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SOVIET PIPELINE  
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The Soviet Union plans to construct a 3,000 mile pipeline to supply natural gas to Western European nations by 1984. To accomplish this goal, the Soviet Union will rely partially on equipment and technology from Western European countries designed and acquired from the United States.

In December 1981, in response to the declaration of martial law in Poland, President Reagan banned U.S. companies from supplying pipeline equipment to the Soviet Union. In June 1982, President Reagan broadened the ban to all pipeline equipment manufactured by Western firms under license from U.S. companies. These policies have been criticized by the international economic community and have strained the relationship in the U.S.-European alliance.

The Soviet Pipeline Info Pack includes background information on the situation and on policy options for the United States.

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### FACT SHEET

#### Energy Equipment Sales to U.S.S.R.

##### Administration Action

In June, 1982 President Reagan banned the sale of all energy-related equipment to U.S.S.R. by U.S. companies, foreign affiliates, and foreign companies with U.S. patents and licensing. The new Export controls became effective June 22, 1982 (Federal Register June 24, 1982). This action increased the scope of the limited sanctions on oil and gas equipment invoked against the U.S.S.R. after the imposition of martial law in Poland back on December 30, 1981. Energy equipment licensing had previously been made a routine function of the National Security Council in 1978 under President Carter, because it was deemed a "flexible foreign policy tool."

The Administration has 60 days to consider the June, 1982 order before it becomes final on August 21, 1982. Presently, there are indications that the order may be narrowed in such a way as to affect only U.S. gas pipeline-related exports or U.S. direct production.

##### Foreign Response

Since the early 1950s, any sale or licensing of US technology overseas has required a contractual clause stating that the licensee or purchaser agrees to abide by US regulations in selling the technology or resultant products to third countries. These are the grounds on which the Reagan administration forbade General Electric (US), the firm whose technology and components for turbine compressors is in question, from allowing AEG-Kanis (Federal Republic of Germany), John Brown (UK), and Nuovo Pignone (Italy) from incorporating US-made components into compressors for sale to the Soviets. The agreement

of Alsthom-Atlantique (France), a GE licensee, not to sell to third countries also prohibits French-made components from being used in compressors that either the French or another European firm might build. Although all firms are GE licensees, only Alsthom has the technical facilities to turn out the compressor rotors. All of the European companies have contracts with the USSR for gas equipment deliveries, each argues many jobs are involved. The financially troubled AEG-Telefunken parent company of AEG-Kanis may go into bankruptcy without this contract worth \$265 million. Most of the countries' leaders and companies involved in supplying energy equipment to the U.S.S.R.--the United Kingdom, the Federal Republic of Germany, France, and the members of the European Economic Community--indicated intent not to comply with the June 1982 order on legal and policy grounds. The Japanese were also affected in an oil equipment supply deal off Sakhalin Island; they appear to be willing to comply at this point.

The Soviets announced that they were going into production on a 25 MW gas turbine of their own which would leave them less vulnerable to future restrictions. They also notified Western suppliers that they expected them to adhere to their contracts.

Ruhrgas -- the European distributor for imported Soviet gas--recently announced that they expected the gas contracted for would be supplied to them by the Soviets in 1984 as projected.

### Soviet Pipelines

The Soviet export pipeline from the Urengoy field in West Siberia to Uzhgorod in Czechoslovakia will be their third gas export pipeline, following the construction of the Orenburg and Northern Lines in the 1970s. The FRG

now receives about 20 percent of its gas via these two pipelines. The Urengoy pipeline is one of six major gas pipelines under construction in the current Five-Year Plan (1981-85), the remaining five are domestic lines.

Natural gas requirements under the current plan will mainly be filled by expansion of this one super giant field, Urengoy, in Arctic West Siberia. The comparable gas reserves in this region rival the proven oil reserves in Saudi Arabia. Later, Arctic West Siberian gas fields in Yamburg and the Yamal Region will be brought into operation.

In 1972-73, U.S. technical and financial support in development of large gas projects with Export-Import Bank credit and U.S. contracts was proposed by the Nixon administration for the West Siberian (Urengoy) and East Siberian (Yakutia) fields. This earlier US-USSR cooperation would have provided a basis for more rapid, efficient exploitation of Soviet gas resources as would the current West European variant of cooperation. However, the absence of Western technology or credit would not then or now preclude the construction of new Soviet lines.

#### U.S. Business Responses

The United States Chamber of Commerce head, Richard Leshner, criticized the unilateral, extraterritorial, retroactive action taken by President Reagan on oil and gas equipment and technology controls. The "unprecedentedly broad" coverage extended to all oil and gas equipment exports to the USSR, not necessarily related to the controversial gas export pipeline construction, was given special attention by the Chamber's head in correspondence with the White House on July 14, 1982. While reaffirming support for tight controls of militarily critical goods and technology, the use of

unexpected new controls for foreign policy purposes was questioned by the U.S. Chamber (see Congressional Record S8412, July 15, 1982).

The Administration continues to focus on the need for credit controls of Western countries trading with the East and argues that the current attention given to the stringent energy equipment controls would highlight their concern and strengthen their arguments for agreed Western limits and controls of credits to the USSR.

John P. Hardt  
Congressional Research Service

# U.S. Pipeline Equipment Unneeded, Russia Says

By SERGE SCHMEMANN

Special to The New York Times

MOSCOW, June 25 — If President Reagan's decision to extend the ban on American technology for the Siberian gas pipeline has hurt or frightened the Russians, they have been characteristically careful not to show it.

The official Tass press agency briefly denounced the action as "an attempt to turn ordinary trade between states into a weapon of political blackmail and pressure." But for the most part, commentaries have been limited to quotes from Western business and government leaders venting anger over the United States decision.

Alexander M. Haig Jr., who resigned today as Secretary of State, had also opposed the tough sanctions on the pipeline that were broadened last Friday by Mr. Reagan. The initial sanctions were set up in December in retaliation for what Washington termed Soviet repression in Poland.

West German correspondents in Moscow were assured this week by Deputy Prime Minister Leonid A. Kostandov that Washington's latest move would have no effect on Moscow's timetable for the pipeline, and that gas would start flowing from Siberia to Western Europe in 1984. Tass said today that the Soviet Union planned to make trial deliveries of gas in the "autumn of 1983."

## Claims of Self-Sufficiency

Demonstrations of self-confidence were somewhat predictable. From the time President Reagan first announced the sanctions, the Soviet news media have carried regular claims of self-sufficiency in pipeline construction. One company in Leningrad has reported developing compressor equipment that could presumably replace the critical General Electric Company turbines whose use in the project has been blocked.

Western specialists in Moscow, however, are skeptical of the claim, noting

that there was little chance that the Soviet Union could manufacture turbines that matched the G.E. model in reliability, or produce them fast enough to keep the project on schedule.

Probably a more accurate reflection of Soviet concern was the visit to Europe last week by Vassily A. Dinkov, the minister of gas, who reportedly pressed contractors there to find ways around the sanctions, perhaps with some hints of contract cancellations or potential penalties.

Mr. Reagan's extension of the sanctions would ban the sale of pipeline equipment made abroad under licenses from American companies; the original ban applied only to parts actually made in the United States and then incorporated into foreign-built items.

The complications brought on by the sanctions have led to some speculation that the entire project could be jeopardized. But most Western experts here doubt that the curbs will do more than delay construction of the line while European contractors find ways to replace American equipment.

Any delay in reaching full capacity would postpone the \$4 billion to \$5 billion a year in hard currency that the Russians are counting on to replace dwindling income from oil. Although Mr. Reagan has focused on the strategic danger of letting Europe become overdependent on Soviet fuels, some sources here suspect that Washington is equally interested in depriving the Soviet Union of a long-term source of hard-currency income.

Against this, however, the political leaders in the Kremlin undoubtedly derive satisfaction from the angry reaction to the sanctions in Western Europe. Using trade and defense differences to drive a wedge between the United States and its European allies has been a major Soviet foreign policy goal over the past year.

# U.S. HARDENS CURBS ON SOVIET GAS LINE

## Ban Put on Companies Abroad — Polish Situation Cited

By LESLIE H. GELB

Special to The New York Times

WASHINGTON, June 18 — President Reagan, in a major rebuff to West European allies, refused today to ease his ban on the sale of United States oil and gas equipment to the Soviet Union and instead extended the sanctions to foreign companies producing such equipment under American licenses.

A Presidential statement released by the White House this afternoon attributed the decision to Mr. Reagan's desire "to advance reconciliation in Poland" by continuing economic pressure on the Soviet Union and Poland.

Since the imposition of martial law, the statement read, "little has changed concerning the situation in Poland; there has been no movement that would enable us to undertake positive reciprocal measures."

The pipeline sanctions were first imposed last Dec. 30 solely on American companies in response to the imposition of martial law in Poland in mid-December. Their practical effect was to bar the General Electric Company, the Caterpillar Tractor Company and other major United States companies from selling equipment for the construction of a 3,700-mile pipeline from Siberia to West Germany that eventually might supply Germany, France, Italy and Spain with more than 30 percent of their natural gas.

The pipeline would become a major source of badly needed foreign exchange earnings for the Soviet Union, an achievement the Reagan Administration would like to prevent. While the President's statement today tied the sanctions solely to the Polish situation, the Administration has also been opposed to the pipeline on the ground that Europe would become too dependent on Soviet gas and thus subject to political pressure from Moscow.

The President's decision was seen by Administration officials as a major victory for Pentagon and White House officials who favor intensified economic warfare against the Soviet

Union. It was a stunning defeat for the State Department and Treasury Department officials who argue that the sanctions will only alienate American allies without really harming the Soviet Union. Europeans have viewed Soviet orders for construction equipment and pipe as a means of stimulating their economies and easing high unemployment.

The announcement today reversed a position that the Administration had put forth during the economic summit conference in Versailles, France, two weeks ago. Administration officials had said that a European agreement to take steps to restrict government-subsidized export credits to the Soviet Union and Eastern Europe would forestall further American efforts to block the pipeline.

During the Versailles summit meeting and again at the White House briefing today, Administration officials said that its West European allies had moved toward curbing government-subsidized export credits for the Soviet Union.

### Follows Move on Steel

The pipeline decision was the second recent move by the Administration that seems bound to anger its European allies after the Versailles summit meeting on June 5 and 6. Last week, the Commerce Department announced that it would levy stiff penalties on steel imports from nine countries, including seven from the European Economic Community, to offset government subsidies that permitted the European countries to sell the steel in the United States below cost, in the view of the Commerce Department.

Both Presidential decisions are sure to be seen by the Europeans as exacerbating their economic problems, especially unemployment, now at its highest level since the Depression.

### Lack of Coherent Policy Cited

One senior official who opposed the decision cautioned against drawing any general conclusions from today's decision on the ground that the Administration still lacked a coherent overall policy toward the Soviet Union and that, until it had one, policy would go one way, then another.

Today's decision will continue to prevent direct sales of Caterpillar pipelayers and General Electric rotors for turbines to pump gas, and will seek to prevent a French company from producing the rotors under license.

The President's statement said that he would issue new regulations under the Export Administration Act of 1979 to block the equipment produced abroad under license. Administration officials at the briefing said this would have the force of law.

A number of other Administration legal experts, however, maintained that the President was entering a legal quagmire with few, if any, precedents, and with the end results very much in doubt. They said that General Electric, for example, could challenge the President's regulations in the courts.

Beyond that, they added that foreign governments could block the regulations from applying to companies within their jurisdiction and thus protect these companies against American legal action.

At the briefing, Administration officials described the sanctions as the sum and substance of the "toughest option" presented to the President this afternoon at a National Security Council meeting.

The officials also maintained that the impact of the President's order would be to delay the completion of the pipeline from "one to three years" and "increase the cost" of building it for Moscow. The pipeline has been scheduled to begin moving gas before the end of the decade.

One of these officials said that the order's purpose was to "demonstrate the will and resolve of the President to insist on movement in Poland." The three conditions that Mr. Reagan announced in December for lifting the pipeline sanctions were the removal of martial law, the opening of a dialogue among the Polish Government, Poland's Solidarity union leaders and the Roman Catholic Church and the release of political prisoners.

## 3 G.E. Licensees

General Electric had planned to supply three European licensees with \$175 million worth of rotors to build and supply G.E. turbines to the Soviet Union for the pipeline. The licensees are A.E.G.-Telefunken in Germany, John Brown in Britain and Nuovo Pignone in Italy.

A G.E. spokesman at his headquarters in Fairfield, Conn., said yesterday that the company would "comply with the directives of the U.S. Government."

The Reagan order apparently blocked the licensees from using G.E. technology. The ban issued on Dec. 30 against shipments of American-made equipment had blocked the sale of the rotors to the licensees, but G.E. had licensed a French company, Alsthom Atlantique, to make the rotors in Europe.

Caterpillar, which was to have shipped 200 mechanical pipelayers directly from its East Peoria, Ill., plant under a \$90 million contract, said that the expanded sanctions "should not have any additional impact" on the company.



## U.S. Effort to Block Soviet Gas Pipeline Recalls Failed Embargo of 20 Years Ago

STEVE MUFMIN

Staff Reporter of THE WALL STREET JOURNAL

"Trade denial has come to be an important symbol of our cold war resolve and impose, and of our moral disapproval of the U.S.S.R.," wrote a presidential aide.

These words weren't written about the Reagan administration embargo of natural-gas pipeline

equipment to the Soviet Union in the aftermath of the military crackdown in Poland.

They were written 19 years ago by John F. Kennedy aide Walt Whitman Rostow about an almost identical U.S. embargo of equipment for a Soviet oil pipeline the aftermath of the Cuban missile crisis.

All but forgotten in the U.S., the pipeline embargo of 1962-1963 remains a sore point for West Germans eager for trade with the Soviet Union. Western experts on Soviet trade argue the Reagan administration could learn much from the pipeline battle 20 years ago. They also say the outcome of the current fight (if the Reagan administration persists) will probably be the same: some construction delay, but ultimately completion of the project, a political victory for the Soviets and a setback for the unity of the Western alliance.

The American embargo two decades ago remains freshest for the West Germans, who were the only ones to go along with U.S. efforts then. "The Germans keep coming back to this [earlier incident]," says Angela Stent, Georgetown University professor and author of "From Embargo to Ostpolitik," a book about West German-Soviet relations. "They were the only country to go along with the (1980) Olympic boycott as well. They aren't going to be in a position again of forfeiting business while their competitors and allies go ahead."

The U.S. decision to embargo large-diameter steel pipes to the U.S.S.R. in 1962 was a response to growing European trade with Russia and to concern about increasing Russian oil exports, according to Miss Stent.

Soviet plans at the time called for an increase in oil exports to the West to more than a million barrels a day, from a 1960 level of 486,000 barrels a day. Even the increased level was just 4% of world oil sales. About 40% of the Soviet oil exports went to Italy, Japan and West Germany.

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### An Earlier Contract

West Germany was attracted to the pipeline project as much for prospective steel exports to stop the slide in steel prices as for oil availability. On Oct. 5, 1962, three major Ruhr steel companies signed contracts to supply the U.S.S.R. with \$28 million of 40-inch diameter steel pipe.

American officials cried out against the plans. "Economic warfare is especially well adapted to their (Soviet) aims of world-wide conquest," concluded Sen. Kenneth Keating's subcommittee after hearings on Soviet oil. "They are using oil to buy valuable machinery and know-how from the West. They have even succeeded in exchanging oil for the pipelines, valves and tankers. . . . If these tactics continue to succeed, there is danger that Western countries will become increasingly dependent on Soviet oil supplies for vital defense as well as industrial activities."

Oil companies also denounced the project. They charged that the Soviet Union was dumping oil, selling it to Germany at a price of \$1.71 a barrel, well below world market prices of \$2.56 a barrel, according to Miss Stent.

Unable to muster complete allied support for a formal Western embargo, the U.S. obtained an informal North Atlantic Treaty Organization resolution opposing the pipeline. Highly sensitive to U.S. pressure, the West German government agreed to comply with the resolution and barred the three steel companies from fulfilling their contracts. In the domestic political uproar that followed, the ruling West German coalition was brought to the brink of collapse after it used the heavy-handed tactic of walking out of a meeting of the Bundestag, thus depriving the parliamentary body of a quorum and of the chance to vote down the proposed sanctions.

The three German companies slashed their operations in the wake of the sanctions. The Soviet Union sued the firms. And West German-Soviet trade dropped sharply.

### Other Allies Went Ahead

Other allies weren't so easily deterred. The British deemed the NATO resolution non-binding and continued to supply large-diameter pipe to the Russians. The Italians interpreted the resolution as not applying retroactively and fulfilled existing contracts. Japan and Sweden also continued to supply the Soviet Union.

The embargo stimulated increased Soviet production of large-diameter pipes, albeit at the expense of other Soviet industrial goods. The Soviet pipe was also somewhat inferior in quality to Western pipe. In 1961 the U.S.S.R. produced no 40-inch diameter pipe; by 1965 it was producing 600,000 tons a year.

Soviet leader Nikita S. Khrushchev ridiculed the American embargo. "Anything one pleases can be regarded as strategic material, even a button, because it can be sewn onto a soldier's pants. A soldier won't wear pants without buttons, since other-

wise he would have to hold them up with his hands. And then what can he do with his weapon? But if buttons really had such great importance and we couldn't find any substitute for them, then I am sure that our soldiers would even learn to keep their pants up with their teeth, so that their hands would be free to hold weapons."

In the end the pipeline was finished, though slightly late. Soviet oil exports increased as planned. Miss Stent concludes in her book that "the chief result was a general irritation both in East-West relations and in relations between the United States and its allies."

"It's obviously comparable," she says. Like the Soviet oil pipeline, the current Soviet natural-gas pipeline will contribute relatively small amounts of Europe's total energy needs. The U.S. is again hinging its embargo effort on one crucial item—compressors—instead of large pipe, and trying to enforce the embargo on European firms retroactively.

### Europe More Outspoken Today

One important difference today is that Europe is more galvanized in its opposition to the U.S. efforts. "The Germans don't play the same role, but America is showing its allies that it doesn't like East-West trade policy," says Miss Stent. "The Russians are reacting in the exact same way; their national virility is being salted. It is inducing them to develop their own capacity."

Another difference today is that some U.S. officials and conservative commentators are focusing their criticism on the credit arrangements through which the Soviet Union is financing the pipeline. They say that some Western governments are subsidizing credit that Moscow wouldn't be able to raise on a free market. Such credit, they say, will indirectly help the Soviets build other segments of their economy or military. Proponents of the pipeline project reply, however, that the Soviet Union will, in effect, pay for those credit subsidies through lower gas prices.

Miss Stent plays down U.S. arguments of potential security threats posed by energy dependence on the Soviet Union. "Some of that dependence already exists. Besides there are other areas, such as Berlin, where the Soviet Union can put pressure on without sacrificing earnings." Furthermore, she adds, "it is in the security interests of Europeans to diversify sources of supply. The Soviet Union is as attractive as Libya or Algeria."

"Yes, the embargo will hurt them," argues John Hardt, Library of Congress analyst, about the Soviet Union. "The pipeline, like the one in 1962, will be more costly, take more time, be of less quality. But the Soviet Union will offset the efficiencies it would have gained by making different priorities."

"We've created new opportunities for the Soviets," says Ed Hewitt, Soviet Union expert at the Brookings Institution. "They'd like to come out with some diplomatic coup, an agreement with Europe directly contrary to the wishes of the U.S. government. If they can come off with a visible, highly publicized agreement (to replace embargoed U.S. equipment), that would be worth something to them."

New York Times  
July 23, 1982  
page A1

## U.S. Is Considering Imposing Penalties For Ban Violations

By STEVEN R. WEISMAN

Special to The New York Times

WASHINGTON, July 22 — The Reagan Administration said today that it was studying the possibility of imposing penalties on foreign companies that circumvent the American ban on the sale of certain equipment for the Soviet natural gas pipeline to Western Europe.

Responding to an announcement by France that French companies would go ahead with the sales despite the American prohibition, Administration spokesmen said the Commerce Department had begun looking at "a variety of ways" to enforce the ban.

Larry Speakes, the deputy White House press secretary, said the Commerce Department was looking at provisions in the Export Administration Act, which he said "provides for a variety of penalties against violators."

Another official said such penalties could include fines or curbs on future trade with the United States.

Several Administration officials said that no matter what the Administration eventually decided to do there was certain to be an immensely complicated legal battle involving American, French, British, Italian and West German companies and their representatives. The European companies oppose the American prohibition, which was announced last month.

The equipment in question includes rotors, turbines and other items manufactured by European companies under license from American companies. The French company Alsthom-Atlantique has already received licenses from the General Electric Company to make and sell such equipment for the pipeline.

Last month President Reagan broadened the restrictions to include European companies making pipeline equipment under such licenses. The legality of whether the United States can enforce such a ban beyond its borders may have to be decided in court, according to Administration officials.

A spokesman for the Commerce Department said today that the Export Administration Act required that all li-

censes must be consistent with United States trade laws. Even if a license has already been granted, he said, a foreign country would be required to observe the prohibition.

The spokesman said the act would enable the department to forbid American companies from doing business with a company found to have violated United States trade laws. He said the measure provided for the placing of violators on a "denial list."

He also said that the act permitted the Commerce Department to seek fines ranging from \$10,000 to \$100,000 against foreign companies found in violation of such laws. But he said he did not know of any case in which such a ban had ever been obtained before. He did not say how such fines would be enforced.

The spokesman also said that the United States could conceivably try to prosecute officials with foreign companies through the courts, but he acknowl-

edged that this procedure had also not been tested.

The Commerce Department spokesman said any sanctions that would be imposed would be against foreign companies, not General Electric or any other American company that had granted the licenses in the first place. "There's no intention of going after anybody but a guilty party," he said.

The decision of the French Government to proceed with the pipeline sales came as no surprise, according to several officials. One official said the French Ambassador, Bernard Vernier-Palliez, informed the State Department of France's position last month.

### Speaking the Same Language?

Dean Fischer, the State Department spokesman, said he regretted that Claude Cheysson, the French Foreign Minister, had used "polemical" language in announcing the French decision. Mr. Cheysson spoke of a "progressive divorce" between the United States and France, adding, "We are not speaking the same language."

Mr. Speakes, in disclosing the possibility of sanctions against the European companies, said that French-American relations would remain strong. "We continue to speak the same language," he said, responding to Mr. Cheysson's comments.

"We have warm and friendly relations between the two Presidents," he added. "The bond between the United States and French Governments is strong and intact. We do have policy differences, and this is one of them."

Despite European requests not to do so, Mr. Reagan went ahead with imposing the ban on the pipeline equipment. Administration aides argued that construction of the pipeline would aid the Soviet economy and that there was a danger of European countries becoming

too dependent on energy imports from the Russians.

The announced reason for the pipeline decision, however, was the crack-down in Poland. The United States has imposed three conditions for easing the sanctions on the Soviet Union and Poland: the lifting of martial law, the freeing of all detainees and the restoration of a "dialogue" between the Polish Government and the Solidarity labor movement.

European countries, beset by the highest unemployment since the Depression, favor the export of natural gas equipment to help their economies. The dispute over the pipeline was a theme of the meeting in Versailles last June of the leaders of the major industrial democracies.

At that time, European countries agreed to limit future subsidies on exports to the Soviet Union.

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EUROPE

# Imbroglío over a Pipeline

*A transatlantic debate heats up as France and Italy defy the U.S.*

*"The spirit of commerce has a tendency to soften the manners of men, and to extinguish those inflammable humours which have so often kindled into war."*

—Alexander Hamilton, 1787

Though spoken by one of America's founding fathers, that approving view of the benefits of commerce among rival powers seems to have few adherents in official Washington these days. Hamilton's thesis is regarded by President Reagan as a dangerous illusion that should have been shattered by the Soviet invasion of Afghanistan, Moscow's role in bringing repression to Poland and the steady build-up of the Soviet Union's nuclear arsenal. The Administration's approach has outraged Washington's European allies, who, like Hamilton, see trade as a lubricant that can ease international tensions.

The centerpiece of the U.S.-European dispute is an ambitious 3,000-mile, \$10 billion pipeline through which the Soviet Union hopes to deliver up to 40 billion cubic meters of natural gas annually from its Siberian tundra, over the Urals, across the wheatfields of the Ukraine and through Czechoslovakia, all the way to the homes and factories of Western Europe. The line was scheduled to begin operating as early as 1984.

The transatlantic dispute reached a new pitch last week when France and then Italy openly defied the sanctions imposed by Washington on June 18 to prevent Western European companies from using technology acquired from the U.S. to build the pipeline. Initially, in reaction

to the declaration of martial law in Poland last December, the Reagan Administration had only barred U.S. companies from supplying equipment for the Soviet project. But last month, right after his return from the Versailles summit, the President broadened the ban to include all equipment manufactured by Western European firms under license from U.S. companies. The Socialist government of President François Mitterrand, which has opposed the idea of sanctions from the start, ordered the state-owned engineering firm Alsthom-Atlantique to ignore the new U.S. sanctions and sell Moscow the sophisticated turbine rotors that are needed to pump the Soviet gas westward. Since the French company had acquired the right to produce these rotors under a licensing agreement from a U.S. company, General Electric, the French government was in effect telling Alsthom-Atlantique to violate the terms of the license. Said Premier Pierre Mauroy: "France cannot accept unilateral measures taken by the United States."

It was a bold departure on the part of the Mitterrand government, which since coming to office in May 1981 has studiously avoided open conflict with the Reagan Administration. Said French Foreign Minister Claude Cheysson: "We no longer speak the same language. There is a remarkable incomprehension between Europe and the U.S." A recent French decision to renew arms sales to Nicaragua, despite a quiet pledge to Washington not to do so, has been widely interpreted as a signal of

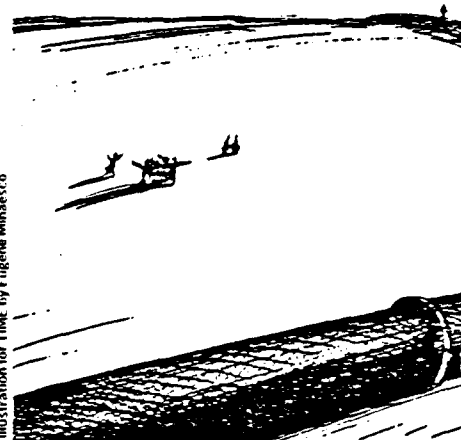
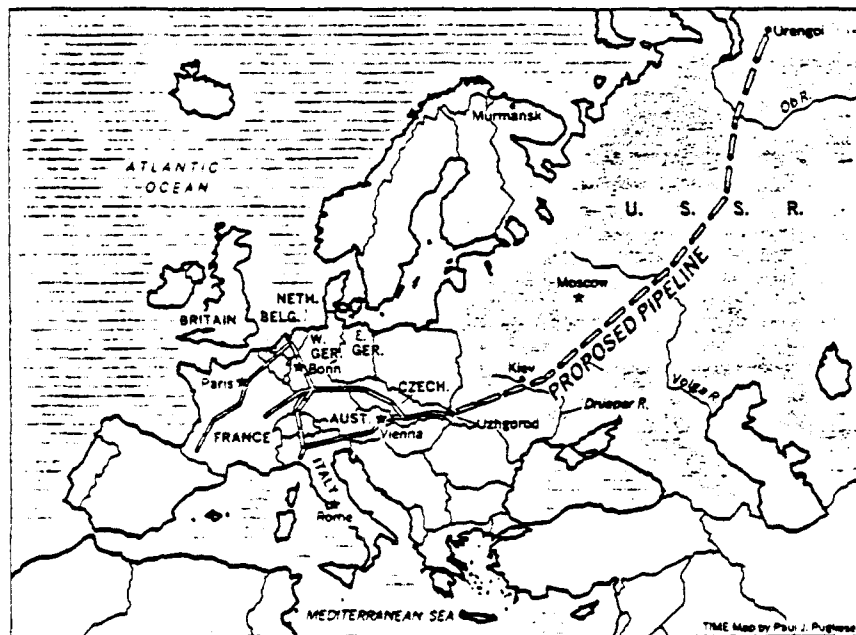


Illustration for TIME by Eugene Mihayevco

growing French pique over the sanctions.

On Saturday, Italy also declared it would honor "signed agreements" to produce 59 turbines for the pipeline. Under a \$600 million contract, the state-owned engineering company, Nuovo Pignone, is to build the turbines using technology supplied by General Electric. Rome called for "frank and fair discussions" between Washington and the ten-member European Community over the dispute.

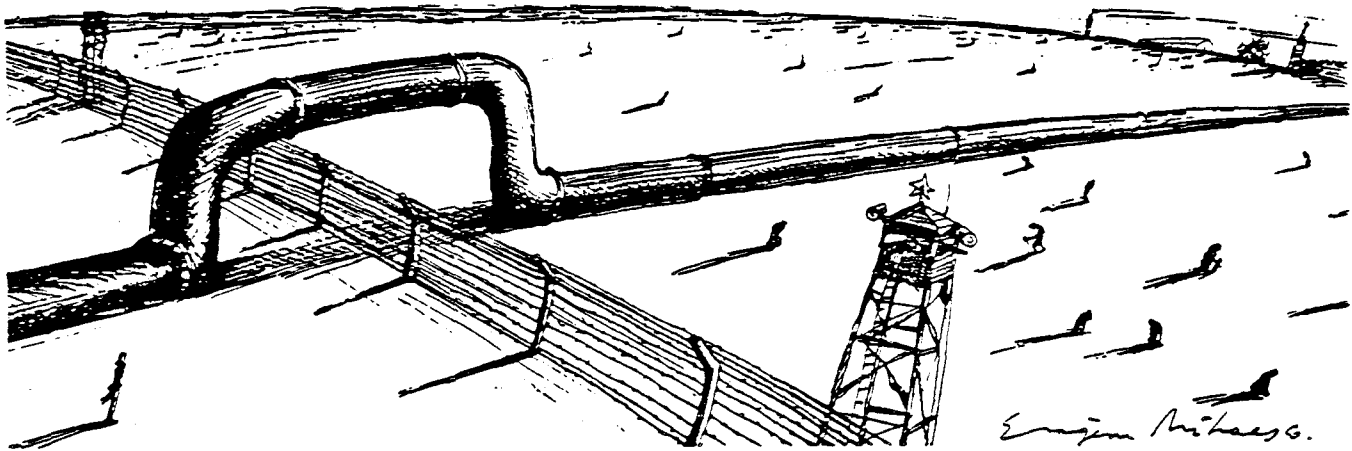
Other European voices were also raised over the pipeline. During a private visit to the U.S., West German Chancellor Helmut Schmidt told businessmen in San Francisco that "by claiming the right to extend American law to other territories, [the U.S.] is affecting not only the interests of the European trading nations but also their sovereignty." Even British Prime Minister Margaret Thatcher, whose country will not be linked to the Soviet network, has publicly rejected the U.S. stance. Said she on a state visit to Italy earlier this month: "These contracts were made and completed in good faith. If a country wants to keep its trading reputation, it must keep its contracts."



TIME Map by Paul J. Pugliese

Following the announcement from Paris, President Reagan ordered the Commerce Department to study the legal implications of the French move. But he went out of his way to play down the Euro-American feud. Reagan stressed to a television interviewer in St. Louis that Mitterrand had inherited the contract from his predecessor, Valéry Giscard d'Estaing. Said Reagan: "Our allies pointed out to us that they had already gone forward to the point that they did not feel they could retreat." Washington could try to impose penalties, including fines and blacklisting in the U.S., if Alsthom-Atlantique and Nuovo Pignone go ahead with their plans. But in the end, most experts agree, there is little the U.S. will be able to do to stop the French and Italians from selling the equipment to the Soviet Union.

The increasingly bitter clash between Washington and its Western European allies over the pipeline is far more than a dispute over narrow commercial interests. It is a conceptual fissure that goes to the heart of the Atlantic Alliance's very rea-



son for existence. It reveals sharp, perhaps irreconcilable differences in the answers to some of the most pressing security issues facing the West: What are its true interests in dealing with a Communist system that is spectacularly failing on a domestic level but has turned into a military power equal to the U.S.? Should the West lend a helping hand in the economic development of the Soviet bloc in hopes of influencing political reform behind the Iron Curtain, or should it, on the contrary, use its economic leverage to try to bring the Soviet system to its knees? Either way, is there any reason to believe that withholding trade and technology can have any influence on Soviet behavior?

To finance the pipeline, which is the biggest East-West trade deal in history, Moscow has lined up \$5 billion in cheap credits (just under 8%, vs. going commercial loan rates of about 15%) from the four major Western European countries involved in the project: West Germany, France, Italy and Britain. In exchange, industries in these countries are being rewarded with huge contracts to supply everything from 56-in. steel pipe to computerized monitoring systems.

In the U.S. view, the pipeline would not only expose Western Europeans to potential Soviet blackmail in the form of a cutoff of vital energy supplies, but would increase the Continent's dependence on an expanding web of economic ties with the East bloc. The Administration also argues that the gas deal will give the Soviets additional resources with which to pursue their military buildup. Claimed Reagan last week: "They do not have the cash for those purposes the way they once did. [The gas deal] will give them \$10 billion to \$20 billion a year in cold, hard cash."

The Western Europeans respond that although Soviet natural gas will account for an average of 30% of their total gas needs by 1990, the Continent's overall energy dependence on Moscow will rise to only 5%. Moreover, the Soviet gas will lessen Europe's overdependence on oil from the volatile Middle East and gas from Algeria and Libya. Leading importers of Soviet gas like West Germany and France dismiss the risk of possible Soviet blackmail because, as one French official explains, "Moscow needs the hard

currency more than we need the gas."

Even if the Soviets cut off all gas exports, the Western Europeans insist, stand-by arrangements exist to enable deprived customers to swap gas supplies originating from other countries such as The Netherlands and Norway. As for the development of a wider economic dependence, the European Community's trade with the Soviet bloc has remained surprisingly small. West Germany, Moscow's largest trading partner in the West, sends only 5% of its exports east.

**B**eyond the deep division over policy toward the Soviet bloc, Western European leaders are bluntly resentful of Washington's attempt to force sacrifices on European industry at a time when unemployment throughout Europe is nearly 10% of the labor force, the highest since the end of World War II, while the U.S. has sold \$3.2 billion worth of grain to the Soviets in the past year alone. Washington's response is that grain sales force a drain on the Soviet Union's hard currency reserves. That proposition is seriously questioned by experts who believe that the Soviets would have to make even greater hard currency expenditures to grow an amount of grain equivalent to what they buy each year from the U.S.

When Washington imposed the first set of sanctions, President Reagan specifically promised to reconsider his decision if martial law were lifted in Poland. But the Administration was not impressed with the measures announced by Polish General Wojciech Jaruzelski last week. Said a top Reagan aide: "Unless the Poles recognize Solidarity, free [Lech] Walesa and end martial law, I don't think you'll see the President act." Yet even hard-liners in Washington now concede that it is inconsistent to link the pipeline issue to Poland while arguing that the pipeline poses a long-term security threat to Western Europe.

If anti-Soviet sanctions are to be at all effective, they must have the support of all important suppliers, particularly the Western Europeans. One reason the Reagan Administration failed to persuade its allies to join its commercial crusade against Moscow may be that former Secretary of State Alexander Haig sympat-

hized with the Western European view that economic sanctions against the Soviet Union were unnecessarily provocative and, in any event, virtually impossible to enforce. During his confirmation hearings two weeks ago, George Shultz, Haig's successor as Secretary of State, expressed skepticism about economic sanctions in general. But Shultz also made it clear at the Senate hearings that he, unlike Haig, was a team player who intended to support Reagan's tough anti-Soviet line. "The President is boss," he said.

In Moscow, the U.S. sanctions have inspired a patriotic propaganda campaign dramatizing official Soviet determination to finish the project by the 1984 deadline, with or without the GE-designed turbines. Soviet television recently showed workers at the Nevsky Engineering Factory in Leningrad massed beneath a banner proclaiming OUR WORKING ANSWER TO REAGAN. The Nevsky plant is one of the sites where the Soviets intend to build their own 25-megawatt turbine; a prototype, they claim, has already passed "rigorous testing." The confidence shown by the Soviets is shared by Western businessmen based in Moscow, who note that the history of Soviet technology shows the capacity of a command economy to respond to specific challenges. Notes Sovietologist Alain Besançon of the Ecole des Hautes Etudes in Paris: "If the West stops giving credit, the Soviets will simply reduce the standard of living in Poland and in the other satellites until it matches that in the Soviet Union."

Whatever the differences among the Western allies, there is an urgent need today for a coordinated policy toward the Soviet bloc. Only the Soviets are benefiting from the disarray and bitterness that is now weakening Western ranks. The vague outlines of compromise do exist. Western European governments have found that the policy of extending cheap credits to the East has backfired: they are increasingly ready to trade with the Soviet bloc on straight commercial terms. It should not be beyond the powers of Western diplomacy to prevent the pipeline from continuing to poison the Atlantic Alliance.

—By Frederick Painton.  
Reported by Gisela Bolte/Washington and Jordan Bonfante/Paris, with other bureaus

### 3 U.S.-Owned Companies Involved

# Britain Orders Firms to Defy Pipeline Ban.

By Rita Dallas  
Special to The Washington Post

LONDON, Aug. 2—Britain defied the Reagan administration's ban on the sale of U.S.-licensed equipment for the Siberian gas pipeline today, ordering four British-based companies to fulfill their contracts as suppliers.

Three of the companies are subsidiaries of American corporations. By invoking the 1980 Trading Interests Act, Trade Secretary Lord Cockfield sought to compel them to follow British rather than U.S. law.

Cockfield's action reversed the British position that last week. Officials said then that while the government would support companies that ignored the embargo, it would not order non-compliance. U.S. officials have said the embargo's purpose is to put pressure on the Soviet Union to bring out easing of martial law restrictions in Poland.

Britain is the fourth Western European country to oppose the ban. France and Italy have said they would defy it, and West Germany has been encouraging its companies to go ahead with existing orders.

"The government has no wish to escalate this dispute but needs to protect Britain's trading interests," Cockfield told the House of Lords. Officials said later that more than 2,000 jobs would be lost if the embargo were obeyed.

Cockfield last month issued a warning that the Trading Interests Act might be invoked, saying,

"The application of American law outside United States jurisdiction is unacceptable."

One government official commented, "We were baring our teeth then; today we have bitten."

[The State Department said it was studying the British move, Reuter reported. The agency quoted a U.S. official as saying, "We regret any action that would weaken the pressure on Polish authorities to relax significantly their martial law measures."]

Cockfield's decision was the first under the trading act, which carries a fine of up to \$1,750 and possible jail terms for violators.

"The companies have got no option," the official said. "They have got to go ahead. Our legislation is overriding."

Of the four companies involved, only John Brown Engineering of Clydeside is British-owned. Smith International (North Sea), Baker Oil Tools (UK) and AAF Ltd. are subsidiaries of American companies.

John Brown is committed to supplying 21 turbines designed by General Electric and spare parts worth about \$182 million.

British-based companies have a total of about \$340 million in orders for the 3,500-mile pipeline that will carry natural gas to Western Europe.

John Brown Engineering has made no provision in its accounts for termination of the deal, one of its biggest current contracts.

The subsidiaries may face a legal tangle over

their position, experts said, with disputes over whether they come under British or American law.

British Prime Minister Margaret Thatcher's attitude has been a mixture of opposition to the U.S. embargo and hope that the Reagan administration would change its mind. She said that contracts made in good faith should be honored and told the House of Commons recently, "The question is whether one very powerful nation can prevent existing contracts being fulfilled. I think it is very wrong to do that."

Cockfield said he still hopes for an acceptable solution, but added that the Reagan administration had not responded to efforts of the British government. In these circumstances, he said, the government had decided that Britain's trading interests made it necessary to forbid the four companies to obey the embargo.

Britain, along with its Western European allies, is also irritated that the Reagan administration is extending its agreement to sell grain to the Soviet Union while it is telling Western Europe not to sell pipeline equipment. Cockfield described this situation as "quite inequitable."

The pipeline dispute deteriorated sharply as a second transatlantic trade disagreement, over steel, was coming to a climax.

Britain, along with France, Belgium and Italy, faces new U.S. duties of up to 40 percent on Aug. 24 on sales of steel, imposed by the Reagan administration to protect U.S. producers.

New York Times  
August 12, 1982  
p. D1, D6

# Collision Is Near On Soviet Pipeline

By CLYDE H. FARNSWORTH

Special to The New York Times

WASHINGTON, Aug. 11 — With neither President Reagan nor Western Europe showing signs of retreating, a collision over trade with the Soviet Union could come as early as next week, some European officials believe.

The differences are deep between the President and the European allies over Mr. Reagan's decision June 18 to tighten economic sanctions against the Soviets for their role in the repression in Poland.

His ruling extended American export controls not only to the foreign activities of United States companies, but also to foreign companies that use American technological licenses to manufacture products of their own.

The controls were intended to deny United States technology for the Soviet Union's natural gas pipeline to Western Europe that the Europeans want to diversify

their energy sources and to provide jobs for their depressed industries.

The French government threw down the gauntlet. Then, the British, West German and Italian Governments followed, urging their companies to honor existing contracts, even if it meant a violation of the American restrictions.

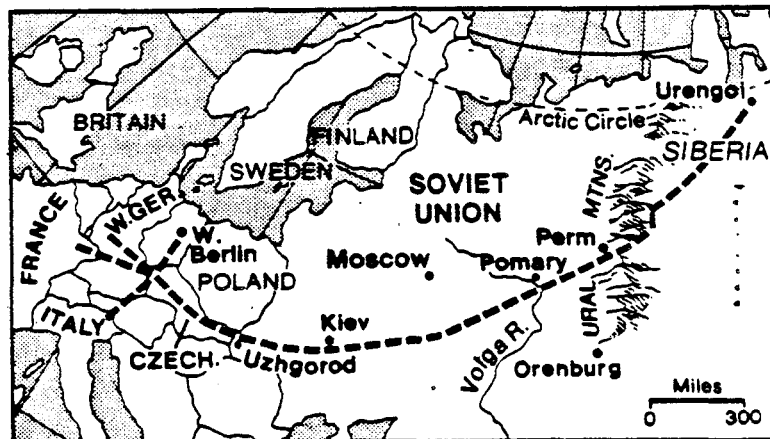
## Delivery Is Expected Soon

Soon, perhaps even by next week, the Soviets will take delivery of some of the turbine parts for the pipeline, European officials say, and the United States Government then must make a critical decision about what kind of penalties, if any, to impose on its Allies.

As the confrontation builds, the Europeans are getting some unexpected support both from Congress and the American business community. The main reason is that the action affects business and jobs here as well as in Europe.

The House Foreign Affairs Committee voted 22-12 Tuesday to annul the President's export con-

Continued on Page D6



Projected route of the Soviet gas pipeline.

The New York Times / Aug. 12, 1982

Continued From First Business Page  
trol order, and aides predicted full House passage before the next recess.

While the President faces a revolt in the House over his sanctions, he is also getting strong criticism from his supporters in the business community, who see the action impairing American business and trade reliability.

"I am writing to express our exasperation and concern over the Administration's export control regulations on oil and gas equipment exports to the Soviet Union," said Alexander B. Trowbridge, chairman of the National Association of Manufacturers, in a letter to the President. The N.A.M. chief, echoing the comment of the Europeans, warned that the controls will "cast a long shadow over U.S. commercial transactions, especially in Western Europe."

His letter quoted a statement from Senator Charles Percy, Republican of Illinois and chairman of the Senate Foreign Relations Committee, that "we must not allow the crisis of the East to trigger a crisis in the West."

Although the President could veto any bill, or simply turn around and reimpose controls under the Export Administration Act, Tuesday's vote by the House committee weakens the President's position psychologically in any coming battle with the Europeans.

#### Honor at Stake

"I don't see the Europeans retreating," said Penelope Hartland-Thunberg, senior fellow at the Center for Strategic and International Studies at Georgetown University. "There is too much national honor and sovereignty at stake. There will either be backtracking on our part or a lulu of a confrontation."

In Brussels today, the 10-nation European Economic Community prepared a strongly worded formal protest, and issued a statement calling the United States measures "unacceptable under international law because of their extraterritorial aspect." This was a reference to controversial American efforts to extend the reach of American law to foreign countries.

The community's 15-page formal protest will be delivered to the State Department Thursday morning, officials said. The State Department said it would have no comment until the document had been studied.

The President, in establishing the sanctions, was reacting to the Soviet Union's role in the martial law crackdown in Poland. But the community statement said the sanctions would not bring sharp pressures to bear on the Soviets, but instead would damage Atlantic trading relations and encourage the Soviet Union to step up its own manufacturing potential.

"This is one of those situations where nobody wins," said one Administration official. "When I talk to the Europeans about what's happening, I feel like crawling behind the desk," he added.

Gary Hufbauer, a former Assistant Secretary of the Treasury who is studying the pipeline controversy for the Institute for International Economics, said his impression was that the Administration was "trying to dig itself out of a hole."

#### Shultz's View

Although Secretary of State George P. Shultz supported the sanctions during his confirmation hearings, he had gone on record prior to the hearings as opposing the use of trade as an instrument of foreign policy. In an article in *Business Week* in May 1979, for example, he was quoted as saying that trade cannot be "turned on and off like a light switch," and called for a "predictable set of rules" to avoid domestic and foreign confusion.

Some analysts, citing a statement the President made two weeks ago that he is "somewhat encouraged by indications martial law may be relaxing" in Poland, saw an indication that Mr. Reagan may be preparing a retreat.

Senator Charles McC. Mathias Jr., Republican of Maryland, said, "it would be foolish for the President not to change his policy if all the professional advice he is receiving urges him to do just that."

#### Companies Involved

Among the companies affected by the tighter sanctions are the following European turbine builders: Britain's John Brown Engineering, West Germany's AEG Telefunken (which has said it would honor its contracts with the Soviets even though it has just filed for receivership), France's Alsthom-Atlantique and Italy's Nuovo Pignone. All are supposed to supply

turbines, using American technology, for the 3,700-mile pipeline.

If these or other companies flout the Reagan regulations, they could face both criminal penalties and fines. Lionel H. Olmer, Under Secretary of Commerce, said the penalties were "discretionary," meaning that at one extreme the Government need do nothing at all. At the other extreme, the United States could seek extradition of chief executives of the offending companies.

Administration officials speak of escalating steps in the enforcement procedures, beginning with a warning letter to a violator and then the placement of that company on a "denial list." Denial means that a company could be prohibited from receiving the export of any goods or data from the United States. In other words, a company with subsidiaries in the United States, such as John Brown Engineering, would be barred from dealing with these subsidiaries.



## Europe Protests Bans by Reagan On Gas Pipeline

### Formal Response Cites 'Interference' by U.S.

The Associated Press

WASHINGTON, Aug. 12 — European officials, angered by President Reagan's ban on pipeline equipment sales to the Soviet Union, delivered a formal protest today charging that the ban was "an unacceptable interference" in European Economic Community affairs.

The long-expected formal protest adds to the pressure on the Administration to reverse the ban. Several European governments have announced that they will defy the ban, and the House Foreign Relations Committee, domi-

*Text of the message. Page A4.*

nated by Democrats, voted on Tuesday in favor of a bill that would require the President to cancel the sanctions, which were imposed last December in response to the military crackdown in Poland.

Otto Borch, Denmark's Ambassador to the United States, and Roland de Kergerlay, head of the Community delegation here, delivered the legal papers to officials at the Commerce and State departments. They asked that the Administration cancel the restrictions.

#### Restrictions Were Broadened

B. Jay Cooper, a Commerce Department spokesman, said the European officials met briefly with Guy Fiske, the Deputy Commerce Secretary, and Sherman Unger, the department's general counsel. The papers "were referred to Unger for review and study," Mr. Cooper said.

The sanctions prohibit American companies and their foreign subsidiaries from selling equipment to build the 3,000-mile pipeline that will deliver natural gas from Siberia to Western Europe, starting in 1984.

In addition, the restrictions were broadened on June 18 to penalize foreign companies that sell the Soviet

## Europeans Submit Protest to U.S. On Pipeline Equipment Sanctions

Continued From Page 1

Union pipeline equipment that uses technology licensed from American companies. That includes companies in Italy, France, Great Britain and West Germany. The governments of all these countries except West Germany have ordered the companies to honor pipeline contracts, in defiance of the Reagan Administration ban.

The formal European protest said it was not likely that the restrictions would "delay materially the construction of the pipeline or the delivery of the gas." They said that the ban contains "sweeping extensions of U.S. jurisdiction which are unlawful under international law."

It added that the rules "seem to run counter to criteria of the Export Administration Act and also to certain principles of U.S. public law."

The European protest took particular note of the sanctions against foreign companies using licensed American technology. The Reagan Administration would enlist the support of foreign companies by "threatening them with discriminatory sanctions in the field of trade," the appeal said. According to United States officials, the companies could be barred from receiving exports of American goods and technical data. The Export Administration Act provides for other remedial measures as well.

The Community also complained to the Administration about the economic hardship posed to companies that work for concerns covered by the restrictions.

"Though they may use no American technology, they will suffer complete loss of business if the European contribution to the project is blocked," the Community said. "Some of these companies may not survive."

### Soviet Response to Ban

By JOHN F. BURNS

Special to The New York Times

MOSCOW, Aug. 12 — While the United States and Western Europe wrangle over the Soviet pipeline project, Soviet authorities are maintaining steady pressure on European contractors by insisting that they are preparing to build the compressor stations at the heart of the controversy.

Since President Reagan's decision to extend the ban to equipment made by foreign companies with licensed American technology, it has been nearly impossible to separate reality from propaganda in Soviet pronouncements. But every week brings new progress reports contending that Soviet engineers are on the way to making European-manufactured equipment for the project redundant.

The latest report came in the current issue of the weekly *Ekonomicheskaya Gazeta*, which said Wednesday that work had already begun on 10 of the 41 compressor stations that will pump the gas from the Urengoi field in Siberia to Western Europe. It is the compressor stations — or more precisely, the turbines that power them — that are at the center of the confrontation between the Reagan Administration and its European allies.

#### Role of Compressors

The compressors require rotors either manufactured by General Electric or by a European company using technology licensed by G.E. That technology is considered necessary to supply the most suitable turbines for the pipeline.

In the pattern of most Soviet articles, the latest one was vague. It did not say exactly what sort of work was being done, nor did it specify whether the compressors to be installed at the stations would be Soviet- or foreign-made.

Last month, the official Tass news agency said that engineers were reworking the plans for the pipeline to accommodate Soviet-built compressors and television showed pictures of two prototypes under test at the Nevsky Zavod complex in Leningrad.

# Text of Common Market Statement on Embargo

BRUSSELS, Aug. 12 (Reuters) — Following is the full text of the message delivered today by the European Common Market in Washington, criticizing President Reagan's embargo on technology for the Soviet Union's natural gas pipeline project:

1. With reference to the Interim rules promulgated on 22 June 1982 by the Department of Commerce under the Export Administration Act of 1979 and to the Community's note presented on 14 July 1982, the European Community wishes to present further comments on the new export administration rules, with the request that this note and these comments be transmitted to the Department of Commerce in accordance with that department's invitation for public comments to be made by 21 August 1982.

2. The European Community wishes to draw attention to the importance that it attaches to the legal, political and economic aspects of the United States measures, including their impact on the commercial policy of the Community. As to the legal aspects, the European Community considers the U.S. measures contrary to international law, and apparently at variance with rules and principles laid down in U.S. law.

3. As to the political and economic aspects it is clear that the U.S. measures are liable to affect a wide variety of business activities, while their primary purpose is to delay the construction of the pipeline to bring Soviet gas to Western Europe. The European Community holds that it is unlikely that the U.S. measures will in fact delay materially the construction of the pipeline or the delivery of the gas.

The pipeline from Siberia to Western Europe can be completed using

Soviet technology and production capacity diverted from other parts of their current program.

Furthermore, the recent U.S. measures provide the Soviets with a strong inducement to enlarge their own manufacturing capacity and to accelerate their own turbine and compressor developments, thus becoming independent of Western sources. Gas could still flow to the Community starting as scheduled in 1984 owing to the existence of substantial spare capacity in the existing pipeline system, sufficient to cover the requirements of the early phases of the program of deliveries.

4. One of the main elements of the Community's policy of reducing the vulnerability of its energy supply is based on diversification of sources. Gas from the Soviet Union will help to conserve the Community's own stock of gas, oil and other fuels, and will reduce the Community's own reliance on other foreign sources. Use of Siberian gas will not create a dangerous dependence on that source. Even when gas is flowing at the maximum rate, in 1990, it will represent less than 4 percent of the Community's total energy consumption.

5. Whatever the effects on the Soviet Union, the effects on European Community interests of the U.S. measures, applied retroactively and without sufficient consultation, are unquestionably and seriously damaging.

Many companies interested as subcontractors, or suppliers of components, have made investments and committed productive capacities to the pipeline project, well before the American measures were taken. Though they may use no American technology, they will suffer complete loss of business if the European contribution to the project is blocked.

Some of these companies may not survive. Major European companies that can survive the immediate loss of business will nevertheless suffer from lower levels of capacity utilization and loss of production and profits, while workers will be laid off temporarily or permanently.

6. In the longer term, European Community companies may be damaged by the disruption of their contracts concluded in good faith, because they may cease to be reliable suppliers in the eyes not only of the Soviet Union but also of their actual and potential business partners in other countries.

#### Business Confidence

One inevitable consequence would be to call in question the usefulness of technological links between European

and American firms, if contracts could be nullified at any time by decision of the U.S. administration. Another consequence to be feared is that the claim of U.S. jurisdiction accompanying U.S. investment will create a resistance abroad to the flow of U.S. investment.

Thus, these export control measures run counter to the policy aims of the United States of easing the transfer of technology and of encouraging free trade in general. There will be other far-reaching effects upon business confidence. These measures thus add to the climate of uncertainty that is already pervading the world economy as a whole.

7. The European Community therefore calls upon the United States Administration to withdraw these measures.

# Pipeline: An Impasse With No End in Sight

New York Times  
Aug. 31, 1982  
p. D1, D6.

By LESLIE H. GELB

Special to The New York Times

WASHINGTON, Aug. 30 — The United States, its European allies and a bevy of private companies involved in selling equipment for the Soviet-European gas pipeline are at a political and legal impasse virtually without precedent and with no end in sight.

**News Analysis** The United States ordered a French-based subsidiary of an American corporation not to ship compressors for the prospective 3,700-mile pipeline. France ordered the shipment made, and the subsidiary complied last week. In turn, the Reagan Administration forbade any American-controlled company to do business with this subsidiary and with a wholly owned French company also involved in the transaction.

This placed the private companies, each following the laws of the land in which it was domiciled, squarely between conflicting sovereign compulsions, and the sovereigns show no signs of giving way.

"These are uncharted waters," said Stanley Marcuss, a Washington lawyer

who used to oversee such matters in the Commerce Department during the Carter Administration. "The United States is asserting extraterritorial rights that no foreign government has ever asserted over us."

All of the government leaders involved have put themselves in a position where the domestic repercussions of backing down could prove politically devastating. By all accounts, diplomatic solutions are not on the horizon. Legal action does not seem promising either, according to a range of Government and private legal experts.

Administration officials have said that they are not about to let the matter be adjudicated by the International Court of Justice in The Hague with all the consequences for American law that an adverse decision would hold.

Taking the issue through the American courts would entail long appeals, and even if the courts ruled in favor of upholding the Administration's right to put sanctions on companies that are in violation of American law, France and other European governments

soon to be involved could ignore the verdict.

The Administration has left itself only one relatively easy legal way out, according to officials. "What we did was to issue two temporary denial orders pending completion of an investigation," Lionel H. Olmer, Under Secretary of Commerce for International Trade Administration, has said in an interview. "It is entirely possible that facts and circumstances could be developed which would alter in part or in their entirety the temporary orders."

In other words, it is possible that the Administration will find that the companies in question did all in their power to comply with American law, but given French law, had no choice. It could thus lift the sanctions against one or both companies, blame France, and let matters rest.

Administration officials gave no indication, however, that President Reagan would choose this way out. If the Administration does not opt for this route, the stage would be set for a battle with enormous stakes. A continuing and spiraling conflict over the issue would jeopardize the fabric of European-American economic relations, with powerful implications for overall relations. And by raising the question of who should really control a company — the country in which it is incorporated and domiciled or the country of ownership — it could unsettle the basic American laws governing international commerce.

## No Action Until December

The Reagan Administration opposed the building of the natural gas pipeline from the outset, but took no action against it until last December. Then, Mr. Reagan banned companies in the United States from selling equipment for the pipeline until the Soviet Union used its influence to get the Polish Government to lift martial law restrictions. In June, citing no progress on Poland, Mr. Reagan extended the ban to American subsidiaries abroad and to foreign companies manufacturing under American licenses abroad.

Lawyers for Dresser France, the wholly owned subsidiary of Dresser Industries of Dallas that produced the compressors shipped to the Soviet Union last week, appealed to a commissioner of the Commerce Department's International Trade Administration to dismiss the temporary denial order.

The essence of the appeal has been summed up by Edward R. Luter, senior vice president for finance of Dresser Industries: "We are absolutely convinced that no member of the Dresser family has taken any improper action, and the blacklisting of Dresser France is an unwarranted punitive measure imposed, not because of any voluntary action of

Dresser France, but because of our Government's frustration as it seeks European acquiescence in its foreign policy objectives."

At the same time, the case is before a Federal District Court in Washington, where Dresser had previously sought and was denied a temporary restraining order against the Administration. If Dresser loses in the Commerce Department proceedings, which officials say is a virtual certainty, it can activate this legal avenue again. Appeals could go all the way to the Supreme Court.

## Not Going to Take the Risk

The matter could also be taken to the International Court of Justice if the governments of France and the United States would consent to the compulsory jurisdiction of the court. But according to Administration officials, whatever France might desire, the United States is not going to take the risk.

American antitrust laws, securities laws, the Trading With the Enemy Act and the Export Control Act itself, all rest on the assertion of American legal control over "American persons," including individuals, subsidiaries of corporations and companies producing under American licenses. If the Court of Justice were to deny or limit that authority, "it would have the most serious ramifications," according to Mr. Marcuss.

A ruling against France would be serious as well. Sherman E. Unger, general counsel of the Commerce Department, stated in an interview that the very statute that France used to block the application of American law in France contains "a worldwide assertion of extraterritorial authority by the French Government." In other words, France asserts the right to control French-owned companies abroad, just as the United States does, but it has not attempted to assert such control in the United States.

According to a number of legal experts, the case could be decided along narrow lines: the facts indicate that Dresser did all it could to comply, or the President does not have the right to impose sanctions after the contracts were already signed. But it may not be possible to skirt the broader legal issue.

This broader issue would not be affected even if Mr. Reagan were to decide for lesser sanctions against John Brown P.L.C. of Britain for releasing turbines for the pipeline, as some Reagan Cabinet members are reported doing today.

Herbert J. Hansell, chief State Department legal adviser in the Carter Administration and now a Washington lawyer, said that, on strictly legal grounds, "the President undoubtedly has the authority to do what he did, and France has the authority to do what it did."

"And the Supreme Court has gener-

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ally sustained the actions taken by the President to enforce his authority where important issues of foreign policy were concerned," he added.

In Mr. Hansell's analysis, insofar as the President is seeking only to restrict American exports to the offending companies abroad, that is clearly within his power.

Mr. Marcuss disagreed. "The President took that limited action on the basis of his asserting that he has the authority to regulate wholly foreign-produced products, even retroactively, and that is at least a question and it may be a serious question."

To him, it is an "open question" as to whether Congress intended the President's authority in the Export Administration Act to go beyond exports from the United States. As for the ex post facto character of the action, he said, "this may be a violation of the due process clause of the Constitution."

In practice, where sovereign wishes have clashed over trade issues, one side or the other has backed down before an impasse was reached. For example, in 1958, President Eisenhower ordered the Ford Motor Company to bar its Canadian subsidiary from honoring its contract to ship trucks to China. The subsidiary complied, and the Canadian Government was indignant but did not seek to override the action.

In the early 1960's, President Kennedy attempted to thwart Canadian wheat sales to China on the ground that the grain-loading equipment was made in Illinois. But this time, Mr. Kennedy backed down and waived application of the Trading With the Enemy Act.

#### Creusot-Loire Target in 1980

In 1980, the Carter Administration banned imports of steel products from Creusot-Loire of France, the same French-owned company that is now the second target of the Reagan sanctions. The contention was that Creusot-Loire had substituted its steel for American steel exports in contravention of the sanctions imposed on Moscow for its intervention in Afghanistan. Officials of the company denied the charge, and the Reagan Administration lifted the ban against the company as one of its early acts in office.

Where cases have gone to court, the courts have generally ruled in favor of their own sovereign laws and to restrict assertions of extraterritoriality.

In 1963, the Hong Kong Supreme Court ruled that American goods, once placed on Hong Kong soil, were "discharged" and were "no longer subject to the jurisdiction of the United States." The goods in question were then delivered to China, and no formal American protest was lodged.

In the mid-1960's, the Fruehauf Corporation told its French subsidiary not to ship tractor trailers to China. The French directors of the subsidiary

took the case to a French court, the court put the company under French Government receivership, and the trailers were dispatched according to contracts. The Johnson Administration took no punitive action.

The Supreme Court decided recently, in *Avagliano v. Sumitomo Shoji America*, that the American subsidiary of a Japanese company was subject to American law where it concerned hiring practices.

#### Wary on General Rulings

In the few cases where the International Court of Justice tackled the question of extraterritoriality, it was wary of making general rulings. But in the *Barcelona Traction* case of 1970, it ruled against assertions of control by Belgian owners of a Canadian-based subsidiary and in favor of Canadian Government control. It concluded that there was a "close and permanent connection" between Canada and the corporation.

But in most cases, trade matters in dispute are worked out by lawyers and diplomats far short of confrontation. For example, the Cuban Assets Control Regulations placed an embargo on trade by American affiliates with Cuba. But a special licensing arrangement was established whereby local law or policy in the foreign country was generally allowed to prevail. Thus, American authority was asserted, compromised and accepted by the other countries.

The same generally held true of the Iranian Control Regulations of 1979 in response to Iran's taking of American hostages. Thus, an American-owned or controlled foreign bank agreed to freeze Iranian assets according to American policy. But again, special provisions were made to avoid absolute prohibitions.

If there is any pattern to this history it is that, where the United States attempted to force total compliance with American law, it sometimes won but mostly lost. Where it both asserted controls and sought compromise solutions, its authority was generally accepted by foreign governments.

# Anatomy of Continuing Soviet Pipeline Controversy

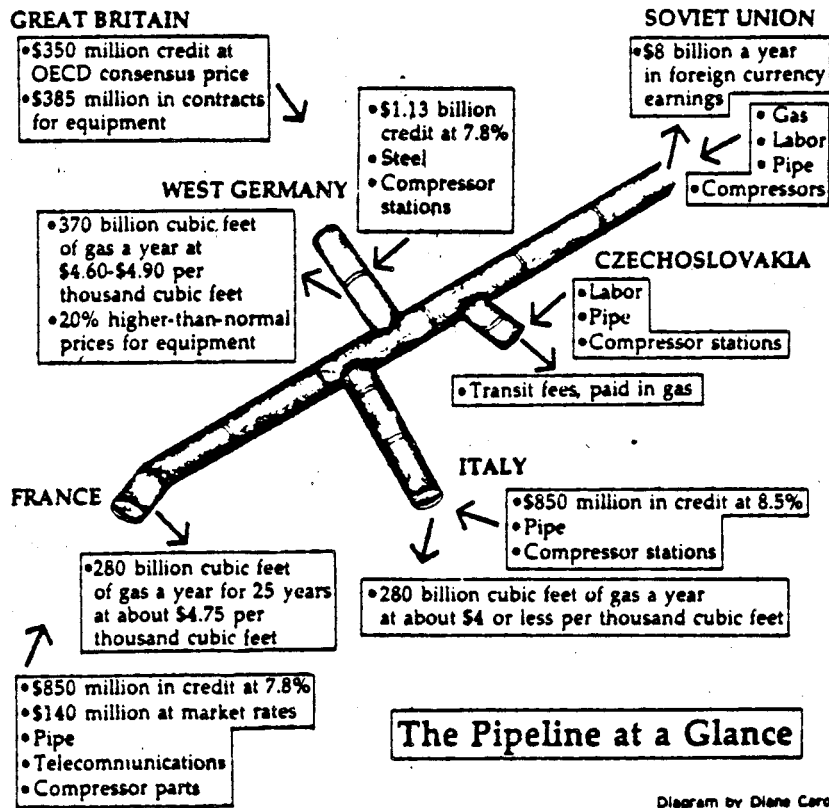


Diagram by Diane Caro

## U.S. Is in a Sharp Fight With European Allies

By STEVE MUFSON

Staff Reporter of THE WALL STREET JOURNAL  
 America's attempt to slow or kill the Soviet natural gas pipeline from Siberia to Western Europe is putting the Reagan administration into sharp confrontation with its allies. Yet a striking feature of the affair—with its lawsuits, embargoes and summit meetings—is how little is generally known about the project.

The 3,600-mile pipeline will require the efforts of 12 nations, dozens of companies, and more than 120,000 workers in the Soviet Union alone. It will use enough steel to build a railroad track around the world or to make half the automobiles turned out in the U.S. last year. To buy the equipment and pipe, the Soviet Union is borrowing half as much money as it did under the lend-lease program to help finance its massive effort in World War II.

The largest commercial transaction ever between East and West, the pipeline is riddled with little ironies. For example, the main customer of the pipeline the U.S. wants to embargo is partly American owned. The West German distributor, Ruhrgas Corp., is 26% held by Exxon Corp., Texaco Inc. and Mobil Corp. And the embargo is designed partly to punish the Soviets for Poland; yet to avoid Polish turmoil the pipeline's planners are rerouting it through an even more repressive Soviet satellite, Czechoslovakia, which comes out a big financial winner. What's more, one of the America's most anti-Soviet allies—Israel—is probably going to supply some of the pumps, although they would be delivered by a third country.

What follows is an account of what each country brings to the project and what it receives.



## Soviet Union

The Soviet Union will supply natural gas for the pipeline from its Urals gas field, perhaps the largest natural gas field in the world. The field is in Siberia, where temperatures drop as low as 50 degrees below zero Fahrenheit, making construction difficult.

The Russians are providing tens of thousands of construction workers. Labor costs are expected to be relatively small because of lower wages than in the West, conscripted labor, and use of the military.

Large amounts of 56-inch diameter steel pipe will be made in the Soviet Union. Some might be diverted from other pipeline projects within the U.S.S.R. if necessary, because the natural gas line to Western Europe is the top priority. It would be a propaganda victory over the U.S. and would bring badly needed foreign exchange. The natural gas could bring as much as \$8 billion a year in foreign earnings, replacing oil as Russia's biggest exchange earner.

Natural gas production is one of the few parts of the Soviet economy that is performing well. It is scheduled to rise by 40% or 50% during the current five-year plan. The pipeline will increase Soviet capacity to export natural gas by 160% to 2.3 trillion cubic feet a year.

The Soviets also will provide some of the turbines and compressor stations needed to keep the gas flowing through the pipeline. Some of the compressors are as powerful as the General Electric Co. components embargoed by the U.S. government, but they are still in the prototype stage of development. It isn't clear yet whether they can be used.

The entire project will demand unusual cooperation between the U.S.S.R.'s many bureaucracies. The Ministry of Foreign Trade is negotiating all contracts with foreign companies, although different divisions negotiate gas sales and equipment purchases. "We have approximately 60 ministries and maybe one third or one half are involved," says Michael Lysenko, an official at the Soviet embassy in Washington.

## West Germany

West Germany has taken the lead role in pipeline talks. It will buy about 30% of the gas and has the largest contracts to provide equipment.

Ruhrgas is the West German gas distributor, owned 67% by international oil companies, 26% by U.S. oil companies Exxon Corp., Texaco Inc. and Mobil Corp. It has agreed to buy about 370 billion cubic feet a year of natural gas to market to its residential and commercial customers.

Ruhrgas will pay about \$4.60 to \$4.90 a thousand cubic feet at the Czech border. The price is tied to competitive fuels, mainly home heating oil and gasoline.

The Soviets must fulfill the 25-year contract even if the pipeline isn't finished. About three quarters of the gas is to go to West Berlin. The provision of power to West Berlin has been a long-standing controversy between West Germany and the Soviet Union.

## Credit Arrangements

The credit arrangements are three-way. German banks are lending money to the German manufacturers of equipment for the pipeline, according to the West German embassy in Washington. The banks have agreed to lend between \$1.13 billion and \$1.6 billion at market rates to German companies. The West German government has guaranteed the loans through its Hermes Credit Insurance Co., thus reducing the interest rate.

The German manufacturing companies in turn lend the Soviet Union money to buy their equipment at a rate of 7.8%. In return, the Soviets pay prices 20% higher for the equipment, making the effective interest rate about 11.2%, the embassy says. The manufacturing companies are hoping interest rates fall to that level by the time the Soviets take delivery so the companies don't have to make up any difference with the banks.

However German bank officials also met Soviet officials in Leningrad July 13. They signed an accord providing for direct Soviet-government responsibility for the credit terms after two or three years, when the gas should begin to flow, according to a Deutsche Bank spokesman. Deutsche Bank says the banking consortium will "eventually get market rates" but won't describe the mechanics of the agreement. The loans will cover as much as 85% of the contract costs. The bank consortium is led by Deutsche Bank, with Bayerische Landesbank-Girozentrale, Commerzbank, DG-Bank, Dresdner Bank and Westdeutsche Landesbank-Girozentrale.

## Compressor Stations

The equipment supply contracts for West German companies so far total about \$1 billion, substantially less than the more than \$2 billion originally expected. Still, the contracts are welcomed by Mannesmann AG, whose steel mill output has been lagging. Mannesmann exported 60% of its large-diameter pipe to the U.S.S.R. last year. About 2,500 workers are employed in Mannesmann's pipemaking for the U.S.S.R. and the new pipeline would guarantee an additional 1,000 jobs, according to Angela Stent, a Georgetown professor who has written about the project.

In September 1981, a \$940 million contract was signed by Mannesmann, the French company Creusot-Loire S.A., and the Soviet Machinimport, to supply 22 compressor stations. The stations are to be built by AEG-Kanis Turbinenfabrik G.m.b.H., a subsidiary of AEG-Telefunken AG, under a \$260 million subcontract using turbines with the General Electric patent. AEG also has a contract for servicing the compressor stations and electrical equipment.

Mannesmann itself has continuous

agreements with the Soviet Union for steel pipe. Large-diameter pipe makes up 12% of all German exports to the U.S.S.R., and is the single largest item. It is also the single biggest item for the pipeline.

Mannesmann signed a contract valued at the current equivalent of \$687 million to supply steel pipe to the Soviet Union over the next couple of years. The German firm says it expects to sell three million tons of pipe to the Soviet Union over the next three years, enough pipe for the entire new pipeline. But the Soviet Union normally buys about 1.5 million tons of pipe annually, so other companies will also contribute pipe.

Several smaller firms also have contracts. The West German embassy in Washington said "over 90%" of the \$1 billion of contracts for West German companies has been concluded. If more contracts are granted, the credit could increase to the \$1.6 billion figure.

## France

Unlike Germany, France has been willing to lend money directly to the Soviet Union and at lower rates. A consortium of three banks, led by Credit Lyonnais, offered \$850 million of credits at 7.8% to cover 85% of the cost of the pipeline equipment to be purchased in France. It is repayable over 10 years. Cie. Francaise d'Assurance pour le Commerce Extérieur, a quasipublic agency under supervision of the French government, gave credit insurance.

"The French government has habitually given very low credits for major export deals," says Ed Hewitt, an expert on the Soviet Union at the Brookings Institution. "It has never been proved that they give especially low rates to the Soviet Union."

The French government argues that the 7.8% rate is consistent with the rates set by developed nations for government-supported export credits. Indeed that was the rate at the time the Soviet Union signed the credit agreement with the French banks. In July 1981 the rate for the Soviet Union went up to 8.5%, along with the other countries considered "intermediate" in wealth. In July of this year, the Soviet Union was switched to the category of "relatively rich" countries and its lending rate was increased to more than 12%.

## Doubled French Purchases

After the initial credit agreement, the Soviet Union went back to French banks and signed accords for an additional \$140 million in credit at market rates. Credit Lyonnais, Banque de Paris & des Pays Bas (Paribas), Banque de l'Union Europeenne lent the money without government guarantees. The French government allowed the loan even though it came after the military crackdown in Poland.

Gaz de France, a government-owned company, agreed to buy 280 billion cubic feet of natural gas a year from the pipeline over the next 25 years. That is double the current level of French gas purchases from the Soviet Union. Negotiations over the price were complicated by a French agreement with Algeria to pay \$5.20 a thousand cubic feet. (The Algerian government is supposed to increase purchases from French companies in return for the unusually high price.)

The Soviet price is lower, despite appeals by the Algerians that the U.S.S.R. should help Algeria peg the price of natural gas to the price of crude oil. France will pay \$4.75 a thousand cubic feet at the Czech-Austrian border as a minimum.

Creusot Loire, which signed a joint contract with Mannesmann, has the largest equipment supply contract, much of it to be subcontracted to other French firms. Thomson-CSF S.A. signed a \$300 million contract in December 1981 to sell sophisticated telecommunications equipment for the pipeline to be used to monitor the line.

Alisthorm Atlantique S.A. has signed contracts to supply \$60 million worth of rotors and blades for turbines, using GE patents. The firm might increase its deliveries now that GE has been blocked from fulfilling its contracts by the U.S. embargo. Two other French firms, Technip S.A. and Valloirec Group S.A. also are expected to have major contracts. A French-based unit of Dresser Industries of Dallas, Dresser France S.A., has been ordered by the French government to defy the U.S. embargo for compressor station equipment it is building for the pipeline. It shipped some of the equipment last week and was placed on a blacklist by the U.S. government.

So far, contracts valued at the current equivalent of about \$725 million have been signed by the Soviets with French firms, according to Louis Feuvrier, a technical adviser in the French Ministry of Foreign Trade.

#### Italy

Snam S.p.A., the Italian gas distribution company that is owned by the state company, Ente Nazionale Idrocarburi, has agreed to buy about 280 million cubic feet of natural gas a year for 20 years at a price of \$4 a thousand cubic feet. The contract, which must be approved by the government, would give the Italians the best price.

Part of that is due to stiff competition from the Algerians, whose pipeline cuts under the Mediterranean Sea to Italy. Algeria is asking Italy to pay \$4.80 a thousand cubic feet, but Italy wants to pay just \$4.01. "The Russian gas costs less than what we offered to pay the Algerians," says Gaerado Carante, commercial consul for the Italian embassy in Washington.

Credit has been granted by the Italian government to cover as much as 85% of the roughly \$1 billion in contracts granted by the U.S.S.R. to Italian companies. The interest rate is 8.25%, the developed-countries' consensus rate at the time of the agreement. "We are in favor of limiting credit to the Soviet Union," says Mr. Carante, "but in this particular case the credit has already been approved."

Nuovo Pignone S.p.A., another unit of ENI, has the largest equipment contract. The firm will sell 19 pumping stations for between \$650 million and \$750 million. Nuovo Pignone needs GE turbines for the stations, but GE already delivered equipment for 14 stations to Italy. Mr. Carante said the company can meet its obligations through the middle of next year even if GE doesn't ship any more turbines.

Italsider S.p.A. has a contract for \$230 million worth of steel pipe. Telettra, a unit of Fiat S.p.A., also will be involved in the project.

#### Britain

Britain has pipeline contracts valued at the current equivalent of \$383 million, spread among a dozen firms, according to Ray Mingay, commercial consul for the British Embassy in Washington.

Of that amount, \$226 million worth of contracts are caught by U.S. regulations barring U.S.-made and patented equipment from being used for the pipeline. John Brown Engineering Ltd.'s contract to make 21 GE patented turbines for \$181 million is the biggest. The British government has ordered the companies to proceed.

Other companies ordered to fulfill their contracts in violation of U.S. sanctions include U.K. divisions of the U.S. companies Baker International Corp., Smith International Inc. and American Air Filters Co., Mr. Mingay says.

Britain's Morgan Grenfell & Co. merchant bank has extended a \$348 million line of credit at developed-countries consensus rates. That line of credit is "substantially unused" says Mr. Mingay. The credit is backed by the British government's Exports Credits Guarantee Department.

#### Czechoslovakia

The Czechs are contributing labor, pipe and compressors for the pipeline, all manufactured within the country and requiring no outlays of hard currency. "The Czechs were overjoyed when the Soviets rerouted the pipeline away from Poland through Czechoslovakia," says Jan Vanoos, an expert on Eastern European economies with Wharton Econometrics Forecasting Associates Inc.

Mr. Vanoos estimates that Czechoslovakia currently receives about 290 billion cubic feet of natural gas a year from the Soviet Union, including 10.5 billion to 17.5 billion cubic feet as transit fees for Soviet pipelines already running to Western Europe. He estimates that the new pipeline will bring the Czechs an additional 17.5 billion to 28 billion cubic feet of natural gas in transit fees.

Although it won't help Czechoslovakia earn foreign currency, the fees will help the country as the Soviet Union tries to scale back its oil and gas commitments to Eastern Europe, which it subsidizes heavily.

#### United States

Undersecretary of State James L. Buckley says U.S. companies have lost potential business valued at \$800 million with the U.S.S.R. because of U.S. sanctions against the pipeline. The chief victims were General Electric Co., Dresser Industries, Baker International, Cooper Industries and Smith International. Some of those might proceed through their European subsidiaries or licensees.

Caterpillar Tractor Co.'s contract to supply pipe-laying equipment will be filled by a Japanese firm.

GE's contract for \$175 million in turbine parts was the largest.

#### Others

Other countries play lesser roles in the pipeline, or might eventually. Austria, Finland, Switzerland, Sweden and Greece are expected to buy gas from the pipeline. Finland also has won a telecommunications contract for the project. Hungary will build a segment of the pipeline on a basis similar to Czechoslovakia. Belgium and the Netherlands originally were to play major roles in supplying equipment and buying gas from the pipeline but backed out of the project.





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Soviet Natural Gas Pipeline: Selected References, 1980-1982

The bibliography divides references to publications about the pipeline into six sections. The first lists general works dealing with the pipeline; the second assesses strategic issues raised by European dependence on Soviet natural gas. Following that is a section on the U.S. sanctions on the sale of American-designed pipeline technology to the Soviets, and the European response to the sanctions. Fourth, there is material on the declaration of martial law in Poland, the precipitating cause of the sanctions being imposed. A section on human rights assesses accusations that the Soviets are using forced labor to build the pipeline. Finally, the extension of the U.S.-Soviet grain agreement and its connection to the pipeline debate is considered.

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Kristin M. Vajs  
Senior Bibliographer  
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