SOVIET GAS PIPELINE: U.S. OPTIONS

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ISSUE DEFINITION

The construction of a 3,000 mile-long pipeline to bring natural gas from the Urengoi field in Siberia to the West European natural gas network is a critical element of Soviet energy plans for the 1980s. (Figure 1 shows the existing pipeline network of the Soviet Union and the export and domestic pipelines the Soviets plan to construct by 1985.) Through the pipeline, which is planned to be operational by 1984, the Soviets plan to export an additional 40 billion cubic meters (BCM) of natural gas annually to Western Europe, tripling the current export level. Pipe and equipment from West Europe and Japan, and credit from Western banks are essential if the pipeline is to be completed on time. The Reagan Administration and the West European governments are sharply divided on the desirability of the pipeline. The Administration and some Members of Congress argue that the pipeline would make West European participants overly dependent on Soviet natural gas and equipment orders and, thus, vulnerable to Soviet threats to cut off the gas in a political crisis. They also argue that the USSR would obtain much needed convertible currency from the gas sales. The West Europeans respond that vulnerability to the Soviet "gas lever" can be avoided by the creation of a "safety net" of alternative supplies of non-Soviet gas and other fuels. Although some West European political parties are hesitant, most Europeans believe that participation is essential to their plans for reducing their dependence on OPEC oil and for diversifying supplies of natural gas. In addition, they note that equipment orders for the export pipeline and the other pipelines that the Soviets plan to bring gas to the central regions of the Soviet Union, which may total $10 - 15 billion in the first half of the decade, could spell the difference between prosperity and recession for key industrial sectors.

In the U.S. policy debate two schools have emerged. One would make every effort to halt or delay the pipeline by direct or indirect methods, while the other would treat the pipeline as a fait accompli and focus on measures to reduce West European vulnerability to the "gas lever." The differences between the schools of thought were heightened first in December 1982 wehn President Reagan banned U.S. sales of energy related equipment and technology to the U.S.S.R. and then in June 1982 when these sanctions were expanded to include U.S. affiliates and foreign companies with U.S. contractual relations. This broadened coverage has added the issues of retroactivity, extraterritoriality, and contract sanctity to the portfolio of the fait accompli school. Congressional action was unsuccessful in overturning the Administration's action (th Findley-Bonkers - H.R. 6838) in September. The Broomfield amendment tied the removal of the sanctions to Administration assurance that "forced labor" is not being or would not be used in the construction of the export pipeline.

BACKGROUND AND POLICY ANALYSIS

U.S. PERSPECTIVES

The Reagan Administration has made concerted efforts to dissuade the West European countries, especially West Germany, the key participant, from going ahead with the proposed pipeline from the U.S.S.R. to West Europe. The President raised the issue at the head-of-state level on several occasions --

in April 1981 and January 1982 with West German Chancellor Helmut Schmidt in Washington and in July 1981 with French President Mitterrand as well as the Chancellor at the Economic Summit at Ottawa. The Administration's chief argument was that the additional gas deliveries would make major NATO allies dependent on Soviet gas, and, hence, vulnerable to Soviet threats to cut off the gas during a political crisis. The Administration also argued against the pipeline on the grounds that it would provide the Soviets with large amounts of hard currency -- perhaps as much as $11.1 billion annually by the mid-1980s, according to an estimate by the Defense Intelligence Agency -- which could be used to pay for major purchases of high technology from the West. The Administration proposed U.S. coal and revival of plans for development of nuclear electric power as substitutes for Soviet gas. As a minimum precaution if they decided to go ahead with the pipeline, the U.S. urged the West Europeans to arrange stand-by facilities (e.g., Dutch or Norwegian gas).

For much the same reasons some Members of Congress -- notably Senator Garn and Representatives LeBoutillier and Nelligan -- actively opposed the pipeline and urged the President to take a stronger position against West European involvement and to oppose any U.S. participation. Other Members, such as Representatives Gillis Long and Henry Reuss, called for a clarification of U.S. policy with appropriate concern for differing European perspectives.

In response to the presumed Soviet role in the Polish declaration of martial law on Dec. 13, 1981, President Reagan banned U.S. sales to the Soviet Union of equipment and technical data for the refinement and transmission of gas and oil. This measure, which went into effect on Dec. 30, 1981, effectively precluded U.S. companies from completing sales related to the pipeline. In particular, it blocked the General Electric Company from exporting patented rotors for the compressors the West European companies are to supply. After the declaration of martial law in Poland, France and West Germany reaffirmed their commitment to a policy of equipment supply to the pipeline, although that policy remained a more controversial issue in Italy. On June 17, President Reagan extended the ban on U.S. sales of equipment for the pipeline to overseas subsidiaries of U.S. firms and foreign firms that produce oil and gas equipment under U.S. licenses. To date, this ban has been defied by French, British, Italian and German companies. The U.S. has responded by barring the export of U.S. oil and gas related equipment and technology to these companies. (See Chronology for details)

EUROPEAN AND JAPANESE PERSPECTIVES

West Europeans and Japanese generally support increased imports of natural gas and oil from the Soviet Union and sales of energy equipment on competitive credit terms for the following reasons: (1) Any increment of energy in the world market tends to assure reliable supply through a diversity of sources and holds prices down. As energy independence is not the option for Europe and Japan that it is perceived to be for the United States, energy security is seen as a product of diversity in sources of supply. (2) Large equipment orders are especially beneficial to stagnant European and Japanese metallurgy and machinery sectors and provide substantial job and production prospects for many years ahead. (3) Economic interdependence with the East may stabilize political relations and provide useful tools for Western diplomacy.

Whether all the West European or Japanese official and business interests agree with all the logic of the energy interdependence view, the wide availability of energy technology and under-utilized capacity make it likely that most of the equipment needed could be purchased from non-U.S. sources, albeit at different levels of quality and terms of sales.

U.S. POLICY OPTIONS

Two schools of thought are identifiable in the debate on U.S. policy toward the pipeline: One proposes strenuous efforts to stop Western equipment sales and credit to the Soviets for the pipeline; the other counsels acceptance of the West European commitment to the pipeline as a fait accompli and urges concentrating on a "safety net" to avoid vulnerability and on obtaining good terms of trade and credit to minimize the prospects of Soviet windfalls.

The "stop-the-pipeline" school, which is led by Defense Secretary Weinberger in the Administration, argues that Europe may become hostage to the USSR or Finlandized if the pipeline deal goes through. In their view, the Soviets may well spend all or most of the over $10 billion in hard currency that the large new gas sales are expected to generate on Western high technology. They warn that large-scale imports of the sophisticated technologies the Soviets seek in the West would be of significant value to Soviet military potential.

Taking this argument one step further, some members of the "stop-the-pipeline" school argue that the U.S. may be forced to devote even more resources to countering Soviet military power than at present. In this same vein, the benefits to the Soviet military may be even greater, if one believes, as many members of this school do, that the indirect mechanisms of technology transfer that accompany East-West commercial relations (e.g., training and technical documentation) exceed direct transfers in importance.

Members of the "stop-the-pipeline" school have made several specific recommendations for U.S. policy. Although their primary goal is to prevent the construction of the pipeline, they seem to have a fall-back position of delaying the pipeline -- either as a means of delaying Soviet gains or perhaps in the hope that international economic and political events such as a fall in the price of OPEC oil will make the investment seem less attractive to the West Europeans. Their suggestions include the following:

1. All-out legal and political efforts to use the leverage conferred by the GE patents;

2. Forcing Poland into formal default;
3. Renewed efforts at the head-of-state level; and
4. An offer of U.S. coal to replace all or part of the additional deliveries of Soviet gas from the pipeline.

5. Tying equipment sales for pipeline construction to prove that "forced labor" is not used in the construction of the export pipeline.

The first option became U.S. policy on June 19, when President Reagan extended the ban on sales of equipment for the pipeline by U.S. firms to their overseas subsidiaries and licensees. The new control was intended to prevent Alsthom-Atlantique, a French firm licensed by GE to produce rotors, from replacing the embargoed GE components. It is not yet clear whether the decision can be enforced effectively. Nor is it clear whether the pipeline will be delayed significantly, since there are alternatives to the compressors chosen. The Administration estimates that the pipeline will be delayed by up to two years. In Congress, the extra territorial application of U.S. controls was opposed by Senators Mathias and Percy and favored by Senator Garn.

The logic of the second proposal is as follows: If the U.S. Government declares Poland in default on any of its debts to the Export-Import Bank or the Commodity Credit Corporation, anxious commercial bankers would call in their loans. When Poland proved unable to pay them off, cross-default provisions, which are commonly written into loans, would throw Poland into default on all its loans. Since the bulk of Poland's debt is held by West European banks, particularly in Germany, West Europe would be greatly affected. Thus, the originators of this proposal reason, a Polish default or even a U.S. threat to force Poland into default could make West European bankers reluctant to finance Soviet loans for equipment. Thus far, the Reagan Administration has avoided any action that would force Poland into formal default.

The Reagan Administration was acting on the third approach, that of high-level efforts to dissuade West European leaders from going ahead with the pipeline prior to the economic summit held in Versailles on June 6. On June 17, the Administration shifted to the "all out" first approach.

The Administration and some Members of Congress, notably Senator Garn and Representatives LeBoutillier and Nelligan, who introduced resolutions urging the President to develop and promote an alternative energy diversification project for Western Europe, were actively considering the fourth proposal -- the U.S. coal option -- during the summer and fall of 1981. Interest in this proposal, which may be viewed as a way of stopping the pipeline or as part of a "safety net" if U.S. efforts fail, apparently continues. In its most common variant, the U.S. would increase coal exports to West Europe and urge the Europeans to secure non-Soviet gas supplies (e.g., Dutch, Norwegian, African). Some supporters of the U.S. coal option, however, appear to view it as a replacement for all of the Soviet gas the Europeans plan to import.

The "fait accompli" school argues that in spite of U.S. rhetoric and delays caused by the embargo of U.S. compressor parts, the pipeline will be built; equipment will be purchased in Europe and Japan; and credits will be available. Any further pressures would not only be unsuccessful, they argue, but would also weaken the U.S. position on other issues and might even destroy the alliance. Accepting the deal as an accomplished fact, they believe, would permit concentration on the issues of vulnerability and leverage. Alternate energy sources, although expensive, could be put on line to avoid effective Soviet use of the gas lever. Price and credit negotiations could be used to the benefit of the West on other economic and political issues, e.g. repatriation of Germans in the USSR.

Individual members of the "fait accompli" school have added criticisms of the proposals of the "stop-the-pipeline" school. For example, Richard L. Lesher and Donald Campbell, leaders of the U.S. Chamber of Commerce, have opposed any efforts to extend U.S. export controls overseas on the grounds that such a step would damage the U.S.'s reputation as a reliable supplier and might be illegal. Bankers and others have opposed the default option on the basis of the disruptions that the scramble for Poland's few attachable assets would cause in international financial markets. Most members of this school would not necessarily oppose U.S. adoption of the other option--negotiations with the West Europeans to stop the pipeline, but they would argue that applying too much pressure might be injurious to long-term U.S. interests in the alliance and might not succeed in blocking the pipeline. As for the U.S. coal option, some observers have questioned how much more coal the U.S. could export, given current transportation and port facilities, and to what extent the West Europeans could substitute coal for gas, given their current infrastructure and the high cost of conversion. But, the logic of the "fait accompli" school suggests that some level of additional U.S. coal exports might be an element of "safety net."

PRESENT STATUS OF ARRANGEMENTS FOR THE PIPELINE

Purchasing Commitments and Dependence

For 25 years beginning in 1986, the Federal Republic of Germany and France will import 10.5 billion cubic meters (BCM) and 8 BCM of Soviet gas, respectively. While the Italian government has agreed to a "pause" to reconsider its commitment to the pipeline, it is considered likely to approve imports of 8.5 BCM annually. The Netherlands may import 2 BCM annually. Other countries, including Spain, are also considering importing gas from the pipeline. Austria has agreed to import 1.5 BCM annually for 25 years beginning in 1984. These commitments are over and above the Soviet gas already flowing into the West European gas network through the Orenburg and Northern Lights pipelines. West European interest in the new pipeline primarily stems from a desire to reduce dependence on oil imported from OPEC countries and diversify sources of natural gas. TABLE 1 shows the primary energy balances for the three major participants in the new gas deal at present and compares them with their plans for 1990.

With the deliveries of gas from the new pipeline the share of Soviet gas in the three major participants' imports of gas from all sources will rise considerably. TABLE 2 presents one set of estimates.

The Safety Net

The Federal Republic claims to have a virtually complete "safety net," i.e., alternative supplies of non-Soviet gas and other fuels, through Dutch "surge capacity" contracts, new gas from Norway, domestic gas, and standby energy sources. This has been known since early in 1981. The other European gas importers do not have a "safety net" as yet. As of late 1981 the Algerian-Italian gas line had not yet been tested, but it will provide additional gas in the 1980s. The Italians used the Soviet price concessions to hold down the Algerian price for gas to flow through the new line to Sicily. Liquified Nigerian gas and more Norwegian gas may be available in the 1990s as well as increased U.S. coal supplies. Public opposition to nuclear plants may limit expansion of nuclear electric power generation in all major West European countries except France. Premier Mitterrand seems to have sufficiently qualified his pre-election opposition to enable resumption of the ambitious French nuclear program.

The Canadians are currently discussing the possibility of arctic gas projects with the French and West Germans which could provide the Europeans with additional natural gas reserves in the late 1980s. Potential arctic island gas reserves are estimated to total be 100-200 cubic trillion feet. Petro-Canada and TransCanada Pipelines Ltd. suggest that liquified natural gas could be shipped from the arctic islands to Europe in ice-breaking carriers. Included in the TransCanada Pipelines Ltd. group are Ruhungas AG, West Germany's major natural gas transmission company and Gelsenberg AG.

Energy Equipment (Compressor and Pipe) Sales and Financing

Compressor sales for the 42 stations needed in the first strand of the pipeline--some 60% of the needed equipment--have been contracted largely with Creusot-Loire of France, Mannesmann of the FRG, and Nuovo Pignone of Italy. John Brown of Glasgow has also made some sales. All rely on GE patents for a crucial component of the compressors. In July 1981 a consortium of German banks, led by the Deutsche Bank, and the AKA Ausfuhrkredit GmbH, agreed to provide a four-year credit of 3.4 billion DM for the compressor stations and other German-made equipment. The Soviets initially agreed to make a 15% downpayment (equivalent to 300 million dollars) in cash. Suffering from a short-term shortage of hard currency, the Soviets later asked German banks to finance the downpayment. In December 1981 they turned down the Soviet request. Nominally, the interest rate is 7.8%, but in effect, it is about 9.6%, if the above-market price the Soviets are paying for the compressors is taken into account. In this case, as in many others, the Soviets wanted a low nominal interest rate for the sake of appearances, but were willing to accept the higher interest rate the Germans sought if it could be disguised. It should be noted, however, that even the actual interest rate is favorable to the Soviets since it is below LIBOR (London Inter-Bank Offer Rate). While the Soviets initially sought to link the compressor financing and pipe sales to deliveries of gas, the final agreement is not a barter or pay-back deal. After the 4-year payment period, however, the agreement may be extended to 10 years on a pay back basis. In contrast with the German case, the full value of French equipment sales was financed. The first credit, extended by three French banks, covered 85% of the sales value. It carried a subsidized interest rate of 7.8% and was guaranteed by the Government. In February 1981, French banks agreed to the Soviets' request for a second credit equivalent to $140 million to cover what was to have been the Soviet downpayment.

No sales of German large diameter (56 inch) pipe have been finalized as of June 1982, although Mannesmann is expected to get the lion's share. The price would depend on competitive conditions. The Japanese have sold some pipe with government financing. A Japanese firm, Komatsu, has signed two contracts to supply a total of 900 pipelayers. European financing may involve some government guarantees, but it is not likely to be long term. Nor is it yet on a barter basis.

Gas Pricing

Gas pricing is flexible and competitive with other fuel sources in West Germany through a floor price and escalation formula devised by the Soviet gas agency and German utility Ruhrgas. The Soviet position had been to tie the price of the gas directly to OPEC oil pricing on a BTU equivalent basis. Under the agreement, which was signed on Nov. 20, 1981, deliveries from the new line are to start at a modest level and climb to 40 BCM annually. The contract sets a minimum or floor price of $4.70 per billion BTU, and a price escalator formula related to heating oil and selected oil prices in Germany that brings the current price to $5.70. Other gas importers in France and Italy will receive similar prices plus transportation. As the French gas will flow through the trans-German pipeline built for an aborted Iranian gas supply deal (IGAT II), no additional capital outlays will be required.

Gas in Soviet Energy Supplies

In the 1980s, Soviet plans call for increases in all energy sources--oil, coal, hydro, nuclear, and gas. Oil, coal, and hydro are projected to just hold their relative positions. Nuclear energy is to expand rapidly but from a very low base. Since proven Soviet gas reserves are equivalent to Saudi Arabia's oil reserves and since the Soviets are encountering difficulty in continuing to increase oil output, natural gas is projected to account for the predominant share of incremental energy production in the Soviet Union.

The key to the Soviets' ambitious plans for natural gas and for the maintenance of hard currency earnings is the construction of the export pipeline and domestic pipelines to bring the gas from Siberian fields to the center. This network of pipelines would exceed the rate of pipeline construction in any other country by several times. According to Soviet estimates, the pipeline construction program will cost over 25 billion rubles. While there seems to have been some opposition in the Politburo to the emphasis on natural gas, Prime Minister Brezhnev announced in November 1981 that the pipelines would have to be completed "without fail" by the end of the current Five-Year-Plan, i.e. by 1985. The export line is to be completed and deliveries are to start by late 1984. Since the Brezhnev statement, there have been reports that quotas for drilling and pipelaying have not been met at the Urengoi field, the source of the gas for the export pipeline.

Most Western observers predict that the Soviets will make every effort to complete the export pipeline and begin deliveries to Western Europe on schedule. At the July 30, 1982 hearing before the Subcommittee on International Economic Policy of the Senate Foreign Relations Committee, Edward A. Hewett, a senior economist at the Brookings Institution, stated in his testimony that "It is (therefore) unlikely the U.S. embargo will in itself be responsible for significant delays in the construction of the Soviet West-European line and the deliveries of the gas through it." A possible solution to the problems created by the embargo, according to Mr. Hewett, could be the use of the available European-made turbines in combination with the newly built Soviet 25 MW turbines and their older 10 MW turbines. The use of these smaller turbines would, however, require some variations in the design of the compressor stations. Meanwhile, the spokesmen for the Administration, Under Secretary of Commerce for International Trade Lionel Olmer and Under Secretary of State for Security Assistance, Science and Technology James Buckley did not indicate any change in the Administration's view, that the extra territorial application of U.S. controls on exports of oil and gas equipment would delay the completion of the pipeline by up to two years.

The specific plans for energy production in the Soviet Eleventh Five-Year Plan are shown below with actual 1980 levels for comparison:

	1985 (plan)	1980 (actual)
Oil (million metric tons)	630	603
Gas (billion cubic meters)	630	435
Coal (million metric tons)	775	716

Electrical generation (billion kwh)	1,555	1,295

The uncertainty of outcomes for energy sources other than gas turns on questionable reserves and new technology for exploration, development, and transmission. For natural gas the uncertainties are largely the availability and quality of pipe and compressors. The Western suppliers have both.

TABLE 1. --Primary Energy Balances: FRG, France, and Italy

--- in percent ---

FRG

	1980	1990
Coal	17.8	21.6
Oil	52.3	38.0
Lignite	9.2	8.7
Gas	15.5	16.7
Nuclear	3.0	12.1
Hydro	1.7	1.4
Others	0.5	1.4

FRANCE

	1979	1990
Coal	18.0	15.0-17.2
Oil	55.9	30.17-32.3
Gas	12.0	17.2
Renewables	1.5	4.3-6.0
Hydro	8.2	6.0-6.4
Nuclear	4.3	25.8-28.4

ITALY

	1980	1990
Oil	67.1	51.7
Solid Fuel	8.5	18.0
Gas	15.6	18.5
Primary electricity	8.7	10.8

Source: Financial Times, Feb. 1, 1982, p. 2.

TABLE 2. --Sources of Natural Gas Imports, 1980 and 1990: FRG, France, and Italy
-- in percent --

FRG

	1980	1990
Soviet Union	17.5	25.0
Domestic	30.1	22.3
Netherlands	36.6	15.7
Norway	15.7	22.3
Middle East	----	7.8
Africa	----	6.5

FRANCE

	1980	1990
Soviet Union	13.3	32.0
Domestic	27.5	8.0
Netherlands	37.6	8.0
Norway	9.1	13.0
Algeria	7.8	23.0
FRG	4.0	----
West Africa	----	16.0 a /

ITALY

	1980	1990
Soviet Union	23.7	35.2
Domestic	46.8	17.0
Netherlands	24.3	13.6
Algeria	----	27.2
Libya	4.9	5.6

a / By 1990, Nigerian gas may account for 3% to 4% of Italy's and France's imports

Source: Financial Times, Feb. 1, 1982, p. 2.

Forced Labor and the Export Pipelines

The Broomfield amendment provides for the removal of the pipeline sanctions within 90 days if there is presidential certification that "the Soviet Union is not employing or encouraging the use of forced labor in construction of any property affected by those sanctions."

The Administration through Secretary of Defense Weinberger has judged the "human rights" issue as "compelling," but finds that "the evidence is not conclusive". It appears unlikely that the Administration would find the evidence compelling for the opposite conclusion that forced labor was not employed on projects related to the sanctions. The issue as stated is inherently difficult to prove as the terms used are imprecise and conclusive evidence difficult to come by.

"Forced Labor" and Human Rights Violations. Basic elements of the Soviet legal system have always raised serious questions in the West. Offenses against the state, laws on maligning, the use of "analogy" all extend the parameters of Soviet law far beyond that of Western law. The application of law to specific cases has always been so flexible that many question whether there exists a rule of law or a rule of men in the U.S.S.R. Under Stalin, the prison camps [the Gulag Archipelgo] were filled due to the capricious behavior of one man. Although modified, the camp system still exists with many of the prisoners serving time for political, religious, and economic crimes which fall outside the scope of Western law. The camps, located in Arctic Europe and Siberia, supply workers to construction projects in those regions. The new gas pipeline travels through areas with camps. Therefore, is reasonable to assume that prisoners work on all pipelines.

Foreign workers: Foreign workers have participated in the construction of previous pipelines. In particular these include two export pipelines that are now operational: the Northern Lights line, and the Orenburg line, running from Arctic West Siberia and the Urals, respectively. Bulgarians and Poles worked on the Orenburg line.

Testimonies from Vietnamese defectors received by a German Human Rights organization as well as other reports cite large numbers of Vietnamese working on construction projects including the Urengoi-Uzhgorod export pipeline. However, as Secretary Weinberger noted, "the evidence is not conclusive." The number of workers reported are rather large for the presumed tasks. The export pipeline has already been laid across the European Russian sectors up to the Siberian tundra. Therefore, no major tree clearing function seems required. Pipelaying is performed by simple machinery but is not labor intensive. The Soviets took over the welding and the compressor installation tasks from East Europeans on the Orenburg line to assume quality and uniformity of construction. Where Vietnamese in large number could make a major contribution in gas pipeline construction is not clear.

Military Workers: The Soviets do use military builders on Northern projects. Many of the military troops are Central Asian recruits. They are considered less desirable for carrying out military operations, e.g., in Afghanistan; for filling out the Warsaw Pact ranks; or for serving in the China Watch forces. The draft is universal in the U.S.S.R. Certainly, Central Asians soldiers assigned to construction activities do not serve voluntarily, but Soviet military service has generally not been regarded as "forced labor."

The use of forced labor on any project affected by the sanctions as stated in the Broomfield Amendment is a very broad umbrella. The sanctions apply to all energy equipment to the U.S.S.R. This includes all equipment related to exploration, development, production and transmission of coal, oil, hydro and nuclear power, and natural gas -- whether for domestic or export use. In natural gas transmission, the Urengoi-Uzhgorod export line is but one of a half dozen lines (five domestic and one export). (see map.)

LEGISLATION

H.R. 6564 (Findley et al.)

Amends the Export Administration Act of 1979 to terminate export controls on goods or technology for the consideration of oil or gas pipelines or pipeline facilities. Introduced June 10, 1982; referred to Foreign Affairs Committee.

H.R. 6838 (Findley et al.)

Amends the Export Administration Act of 1979 to terminate certain export controls imposed on Dec. 30, 1981 and June 22, 1982. Introduced June 22, 1982; referred to Foreign Affairs committee. Passed as amended on Sept. 29, 1982.

S. 2837 (Garn et al.)

Unifies the export administration functions of the U.S. Government within the Office of Strategic Trade, and improves the efficiency and strategic effectiveness of export regulation while minimizing interference with the ability to engage in commerce, and for other purposes. Introduced Aug. 13, 1982; referred to Banking, Housing, and Urban Affairs.

HEARINGS

U.S. Congress. Senate. Committee on Banking, Housing and Urban Affairs. Possible use of forced labor to build the Yamal Pipeline in the Soviet Union. Hearing before the Subcommittee on International Finance and Monetary Policy, 97th Congress, 2d session. June 18, 1982. Washington, U.S. Govt. Print. Off., 1982, 165 p.

CHRONOLOGY OF EVENTS

10/05/82 -- The U.S. imposed limited sanctions against four West German companies - AEG-Kanis, Mannesmann Anlagenbau AG and two of its subsidiaries, Essener Hochdruck-Rohrleitungsbau and Kocks Pipeline Planning - after AEG-Kanis shipped two of its 47 contracted turbines to the U.S.S.R.

09/14/82 -- Mannesmann, a West-German firm, offered to conclude a deal with the Soviets for the delivery of large-diameter pipes through 1985.

09/13/82 -- The Soviets reported that work on the pipeline has proceeded across the Volga, Don and Dnepr Rivers and that preparatory work has begun on the compressor stations that will utilize 25 MW turbines.

09/10/82 -- The British government instructed two additional British companies, Walter Kidde and Andrew Antennas, to defy the U.S. pipeline embargo. These companies are subsidiaries of U.S. corporations.

09/09/82 -- The American Embassy in Tokyo began an investigation to determine whether Japan Steel Works, a major Japanese steel company, shipped pipeline valves to the U.S.S.R. involving U.S.-licensed technology.

-- Dresser Industries was denied a second request for a temporary restraining order to block the sanctions imposed against the company. However, Judge Joyce Green ordered the Commerce Department to hold an administrative hearing on the Dresser case by Sept. 17, 1982. Supposedly, the original sanctions imposed on the company have been revised to bring them in line with those placed on the British and Italian companies.

-- The Administration imposed limited sanctions -- only involving U.S. exports of oil and gas related equipment and technology -- against the British company John Brown Ltd. and three of its subsidiaries after a Russian freighter left Glasgow for the U.S.S.R carrying six turbines.

09/06/82 -- Sanctions in their revised, limited form were imposed on Nuovo Pignone, an Italian company, after two of their compressors were sent to the Soviet Union.

09/03/82 -- The first 25 MW turbine was reported by the Soviets to have been assembled at the Nevsky Factory Association in Leningrad.

-- Officials at Dresser Industries complained that the Department of Commerce was "slow-walking" the company by continuously delaying the hearing of its case. The company said it was ready to take its case to Federal court.

-- Senior government officials from Britain, West Germany, Italy and France met in London to discuss the U.S.-European dispute over the Soviet pipeline. The officials are said to have drafted a set of proposals but did not formally release its contents.

09/01/82 -- Donald Regan, Secretary of the Treasury, said that the Administration would announce its intentions to limit the sanctions against violators of the pipeline embargo to only U.S. exports of oil and gas related equipment and technology.

08/31/82 -- President Reagan was advised by four senior

Administration officials, Secretary of State Shultz, Secretary of Commerce Baldridge, Under Secretary of Commerce Olmer and Secretary of the Treasury Regan, to soften his sanctions against those European companies that violate his pipeline embargo.

-- Seven European gas companies signed contracts with the Norweign state oil concern, Statoil, for the delivery of approximately 3.5 BCM a year, beginning in 1986. 1.5 BCM a year will go to West Germany, while the Netherlands, Belgium and France will receive 2.0 BCM.

08/28/82 -- Commerce Secretary Malcom Baldridge called the U.S. action against the French companies "a measured response that we hope will dissuade other firms from violating U.S. regulations."

-- Dresser Industries' Senior Vice President for Finance Edward R. Luter said that the restrictions imposed on Dresser by the Administration "won't affect the pipeline order at all."

08/27/82 -- Dresser France appealed to the Commerce Department to lift the trade sanctions which barred it from receiving U.S. goods, services and technology. The company claims that "the denial of export privileges in this case is a violation of constitutional due process and of the statutory and regulatory authority of the department."

08/26/82 -- The U.S. government took action against two French companies after a French freighter left Le Havre for the U.S.S.R. carrying three compressors. Dresser France, a U.S. subsidiary and Creusot-Loire, a nationalized French company, were formally banned from receiving any U.S. goods, services or technology under a temporary "denial" order. The Commerce Department simultaneously began its formal investigation to determine whether the restrictions should be made permanent.

08/24/82 -- U.S. District Court Judge Thomas A. Flannery rejected Dresser's request for a temporary restraining order on the grounds that "the firms failed to prove that they would be 'irreparably damaged' by embargo sanctions or that they had a reasonable chance of winning their case in a trial."

08/23/82 -- Dresser Industries Inc. and Dresser France requested a temporary restraining order in a U.S. District Court to block the Administration from imposing penalties if the compressors which had been banned by the Reagan June 18th sanctions were shipped to the U.S.S.R.

-- Dresser Industries Inc. confirmed that it has ordered Dresser France to discontinue work on the pipeline equipment for the Soviets.

-- The French Ministry of Research and Industry formally told Dresser France, a subsidiary of Dallas-based Dresser Industries Inc., to fulfill its contract with the U.S.S.R. for 21 compressors. This order was based on a 1959 French law which permits the government to "requisition" the services of a company "when it is necessary to assure the needs of the country." Three compressors have already been completed.

08/12/82 -- The European Common Market issued a formal protest in response to President Reagan's June 18th expansion of the ban on sales of pipeline equipment and technology to the U.S.S.R.

08/09/82 -- While AEG Telefunken, a major West German electrical and electronics company filed for receivership, its chairman, Heinz Durr announced that the company still plans to deliver the first two of the 47 gas turbines ordered by the Soviets in September. Its subsidiary AEG-Kanis, which builds the turbines is not affected by the move for receivership.

08/06/82 -- The Wall Street Journal reported that the Japanese Export-Import Bank will soon begin discussions with the Soviets over their loan request in accordance with the Soviet-Japanese-Sakhalin oil and natural gas development project.

08/03/82 -- In accordance with the provisions of the 1980 Protection of Trading Interests Act, Lord Cockfield, the British Trade Secretary ordered four companies -- American Air Filter, Baker Oil Tools, Smith International and John Brown Engineering Ltd. to honor their contracts with the U.S.S.R. John Brown Engineering Ltd., in response to this announcement, said that it would begin delivery of the first six of the 21 ordered turbines by the end of August.

08/02/82 -- Grigory Sudobin, Deputy Minister of Construction Oil and Gas Enterprises, commenting on the pipeline project, was quoted in Sovietskaya Rossiya as saying, "We are exactly on schedule." Furthermore, he made the point that U.S.-built pipelaying machines and 25 MW gas turbines were the only items affected by the American embargo, and the Soviet factories were already producing substitutes.

07/27/82 -- The Belgians delayed signing an agreement to purchase 1-3 BCM of gas per year (1985-1995) from the Soviets.

07/26/82 -- The Soviets reported that they are presently holding talks with Greeks concerning the construction of a major gas pipeline which will run from the USSR to Greece through Bulgaria and Romania.

07/24/82 -- The Italian Foreign Ministry publicly stated that Italian contracts concluded with the Soviet Union for the sale of pipeline equipment "will be honored".

07/22/82 -- Italian Foreign Minister Colombo expressed his objection to the President's June 18th decision at a meeting with Secretary of State Shultz. He described U.S. policies as "fragmented".

-- The French Government officially ordered those companies involved in the Soviet pipeline deal to honor their contracts despite President Reagan's June 18th decision. The Government said that the contracts "must be honored" and that "deliveries due in 1982 must be made according to schedule."

07/19/82 -- The U.S. Ambassador to France, Evan Galbrith, warned the French Company, Astrom Atlantique that ignoring the U.S. embargo of American licensed technology could result in harsh penalties.

07/14/82 -- French President Mitterand expressed his objections to the U.S. trying to gain West European support for its economic actions taken against the U.S.S.R.

07/13/82 -- The West German Bank Consortium, led by Deutshe Bank, and the Soviet Foreign Trade Bank concluded an agreement whereby the West Germans would extend the Soviets $1.13 billion (2.8 billion Deutsche marks) in credit to purchase West German pipeline equipment. This agreement does not pertain to the financing of West German pipe. These loans, which cover the cost of 85% of West German orders, are guaranteed by the West German Government through the Hermes Credit Insurance Company at market rates for an 8 year period at the interest rate of 7.8%. The Soviets have the option of obtaining additional credit which would raise the total amount of West German credit to $1.6 billion.

07/09/82 -- Vladimir Filanovskiy, a high-ranking representative of the State Planning Committee said today that the Soviets have begun manufacturing their own 25 MW gas turbines in Leningrad. These, he said, will be used in the Soviet-Western Europe pipeline. His statement confirmed earlier unofficial reports on this subject.

-- Addressing the pipeline issue at a press conference, West German Chancellor Helmut Schmidt said "We will stick to the agreements our firms made with the Soviet Union and so will France and Britain."

07/07/82 -- The Japanese announced that despite the recent U.S. sanctions they will proceed with the Sakhalin oil and natural gas project. However, because of the U.S. actions, the project would be delayed at least a year.

07/06/82 -- Soviet gas officials were to meet with the Western companies participating in the Soviet-Western Europe pipeline project in order to discuss the project in light of

President Reagan's June 18th decision.

06/24/82 -- The Austrians concluded an agreement with the Soviet Union to purchase 1.5 BCM of gas for the next 25 years. The Austrians, furthermore, have until October to decide whether to buy an additional BCM of gas each year.

06/22/82 -- The European Common Market foreign ministers said that the extended ban on oil and gas equipment imposed by President Reagan on June 18, 1982 was in violation of international law.

06/21/82 -- Klaus Bolling, speaking for the West German Government, expressed dissatisfaction with President Reagan's decision to extend the U.S. embargo of oil and gas equipment to the Soviet Union.

06/18/82 -- President Reagan extended the embargo on U.S. sales of oil and gas equipment to the Soviet Union to overseas subsidiaries and licensees of U.S. firms.

06/15/82 -- Soviet Minister of Gas, Vassily A. Dinkov called a meeting of the major European companies involved in the Soviet Western Europe pipeline project for June 18 in Lausanne, Switzerland in order to discuss the existing contracts and to alert the Europeans that failure to meet their commitments could result in harsh penalties.

06/07/82 -- Officials of the German gas company, Ruhrgas A.G., announced that the Soviets had assured them that deliveries via the pipeline would begin in late 1984, as scheduled, despite the Reagan Administration's ban on exports of oil and gas equipment by U.S. firms.

02/18/82 -- The Executive Council of the AFL-CIO called for an embargo of all trade with the Soviet Union and a declaration of Polish default.

02/17/82 -- The U.S. Chamber of Commerce made public its opposition to plans emerging within the Administration to halt the pipeline by releasing a copy of a letter written to the President on February 5 by its head, Richard L. Lesher.

02/10/82 -- A group of French banks announced an agreement to provide an additional credit of $140 million to finance Soviet purchases of equipment for the pipeline from French companies. The loan, which was at the market rate and was not guaranteed by the Government, followed an earlier credit from French banks for 85% of French sales and covered the 15% downpayment the Soviets had initially agreed to make.

02/02/82 -- The Japanese Export-Import Bank announced that Komatsu would be allowed to complete its sale of pipe-laying equipment to the Soviet Union. The machines were similar to the embargoed Caterpillar pipelayers.

01/29/82 -- Italy's state energy agency (Ente Nazionale Idrocarburi - ENI) confirmed that it had reached a "technical agreement" on the price and quantity of Soviet gas to be delivered. ENI officials stated that the agreement did not change the government's decision to "pause for reflection" on whether to go ahead with the pipeline deal.

01/26/82 -- A majority of the members of the European Community agreed in principle to seek an increase in minimum interest rates charged for credits to the Soviet Union. Raising interest rates would require agreement in the OECD.

01/23/82 -- Gaz de France signed an agreement to purchase about 280 BCM (billion cubic meters) of Soviet gas from the pipeline annually for the 25 years beginning in 1986.

01/14/82 -- The German Parliament rejected a resolution, introduced by the Christian Democratic Party, calling for economic, political, and financial sanctions against Poland and the Soviet Union unless the former revived the reforms of 1980-81.

01/13/82 -- The Federal Republic's Economic Minister, Otto Lambsdorff, told the Cabinet that the Government's pledge not to undermine the U.S. sanctions applied only to new contracts and only to contracts for which a U.S. firm was the prime contractor. This clarification would appear to exclude the German compressor contract for which General Electric is a subcontractor.

01/08/82 -- The General Electric Company announced that its application for a license to export $175 million dollars' worth of rotors and other components for compressor stations had been denied. The company was a sub-contractor for John Brown Engineering, Ltd. (UK), Nuovo Pignone (Italy) and AEG-Telefunken (FRG), which had agreed to supply 47 compressor stations.

12/29/81 -- Declaring that the Soviet Union bore a "heavy and direct responsibility" for the imposition of martial law in Poland, President Reagan announced a series of sanctions, including suspension of licensing of oil and gas equipment and other high-technology items.

12/10/81 -- Senator Charles Percy (R-Illinois) announced that the Caterpillar Tractor Company had received a license to export 200 pipelayers worth $80 million to the Soviet Union. The license was subject to the end-use requirement that the pipelayers <u>not</u> be used in the construction of the Soviet-West European pipeline.

-- French officials announced the approval of a sale of electronic systems for controlling the flow of gas in the pipeline by Thomas-CSF. The announcement followed a six-month intra-governmental debate and a modification of the order to prevent the Soviets from obtaining certain computer technologies. The government also announced that it would not refer the sale to CoCom since it was not strategic.

11/20/81 -- The Soviet Union and Ruhrgas A.G. (FRG) signed an agreement on the price and quantity of natural gas to be delivered by the pipeline. The guaranteed minimum price was reported as $5.70. Deliveries are to start in 1986; to reach 10.5 BCM by 1987; and to remain at that level until 2006.

11/17/81 -- Congressman Gillis Long (D-La.) inserted in the Congressional Record answers to questions on U.S. policy toward the pipeline from the Secretaries of State, Commerce, Treasury, and Energy.

10/17/81 -- Senator Garn introduced a resolution expressing the sense of Congress that the President should: (1) prohibit any U.S. involvement in the pipeline; (2) urge the West European countries and Japan not to participate in the pipeline; (3) propose and enlist West European countries and Japan in a project to diversify energy sources; (4) promote such a project; and (5) establish a U.S. policy with respect to the promotion of Soviet energy resources development.

09/00/81 -- Nuovo Pignone of Italy agreed to supply 19 compressor stations for the pipeline.

-- The Soviet equipment trading agency (Machinoimport) signed an agreement with Mannesmann (FRG) and Creusot-Loire (France) to supply 22 compressor stations for the pipeline.

07/29/81 -- Senator Charles Percy (R-Illinois) announced the Administration's approval of the Caterpillar Tractor Company's application to export 100 pipelayers to the Soviet Union.

07/21/81 -- Representative John LeBoutillier (R-NY) introduced a concurrent resolution stating that it was the sense of Congress that the President should (1) prohibit U.S. participation in the pipeline; (2) urge the Western European countries and Japan not to participate; (3) enlist their cooperation in an alternative energy diversification project and (4) promote such a project.

07/19/ 1 - 07/21/81 -- At the Ottawa Economic Summit President Reagan tried, but failed, to persuade the West European leaders to abandon their plans for the pipeline.

07/14/81 -- Congressman Gillis Long (D-La.) published responses from the Secretaries of Energy, Commerce, Treasury and State to questions on the financing and construction of the pipeline in the Congressional Record.

07/00/81 -- A consortium of German banks, led by Deutsche Bank, and the AKA Ausfuhrkredit GmnH agreed to provide some 3.4 billion DM in credits for the compressor stations. As part of this complex arrangement, the Soviets agreed to make a 600 million DM downpayment, bringing the total to 4 billion DM (U.S., $2 billion).

06/24/81 -- Between 40 and 50 Members of Congress, led by Senator Garn, sent a letter to President Reagan, expressing concern that the pipeline would endanger Western security and suggesting alternatives to West European participation in the pipeline.

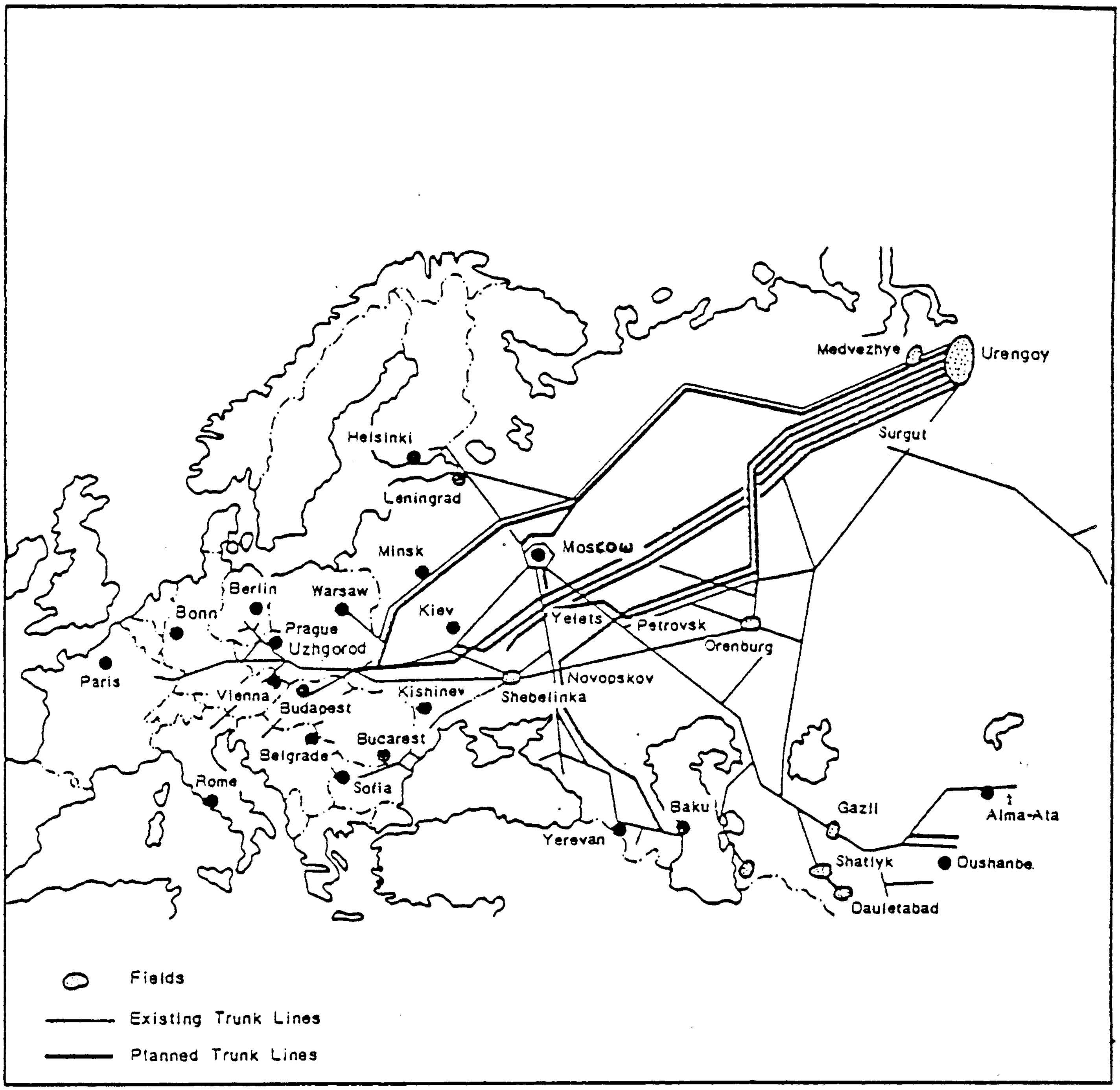
11/14/80 -- The Caterpillar Tractor Company was authorized to negotiate the sale of pipe-laying and earth-moving equipment to the U.S.S.R. Initially, the Soviets told the company's negotiators that they were interested in buying 200 pipe-layers for use on the export pipeline. The Soviets subsequently halved the order and told the company that the equipment would not be used on the export pipeline since the financing arrangements for it had not been completed.

00/00/78 -- The Soviets proposed the construction of a natural gas pipeline from the Yamburg field to Western Europe. Plans to develop this field were later pushed back and the Soviets decided to start the pipeline at the Urengoi field, which was already in production.

Figure 1

THE TRANSCONTINENTAL PIPELINE GRID OF THE USSR

Trunk Lines Planned in the Five-Year Plan 1981-1985



Source : Izvestiya, February 17 and April 3, 1982.

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