

## Soviet Reaction to the U.S. Pipeline Embargo: the Impact on Future Soviet Economic Relations With the West

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# SOVIET REACTION TO THE U.S. PIPELINE EMBARGO: THE IMPACT ON FUTURE SOVIET ECONOMIC RELATIONS WITH THE WEST

## I. INTRODUCTION

This note discusses Soviet perceptions of the aborted U.S. sanctions on Soviet gas pipeline construction imposed in 1981 and 1982. For the reasons outlined below, it appears that the U.S. sanctions will not adversely affect Soviet economic relations with Western Europe, at least for the foreseeable future. The USSR and the West European states have important economic and political stakes in mutual trade, and, insofar as the U.S. sanctions were intended to force the West Europeans to sever those ties, the U.S. actions failed. The anti-Soviet orientation of recent U.S. administrations makes it unlikely that the USSR will enter into any significant trade agreements with the United States, absent major concessions by the latter, because the United States has not renounced the use of sanctions in future dealings with the USSR. It is possible, however, that the U.S. sanctions may have forced the Soviet Union to consider restructuring its economic ties with the West, in order to diminish the impact of possible future actions by Western states. Such a move would indicate a retrenchment by the Soviets from the policy of detente, which espoused, *inter alia*, 'peace-through-trade' but which was inextricably bound by the political relationships of the participating states. In a hostile political environment even economically beneficial ties are broken, Soviet economic analyses notwithstanding. Reagan's sanctions may have brought this point home to the USSR.

## II. DISCUSSION

On December 29, 1981, President Reagan declared that American companies were prohibited from selling to the USSR equipment for the extraction and transport of oil and gas.<sup>1</sup> He based his opposition to the Soviet pipeline construction project initially on Soviet involvement in Poland,<sup>2</sup> but the Reagan administration's reasons expanded to include the use of prisoner labor on the project<sup>3</sup> and the use of hard currency gained by the

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1. 47 Fed. Reg. 141 (Jan. 5, 1982). See Merciai, *The Euro-Siberian Gas Pipeline Dispute—A compelling Case For the Adoption of Jurisdictional Codes of Conduct* 8 MD. J. INT'L L. & TRADE 1 (1984).

2. *Id.*

3. Wash. Post, Aug. 26, 1982, at A14, col. 2. The Soviets had earlier rejected the contention of the International Association of Human Rights in Bonn that "tens of thousands of Soviet political prisoners" were working in "inhuman conditions" on the pipeline, asking, rhe-

sale of gas in Western Europe to modernize the Soviet armed forces.<sup>4</sup> On June 18, 1982, the embargo was extended to similar products of foreign subsidiaries of U.S. firms and to foreign licensees. This expansion of the embargo was allegedly effected because the West Europeans had not supported U.S. initiatives to increase credit restrictions on the Soviet Union.<sup>5</sup>

The Soviet reaction to the U.S. measures was one of seeming incredulity, as well as professed indignation, particularly in regard to inferences by the U.S. government that the pipeline deal was sought by the USSR for ulterior, sinister motives. The Soviets did not deny, of course, that the "gas-for-pipes" deal was a good business opportunity for them; in fact, the pipeline construction project was called the "Project of the Century" in popular Soviet accounts.<sup>6</sup> Further, it was openly acknowledged that the construction of the pipeline using commercial credits on a barter basis allowed the Soviet Union to divert domestic funds to other national economic programs.<sup>7</sup> But

torically, whether the pipeline workers would be responding as enthusiastically to the challenge of the U.S. sanctions as they were if those workers were political prisoners. Moscow Radio Broadcast of August 5, 1982, reported in Foreign Broadcast Information Service, DAILY REPORT - SOVIET UNION (hereafter cited as FBIS-SU), Aug. 5, 1982, at CC2.

4. Wash. Post, Sept. 1, 1982, at A17, col. 2. In distinguishing between the pipeline sanctions and renewed U.S. grain sales to the Soviet Union, Reagan asserted that the grain sales would drain the Soviets' hard currency reserves and thereby diminish the Soviet military potential. This argument was refuted by several prominent U.S. economists and political consultants. See Wash. Post, Oct. 10, 1982, at C5, col. 1; *Id.*, Oct. 19, 1982, at C7, col. 1; *Id.*, Oct. 24, 1982, at F1, col. 3.

5. Wash. Post, Aug. 31, 1982, at A17, col. 1.

6. Novoe vremya, Sept. 3, 1982, at 1. Reported in FBIS-SU, Sept. 15, 1982, at CC3. See also Lukov & Zagorskiy, "Belyy dom protiv 'proekta veka'" (*The White House versus the 'Project of the Century'*), 3 MIROVAYA EKONOMIKA I MEZHDUNARODNYE OTNOSHENIYA (hereafter cited M.E.M.O.) 104 (1982).

7. Pravda, June 28, 1982, at 6, reported in FBIS-SU, July 9, 1982, at CC3. Such "barter" deals, in which financing, equipment and technical expertise are brought in from abroad and the credits paid off in the products of the enterprises built, are called "compensatory agreements." Shmelev, "Mirnoe soshchestvovanie i ekonomicheskoe sotrudnichestvo" (*Peaceful coexistence and economic cooperation*), 4 M.E.M.O. 26, 30 (1976). These agreements are defined by Soviet economists as a form of industrial-economic cooperation existing under conditions of peaceful coexistence, by which mutual advantage is achieved on the basis of the international division of labor through the growth of the G.N.P. of both parties. *Id.*; Vaynshteyn and Takhnenko, "Kompensatsionnye soglasheniya i voprosy effektivnosti" (*Compensatory agreements and questions of effectiveness*), 5 M.E.M.O. 101-02 (1974).

Proposed compensatory agreements are evaluated by a research institute and the Foreign Trade Department of the Soviet central planning agency, Gosplan, to determine whether the deal should be made. The proposal is tested in three ways: on a production model, on an economic model, and sociopolitically. Vaynshteyn and Takhnenko, "Kompensatsionnye soglasheniya i voprosy effektivnosti" (*Compensatory agreements and questions of effectiveness*), 5 M.E.M.O. 101-02 (1974). Approval allows one of two types of agreements to take form. Either the Soviet Ministry of Foreign Trade or another agency, concludes the agreement

this did not mean that the USSR wanted to gain "some special economic advantages," in the words of one Soviet commentator.<sup>8</sup> Rather, the commentator continued, the Soviet Union decided to use Western capital in the pipeline project "to aid the development of mutually beneficial cooperation between the USSR and the Western countries."<sup>9</sup> Another commentator characterized international trade as "not only a good way of satisfying the material interests of the participating sides, but, first and foremost, a powerful factor in strengthening peace and good relations between states."<sup>10</sup> Thus, there was a Soviet motive behind the more immediate desire for a pipeline deal, but that motive was allegedly benevolent.

Other Soviet commentators elaborated on the connection between economic cooperation and political ties in terms of the pipeline deal. One commentator stated that the deal was concluded "to consolidate the climate of trust in Europe," while at the same time to pave the way for expanding East-West business cooperation.<sup>11</sup> The deputy chairman of the Soviet state planning commission, Gosplan, averred that "there was no need to prove

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for the compensatory deal, or an all-union foreign trade association does so. Both types are considered civil agreements, rather than agreements between nations. M. BOGUSLAVSKIY, *CHASTNOE MEZHDUNARODNOE PRAVO* (Private international law) 201-02 (1982).

8. Prague Television Broadcast of July 15, 1982, reported in FBIS-SU, July 16, 1982, at CC2. In the Soviet view, such cooperation with the West allows the socialist states to more quickly fulfill long-term economic plans, develop new areas of their countries, and broaden the production capabilities in individual branches of industry. Shmelev, *supra* note 7, at 30. These long-term economic ties are thought to provide the stability needed to meet the requirements of socialist planned economies, which otherwise might be slowed by inefficient domestic production. Shmidt, "*Perspektivy ekonomicheskikh svyazey mezhd Vostokom i Zapadom*" (*The future prospects for economic ties between the East and West*), 10 M.E.M.O. 16 (1978). Soviet economists do, however, admit that as the socialist countries become more and more involved with the West they will have no choice but to take into account the uneven development and structural problems of the world economy when they draw up their long-term plans. Maksimova, "*Vsemirnoe khozaystvo i mezhdunarodnoe ekonomicheskoe sotrudnichestvo*" (*World business and international economic cooperation*), 4 M.E.M.O. 17 (1974).

9. Prague Television Broadcast, *supra* note 8.

10. Moscow Radio Broadcast of July 1, 1982, reported in FBIS-SU, July 2, 1982, at G5. Soviet economic theorists see the development of economic ties between the socialist and non-socialist states as an inevitable historical tendency in world economics, part of the trend towards an "international division of labor" touted by socialist doctrine. The division of labor is considered inevitable because there are so many products that even the largest and most developed states cannot efficiently produce them all. The advantage of such a tendency, in the socialist view, is that the resulting specialization will purportedly increase the productivity of labor on an international scale. See Maksimova, *supra* note 8, Bogomolov, "*Ekonomicheskie svyazi mezhd sotsialisticheskimi i kapitalisticheskimi stranami*" (*Economic ties between socialist and capitalist countries*), 3 M.E.M.O. 41 (1980); Vaynshteyn & Takhnenko, *supra* note 7, at 102. See generally Shmelev, *supra* note 7.

11. *Novoe vremya*, Sept. 3, 1982, at 1, reported in FBIS-SU, Sept. 15, 1982, at CC3.

what effective factors of detente international trade and economic relations are," and that "an orientation toward the long term in economic links is an orientation toward peaceful coexistence."<sup>12</sup> Coming, as it did, from an official of the governmental body responsible for drafting and monitoring economic plans, the deputy chairman's affirmation of the pipeline deal was not politically insignificant. Gosplan does not tolerate uncertainty in the execution of planned projects. The Soviet minister of the gas industry, who is responsible, *inter alia*, for producing the gas to be exported on the gas pipeline under construction, bestowed his imprimatur on the deal, viewing it as ideologically compatible with Soviet economic theory in its adherence to the principle of the international division of labor.<sup>13</sup> By having these two government officials go on record as wholeheartedly endorsing the pipeline deal with the West, to the extent of linking it to firmly-held Soviet political and economic tenets, the Soviet government risked significant political fallout had the sanctions been effective in diverting the West European states from economic cooperation with the USSR.

The motives of the United States in instituting the sanctions were assessed by some Soviet commentators as involving the desire to upset detente.<sup>14</sup> One commentator suggested that the United States was dissatisfied with cooperation between Western Europe and the USSR because such cooperation stabilized the political situation in Europe and helped to strengthen the sovereignty and independence of West European countries.<sup>15</sup> Another commentator evaluated the current U.S. administration as the "destroyer of everything positive accumulated over the preceding period in relations between states with different social systems."<sup>16</sup> Then-President Brezhnev was quoted as calling the policy of sanctions "an adventurist approach towards extremely serious problems affecting the fate of mankind."<sup>17</sup> Another Soviet writer viewed the United States as a "destructive

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12. Moscow Radio Broadcast of July 15, 1982, reported in FBIS-SU, July 20, 1982, at CC5.

13. Pravda, July 16, 1982, at 4, reported in FBIS-SU, July 20, 1982, at CC8.

14. The Soviets do not deny the primacy of politics in international cooperation between socialist and capitalist states. Mutual economic dealings are thought to be the bellwether of detente, and Soviet economists expect that "reactionary forces" will continue to try to limit economic relations with socialist countries. Thus, the extent of East-West cooperation will depend on the status of detente. See Shmidt, *supra* note 8, at 18; and Maksimova, *supra* note 8, at 18.

15. Izvestiya, July 12, 1982, at 3, reported in FBIS-SU, July 20, 1982, at CC13.

16. 37 ZA RUBEZHOM 1 (1982), reported in FBIS-SU, Sept. 15, 1982, at CC2.

17. *Id.* The policy of sanctions and boycotts is condemned by Soviet writers. See BOGUSLAVSKIY, *supra* note 7, at 106; Rakhmaninov, "Evropa na otvetstvennom rubezhe" (*Europe at a crucial step*), 8 M.E.M.O. 8 (1982). The Soviets have supported the inclusion of a clause in the Charter of Economic Rights and Duties of States, G.A. Res. 3281, to the effect that any

force in international relations both politically and economically, [whose] actions are leading to the destruction of the international division of labor."<sup>18</sup> The sanctions, then, came to represent a manifestation of U.S. hostility towards detente and towards all the benefits the USSR and, in the Soviet view, the world enjoyed because of detente. The U.S. sanctions were also said to violate the Final Act of the Conference on Security and Cooperation in Europe, the Helsinki accords,<sup>19</sup> specifically the respect for sovereignty, non-interference in internal affairs of other states, and the development of economic cooperation between states.<sup>20</sup> In commemoration of the seventh anniversary of the signing of the Final Act, August 1, 1982, several Soviet commentators itemized the agreements signed at Helsinki that were subsequently breached by the United States, the most obvious manifestation of which was the pipeline embargo.<sup>21</sup> It was noted that the West European and socialist countries were conscientiously implementing the Helsinki agreement that trade would be expanded "on the broadest possible multilateral plane."<sup>22</sup> The agreement also indicated specifically that energy resources, such as oil, gas and coal, were suitable spheres for increasing long term economic cooperation. By analyzing the U.S. sanctions in the context of the Helsinki accords, the Soviet commentators were attempting to blunt U.S. claims of Soviet Helsinki violations, as well as characterize the sanc-

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state putting economic pressure on another state to restrict the exercise of its sovereign rights would be in violation of the U.N. Charter. Lobanov, "*Kodeks ekonomicheskikh otnosheniy*" (*Code of economic relations*), 6 M.E.M.O. 116 (1975).

In addition, it is argued that discrimination in international economic relations on the basis of economic, political, and social systemic differences may also be a violation of the principle of noninterference. This is true whether the discrimination is direct or indirect, in the internal or foreign affairs of a State. See G. TUNKIN, *MEZHFUNSTOFNOR PRAVO* (International Law) 119 (1982).

18. TASS Wire Service of Sept. 23, 1982, reported in FBIS-SU, Sept. 29, 1982, at CC13.

19. 14 I.L.M. 1293 (1975); 73 DEP'T STATE BULL. 323 (1975). The Helsinki accords called for efforts to develop cooperation in economics, science and technology and the environment to strengthen peace and security in Europe. Thirty-three European countries, the U.S. and Canada signed the accords. Soviet writers stress that the Helsinki accords represented a long-term program for cooperation among the signatory states and that long-term economic agreements were signed with Western states in that spirit. See G. TUNKIN, *supra* note 17, at 383; Rakhmaninov, *supra* note 17, at 8.

20. Rakhmaninov, *supra* note 17.

21. Moscow Radio Broadcast of July 29, 1982, reported in FBIS-SU, July 30, 1982, at CC5. Selskaya zhizn, Aug. 1, 1982, at 3, reported in FBIS-SU, Aug. 6, 1982, at CC3.

In addition, the Helsinki Final Act itself called for the development of new sources of energy and of new technology for the transmission and distribution of energy, as the Soviets were quick to point out. Schmidt, *supra* note 8, at 12.

22. Selskaya zhizn, *supra* note 21, at CC4.

tions as an anti-European maneuver.

Many Soviet commentators, in fact, reported that the U.S. embargo was indicative of U.S.-West European economic and political conflict, and was an attempt by the U.S. to regain superiority over Western Europe.<sup>23</sup> The political superiority would allegedly be achieved by destroying detente and forcing the West European allies to adhere to strict discipline within the NATO alliance.<sup>24</sup> It was for this reason, according to the Soviet view, that the U.S. administration was also scaring and intimidating Western Europe with the Soviet "threat".<sup>25</sup> More importantly, though, the commentators saw the embargo as an attempt by the United States to weaken the economies of West European states and thereby remove the latter's industries as the chief competitors of U.S. firms.<sup>26</sup> According to one Soviet economist, the U.S. sanctions were part of a three-year trend of inter-capitalist economic warfare.<sup>27</sup> In his view, a successful U.S. embargo would deprive the West European states of "lucrative and capacious commodity markets" in the Soviet bloc, and would "restore U.S. leadership in economic relations" with Western Europe. Further, the economist analyzed U.S. demands on NATO members to increase their military appropriations as another facet of the U.S. effort to weaken the economic positions of its business rivals.

The embargo was also viewed by the Soviets as an attempt by the United States to achieve hegemony in international energy for the non-socialist world.<sup>28</sup> Proof of this, in the opinion of one commentator, was the fact that the U.S. oil industry occupied a major position in the West Euro-

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23. Lukov & Zagorskiy, *supra* note 6. TASS Wire Service of Oct. 4, 1982, reported in FBIS-SU, Oct. 5, 1982, at A2. Literaturnaya gazeta, July 7, 1982, at 9, reported in FBIS-SU, July 20, 1982, at CC1. Novoe vremya, Sept. 3, 1982, at 1, reported in FBIS-SU, Sept. 15, 1982, at CC3. Izvestiya, Nov. 29, 1982, at 3, reported in FBIS-SU, Nov. 30, 1982, at CC1. See also Noskova, "Zapadnaya Evropa i SSHA: Narastanie sopernichestva" (*Western Europe and the U.S.A.: The growth of rivalry*), 8 M.E.M.O. 112 (1980).

Whether this analysis is persuasive or not, some independent facts indicate the United States found the Western European credit terms to the Soviet Union unpalatably suggestive of Western subsidization of socialism. See Wash. Post, Sept. 10, 1982, at A1. This was especially irksome as the terms were arguably favorable in relation to world rates. In response, the Soviets argue that these credit rates should not be pegged to world rates since "each long-term program has its own individual characteristics." Vaynshteyn & Takhnenko, *supra* note 7, at 101. In the pipeline agreement between the Federal Republic of Germany and the USSR, the low rates were offset by lower Soviet gas prices and higher German construction supply prices. Wash. Post, July 28, 1982, at A16.

24. TASS Wire Service of July 15, 1982, reported in FBIS-SU, July 15, 1982, at CC1.

25. Izvestiya, Nov. 29, 1982, at 3, reported in FBIS-SU, Nov. 30, 1982, at CC4.

26. TASS Wire Service, *supra* note 24. Moscow Radio Broadcast, *supra* note 10.

27. TASS Wire Service of Oct. 4, 1982, reported in FBIS-SU, Oct. 5, 1982, at A2.

28. Lukov & Zagorskiy, *supra* note 6, at 105.

pean economy, and would apparently lose its influence with the increased supply of Soviet natural gas into Europe.<sup>29</sup> Ultimately, in another commentator's view, the U.S. goal was to establish control over oil resources in the Middle East and Persian Gulf and then dictate its political will to Western Europe.<sup>30</sup> Another Soviet commentator, appearing in an article in an Austrian newspaper, claimed that the U.S. administration's desire to substantially expand the sales market for U.S. coal in Western Europe was an important motive behind the embargo.<sup>31</sup>

Whether or not such anti-U.S. arguments were persuasive to the West Europeans, who were the ultimate, if not the designated, audience for much of the above-mentioned commentary, is hard to determine. The reason for the West European states' refusal to support the U.S. sanctions was probably less out of political or economic mistrust of U.S. motives, although the attempt to apply U.S. law extraterritorially did rankle those states, than out of their own political and economic situations. One Soviet commentator noted that "the stability and dynamic nature of the Soviet economy" makes the Soviet Union an attractive trade and economic power, particularly now that the world capitalist economy is experiencing an economic slump, with unemployment and unused production capabilities.<sup>32</sup> The "stability and dynamic nature" of the Soviet economy, seemingly a contradiction in terms, is hardly an accurate characterization of that economy, and is even less accurate as an economic incentive for Soviet-West European trade. The latter part of the commentator's statement, concerning the European economic slump, touches on probably the main reason for West European-USSR economic fidelity, occasional and even sincere interests in detente on the part of the West European states notwithstanding.

Several Soviet commentators claimed that the USSR would fulfill its obligations to deliver gas to its West European customers whether or not the U.S. sanctions prevented the delivery of pipeline equipment from the West, primarily by domestic production of the needed equipment.<sup>33</sup> A le-

29. *Id.*

30. *Literaturnaya gazeta*, *supra* note 23.

31. *Arbeiter-Zeitung*, June 29, 1982, at 4, reported in FBIS-SU, July 2, 1982, at G5.

32. Moscow Radio Broadcast, *supra* note 10.

33. Moscow Radio Broadcast, *supra* note 12. Moscow Radio Broadcast of July 12, 1982, reported in FBIS-SU, July 13, 1982, at CC5. TASS Wire Service of July 8, 1982, reported in FBIS-SU, July 9, 1982, at CC2.

Apart from representing a reaction to the particular situation, this claim may also reflect the Soviet legal framework. Under Soviet law, concluded contracts are to be strictly executed (Article 169), and a unilateral refusal to fulfill an obligation or a unilateral change in the conditions of a contract are not allowed except in circumstances provided for by law. V. SMIRNOV, *SOVETSKOE GRAZHDANSKOE PRAVO (Soviet Civil Law)* 339 (1982).

Foreign businessmen trading with the Soviets have indicated that the Soviets are ex-

gally-binding resolution was adopted by the Central Committee of the Soviet Communist Party and the USSR Council of Ministers on July 8, 1982, which stated that the Soviet organizations working on the pipeline would finish the project on time.<sup>34</sup> Those organizations had also assumed legally-binding obligations which were said to be "taken into account in the operational planning of Gosplan."<sup>35</sup> The general director of the Soviet gas export authority Soyuzgazekspport indicated that, as a result of the Central Committee-Council of Ministers resolution, "the Soviet Union is offering firm guarantees to its business partners that, despite the U.S. embargo and the problem it creates, the gas pipeline from Siberia to Western Europe will be completed on time."<sup>36</sup> The resolution also stipulated that the gas exports would be supplied in accordance with the contracts concluded with the West European firms.<sup>37</sup> Whether the resolution opened up the possibility that the Soviet gas export organization could be held contractually liable for nonperformance by the West European firms is unclear,<sup>38</sup> but the USSR held itself up to potential international ridicule, as well as confirma-

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tremely performance-minded, and that they expect foreign parties to be as committed to performance. J. GIFFEN, *LEGAL AND PRACTICAL ASPECTS OF TRADE WITH THE SOVIET UNION* 163 (1969).

For the Soviet firm that implements a compensatory agreement, Soviet law stipulates that the obligation must be performed even after the payment of fines for nonperformance. V. SMIRNOV, at 351-52. The obligation attaches despite the fact that usually the Soviet firms are not under formal contract; rather, the obligation is established directly by planning documents. (Article 159). *Id.* at 325. Only if these documents are revoked or modified or the performance completed does the obligation cease. *Id.* at 340.

34. Pravda, July 8, 1982, at 1. The resolution was not published in its full text in Soviet newspapers, nor did it appear at all in the official compilation of government and Party resolutions, *Sobranie postanovleniy pravitel'stva Soyuza Sovetskikh Sotsialisticheskikh Respublik (Collection of the Resolutions of the Government of the USSR)*.

35. Moscow Radio Broadcast, *supra* note 12, at CC6. The obligation of the Soviet organizations is established directly by planning documents, and does not need to be formalized by contract. The obligation ceases only if the planning documents are revoked or modified or if the performance is completed. The Soviet economic system does not favor the payment of compensation instead of the promised goods or services, as the obligation was carefully planned by Gosplan within a system of closely intertwined obligations. See V. SMIRNOV, *SOVETSKOE GRAZHDANSKOE PRAVO (Soviet Civil Law)* 324 *et seq.* (1982).

36. Moscow Radio Broadcast of Aug. 25, 1982, reported in FBIS-SU, Aug. 26, 1982, at CC8.

37. See Prague Television Broadcast, *supra* note 8.

38. Compensatory agreements are governed by civil law (private international law), despite the fact that these agreements are closely tied to inter-governmental agreements on trade. BOGUSLAVSKIY, *supra* note 7, at 201.

The remedies provided by Soviet law for nonperformance include recoupment of losses (anticipatory and planned profits) and the payment of fines. SMIRNOV, *supra* note 33, at 364-66.

tion of U.S. allegations of Soviet technological inferiority, if it failed to finish the project on time, probably a more egregious penalty for the Soviet leadership than monetary damages.

The Soviet record on contract performance, particularly for gas shipments, was described as exemplary by one Soviet commentator. According to his figures, the USSR had never suspended gas deliveries to West European customers in the thirteen years it had been a supplier.<sup>39</sup> Another commentator warned that the USSR, in turn, expected the West Europeans to honor their obligations to the Soviet Union, particularly because trade in gas "naturally demands certain economic and political guarantees" for the exporting country.<sup>40</sup> He stated that the USSR cannot assume the burden of such an expenditure of resources "without firm confidence in the stability of contracts signed."<sup>41</sup> Even prior to the U.S. sanctions, one Soviet commentator stated that the gas importers were expected to take upon themselves an equal degree of responsibility to realize the construction projects supporting the gas delivery.<sup>42</sup> In fact, under the "gas-for-pipes" deal these responsibilities were assumed not only by Soviet and West European firms but also by their respective governments, which provided an additional degree of assurance that the contracts would be performed.<sup>43</sup> Thus, the commentators' warnings were hortatory at best.

The lifting of the U.S. grain embargo against the Soviet Union, which occurred while the pipeline sanctions were still in effect, was considered by Soviet commentators to be an admission that economic sanctions against the USSR were not effective.<sup>44</sup> Neither this, however, nor the subsequent

39. TASS Wire Service of Aug. 25, 1982, reported in FBIS-SU, Aug. 26, 1982, at CC7.

40. *Izvestiya*, *supra* note 15.

41. *Id.*

42. Mangushev, "Problemy evropeyskogo rynka gaza" (*Problems of the European Gas Market*), 8 M.E.M.O. 39, 47 (1981).

43. The compensatory agreement is based ultimately on inter-governmental relations. In most cases, the binding effect of the compensatory agreement is conditioned on approval by the respective governments and the compensatory agreement is itself usually subsumed in an inter-governmental agreement on trade. This intertwining of private and state agreements is claimed by the Soviets to be a "new international mechanism for economic relations," based on the socialist model, that the capitalist states are forced to accept as the only acceptable, legal basis for mutual relations. Whether or not this "new mechanism" is ideologically sound from the Soviet perspective, the inter-governmental aspect of the compensatory agreement provides a major incentive for the complete performance of the contract, and it explains why interference on the part of other states in the performance of those agreements affects the interests of the state directly. See Maksimova, *supra* note 8, at 15-16; BOGUSLAVSKIY, *supra* note 7, at 203.

44. Wash. Post, Oct. 17, 1982, at A16, col. 1. The U.S. has been active in instituting discriminatory measures with the USSR particularly since the 1950's. See BOGUSLAVSKIY, *supra* note 7, at 99-102. One Soviet economist has noted that by the mid-1950's the European allies of the U.S. had already begun to realize the limitations of embargoes against the East

lifting of the pipeline embargo on November 13, 1982, changed the Soviet assessment of the United States as a trading partner.<sup>45</sup> Several Soviet commentators during the embargo had indicated that the United States lacked stability and continuity and that each new U.S. administration embarked on costly experiments damaging to both U.S. companies and international trade as a whole.<sup>46</sup> Several days after Reagan announced his decision to end the sanctions, 250 U.S. businessmen attended a meeting of the U.S.-USSR Trade and Economic Council in Moscow. The U.S. businessmen were told by the Soviet foreign trade minister that trade could develop between the two countries only if the United States "once and for all" renounced the use of trade "as a weapon against our country."<sup>47</sup> Without such measures to generate confidence, he alleged, there would be no deals. The Soviet prime minister spoke at the same meeting, and indicated that the USSR was in fact ready for a more constructive relationship with the United States.<sup>48</sup> Since that meeting, however, there have been few confidence-building measures emanating from the United States. In fact, Reagan claimed that, in lifting the embargo, he was doing so because it had achieved its purpose of demonstrating to the Soviet Union that "their policies of oppression would entail substantial costs."<sup>49</sup> This comment was hardly a renunciation of the use of trade as a political weapon, and could not have been perceived by the USSR as an encouraging move on the part of the U.S. administration towards increased U.S.-Soviet trade.

There were some indications during the pipeline embargo that suggested the Soviets may have been re-evaluating East-West trade and their reliance on foreign goods. These published comments may reflect the real lesson learned by the Soviet Union from the U.S. sanctions, the apparent victory of the USSR in overcoming the U.S. actions notwithstanding. The most prominent of these re-evaluations was an interview with the director of the Soviet Institute of the Economics of the World Socialist System, O.T. Bogomolov.<sup>50</sup> In that interview, Bogomolov pointed out that the socialist

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and were beginning to search for markets there. Shmelev, "*Novye gorizonty ekonomicheskikh svyazey*" (*New horizons for economic ties*) 1 M.E.M.O. 7 (1973).

45. Wash. Post, Nov. 18, 1982, at A1, col. 4. TASS Wire Service of Nov. 17, 1982, reported in FBIS-SU, Nov. 18, 1982, at CC5.

46. TASS Wire Service, *supra* note 39. Moscow Radio Broadcast of July 17, 1982, reported in FBIS-SU, July 20, 1982, at CC13. The U.S. sanctions were additionally viewed as leading to fundamental problems in the capitalist economy itself. Moscow Radio Broadcast, *supra* note 10.

47. Wash. Post, *supra* note 43, at A24, col. 1.

48. Wash. Post, Nov. 19, 1982, at A25, col. 5.

49. Wash. Post, Nov. 14, 1982, at A1, col. 1.

50. Trud, July 3, 1982, at 3, reported in FBIS-SU, July 15, 1982, at CC3.

states had at times unjustifiably inhibited their own research and development in certain fields by simply importing new technology from the West. As Bogomolov contended, rarely is the latest or best technology sold to socialist countries, so that by the time it is assimilated it is obsolete. A further complication identified by Bogomolov was the need by the socialist countries to constantly import spare parts for the Western purchases, requiring hard currency and thereby burdening the country's balance of payments.

Bogomolov's solution was that the socialist countries ought not acquire expensive Western technology that could be obtained in other socialist countries or could be developed through joint efforts. He called on the countries to "strengthen their technical-economic and technological independence,"<sup>51</sup> while at the same time to "rationalize" their technological ties with the West.<sup>52</sup> Specifically, Bogomolov saw the latter strategy as directed towards buying more components and technology in support of domestically-produced equipment, rather than buying the finished equipment itself. He also indicated that licenses should be purchased only in those areas where the research base is sufficient to further improve the acquired technology.<sup>53</sup>

It is not clear whether Bogomolov's view has high governmental approval, or whether he is simply exhibiting an institutional bias. It is significant, though, that he was permitted to raise these issues when he did, despite the apparently calm official analyses of the U.S. sanctions that seemed to call for no major changes in East-West trade on the part of the USSR. It may be, moreover, that his view is the true Soviet assessment of the future of world economic integration, particularly with the apparent weakening of detente among the Western states.

### III. CONCLUSION

Soviet trade with Western Europe is unlikely to change immediately as the result of the U.S. pipeline embargo. In the absence of a clear consensus on the Soviet "threat" by the West European states, the United States will probably remain unable to implement effective economic sanctions against the USSR. Such a consensus seems unlikely, moreover, unless the Soviets do something particularly heinous to a matter of European concern. As long as Western Europe has a need for raw materials and energy, the USSR can expect reasonably firm economic ties with those countries.

It is much less certain, though, whether the USSR will want to main-

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51. *Id.*, at CC4.

52. *Id.*, at CC5.

53. *Id.*, at CC6.

tain the same level of trade with the West in the long term. Despite the guarantees provided by inter-governmental agreements and, more fundamentally, by the economic realities faced by a resources-poor Europe, trade with the West cannot be relied upon by the USSR, as the U.S. sanctions showed in their intent if not in their impact. It would be grossly negligent of Soviet planners if they were not making contingency plans to withdraw into the socialist community for a greater part of Soviet foreign trade. Whether this were done because of a failure of detente, or because of a desire to develop domestic technologies, the economic and political repercussions would probably be greater for Western Europe than for the United States. Thus, the U.S. sanctions, and other such future U.S. economic actions vis-a-vis the USSR, may eventually force the separation of Western Europe and the Soviet Union, but the separation may be at the Soviets' initiative, and on Soviet terms.

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