

# Bonn-Moscow gas deal on track

*George Gregory debunks reports that interest rates will snag the giant project, after an exclusive interview with a Ruhrgas spokesman.*

The just-concluded trip of West German Economic Minister Otto von Lambsdorff to Washington, D.C., was attended by a renewed round of rumor-mongering, intermixed with a significant dose of yellow journalism, to the effect that severe difficulties are emerging in negotiations over the interest rates on some DM 10 billion financing for pipes and equipment for the 5,000 kilometer gas pipeline from West Siberia to Western Europe.

The difficulties, so go the rumors, are in fact so severe that this single issue could break the back of the European-Soviet natural gas deal planned to bring 40 billion cubic meters of natural gas to West Germany, France, Italy, Belgium, Austria, Switzerland, and other European countries, as of 1984-85.

Extensive discussions with spokesmen for the German companies involved, and especially with spokesmen from Ruhrgas AG—the company that will market and distribute the German share of about 12 billion cubic meters of natural gas—have confirmed the crucial potential importance of the deal.

Ruhrgas told me unequivocally that “this gas deal will never fall apart over the question of interest rates,” and that “without prejudicing ongoing detailed negotiations, we can state that interest rates will step well into the background in comparison to the strategic, political, and economic interests involved on both sides.”

This is the company that *directly* negotiated three successive natural gas deals with the Soviet Union (in 1970, 1972, and 1974) once the channels were cleared by the Bonn government, and is now managing all three deals with termination dates extended into the year 2000.

## Negotiation issues

At present, negotiations are running on three formally independent tracks: negotiations on the price the Soviets are demanding for the natural gas to be turned over to Ruhrgas at the Czech/German border for West European distribution; negotiations on the price demanded by the German companies for the pipes, pump-

ing, measuring, and regulating plant and equipment along the pipeline's 5,000 kilometers; and negotiations on the interest rates demanded by the German banking consortium (with other nations negotiating separately) for financing the pipes and equipment.

Despite the present interlude in negotiations on the interest-rates issue, which will resume in April, the basic agreement still holds that the final package of give-and-take for natural gas/pipeline-and-equipment will carry competitive prices for both sides. At this point, interest-rate discussions are focusing on a sliding formula of ratios of fixed and flexible rates that is capable of satisfying the German consortium of over two dozen banks.

Under conditions where the West German Bundesbank has seen itself forced to increase its domestic capital market rates to stop capital flows out of the deutschemark, and where a differential of 1 percent on the interest rates for financing the natural gas deal can calculate out to as much as 1 billion marks over the term of 10 years (or 13 as the Soviets now want), it is not hard to understand why the detail work many take a month or two longer.

However, since present interest-rate levels are enough to make any banker, European or Soviet, choke, the latest rumor-mongering reports have tended to throw a fake inversion of the “strategic dependency” argument into the game: “Whichever side gives in on the interest rate question will show, by doing so, how dependent he is.”

Fortunately for East-West commercial and political negotiations, the reality is different. The truth is that neither side *needs* the natural gas-pipeline deal, in the sense of having a carrot that just must be bitten. On the other hand, both sides have a fundamental interest in exploiting the immense potential of the deal, bringing it into the completely new dimensions of economic and political relations over the long run. (Board members of Ruhrgas have just returned from the United States,

where they sounded out various spokesmen for the natural gas and utilities industries. They now report that there is no interest from these quarters in developing options in East-West energy cooperation in conjunction with the present set of negotiations.)

For the Soviets, the deal has the following advantages. A total of 50 billion cubic meters of natural gas will be pumped from the newly accessed fields, 40 billion for export to Western Europe. The export volume over a period of 20 years will amount to only 5 percent of total Soviet natural gas reserves, while the Soviets presently account for 35 percent of known world reserves.

Thus, while the new pipeline will contribute to development of important infrastructure in the permafrost region of Western Siberia, involving the solution of intricate engineering and construction problems, export of this volume of gas diverts only a marginal percentage of Soviet energy for export, while earning significant foreign-exchange funds which then become available as a permanent and developable source of funds for broader-based trade and purchase agreements than the present "barter trade" models. Furthermore, in comparison with even grander projects for the economic and industrial development of Siberia, this pipeline is logistically simple, even at present levels of gas technologies.

### **The advantages**

In short, as a leg into the future of East-West economic relations, the gas deal represents a significantly large line of access to foreign-exchange earnings in line with planned diversification and deepening of trade relations, as well as industrial cooperation options in countries in the developing sector.

For the Federal Republic of Germany, there are the immediately welcome contracts for pipes and equipment, guaranteeing tens of thousands of high-skill jobs for a number of years. Beyond that, however, West Germany is pursuing a long-term (40-year) strategy of source diversification of its energy supplies.

Over the present decade, natural gas input to overall energy consumption will be increased from its present 65 million tons coal-equivalent to 85 million tons, stabilizing long term at about 18 percent of total energy consumption, even as the net volume increases. Oil's share of total energy input and consumption will be reduced continuously from its present level of 47.8 percent.

In terms of energy strategy, this means increasing the energy volume and percentage for total input of natural gas, nuclear energy, and advanced coal technologies. In terms of political strategy, it signifies "relative energy security." German policy is not to take natural gas, for example, from areas where they already take

oil: "We think it ought to be in the strategic interest of the United States not to put so much energy dependency weight on OPEC," commented one Ruhrgas spokesman.

### **Strategic dependence?**

In fact, the insistence of the Haig State Department on the continuing danger of a "strategic dependence on the Soviet Union" is being viewed here increasingly as bogus propaganda. Ruhrgas points out that a Soviet proportion of 5.5 percent of Germany's total primary energy consumption (up to, but not beyond 30 percent of the natural gas), as envisioned by government studies of the deal, has a counterpoint in the fact that oil imported from Libya alone today accounts for 6 percent of total primary energy consumption.

In the course of discussion with German industrial spokesmen, Alexander Haig was more than once termed "appropriate as a military cowboy, but not as a secretary of state." It is theoretically possible that the Russian gas deal falls through, spokesmen say, but then the alternative is for Europe as a whole to draw more upon OPEC oil for its energy, and with that European vulnerability to Middle East crisis developments increase in tandem.

Europe is determined to develop relations with OPEC on the basis of increased industrial investment in OPEC nations, and OPEC support in financing industrial projects in other countries; but neither OPEC nor Europe has any interest in increasing only one-sided dependencies.

As a measure of whether or not Washington's eventual foreign policy line will be insightful enough to evaluate the Russian gas deal as one component in this complex of issues, observers here are eagerly waiting to see whether the Reagan administration develops an explicit oil-for-technology perspective in its relations with Mexico.

An "American-Mexican oil-for-technology agreement would be viewed here as a groundbreaking precedent. Otherwise, disparities of interest such as those over the Russian gas deal with Europe will inevitably increase, disparities between interests in holding a military alliance together and economic and political interests."

As for the Soviet blackmail potential against West Germany, that argument is not accepted. "Washington now understands that we are no longer in the 1960s when one word from Washington could have collapsed the negotiations overnight. But it has yet to be understood that nowadays it is politically impossible to say 'Germany' without saying 'France-Germany' in the same breath. And the moment you say that, you are addressing the interest of Europe as a whole," says Ruhrgas.