

Good, but only half a policy

The West German-Soviet drive for energy growth

by Richard Freeman

At the upcoming summit in Venice of heads of state June 22-23, the governments of France and West Germany will walk in with very compelling evidence of the need to junk the prevailing rigged agenda and discuss the reorganization of the world economy. This will have to involve both the establishment of a gold-based monetary system, and the replacement of the central authority of the International Monetary Fund and the World Bank.

One very reliable source confirmed June 4 that French President Giscard has formulated such a policy and is working it out in secrecy with his top policy advisers. Giscard's potential thrust was signaled in a speech delivered by French Premier Raymond Barre before the meeting of the Organization for Economic Cooperation and Development (OECD) in Paris June 4, where Barre stated that the world is in the midst of a danger unparalleled since World War II and that the principal cause is the collapse of the global monetary system, which needs reform.

At the same time, Bonn astounded the world when West German Chancellor Helmut Schmidt instructed his ministers this week to agree to a vast expansion of German-Soviet trade as the German-Soviet Economic Commission met in Bonn May 29 and 30 to hammer out the framework for long-term energy and industrial cooperation involving both two-way and three-way projects whose details a high-level West German-Soviet implementation group immediately began pinning down.

But the question hanging over particularly Schmidt's initiative is whether these deals and promises will be

enough. The world monetary system does indeed hang by a fragile thread, which could be snapped at any moment by a City of London-triggered maturation of the Third World debt crisis, forcing defaults, cancellations and advanced sector bank failures. Indeed, such possibilities were the subject of the three day International Monetary Conference held in New Orleans, where Bank of America president A.W. Clausen held out the establishment of a "safety net" to protect against advanced country bank failures.

The German-Soviet economic commission

The very meeting of the German-Soviet Commission on Economic and Scientific-Technological Cooperation, against the background of the manufactured atmosphere of East-West tensions, sent shivers up the spines of the Carter administration's policy controllers. The prestigious Council on Foreign Relations' policy organ, the *New York Times*, which advertises that it prints "all the news that's fit to print," buried its reportage on the Commission meeting in its May 31 edition at the bottom of a back page.

The BRD-Soviet Economic Commission was created as the outcome of the historic May 1978 meeting between Schmidt and Soviet Preident Leonid Brezhnev, which resulted in the signing of a 25-year trade and development treaty between the two leaders' countries. This preceded by one month the Bremen, West Germany

meeting that created the gold-based European Monetary System (EMS). Each May, the Commission meets to "talk turkey."

At this year's meeting, at which the ranking figures were West German Economics Minister, Count Otto von Lambsdorff and Soviet Deputy Prime Minister and Politburo member N.A. Tikhonov, the next several years of the accord were fleshed out. The scope of the plan is so large and the intended cooperation so close that Moscow announced that it will base its 1981-85 five-year plan on the calculation of heavy inputs from the West German economy.

The wide scope of development projects, ranging from metallurgy and metal processing, to chemical production, mineral development and exchange of patents, licenses, specialists and know-how, contained a few stunning surprises. The Germans agreed to supply the Soviets with oil-drilling equipment, which used to be exclusively an American market controlled by such firms as Dresser and Sedco. President Carter last year embargoed this equipment because it was allegedly "militarily sensitive." Soviet electricity supplies to the Federal Republic are also included in the energy development core of the agreement.

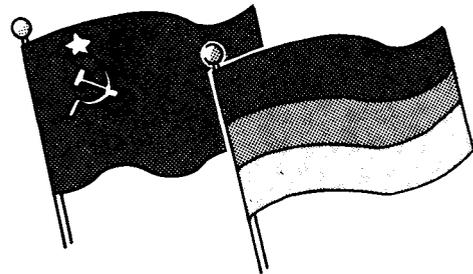
Joint projects in Third World countries

The accords also proposed to create "expert groups in the area of banking" which will not only work on speeding up and improving means of payment between the two countries, but also on correcting what has been a persistent Soviet balance of trade deficit with West Germany. The solution to the latter problem was proposed to be joint German-Soviet projects in third countries, with Turkey, a natural East-West partner, cited as a prime example.

The level of trade between West Germany provides background for what this latest accord means. In the first quarter of 1980, West German exports to the Soviet Union rose by 23.8 percent, while its exports to a collapsing U.S. economy did not significantly change. As a result, for the first time ever, during the first quarter, West German exports to the East Bloc outstripped its exports to the United States.

It is for this reason that the heavily export-oriented West German economy, increasingly reliant on high-technology goods, registered economic growth at a six percent per annum rate in the first quarter, versus one percent for the United States, and scored a solid 3 percent productivity gain versus a 2.3 percent drop in the United States.

But there is more to the trade and cooperation deal than simply its economics. Capturing the essence of the thinking of many prominent Germans that the U.S.



The communique

The May 31 communiqué of the Soviet-West German Commission on Economic and Scientific-Technological Cooperation was summarized in the June 1, 1980 issue of Pravda. In part, the summary reads:

The session reviewed the process of implementation of several important agreements and contracts. Successful implementation is occurring of their long-term agreements on the delivery by the Soviet Union of natural gas and its purchase in the Federal Republic of Germany of wide-diameter pipe, as well as equipment for manufacturing gas pipelines; on the construction in the U.S.S.R. of a number of chemical plants; on the equipping of the Oskolsk electrometallurgical combine. Talks are under way on a number of other major projects of mutual interest. The two sides expect that the Eleventh Five Year Plan for the development of the U.S.S.R. national economy and the conjunctural position of the economy of the Federal Republic of Germany will create additional opportunities for cooperation.

The two discussed the possibilities for cooperation in the energy field, particularly in developing offshore fossil fuel deposits, coal hydrogenization and gasification, electroenergy and the production of power equipment, in conservation of energy and raw materials, and other areas. . . .

The commission noted the growing contribution of specialized expert groups and experts' meetings and cooperation. It was decided to create expert groups in the areas of bank financing, cooperation in machine-building for food and light industry, and to hold experts' meetings on cooperation in the paper industry, pump and compressor equipment, and industrial pipe. . . .

It was agreed to hold the Tenth Session of the commission during the first half of 1981, in Moscow.

policy of confrontation must be sharply rejected, Otto Wolff von Amerongen, the leader of the German Chamber of Commerce and Industry, who usually speaks for an industry consensus, stated June 3, "At a certain time, it was better to go to Washington than to Moscow; it is now perhaps more important to travel to Moscow." Von Amerongen made this statement in Erivan, a Soviet city near the Caspian sea, where he and a group of top level German business leaders were meeting with their Soviet counterparts.

Von Amerongen then outlined four areas of expanded German-Soviet joint work: 1) improve the payments system between East and West; 2) improve the transport system; 3) improve joint electricity supply; and 4) coal gasification. These are the same general areas the Soviet leader Brezhnev has specified as suitable topics for discussion for the convening of a European conference on Energy and Transportation.

Commenting on the accord, German Chancellor Schmidt told an editorial conference of the leading German daily, the *Süddeutsche Zeitung*, that "in view of the tense world situation, the good level of East-West contacts in Europe provides a sign of optimism."

There has been a heavyhanded U.S. State Department and American press attempt to force Schmidt to abandon this policy, including a scurrilous attack on Schmidt published by *Business Week*. Schmidt's press secretary Hans Bölling responded to these pressures May 29, stating that: "The deeply rooted friendship between

Germans and Americans is founded on partnership, but not on submission to a hierarchical alliance order."

Is it enough?

The Schmidt policy offensive for increased East-West trade will certainly allow for Germany to diverge economically from the United States. While the U.S. is going through a collapse far worse than 1974-75, Germany continues to register economic growth.

But for how long? And what happens to the rest of the world in the meantime? New lending, even to Germany's favorite Third World customers, dropped sharply in the first quarter of this year. Despite its worsening current account deficit, the Third World could barely keep up with financing its old debt. Such a situation cannot last for long without wrecking the world economy, including Germany's heavy export trade. Thus Schmidt's East-West trade policy, while a major contribution to world growth and West German stability, is insufficient and as such, only "half an economic policy."

Yet, for Giscard to push through his world monetary reforms which will address the larger issues, he will need Schmidt's full support. It is this combination that will be needed to force through any positive moves at the June 22-23 Venice summit of heads of state.

As one old wizard of German banking told *EIR* this week, "The current world monetary system cannot last. Its reform is mandatory. Schmidt and Giscard can do it."

'We seek optimal results from large-scale projects'

First Deputy Prime Minister of the U.S.S.R. and Politburo member N.A. Tikhonov represented the Soviet Union at the trade talks in Bonn. He was interviewed in Izvestia June 1.

Referring to the main direction of business cooperation between the U.S.S.R. and the Federal Republic of Germany, N.A. Tikhonov noted that the most optimal mutually beneficial results come from the joint implementation of large-scale projects, compensation deals, cooperation in production, and joint development of new types of equipment and advanced technology.

In other words, the question today is to carry out, in addition to regular trade, major contracts based on

the principle of economic cooperation in a number of branches of the economies of both countries and designed for the long term. The effectiveness and mutual benefit of such forms of cooperation is confirmed by a multitude of concrete examples, from our pipe-credit-gas deals and the construction of the Oskolsk electrometallurgical combine to the joint implementation of projects in the third countries.

There are reserves for further development of economic cooperation between our two countries, said the head of the Soviet delegation, and they are large ones. An example is the extraction of raw materials, which West Germany acutely needs. For a highly developed industrial power, the BRD has extremely limited fuel and raw materials resources. It is nearly 100 percent import-dependent for many important raw materials. Cooperation in extraction and refining of raw materials promises substantial benefits to both countries. . . .

Cooperation in building industrial plants is no less promising.