

Report from Bonn by Rainer Apel

Barter deals in trade with East

Lack of hard currency earnings in the Soviet Union must not be allowed to block economic progress.

Sensational news came from Moscow in the late evening of April 11: Senior envoys of the German government had agreed on a bold plan for the revival of east German exports to the U.S.S.R. Here is what the two German envoys, Assistant Finance Minister Horst Koehler and Assistant Economics Minister Dieter von Würzen, agreed to:

The German government's special Hermes export credit guarantee would be used to cover all contracts signed between east German and Soviet companies in 1991. All eastern German exports to the Soviet Union—having a volume of DM 36 billion in 1989—would be financed, with grace periods for the Soviet side of up to 720 days, a term of up to 10 years, and no down payments required.

The deal is exclusively with the Soviet Union, and for firms in east Germany that have already produced or are considering producing products especially fit for the Soviet market. In cases where foreign competitors offer the same products at lower prices than the east Germans, the German government would intervene with additional subsidies to secure contracts for the east Germans.

The agreement has to overcome significant obstacles, however. One problem is that other Soviet payments to west German firms in the range of DM 2 billion have long passed their due dates. Therefore, an activation of the Hermes default clause is imminent, which means that the government will step in and cover the industry's losses. According to German banking laws, if this happens, new guarantees for the defaulting trade

partner cannot be issued for the time being.

Immediate requirements for a preemptive government move to avoid the activation of the default clause are said to be in the range of DM 400-600 million. This is not a huge sum, but more Soviet payments to German exporters are due in the coming weeks. Perspectives of payments coming in are pretty bad, given the fierce struggle between central and regional institutions on the Soviet side, which has caused delays in all projects.

The urgency of the situation is shown by the fact that of the first DM 9 billion Hermes guarantee that the German government granted for east German exports to the Soviet Union in mid-February, only DM 3 billion have so far been utilized—with other contracts over a volume of DM 10 billion still waiting for realization, some of these for several months already.

But Moscow agreed on April 11 to grant appropriate representation to the republics on the Soviet side of the German-Soviet commission. This has been a German recommendation for a long time, but Moscow has always said *nyet*, on grounds that this would give foreigners leverage to play the republic governments against the central government. Apparently, the German view is that more balancing-out between the center and the regions would be helpful to overcome the bureaucratic obstacles in the way of German-Soviet trade.

Further, there is the shortage of hard currency earnings on the Soviet side, which could be used to pay export firms in east Germany. But they

do have raw materials like crude oil, natural gas, uranium, and other rare metals that are needed in Germany.

There is an interesting news item to report in this context: The Soviets have replaced the British as Germany's number-one supplier of crude oil during the first two months of this year. The margin by which the Soviets achieved that may seem small—2.9 million tons, as compared to 2.5 million tons from British Petroleum. But the fact that Moscow made special efforts to keep oil deliveries to Germany at high levels, in spite of big problems with the oil-producing sector at home which led to a cut in 1990 oil exports to all of Eastern Europe, is a political factor that can't be overlooked.

This opens up a promising perspective, because oil, uranium, and molybdenum are said to be the basis for future long-term barter trade agreements between the Soviet Union and Germany.

Among the less-publicized issues which the two German envoys discussed in Moscow April 11, were plans for increased German investments in the U.S.S.R. to secure the future production of crude oil and natural gas. It is planned to repay the investments later by the export of fairly priced oil and gas to Germany.

Now, here's the potential linkage with the situation of east Germany. If east German firms (many of which have long experience with projects in the U.S.S.R.) deliver machinery, technical equipment, or pipeline parts to the Soviet oil and gas sector, contracts will be guaranteed by the Hermes facility.

The agreements that could work are in place, but they need to be put into effect without delay. And the barter-type arrangements between Germany and the Soviet Union should be replicated between Germany and the other states in Eastern Europe.