gas and 5 per cent of total energy imports in both 1979 and 1990), but the Netherlands' dependence on Soviet gas would rise from zero to 10 per cent and gas from the U.S.S.R. would comprise 4 per cent of its total energy requirements. Belgium's reliance on Soviet gas would rise from zero to 32 per cent of its total gas imports and 8 per cent of its

\[^{21}\text{Ibid., p. 7.}\]
TABLE VIII

WESTERN EUROPEAN DEPENDENCE ON SOVIET GAS, 1979 AND 1990: PERCENTAGE OF TOTAL GAS AND TOTAL ENERGY CONSUMPTION*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>West Germany</td>
<td>14</td>
<td>2</td>
<td>29</td>
<td>6</td>
</tr>
<tr>
<td>France</td>
<td>0</td>
<td>0</td>
<td>23-28</td>
<td>4</td>
</tr>
<tr>
<td>Italy</td>
<td>29</td>
<td>5</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Belgium</td>
<td>0</td>
<td>0</td>
<td>32</td>
<td>8</td>
</tr>
<tr>
<td>Austria</td>
<td>59</td>
<td>12</td>
<td>82</td>
<td>18</td>
</tr>
</tbody>
</table>


*4bcf/d--four billion cubic feet per day.

overall energy requirements. Finally, Austria purchased 59 per cent of its total gas imports from the U.S.S.R. in 1979; by 1990, that proportion would rise even higher to 82 per cent, and Austria's dependence on Soviet gas would constitute 18 per cent of its total energy imports.

Assistant Secretary for Economic and Business Affairs Hormats argued that the possibility of a cutoff of gas
supplies by the Soviet Union made Western Europe especially vulnerable in several ways. First, a cutoff of Soviet gas would cause great inconvenience for sectors that are politically sensitive. Second, 30 per cent of Soviet gas would be used by residential consumers, who are least able to tolerate an abrupt energy supply interruption because they do not have the capacity to adopt another fuel. Third, gas prices would rise suddenly if the Soviet Union cut off gas supplies, and this, in turn, would affect the private citizens of Western Europe, who are also least able to tolerate fluctuations in gas prices. Hormats stated, "Gas is a difficult fuel to replace on short notice. Unlike oil, there is no spot market. Gas trade requires large start-up investments in pipelines or LNG facilities. Furthermore, it is much more expensive and technically challenging to hold large strategic stocks of gas as compared to oil." Most important, Hormats pointed out that, although Western European countries viewed the U.S.S.R. as a reliable energy supplier, the Soviets had previously used energy exports as a lever

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23Ibid.

24Ibid.
in attempts to gain political ends in Yugoslavia, Israel, and China.\(^{25}\)

At the Ottawa summit in July, 1981, in an effort to reduce potential Soviet economic and political influence over Western European countries, the Reagan administration offered several energy alternatives: American coal, oil and gas from the Middle East and elsewhere, and nuclear power.\(^{26}\)

**American Coal**

The United States holds one-fourth of all known coal reserves, and its coal production in 1980 was the largest in the world, 840 million tons.\(^{27}\) Furthermore, the International Energy Agency (IEA) estimated that 100 million tons of coal surplus in the United States had not been used in 1980 for reasons related to lack of demand.\(^{28}\) According to Peter Borre, Acting Assistant Secretary for International Affairs in the U.S. Department of Energy, between 1980 and 1990 the free world's energy requirements would increase by 2 per cent annually and would reach the level

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\(^{25}\)Ibid., p. 70.


\(^{28}\)Ibid.
of 21 million barrels per day of oil equivalent \(^2\) (Table IX). In Borre's projection, coal represents 34.3 per cent of the net increase in the free world's energy requirements, or 7.2 million barrels per day of oil equivalent.

**TABLE IX**

CONTRIBUTIONS TO THE 1980-1990 INCREMENTAL RISE IN FREE WORLD ENERGY SUPPLIES BY FUEL TYPE*  

<table>
<thead>
<tr>
<th>Type of Energy</th>
<th>Contribution</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (mmb/d(^o))</td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td>7.2</td>
<td>34.3</td>
</tr>
<tr>
<td>Nuclear</td>
<td>5.0</td>
<td>23.8</td>
</tr>
<tr>
<td>Natural gas</td>
<td>4.5</td>
<td>21.4</td>
</tr>
<tr>
<td>Hydroelectric</td>
<td>2.3</td>
<td>11.0</td>
</tr>
<tr>
<td>Oil</td>
<td>2.0</td>
<td>9.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


\(^o\)mmb/d--millions of barrels per day.

In addition, the Interagency Coal Export Task Force predicted that some shortfalls would occur in the projected buildup in both natural gas and nuclear energy, whether through liquefied natural gas or pipeline trade, and that coal would cover those shortfalls from 1980 to 1990.\(^3\) Borre also stated that, according to a study conducted by the Interagency Coal Export Task Force, the United States was the largest producer of both metallurgical and steam coal in 1980 (Table X).

As shown in Table X, the United States was the largest exporter of coal in the world in 1980, and its aggregate share of the world coal market was 33 per cent in that year. Japan was the world's largest single importer of coal in 1980 (76 million short tons). Borre's claims concerning the United States' ability to provide steam coal to the nations of Western Europe as an alternative to Soviet natural gas are presented in graphic form in Table XI. According to the Interagency Coal Export Task Force, the United States would become the world's largest steam coal exporter by 1990; its overall exports would increase by 90 per cent, and its exports to Europe would rise 700 per cent.\(^3\) The Interagency Coal Export

\(^3\)Ibid., p. 40.

TABLE X

WORLD COAL EXPORTS AND IMPORTS, 1980 (IN MILLIONS OF SHORT TONS)*

<table>
<thead>
<tr>
<th>Nation</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>90</td>
</tr>
<tr>
<td>Australia</td>
<td>46</td>
</tr>
<tr>
<td>Poland</td>
<td>35</td>
</tr>
<tr>
<td>Republic of South Africa</td>
<td>29</td>
</tr>
<tr>
<td>Soviet Union</td>
<td>24</td>
</tr>
<tr>
<td>Canada</td>
<td>16</td>
</tr>
<tr>
<td>West Germany</td>
<td>15</td>
</tr>
<tr>
<td>Other</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>270</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
</tr>
<tr>
<td>EEC</td>
<td>94</td>
</tr>
<tr>
<td>Japan</td>
<td>76</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>33</td>
</tr>
<tr>
<td>Other Western Europe</td>
<td>22</td>
</tr>
<tr>
<td>North America</td>
<td>19</td>
</tr>
<tr>
<td>Latin America</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>270</td>
</tr>
</tbody>
</table>

TABLE XI

WORLD STEAM COAL EXPORTS, 1980-1990 (IN MILLIONS OF TONS)*

<table>
<thead>
<tr>
<th>Country</th>
<th>Steam Coal Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1980</td>
</tr>
<tr>
<td>United States</td>
<td>27</td>
</tr>
<tr>
<td>Republic of South Africa</td>
<td>27</td>
</tr>
<tr>
<td>Poland</td>
<td>27</td>
</tr>
<tr>
<td>Australia</td>
<td>8</td>
</tr>
<tr>
<td>Soviet Union</td>
<td>14</td>
</tr>
<tr>
<td>Canada</td>
<td>2</td>
</tr>
</tbody>
</table>


Task Force's findings also indicated that, between 1980 and 1990, the international trade in steam coal could rise from 80 to 280 million tons and that the United States would be exporting 75 million tons in 1990 and 180 million tons by the year 2000.32

Both Acting Assistant Secretary for International Affairs Borre and John P. Ferriter, Director of the Office of Energy, argued that the United States' expanding coal exports could be beneficial to both its domestic and

32 Ibid.
foreign policy. These exports would help the United States economically by improving its balance of payments and reducing unemployment by creating new jobs in key areas.\textsuperscript{33} Borre and Ferriter also argued that coal exports could enhance U.S. security by diminishing the nation's dependence on unreliable energy suppliers and reducing or limiting the vulnerability of its allies by offering them American coal.\textsuperscript{34}

Ferriter stated that coal could be a practical substitute not only for Soviet gas but for oil as well. First, coal is less expensive than either oil or natural gas, and it is safer to use because coal plants are fully equipped for environmental protection. In addition, coal reserves are the world's largest, compared to those of other energy sources; economically recoverable world reserves of coal are estimated at 600 million tons, and estimated total coal reserves were 9,000 million tons.\textsuperscript{35} Finally, Western European countries involved in the Soviet gas pipeline project would be able to substitute American coal for Soviet gas at a cheaper price. The American offer of coal to Western Europe would also eliminate the vulnerability of the N.A.T.O. alliance because the United States would not use

\textsuperscript{33}\textit{U.S. Department of State Bulletin} (July, 1981), p. 34.  
\textsuperscript{34}\textit{Ibid.}  
\textsuperscript{35}\textit{Ibid.}
its economic resources to gain political leverage over its allies.

From the Western European perspective, American coal was not a practical substitute for Soviet gas for three major reasons.

1. Natural gas is technically more flexible in use than is coal. In many instances natural gas and coal can be substituted for each other (e.g., boiler fuel), but gas has always been preferred over coal for environmental protection against air pollution. In addition, in many other areas coal cannot be substituted for natural gas (e.g., space heating), and in any case the changeover from gas to coal would be extremely expensive. In general, natural gas is technically preferable to coal in industrial processes; the applications of coal are limited to the generation of steam, metallurgical processes, and selected direct heat processes such as the firing of cement kilns. Furthermore, Western European countries that were involved in the Soviet gas pipeline project had already fulfilled their needs in these areas through domestic coal production and some coal imports.

2. The feasibility and timing of expanded U.S. coal supplies to Western Europe were uncertain.37 According to the National Coal Association, U.S. port facilities were not fully equipped to handle large deliveries of coal to Western Europe, whereas the feasibility and timing of expected Soviet gas deliveries were more dependable than those of American coal. Port capacity is a major concern of foreign buyers, and most buyers did not want to purchase American coal because of port facility and capacity problems in the United States.

3. From the Western European standpoint, the rationale for importing Soviet gas was founded on a number of economic and political benefits.38 Huge equipment sales of steel pipe, compressor stations, drilling machines, tractors, and the like would stimulate the economies of Western European countries, and these nations viewed the Soviet gas deal as an element in a meaningful policy of détente and interdependence. For example, West Germany regarded its provision of technology for the pipeline project as an effective instrument for moderating the Soviet Union's behavior in Europe and improving relations with Berlin.

37 Ibid. 38 Ibid., p. 186.
Oil and Gas

During the economic summit at Ottawa, President Reagan suggested to the Western European leaders attending the conference that oil itself could be a substitute for Soviet gas. Oil prices had declined somewhat in the wake of Western European plans to import gas from outside the Middle East; these nations were shifting from oil to gas as a result of rising oil prices and in an attempt to avoid becoming overly dependent on unreliable energy suppliers, and members of OPEC consequently reduced their oil prices in order to find markets for their petroleum. Energy experts and analysts had predicted sharply rising oil prices in the 1980s, but, following the structural change in Western economies, these same experts and analysts assured Western societies that a considerable drop in oil prices would occur, and that is exactly what happened in 1982 and 1983.

In addition, the Reagan administration had taken several steps to increase the availability of oil and gas on the world market, such as decontrolling oil prices in an attempt to stimulate domestic production and increasing leases on federal lands. Legislation removing price controls on domestic gas had also been passed since President

\[^{39}\text{Davis, p. 36.}\] \[^{40}\text{Ibid.}\] \[^{41}\text{Ibid.}\]
\[^{42}\text{Ibid., p. 7.}\] \[^{43}\text{Ibid., p. 6.}\]
Reagan assumed office, to take effect when Soviet gas was ready for delivery to Western Europe. Price controls had discouraged exports and encouraged imports of natural gas by preventing American producers from charging foreign buyers as much as did their competitors. Therefore, the elimination of controls would stimulate domestic gas production, increase the efficiency of production, and allow American producers to participate fully in the world market. Finally, this development would reduce the dependency of the United States and Western Europe on unreliable energy suppliers.

If the United States and Western Europe needed to import gas, it would be safer for them to obtain it from Canada or Mexico or from Western European suppliers such as Norway than to purchase long-haul liquefied natural gas (LNG). Furthermore, the Middle East and Africa were geographically close to Western Europe, and both of these areas had huge reserves of natural gas that could be a practical alternative to Soviet gas. Gas could be transported to Western Europe from countries with large reserves, such as Qatar, Algeria, Nigeria, and Cameroon, in 1985.

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44Ibid., p. 7.  
45Ibid.  
46Ibid., p. 8.  
47Ibid., p. 36.
Finally, the Reagan administration suggested that an incremental alternative was available to Soviet gas within Western Europe. Kenneth Davis, Deputy Secretary of the U.S. Department of Energy, stated that Norway possessed substantial natural gas resources and had the potential to become Western Europe's largest gas exporter to its neighbors by 1990. In 1981, Norwegian leaders decided to develop the Statfjord and other gas fields; in doing this, Norway's gas production would cover premature production declines from the Ekofisk gas field and would increase gas exports from 0.9 trillion cubic feet (tcf) in 1981 to 1.1 tcf by 1985-1986. However, development of the giant Bloc 3½ field in Norway, which would export from 1 to 2 tcf of natural gas annually, would require delineation of adjacent unleased blocs, production of liquids before gas was developed, and an elapsed time period of nearly ten years. Development of Norway's Bloc 3½ and fields in the North Sea would give Western Europe 1.8 tcf a year of natural gas, thus reducing its dependence on Soviet supplies.

The nations of Western Europe, however, still recalled the 1973 oil embargo and did not consider the members of OPEC to be reliable energy suppliers. In addition, Western

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48 Ibid.  
49 Ibid., p. 37.  
50 Ibid.  
51 Ibid.
Europe was engaged in disputes with Algeria and Libya over gas prices; similar disagreements in 1980 had prompted the United States to abandon its LNG trade with Algeria. The dispute between Algeria and Western Europe concerned the relationship of natural gas and crude oil prices and whether gas should be priced to include cost, insurance, and freight (CIF) or on the basis of free on board (FOB).

A major problem faced by Western Europe was the fact that the cost of transporting the gas would be four times as much as that of transporting oil.

In addition, negotiations between Western European countries and the Nigerian government were deadlocked over questions related to the capacity of Nigerian gas and Nigeria's ability to deliver needed quantities on time. As a result, the Western European importing agency in charge of the gas transaction was dissolved pending further feasibility studies by the Nigerian government.

Furthermore, the nations of Western Europe would not be able to import gas from Norway because of technical difficulties in the Norwegian gas fields. Acceleration of gas development in Norway, as noted above, would

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52 Jonathan P. Stern, "Specters and Pipe Dreams," Foreign Policy, LXXXII (Fall, 1982), 28.
53 Ibid., p. 29.
54 Ibid.
55 Ibid., p. 28.
56 Ibid.
require at least ten years for completion before gas could be exported to other nations in Western Europe. Most Western European leaders believed that the feasibility of Norwegian gas was not certain and that its price would be much higher than that of Soviet gas due to the difficulty of bringing Norwegian supplies to the market.

**Nuclear Power**

The Reagan administration had decided to promote the development of nuclear power to a level that would make the United States a reliable nuclear supplier in the international arena. The American government believed that the expansion of the nuclear sector in the United States would provide Western European countries with more energy to replace gas from the Soviet pipeline project. The Reagan administration also strongly recommended that the nations of Western Europe expand their nuclear sectors as well in order to reduce their dependence on the Soviet Union and other suppliers and thus protect themselves against possible future energy embargos.

From the Western European perspective, the development of nuclear power would not constitute a practical substitute for Soviet gas. In general, Western Europeans

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57 Ibid., p. 30.  
58 Ibid., p. 32.  
59 Davis, p. 37.  
60 Ibid.
did not favor any expansion in nuclear energy for a variety of reasons, including concern for environmental safety and the fear that nuclear power could be misused for the attainment of political ends on the continent.\textsuperscript{61}

On July 21, 1981, President Reagan, French President Mitterand, West German Chancellor Schmidt, Canadian Prime Minister Pierre Trudeau, Japanese Prime Minister Suzuki, Italian Prime Minister Spadolini, British Prime Minister Thatcher, and President of the Commission of European Communities Thorn concluded their seventh annual economic conference.\textsuperscript{62} The major concerns of the Western European leaders were high American interest rates and the unemployment prevailing in their own countries.\textsuperscript{63} President Mitterand of France criticized the United States' economic policy toward the Soviet Union, stating that President Reagan's administration was asking for sacrifices from Western Europe but that at the same time he had authorized the sale of American grain to the Soviet Union.\textsuperscript{64} The major concern of the United States, on the other hand, was

\textsuperscript{61}Ibid.
\textsuperscript{63}Ibid., p. 9.
to dissuade its Western European allies from participating in the Soviet gas pipeline project on the grounds that such participation would weaken the security of the N.A.T.O. alliance. Finally, Secretary of State Haig suggested that the United States and its allies agree to hold a special high-level meeting of the Coordinating Committee for East-West Trade Policy (COCOM) to discuss methods of improving the effectiveness of controls on trade with the East.65

The U.S. Delegation to Western Europe

In November of 1981, before any agreement between the countries of Western Europe and the Soviet Union was reached, a United States delegation led by Under-Secretary of State for Economic Affairs Rashish left for Western Europe to present a package of alternative energy sources that included American coal, oil and gas from other nations, and nuclear power.66 The nations of Western Europe, however, as at the July summit in Ottawa, did not favor these alternatives. They claimed that their dependence on Soviet gas would not be great enough to allow the U.S.S.R. to bring any political or economic leverage to


bear upon them. Western Europe needed new energy sources to avoid future crises such as that caused by the 1973 oil embargo and subsequent economic recession; the Soviet gas pipeline would provide one such source, and the high-technology equipment to be sold to the U.S.S.R. for the project would create tens of thousands of jobs in West Germany, Italy, and France, where unemployment rates were high. Finally, Western Europe regarded the Soviet Union as a reliable energy supplier and viewed the members of OPEC as unreliable suppliers. Thus, the allies of the United States welcomed American alternatives as energy sources for their future needs, but they refused to accept them as substitutes for Soviet gas.

U.S. Reevaluation of East-West Trade Policy

As a result of Rashish's failure to convince Western European leaders not to participate in the Soviet pipeline project, the Reagan administration decided to reevaluate East-West trade policy. Lawrence J. Brady, Assistant Secretary for Trade Administration in the U.S. Department of Commerce, testified before the House Subcommittee on

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67 Stern, p. 27.


69 Ibid.
Trade that the United States began to exercise controls over exports to Communist countries at the beginning of the Cold War with the Export Control Act of 1949, which prohibited the export of any item that constituted a danger to U.S. national security. Two years later, in the Mutual Defense Assistance Control Act of 1951, the American government denied aid to any country that exported or allowed the export of strategic materials to any Communist country. With the passage of time, however, subsequent acts altered U.S. export control policy as American perceptions of national security changed, culminating in the decade of détente from 1970 to 1980. The United States government began to encourage trade with the Soviet Union in the belief that more active commercial relations would motivate the Soviets to moderate their behavior at home and abroad. U.S. exports to Eastern Europe rose from $220 million in 1971 to $1.3 billion in 1975 and to $2.4 billion in 1980; exports to the Soviet Union rose from $160 million in 1971 to $1.8 billion in 1975 and declined slightly to $1.5 billion in 1980.

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71 Ibid., p. 276. 72Ibid. 73Ibid., p. 279.

74 Marc E. Lenland, Assistant Secretary for International Affairs, U.S. Department of the Treasury, statement
Brady stated, however, that these increased commercial relations had not altered the Soviet Union's aggressive behavior. On December 27, 1979, when Soviet troops invaded Afghanistan, they used vehicles manufactured in the West, and other equipment employed in the invasion was originally exported from the United States to the Soviet Union to be used in the agricultural sector. Brady claimed that the transfer of dual-use technology financed by Western European countries gave the Warsaw Pact countries the know-how they needed to modernize their military and industrial sectors. Increased trade between the Soviet Union and Western European nations had also made the latter more dependent on the U.S.S.R. as a supplier of raw materials and as a purchaser of industrial exports. Consequently, the Reagan administration's major concern after Under-Secretary of State for Economic Affairs Rashish failed to persuade Western European governments to accept one of the American energy alternatives as a substitute for participation in the Soviet pipeline project was to establish solid and consistent guidelines for East-West trade.

In November of 1981, the Reagan administration began to review export policy issues such as (1) national

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75Ibid., p. 302.  
76Ibid., p. 304.
security controls with regard to the Soviet Union, (2) foreign policy controls on exports of oil and gas equipment to the Soviet Union, (3) the proposed construction of a 3,000-mile natural gas pipeline from Siberia to Western Europe, (4) export control policy toward Eastern European countries, and (5) foreign policy controls for countries other than the Soviet Union. The main purpose of this export policy review was to tighten controls over high-technology exports and to limit sales of potentially dangerous equipment that could improve Soviet industrial and military production. The U.S. government also intended to decontrol some products in order to permit concentration of attention, both domestically and internationally, on license applications with greater security implications, such as those for high-technology items. The objective of the export policy review was not to interfere with non-strategic trade with the Soviet Union but to manage and facilitate the flow of trade in a manner that would preserve U.S. security interests.

While attempting to preserve the national security of the United States, the Reagan administration was also obliged to take into consideration the understandably hostile reaction of U.S. business firms to American export

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\(^{77}\) Brady, p. 279. \(^{78}\) Ibid., p. 280.
control policy.\textsuperscript{79} American entrepreneurs, like the government, were concerned with national security, but they disagreed concerning what items were strategically important and should therefore not be exported to Communist countries.\textsuperscript{80} In addition, foreign policy controls were not favored in the business sector because of the financial losses that firms would experience after the announcement of export controls. Entrepreneurs did not believe that export controls would be effective tools in any foreign policy attempt to moderate the Soviet Union's behavior in the international community.\textsuperscript{81} From the standpoint of business, the inevitable result of unilateral controls on American equipment would be loss of commercial opportunities for U.S. manufacturers.\textsuperscript{82}

Assistant Secretary for Trade Administration Brady stated that, in 1980, 75,000 applications were processed by the Office of Export Administration (OEA) within the executive branch of government, which was given the authority to control exports of high technology by the Export

\textsuperscript{79}Ibid., p. 280. \textsuperscript{80}Ibid., p. 281.


\textsuperscript{82}Ibid., p. 314.
Administration Act (EAA) of 1979. The purpose of export controls was to protect U.S. national security through the authority given to the Commerce Department over items with potential military as well as commercial uses. Items with military applications appeared on the U.S. Munitions List (ML), governed by the State Department, but dual-use items, controlled by the Commerce Department, also appeared on the Commodity Control List (CCL). In addition, some high-technology exports such as computers required the issuance of validated licenses by the OEA. Brady pointed out that the Reagan administration had established procedures for export applications to Communist countries and noted that these procedures were being reviewed by technical licensing specialists in an attempt to assess the status of dual-use items and technical sophistication for U.S. exports in the light of national security interests.

The Reagan administration's concern with identifying critical technology became one of the most important issues related to export controls. The EAA gave the Secretary of Defense the authority to create a Military Critical Technologies List (MCTL) to identify technology that would improve Soviet military capabilities. After

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83 Brady, p. 288. 84 Ibid. 85 Ibid., p. 284. 86 Ibid. 87 Ibid.
the identification of such critical technology, the Department of Defense would send the list of items specified to the Department of Commerce, which would consult with representatives of U.S. business firms to determine what exports might increase Soviet military capabilities and then control those exports.88

On November 12, 1981, after the failure of the Rashish mission in Western Europe, the U.S. Senate's Committee on Banking, Housing, and Urban Affairs asked Anthony H. Cordesman, a fellow of the Woodrow Wilson International Center for Scholars, to discuss the strategic implications of the Soviet gas pipeline to Western Europe.89 Cordesman transmitted this information to the Committee, and it was introduced into the record by Committee Chairman Jake Garn. The implications were to be used as the basis for formulating an effective policy to show the United States' allies how dangerous the Soviet gas pipeline could be to their economies.

Cordesman stated that, first, the potential impact of Western European dependence on Soviet gas could not be

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88Ibid.

predicted; second, it was almost impossible to determine how much the gas deal would cost, particularly after Western European nations committed themselves to the project; third, the size of Soviet gas reserves was difficult to assess, so the question of whether those reserves were sufficient remained unanswered; fourth, the long-term prices that the Soviet Union would charge Western Europe for natural gas were not certain; fifth, a risk was inherent in the subsidizing, so to speak, of Soviet energy development by the West, which could enhance the U.S.S.R.'s control over its satellites in supplying Eastern Europe with fuel; sixth, excessive dependence on the Soviet Union would make Western European nations vulnerable to the extent that the Soviets would force them to transfer technology in order to maintain their energy supplies; and, seventh, it was impossible to determine "whether the pipeline would have any strategic benefits to the U.S. by reducing the Soviet incentive to compete with the West for supplies of imported oil."  

Cordesman stated, however, that the impact of the Soviet gas pipeline on the national security of the United States and its Western European allies would not be as dangerous as any concentrated U.S. attempt to block the project. He also justified his view by pointing out that

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90 Ibid., p. 6.
Western European-American relations were not as good as they should have been in 1981 and that, if the United States attempted to block the pipeline project, it would be giving massive ammunition to movements in Europe that were actively trying to prove that the United States was the most dangerous threat to the continent's security. In addition, Cordesman claimed that the United States could not credibly offer its allies alternatives to the pipeline because it did not have the capacity to provide them with adequate supplies of coal. Instead he suggested several options that the United States could follow to reduce the risks connected with the pipeline that he had previously enumerated.

1. Possible safeguards. Cordesman suggested that the vulnerability of the United States' Western European allies to Soviet political and economic pressures could be reduced by convincing them to expand their oil stocks and reserves, integrate their pipeline systems to permit maximum flexibility in reallocating gas supplies, and create gas reserves. A second safeguard would be expanding convertibility from gas to oil or coal and creating contingency plans to increase use of electricity in emergencies; a third would be identifying the most sensitive areas in which the U.S.S.R. was dependent upon Western European countries so that they could retaliate if the Soviets
sought to bring economic pressure to bear against them by cutting off gas supplies. In such a case the nations of Western Europe could undertake reprisals by imposing embargos on transmission of high-technology items to the U.S.S.R., depriving the Soviets of freedom of maritime and aviation movement through their territories and airspace, freezing new capital loans, and restricting exports of all kinds to the Soviet Union. In short, Cordesman believed that Western Europe had weapons to use against the Soviet Union, but the key to their effectiveness would lie in how quickly it reacted to Soviet aggression. Finally, he suggested that the nations of Western Europe should finance the Soviet pipeline project on a basis by which they could retain control of the necessary assets as long as possible in order to prevent increases in gas prices.

2. Describing the risks. Cordesman contended that the United States should encourage its N.A.T.O. allies to report on the progress of the pipeline project and to describe the risks posed by their dependence on Soviet energy exports at least every six months. In addition, Cordesman suggested that the president of the United States, with the cooperation of the U.S. Department of Energy, should prepare an annual report on the risks that might arise from Soviet energy development in the future. Through these reports, the United States would be able to
explain the risks to its allies in advance and thus minimize their dependence on Soviet energy exports.

3. Creating linkages. Cordesman proposed that the United States should charge both the nations of Western Europe and the Soviet Union a diplomatic price for its tacit acceptance of the pipeline project. That "price" could be collected by linking U.S. acceptance of the pipeline to Western European efforts to enhance the N.A.T.O. alliance and particularly to its agreement to N.A.T.O.'s long-range theater nuclear force improvement plan. Second, the United States should link the gas pipeline to Soviet non-intervention in Poland; in other words, if the U.S.S.R. intervened in Poland, the United States should place pressure on Western Europe to withdraw its support from the pipeline project. Third, the Reagan administration should explain to the nations of Western Europe and to the Soviet Union that the United States would be prepared to react strongly and even unilaterally, if necessary, to enforce these linkages through restrictions or embargos on grain sales, high technology, and other sensitive exports. By using these powerful economic tools, the United States could influence the Soviets to refrain from intervening in Poland and manipulating gas supplies to gain political or economic leverage over the countries of Western Europe. Fourth, the United States should be prepared to link
Western financing of the gas pipeline to any future Western credits to the Soviet Union, to the refinancing of Poland's national debt, and to the provision of loans to Poland in order to bolster its economy and improve relations between the Polish Communist Party and the Solidarity union. These goals could be accomplished if the Reagan administration linked the financing of the gas pipeline to various promises from the Soviet Union.

4. Preparing energy alternatives for the future. Cordesman stated that preparing energy alternatives was an essential element in reducing the vulnerability of Western European countries to the Soviet Union. American industry should be encouraged to prepare alternatives to the Soviet gas pipeline and to develop them in such a way that it could meet the energy needs of the United States' Western European allies. According to Cordesman, it would be primarily the duty of the Department of Energy and of the federal government as a whole to stimulate the private sector to develop American coal as a competitive alternative to the Soviet gas pipeline. Congress could encourage all industrial associations that deal with gas, oil, coal, and nuclear power to begin conducting studies that would provide the government with the data needed to determine the actual reserves of each of these types of fuel and then decide which of them would be most effective, profitable, and
desirable as substitutes for Soviet gas. Finally, Cordesman suggested that the attention of the Reagan administration should be focused on finding practical alternatives that could serve as major substitutes not only for Soviet gas but for other fuels from the U.S.S.R. and the Middle East.

5. Creating an office of strategic trade. Cordesman claimed that the Soviet gas pipeline to Western Europe and the disagreements concerning it between the United States and its allies demonstrated the need to establish a central organization within the federal government that would be responsible for East-West trade and for notifying the government of significant developments in East-West relations and of any vulnerabilities that might arise in the area of energy. This federal organization would be given the authority to direct trade control programs. In other words, the organization would conduct energy studies and then impart its findings to the government so that it could take action to reduce or eliminate vulnerabilities. The central organization would also formulate contingency plans for economic sanctions, and it would be responsible for U.S. security on an economic level.

6. Strengthening the U.S. intelligence effort. Cordesman argued that, if the United States wished to reduce any additional risk that might stem from the Soviet
gas pipeline project, American intelligence in the CIA and the Defense Intelligence Agency (DIA) must be strengthened. This objective would require full cooperation between the CIA and the DIA concerning Soviet bloc energy developments. The effectiveness and utility of U.S. intelligence depend upon its acquiring the most accurate data possible about Soviet bloc oil production and resources, gas developments, and coal. These data could enable the Reagan administration to take immediate steps to reduce Western European dependence on Soviet energy. Cordesman stated, "I would also remind the Committee that our allies have virtually no independent ability to gather technical intelligence on Soviet bloc energy developments and that they must rely on U.S. sources, commercial sources, or on Soviet sources, many of which deliberately manipulate or omit key data." If the United States wished to convince its allies that dealing with the Soviets on economic grounds was potentially dangerous and that they should not become overly dependent on the U.S.S.R., according to Cordesman, it must have accurate data about Soviet bloc energy developments to present to them.

Also on November 12, 1981, after reviewing the material prepared by Cordesman, Richard Perle, Assistant Secretary for International Security Policy in the U.S.

\[91\text{Ibid., p. 22.}\]
Department of Defense, expressed several concerns to the Senate Committee on Banking, Housing, and Urban Affairs about the security implications of the Soviet gas pipeline.\(^2\) Perle stated that the Department of Defense had many reservations concerning the project. First, the Soviet gas pipeline would generate substantial hard currency earnings for the U.S.S.R. that could be used to increase its military capabilities.\(^3\) Second, the nations of Western Europe would be vulnerable to the Soviet Union if it cut off gas supplies in times of crisis.\(^4\)

As the discussions went on, the Committee on Banking, Housing, and Urban Affairs ended its session with the conclusion that the Soviet gas pipeline project constituted a potential danger to the national security of both the United States and its Western European allies. No consistent policy was issued, however, other than the alternative options and actions suggested by Cordesman, and no major developments in the Soviet gas pipeline issue took place until December 13, 1981.


\(^3\)Ibid., p. 115.  
\(^4\)Ibid., p. 116.
CHAPTER IV

U.S. POLICY AND DEVELOPMENTS RELATED TO THE SOVIET GAS PIPELINE PROJECT

Martial Law in Poland and the Imposition of Economic Sanctions against the Soviet Union

Perhaps the most significant development affecting U.S. policy with regard to the Soviet pipeline was the imposition of martial law by the Communist government in Poland on December 13, 1981.¹ This event opened a new chapter in U.S. policy toward the Soviet gas pipeline to Western Europe. After the announcement of martial law in Poland, the Reagan administration imposed economic sanctions against that nation, such as halting export-import credits, suspending fishing licenses, and tightening high technology exports.² In addition—and most importantly—on December 29, 1981, the United States government imposed economic sanctions against the Soviet Union for its involvement in the institution of martial law in Poland.³


³Ibid.
On that day, President Reagan made the following statement.

The Soviet Union bears a heavy and direct responsibility for the repression in Poland. For many months the Soviets publicly and privately demanded such a crackdown. They brought major pressures to bear through now-public letters to the Polish leadership, military maneuvers, and other forms of intimidation. They now openly endorse the suppression which has ensued. . . . I have, therefore, decided to take . . . immediate measures with regard to the Soviet Union. 4

The economic sanctions against the Soviet Union announced by the U.S. government affected every aspect of its trade with the United States. For example, the service of Aeroflot, the U.S.S.R.'s national airline, to the United States, was terminated; the Kama Purchasing Commission, a Soviet commercial organization operating in New York, was closed down; long-term grain agreements were postponed; a new U.S.-Soviet maritime agreement was suspended; 5 and a trade embargo was placed on high technology exports to the Soviet Union. 6 President Reagan suspended the issuance or renewal of licenses for exports of electronic equipment, computers, and other high technology materials to the U.S.S.R. 7 In addition, the Department of Commerce, which had the authority under the provisions of the Export


5Ibid. 6Ibid. 7Ibid.
Administration Act (EAA) to designate materials requiring validated licenses before they could be exported to the U.S.S.R., expanded its list of oil and gas equipment and technology related to energy exploration and production to include pipelayers, and the issuance of licenses for these items was also suspended.

On February 9, 1982, Albert Gore, Jr., Chairman of the House Subcommittee on Investigation and Oversight, criticized the Reagan administration for the inconsistency of its foreign policy with regard to its economic sanctions against the Soviet Union. Gore stated that his subcommittee had originally met on December 10, 1981, to confer with representatives from various organizations, financial institutions, and firms in the business sector concerning the findings of the Office of Technology Assessment (OTA) and then engage the Reagan administration in a discussion of those findings. On December 9, 1981, President Reagan and Senator Percy of Illinois suggested a favorable decision on the Caterpillar Corporation's application to export pipelaying tractors to the Soviet Union, but on December 19,

8Ibid. 9Ibid.


11Ibid., p. 174.
1981, the Reagan administration withdrew its support for the transaction.\(^{12}\)

On February 9, 1982, Lionel H. Olmer, Under-Secretary of Commerce for International Trade, justified the sudden change in U.S. foreign policy with regard to the Soviet Union by giving reasons related to national security.\(^{13}\) For example, controls on the export of oil and gas equipment for exploration, drilling, distribution, and refining operations were instituted for purposes related to U.S. foreign policy and national security, according to Olmer.\(^{14}\) National security controls also included all kinds of technology transfers, such as dual-use items that had potential applicability to Soviet military capabilities (Figure 1).

On February 2, 1982, Secretary of State Haig declared that the economic sanctions against the U.S.S.R. mandated by President Reagan in response to the institution of martial law in Poland would not place effective pressure on the Soviets or influence their behavior because the

\(^{12}\)Ibid., p. 178.


\(^{14}\)Ibid., p. 195.
Fig. 1--Equipment for gas/oil export controls*

sanctions were unilaterally imposed;\textsuperscript{15} he pointed out that former President Jimmy Carter had imposed economic sanctions against the U.S.S.R. in January of 1980 in the wake of the Soviet invasion of Afghanistan but they had not been effective.\textsuperscript{16} In addition, on February 9, 1982, Congressman Paul Findley of Illinois claimed that the Reagan administration had not been consistent in defining and restricting high technology exports to the Soviet Union. For example, the Fiat-Allis Company of Springfield, Illinois had a contract to export tractors to the U.S.S.R. The tractors were not in a category that was subject to the sanctions imposed by the Reagan administration on December 29, 1981, but the export license for them was subsequently denied on the grounds that they were high-technology equipment.\textsuperscript{17} The tractors had been designed in 1965 and first produced in 1970 and were not regarded as high-technology equipment even within the tractor field.\textsuperscript{18}


\textsuperscript{16}Ibid., p. 22.

\textsuperscript{17}Lawrence S. Eagleburger, Assistant Secretary, Bureau of European Affairs, Department of State, statement before the Subcommittee on Europe and the Middle East, U.S. House of Representatives, February 9, 1982 (Washington, Government Printing Office, 1982), p. 14.

\textsuperscript{18}Ibid., p. 15.
Findley stated that the tractor deal with the Soviet Union would have yielded $100 million and created approximately 400 jobs.  

The Western European Reaction and Further Debate in the United States

The Reagan administration appeared to be using a two-track strategy in its imposition of economic sanctions against the Soviet Union; the first objective was to inform the U.S.S.R. that its international behavior should change, and the second--and more important--was to block or at least delay the Soviet gas pipeline to Western Europe. In spite of the actions of the U.S. government, however, the nations of Western Europe were determined to proceed with the pipeline project. They were more dependent than the United States upon imported energy--they imported two-thirds of their total energy needs in comparison to only one-fifth for the United States--and they viewed the development of Soviet oil and gas as a major factor in supplying their energy needs. In addition, Western Europe regarded the Soviet Union as a desirable and reliable source of energy imports because it had been selling fuel to them since the 1890s and had become a major supplier in the 1970s. The countries of Western Europe accepted the Soviet gas pipeline offer in an attempt to reduce their dependence on

\[^{19}\text{Ibid., p. 16.}\]
unreliable energy suppliers such as the Arab members of OPEC since they considered the diversification of their energy suppliers to be one of the most significant elements contributing to their interests and national security. Western European leaders also believed that energy cooperation and trade links with the U.S.S.R. would serve to moderate Soviet international behavior. Perhaps the most important aspects of the Western European perspective on Soviet oil and gas development was the opportunity for the Western European nations to export high-technology equipment to the Soviet Union; these exports would bring Western European manufacturers over $10 billion in contracts related to the Soviet pipeline.

Before the imposition of martial law in Poland, in October of 1981, Italy signed a contract with the Soviet Union to import 240 billion cubic feet of gas per year, and in November of that year West Germany's Ruhrgas AG agreed to import 320 billion cubic feet of gas per year from the U.S.S.R. Then, on January 23, 1982, France agreed to purchase 280 billion cubic feet of natural gas annually from the Soviet Union at a price of $4.75 per thousand cubic feet in a 25-year contract. This agreement was announced by the French government utility, Gaz

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21 Ibid.
22 Ibid.
de France, and the Soviet gas-exporting organization Soyuzgas. These agreements between Italy, West Germany, and France and the Soviet Union demonstrated Western European reluctance to support the Reagan administration in imposing economic sanctions against the U.S.S.R. either before or after its invasion of Afghanistan and its involvement in the institution of martial law in Poland.

Before the proposed economic sanctions against the Soviet Union were implemented, the U.S. State Department attempted to persuade the Reagan administration to allow the export of 22 turbines, to be used in compressor stations on the Soviet gas pipeline, by General Electric Corporation to Western Europe. The president agreed to permit the transaction on the grounds that, if the United States did not export the turbines, some other country would and gain the economic benefit of the export. GE shipped the rotating components for the turbines to Europe to be assembled by manufacturers there. A spokesman for GE stated that the French company Alsthom-Atlantique had been licensed by GE to manufacture the turbines in case the

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23 Ibid.


Reagan administration prevented their export, which was, in fact, what occurred,\textsuperscript{26} for President Reagan's economic sanctions included a restriction on the sale of rotors made by GE in Greenville, South Carolina and Schenectady, New York, to European firms under contract to the Soviet Union.\textsuperscript{27}

Richard L. Lesher, President of the Chamber of Commerce of the U.S., criticized the Reagan administration's efforts to block or delay construction of the Soviet gas pipeline. In a letter on February 5, 1982, Lesher warned the president that putting pressure on the United States' allies by imposing economic sanctions against the Soviet Union would undermine the N.A.T.O. alliance.\textsuperscript{28} Lesher also stated that a policy of denying hard currency to the Soviet Union by hampering its energy exports would raise an unprecedented issue in U.S. foreign policy on East-West trade, and he urged the president to enter into consultations with the business sector before imposing any embargo.\textsuperscript{29} With regard to the proposal made by hard-liners in the U.S. administration concerning the extension of U.S. restrictions on equipment exports for the gas

\textsuperscript{26}Ibid. \textsuperscript{27}Ibid. \textsuperscript{28}Don Morgan, "Key Business Group Opposes Effort to Block Soviet Pipeline," \textit{The Washington Post}, February 18, 1982, p. A1. \textsuperscript{29}Ibid.
pipeline to European companies manufacturing such equipment with American licenses, Lesher pointed out that such extraterritorial controls would only weaken the United States' reputation in the world as a reliable energy supplier.\textsuperscript{30}

U.S. Chamber of Commerce Chairman Donald S. Kendall was another critic of the Reagan administration's policy toward the Soviet pipeline. He believed that attempts to force Western European companies operating with U.S. licenses to withhold sales to the Soviet Union could cause serious damage to American industry in the international arena.\textsuperscript{31} Kendall stated that these companies belonged to the sovereign nations of Western Europe and that the United States must therefore not seek to extend its policies to them.\textsuperscript{32}

On March 2, 1982, Republican Senator Ted Stevens of Alaska, Chairman of the House Subcommittee on Defense, testified that the United States' allies in Western Europe had ignored American objections on the Soviet pipeline issue and the strategic implications related to this issue.\textsuperscript{33} He stated that these nations were becoming more dependent than ever before upon Soviet energy, which

\textsuperscript{30}Ibid., p. A7.  \hspace{1cm} \textsuperscript{31}Ibid.  \hspace{1cm} \textsuperscript{32}Ibid.  

constituted 20 per cent of their total energy imports, and recommended the withdrawal of U.S. troops from Western Europe, asking, "Why should we support defense in that whole area if they say business as usual and life as usual?"

Defense Secretary Weinberger and General David C. Jones, Chairman of the Joint Chiefs of Staff, however, strongly opposed this suggestion. Weinberger declared, "The 337,000 troops in Europe serve our own interests by being there" by curtailing Soviet movement in Europe and demonstrating to the U.S.S.R. that the nations of Western Europe were capable of defending themselves against aggression. General Jones corroborated the view that the primary purpose for the presence of American troops in Western Europe was to enhance their security and that of the United States as well. He stated that keeping its troops in Europe was vital to the interests of the United States because they strengthened the solidarity of N.A.T.O.,

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34 Ibid., p. 7.  
35 Ibid., p. 3.  
and he urged that the United States must benefit from the lessons it learned in World Wars I and II concerning the consequences of isolation from its allies.\(^3^8\)

Senator Stevens, however, argued that the current situation concerning the Soviet pipeline was completely different from that during World War II and that the time had come for the United States to reexamine its commitment to Western Europe in view of the latter's increasing dependence on Soviet energy. Other members of the Subcommittee on Defense did not support Stevens' position, although Democratic Senator John C. Stennis of Mississippi expressed some concern about the issue of Soviet gas and Western Europe.\(^3^9\) After Secretary of Defense Weinberger testified that the U.S.S.R. had complete control over turning its gas supply on or off to the nations of Western Europe as a means of bringing political or economic pressure to bear upon them, Senator Stevens asked him whether the Soviet Union could also turn off the power to American military bases in Europe and declared, "If they can turn off our lights, we ought to be getting the devil out of there."\(^4^0\)

\(^3^8\)Ibid., p. 33.


\(^4^0\)Stevens, p. 9.
On March 6, 1982, Foreign Minister Hans-Dietrich Genscher of West Germany visited the United States\textsuperscript{41} to express his government's view on the Soviet gas pipeline and to warn the Reagan administration that any attempt by the United States to delay the project would endanger the N.A.T.O. alliance. He advised the U.S. government not to provoke its Western European allies because the Soviet gas pipeline had already become a reality to them.\textsuperscript{42}

Also in that month, Under-Secretary of State James L. Buckley traveled to Europe to suggest a formula for tightening the West's credit policies toward the Soviet Union. This formula had been designed to avoid trade disadvantages for the United States and its allies as they competed for business with the Soviet Union.\textsuperscript{43} The Reagan administration suggested curbs on all loans to the U.S.S.R. to curtail its economic development and, thus, its military development.\textsuperscript{44} The American delegation led by Buckley met with French Foreign Minister Claude Cheysson and Defense Minister Charles Hernu to seek European support

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\textsuperscript{42} Ibid.
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for the institution of these more stringent credit measures against the Soviet Union.\textsuperscript{45} In response, Western European officials asked the U.S. representatives to justify huge deliveries of American grain to the Soviet bloc while the United States was asking the nations of Western Europe to impose tougher sanctions against the U.S.S.R. Buckley's delegation stated that grain and technology were politically different, particularly with regard to their applicability to the Soviet military sector.\textsuperscript{46} In short, the delegation's talks with Western European officials were not successful, due in large part to their differing views on the Soviet gas pipeline project.

On March 3, 1982, Republican Senator Charles McC. Mathias, Jr., of Maryland, Chairman of the Subcommittee on International Economic Policy, suggested that the U.S. stance on the Soviet gas pipeline issue had reached a very dangerous stage with regard to the nations of Western Europe.\textsuperscript{47} The United States had been trying for more than two years to dissuade its allies from becoming involved in Soviet energy development to safeguard their own national security, but, despite these efforts, the countries of

\textsuperscript{45}Ibid. \textsuperscript{46}Ibid. 
Western Europe had decided to proceed with the Soviet gas project. Contracts for needed energy equipment had been officially signed; agreements between the Soviet Union and France, and Italy, and West Germany had been finalized; and financial arrangements had been agreed upon. The Reagan administration then studied the situation to determine where U.S. controls could be applied extraterritorially to block the use of U.S.-licensed technology in construction of the Soviet gas pipeline.4 8 Deputy Assistant Secretary of Defense Stephen Bryen, for example, suggested that the pipeline could be effectively delayed from at least two to five years if the U.S. government prevented Western European business firms from using licensed U.S. rotor technology in turbines for gas compressor stations.4 9

Senator Mathias, however, argued that an assertion of extraterritoriality would raise many questions. What did current U.S. laws and regulations provide concerning the extraterritoriality of U.S. export controls? What specific actions could the U.S. government take to enforce an assertion of extraterritoriality? What standing would U.S. actions have in foreign countries and in relation to


4 9Ibid., p. 67.
international law? What precedents existed for asserting extraterritoriality in the case of the Soviet pipeline project? Mathias also asked how the allies of the United States and other countries would react to an American assertion of extraterritoriality, what political strains such an action would create in U.S.-European relations, and what impact it would have upon U.S. efforts to obtain European cooperation on a broader East-West economic plane. In the economic sphere, Mathias asked what effect an assertion of extraterritoriality would have on the reputation of American firms as reliable suppliers of energy and whether those firms would find themselves increasingly isolated from world trade, especially trade in high technology.

Also on March 3, 1982, Senator Percy of Illinois testified before the U.S. Senate Subcommittee on International Economic Policy that the Reagan administration should be more cautious in imposing economic sanctions against the Soviet bloc, particularly if the United States' allies were involved in an economic deal with the Soviets. He also stated that a careful evaluation of future

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contingencies should be made before the U.S. government attempted to impose any sanctions outside American territory, noting that West German Economic Minister Otto Lambsdorff had declared that extraterritoriality would endanger U.S.-European relations and damage world trade.\textsuperscript{54}

Finally, Senator Percy warned the Reagan administration that the nations of Western Europe certainly would not accept such actions by the U.S. government.

On March 3, Erskine C. Chapman, Executive Vice-President of the Caterpillar Tractor Company, testified before the Senate Subcommittee on International Economic Policy that unilateral sanctions imposed on U.S. exports in an effort to affect Soviet behavior in the international arena would be feeble and that any attempt to extend such export controls in an extraterritorial manner would bring no benefit to U.S. foreign policy.\textsuperscript{55} Chapman quoted from a letter written by Lee Morgan, Chairman of the Board of the Caterpillar Company, to President Reagan after the imposition of sanctions against the Soviet Union.

I share your deep regret over the international circumstances that have led to the imposition of economic sanctions. My purpose in writing is not

\textsuperscript{54}Ibid., p. 6.

to disagree with the object of sending a signal
to the Soviets concerning events in Poland.

The economic sanctions imposed have gotten
the attention of Soviet leaders. However, I have
strong doubts about any lasting effectiveness of
restrictions of U.S. exports. While the news
that sanctions have been imposed has an undenia-
ble short-term impact, the Soviets quickly turn
from U.S. supplies to competitors in other coun-
tries. From that point on, sanctions have little
impact on them. But export controls have a contin-
uing impact on American companies and their em-
ployees, who see sales and jobs transferred to
other countries.\textsuperscript{56}

Chapman stated that the sanctions imposed by President
Carter in January of 1980 and by President Reagan in De-
cember of 1981 had had a considerable impact on the Cater-
pillar Company and claimed that Komatsu, its major foreign
rival, had profited from the sanctions by increasing its
exports of equipment to the Soviet Union, as represented
graphically in Table XII. As shown in this table, from
1970 to mid-1978, Caterpillar led the United States to
dominate the Soviet market for large machines, accounting
for 85 per cent of the U.S.S.R.'s total imports. When
President Carter imposed sanctions against the Soviet
Union, however, Komatsu led Japan to dominate the Soviet
market, supplying 85 per cent of the U.S.S.R.'s total im-
ports of heavy machines. This drastic decrease in Cater-
pillar's exports to the Soviet Union, according to Chapman,
exacerbated the problem of unemployment in the United

\textsuperscript{56}Ibid., p. 10.
<table>
<thead>
<tr>
<th>Time Period</th>
<th>Units</th>
<th>Caterpillar</th>
<th>Komatsu</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970 to mid-1978</td>
<td>1,943</td>
<td>341</td>
<td></td>
</tr>
<tr>
<td>Mid-1978 to 1981</td>
<td>336</td>
<td>1,997</td>
<td></td>
</tr>
</tbody>
</table>


States; he claimed that Carter's sanctions had caused a loss of $100 million in exports and deprived at least 3,000 workers of jobs.\(^\text{57}\)

In July of 1981, Chapman stated, the Reagan administration gave the Caterpillar Company a license to export 100 pipelaying tractors to the Soviet Union.\(^\text{58}\) Caterpillar's management believed that this license had been granted in order to reestablish the United States' leading position in the Soviet market. Then, in early December of 1981, Caterpillar was granted presidential approval to export 200 pipelayers to the Soviet Union, but, on December 29, President Reagan imposed economic sanctions against the

\(^\text{57}\)Ibid., p. 11. \(^\text{58}\)Ibid.
U.S.S.R., and Caterpillar was denied the license that it had previously been given. Reagan's sanctions, Chapman declared, caused the loss of a sale of 200 Model 594 pipelayers, with a license value of $90 million. Second, the sanctions blocked other sales that were not subject to the U.S. sanctions list, and, third, they affected American price competitiveness in the international market--for example, the U.S.S.R. agreed to import 1,500 large machines from Komatsu, and this major sale would allow the Japanese firm to improve its position relative to Caterpillar since they were the only companies producing such equipment. Finally, Chapman said, the sanctions would damage the United States' reputation as a reliable supplier because potential buyers would hesitate to deal with American firms for fear that they would not be able to maintain a long-term trade relationship. As a result of all of these losses, Caterpillar announced indefinite layoffs of over 7,000 employees. Chapman expressed the belief that the assertion of extraterritoriality would not benefit the Reagan administration; instead such an application of export controls outside the United States would undermine the N.A.T.O. alliance, and the nations of Western Europe would be likely to take action against it.

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59Ibid.  60Ibid.  61Ibid., p. 12.
62Ibid.  63Ibid.
On March 3, 1982, Arthur T. Downey, a partner in a Washington law firm and previously responsible for the administration of the United States' export control process as Deputy Assistant Secretary of Commerce for East-West Trade, testified before the Senate Subcommittee on International Economic Policy.\(^6^4\) Downey contended that the American business community fully supported the Reagan administration's decision to impose export controls for national security reasons but noted that the business community had numerous concerns about the unilateral institution of economic sanctions. He acknowledged the president's authority to ban U.S. exports of technology for use in the Soviet Union but questioned why this authority had been exercised in this instance and what the cost of that action would be. Downey believed that restricting U.S. exports would not block or even delay the construction of the Soviet pipeline to Western Europe and that the sanctions imposed by President Reagan on December 29, 1981 constituted nothing more than a symbolic act.\(^6^5\) The costs of these sanctions included the loss of jobs and profits and damage to the United States' reputation as a reliable


\(^{6^5}\) Ibid., p. 14.
supplier in the international market. Downey claimed that President Reagan had injured the American economy by exercising the authority given to him by Congress to impose economic sanctions and suggested that in the future Congressional action be required to enable the president to impose economic sanctions in non-emergency situations.

Downey also commented on the impact of an assertion of extraterritoriality on the reputation of U.S. firms as reliable suppliers. He noted that the Soviet Union regarded the United States as a supplier of last resort and was looking for a major supplier of grain to offset the effects of any future American grain embargo. In addition, if the American government attempted to apply extraterritorial export controls, foreign companies involved in the Soviet gas pipeline project such as Alsthom Atlantique of France, AEG-Kanis of West Germany, and John Brown of the United Kingdom might also come to view the United States as a supplier of last resort. Finally, Downey stated that the Chamber of Commerce of the U.S. had sent a letter to President Reagan on April 23, 1981, expressing some concern over the use of economic sanctions and urging the administration to consult the American business

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66Ibid. 67Ibid. 68Ibid., p. 15. 69Ibid.
community before imposing them.\textsuperscript{70} Then, in a second letter to President Reagan on February 5, 1982, Chamber of Commerce President Lesher wrote,

We would hope that the administration has carefully weighed the consequences of any efforts to maintain strict extraterritorial control over American goods and technology abroad. In building overseas markets so vital to our economic security, U.S. export performance relies heavily on both quality and dependability. Extraterritorial controls will only aggravate further our already poor international reputation for commercial reliability.\textsuperscript{71}

Stanley J. Marcuss, a partner in the firm of Milbank, Tweed, Hadley, and McCloy, testified on March 3, 1982 before the Senate Subcommittee on International Economic Policy that the authority to exert export controls outside the United States over American-origin technology was embodied in the Export Administration Act of 1979.\textsuperscript{72} According to this statute, the president of the United States had the authority to prevent or curtail any export subject to U.S. jurisdiction or exported by a person subject to U.S. jurisdiction. Marcuss enumerated six issues related to extraterritorial export controls. The first was whether products that would be produced outside U.S. jurisdiction and then exported to the Soviet Union were covered by

Section 379.4(f), which was concerned with machinery, equipment, instruments, and other products utilized for the exploration, production, transmission, or refinement of petroleum or natural gas, or Section 379.5(e), concerning pipe fittings and heat exchangers, of the EAA. The second was whether the material involved was the direct product of U.S.-origin technical data; the term "direct product" was not defined in the regulations, and therefore the items in question did not constitute the immediate products of technical data. The third issue was whether export of foreign-produced products of U.S. technical data was authorized under Section 379.8(b) of the EAA. According to subparagraph (3) of that section, authorization from the U.S. Commerce Department to export foreign-produced direct products of U.S. technical data was not required if these products were controlled by COCOM. The fourth issue was whether any regulation that attempted to extend controls to already manufactured exports would be consistent with the statute. In fact, the president had the authority to restrict U.S. exports for foreign military purposes, and that authority included all persons who were subject to U.S. jurisdiction.

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73 Ibid., p. 34.  
74 Ibid.  
75 Ibid.  
76 Ibid., p. 35.
The fifth issue raised by Marcuss was whether an ex post facto effort to restrict foreign-made products using previous U.S. technology was consistent with international law. The problem in this regard concerned what circumstances justified the exercise of extraterritorial jurisdiction under international law. The exercise of such jurisdiction must have a healthy respect for the sovereignty of all other countries. Therefore, any attempt by the United States to dictate the products that may or may not be exported from another country with an export policy different from U.S. policy would create a significant danger in the context of impermissible interference with that country's sovereign rights. Finally, the sixth issue was whether the criteria that the president must consider under the provisions of the EAA when imposing foreign export controls could honestly be met. According to the EAA, the president was required to consider and to report to Congress on the following points: (1) to make sure that such export controls would accomplish the intended foreign policy purpose; (2) the compatibility of such export controls with the foreign policy objectives of the United States; (3) the reaction of other countries to the imposition of export controls by the United States; (4) the impact of such export controls on the U.S. economy and on

Ibid., p. 36.
the competitive position of the United States in the international economy; (5) the ability of the United States to enforce such export controls effectively; and (6) the foreign policy consequences of not imposing controls.\textsuperscript{7,8} These requirements were established in 1979 because of Congressional concern that foreign policy export controls were being exercised too frequently.

On June 5-6, 1982, President Reagan, French President Mitterand, Canadian Prime Minister Pierre-Elliot Trudeau, West German Chancellor Schmidt, Italian Prime Minister Spadolini, Japanese Prime Minister Suzuki, and British Prime Minister Thatcher attended the eighth economic summit in Versailles, France.\textsuperscript{7,9} One of the most significant issues to be discussed at this summit was export credits to the Soviet Union and Eastern European countries. The United States attempted to persuade the nations of Western Europe to withhold export credits from the Soviet bloc.\textsuperscript{8,0} The primary purpose for the United States to suggest this action was to force the Soviets to use their currency or cash to pay for commodities, equipment, and technology exported by Western Europe and thus reduce their opportunity

\textsuperscript{7,8}Ibid., p. 38.


\textsuperscript{8,0}Ibid., p. 6.
to expand their military capabilities. However, the United States did not succeed in persuading its allies to withhold export credits, and it also failed to gain a consensus that would have required European governments making loans to the Soviet Union to charge a commercial interest rate of 12.25 per cent. Instead, a declaration of the summit participants concerning the economic sector stated,

    We agree to pursue a prudent and diversified economic approach to the U.S.S.R. and Eastern Europe, consistent with our political and security interests. This includes actions in three key areas. First, following international discussion in January, our representatives will work together to improve the international system for controlling exports of strategic goods to these countries and national arrangements for the enforcement of security controls. Second, we will exchange information in the OECD on all aspects of our economic, commercial, and financial relations with the Soviet Union and Eastern Europe. Third, taking into account existing economic and financial considerations, we have agreed to handle cautiously financial relations with the U.S.S.R. and other Eastern European countries in such a way as to ensure that they are conducted on a sound economic basis, including also the need for commercial prudence in limiting export credits.

In short, the United States and its allies did not agree on the major issue concerning export credits to the Soviet Union and its allies during the eighth economic summit of the industrialized nations. The Western European

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countries argued that withholding export credits would make Soviet behavior unpredictable and perhaps cause the U.S.S.R. to demonstrate its usually aggressive tendencies in the Third World. In so doing, the Soviet Union would be competing with the United States and its allies in strategic locations and for resources scattered throughout the world. In contrast, the United States argued that making extensive export credits available to the Soviet bloc would strengthen its position and enable it to expand its military capabilities and that the only way to limit those capabilities would be to withhold export credits and ask the Soviet bloc to use its cash to purchase the commodities it needed.

On June 18, 1982, President Reagan made a decision concerning foreign policy controls on oil and gas equipment and technology exports to the Soviet Union's energy exploration, production, transmission, and refining systems. The primary thrust of this decision was to apply export controls related to oil and gas equipment and technology to products manufactured abroad by U.S.-owned or -controlled subsidiaries and even to products manufactured by foreign companies that used U.S. technical data.

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According to President Reagan's pronouncement, no exports of equipment and technical data by U.S.-owned or -controlled foreign companies, such as subsidiaries, or foreign-produced products of U.S. technical data would be permitted to the Soviet Union. President Reagan stated,

I have reviewed the sanctions on the export of oil and gas equipment to the Soviet Union imposed on December 30, 1981, and have decided to extend these sanctions through adoption of new regulations to include equipment produced by subsidiaries of U.S. companies abroad, as well as equipment produced abroad under licenses issued by U.S. companies. The objective of the U.S. in imposing the sanctions has been and continues to be to advance reconciliation in Poland. Since December 30, 1981, little has changed concerning the situation in Poland; there has been no movement that would enable us to undertake positive, reciprocal measures. The decision taken today will, we believe, advance our objective of reconciliation in Poland.\(^8^4\)

The President justified his decision by giving two rationales. First, the embargo on the Soviet Union would be tightened until the Polish Communist government lifted martial law in Poland, and, second, the economic and financial pressure placed on the Soviets by imposing sanctions related to energy equipment would prevent them from completing the construction of the Yamal project to Western Europe, thus eliminating the $10 to $12 billion annual increase in hard currency that the pipeline was expected to

create for the U.S.S.R. and limiting its ability to spend money for military development.\textsuperscript{85}

Robert D. Schmidt, Vice-Chairman of the Board of Control Data Corporation and President of the American Committee on East-West Accord, criticized the Reagan administration for imposing sanctions on equipment manufactured abroad by U.S.-owned or -controlled subsidiaries. Schmidt argued that, according to the Export Administration Act of 1979, the 96th Congress stated,

\begin{quote}
It is the policy of the U.S. to minimize uncertainties in the export control policy and to encourage trade with all countries with which the U.S. has diplomatic or trading relations, except those countries with which such trade has been determined by the president to be against the national interest. . . . and it is the policy of the U.S. to use export controls only after full consideration of the impact on the economy and only to the extent necessary to restrict export of goods and technologies which would make a significant contribution to the military potential of any country or combination of countries which could prove detrimental to the national security.\textsuperscript{86}
\end{quote}

Schmidt stated that Congress did not intend to make the EAA an instrument of foreign policy to be used against any country, and he claimed that the Reagan administration had exercised its authority to use the EAA without considering the impact of these decisions on the American


economy even though such consideration is essential when exports are used as instruments of foreign policy.\textsuperscript{87}

Schmidt posed three major questions to the Reagan administration. First, was it in the interest of the United States to declare economic war on the Soviet Union? Second, would the nations of Western Europe go along with such a policy? Third, would the United States increase the risk of global war by attempting to isolate the U.S.S.R. from the rest of the world? Schmidt declared that these questions should have been considered by President Reagan before he took action against the Soviet Union.\textsuperscript{88} Finally, Schmidt presented a four-point plan to the president as a substitute for economic sanctions. The first point was to carry out the intent of the Export Administration Act of 1979. World trade was not a privilege for American industry, and export controls should be placed only on those products for which U.S. manufacturers maintained leadership. The second point was not to adopt unilateral sanctions since to do so would weaken U.S. industry. The third point was that the Soviet Union should be treated like any other country; thereafter, modifications of the Jackson-Vanik Amendment concerning emigration from the U.S.S.R. and the Stevenson Amendment concerning the amount of Export-Import Bank credits to be made available to the

\textsuperscript{87}\textit{Ibid.}, p. 19. \textsuperscript{88}\textit{Ibid.}
Soviets would be necessary to reduce American-Soviet political tensions. The fourth point was that the U.S. government should at all times use export controls as a tool to protect national security, not as a political weapon. If the United States could not obtain the consent of all of its Western allies to join in an embargo, the embargo would be feeble and ineffective, and the only outcome of unilateral U.S. restrictions would be losses for American industry and business, including the agricultural sector.  

George P. Schultz was appointed as Secretary of State in July of 1982, after being nominated by President Reagan. Democratic Senator Claiborne Pell of Rhode Island asked Schultz to comment on the effectiveness of trade sanctions against the U.S.S.R. to lessen Soviet pressure on Poland and Afghanistan. Schultz stated,

As a general proposition, Senator, I think the use of trade sanctions as an instrument of diplomacy is a bad idea. . . . we are just using it here, there, and elsewhere to try to affect some other country's behavior. It basically has not worked and has led us into a situation where our own trade is damaged and in its use it becomes a wasting asset.  

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89 Ibid., p. 20.


Schultz, however, supported President Reagan's decision to apply sanctions against the Soviet Union in response to its major role in the imposition of martial law in Poland. He also argued that these economic sanctions would serve to delay the Soviet gas pipeline to Western Europe. Finally, Senator Pell asked Schultz whether the Reagan administration had already declared economic war on the Soviet Union after the U.S. government announced sanctions on June 18, 1982, concerning the application of export controls related to oil and gas equipment and technology to products manufactured abroad by U.S.-owned or -controlled subsidiaries and to products manufactured by foreign firms using U.S. technical data. Schultz replied that the United States had not declared economic war on any country; rather, the Reagan administration was making clear its stance concerning Soviet behavior in Poland and elsewhere.

The Reagan administration predicted that the Soviet gas pipeline project to Western Europe would be delayed by at least two years if Western European companies did not defy the terms of their licensing agreements with American firms. For example, according to the terms of

92 Ibid.  
93 Ibid., p. 21.  
94 Ibid., p. 23.  
a license from General Electric, Alsthom-Atlantique, a subsidiary of the French government-owned electric company, did not have to obtain permission from the United States to export a key piece of equipment produced in France to the Soviet Union, but Commerce Under-Secretary Olmer claimed that GE's licensing agreement with Alsthom-Atlantique contained a clause stating that the re-export of items produced by U.S. technology was subject to U.S. export regulations. Alsthom-Atlantique, on the other hand, contended that, according to its agreement with GE, it had full authority to employ U.S. technology used in France as it saw fit.

In contrast to Schultz's opinion, according to Edward A. Hewett, a senior economist for the Brookings Institution in Washington, D.C., President Reagan's ban on U.S. technology for the Soviet gas pipeline would be unlikely to delay the completion of the project. Hewett testified before the Senate Committee on International Economic Policy that the Soviet Union had the technology to circumvent a U.S. embargo and that it could use its own smaller

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96 Ibid., p. A33.
98 Benjamin, p. A36.
turbines for the construction of the pipeline or combine
them with larger American-designed machines manufactured
by European firms. \(^{100}\)

**Western European Reaction to the U.S.
Embargo of June 18, 1982**

On June 30, 1982, Britain's Trade Ministry issued a
statement concerning the Protection of Trading Interests
Act of 1980, asserting that the U.S. ban on exports to the
Soviet Union was damaging British trade interests and that
Britain therefore had the right to initiate legal steps
against the U.S. embargo if all other efforts at persuasion
were to fail. \(^{101}\) Prime Minister Thatcher believed that a
lack of confidence in the United States had emerged since
the economic summit at Versailles and the subsequent an-
nouncement of the U.S. trade sanctions. In a meeting with
President Reagan in Washington, D.C., on June 30, 1982,
Prime Minister Thatcher stated that, under the restrictions
of the U.S. embargo, the British firm John Brown Ltd. would
not be able to fulfill a $200 million contract with the
Soviets to produce turbines using American technology. \(^{102}\)
Thatcher argued that sanctions should not be extended beyond

\(^{100}\) Ibid.

\(^{101}\) Peter Osnos, "Britain Prepares to Challenge U.S.
Trade Restrictions," *The Washington Post* (Foreign Service),
July 1, 1982, p. A24A.

\(^{102}\) Ibid.
U.S. boundaries and that they should not be applied to existing pipeline contracts because of the losses that could result for the economies of Western European nations.\textsuperscript{103} Moreover, also on June 30, French Trade Minister Michel Jobert sharply criticized President Reagan's decision to extend restrictions on equipment for the Soviet gas pipeline to areas outside the jurisdiction of U.S. regulations. He also accused the Reagan administration of protectionism because it had altered trade regulations to suit its own interests by ignoring its allies in decisions relating to trade restrictions.\textsuperscript{104} On July 2, 1982, Prime Minister Spadolini of Italy criticized the Reagan administration for extending the U.S. embargo to all European firms using American technology.\textsuperscript{105} Spadolini stated that the contract between the Soviet Union and Nuovo Pignone, a firm owned by ENI, the Italian state petroleum conglomerate, would not be fulfilled after the Reagan administration imposed its embargo outside U.S. territory upon European firms using American technology. He noted that Italy's inability to fulfill its commitment to produce nineteen pumping stations after President

\textsuperscript{103}Ibid. \hspace{1cm} \textsuperscript{104}Ibid. \hspace{1cm} \textsuperscript{105}Sari Gilbert, "Pipeline Embargo Cools Italy's Embrace of U.S.," \textit{The Washington Post}, July 3, 1982, p. A30B.
Reagan's decision to extend the U.S. embargo to firms using American data would cause a loss of $500 million to the Italian economy.  

On July 9, 1982, Chancellor Schmidt of West Germany announced that the nations of Western Europe would continue the construction of the Soviet gas pipeline regardless of any dispute that might arise in their relations with the United States. Schmidt stated,

We will stick to the agreements our firms made with the Soviet Union and so will France, Italy, and Britain. This will create some irritation in our relations with the United States, but that will have to be overcome.

On July 6, 1982, the Japanese and Soviet governments determined to go ahead with their development of oil and gas off Sakhalin Island, disregarding the U.S. decision forbidding Japan to use American technology in the Soviet gas pipeline project. An official of the Japanese government stated, "We plan to complete the project no matter what. We did not set up this project to satisfy

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106 Ibid.


108 Ibid.

U.S. interests, and we will not quit just because the U.S. wants us to." \( ^{110} \) Moreover, the Japanese government agreed with the Soviet government to continue the project in the northwest Pacific using Soviet technology alone. \( ^{111} \) Senator Charles Percy, Chairman of the Senate Foreign Relations Committee, observed that the 1962 embargo imposed by the United States on the Soviet Union during the Kennedy administration in the aftermath of the Cuban missile crisis was comparable to the 1982 embargo imposed on the U.S.S.R. by the Reagan administration in that neither was successful and both served to create tensions between the United States and its major allies. \( ^{112} \) The major result of the 1982 embargo, Percy contended, was to create complications in U.S.-European relations. \( ^{113} \)

On July 21, 1982, the House Subcommittee on Europe and the Middle East met to discuss the Versailles economic summit, the N.A.T.O. conference in Europe, and subsequent developments, including President Reagan's June 18 decision that amended export controls on oil and gas technology to the Soviet Union to include the export of

\( ^{110} \) Ibid.


\( ^{112} \) Schultz, July 14, 1982, p. 187.

\( ^{113} \) Percy, July 14, 1982, p. 189.
non-U.S.-origin goods and technical data by American-owned or -controlled companies beyond U.S. boundaries.\textsuperscript{114} Robert D. Hormats, Assistant Secretary in the Bureau of Economic and Business Affairs within the U.S. Department of State, commented that many tensions in the U.S.-European relationship were related to trade as a result of differences concerning the questions of European subsidies on strategic items, such as steel and agricultural products, and differences regarding the advisability of economic sanctions and the pipeline. He added, however, that an examination of statements and agreements that emerged at Versailles and the meeting of the executive committee of the Organization for Economic Cooperation and Development (OECD) would reveal that the United States and the nations of Western Europe had determined to do two things: first, to state the problem that the Western alliance faced and, second, to establish a policy of common interest.\textsuperscript{115} Hormats also pointed out that the United States had reached agreement with the OECD that Western countries would exchange information in an effort to improve economic and commercial contacts between East and West. The United States


\textsuperscript{115}Ibid., p. 2.
and its Western European allies also agreed to increase interest rates on government-sponsored export credits.116 This action would obviously reduce subsidies to a considerable extent, especially on government loans to the Soviet Union.

In response to Hormats' remarks, Representative Lee H. Hamilton, Chairman of the Subcommittee on Europe and the Middle East, argued that a gap existed between American and European leaders in the way they spoke of U.S.-European relationships, particularly with regard to the Soviet gas pipeline.117 For example, on June 30, 1982, President Reagan held a news conference in response to the pipeline decision he had made on June 18 and described U.S.-European relations as follows. "I think there was disarray with our European allies. I think that has been largely eliminated and they have confidence in us once again."118 A comparison of this statement with remarks from European leaders, Hamilton claimed, would lead one to believe that they were talking about two different relationships. West German Chancellor Schmidt described the

116 Ibid., p. 3.


118 Ibid., p. 4.
situation as a very sad one that could threaten the Western alliance,\textsuperscript{119} and British Prime Minister Thatcher stated, "The question is whether one very powerful nation can prevent existing contracts being fulfilled. I think it is wrong to do that." \textsuperscript{120} The West German economic minister said that the pipeline decision "also contributes considerably to a drifting apart of one country from another,"\textsuperscript{121} and French President Mitterand declared, "Washington has demonstrated a grave lack of solidarity with its allies, and there has been too much American monologue."\textsuperscript{122}

Hamilton then asked Hormats for his comments on the sanctions issue. Hormats responded to Hamilton's position on U.S.-European relations by pointing out that there were major differences in the economic arena (e.g., in steel production and agriculture) between the United States and its allies and that they were not going to be resolved unless they were dealt with in a candid and constructive way.\textsuperscript{123} He noted that, on June 29, 1982, the Europeans had requested that an effective dialogue take place between the United States and themselves,\textsuperscript{124} a request that Hormats believed might help to improve U.S.-European relations.

\textsuperscript{119}Ibid. \hfill \textsuperscript{120}Ibid. \hfill \textsuperscript{121}Ibid. \hfill \textsuperscript{122}Ibid., p. 5. \hfill \textsuperscript{123}Niles, p. 4. \hfill \textsuperscript{124}Ibid., p. 5.
Hamilton declared that what Hormats was saying and what the president was saying were two different things,\textsuperscript{125} and Hormats eventually stated, "Maybe I better stop where I am."\textsuperscript{126}

On July 30, 1982, the Senate Subcommittee on International Economic Policy met to continue a hearing begun on March 3 concerning the position that the United States should adopt with respect to the Soviet gas pipeline and whether the U.S. government should attempt to extend its trade sanctions to foreign jurisdictions for the purpose of delaying or even halting construction on the project.\textsuperscript{127}

Senator Mathias, Chairman of the subcommittee, stated that President Reagan's economic sanctions were intended to stop sales of equipment for use in the construction of the pipeline and that grain drying equipment and machine tools had nothing to do with the Soviet gas project.\textsuperscript{128}

Rockford, Illinois, a major U.S. site producing machine tools, had an unemployment rate of 24 per cent, the second highest in the country,\textsuperscript{129} and Caterpillar pipelayers and Fiat-Allis crawler tractors had also been affected by President Reagan's embargo against the Soviet Union.\textsuperscript{130}

\textsuperscript{125}Ibid. \hfill \textsuperscript{126}Ibid.


\textsuperscript{128}Ibid., p. 2. \hfill \textsuperscript{129}Ibid. \hfill \textsuperscript{130}Ibid., p. 3.
James L. Buckley, Under-Secretary of State for Security Assistance, Science, and Technology, claimed that 75 per cent of the products affected by the sanctions were manufactured primarily in the state of Illinois. Furthermore, the Soviets could obtain grain drying machines and other equipment from Japan, Denmark, the Netherlands, or elsewhere in Europe if the United States refused to supply them. Because American producers did not dominate the international market for such pipelayers, grain drying machines, tractors, and machine tools, the economic sanctions imposed by the United States would not damage the interests of the Soviet Union; instead they would only harm U.S. companies and workers.

Mathias stated that the Caterpillar Tractor Company had submitted a list of its subcontractors in states from Pennsylvania and Wyoming that had been negatively affected by the U.S. sanctions; innumerable jobs had been lost in these small companies, and one plant in Louisiana was forced to shut down. The Caterpillar Company faced the problem of cancelling contracts worth a total of $2 million after the sanctions were imposed. Tables XIII, XIV, and XV present listings of the suppliers affected by the cancellation of these contracts.

131 Ibid. 132 Ibid., p. 4. 133 Ibid.
134 Ibid. 135 Ibid., p. 5.
<table>
<thead>
<tr>
<th>Location of Supplier/ Commodity</th>
<th>Lost Revenue</th>
<th>Employees Affected by Layoffs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plymouth, MI/general machining</td>
<td>$10,620</td>
<td>2</td>
</tr>
<tr>
<td>East Peoria, IL/general machining</td>
<td>$5,263</td>
<td>1</td>
</tr>
<tr>
<td>Chillicothe, IL/weldments</td>
<td>$43,023</td>
<td>3</td>
</tr>
<tr>
<td>Peoria, IL/weldments</td>
<td>$200,720</td>
<td>15.0</td>
</tr>
<tr>
<td>Davenport, IA/weldments</td>
<td>$65,425</td>
<td>2,600.</td>
</tr>
<tr>
<td>Goodfield, IL/weldments</td>
<td>$106,868</td>
<td>800.</td>
</tr>
<tr>
<td>Chillicothe, IL/weldments</td>
<td>$655,595</td>
<td>10</td>
</tr>
<tr>
<td>Morton, IL/weldments</td>
<td>$33,709</td>
<td>2</td>
</tr>
<tr>
<td>Chicago, IL/weldments</td>
<td>$26,000</td>
<td>2.0</td>
</tr>
<tr>
<td>Warren, MI/weldments</td>
<td>$237,007</td>
<td>7.0</td>
</tr>
<tr>
<td>Casper, WY/weldments</td>
<td>$2,117,978</td>
<td>64</td>
</tr>
<tr>
<td>Metamora, IL/weldments</td>
<td>$99,556</td>
<td>7.0</td>
</tr>
<tr>
<td>Chicago, IL/weldments</td>
<td>$2,000,000</td>
<td>33</td>
</tr>
<tr>
<td>Gurley, NE/weldments</td>
<td>$12,436</td>
<td>1.0</td>
</tr>
<tr>
<td>Cudahy, WI/forgings</td>
<td>$474,410</td>
<td></td>
</tr>
<tr>
<td>Jackson, MI/forgings</td>
<td>$73,773</td>
<td></td>
</tr>
<tr>
<td>Chicago, IL/forgings</td>
<td>$104,989</td>
<td></td>
</tr>
<tr>
<td>Warsaw, IN/castings</td>
<td>$3,183</td>
<td></td>
</tr>
<tr>
<td>Filer City, MI/forgings</td>
<td>$8,933</td>
<td></td>
</tr>
<tr>
<td>Chicago, IL/forgings</td>
<td>$28,698</td>
<td></td>
</tr>
<tr>
<td>Bethlehem, PA/forgings</td>
<td>$134,162</td>
<td></td>
</tr>
<tr>
<td>Milwaukee, WI/forgings</td>
<td>$4,157</td>
<td></td>
</tr>
<tr>
<td>New Kensington, PA/forgings</td>
<td>$8,845</td>
<td></td>
</tr>
</tbody>
</table>


For fifteen weeks. †Hours lost. §Hours lost over six months.

For seven weeks. ‡Four-day work weeks.
### TABLE XIV

CATERPILLAR COMPANY CASTING SUPPLIERS NOT PERMITTED TO SHIP MATERIALS PRODUCED*

<table>
<thead>
<tr>
<th>Location of Supplier</th>
<th>Value of Castings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milwaukee, WI</td>
<td>$48,308</td>
</tr>
<tr>
<td>Keokuk, IA</td>
<td>$26,486</td>
</tr>
<tr>
<td>Alton, IL</td>
<td>$23,125</td>
</tr>
<tr>
<td>Bettendorf, IA</td>
<td>$ 9,818</td>
</tr>
<tr>
<td>Milwaukee, WI</td>
<td>$ 2,790</td>
</tr>
<tr>
<td>Muskegon, MI</td>
<td>$18,081</td>
</tr>
<tr>
<td>Bridgeton, MO</td>
<td>$ 7,034</td>
</tr>
<tr>
<td>Racine, WI</td>
<td>$10,463</td>
</tr>
<tr>
<td>Shreveport, LA</td>
<td>*</td>
</tr>
</tbody>
</table>


*After paying a cancellation charge of $193,424, the Shreveport plant closed due to lack of work.

Mathias asked Under-Secretary of Commerce Olmer to make comments regarding the expanded controls of June 22, 1982, which had been issued by the Department of Commerce in response to President Reagan's June 18 decision to extend economic sanctions to foreign firms using U.S. data and information to produce equipment for the Soviet
TABLE XV

CANCELLATION CHARGES LEVIED ON CATERPILLAR COMPANY PURCHASED FINISHED SUPPLIERS*

<table>
<thead>
<tr>
<th>Location of Supplier/Commodity</th>
<th>Charges Pending</th>
<th>Charges Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plymouth, MI/general machining</td>
<td>$ 7,461</td>
<td>........</td>
</tr>
<tr>
<td>East Peoria, IL/general machining</td>
<td>........</td>
<td>$ 4,040</td>
</tr>
<tr>
<td>Casper, WY/weldments</td>
<td>$300,943</td>
<td>........</td>
</tr>
<tr>
<td>South Bend, IN/weldments</td>
<td>........</td>
<td>$13,377</td>
</tr>
<tr>
<td>Davenport, IA/weldments</td>
<td>........</td>
<td>$ 2,641</td>
</tr>
<tr>
<td>Cassville, MO/weldments</td>
<td>........</td>
<td>$ 5,626</td>
</tr>
<tr>
<td>Fargo, ND/weldments</td>
<td>........</td>
<td>$ 7,544</td>
</tr>
<tr>
<td>Independence, MO/weldments</td>
<td>........</td>
<td>$ 2,719</td>
</tr>
</tbody>
</table>


gas pipeline.\textsuperscript{136} Olmer stated that the president's action was prompted by continued repression in Poland and the involvement of the Soviet Union in that situation.\textsuperscript{137} The president had formulated three conditions with regard to


\textsuperscript{137} Ibid., p. 6.
Poland, which were endorsed at the N.A.T.O. ministers' meeting on January 11, 1982: the release of political prisoners, the termination of martial law, and the resumption of dialogue among the Solidarity labor union, the government, and the church. These conditions, however, had not been met, and that was why expanded sanctions were imposed to include "foreign-origin equipment and technology exported by U.S.-owned or -controlled foreign firms and foreign products based on U.S. technology subject to a licensing or royalty agreement." Olmer justified the president's decision by saying that the EAA gave him the authority to control the export or any goods or technology subject to the jurisdiction of the United States. This authority was based on the U.S. origin of goods and technology, which comprised three types of foreign transactions: exports and re-exports of U.S. goods and technology, exports and re-exports of foreign end products incorporating U.S. parts, and exports and re-exports of foreign products of U.S. technology.

Olmer claimed that Congress had given its consent to the president to use this authority during the 1979 consideration of the Export Administration Act and was fully cognizant of possible conflicts with foreign governments.

138Ibid., p. 7. 139Ibid., p. 8. 140Ibid., p. 10. 141Ibid., p. 11.
Finally, he declared that the Reagan administration was aware that these economic sanctions would create some strains in U.S.-European relations and cause some hardships for domestic and international business, but, despite these difficulties, the United States would be admired for the role it had played in standing for justice and freedom everywhere in the world.¹⁴²

In contrast, Hugh P. Donaghue, Vice-President of Control Data Corporation in Washington, D.C., stated that the U.S. Council for International Trade served as the national affiliate of the International Chamber of Commerce (ICC), which operated as an advisor for intergovernmental institutions such as the United Nations, the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development, and the European Community (EC).¹⁴³ Donaghue argued that the U.S. Council for International business believed that sanctions imposed unilaterally were often ineffective because they diverted export sales to competitors; thus, the Soviet Union would obtain all of the equipment it needed from the United States' major

¹⁴² Ibid., p. 12.

competitors. Donaghue therefore suggested that export sanctions should be avoided except in those cases when U.S. national security was really in danger. He added that imposing unilateral sanctions would lead to total losses in U.S. sales without affecting Soviet economic or political behavior. Finally, Donaghue called upon the Reagan administration to review East-West trade policy and stated that the extraterritoriality issue had important ramifications for the United States' overall international trade policy. The development of a multilateral consensus in the export control and credit areas was essential if the Western alliance wanted to influence Soviet behavior.

Edward Hewett of the Brookings Institution contended that in the June 18 announcement of extended sanctions the United States was exercising its right to control the use of American technology for foreign policy purposes, no matter where that technology was being employed. He also argued that the major dilemma for European turbine manufacturers was that, if they fulfilled existing contracts with the Soviet Union, they would be in violation of U.S.

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144 Ibid., p. 38. 145 Ibid., p. 40. 146 Ibid.

regulations and of a portion of their license agreement with General Electric,\textsuperscript{148} and these violations would lead to further sanctions against the manufacturers; on the other hand, if the manufacturers decided to comply with the U.S. embargo, they would be subject to penalties payable to the Soviet Union for breaking their contractual obligations.\textsuperscript{149} Hewett stated that the solution to this dilemma was either to produce GE-based turbines with rotors in Europe or to let the Soviet Union renegotiate contracts based on non-U.S. technology, such as that employed in Rolls-Royce RB211 turbines.\textsuperscript{150} He suggested that the Soviet Union would have to rely on its own technology, particularly the prototype of a 25MW Soviet-designed turbine and a laminar 56-inch pipe.\textsuperscript{151}

Julius L. Katz, Managing Director of ACLI International, Inc., in White Plains, New York, commented that for the United States to impose unilateral sanctions for policy reasons was one thing, but the costs of such a policy were compounded when the United States sought unilaterally and retroactively to impose sanctions on other countries.\textsuperscript{152} He believed that the extended

\textsuperscript {148}Ibid. \hspace{1cm} \textsuperscript {149}Ibid., p. 45. \hspace{1cm} \textsuperscript {150}Ibid., p. 46.

\textsuperscript {151}Ibid., p. 47.

sanctions imposed by President Reagan on June 18, 1982, could be easily thwarted and that they could damage the United States' trade reputation and investment interest in friendly non-targeted countries.\textsuperscript{153} Katz stated, 

Canadian nationalists regularly cite extraterritorial application of U.S. policies as a reason for opposing majority ownership of Canadian industry by American investors. A similar attitude is found in France, and these arguments against the American presence will be strengthened by this latest example of U.S. unilateralism.\textsuperscript{154}

On August 10, 1982, the House Subcommittee on Europe and the Middle East continued the discussion that had begun on July 21. Congressman Hamilton, Chairman of the Subcommittee, asked John D. Scanlan, Deputy Assistant Secretary of the Bureau of European Affairs within the Department of State, whether the Reagan administration had declared economic war against the U.S.S.R. in its extension of sanctions to foreign firms using U.S. technology.\textsuperscript{155} Scanlan replied that the president's action should not be viewed as economic warfare\textsuperscript{156} and reiterated that the

\textsuperscript{153}Ibid. \hspace{1cm} 154\textsuperscript{Ibid., p. 49.}


main reason for the imposition of extended sanctions against the U.S.S.R. was its deep involvement in instituting martial law in Poland in December of 1981 and its failure to meet the conditions posed by Reagan and agreed upon in the January, 1982 N.A.T.O. ministers' meeting. 

Thomas Niles, Deputy Assistant Secretary in the Bureau of European Affairs within the Department of State, stated that some of the U.S. sanctions on oil and gas technology stemmed from the Soviet invasion of Afghanistan in December of 1979 but claimed that the sanctions imposed by President Reagan in December of 1981 and expanded in June of 1982 were prompted by the major role played by the Soviet Union in imposing martial law in Poland. Hamilton asked Niles to comment upon the possible measures that the United States might take against companies in Europe such as John Brown Ltd. of Great Britain, AEG Kanis of West Germany, Nuovo Pignone of Italy, and Alsthom Atlantique of France. Niles replied that the U.S. government could levy fines against these companies, deny

157Ibid., p. 2.  
158Ibid.  
159Thomas Niles, Deputy Assistant Secretary, Bureau of European Affairs, Department of State, statement before the Subcommittee on Europe and the Middle East, U.S. House of Representatives, August 10, 1982 (Washington, Government Printing Office, 1982), p. 3.  
160Ibid., p. 3.  
161Ibid., p. 4.
orders, or even deny access to U.S. goods and services. The Protection of Trading Interest Act invoked by the British government, however, enabled its firms to disregard U.S. regulations and decisions.\textsuperscript{162} The House Subcommittee on Europe and the Middle East ended its discussion by concluding that, if Western European firms ignored U.S. sanctions against the U.S.S.R, they would be subject to fines determined by the Reagan administration.

The final chapter of this paper will focus on the effectiveness of U.S. economic sanctions against the Soviet Union and Western European firms' defiance of those sanctions.

\textsuperscript{162}Ibid., p. 5.
CHAPTER V

THE INEFFECTIVENESS OF U.S. ECONOMIC PRESSURE ON
THE SOVIET UNION

Discussion before the Senate Foreign Relations Committee

On August 12, 1982, the Senate Committee on Foreign Relations began assessing the vulnerability of the Soviet economy to economic restrictions imposed by the Reagan administration, which included Western European companies that had licenses from U.S. firms,\(^1\) and the effectiveness of such sanctions in altering Soviet domestic and foreign policies.\(^2\) Senator Pell of Rhode Island criticized President Reagan's decision to expand economic restrictions on the sale of oil and gas related equipment to include Western European firms with U.S. licenses.\(^3\) Pell claimed that this action created a gap and complicated the relationships between the United States and its critical allies.\(^4\) He supported his view by pointing out that most U.S. experts agreed that the Reagan administration


\(^2\)Ibid., p. 72. \(^3\)Ibid. \(^4\)Ibid.
could not delay the completion of the Soviet gas pipeline more than six months to a year, at the most, and that this delay would not prevent the U.S.S.R. from meeting the deadline to provide Western Europe with natural gas by the end of 1984.\textsuperscript{5} Given these facts, according to Pell, the U.S. decision with regard to economic sanctions did not have a significant impact on Soviet domestic or foreign policy.

At the request of Senator Percy, Chairman of the Foreign Relations Committee, Herbert S. Levine, a professor of economics at the University of Pennsylvania, offered another opinion on the vulnerability of the Soviet economy to U.S. sanctions. Levine stated that the problem of the U.S.S.R.'s trade dependence lay in the word "dependence" itself and suggested the use of the term "trade participation ratios" when speaking about ratios of imports and exports to total national product.\textsuperscript{6} The relationship between these ratios and the dependence of a nation depends on its external economy, measured by a multidimensional scale (with the zero point indicating autarchy and the highest point indicating dependence) to determine the amount of

\textsuperscript{5}Ibid.

disruption that would be caused to its internal economy if its external economic agreements were cancelled or broken. The Soviet Union was not dependent on foreign trade with the West because it had a well-developed economy with many resources; it engaged in commercial activities with the West because of the advantages that could be derived from them when the benefits derived from imports outweighed the costs of producing the imported commodities domestically. The issue before the Foreign Relations Committee, therefore, in Levine's view, was not whether the Soviet Union was vulnerable to economic sanctions but how beneficial trade with the West was to the U.S.S.R.

Levine also warned that, as an industrial and developed nation, the Soviet Union had various alternatives available when faced with an economic embargo declared by another country. First, the Soviets could find supplies of the embargoed items elsewhere; second, if those items were not available elsewhere, they could be produced domestically (contingent upon the development of the Soviet capacity to do so) or replaced with something else.

Vladimir G. Treml, professor of economics at Duke University, pointed out that the U.S.S.R. received 65 per cent of its total imports from socialist countries

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7Ibid., pp. 73-74. 8Ibid., p. 75. 9Ibid., p. 76.
and Third World nations, which obviously made the Soviets less dependent upon the West.\textsuperscript{10} Treml believed that the most effective type of embargo would include high technology and basic machinery,\textsuperscript{11} but Levine stated that even U.S. sanctions on high technology for the pipeline project were ineffective in the Soviet economy because the agreements between the U.S.S.R. and the countries of Western Europe concerning the pipeline had already been concluded.\textsuperscript{12} Yet, without consulting its major allies, the United States had declared an embargo against the Soviets, which served only to reinforce the Western European nations' determination to proceed with the project and caused deterioration in U.S.-European relations.\textsuperscript{13} These experiences, Levine concluded, offered a valuable lesson to the Reagan administration that the United States and its Western allies needed a coordinated policy when seeking to exercise economic leverage.\textsuperscript{14}


\textsuperscript{11}\textit{Ibid.}, p. 82.


\textsuperscript{13}\textit{Ibid.}

\textsuperscript{14}\textit{Ibid.}, p. 91.
Yet another opinion of the effectiveness of U.S. economic restrictions against the U.S.S.R. was presented by Kempton B. Jenkins, Vice-President for Governmental Affairs with ARAMCO in Washington, D.C., past-president of the U.S.-U.S.S.R. Trade Council (1980-1981), Deputy Assistant Secretary of State for East-West Trade (1978-1979), and a former foreign service officer at the U.S. embassy in Moscow. In Jenkins' view, none of the numerous economic sanctions placed upon the U.S.S.R. had been as effective as the U.S. administration expected, and he cited three issues that should have been considered before the government instituted such economic restrictions.

1. The Soviet "economic personality." The Soviet economic structure was very slow to react to outside economic pressure because central direction from the government made the economy relatively inflexible and unable to make sudden changes. The most important characteristic of the Soviet economy was the supremacy of political direction over economic direction.

2. The cost/benefit process for the United States. Jenkins stated that the U.S. government should have taken

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\[15\] Kempton B. Jenkins, Vice-President for Governmental Affairs, ARAMCO, Washington, D.C., statement before the U.S. Senate, August 12, 1982 (Washington, Government Printing Office, 1982), p. 103. All of the information on Jenkins' analysis of the ineffectiveness of U.S. sanctions (pp. 172-175) is drawn from this source.
the following steps into consideration before instituting economic sanctions in an attempt to alter the Soviet Union's behavior. (a) The U.S. administration must always determine what goals are targeted. (b) The U.S. administration should understand the sensitivity of its adversary and, based upon that understanding, pursue economic restrictions in critical areas, and, above all, the United States must have a monopoly on the embargoed items. (c) The U.S. government should double check that all preliminary steps have been taken to achieve effective economic leverage over the Soviet Union. (d) The U.S. administration must always weigh the costs of economic sanctions both for the government and for the American people and institute sanctions only if those costs are outweighed by the benefits of utilizing economic pressure. In Jenkins' opinion, when President Carter declared a grain embargo against the Soviet Union in the wake of the Soviet invasion of Afghanistan in 1979, the net consequences of this arbitrary action were, first, the loss of the United States' traditional marketplace to new competitors such as Argentina; second, a heightening of Argentina's economic incentives to develop its capacity to export grain to the Soviet Union on a long-term basis; and, third, the enhancement of the U.S.S.R.'s foreign relations with Argentina.
In addition, Jenkins noted, after weighing the domestic costs of economic pressure, the government must also take into account its ramifications for U.S. international interests, and when applying economic sanctions against the Soviet Union the U.S. administration should have considered their impact on the Western alliance as well. One of the most crucial objectives in Soviet foreign policy has been to erode that alliance, and, unfortunately, the United States itself was aiding the Soviets in this regard by its arbitrary action in imposing economic restrictions without consulting its allies.

3. The reaction of the Soviet system. Subsequent to the application of a unilateral U.S. embargo against the U.S.S.R., according to Jenkins, interruptions and complications occurred in the Soviet economy, and many adjustments had to be made to reduce vulnerability to outside economic pressure. Thereafter, the Central Soviet Economic Planning Agency took action in areas such as allocations of labor, capital, transportation, and deliveries. As noted above, however, the Soviet Union had many alternative solutions when faced with an economic crisis caused by another nation; for example, following the 1980 grain embargo the Soviets simply sought--and found--another supplier. Similarly, when the Reagan administration imposed its embargo on the sale of oil and gas related
equipment and extended these sanctions to Western European firms with U.S. licenses to produce such equipment, those firms defied the embargo and continued to sell the materials needed for the pipeline project to the U.S.S.R.

In his statement before the Senate Foreign Relations Committee, Dr. Charles Wolf, Program Director of the International Economic Policy Program and Dean of the Rand Graduate Institute at the Rand Corporation in Santa Monica, California, listed three methods that could be used to slowly alter Soviet behavior. The first of these was détente (which failed to influence Soviet behavior through economic concessions), the second was alternative policy positions, and the third—favored by Wolf—was restricting resource flows by removing the subsidies that had influenced such flows in the past and by adding a "no-new-credit" proviso to create pressure on the Soviet economy in the middle and long run. Wolf acknowledged that this method would not vanquish the Soviet system or bring the U.S.S.R. to its knees; rather, it would affect the Soviet economy gradually and modestly. Edward Hewett of the Brookings Institution believed that the U.S.


17Ibid., pp. 117-118. 18Ibid., p. 118.
administration under President Reagan underestimated the Soviet Union's ability to face economic sanctions imposed by other nations and overestimated the benefits of such sanctions.  

He stated,

In my firm opinion it is now time to move beyond caricatures of the Soviet economy and to base policy on a careful analysis of the rather rich complexity of that economy. If we do that, I think we will find ourselves eventually going toward Mr. Wolf's third policy option, and that is an option in which we try neither to influence Soviet behavior through offering carrots or sticks in East-West trade, but rather take almost a neutral policy to our East-West trade.  

The Committee on Foreign Relations ended its discussion and evaluation of the effectiveness of economic sanctions against the U.S.S.R. by agreeing that U.S. economic pressure on the Soviet economy did not appear to be significant, particularly when restrictions were imposed unilaterally and without consulting the Western alliance.

Discussion before the Congressional Joint Economic Committee

On September 22, 1982, the Joint Economic Committee of the U.S. Congress met to discuss the sanctions imposed on the Soviet Union to delay or block the gas pipeline

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20 Ibid., p. 127.
project from the European perspective. Three distinguished economic specialists from Western Europe were invited to participate: André Fontaine, editor of Le Monde in Paris; Andrew Knight, editor of The Economist in London; and Thierry de Montbrial, director of the French Institute for International Relations.

Fontaine believed that the restrictions imposed on the U.S.S.R. did not affect the Soviets or cause any hardship to their economy. He stated, "I remember that since the war in Ethiopia in 1935, many times various governments or the United Nations resorted to a policy of sanctions against such a nation or another. It never worked. We do not have any example of a government that has been brought to heel because of economic sanctions." Fontaine also pointed out that not only France but also all of the major European nations, including West Germany, Great Britain, and Italy, opposed U.S. sanctions against the Soviet gas pipeline.


22 Ibid., p. 2.


24 Ibid., p. 9.

25 Ibid., p. 10.
These countries favored the pipeline project, and the U.S. administration should have remembered that an alliance presupposes an agreement among all of its members, not one member imposing its will on the others.  

Knight declared that U.S. economic restrictions against the pipeline project had threatened Atlantic economic and political relations more than they threatened the Soviet economy.  He advised President Reagan not to take action against the European firms that defied the sanctions because to do so would only widen the gap between the United States and its major allies.  

Finally, de Montbrial warned that U.S. economic restrictions or embargoes would not influence Soviet military of political policy and noted the Western European nations' belief that U.S. sanctions on the Soviet gas pipeline were incompatible with European sovereignty. Montbrial suggested that the Reagan administration halt its

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26 Ibid., p. 12


28 Ibid., p. 21.


30 Ibid.
sanctions and then initiate serious and constructive discussions with the Western alliance regarding East-West relations in general and East-West trade in particular.\(^{31}\)

Western European Reactions to the U.S. Embargo

In an effort to delay construction on the Soviet gas pipeline, the Reagan administration began to assert extraterritorial jurisdiction over subsidiaries and licensees of U.S. companies in Europe in June of 1982. West Germany, Italy, and France, however, had already committed themselves to the pipeline, and they continued to provide the Soviets with all of the equipment needed for the project. The Reagan administration then decided to blacklist all companies that were defying the economic embargo against the pipeline. In late October of 1982, U.S. exports were banned to a U.K. firm whose workers loaded six pipeline turbines on the Soviet freighter Stakhanovets Yermolenko at Glasgow, Scotland.\(^{32}\) This delivery was part of a $177.8 million order for 21 turbines to be installed in the Soviet Union's gas export system from Western Siberia to Western Europe.\(^{33}\) In addition, in August of 1982, the

\(^{31}\)Ibid., p. 27.

\(^{32}\)"Reagan Poised to Blacklist U.K. Manufacturers," \textit{Oil and Gas Journal}, LXXX (September 6, 1982), 58.

Commerce Department issued two temporary denial orders (TDOs) banning all U.S. exports to the French firms Dresser France SA and Creusot Loire because they shipped three compressors from Le Havre onto the Soviet freighter Borodin.\(^3\) TDOs were also issued in October of 1982, banning all oil and gas equipment exports to two West German firms, Mannesmann Anlagenbau AG and AEG-Kanis Turbinenfabrik GmbH, but the West German government instructed these two companies to fulfill their contracts with the Soviets using General Electric technology.\(^3\)

The law in West Germany had no provision for a government order that companies defy the U.S. embargo,\(^3\) but French law did have such a provision, which placed Dresser France under the conflicting obligations of fulfilling its legal responsibility to the French government and obeying President Reagan's sanctions.\(^3\) On August 24, 1982, Jean-Pierre Chenevement, French Minister of Research and Industry, ordered the firm to ignore Reagan's embargo and fulfill its contracts with the Soviets, after Dresser Industries' request for temporary protection was denied by a federal judge in Washington, D.C.\(^3\)

In July of 1982, the government of the United Kingdom ordered four British companies--John Brown Ltd., Smith

\(^{34}\)Ibid. \(^{35}\)Ibid. \(^{36}\)Ibid. 

\(^{37}\)Ibid., p. 75. \(^{38}\)Ibid.
International (North Sea) Ltd., Aaf Ltd., and Baker Oil Tools (U.K.)--involved in the Soviet gas pipeline to fulfill their contracts with the U.S.S.R. According to British law, these firms would be subject to unlimited penalties if they obeyed President Reagan's embargo and did not provide the Soviets with the equipment specified in the contracts signed by the Soviet Union and the United Kingdom.

In Italy, two turbines were built, using General Electric technology and parts, by Nuovo Pignone SPA, part of Italy's state-owned Ente Nazionale Idrocarburi (ENI), and shipped from Livorno onto the Soviet freighter Dubrovnik in accordance with Nuovo Pignone's contract to build 19 compressor stations and 57 turbines worth $560 million using General Electric parts. The U.S. Department of Commerce issued a TDO against Nuovo Pignone and its subsidiary, INSO, in October of 1982.

The blacklisting of these Western European firms and the issuance of TDOs against them did not delay them in producing the equipment needed for the Soviet gas pipeline.

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40 Ibid.
41 Ibid., p. 59.
42 Ibid.
43 "U.S. Scaling Back Sanctions against Yamal Line," Oil and Gas Journal, LXXX (September 13, 1982), 39.
44 Ibid.
The governments of the Western European countries involved in the pipeline project continued to ignore the embargo, and the U.S. Department of Commerce continued to issue TDOs banning oil and gas equipment and technology exports to all European companies that defied Reagan's sanctions. For example, oil and gas equipment exports were temporarily denied to John Brown Engineering Ltd. after the firm delivered six turbines to the Soviets in October of 1982 using General Electric parts. John Brown Ltd., then sought an alternate source for GE rotors, and France's Alsthom Atlantique, whose licenses and know-how technology had been provided by GE to produce rotors prior to the embargo, agreed to supply the parts needed to complete the remaining 15 turbines that John Brown Ltd. had contracted to supply.  

In short, long before American sanctions against the U.S.S.R. were instituted on December 29, 1981 and June 22, 1982, the leaders of Western Europe had decided that the Soviet gas pipeline project was vital to their interests, and they continued to consider it so after the Reagan administration tried to exercise extraterritorial jurisdiction over subsidiaries of U.S. firms and foreign companies  

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45"U.S. Blacklist Doesn't Slow Yamal Equipment," Oil and Gas Journal, LXXX (September 13, 1982), 69.  
46Ibid.
using U.S. licenses. The embargo, which had been opposed by many U.S. officials, was thus completely ineffective.

Congressional Debate and the Lifting of Sanctions

On August 10, 1982, Republican Representative Paul Findley of Illinois sponsored a bill (H.R. 6838) to lift economic sanctions against the Soviet Union. The House Foreign Affairs Committee approved the bill by a vote of 22 (15 Democrats and 7 Republicans) to 12 (7 Republicans and 5 Democrats) and filed a report on it (H. Rept. 97-762) on August 18. After this initial committee approval, however, H.R. 6838 faced a long battle in Congress and the president's office. If it was passed by the House of Representatives, it would no doubt be stopped by Senator Garn of Utah, Chairman of the Senate Banking Committee, who was opposed to the Soviet pipeline project; if it was passed by the Senate, it would be stopped by President Reagan's authority to veto it; and, if the bill was enacted over a presidential veto, Reagan could restore economic sanctions against the U.S.S.R. through the authority given to him by the 1979 Export Administration Act.

"Soviet Economic Sanctions," Congressional Quarterly Almanac (Washington, Congressional Quarterly, Inc., September, 1982), p. 164. All of the information on legislative efforts to terminate economic sanctions against the Soviet Union (pp. 184-188) is drawn from this source.
During the House Foreign Affairs Committee's debate on the bill, a major conflict arose between two political issues, employment and President Reagan's right to make foreign policy decisions. Congressman Findley was concerned about American jobs because two major U.S. firms had been affected by the embargo and both of them had plants in his district. Findley stated that Fiat-Allis Construction Machinery Company in Springfield, Illinois, had lost a contract with the Soviets for the sale of large bulldozers and the Caterpillar Tractor Company, in Decatur, Illinois, had lost a contract to provide the U.S.S.R. with pipelaying equipment. Thousands of jobs had been taken away from the American workers in his district, Findley declared, as a result of Reagan's embargo.

In response to H.R. 6838, the Reagan administration lobbied against the House Foreign Affairs Committee's approval of the bill. For example, Secretary of State Schultz stated in letters to the members of the committee that, if the bill to lift economic sanctions passed, it would weaken the president's ability to carry out foreign policy.

On September 29, 1982, the House of Representatives refused by a very narrow margin (206 votes to 203) to pass H.R. 6838. A provision was added to the bill stating that economic sanctions would be lifted if President
Reagan certified to Congress that the Soviet Union did not use slave labor on the natural gas pipeline project, but, after the State Department conducted an investigation of the slave labor allegation, that provision was dropped. House Speaker Thomas P. O'Neil, Jr. (Democrat-Massachusetts) later withdrew the bill after a plea for a delay was made by Secretary of State Schultz.

The major debate among the members of the House was whether securing American jobs or helping the president in carrying out foreign policy was more important. Representative Robert H. Michel (Republican-Illinois), House minority leader, spoke in support of the former, pointing out that the economic sanctions imposed on the Soviet Union had not been as effective as the Reagan administration expected (for example, they had not altered Soviet behavior in Poland) but that they had caused American workers to lose their jobs. Michel stated, "I represent the needs of workers in Peoria, Decatur, and Springfield, but I think my position represents the needs of the workers in Poland as well. In Peoria, they want jobs. In Poland, they want freedom. The sanctions do not accomplish either."48

Other supporters of H.R. 6838 stated that the economic sanctions not only affected American workers but created

48Ibid., p. 165.
a gap between the United States and its major allies in Western Europe. For example, in the opinion of Representative Jonathan B. Bingham (Democrat-New York), Western European firms' defiance of the U.S. embargo was clear evidence that it should be lifted since it had no effect save in the United States itself. Representative Edward J. Derwinski (Republican-Illinois) directly criticized the economic sanctions, declaring, "What we are waging here is logical, economic war, instead of military war."49

Eventually, Representative William S. Broomfield (Republican-Michigan) with support from the Reagan administration, produced an amendment to the bill with slave labor as its focal point. Broomfield's amendment provided that economic sanctions against the Soviet Union would be lifted 90 days after the enactment of H.R. 6838 and that within that 90-day period President Reagan must certify to Congress that the Soviet Union was not using slave labor on the gas pipeline project. Representative Michel contended that making slave labor a major issue in the decision on whether to retain sanctions affecting certain categories of U.S. firms was unfair and noted that the Soviet Union had been using slave labor since the Communist system was established. Finally, the House of Representatives sent H.R. 6838 to the Foreign Affairs

49 Ibid.
Committee with orders to add Broomfield's amendment. Representative Clement J. Zablocki (Democrat-Wisconsin) then reported the amended bill, and eventually it was passed.

On November 13, 1982, President Reagan lifted economic sanctions against the Soviet Union. B. Jay Cooper, a spokesman for the U.S. department of Commerce, said that exports regulations would operate as they did before the embargo enactments of December 29, 1981 and June 22, 1982.\textsuperscript{50} The decision to lift sanctions was made one day after the Polish government freed Lech Walesa, the leader of the Solidarity union, and three days after the death of Soviet President Leonid Brezhnev,\textsuperscript{51} but President Reagan stated that these events did not prompt his decision; rather, the lifting of sanctions was motivated by an agreement between the United States and its Western European allies to pursue a comprehensive study on trade with the Soviet Union.\textsuperscript{52} This agreement contained the following points.

1. Western European governments must not sign any new contracts to buy Soviet natural gas while the study was underway to determine whether such trade contributed to the military or strategic advantage of the Soviet Union.

\textsuperscript{50}"U.S. Halts Sanctions against Yamal Line," \textit{Oil and Gas Journal}, LXXX (November 22, 1982), 65.


\textsuperscript{52}Ibid.
2. Western European countries must maintain controls on high technology and the transfer of strategic items to the Soviet Union.

3. Western European nations agreed to tighten their financial export credits given to the Soviet Union.53

However, after President Reagan linked the lifting of economic sanctions against the Soviets to an East-West trade agreement between the United States and its key allies (France, Italy, the United Kingdom, and West Germany), both France and the United Kingdom announced that they would not participate in the agreement.54

With President Reagan's statement on November 12, 1982, concerning the lifting of economic sanctions imposed against the Soviet Union in December of 1981 and extended in June of 1982 to Western European firms using U.S. technology and U.S. firms operating outside the jurisdiction of the United States, the U.S. policy opposing the Soviet gas pipeline to Western Europe came to an end. This end embodied a complete failure of actions to block or even delay the pipeline project or to deter the United States' Western European allies from participating in it.

53Ibid., pp. 165-166.

Conclusion and Implications for U.S. Leadership

Economic sanctions are imposed on a country in order to achieve certain desired ends. In this regard, it is important to distinguish at the outset between economic effectiveness and political success. The former term denotes internal damage experienced by the target state, whereas the latter refers to the achievement of the political goals of the sanctions' initiators. The major conclusion of this study is that economic sanctions directed against a single country are ineffective in achieving the political ends desired, especially when the sanctions are unilaterally imposed. The justification for this conclusion lies in the fact that economic sanctions attack the target state's economy directly but affect its political system only indirectly. Although economic sanctions can always be effective in causing economic damage to the target state, they are not effective in attaining political ends. To assess the type of influence exerted by economic sanctions, their objectives must be specified and their consequences understood, and the capabilities and nature of the target state's political system must be fully comprehended. Finally, countries that are preparing to impose economic sanctions should realize that they may also bring about a number of undesirable outcomes.
With these factors in mind, some of the economic sanctions imposed in the twentieth century may be surveyed and their effectiveness—or the lack of it—analyzed. In 1935, after Benito Mussolini’s troops invaded Ethiopia, the Council of the League of Nations met and imposed economic sanctions against Italy under Article 16 of the League’s Covenant, which allowed the use of economic sanctions to deter aggression. These sanctions, however, failed to stop Mussolini’s invasion because they were not multilaterally imposed and many countries disregarded them.

In 1938, the League of Nations imposed economic sanctions on Japan after that nation’s military forces bombed several cities in China. These sanctions, too, were ineffective, so much so that after a time they were lifted by the League.

In 1948, the Soviet Union imposed economic sanctions against Yugoslavia because of Marshal Tito’s intention to make his country independent. The sanctions were effective from an economic perspective because 51 per cent of Yugoslavia’s exports went to other Communist states and 46 per cent of its imports came from them. As a result

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56 Ibid., p. 368.
57 Ibid., p. 369.
of the nature of Yugoslavia's foreign trade policy, Stalin's economic sanctions put tremendous pressure on Yugoslavia's economy and forced the cancellation of its five-year plan. Nevertheless, Tito was able to sustain the economic damage caused by the Soviet Union and continued his determination to preserve an autonomous course; thus, the Soviet economic sanctions against Yugoslavia failed to attain their political ends.

In 1949, all of the Arab states imposed a total embargo against the new nation of Israel in order to destabilize its economy and, in turn, undermine its political system. That embargo failed completely in attaining its political goal, which was the destruction of Israel.

In 1960, the United States imposed economic sanctions on Cuba. According to George Ball, then Under-Secretary of State, these sanctions were instituted to accomplish several purposes: first, to curtail the ability of the Cuban regime to expand its violence; second, to make clear to the Cubans that a policy of revolution would not serve their purposes; third, to show Latin America that Communism had no future in the West; and, fourth, to increase

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58 Ibid., p. 381.

the cost to the Soviets of having a Communist base in the West. In reality, there were other reasons for the sanctions as well, such as the desire of the two leading presidential candidates to gain votes in that year's election by taking positions that were strongly anti-Castro. In fact, two days before the election, President Dwight D. Eisenhower declared an embargo against Cuba to aid the campaign of Vice-President Richard M. Nixon while Democratic candidate John F. Kennedy pledged to halt the Communist movement in the Western hemisphere. However, the economic sanctions imposed by the United States against Cuba were ineffective in that they curtailed neither Cuba's ability to spread violence nor the Communist movement in the Western hemisphere. In other words, the U.S. economic sanctions against Cuba failed to attain their political goals, namely, the overthrow of Castro's regime and the cessation of Cuba's adventurism outside the Western hemisphere.

In 1965, the United Kingdom imposed political and economic sanctions against Rhodesia. These sanctions were followed by voluntary sanctions from the United

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Nations which became mandatory a year later. British Prime Minister Harold Wilson told the House of Commons, "Our purpose is to restore a situation in Rhodesia in which there can be untrammeled loyalty and allegiance to the Crown and in which there can be, within whatever rules this House lays down, a free Government of Rhodesia acting in the interests of the people of Rhodesia as a whole." Economic sanctions were imposed against Rhodesia with the primary objective of overthrowing Ian Smith's regime in that country, but Rhodesia initiated some adjustments and then achieved a record of growth and price stability through its terrorist and guerrilla activities until the late 1970s. Rhodesia was able to overcome the sanctions because it exported many of its products from locations outside its borders and obtained oil and other vital imports from its neighbors while the embargo was in force. The economic sanctions caused Rhodesia some damage and inconvenience, but Smith employed his emergency power to consolidate his people and was able to delay any progress toward democracy and racial equality. In other words, the sanctions failed to attain the political goals of ousting Smith and restoring democracy in Rhodesia.

In 1973, the Arab members of OPEC declared an oil embargo against the United States and the Netherlands.

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\[6^2\] Ibid., p. 369.
after the Yom Kippur war broke out on October 6, because of the support and aid that those two countries had given to Israel. The oil embargo caused damage to both the U.S. and Dutch economies, but it failed to prevent the United States from supporting Israel militarily and economically. Thus, the embargo was an economic success but a political failure.63

In 1980, as discussed in Chapter II of this paper, President Jimmy Carter declared a grain embargo against the Soviet Union and established a new policy for issuing export licenses to the U.S.S.R. The purpose of these economic sanctions was to force the Soviet Union to pull out of Afghanistan after its invasion of that country in late December of 1979. Like the sanctions and embargos instituted in the past by other nations, the economic sanctions imposed by the Carter administration were ineffective and, in this researcher's opinion, could not succeed in forcing the Soviet Union to leave Afghanistan for several reasons. First, the Soviets had several political goals to achieve in Afghanistan such as maintaining an outpost in Africa and strengthening their position there by spreading their ideology to neighboring countries. Second, the U.S.S.R. would not pull out of Afghanistan as a consequence

of U.S. economic sanctions because the Soviets did not wish to appear to be backing down in the face of economic pressure from the United States. This issue was especially important to Yuri Andropov, the new head of the Communist Party, who had recently succeeded Leonid Brezhnev. Third, the Soviets had anticipated that a U.S. grain embargo would follow their invasion of Afghanistan and had already accumulated substantial grain reserves from the large 1978 harvest. Furthermore, as noted in Chapter II, President Carter's sanctions against the Soviet Union caused more economic damage to the U.S. than to the Soviet economy.

After his election in 1980, President Ronald Reagan decided to pursue a flexible policy in dealing with the U.S.S.R., and he lifted the grain embargo that President Carter had imposed. However, Reagan's attempt to dissuade the United States' key allies from participating in the Soviet gas pipeline project contributed to the resumption of a hard-line policy toward the Soviets. Economic sanctions against the U.S.S.R. were declared on December 29, 1981, and then were extended on June 22, 1982, when foreign subsidiaries of U.S. firms were prohibited from selling equipment related to gas and oil to the Soviet Union.

Neither of these measures accomplished their political goals of dissuading the United States' major allies in Western Europe from participating in the Soviet pipeline
project and persuading them to reduce or control their trade with the U.S.S.R. Instead, as has been described throughout this study, the sanctions resulted in a series of disagreements between the United States and its major allies over the pipeline project. For example, the United States believed that aiding the development of Soviet energy resources would weaken the unity of N.A.T.O. because the U.S.S.R. would gain economic power from the pipeline project and thus be able to increase its expenditures in the military sector, but the Reagan administration could not convince Western European governments that exporting grain to the Soviet Union was in the interest of Western security whereas exporting equipment related to oil and gas to the Soviet Union was not. Western European leaders contended that U.S. grain, which was used for food in the U.S.S.R., was a more vital commodity than the pipes they exported for the Soviet gas project.

When the Reagan administration declared economic sanctions against the Soviet Union for its direct involvement in imposing martial law in Poland, it took measures that would not seriously affect its economy (e.g., grain exports to the Soviet Union were not halted, although negotiations on a future grain agreement were postponed), but it asked the United States' major allies in Western Europe to terminate their participation in the pipeline project,
which would have a considerable negative effect on their economies. In addition, the nations of Western Europe were more dependent on trade than was the United States, and, when President Reagan asked them to abandon the pipeline, he was therefore requesting a greater economic sacrifice from them than he was making on behalf of the United States itself. Moreover, it was crucial for Western Europe to manufacture and export steel pipes to the Soviet Union in order to create new jobs, thus alleviating its serious unemployment problem.

A major conflict between the United States and its Western allies with regard to the Soviet gas pipeline project stemmed from the issue of West-East technology transfer. For example, in the 1979 U.S. Export Administration Act it was stipulated that any export license could be rejected for reasons of national security and that sensitive technology could be denied to Communist countries, but the foreign policy objectives of the Western European nations caused them to oppose U.S. revocation of export licenses; instead they wanted to reduce restrictions on the export of non-military technology to the Communist bloc. Western European leaders did not regard the transfer of this technology to the Soviet Union as a threat to their national security, they contended that the United States did not have a monopoly on the equipment needed
for the Soviet gas pipeline, and they believed that their
countries had the right to sell equipment related to oil
and gas as long as they benefited from such sales.

Perhaps the most complicated issue arising from the
Soviet gas pipeline project was the possible economic and
political leverage over Western Europe that the pipeline
might give the U.S.S.R. In this regard, the first question
to be answered is why the Soviet Union was willing to supply
Western Europe with its natural gas. Did the Soviets need
this project for economic or political reasons? In the
view of this researcher, the answer is "both." First, the
main purpose of the pipeline project was to develop the
export of Soviet natural gas, the most dynamic of all the
U.S.S.R.'s energy resources, which could bring at least
$10 to $15 billion per year in hard currency earnings to
the Soviet economy. The U.S.S.R. needed these currency
earnings to develop and expand other sectors (e.g., the
agricultural sector) and reduce its dependence on unreli-
able outside suppliers. In view of these facts, it seems
extremely unlikely that the Soviet Union would jeopardize
its future trade with the nations of Western Europe by
using the gas pipeline as an instrument of foreign policy
against them. In addition, Western European countries
regarded the U.S.S.R. as a reliable supplier of oil and
gas, and it had no history of embargos against them; rather,
the few embargos that had been declared by the Soviets were imposed in Eastern Europe (e.g., against Yugoslavia in 1948), an area from which they did not gain substantial economic benefits. In contrast, the nations of Western Europe were wealthy and industrialized and represented major sources of technology transfer, so the Soviet Union would not dare to use the gas pipeline as a lever against them.

A second motivation for the U.S.S.R. to offer its natural gas to Western Europe was political in nature. The Soviets were aware of the disagreements between the United States and its major allies over West-East technology transfer and of the unfavorable economic situation in Europe caused by high rates of unemployment and inflation. They also knew that a major dispute would occur between the United States and its allies over the gas deal because Western Europe needed it more than did the United States, and, as a result of that dispute, the Soviet Union could enter into a closer relationship with the countries of Western Europe through the pipeline project and seek to prove to these nations that the United States was the true cause of all their economic problems.

This study has demonstrated that both the Carter and the Reagan administrations failed to prevent the United States' allies from participating in the Soviet gas pipeline
project—the single largest commercial transaction in the history of East-West relations—and that disagreement over the pipeline caused political tensions between the United States and Western Europe concerning the advisability of developing Soviet energy resources. The main reason for President Reagan's failure was the fact that the sanctions he imposed against the U.S.S.R. in December of 1981 were undertaken unilaterally and without consulting the United States' Western European allies. Then the Reagan administration made an even more serious mistake in June of 1982 when it sought to prevent foreign subsidiaries of U.S. companies and overseas firms operating with U.S. licenses from selling equipment and technology to the U.S.S.R. Overall the dispute concerning the gas pipeline appeared to be a conflict between West and West (i.e., the United States and Western Europe) rather than between East and West, and the only country to profit from it was the Soviet Union, which could use the widening gap between the United States and its allies over the pipeline issue to its own advantage.

The United States and its Western allies should seek to formulate a collective strategy, consistent trade policies, and coordinated regulations to help them overcome their differences on questions related to East-West trade, and they must not forget that consulting one
another before taking any action is the most significant element in dealing with the Communist bloc.
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