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SOVIET TRADING METHODS UNDER SCRUTINY

Comment on Moscow's *Radio Peace and Progress*, to mark the second anniversary of the nationalisation of the Iraq Petroleum Company (IPC), hailed it as a "historic victory" for the Iraqi people following "a violent struggle against the imperialist beasts", and described the IPC as "more like an octopus encircling Iraq, strangling it and sucking all of its blood". The radio claimed on June 3, 1974, that the firm support of the Soviet Union and other "Socialist" countries had been an important element in the victory. In fact, the Russians themselves have profitable interests in oil and other commodities supplied by the Middle East and Maghreb countries, and their trading methods are causing some concern.

According to *Radio Peace and Progress*, "Eighty per cent of the Iraqi budget depended on the royalties that were given as charities to the country". Even then, "the oil monopolies used to juggle the accounts of these royalties and thereby plundered vast sums from Iraq".

In 1972, the Soviet Union concluded a long-term agreement to buy Iraqi oil and to help Iraq develop oil production in North Rumaila. The recent *Radio Peace and Progress* broadcast followed an *Iraqi News Agency* report on May 29 which detailed another agreement, signed the previous day between Iraq and the USSR, for the third stage of the North Rumaila project. This should raise the field's output to an annual 42,000,000 tons from August, 1975 - compared with 5,000,000 tons in April, 1972, when Moscow first became involved. The Economic Counsellor at the Soviet Embassy in Baghdad described the project as a prominent symbol of Iraqi-Soviet friendship - and for the Russians it has been a lucrative friendship. The Beirut newspaper, *An-Nahar*, reported on May 14 that Iraq supplies the USSR with 300,000 barrels of oil per day. Over the question of payment for the oil, however, the amity has lately been under strain.

Moscow, reluctant to use its stocks of convertible currency, favours barter deals in which Soviet aid and exports are paid for by deliveries of crude oil. But because Soviet technical and especially military aid is hard to value, since it does not appear on any open market, the Russians sometimes obtain their oil at an artificially cheap price and re-export it to the West for much higher prices, paid in convertible currency. According to reports at the end of 1973, Iraq had agreed to purchase arms for oil worth £6 million, and the Russians had re-sold the oil to West Germany for £18 million, even before it was delivered. This practice is permitted under an Iraqi-Soviet protocol of August, 1970,

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covering Soviet oil imports up to 1979; other agreements, dating from July, 1972, provide for the repayment in crude oil of Soviet loans to Iraq made until December, 1980.

On April 1, 1973, the Beirut *Daily Star* quoted the *Middle East Economic Survey* as saying that the Iraqis "see no reason to saddle themselves with any more restrictive barter arrangements when hard cash is readily available", and that Soviet and East European customers were "likely to be asked to pay hard cash just like Western buyers". Since then, Iraq has evidently got tougher. According to the Lebanese magazine *Al-Sayyad* of April 24, 1974, Iraqi officials said that their country would gradually cancel the barter deals with the Soviet Union and Eastern Europe which had "imposed on Baghdad a certain non-profitable economic policy and enabled the States buying the oil to re-sell it for high prices on the international market". Frequently, the magazine added, Iraq did not need the goods supplied by these States, but did need convertible currency, and yet it was "forced by the barter deals to accept what it needed and what it did not need". The Iraqi experience has had a precedent in cotton exports from Egypt and the Sudan to the Soviet Union, but whereas cotton is an annual crop, oil is a once-only wasting asset, so that the problem is especially important for Iraq.

Iranian gas supplied "cheaply"

A similar situation has occurred with regard to Iran. In 1973, the Russians strongly supported the Shah's measures to obtain higher prices from the International Oil Consortium, and a *Moscow Radio* broadcast in Persian on April 15, 1974, quoted Foreign Minister Gromyko as saying: "Our country backs the developing countries' struggle against the imperialist monopolies who are exploiting their national resources". The commentary added that "utilizing the support of the Socialist camp, the oil-exporting countries, united within OPEC, have found a genuine opportunity to force the biggest Western oil monopolies to give in to their lawful and just demands... Iran, too, is taking part in the joint anti-imperialist struggle of the oil-producing countries". But the new agreement was far from satisfactory, being still a "colonialist distribution of profits between Iran and the monopolies", benefiting "major businessmen and oil-guzzlers". The radio added that "So long as the parasitic go-between of the monopolies exists, Iran and the rest of the oil-producing countries are not the complete masters of their black gold". However, the peoples' struggle against oil imperialism was gaining fresh momentum; "There is no doubt that the Iranian people, who have written a great many glorious pages in the history of this struggle, will now also participate in it actively".

The bone of contention, however, is the related commodity of natural gas. Iran sells the Russians an average of about 10,000 million cubic metres of dry gas per year and, according to *Pars Radio* on June 6, 1974, quoting the National Iranian Gas Company, the figure for April, 1974, alone was some 810,000,000 cubic metres. An article in the Iranian newspaper *Kayhan International* on May 23, 1974, entitled: "Russia getting Iran's gas on the cheap", noted that Iranian exports of gas to the Soviet Union dated from an agreement in 1966, which was part of a larger deal providing for Soviet assistance to projects such as the Isfahan steel mill. The gas, pumped across the Soviet border through a pipeline constructed at Iranian expense, was to help finance these projects and repay Russian credits. The agreement fixed the price of gas at 18.7 cents per 1,000 cubic feet at the then rate of exchange, a low price but one that was related to the prevailing conditions in international oil dealings. Ironically, it was the Soviet Union that insisted on an "escalation clause" providing for automatic adjustment to the gas price for any movement in fuel prices of under 30 per cent and for negotiations between the two parties on gas prices when fuel prices moved by more than 30 per cent.

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At that time, oil prices seemed likely to fall and the Russians thought the clause would protect their interests; however, oil prices rose by 42 per cent between 1971 and 1973, and so the gas price had to increase. In June, 1973, the Russians agreed to pay 35 per cent more, which was still below the international prices. When, between October and December, 1973, the posted price of oil more than quadrupled, the Russians disregarded the Iranian requests for an increase in gas prices and have been paying only some 30 cents per 1,000 cubic feet of gas. Pointing out that this is one-fifth of the international price of \$1.50, the *Tehran Journal* asked on May 28: "Is there a difference between colonial exploitation of oil from similar exploitation of gas?"

The problem is aggravated by a projected three-way deal under which, according to the *Kayhan International* article, Iran will deliver 13,000 million cubic metres of gas to West Germany, but at the Iranian-Soviet frontier. West Germany would in fact get its gas from Soviet fields and would pay the Russians a "transit" fee, although no physical transit of the gas occurs. Iranian gas would therefore go where the Soviet Union needed it, to the consumers and industries of the Southern Caucasus, saving the Russians the expense of constructing long pipelines from their distant reserves in the North and yielding the transit fee as a bonus. Furthermore, under current price structures, Moscow could make huge profits by charging West Germany fully for its own gas while underpaying the Iranians for theirs. An adjustment taking full account of the increase in oil prices would increase the price by 1.24 dollars per 1,000 cubic feet, although, according to *Kayhan International*, Iran is seeking an increase of only 62 cents. But the Russians did not even reply to the Iranian proposals.

Chinese viewpoint

Many of the details of the Soviet gas deals were first disclosed in *Oktobre*, the organ of the pro-Chinese Marxist-Leninist Association of Finland, which also dealt with similar problems experienced by Afghanistan. In a commentary on June 11, 1974, *New China News Agency (NCNA)* referred to the "social-imperialist acts of the Soviet Union" and said that "Iran's demand is completely just, but the Soviet revisionist leading clique is brazenly violating the agreement and, deliberately delaying a reply to Iran's reasonable demand, is blatantly plundering Iran's natural gas". Moscow, it said, adhered to treaties and agreements "when they work in its favour and violates them wantonly, or even tears them up, when they do not".

The Russians have replied by accusing the *Tehran Journal* of trying to "damage Iranian-Soviet relations" and the editor of being a paid agent of Western interests. *Pravda* has also attacked Iran's demands for gas price increases. In a Persian language broadcast on April 6, 1974, *Moscow Radio* referred to the original aid-for-gas agreement and said that the gas "used to go to waste". The Soviet Union had abundant resources, but, "wishing to help a friendly country like Iran to expand its economy... signed an agreement which, at the time, the Iranian Press called 'The deal of the century'". The commentary admitted that the Soviet Union had gained some advantages from the deal, but said that while the price of Iranian gas went up by 35 per cent in 1973, the price of Soviet equipment supplies had not been raised. On the allegations that the Russians were reselling Iranian gas at a higher price to European countries, the radio said: "This is a truly nonsensical rumour, the groundlessness of which could be proved by a simple calculation", and added that a pipeline from the Iranian gas fields to Moscow or even the Soviet western frontier would "involve considerable cost". The newspaper *Echo of Iran* commented on June 2, 1974: "In good faith, Iran accepted the costs of building one of the world's most expensive

and largest gas pipelines to deliver the Khuzistan gas to the Soviet Union. Should the Soviet Union not pay a price that will at least write off the cost of the pipeline construction? How can *Pravda* justify this plunder at a time when the oil producing countries have regained their rights?"

The London *Times* reported on June 24, 1974, that Iran was now seeking a fourfold rise in gas charges to the USSR and that a delegation led by Mr Taghi Mossadeghi, the Managing Director of the Iranian National Gas Company, had been in Moscow for talks on the subject - at Soviet invitation. The report added that Iran apparently wanted to bring the price of gas more in line with that of other energy resources. According to *The Times* on July 1, the Russians did not agree to Iran's demand and made no counter-offer.

Deal over Moroccan phosphates

Another commodity in which the Soviet Union has an interest is phosphates, the vital ingredient in agricultural fertilisers. Morocco has the largest known reserves of these, about 60 per cent, and last year exported 17 million tons out of a total production of 19 million tons. It also tripled the price, to about \$43 a ton, and Moroccan authorities have warned that further increases will be imposed. Under a barter deal with Morocco, the Russians will strike a new phosphate mine, Morocco's fourth, at Meskalas, plus a new harbour and integrated railway system. They will also supply petroleum products, timber, electro-mechanical plant and other equipment. Morocco, over a 25-30 year period beginning in 1990, will send 10 million tons of phosphates a year to the Soviet Union, though the Russians are likely to receive some 3-5 million tons a year from 1980. This will apparently not pay completely for Soviet assistance since, according to *The Times* of May 13, 1974, Morocco will make up the balance with citrus fruit, other produce and some minerals (probably food preserves, clothing, copper, lead and zinc). The report added that the agreement had yet to be ratified by the Russians.

The London *Financial Times* said on May 7, 1974, that the Meskalas project had yet to be fully costed, but this would be done as work progressed - which will give Moscow plenty of opportunity to adjust the costs. While the production target is 10 million tons to meet Soviet needs, it "may be expanded to allow Morocco to produce additional supplies at Meskalas for export to its other markets. That will depend on the outcome of the feasibility studies now under way to establish the full extent of the deposits and the finance available". It seems, therefore, that Morocco will only get any net benefit from Meskalas if and when there is production surplus to Soviet requirements; meanwhile, as prices inevitably rise, the Russians will be safeguarded by the terms of the barter deal from any drain on their convertible currency reserves or from any Moroccan attempt to raise prices to other customers. Indeed, as the Russians will get quantities of other Moroccan produce and minerals as well, Rabat is paying a high price for Soviet assistance. Some idea of what Moscow will save is evident from opinions that Moroccan phosphate prices may go as high as \$100 per ton; should it become necessary for the Russians to argue about this, they have only to re-value their side of the barter. But while Moroccan phosphates are worth what the free market will pay for them, Soviet equipment and services are worth what Moscow says they are.

There have already been indications of Moroccan dissatisfaction with Soviet trade practice. In September, 1973, there were Moroccan news agency reports that both Morocco and Tunisia had demanded the abrogation of trade agreements with the Soviet Union and wanted to discuss new arrangements to be based on payment in hard currency. Moscow was reported to have agreed in principle to abrogation. The reports added that in the past year, Moroccan exports to the Soviet Union had been worth 240,200,000 French francs, while

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imports from it had totalled F189,000,000. From this, it is impossible to avoid the conclusion that payments problems arose when Moscow found itself in a deficit position. On January 26, 1974, *Maghreb Arabe Presse (MAP)* reported snags in the export of early season fruit to the Soviet Union, which had refused to pay \$267 per ton, while the Moroccan authorities had found the offer of \$166 unacceptable. Nevertheless, *MAP* disclosed on February 23 that the Russians had bought one third of Morocco's citrus production since 1971 and that a joint Moroccan-Soviet company, SORESMA, had been formed to promote bi-lateral trade.

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