The Importance of Osthandel: West German-Soviet Trade and the End of the Cold War, 1969-1991

Dissertation

Presented in Partial Fulfillment of the Requirements for the Degree Doctor of Philosophy in the Graduate School of the Ohio State University

By

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Graduate Program in History
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2012

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2012
Abstract

Although the 1970s was the era of U.S.-Soviet détente, the decade also saw West Germany implement its own form of détente: Ostpolitik. Trade with the Soviet Union (Osthandel) was a major feature of Ostpolitik. Osthandel, whose main feature was the development of the Soviet energy-export infrastructure, was part of a broader West German effort aimed at promoting intimate interaction with the Soviets in order to reduce tension and resolve outstanding Cold War issues. Thanks to Osthandel, West Germany became the USSR’s most important capitalist trading partner, and several oil and natural gas pipelines came into existence because of the work of such firms as Mannesmann and Thyssen. At the same time, Moscow’s growing emphasis on developing energy for exports was not a prudent move. A lack of economic diversification resulted, a development that helped devastate the USSR’s economy after the oil price collapse of 1986 and, in the process, destabilize the communist bloc. Against this backdrop, the goals of some West German Ostpolitik advocates—especially German reunification and a peaceful resolution to the Cold War—occurred.
Dedication

Dedicated to my father, Charles William Carter
Acknowledgements

This project has been several years in the making, and many individuals have contributed to its completion. I especially want to thank my advisor, Dr. Carole K. Fink, for guidance, suggestions, and re-readings of multiple drafts. More important, I wish to thank her for her unaltering support—both in good times and in bad—throughout my graduate career. I would also like to thank the other members of my committee, Dr. Mansel Blackford and Dr. Peter Hahn, for providing useful and insightful comments and for their support. Furthermore, I wish to thank my former advisor, Dr. William Stueck, for all of his advice, support, and kindness over the years.

I express gratitude to the Mershon Center for International Security Studies and the Ohio State University Awards Committee for providing the financial support to make this dissertation possible. I also would like to thank the numerous kind archivists in Germany and Russia who assisted my research in countless ways. My fellow graduate students at Ohio State provided me with encouragement as well, and I wish to thank them for their support, especially Tony Crain and Joseph Arena.

Finally, I wish to thank family, especially my mother and sister, for providing support and encouragement. And although he passed away long before I ever stepped foot in a college, I deeply appreciate my late father for instilling in me, by way of his example, a love for history and, much more important, being a positive role model.
Vita

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2003…………………………….B.A. in History, University of Georgia, Athens, GA.
2007…………………………….M A. in History, University of Georgia, Athens, GA.
2007-present………………Graduate Teaching Associate, Ohio State University, Columbus, OH.

Publications

Book:


Article:


Book Review:

“The Crime That Dare Not Speak Its Name,” Taner Aksam, *The Young Turks’ Crime against Humanity: The Armenian Genocide and Ethnic Cleansing in the Ottoman Empire*, E-History (June 2012)

Encyclopedia Entry:

Fields of Study

Major Field: History
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<thead>
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<th>Abbreviation</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>AA</td>
<td>Foreign Office (Germany)</td>
</tr>
<tr>
<td>ABM</td>
<td>Anti-Ballistic Missile</td>
</tr>
<tr>
<td>AAPD</td>
<td><em>Akten zur Auswärtigen Politik der Bundesrepublik Deutschland</em> (series)</td>
</tr>
<tr>
<td>AVPRF</td>
<td>Archive of Foreign Policy of the Russian Federation</td>
</tr>
<tr>
<td>BA-Koblenz</td>
<td>Federal Archive at Koblenz, Germany</td>
</tr>
<tr>
<td>CDU</td>
<td>Christian Democratic Union</td>
</tr>
<tr>
<td>CMEA</td>
<td>Council for Mutual Economic Assistance</td>
</tr>
<tr>
<td>EEC</td>
<td>European Economic Community</td>
</tr>
<tr>
<td>FRG</td>
<td>Federal Republic of Germany</td>
</tr>
<tr>
<td>FRUS</td>
<td><em>Foreign Relations of the United States</em> (series)</td>
</tr>
<tr>
<td>GARF</td>
<td>State Archive of the Russian Federation</td>
</tr>
<tr>
<td>GDR</td>
<td>German Democratic Republic</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Association</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
</tr>
<tr>
<td>RGAE</td>
<td>Russian State Archive of the Economy</td>
</tr>
<tr>
<td>SALT</td>
<td>Strategic Arms Limitation Talks</td>
</tr>
<tr>
<td>SPD</td>
<td>Social Democratic Party of Germany</td>
</tr>
<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
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</tbody>
</table>
Dramatis Personae

FEDERAL REPUBLIC OF GERMANY

Adenauer, Konrad
CDU Chancellor, 1949-1963

Bangemann, Martin
Economics Minister, 1984-1988

Bahr, Egon
Advisor to Willy Brandt; Minister of Special Affairs of Germany, 1972-1974

Beitz, Berthold
Chairman of the Supervisory Board of Fried Krupp GmbH (1970-1989); Chairman and Executive Member of the Board of Trustees and Chairman of the Executive Committee of the Alfried Krupp von Bohlen & Halbach Foundation (1967-)

Brandt, Willy
SPD Chancellor, 1969-1974; Foreign Affairs Minister, 1966-69

Erhard, Ludwig
Chancellor, 1963-1966

Fehr, Hans
Executive of AEG-Kanis

Friderichs, Hans
Economics Minister, 1972-1977

Kiesinger, Kurt Georg
CDU Chancellor, 1966-1969

Kohl, Helmut
CDU Chancellor, 1982-1998

Lambsdorff, Otto
Economics Minister, 1977-1984

Overbeck, Egon
Mannesmann CEO, 1962-1983

Schiller, Karl
Economics Minister, 1966-1972
Schmidt, Helmut  
SPD Chancellor, 1974-1982; Finance Minister, 1972-1974; Economics Minister, 1972; Defense Minister, 1969-1972

Schelberger, H.  
Representative of Ruhrgas AG

Wolff von Amerongen, Otto  
President of the Association of German Chambers of Industry and Commerce, 1969-1988; Prominent Member of Committee on East European Economic Relations, 1955-2000

van Beveren, Jos  
Head of Mannesmann Export Department (1970s-1982)

SOVIET UNION

Andropov, Yuri  
General Secretary, 1982-1984; KGB Chief

Baibakov, Nikolai  
Chair of State Planning Committee (Gosplan), 1965-1985

Baranovski, Yuri  
Representative of Soyuznefteexsport (oil export agency)

Bondarenko, I.A.  
Politburo Member

Brezhnev, Leonid  
General Secretary, 1964-1982

Chermenko, Konstantin  
General Secretary, 1984-1985

Cherniaev, Anatoly  
Advisor to Gorbachev

Falin, Valentin  
Ambassador to the FRG, 1971-1978

Gorbachev, Mikhail  
General Secretary, 1985-1991; President, 1988-1991
<table>
<thead>
<tr>
<th>Name</th>
<th>Position and Term(s)</th>
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<tbody>
<tr>
<td>Gromyko, Andrei</td>
<td>Minister of Foreign Affairs, 1957-1985</td>
</tr>
<tr>
<td>Kosygin, Aleksei</td>
<td>Chairman of the Council of Ministers (Premier), 1964-1980</td>
</tr>
<tr>
<td>Manshulo/Manjulo, Aleksei</td>
<td>Deputy Foreign Trade Minister, early 1970s</td>
</tr>
<tr>
<td>Novikov, Vladimir</td>
<td>Deputy Chairman of the Council of Ministers (Deputy Premier), 1962-1981;</td>
</tr>
<tr>
<td></td>
<td>Chair of State Planning Committee (Gosplan), 1960-1962</td>
</tr>
<tr>
<td>Orudzhev, Sabit</td>
<td>Gas Minister, 1972-1981</td>
</tr>
<tr>
<td>Osipov, Nikolai</td>
<td>Deputy Foreign Trade Minister, 1967-1985</td>
</tr>
<tr>
<td>Patolichev, Nikolai</td>
<td>Foreign Trade Minister, 1958-1985</td>
</tr>
<tr>
<td>Ryzhkov, Nikolai</td>
<td>Chairman of the Council of Ministers (Premier), 1985-1991</td>
</tr>
<tr>
<td>Schtscheglov, A.D.</td>
<td>Deputy Director of the Division of Geology; Joint-Economic Commission Member</td>
</tr>
<tr>
<td>Shcherbina, Boris</td>
<td>Minister of Construction of Oil and Gas Industry Enterprises, 1973-mid-1980s</td>
</tr>
<tr>
<td>Suslov, Mikhail</td>
<td>Politburo Member; Chairman of the Foreign Affairs Committee, 1954-1982</td>
</tr>
<tr>
<td>Tikhonov, Nikolai</td>
<td>Chairman of the Council of Ministers (Premier), 1980-1985; First Deputy Premier, 1976-1980</td>
</tr>
<tr>
<td>Vetrov, Vladimir</td>
<td>Spy, KGB Agent</td>
</tr>
<tr>
<td>Zagladin, Vadim</td>
<td>Gorbachev advisor, <em>perestroika</em> theoretician</td>
</tr>
</tbody>
</table>

UNITED STATES
<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Period</th>
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<tbody>
<tr>
<td>Carter, James (Jimmy)</td>
<td>President</td>
<td>1977-1981</td>
</tr>
<tr>
<td>Ford, Gerald</td>
<td>President</td>
<td>1974-1977</td>
</tr>
<tr>
<td>Haig, Alexander</td>
<td>Secretary of State</td>
<td>1981-1982</td>
</tr>
<tr>
<td>Nixon, Richard</td>
<td>President</td>
<td>1969-1974</td>
</tr>
<tr>
<td>Perle, Richard</td>
<td>Assistant Secretary of Defense</td>
<td>1981-1987</td>
</tr>
<tr>
<td>Reagan, Ronald</td>
<td>President</td>
<td>1981-1989</td>
</tr>
<tr>
<td>Shultz, George</td>
<td>Secretary of State</td>
<td>1982-1989</td>
</tr>
<tr>
<td>Vance, Cyrus</td>
<td>Secretary of State</td>
<td>1977-1980</td>
</tr>
<tr>
<td>Weinberger, Caspar</td>
<td>Defense Secretary</td>
<td>1981-1987</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>October</td>
<td>Willy Brandt becomes chancellor of the FRG</td>
</tr>
<tr>
<td>1970</td>
<td>February</td>
<td>First major contract for a gas pipeline between the Soviet Union and West Germany</td>
</tr>
<tr>
<td></td>
<td>August</td>
<td>Moscow Treaty</td>
</tr>
<tr>
<td>1971</td>
<td>September</td>
<td>Quadripartite Treaty on Berlin</td>
</tr>
<tr>
<td>1972</td>
<td>April</td>
<td>Formation of the Joint West German-Soviet Commission for Economic, Technological, and Scientific Cooperation</td>
</tr>
<tr>
<td></td>
<td>July</td>
<td>Second Major FRG-USSR gas-for-pipes deal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To encourage trade, Bonn begins to grant 100 percent export credit guarantees (through the Hermes Credit Insurance Company) to finance West German trade with the Soviet Union</td>
</tr>
<tr>
<td>1973</td>
<td>October</td>
<td>Yom Kippur War occurs, producing the OPEC embargo and energy crisis</td>
</tr>
<tr>
<td>1974</td>
<td>May</td>
<td>Helmut Schmidt becomes chancellor of the FRG</td>
</tr>
<tr>
<td></td>
<td>October</td>
<td>Major Soviet-West German cooperation agreement in energy prospecting, development, and provision</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Third Major FRG-USSR gas-for-pipes deal</td>
</tr>
<tr>
<td>1975</td>
<td>July-August</td>
<td>Helsinki Conference</td>
</tr>
<tr>
<td></td>
<td></td>
<td>West Germany becomes the Soviet Union’s most important capitalist trading partner in terms of overall volume of trade</td>
</tr>
<tr>
<td>1975-1978</td>
<td></td>
<td>Major West German assistance in the development of the Orenburg (Soyuz), IGAT II, and Druzhba gas and oil pipelines. Major West German assistance in the Oskol and Tomsk projects</td>
</tr>
<tr>
<td>Year</td>
<td>Month</td>
<td>Event</td>
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<tr>
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<tr>
<td>1978</td>
<td>May</td>
<td>Schmidt and Brezhnev sign long-term economic agreement</td>
</tr>
<tr>
<td>1979</td>
<td>December</td>
<td>Soviet Invasion of Afghanistan</td>
</tr>
<tr>
<td>1980</td>
<td>November</td>
<td>Bonn and Moscow begin serious discussions on the Urengoi pipeline</td>
</tr>
<tr>
<td>1982</td>
<td>October</td>
<td>Helmut Kohl becomes chancellor of the FRG</td>
</tr>
<tr>
<td></td>
<td>November</td>
<td>Yuri Andropov becomes general secretary of the USSR</td>
</tr>
<tr>
<td>1982-84</td>
<td></td>
<td>Major West German assistance in the development of the Urengoi (Siberian) pipeline</td>
</tr>
<tr>
<td>1983</td>
<td></td>
<td>Euromissile Crisis</td>
</tr>
<tr>
<td>1984</td>
<td>February</td>
<td>Konstantin Chernenko becomes general secretary of the USSR</td>
</tr>
<tr>
<td>1985</td>
<td>March</td>
<td>Mikhail Gorbachev becomes general secretary of the USSR</td>
</tr>
<tr>
<td>1986</td>
<td></td>
<td>Global Energy Price Collapse Begins</td>
</tr>
<tr>
<td>1987-89</td>
<td></td>
<td>Joint-venture model becomes major feature of Osthandel</td>
</tr>
<tr>
<td>1989</td>
<td>November</td>
<td>Fall of the Berlin Wall</td>
</tr>
<tr>
<td>1990</td>
<td>October</td>
<td>German Reunification</td>
</tr>
<tr>
<td>1991</td>
<td>December</td>
<td>Disintegration of the Soviet Union</td>
</tr>
</tbody>
</table>
INTRODUCTION

When individuals ponder the contemporary Russian economy, one image often comes to mind: energy pipelines. As a legacy of the Soviet Union, Russia today exports tremendous volumes of oil and natural gas to Western Europe and other places. In fact, in 2009, the nation surpassed Saudi Arabia as the world’s largest exporter of oil, an achievement of momentous significance.¹ Unsurprisingly, energy dominates contemporary Russian politics. “Who controls oil,” one economics professor from Moscow State University has stated, “controls the country.”²

Despite this contemporary picture, Russia has not always been a major exporter of oil and natural gas, and the history of how the Soviet leadership became fixated on the sale of energy abroad, especially to Western Europe, is not well-known. Just as fascinating, the international cooperation in the creation of the Soviet energy-export infrastructure is an area of scholarly neglect, especially with regard to the role of West Germany, the USSR’s most important capitalist trading partner beginning in the 1970s.

The robust trade relationship that developed between the Soviet Union and West Germany undoubtedly came as a surprise. After all, during the first half of the twentieth century, mutual animosity had helped produce two bloody world wars between Germany and Russia. Furthermore, as the Cold War emerged, the FRG and the USSR became

¹ “Russia ramps up Oil Exports as OPEC cuts back,” New York Times, 8 Sep. 2009.
² Konstantin Simonov, Russkaia Neft’: Poslednii Peredel (Moscow: Algoritm, 2005), 5.
essentially political enemies. Such complex issues as the division of Germany, the Berlin question, and the ever-present threat of nuclear war exacerbated the political climate. Against this backdrop, West Germany’s later emergence as the Soviet Union’s most important capitalist trading partner was a major triumph in international relations.

The lasting effects of West German trade with the Soviet Union were not insignificant. Without the cooperation of the West German government and industry, it is difficult to imagine contemporary Russia as the major energy purveyor that it is. After all, West German businesses provided much of the material to construct the Soviet energy-export infrastructure. Furthermore, without the change from Christian Democrat (CDU) to Social Democrat (SPD) leadership in the FRG in 1969, it is equally hard to imagine the blossoming of such trade relations. The CDU had a long history of expressly prohibiting business cooperation in energy relations with the communist bloc.

Beginning in the late 1960s and early 1970s, Bonn and Moscow began to develop a constructive relationship. In fact, at the same time as the United States and the Soviet Union began working together to reduce the tensions of the Cold War, West Germany started to implement its own version of détente: Ostpolitik or “eastern policy.” A policy guided by the new Social Democrat chancellor Willy Brandt, Ostpolitik sought to relieve the growing tensions in Europe that had resulted from the Warsaw Pact’s crushing of the Prague Spring and the Soviet announcement of the Brezhnev Doctrine. The new West

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3 Given that Ostpolitik means “eastern policy,” it refers to and encompasses Bonn’s relations with the Soviet Union and the other Warsaw Pact nations.
4 Encouraged by Czechoslovak leader Alexander Dubček, citizens in Prague took to the streets advocating political liberalization in the summer of 1968, but the Warsaw Pact suppressed the movement. At the same time, the Soviet commitment to use force to prevent such a process had destabilizing effects for Europe. From Western Europe’s perspective, it had become clear that there
German policy did so by strengthening the FRG’s relations with the Soviet Union and Eastern Europe. But Ostpolitik was also geared toward the long-term reunification of East and West Germany, as a special addition to the Moscow Treaty (1970) attested. Although scholars have examined the many significant breakthroughs that resulted from Ostpolitik, historians have overlooked the long-term implications of the new West German-Soviet trade relations (Osthandel) connected to it.

This dissertation analyzes the motives for, main features of, and long-term effects of Osthandel between 1969 and 1991. Both the West German and Soviet sides shared several motives in promoting trade—especially their desire for peace, economic gain, and political leverage. Undoubtedly, the main feature of West German-Soviet trade over time was cooperation in energy relations, a development strongly encouraged by Soviet leader Leonid Brezhnev and reinforced by the energy crises of the 1970s. The long-term effects were profound. As the FRG became the USSR’s most important capitalist trading partner and as such firms as Mannesmann and Thyssen provided the bulk of the material to construct one energy pipeline after another, the Soviet export economy became

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5 In August 1970, Soviet and West German officials signed the Moscow Treaty, an agreement according to which both sides agreed to achieve détente, resolve disputes according to the United Nations charter, and respect the “territorial integrity” of European states “within their present borders.” The spirit of cooperation between Bonn and Moscow produced other agreements as well, the most conspicuous of which was the Basic Treaty (1972), which saw the FRG recognize the sovereignty of the GDR. Additionally, the Transit Agreement of 1972 opened unprecedented channels for East Germans to visit West Germany. For a solid analysis on the Moscow Treaty, see Julia von Dannenberg, *The Foundations of Ostpolitik: The Making of the Moscow Treaty between West Germany and the USSR* (Oxford: Oxford University Press, 2009). For global responses, see Carole Fink and Bernd Schaefer (eds.), *Ostpolitik, 1969–1974, European and Global Responses* (Cambridge: Cambridge University Press, 2009).

6 Osthandel means “trade with the East” or “eastern trade.” Technically, it can refer to the FRG’s trade with all nations of the communist bloc in Eastern Europe. Its use in this dissertation, however, is limited to the Soviet Union.
increasingly less diversified, a situation neither ideal for the economic health of the Soviet Union nor for the preservation of the communist bloc in Eastern Europe.

The Historiography of Osthandel

Although much has been written about Ostpolitik, very little has been published on Osthandel for at least three reasons. First, economic history, although once a prominent form of historical inquiry, has been marginalized as historians have become increasingly preoccupied with cultural history, “social justice” issues, and analyses of race, sexuality, and gender. Second, foreign trade does not fit easily into contemporary categories of historical scholarship. “Research into the history of foreign trade relations,” one observer has stated, “languishes in a grey area between the history of foreign policy and economic history.”

Third, historians are rarely able to investigate relatively recent events because of the reluctance of archives to make materials known until a certain waiting period has expired. To be sure, Osthandel has been neglected largely for the first and second reasons much more than the third. There are literally thousands of accounts of the views, actions, and encounters of West German Osthandlers who engaged in trade with the Soviet Union, whether in interviews, press accounts, television appearances, memoirs, or existing government documents.

More general scholarly literature on West German-Soviet relations during the late twentieth century has existed since the 1990s. Avril Pittman’s From Ostpolitik to Reunification: West German-Soviet Political Relations since 1974 (1992) was among the

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earliest monographs of FRG-USSR relations following the end of the Cold War. This work analyzes many of the major political episodes, including the emigration of ethnic Germans from the Soviet Union, the conflict over intermediate nuclear forces (INF), West German-Soviet tension over the Berlin problem, and the obstacles toward German reunification. Still, the book neglects the importance of trade and business relations, a feature that also characterizes other works such as Michael Sodaro’s *Moscow, Germany and the West: From Khrushchev to Gorbachev* (1993) and David Shumaker’s *Gorbachev and the German Question* (1995). Indeed, one of the main features of such literature is the privileging of political issues over more mundane topics such as trade.

At the same time, some early periods of Osthandel have received scholarly attention. The historian Robert Mark Spaulding has published a monograph examining West German-Russian/Soviet trade between the Bismarck and Adenauer eras. His verdict: Osthandel from the 1890s to the 1950s was largely unsuccessful because of a combination of factors such as ideological and economic differences. During the 1890s, Germany imposed tariffs that severely hampered trade, a development that continued until the Weimar era. Under the Weimar Republic, despite the Rapallo Treaty, commercial relations did not thrive in large part because of German distrust of communists. This sentiment, Spaulding shows, intensified under Hitler and Adenauer, the latter of whom cut trade off almost completely amid the early Cold War.

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Although no historian has devoted a monograph to West German-Soviet trade for the entire period that this dissertation addresses (1969 to 1991), it is incorrect to suggest that no scholar of any discipline has examined West German-Soviet trade. The political scientist Randall Newnham has explored FRG-USSR trade during the entire twentieth century, but addresses fundamentally different issues from this project. His work examines the relationship between economic sanctions and national security. When Bonn employed positive sanctions in its economic relationship with Moscow, Newnham argues, including aid and good trade terms, there were greater benefits to West German national security than in times when negative sanctions prevailed. Newnham’s work is a case study to support his view that positive sanctions produce a much greater degree of international security than negative sanctions.\(^{10}\)

In a short essay (twelve pages in length), the historian Volker Berghahn has examined FRG-USSR trade only during the Brandt era. He finds that the West German government lowered Soviet expectations of trade.\(^ {11}\) Moreover, Berghahn's analysis is somewhat limited because it focuses almost exclusively on the development of the Soviet automotive industry and largely neglects the energy sector,\(^ {12}\) the latter of which was much more important for the Soviets, especially after the energy crisis of 1973. None of the energy-oriented Osthandlers in this dissertation appear in Berghahn's work.

The preeminent scholar of West German-Soviet trade relations is undoubtedly Angela Stent, who is not a historian but a political scientist and professor of government


at Georgetown University. Her *Economic Relations with the Soviet Union: American and West German Perspectives* (1985) compares the West German and U.S. approaches to trade with the Soviets. Although *Osthandel* became a prominent corollary of *Ostpolitik* for the West Germans, in this work she argues that there was largely no economic corollary to U.S.-Soviet detente, because various legal restrictions such as the Jackson-Vanik amendment impeded U.S-Soviet trade relations, despite better political relations.\(^\text{13}\)

Stent's most important book, *From Embargo to Ostpolitik: The Political Economy of West German-Soviet Relations* (1980), examines the intersection of *Ostpolitik* and *Osthandel*. This work, although somewhat superficial by historians' standards and bereft of the actual *Osthandlers* themselves, details the major political developments in West German-Soviet trade from Adenauer to Schmidt that enabled trade to blossom. The work makes little use of archival materials and relies on press accounts. More important, Stent’s *From Embargo to Ostpolitik* is largely concerned with studying the past to determine what the future would be like. Writing against the backdrop of rising political tensions between the FRG and the USSR in 1980, Stent predicted that improvements in West German-Soviet trade would not likely result in Soviet foreign policy concessions and that trade by itself was unlikely to sustain detente.\(^\text{14}\)

Political scientist Bruce Jentleson’s *Pipeline Politics: The Complex Political Economy of East-West Energy Trade* (1986), although far from a monograph on *Osthandel*, is another contribution to the literature. As one reviewer has mentioned, the


title of this work is misleading and “seems to have been chosen more for its alliterative attraction than its descriptive accuracy.” Only one chapter surveys Soviet energy trade with Western Europe, and the FRG receives thin attention. Rather, the work is largely a study of Washington’s decreasing ability to use economic sanctions against the Soviet Union as a form of leverage. The Siberian pipeline fiasco of the early 1980s, a recent event when Jentleson was writing, is cited as evidence.

German historian Karsten Rudolph’s *Wirtschaftsdiplomatie im Kalten Krieg: Die Ostpolitik der westdeutschen Großindustrie, 1945-1991* (2004) is one of the newer studies on West German trade with the eastern bloc. This work, it is important to stress, is also not a pure monograph on West German trade with the Soviet Union in general or the energy trade in particular. Rather, Rudolph interweaves the FRG’s economic relations with all of the communist bloc nations in his narrative, including ones often overlooked like Romania, Hungary, and Bulgaria. From the perspective of West German businessmen, Rudolph convincingly shows that trade was not only about profit but also an important feature of détente. Although his study ends in 1991, most of his book (approximately 80 percent) addresses the years 1945 until 1969. Thus, this dissertation overlaps minimally with Rudolph’s work. A major limitation of Rudolph’s book is that it only captures the perspective of some select West German businessmen and, to a lesser extent, political actors in the FRG. More problematic, the Soviet side is almost entirely

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absent. (Brezhnev’s name appears only on six pages in this 350+ page work, and Gorbachev only on four pages).\textsuperscript{17}

More recently, literature that is critical of Osthandel has emerged. Werner D. Lippert’s book, which employs American and German archival research, examines U.S. policy toward West German-East European economic relations from the 1960s to the early 1980s, focusing on Osthandel’s deleterious effects on NATO solidarity. Much of the work presented contrasts Richard Nixon’s détente and Willy Brandt’s Ostpolitik. Lippert portrays Nixon and Kissinger, unlike Brandt, as having little interest in trade with the Soviets and as individuals who were deeply suspicious of the Kremlin. Lippert shows that NATO nations within Western Europe took the opportunity to increase their trade with Eastern Europe. The consequence was the beginning of what Lippert calls “NATO’s energy dilemma.” Western Europe increasingly became a major client of Soviet oil and natural gas and thus was less apt as in the past to follow Washington’s lead on allied security policy. Given the strains in NATO over energy policy, West German-Soviet trade receives low marks in Lippert’s evaluation. Implicit in his analysis is the view that European energy policy should have been in harmony with U.S. energy policy or vice versa for alliance solidarity purposes.\textsuperscript{18}

Interestingly, although providing little concrete evidence, Lippert also suggests that the “Soviet Union reaped significant economic advantages and political leverage in West Germany” as a result of Osthandel, even if such trade undermined Warsaw Pact

cohesion by encouraging East European nations to compete for Western credits.¹⁹

Having stopped his archival-based analysis in the late 1970s (he briefly addresses the 
pipeline embargo under Reagan), Lippert never ponders the alternative scenario in which
_Osthandel_, as a structure, acted slowly over time to undermine the Soviet economy itself
by channeling the USSR’s exports toward an excessive focus on energy with increasingly
less export diversification.

This Project’s Historiographical Contributions

This dissertation makes various historiographical contributions. To begin with, it
is the first monograph to bring Soviet archival documents to bear on the discussion of
_Osthandel_ between 1969 and 1991. The works previously mentioned rely almost
exclusively on German and American documents.²⁰ But given that West German-Soviet
trade involved both Bonn and Moscow, it is exceedingly important to capture the
Kremlin’s goals, hopes, fears, and struggles with first-hand records. Relying on Bonn or
Washington to address this perspective is grossly inadequate. Thus, this work makes use
of hundreds of recently declassified Soviet documents from the RGAE (Russian State
Archive of the Economy), GARF (State Archive of the Russian Federation), AVPRF
(Foreign Policy Archive of the Russian Federation), and the Gorbachev Foundation
Archive. In the process, this project documents the importance of West Germany in the
evolution of the Soviet energy trade, showing its centrality under the Brezhnev and

¹⁹Ibid., xvi.
²⁰There is one caveat to this claim: Angela Stent reads Russian, and her books make use of Russian
press sources. Still, she does not examine Soviet archival documents.
Chernenko periods and elucidating its decline under Gorbachev after the energy price collapse of 1986.

Furthermore, this dissertation’s interest in waves of economic patterns and its concentration on material elements as underpinning major political and social development, features which are reminiscent of Annales school methodology, have never been applied before to analyses of Osthandel. As a highly influential group of French historians in the early twentieth century, the Annales school emphasized the causal importance of long-term historical structures.21 To be sure, foreign trade is one material structure that has wielded causal influence on every facet of society, as evidenced by the increasing globalization that has been occurring for decades. It should come as no surprise, then, that foreign trade deserves special consideration in historical analysis for its ability to affect broad change over time.

In light of this focus, this dissertation contends that Osthandel had significant peace-promoting effects on West German-Soviet diplomacy over time. Beginning with Willy Brandt and continuing throughout Helmut Schmidt’s and Helmut Kohl’s chancellorships, West German leaders and Osthandlers envisioned intimate interaction with the Soviets as a prerequisite for building peace. Trade relations were consistently a major means to achieve this goal. Both the Soviets and the West Germans effectively used business relations to maintain open political dialogue in times of conflict. Indeed, this project shows that the expansion of West German-Soviet trade helped reduce tension between Bonn and Moscow, especially over such issues as the German question, the


Additionally, the long-term effects of Osthandel over time, whether intentional or unintentional, is a major feature of this study. Specifically, this dissertation seeks to find out if the new trade relationship between Bonn and Moscow that started in 1969 and continued throughout the 1980s had long-term consequences for the economic health of the Soviet Union and German reunification. A major issue, it explores, is whether Osthandel helped to contribute in some meaningful way to the economic disintegration of the Soviet Union and, by extension, to the close of the Cold War itself.

The novel analysis presented here suggests that Osthandel had significant implications for the Cold War's outcome and may even have been a necessary development that helped make possible the Soviet Union's downfall. Beginning in the 1970s, West Germany, by a wide margin, emerged as the USSR's most important capitalist trading partner in terms of overall volume of trade. More important, the FRG provided the bulk of the capital goods and large-diameter steel pipe necessary to develop Soviet energy-exporting capabilities. In the process, the Soviet export economy increasingly became geared toward energy sales with increasingly less export diversification.

In the 1980s, despite new leadership both in the FRG and the USSR, West German businesses continued to help the Soviets build one pipeline after another. The result was that the Soviet export economy depended on energy sales and little else. When the world price for oil and natural gas bottomed out in 1986 and remained low for the next three years, the Soviet economy was unable to cope because of its lack of export
diversification. Against this backdrop, the USSR let go of Eastern Europe, began to introduce democratic and capitalistic reforms, and finally crumbled itself. In the process, German reunification, an original goal of Brandt’s Ostpolitik, occurred even sooner than anticipated.

In explaining the impact of Osthandel, this dissertation seeks to move the historiography of the Cold War’s end and the Soviet collapse beyond the actions and personalities of such political leaders as Ronald Reagan, Mikhail Gorbachev, and Helmut Kohl, and to highlight the economic and structural elements that influenced these leaders.

“Most of the literature to date,” one Cold War expert has written, “has chosen to emphasize the virtues of one leader and the vices of the other.” Among historians, Gorbachev, in particular, has received much credit for ending the Cold War. Indeed, few would disagree with Melvyn Leffler’s claim that “the Cold War ended because Gorbachev previously had withdrawn Soviet troops from Afghanistan, de-ideologized international politics, ceased competing in many third world trouble spots, accepted free-market ideas and democratic political reforms at home, and permitted the overthrow of communist governments in Eastern Europe.”

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23 Leffler, For the Soul of Mankind, 448.
Nevertheless, with this focus on leaders, historians have overlooked the long-term effects of trade, even if they have acknowledged that the Soviet Union’s economy was stagnant.\textsuperscript{24} By also making Gorbachev the central focus, scholars have allotted themselves less room to study the long-term effects of Brezhnev’s policies. Brezhnev’s obsession with oil and natural gas exports was the major feature of Soviet foreign trade for the bulk of the period that this dissertation covers. Thus, if this feature played a role in ending the Cold War, it is important to cast scrutiny on Brezhnev, not simply on the last general secretary of the Soviet Union. The West German politicians who helped make Brezhnev’s energy vision possible, especially West German chancellors Willy Brandt and Helmut Schmidt, therefore deserve attention as well. This project stresses the importance of such political actors.\textsuperscript{25}

Just as significant, this dissertation also introduces new personae into Cold War historiography: the West German businessmen, most notably Otto Wolff von Amerongen, Berthold Beitz, and Egon Overbeck. In the 1970s and 1980s, such entrepreneurs were the architects of Osthandel. Together with the FRG’s Social Democrat and, later, Christian Democrat leadership, they encouraged and enabled the Kremlin to construct a series of large Soviet natural gas and oil pipelines to supply Western Europe with energy. Wolff, as the president of the Association of German Chambers of Industry and Commerce between 1969 and 1988, dedicated much of his efforts to improving East-West trade and thus became known in Germany as an

\textsuperscript{24} Almost any historical work that addresses the Soviet collapse, regardless of quality, points out that the USSR’s economy was characterized by stagnation.
\textsuperscript{25} In Suri’s historiographical essay on the Cold War’s end, there is no recognition in the many works he surveys of the importance that these particular leaders played in the outcome of the Cold War. See Suri, “Explaining the End of the Cold War: A New Historical Consensus?,” 60-92.
Osthandelspioneer. Beitz, a national hero for saving Jews during the Holocaust, led his firm Krupp to profit heavily from providing the Soviet Union with large-diameter steel pipe.

Yet Overbeck was the most important businessman. By supplying the bulk of the large-diameter steel pipe for gas and oil pipelines (approximately 25,000 miles in pipe), Overbeck’s firm, Mannesmann, played a key role in transforming the Soviet infrastructure during the 1970s, allowing the USSR to export energy at unprecedented volumes not only to Western Europe but to Eastern Europe as well. Although this development helped the Soviet economy as long as oil and gas prices were high in the early 1980s, the oil price collapse of 1986 and the corresponding decline in the market value of natural gas devastated the Soviet economy in the years thereafter.

In making these historiographical contributions, this dissertation should have wide appeal among historians, regardless of specialization. Its focus on international diplomacy and high politics, along with the multi-archival research, meets the contemporary methodological expectations of international/diplomatic historians. More important, the topics this project addresses— détente, Ostpolitik, trade, peace-keeping, and the end of the Cold War— have traditionally been issues of interest among international historians and would appeal to such scholars. At the same time, this dissertation’s emphasis on businessmen as major agents of broad political and social change should attract the attention of business historians, many of whom stress the importance of business-state cooperation. Furthermore, this project should appeal broadly to historians of Europe. West German-Soviet trade was fundamentally a European phenomenon. Lastly, this work should interest scholars who are concerned with power
and memory, two important engines of historical change. Power is evident in the actions of the major political and economic leaders that this project addresses. At the same time, these individuals had memories that influenced their actions. The triumph of Osthandel is in part a story of how the West Germans and the Soviets overcame the animosity of Second World War and the early Cold War and peacefully moved forward.

Chapter 1, “Overcoming a Generation of Hurdles: The Rise of West German Osthandel and Soviet Westhandel,” analyzes the rebirth of Osthandel during Social Democrat Willy Brandt’s chancellorship of West Germany between 1969 and 1974. The chapter first highlights the major Cold War political hurdles to bilateral commercial relations that had to be overcome after a generation of Christian Democrat leadership in the FRG. Then, it discusses how West German businessmen were key actors in building opposition to CDU anti-trade policies. Later, the chapter shows that West German trade was not simply a corollary but an integral component of Brandt’s broader Ostpolitik. Finally, from the Soviet side, Brezhnev’s growing obsession with the development of a Soviet energy-export infrastructure is a key topic of exploration.

Chapter 2, “The Flowering of Osthandel: West German-Soviet Trade in an Era of Global Economic Turmoil, 1974-1979” highlights the increasing importance of energy as the main feature of FRG-USSR commercial relations. Two energy crises, the first after the Arab oil embargo of 1973 and the second after the Iranian Revolution, reinforced Brezhnev’s commitment to developing a Soviet energy empire. The years between the two energy crises saw the great transformation of the Soviet export structure. For the first time, energy became the priority among Soviet exports, leading the Kremlin to invest heavily in its oil and natural gas industries. At the same time, West German
chancellor Helmut Schmidt greatly expanded energy cooperation, largely because of economic necessity amid the energy crises, together with his desire to continue Brandt’s Ostpolitik. In the process, West German firms, especially Mannesmann and Thyssen, secured several pipeline contracts during this flowering period of Osthandel, and the FRG solidified its place as the Soviet’s most important capitalist trading partner.

Chapter 3, “The Urengoi Pipeline: A Thorn in Washington’s Side,” adds another important dimension to Osthandel. This chapter examines U.S. perceptions of, and responses to, Osthandel. The fallout between Bonn and Washington over the Reagan administration’s fierce opposition to the construction of the Urengoi pipeline in the early 1980s, the single most expensive joint-East-West trade project during the Cold War, is the main subject of exploration. At the same time, a brief retrospective analysis of U.S. policy toward West German-Soviet trade beginning with the Nixon administration appears. Whereas Richard Nixon and Gerald Ford had largely given Bonn a free hand to develop commercial relationships with Moscow, Ronald Reagan followed Jimmy Carter’s antagonism toward this trade. Although Carter had frowned on Osthandel to punish Moscow for its human rights violations, Reagan more pragmatically feared the geo-political ramifications of West German dependence on Soviet energy.

Chapter 4, “The Golden Interregnum: Osthandel’s Zenith during the Andropov/Chernenko and Early Kohl Years,” explores bilateral trade during a diplomatic era that historians have rarely investigated: the brief period between Brezhnev and Gorbachev’s leadership. This interregnum era marked the statistical high-point of Osthandel in terms of the volume of West German-Soviet trade. Although this era was characterized by East-
West tensions over the deployment of U.S. missiles to West Germany, trade had a moderating influence on Bonn’s relationship with Moscow.

Chapter 5, “Troubled Times: Osthandel during the Gorbachev/Kohl Era,” examines the sharp decline in Osthandel during the mid-to-late 1980s. Unlike Brezhnev and Chernenko, Gorbachev moved away from energy exports and sought greater economic diversification. He and Soviet Prime Minister Nikolai Ryzhkov did so largely because they faced a situation that none of their predecessors had experienced: a persistent energy price collapse beginning in 1986. It made no sense to develop new pipelines when the price of crude oil and natural gas was so low. Thus, the Kremlin, as part of perestroika, embarked on a “joint-enterprise” model in which both West Germany and the Soviet Union shared ownership in new companies they started. These projects were largely aimed at enhancing the quality and quantity of consumer goods available to citizens within the USSR.
CHAPTER 1

OVERCOMING A GENERATION OF HURDLES: THE RISE OF WEST GERMAN OSTHANDEL AND SOVIET WESTHANDEL

West German-Soviet trade was almost non-existent in the early days of the Cold War, and it remained unremarkable until the end of the 1960s. Tension between Bonn and Moscow over the Second World War, Germany’s division, and the Berlin problem, among other international issues, precluded significant interaction and fostered hostility. The Christian Democrat leadership from Konrad Adenauer to Kurt-Georg Kiesinger made little progress in political and economic relations with the Soviet Union and Eastern Europe.

However, with strong support from the West German business community and the switch to Social Democrat leadership in 1969, the West German government changed its stance toward the Soviet Union. The early 1970s saw a vibrant trade relationship blossom, especially in energy. Willy Brandt, the new Social Democrat leader, championed trade, claiming that intimate interaction was necessary to reduce tension and promote peace. The reduction of tension, in turn, was necessary for broader goals among the West German leadership such as the end of hostility and potentially German reunification in the future.
With the change in West German leadership, Soviet General Secretary Leonid Brezhnev likewise began to advocate a robust energy trade with the FRG. Given the recent discoveries of large energy reserves in Siberia, he believed that the sale of oil and natural gas abroad would dramatically enhance the USSR’s hard-currency earning potential and power vis-a-vis Europe.

The Challenge of Osthandel

Before the Cold War, German-Soviet trade had faced numerous challenges. During the late nineteenth century, thanks to the electricity-driven Second Industrial Revolution, Germany had emerged as a major industrial power, but Russia had lagged behind much of Europe in technology and industrial production. Against this backdrop, there had been much potential for trade, but little actual progress had occurred. German tariffs, a central part of German Chancellor Otto von Bismarck’s protectionism, had largely prevented intimate commercial relations with Russia, a feature that had persisted into the early twentieth century. During the pre-automobile era, which had not been characterized by an intense need for oil, German interest in Soviet natural resources had been relatively minimal.

German interest in Russian oil had begun with Russia’s exit from the First World War with the Treaty of Brest-Litovsk. Baku oil, located near the Caspian Sea, had been an important element in Berlin’s plan to continue the German war effort. But the British had

26 Spaulding, Osthandel und Ostpolitik: German Foreign Trade Policies in Eastern Europe from Bismarck to Adenauer, 25-26.
denied Germany this resource, a factor that had precipitated Germany’s defeat. With the Rapallo Treaty of (1922) both Weimar Germany and the newly created Soviet Union had sought political rapprochement. Some bold West German businessmen even had become involved in developing the Soviet oil industry near Baku. This development was not surprising, given the growing importance of oil for Europe after World War I. Still, German-Soviet trade had remained modest. The rise of German fascism during the 1930s and Soviet debt had become obstacles, and, not unexpectedly, the Second World War ended the little trade that had existed.

With the advent of the Cold War, the situation failed to improve and actually became more complicated because of new political developments. Germany was partitioned, and West Germany became an enemy of the Soviet Union and vice versa. In the process, West German-Soviet relations were at first so strained as to preclude almost any bilateral trade. From the Soviet side, widespread fear of West German rearmament and revanchism largely ruled out commercial relations. By the mid-1950s, the Soviet design for a unified, neutral Germany, begun by Joseph Stalin, had failed completely. More frightening, in 1955, the FRG joined NATO. Unsurprisingly, given such developments, Moscow made little effort to develop economic ties with West Germany.

28 Otto Wolff von Amerongen’s father, Otto Wolff, was involved for example. Memo, Ministr Patolichev N.S. prinial predsedatelia vostochnogo komiteta nemetskoi ekonomiki Otto Vol'fa fon Amerongena po ego pros'be, RGAE, 6 Sep. 1982, Fond 413, Opis 32, Delo 2431.
29 Ibid. 270-78.
At the same time, West Germany gave the Kremlin no incentive for trade. Indeed, Christian Democrat Konrad Adenauer's administration caused much tension between Bonn and the communist bloc. A major source of strife was the Hallstein Doctrine (1955), which allowed the FRG to end diplomatic relations with any government (except the Soviet Union) that recognized East Germany as a sovereign state. Although Adenauer visited Moscow during the same year that the Hallstein Doctrine was announced, establishing commercial relations with the communist bloc was not an important part of West German policy. “Adenauer at the Kremlin, but no trade agreement” is how businessman Otto Wolff von Amerongen characterized the first FRG's chancellor's outlook.

Still, during the mid-1950s, the West German economic miracle created the prospect for greater business cooperation with the Soviet Union and the communist bloc. The world saw not only the FRG’s major industries recover quickly after World War II but also the new nation emerge as a major manufacturing power. As a result, the Soviets began to speak about new possibilities of trade with West Germany and occasionally expressed hope that commercial relations could improve the hostile political environment. In March 1957, for the first time, Adenauer also expressed a desire for better economic cooperation, leading the Soviet press to smile on the West German leader's change of heart.

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Even so, little evidence suggests that Adenauer was seriously committed to improving FRG-USSR trade. In fact, the only major positive development in such trade came in spring 1958, when both nations agreed to honor shipping rights. This development, however, was one of many trade and shipping agreements that occurred among several nations that year and so could hardly be called pathbreaking.

Yet some ambitious West German businessmen sought to turn the shipping issue into a springboard from which to launch a much broader campaign for Osthandel, only to be rebuked by Adenauer. In June, Krupp’s Berthold Beitz made a one-day trip to Moscow to meet the First Deputy Premier of the Soviet Union, Anastas Mikoyan, to discuss the prospects for future economic relations between the East and West. But an irate Adenauer expressed his displeasure, publicly reprimanding Beitz for engaging in an Ostpolitik of his own without government approval. Adenauer noted that Beitz had consulted neither him nor Federal Minister for Economic Affairs Ludwig Erhard. Tellingly, Pravda applauded Beitz’s courage and independent spirit and cited an article from the conservative Hamburg newspaper Die Welt that endorsed Beitz’s trip to argue that Adenauer was out of touch with the German people, the bulk of whom were said to believe that East-West trade would calm tensions. According to Wolff, the Christian

Democrat leadership during this era could make no progress on trade because it had politicized the issue and failed to understand that trade could forge bonds of solidarity.  

Because politicians largely skirted the contentious issue of *Osthandel* during the Adenauer years, businessmen were forced to pick up the torch and demand change. Against this backdrop, Beitz and Wolff emerged as the two leading proponents of East-West trade. Although these two industrialists had begun to establish themselves as active entrepreneurs during the Nazi era, they had charted strikingly different paths during World War II. Beitz, who owned the Carpathian Oil Company, had been an important businessman for the Third Reich in occupied Poland, especially after the Allied powers began targeting Axis oil producing centers. Given the intense racial hatred that plagued the Reich, one could easily have imagined Beitz, like so many other influential German businessmen during the war, using slave labor to turn a profit. Yet Beitz did not fit the stereotype and instead had saved many Jews from certain death.

As with Oskar Schindler, Beitz had received many honors for his courage. The Holocaust memorial organization Yad Vashem even bestowed on him the distinction of *Righteous among the Nations*, a special honor for Gentiles who risked their lives to save Jews. “The Jews that he rescued from deportation included many unqualified workers,” Yad Vashem notes, “often in poor physical condition, who could not, by any stretch of the imagination, be described as 'professionals' or indispensable to the oil industry.” A humble man, Beitz did not consider his actions extraordinary. “I saw how people were shot, how they were lined up in the night,” he recalled. "My motives were not political,

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they were purely humane, moral motives." Beitz's bravery and moral uprightness were crucial in his later becoming the head of Krupp's supervisory board, especially since this huge steel firm's owner through inheritance, Alfried Krupp, spent a stint in prison after the war for running the Nazi war industry and needed to hire a respectable person to oversee the company to restore its international respectability. By recruiting Beitz, Krupp's owner made a prudent step in the right direction.

By contrast, Otto Wolff, whose father had built a major Russian oil pipeline in Baku during the 1920s, quite possibly acted dishonorably during the Second World War. A shocking disclosure, Werner Rügemer's documentary *Hehler für Hitler* (2004) has argued that Wolff spearheaded a "hitherto unknown secret operation of the Nazis" called the "V-business," a complicated scheme to help finance the Nazi war effort that involved selling the securities of deported Jews. If this allegation is true, Wolff may have been the exact opposite of his fellow *Osthandler* Beitz. Regardless, it is clear that neither the West German public nor the Soviets associated him with Hitler or believed that he held far-right ideological views. In fact, Adenauer often joked that Wolff had communist leanings. Every time the two met, Adenauer complained, Wolff was always introducing him to communists. Yet Wolff, according to one obituary, was a "lifelong liberal conservative."

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Despite the efforts of Beitz and Wolff, Adenauer remained strongly opposed to Osthandel. This fact was evident in the chancellor’s support for the notorious oil pipeline embargo against the Soviet Union. At the height of the Cold War, there was much resistance to East-West trade, culminating in NATO’s resolution (1963) restricting all members from selling steel pipe for oil lines to the Soviet Union. This action resulted from a fear that the USSR could use its vast energy resources as leverage to cause political destabilization in Western Europe. A strong supporter of the United States, the Adenauer administration claimed that the resolution was binding on all member nations, a position that the Social Democrats vehemently opposed. A large segment of German businessmen opposed the embargo. Not only did Wolff and Beitz speak against it, but also Ernst Wolf Mommsen of Phoenix-Rheinrohr, Herseller Hoesch of Willy Ochel, and Fritz Berg, the president of the Federal Association of German Banks.\(^{45}\) In the process, the embargo became an issue around which the opposition Social Democrats forged crucial ties with influential business leaders.

When Ludwig Erhard became chancellor in late 1963, the seeds of Osthandel began to sprout, although they never fully blossomed. At the beginning of Erhard's term, Wolff recalled, there was a "real paralysis" of West German trade with the communist bloc. This development, no doubt, had resulted from the pipe embargo. At the same time, steps toward economic liberalization occurred in the mid-1960s with West German trade missions to Poland, Romania, and Hungary.\(^ {46}\) Even so, little progress in West German trade with the USSR occurred under Erhard because the Hermes Credit Insurance Company still did not guarantee credits for West German companies seeking to do


\(^{46}\) Ibid., 116.
business in the Soviet Union, despite the Kremlin’s attempt to acquire export credits. Although a private corporation, Hermes worked on behalf of the West German government, guaranteeing commercial bank loans to foreign nations. If trade with the East was to blossom, Hermes had to be involved or West German businesses had no incentive to take risks. *Osthandlers* such as Beitz and Wolff understood this fact in an intimate way. It was “no more than right and proper,” Wolff was still complaining in 1965, that Hermes guarantees be extended to businesses that sought to work within the Soviet Union and Czechoslovakia (these two states had been excluded), revealing that the Christian Democrat leadership under Erhard hardly desired to promote trade with the Soviet Union and the communist bloc more broadly. Poland, Wolff noted at the time, was “already included in the circle of nations” to which Hermes credits applied.

Nonetheless, in the mid-1960s, Beitz made various trips to Moscow to discuss the merits of trade. He met Soviet leader Nikita Khrushchev in 1963 to discuss opening up trade with the East. Remarkably, two years later, Soviet Premier Aleksei Kosygin even offered Beitz an honorary tomb in the Kremlin wall for his bold efforts to establish trade. But Beitz refused Kosygin’s offer of the tomb, saying, “As long as I live, I remain capitalist. When I am dead, you might have me.” In an interview with *Der Spiegel* following his trip, Beitz remarked: “Today our *Osthandel* is still under one percent of consolidated sales (5.18 billion). That will change. Eastern and Southeastern Europe have

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always been traditional trading partners for Germany. In these markets, there is renewed confidence for the future capital investment.”

In other words, given the history and proximity of the nations involved, Beitz believed that trade should increase. The Christian Democrats’ restriction of trade with Eastern Europe was unnatural.

Unsurprisingly, under Christian Democrat Kurt-Georg Kiesinger’s tenure as West German chancellor, little progress was made in FRG-USSR trade. Again, Hermes still did not guarantee export credits for trade between the two nations. Equally important, the Soviets were deeply suspicious of some members of Kiesinger’s coalition, particularly finance minister Franz-Joseph Strauss. In early 1969, the Russian Professor E. Modrzhinskaya expressed this sentiment, excoriating Strauss for urging “the capitalist countries of the West to support only such projects as serve more to soften up Europe than to promote the economic consolidation of the East European regimes.”

Indeed, as the former defense minister under Adenauer, Strauss had developed a reputation in the Soviet Union as a hardline ideologue whose actions frequently earned the condemnation of Moscow. Strauss had been a vocal supporter of U.S. president Dwight Eisenhower’s “massive retaliation” nuclear policy, an action that Moscow did not appreciate. The Soviets had much earlier characterized Strauss, along with Adenauer and Erhard, as individuals who could “change their convictions within two weeks.” As such, a group of

51 Ibid.
Soviet officials once remarked that they “would not like to deal” with such people. In other words, the Kremlin was deeply suspicious of CDU politicians.

Changing the Situation: Willy Brandt and Leonid Brezhnev

The most conspicuous contrast to Strauss and other Christian Democrat hard-liners was Social Democrat Foreign Minister Willy Brandt, the former mayor of West Berlin. Brandt, who had entered the government in 1966, observed the increasing tension between Eastern and Western Europe. In August 1968, the Soviets had angered much of the non-communist and even parts of the communist world by crushing the Prague Spring and announcing the Brezhnev Doctrine, a policy which made clear that the USSR would use military force to prevent its satellites from endangering the bloc.

For Brandt, West Germany bore some responsibility for East-West tensions. He was particularly critical of the Hallstein Doctrine. Although it had not been applied to the Soviet Union per se, it perpetuated the poor diplomatic relations between West Germany and most Eastern European countries throughout the 1960s. By dealing with communist states in a more flexible way, Brandt believed that positive changes would occur in Europe. The Hallstein Doctrine, after all, had shown that challenging the East only brought hostility.

Convinced that trade was essential to foster intimate relations with the communist bloc, Brandt and Economics Minister Karl Schiller in early 1969 invited Soviet Foreign Trade Minister Nikolai Patolichev to the Hanover trade fair, the largest and most

important of such events in the FRG.\textsuperscript{57} Brandt wanted to use the fair as a carrot to entice the Soviets into seeking a trade relationship with Bonn.\textsuperscript{58} By summer, he had become one of the most vocal West German officials urging cooperation between the FRG and the USSR in the development of the Soviet natural gas industry. “The Soviet Union has a significant economic interest in the sale of natural gas on the German market,” Brandt informed Schiller, pointing out the expected foreign exchange that he believed that the Soviet Union desired to modernize the Soviet economy.\textsuperscript{59} Brandt frequently contacted Schiller to stay informed of developments. In August, Schiller reported that initial talks on constructing a gas line between the two nations were “relatively promising.”\textsuperscript{60}

For Brandt, Osthandel was indeed a prerequisite for any broader Ostpolitik, given his belief that the Soviets wanted a new relationship with West Germany largely for economic reasons. “The interest of the East European states in cooperation with us,” he asserted, “rests to a large extent on a desire to make economic progress and to participate in western technology.”\textsuperscript{61} Resolving outstanding issues, such as Germany’s division, the Berlin question, and European security required interaction with the Soviets, and trade was an important part of that interaction. Brandt’s view that the Soviets wanted trade was not unique; it was widely held among major Osthandlers and Social Democrat

\textsuperscript{57}Niederschrift über das Gespräch zwischen Herrn Staatssekretär Dr. von Dohnanyi und Herrn Leg. Rat Eggers.15 Jan. 1969, BA- Koblenz, 102/100025.

\textsuperscript{58}Memo, Beseda mezhdu ministrom vneshnei torgovli SSSR tov. Patolichevym N.S. i ministrom ekonomiki FRG K.Shillerom, 1 Feb. 1970, RGAE, Fond 413, Opis 31, Delo 3652.

\textsuperscript{59}Brandt an den Bundesminister für Wirtschaft Herrn Professor Dr. Karl Schiller, 3 Jul. 1969, BA-Koblenz, (913501).

\textsuperscript{60}Der Bundesminister für Wirtschaft an den Bundesminister des Auswärtigen (Herrn Willy Brandt), 9 Aug. 1969, BA-Koblenz,(913501).

\textsuperscript{61}Brandt, \textit{A Peace Policy for Europe}, 110-11.
It was primarily Russian needs for West German capital goods and technical know-how,” Beitz agreed, “that made the Soviet leaders decide to seek a settlement with Bonn.” Specifically, Wolff claimed that “the efficiency of West German industry, its precision and technical perfection” delighted the Soviet leadership.

At the same time, the Soviets attempted to discern West German motives. In the spring of 1969, right after the Hanover Trade Fair, there was much speculation about West German actions among mid-level apparatchiks within the Soviet Foreign Trade Ministry. In general, the apparatchiks acknowledged the technological, economic, and industrial prowess of West Germany and spoke of a desire for business relations because the FRG offered “more advantageous conditions when supplying goods.” On the other hand, some apparatchiks questioned the possibility of serious USSR-FRG trade, given the political situation in West Germany. Indeed, throughout that year, the Christian Democrat government faced growing opposition from the Social Democrats, workers, students, and others. One analyst highlighted the political situation in the FRG to predict a “Marxist Revolution” before the Bundestag elections. Another wondered if Bonn simply wanted to isolate the GDR.

The latter Soviet concern, part of an ideologically motivated belief that the West Germans were schemers, was decisive in Kremlin decision-making at higher levels. Immediately before the Prague Spring, a recently declassified Soviet document shows, the Kremlin had planned to resist Ostpolitik vigorously on the grounds that it was an

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62 See, for example, Helmut Schmidt, Die Deutschen und ihre Nachbarn: Menschen und Mächte II (Berlin: Siedler, 1990), 448.
64 Wolff von Amerongen, Der Weg nach Osten, 124.
65 Memorandum o soveshechani torgovykh predstavitelei sotsialistichekikh stran, nakhodiashikhsia v FRG, 21 May 1969, RGAE, Fond 413, Opis 31, Delo 3059.
imperialist pretense. According to the April 1968 memorandum, “The Soviet Union's definite position towards the “Neue Ostpolitik” was “directed toward both its immediate unmasking and rejection as well as toward strengthening the socialist states' united front, according to our jointly taken resolutions.” The document explained Moscow's pre-Prague Spring resistance to Ostpolitik, claiming that the policy was “based on the assumption that imperialism [was] pursuing ever more intense efforts directed at political and ideological undermining of the socialist states, against the communist and general democratic movement.”

The chief opponent of Ostpolitik and Osthandel was communist party ideologue and Politburo member Mikhail Suslov. “In proclaiming a so-called ‘new Eastern policy’,” he warned, “the intention of these circles…is to achieve old aims by different methods: to change the status quo in Europe to their advantage at the expense of other countries, swallow up the GDR, a sovereign and peace-loving state, weaken the socialist community and establish the hegemony of West German monopoly capital in Western Europe.” Although C.P.S.U. Central Committee member and Suslov protégé, Boris Ponomarev, agreed with Suslov’s remarks, more powerful Soviet officials, especially General Secretary Leonid Brezhnev and Premier Aleksei Kosygin, largely refrained from making such statements publicly.

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66 Memo, Director of the Soviet Union Department Arno Goede to the Director of the West Germany Department, Comrade Dr. Voss, "Current Essential Questions in the Soviet Union's Politics of Ensuring European Security," 26 Apr. 1968, PA AA: MfAA C 326/77 CWIHP.
67 Ibid.
68 Kommiunike o vstreche delegatsii kommunisticheskoi partii Sovetskogo Soiuza s delegatsiei kommunisticheskoi partii Germanii, reprinted in Pravda, 10 Jan. 1969, 1.
69 Ibid.
However, in autumn 1969, the Soviet Union changed its official position against Ostpolitik for several reasons. To begin with, the increasing fallout from the Prague Spring led the Kremlin to moderate its policy. More important, the September Bundestag elections by which Brandt came to power marked a dramatic break with the unbroken Christian Democrat leadership of the past. Brezhnev had voiced strong support of Brandt’s party. Delighted with the change, Brezhnev called the SPD-FDP victory “undoubtedly a success on the part of the democratic forces in the FRG.”

Less important but significant nonetheless, the Brandt administration’s quick decision in November to sign the Nuclear Non-Proliferation treaty helped relieve tensions. As Pravda attested, Ostpolitik was now portrayed favorably for its possibility to improve East-West relations. The changes mollified the Soviets, leading them to think they could have a constructive relationship with the new government in Bonn.

To understand Brezhnev’s position on trade with the FRG, it is essential first to grasp his approach to Soviet economics domestically because the same constraints and factors that shaped his domestic economic policy also influenced his foreign trade policy. In sharp contrast to both Khrushchev and Gorbachev, Brezhnev was no massive reformer. Under Brezhnev, there was nothing akin to the processes of de-Stalinization or perestroika. More than any Soviet leader, Brezhnev understood the risks of introducing widespread reforms in a highly bureaucratic society such as the USSR. The most important was the potential for angering and alienating Soviet officials and apparatchiks, whose approval and support were essential to the leadership in the post-Stalin era.

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Brezhnev largely respected these officials and apparatchiks who occupied the numerous Soviet ministries because his position required their continued loyalty. Thus, he generally did not micromanage Soviet economic policy at home or abroad. This fact alone does much to explain more broadly Brezhnev’s long tenure as Soviet leader.  

At the same time, Brezhnev was no indifferent party chief with a hands-off approach to economic matters. He was not, as one scholar has noted, simply “muddling through.” Brezhnev understood that his position mandated that he work to prevent shortages of consumer goods and ensure basic necessities required by Soviet families. As one scholar has suggested, Brezhnev’s policy was best described as “firefighting;” that is, “urgent measures...to counter the imminent threat of shortages.” Indeed, if any phrase described Brezhnev’s domestic economic outlook, it was “shortage prevention.” At various times, Brezhnev worked to head off shortages in such areas as food, energy, transportation, and housing. His approach differed from the later policy of Gorbachev, whose perestroika, with devastating consequences, privileged consumer choice over shortage prevention.

Brezhnev’s own words suggest that he had economic motives for foreign trade with the West. This is not to suggest the absence of political reasons; rather, it is to imply that Brezhnev thought that political goals could be achieved through economic means. Put another way, it seems that the Soviet leader adhered to classical Marxist thought according to which economics formed the base—while politics, culture, and everything

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74 Ibid.
else that is important—formed the superstructure. In a conversation with his advisors in February 1971, Brezhnev emphasized the importance of hard currency for Soviet foreign policy:

Maybe [we should] mention the biggest problems---to say which tasks in the future five-year plan to target. Take, for Europe, the oil and gas of Siberia. This is a major problem. It will change everyday life. These are the major economic indicators. They will change our possibilities, our relations with all of Europe (not only with socialist nations, where we can give gas and oil) but also with France, West Germany, and Italy. We have the keys. Gas there—hard currency here. This is a big economic and political question.\textsuperscript{75}

If the key, as Brezhnev asserted, was hard currency, then the doors to be opened were the vast resources of Siberia. In fact, unlike previous Soviet leaders, Brezhnev considered the large Russian oil and natural gas surpluses as somewhat of a panacea for many issues. There were conceivably numerous advantages that accompanied Brezhnevian petro-centrism. First, if the USSR could export enormous amounts of oil and natural gas, it could acquire the foreign exchange to purchase the consumer goods abroad to improve the living conditions of the Soviet people. Second, the Soviet Union could obtain the Western technology and scientific know-how to improve the quality as well as quantity of its domestic goods. Third, an infrastructure to export energy to Eastern Europe in unprecedented volumes, especially amid the later oil shocks of the 1970s, was essential to maintain Soviet credibility and hegemony among Warsaw Pact nations. Fourth, exporting oil and gas to Western Europe was a means for the Kremlin to establish leverage over those nations and gain political capital amid the Cold War. Fifth, catching up with the United States and the industrialized West in technology was necessary to

\textsuperscript{75} Zapis' soveshchaniia po voprosu podgotovki otchetnogo doklada CK KPSS XXIV s”ezdu KPSS, 5 Feb. 1971, in A. Khinshtein, \textit{Pochemu Brezhnev ne smog stat' Putinym: Skazka o poteriannom vremenii}, 571.
maintaining the legitimacy of Soviet superpower status in the long-term. Best of all, for a non-reformer like Brezhnev, focusing on oil and gas exports required no major shake-up of the existing Soviet political structure. Achieving all of these goals, however, required economic cooperation with the West.

Brezhnev’s obsession with exporting Soviet oil and gas has received wide confirmation, both from first-hand German and Russian sources. Helmut Schmidt—the West German defense minister, finance minister, and later chancellor—remembered the Soviet leader mostly not for military issues but for his desire for trade. “In all my talks with Brezhnev and Kosygin,” Schmidt recalled, “I had the impression that both the general secretary and the premier basically saw economic expansion of their country as their chief task.”76 Given the FRG’s location at the heart of central Europe, the Kremlin had hoped that West Germany would become the gateway to supply Soviet energy to Western Europe. “Brezhnev described in detail the source and reserves of raw materials in Siberia,” Schmidt remembered, and assured that “the Soviets could in the future deliver great amounts of raw materials.” Brezhnev “grew animated” when speaking about the subject and “returned to it frequently in later years.”77 Yegor Gaidar, the prominent economist whose task under Boris Yeltsin was to resolve Russia’s structural economic problems inherited from the Soviet era, has confirmed Schmidt’s portrait of Brezhnev as a man obsessed with energy development. “Developing those oil and gas fields was the most serious achievement of the Brezhnev era,” Gaidar recalled. “And although it was

77 Ibid.
never discussed openly at that time, the country had set its hopes on oil and gas exports.”78

_Osthandel:_ A New Beginning

Autumn 1969 marked the true beginning of _Osthandel_ during the Brandt years. A month after the change in FRG leadership, the ongoing negotiations over a West German-Soviet gas-line produced their first fruit. In November, a delegation of West German businessmen led by Ruhrgas chief H. Schelberger met Deputy Soviet Foreign Trade Minister Nikolai Osipov and Y. Baranovsky to discuss the details. At meeting’s end, both sides had agreed to three points. First, each side intended to sign a contract with the other in the near future regarding natural gas deliveries. Second, there would be a general agreement about how best to exploit Soviet gas and deliver it to the FRG. Third, each side agreed to inform the other of the various departments and ministries in charge of enforcing the contracts. The West Germans seemed to have been concerned about the last point, not knowing which particular Soviet ministry or committee they should contact in case of a breach of contract. Both sides also chose 20-31 January 1970 as the period to work out all of the details of the agreement.79

On 1 February 1970, in Essen, the Soviets and the West Germans entered into the first of what would become a series of contracts to construct natural gas pipeline between the two countries. West German Economics Minister Karl Schiller and Soviet Foreign Trade Minister Nikolai Patolichev represented their respective sides. Under their

79 Protokol parafirovania kontrakta na postavku prirodnogo gaza, 29 Nov. 1969, RGAE, Fond 413, Opis 31, Delo 3059.
oversight, Ruhrgas AG signed a twenty-year contract to buy fifty-two billion cubic meters of natural gas from the Soviet export agency Soyuznefteksport. A consortium of German banks, led by the Deutsche Bank, agreed to grant the Kremlin an unprecedented credit line of DM 1.2 billion to pay for the pipe and advanced equipment necessary for the gas line. The famous West German pipe-making firms Mannesmann and Thyssen secured contracts to provide 1.2 million tons of large diameter pipe (1420 mm), providing 200 million tons in 1970 and 500 million tons each in 1971 and 1972. In exchange, the Soviets agreed to supply natural gas to West Germany for profit but had to pay off the loan over a ten-year period at an interest rate of 6.25 percent. To ease Soviet worries that debt might arise from the project, Otto Wolff helped orchestrate an arrangement whereby Moscow could make payments through gas deliveries (i.e. a barter agreement). According to the terms, the pipeline would be operative by October 1973 and had to be paid in full by 30 September 1982.

With this contract, Mannesmann began to emerge as the major West German firm to profit from developing Soviet energy-export capabilities by providing the most conspicuous export of Osthandel: the large-diameter pipe to transport oil and natural gas. Mannesmann pipe was highly attractive to the Soviets because of its durability as the strongest pipe in the world. Although Soviet pipe could withstand 60 and 75 atmospheres

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of pressure, the much stronger Mannesmann pipe could accommodate 100 to 125 atmospheres. Significantly, by changing from 75 atmospheres to 100 and 120 atmospheres, the Soviets could transport approximately one-third more gas through any given pipeline. A difference of this magnitude made importing Mannesmann pipe more cost-effective than relying on the technologically inferior Soviet product.\textsuperscript{84} Given its unparalleled strength, Mannesmann pipe also could easily bear the harsh Siberian winters, withstanding temperatures as low as sixty degrees below zero Celsius and as high as fifty degrees Celsius. The pipe was produced in Mulheim, then shipped to Leningrad and Archangel from port cities on the North Sea, most notably Hamburg, Bremen, and Rotterdam.\textsuperscript{85}

Mannesmann’s success was not only the result of a quality product but also due to the personality of the firm’s leader, Egon Overbeck. A former general staff officer of the Wehrmacht, Overbeck had survived several gunshot wounds during the Second World War. After Germany's defeat, he became obsessed with education, thinking it was the only means for him to achieve a better life. Overbeck then worked at a variety of menial jobs as a student to pay his tuition and earned a degree from Frankfurt University. His story of survival and dedication culminated in his becoming the leader of Mannesmann in 1962, a development one business historian has called “a complete surprise.”\textsuperscript{86}

\textsuperscript{84} For more information, see Thane Gustafson, \textit{The Soviet Gas Campaign: Politics and Policy in Soviet Decisionmaking} (Santa Monica, CA: Rand Corp., 1983), 89-90.
\textsuperscript{85} Horst A. Wessel, “Mannesmann und Russland: Mannesmannröhren sind seit über 100 Jahren gefragt,” unpublished article, 2005, Mannesmann Archive, Mülheim, Germany, 263.
\textsuperscript{86} Anthony Rowley, \textit{The Barons of European Industry} (London: Croom and Helm, 1974), 44.
Soviet Foreign Trade Minister Patolichev, a highly decorated Soviet official who received a record number of Lenin medals, deeply respected the Mannesmann leader. “With Overbeck we work well,” Patolichev once remarked. “We have with him a good personal relationship.” One reason Patolichev worked well with Overbeck was their similarities. Patolichev had survived several wounds himself in the Soviet campaign against Finland. Accounts of rugged survival, sometimes mentioned in their personal communication, united the men through a common bond. Patolichev liked rugged masculinity, and he found this feature in Overbeck. By contrast, the Soviet foreign trade minister sometimes tried to dominate other Germans whom he felt were weak, especially future West German Economics Minister Otto Lambsdorff. Still, Patolichev believed that trade was necessary to reduce Cold War tensions. “Economic cooperation is the path to strengthening peace in Europe,” he insisted. “For our part, we always welcome manifestations of goodwill.” The positive relationship with Mannesmann attested to Patolichev’s sincerity.

At a meeting in March 1970, Soviet Deputy Foreign Trade Minister Nikolai Osipov and Jos Van Beveran, the director of Mannesmann’s export department, discussed goals. Both men thanked each other for the long-term gas project and suggested that future cooperation was likely. Additionally, Van Beveran told Osipov that he had spoken with the head of the Soviet export agency Traktoroeksport, who was interested in construction equipment, bulldozers, and tractors built by the U.S. firm Caterpillar but

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87 Khinshtein, Pochemu Brezhnev ne smog stat' Putinym, 333.
sold in Germany. Osipov claimed he was unsure about how to pay for such equipment. In an off-the-cuff moment, Van Beveran suggested that the Soviets pay with gas deliveries once more—essentially barter. In the process, Van Beveran reinforced the idea, evoked often in subsequent years, that Soviet acquisition of the capital goods necessary for modernization depended on the USSR’s ability to provide energy abroad.

Two months later, Economics Minister Schiller gave an important speech before a Social Democrat convention in Saarbrücken that highlighted Bonn’s objectives in Osthandel. The West German government, he suggested, had two types of goals in mind: economic gain and peace. Schiller explicitly noted West German economic interests in Soviet natural gas, Romanian oil, and East German machines. Such goods could be exchanged for West German commodities, Schiller remarked, adding that Khrushchev much earlier had stressed the markets available in the Soviet Union. Indeed, Schiller spoke favorably of markets, but he made clear that there was a stronger engine driving Osthandel:

Now, Eastern Europe as a market—This is also an interesting aspect. But more important is the following: the inclusion of the Soviet Union and Eastern Europe in the international division of labor, in the process of global economic integration. We want human and political normalization of relations with our eastern neighbors. An expansion of trade is necessary, but it alone is not enough. We must be ready to provide credits, to make available loans to promote industrialization for the economic development in these countries.

Schiller’s focus on global economic integration as a means to promote peace derived from a broader European integrationist philosophy of the time. A principal goal

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of European integration since the 1950s had been to bring France and Germany together in order to reduce the risks of another war. These two bellicose nations had waged war against each other under Napoleon, Bismarck, Wilhelm II, and Hitler. What could stop the perpetual war-making? If the two countries could unite in a broader West European structure (first economically and perhaps later politically), proponents of integration believed, the endless cycle of war would be less likely as the nations developed bonds of commonality and shared interests. As a firm adherent of this view, Schiller was simply extending the same integrationist philosophy to the Soviet Union and the communist bloc, but there is no evidence that he envisioned political integration. The latter no doubt seemed impossible, given the Cold War mindset and system of alliances.

Besides global economic integration, Schiller listed no bold political goals in his speech. There was no talk of German unification, the Berlin Wall, or Cold War military issues. At the same time, he believed that trade went hand-in-hand with the political dimensions of East-West relations. In fact, Schiller put a new spin on a common phrase that had been gaining acceptance in reference to Ostpolitik. Brandt and Egon Bahr had talked about “Wandel durch Annäherung,” but Schiller called for “Wandel auch durch Handel.” Trade, for Schiller, was simply the other side of the same coin. As an economist, Schiller’s approach to Osthandel differed from Brandt’s. No evidence suggests that the West German chancellor ever thought in such lofty terms as global economic integration.

Rather, political objectives were always at the forefront of Brandt’s considerations. Chief among these was the preservation of peace, but not far behind were

92 Ibid.
issues relating to Berlin. Given that Brandt had been the former mayor of West Berlin, the city was dear to him and was the center of his greatest support. In the aftermath of the Prague Spring and with the formulation of the Brezhnev Doctrine, though, Brandt feared the growing isolation of West Berlin and believed that trade could be used to gain concessions on the Berlin question. Brandt shared his perspective with British Prime Minister Harold Wilson, who strongly supported the move. The British, Wilson informed Brandt in March, intended to “tell the Russians that we cannot accept any solution to the Berlin problem which would risk increasing the isolation of West Berlin from the outside world and that we support the close partnership between Berlin and the Federal Republic on which the city’s viability depends.”

In June, Hans-Werner Krentz, the director of Berliner Gaswerke, met Soyuznefteksport head Y.V. Baranovsky to discuss purchasing Soviet gas for West Berlin. Exactly a year earlier, Krentz had started negotiations. Yet the Soviets had excluded West Berlin from their trade policy objectives, given the political nature of the Berlin question. Even so, Krentz now told Baranovsky that his firm desired to buy anywhere from 500 million to 1.5 billion cubic meters of gas. Eager to accommodate Krentz but lacking the power to decide such a politically loaded matter unilaterally, Baranovsky asked the West German businessman to make an official request by 20 June, which would enable higher-level Soviet officials to decide this issue in the context of the upcoming talks in Moscow.

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The talks indeed occurred in July, but Cold War political issues dominated. As a result, a month later, the Soviet Union and West Germany reached one of the defining agreements of Ostpolitik: the Moscow Treaty. With this development, both sides declared a mutual desire to maintain peace and achieve détente, to resolve disputes according to the United Nations charter, and to respect the territorial integrity of European states within their present borders—essentially a recognition of the inviolability of the disputed Oder-Neisse line and the border between the two Germanys.95

The Moscow Treaty, however, did not settle the Berlin question. Brezhnev knew that at least part of his conversation with Brandt on Berlin would be released to the public, so he put on a veneer of toughness. “I have maintained the old official position on the Berlin question,” Brezhnev remarked. “Unofficially, I would like to emphasize that an acceptable solution is possible. One thing, however, remains unchanged: the area of West Berlin does not belong to the Federal Republic.” Perhaps thinking that he could entice a trade-hungry Brezhnev with Osthandel, Brandt told the Soviet leader that economic integration was required for Berlin. Yet although Brezhnev was a staunch supporter of trade, he made no effort during the talks to promote inter-Berlin trade.96 A probable reason for Brezhnev’s trepidation of the issue was the fear of causing tension with GDR leader Walter Ulbricht, who at the time was the single most hostile individual toward


*Ostpolitik* and *Osthandel*. For Ulbricht, the possibility of any East German economic dependence on the FRG risked political destabilization.⁹⁷

Despite the Berlin issue, the Moscow Treaty was indeed a catalyst for the later development of *Osthandel*. Not only were steps taken to correct longstanding political issues but also much discussion of economics and trade ensued. In fact, the treaty explicitly expressed a commitment to the “improvement and expansion of cooperation…in the area of economic relations” and called for “scientific, technological, and cultural ties in the interests of both states.”⁹⁸ In the process, the Moscow Treaty laid the basis for the formation of the joint economic committee formed two years later.

Immediately after the Moscow treaty was signed, Krupp’s Beitz exploited the new friendly developments. In September, he joined a group of West German scientists who visited Moscow to discuss technological cooperation between the two countries. When Soviet officials asked Beitz what a businessman like him was doing with a delegation of scientists, Beitz, referring to himself in the third person, said: “Can you imagine that Berthold Beitz would go to Moscow without concrete goals?” Beitz said that his “objectives were clear”: he wanted to establish “new business connections.”⁹⁹ Beitz’s experience was common, as many West German businessmen joined various kinds of delegations to inquire about trade. Indeed, success in securing contracts often required creativity and improvisation, especially since there was no official agency, institution, or structure at the time to promote bilateral trade.

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⁹⁸ Spravka o torgovykh otnosheniiakh SSSR s FRG, undated 1971, ABPRF (4) 210: 16, 94.
A few months later, in late January 1971, a delegation of West German businessmen led by Wolff traveled to Moscow. This delegation met with several high-level officials, including Soviet Prime Minister Aleksei Kosygin, Soviet Foreign Trade Minister Patolichiev, Chairman of the State Committee for Science and Technology Vladimir Kirillin, and State Planning Commission (Gosplan) head Nikolai Baibakov. Kosygin highlighted business opportunities in the chemicals and non-ferrous metals industries, as well as the possibility that the Soviet Union could supply fuel for nuclear power plants. During the discussions, the prominent West German businessman Wilhelm Dietrich von Menges of Good Hope Mill (GHH) showed an interest in the USSR's large copper reserves, while representatives from the firm Salzgitter expressed a desire for Soviet iron ore. To drive home the sense of camaraderie, smaller firms such as Bobb and Reuther called for a greater presence of Soviet goods in the FRG.

More important, the visit revealed that both sides considered energy a central part of bilateral trade. Although Gosplan's Baibakov suggested that the Soviet Union could build huge projects alone, the Kremlin now welcomed foreign help. Patolichiev broached the issue of barter arrangements whereby the Soviets could pay for imports with deliveries of products. At the same time, Mannesmann head Egon Overbeck expressed a hope that his firm could supply pipe for any future Soviet energy pipelines. With such issues in mind, Wolff called for a trade agreement in the future.

Besides consumer goods, the Soviets also desired West German technical knowledge. One area of cooperation, the success of which is unknown, was in the research and production of antibiotics. These discussions began in spring 1971, when

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101 Ibid., 201-205.
D.N. Loransky, the Soviet Deputy Head Sanitary Physician, contacted Bonn.\textsuperscript{102} Another example was in the area of beer production. Indeed, whenever the opportunity arose, the Soviet Ministry of Beer Production sought the secret brewing methods behind the fabled German product. This matter was apparently so important that Politburo member I. A. Bondarenko wrote to Baibakov, asking for special consideration to allow the West German brewery Oetker to start beer factories in the Soviet Union. Oetker used a special technology called “Neu Haus,” Bondarenko wrote, that produced beer of the “highest quality.”\textsuperscript{103}

A more important development with major implications for Osthandel was the Quadripartite Agreement on Berlin, signed on September 3, 1971 by the occupying powers. Although the agreement stated that West Berlin was not a “constituent part” of the FRG and that the Bundestag could not issue official acts to govern it,\textsuperscript{104} there was a de facto recognition of the special relationship and close ties between West Berlin and the FRG. Further, all sides called for an improvement in communication and transit between the various sectors of Berlin. The terms, however, had no force until the two Germanys worked out the transit issues, but this feature was not a problem. Ulbricht, a fierce critic of Brezhnev, had recently been forced out of office, replaced by politicians more sympathetic to Ostpolitik. For financial reasons, the new GDR government strongly supported a general transit agreement. West Germans who wanted to visit West Berlin,


\textsuperscript{104} Avril Pittman, \textit{From Ostpolitik to Reunification: West German-Soviet Political Relations since 1974} (Cambridge: Cambridge University Press, 1992), 34.
after all, had to pass through East Germany, and the GDR could raise considerable revenue by charging various fees, tolls, and levies.\textsuperscript{105}

With Berlin now settled, Brandt and Brezhnev met privately at Oreanda, where they discussed bilateral trade at length. The Soviet leader spoke of his desire to increase economic relations between both nations. Both the USSR and the FRG, he said, should agree to long-term programs of cooperation, such as those being carried out in the oil and gas industries. Furthermore, Brezhnev talked of potential cooperation in the trade of cellulose, polystyrene, and phosphorous. More important, for the first time, the Soviet leader called for the establishment of more representative offices and structures to facilitate trade. Indeed, such a step was intended to enhance contact between West German businesses and trade agencies, on the one side, and Soviet ministries, on the other. From the Soviet side, Brezhnev pointed out, there were “no obstacles in your way.”\textsuperscript{106}

Brandt agreed with Brezhnev’s request for structural improvements to facilitate bilateral trade. Kosygin had first advocated the creation of a joint economic commission a year before.\textsuperscript{107} At the time, the Soviet prime minister had recommended that each side organize approximately five representatives from both government and business to form the commission. But amid all of the political developments, the issue had been dropped. Yet now Brandt believed that the structural changes were needed. In fact, he told

\begin{enumerate}
\item M.E. Sarotte, \textit{Dealing with the Devil: East Germany, Détente, and Ostpolitik} (Chapel Hill: University of North Carolina Press, 2001), 123.
\end{enumerate}
Brezhnev that “trade and economic exchanges are currently still unsatisfactory” and referenced Kosygin’s plan as a possible solution to improve the situation. Later, Brandt informed Brezhnev of particular areas that Bonn considered important to pursue, including cooperation in the electronics and chemical industries, as well as the airline industry. The West German Foreign Ministry and Federal Transport Ministry, Brandt claimed, supported this development. Creating the commission was a major development over the course of the following year.

Even before the creation of a joint-economic commission, the general picture of West German-Soviet trade was becoming increasingly clear. Reflecting Brezhnev’s focus on energy in planning, an internal Soviet Foreign Ministry report stated outright that energy and energy products were becoming the focus of economic relations and that large-diameter steel pipe to transport gas and oil was the major Soviet import from the FRG. Another Soviet report indicated that Mannesmann had topped a list of 135 Western firms in export growth to the Soviet Union between 1969 and 1970, with sales rising by 40 percent. Thyssen, the other West German pipe-making firm, also saw its exports to the Soviet Union increase by a highly respectable 20 percent. By contrast, the chemical firm Bayer, despite heavy marketing campaigns, saw sales rise by only 9 percent. Oil and gas were clearly the top priority.

Although the FRG was known worldwide for such major conglomerates as Siemens, Bayer, BASF, Krupp, Mannesmann, and many others—the presence of mid-size

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108 Ibid.
110 Spravka o torgovykh otnosheniakh SSSR s FRG, undated 1971, ABPRF, Fond “referentura po FRG,” Opis 16, Papka 94.
firms was perhaps the most salient feature of its economy. Known collectively as the _Mittelstand_, these firms typically were family owned, had fewer than five hundred employees, and, employed as high as 70 percent of the laborers in the country.\textsuperscript{112} Like the large corporations, _Mittelstand_ firms sought to take advantage of the new opportunities stemming from Ostpolitik to profit from trade with Russia.

But the _Mittelstand_'s experience was largely in vain, given the Soviet focus on energy. Hans G. Altenhofen's firm A. Racke, a producer of alcohol and spirits, tried unsuccessfully to export its products to the USSR and to import Russian wine to resell in the FRG.\textsuperscript{113} Kurt E. Nickel, the owner of Heinrich Nickel GMBH, a clothing and sportswear company, complained that _Mittelstand_ firms lacked business opportunities in the Soviet Union because Moscow did not take small companies seriously or even respond to such firms' inquiries into trade.\textsuperscript{114} West German officials were sympathetic to Nickel and apologized for the Soviet lack of response. At the same time, they suggested that there was little they could do besides refer Nickel to the German Embassy in Moscow, which furnished a trade promotion agency.\textsuperscript{115} Altenhofen's and Nickel's experience attested to a painful truth experienced by many _Mittelstand_ firms: the Soviets had little use for them, given the Kremlin's focus on developing the Soviet energy-exporting infrastructure.

By contrast, _Mittelstand_ firms that produced machine-tools had better success in securing contracts within the Soviet Union. For example, Weipert

\textsuperscript{112}http://www.businessweek.com/globalbiz/content/sep2010/gb20100929_905740.htm
\textsuperscript{113}Hans G. Altenhofen (of the firm A. Racke) an den Bundesministeriumsfür Wirtschaft Herrn Dr. Hans Frederichs, 20 Mar. 1973, BA-Koblenz (913746).
\textsuperscript{114}Kurt E. Nickel to Dr. H. Friderichs, 4 Jun. 1973, BA-Koblenz (913746).
\textsuperscript{115}Dr. Friderichs to Kurt E. Nickel, 4 Jun. 1973, BA-Koblenz (913746).
Werkzeugmaschinenfabrik und Eisengiesserei, a company with five hundred employees that specialized in producing lathes, reportedly benefited immensely from Ostpolitik. “We have been very pleased with the advances for small and medium enterprises,” owner Ferdinand C. Weipert wrote, “that have been made by the Federal Government under Economic Minister Friderichs in Moscow.”

In April 1972, the single most important development that laid the foundation for the intensification of Osthandel occurred: the formation of the West German-Soviet Commission for Economic, Scientific, and Technological Cooperation. From the outset, this commission was designed to regulate FRG-Soviet trade. At the inaugural meeting of its founding, representations from both Bonn and Moscow agreed to a joint communiqué, rules of procedure, and a protocol. The joint communiqué pointed out that Soviet-West German trade during the previous year had reached a high and called for further development of economic relations and the expansion of business contacts. Within the joint economic commission, an ad hoc working-group arose composed, on the Soviet side, of representatives from the State Committee for Science and Technology, the State Planning Commission (Gosplan), and the Ministry of Foreign Trade. The German side consisted of both governmental and industry representatives. German business representatives included Beitz and Wolff, along with Alvin Münchmeyer, the president of the Federal Association of German Banks, and Kurt Hansen, the president of the

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117 Gemeinsames Kommunique über die erste Sitzung der Kommission der Bundesrepublik Deutschland und der Union der Sozialistischen Sowjetrepubliken für wirtschaftliche und wissenschaftlich-technische Zusammenarbeit, 19 Apr. 1972, AA 41/124 (0391).
Federation of German Industries. “We four were for quite a number of years,” Wolff remembered, “the regular business representatives in the commission.” The joint communiqué specifically pointed out that a main goal of this working group was cooperation in the energy area.

Some basic facts about the joint economic commission need discussion. The commission had six sections through which to promote trade in ironworks, machine tools, diesel engines, electric power, chemicals, and the mining of mineral resources. The highest officials to attend commission meetings regularly were West German Economics Minister Hans Friderichs and Deputy Chairman of the USSR Council of Ministers and Politburo member Vladimir Novikov. Even so, Otto Wolff, now the Chairman of the Committee on Eastern European Economic Relations, and Soviet Deputy Foreign Trade Minister Aleksei Manshulo became the unofficial coordinators of the commission charged with implementing its recommendations.

Wolff and Manshulo had a productive relationship that paved the way for positive developments in the commercial relationship between both countries. An early setback to trade that they sought to change was the failure of the Hermes Credit Insurance Company to guarantee export credits to the Soviet Union. Although the “USSR does not want to interfere in the internal relations of the FRG,” Manshulo informed Wolff, it was “nevertheless international practice to provide long-term bank loans and acceptable

119 Wolff von Amerongen, Der Weg nach Osten, 154.
120 Gemeinsames Kommunique über die erste Sitzung der Kommission der Bundesrepublik Deutschland und der Union der Sozialistischen Sowjetrepubliken für wirtschaftliche und wissenschaftlich-technische Zusammenarbeit, 19 Apr. 1972, AA 41/124 (0392).
“conditions” for the export of equipment. Under the Christian Democrat leadership of the 1950s and 1960s, the West German government had refused to guarantee export credits to West German companies to do business in the Soviet Union, despite the Kremlin’s attempt to acquire such credits. Yet the Brandt administration, thanks to pressure from Osthandlers like Wolff, sought to resolve the situation.

Success came in April 1972, when Soviet and West German officials agreed to change credit policy. Peter Hermes, the chief trade negotiator in the West German Foreign Office at the time and later the West German ambassador to the United States between 1979 and 1984, worked out the details with Manshulo. The meeting was friendly, and both Hermes and Manshulo made a commitment to expand trade. As a result, there was a general agreement that Hermes would work to guarantee export credits more fully. This development was a remarkable breakthrough, a true turning-point in the history of Osthandel. In the first pipeline deal, signed in February 1970, Hermes had guaranteed only 50 percent of the Deutsche Bank's loan to Moscow for that path breaking project. At the time, that was significant, given the past refusal of the Christian Democrat leadership to guarantee credits. But when a second gas-pipe deal was signed a couple of years later, after the change in credit policy, Hermes now fully guaranteed the loan. As Angela Stent has noted, “from now on Hermes gave 100 percent credit guarantees.”

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122 Wolff von Amerongen, Der Weg nach Osten, 158.
123 Despite having the same last name, Hermes was not affiliated with the Hermes Credit Insurance Company. Rather, he was a career diplomat whose work as a trade negotiator in the Foreign Office later led to various promotions, culminating in his becoming Bonn’s ambassador to the United States in 1979.
124 Memo, Peregovory o zakliuchenii soglasheniia mezhdu SSSR i FRG o torgovle i ekonomicheskom sotrudnichestve, 4 Apr. 1972, RGAE, Fond 413, Opis 31, Delo 3735.
The change in export-credit policy positively affected some key West German businesses almost immediately, especially those that had a stake in energy. In July, Mannesmann, Thyssen, and Ruhrgas AG took advantage of the new terms. Soviet Deputy Foreign Trade Minister Osipov met the leaders of these firms in Düsseldorf, where they entered into an unprecedented twenty-year agreement on the delivery of pipe and gas, impressively valued at over DM ten billion. A consortium of banks, led by Deutsche Bank and the Soviet Foreign Trade Bank, worked out the credit details.\textsuperscript{126} In addition, Mannesmann began to sell oil-field pipe and general equipment for use in the Russian oil fields.\textsuperscript{127}

Although such liberalization was conducive to future trade, there were several major setbacks in mid-1972, especially in the domestic politics of West Germany. The leader of the Christian Democrats, Rainer Barzel, initially had not opposed Ostpolitik or Osthandel. In fact, he at first had tried to persuade SPD leader Herbert Wehner to form a SPD-CDU coalition, announcing that Ostpolitik would be a central policy objective. The Social Democrats, however, rebuffed Barzel. In the process, CDU politicians of all stripes increasingly attacked Bonn’s Eastern policy for political reasons. In particular, Barzel and others began arguing that Ostpolitik was actually illegal because it undermined German reunification and the right to self-determination for all Germans, which the Basic Law (1949) required. Against this backdrop, in September 1972, the Christian Democrats spearheaded a no-confidence vote against Brandt in the Bundestag. Although the effort failed (Barzel received 247 of the 249 votes he needed), the fiasco resulted in a more

\textsuperscript{126} Gespräch zwischen Brandt und Nowikow, 18 Jan. 1974, AAPD, 1974:1,15.
\textsuperscript{127} Horst A. Wessel, “Mannesmann und Russland: Mannesmannröhrren sind seit über 100 Jahren gefragt,” unpublished article, 2005, Mannesmann Archive, Mülheim, Germany, 264.
cautious Eastern policy in the immediate aftermath.\textsuperscript{128} As a consequence, despite the formation of a joint-economic commission and the removal of restrictions on export credits, FRG-Soviet trade did not intensify dramatically.

Equally troubling for Osthandel was the resignation of Economics Minister Schiller in July. Schiller had been a strong supporter of opening trade with the communist bloc, but he had many more duties. Although a Social Democrat, Schiller differed from many of his party colleagues, including Brandt and Wehner, on fiscal policy. Put simply, Schiller was a staunch critic of what he thought was excessive spending. The economics minister consistently demanded budget cuts and thus alienated his peers. To make matters worse, he publicly criticized members of his party and thus received reprimands. Schiller, who had developed a reputation as a “superstar” economist, did not take criticism well and therefore resigned. In fact, he became so bitter that he shockingly campaigned for the Christian Democrats in later elections.\textsuperscript{129} In the end, Schiller put personal pride ahead of the vision of the Osthandel he had help formulate, a truly remarkable picture of East-West peace grounded in economic integration.

Schiller’s eventual replacement as economics minister in December 1972, Free Democrat Hans Friderichs, later proved to be a skilled promoter of Osthandel, but Friderichs initially had much to learn and at first focused little on East-West trade. Also, unlike Schiller and Otto Lambsdorff, Friderichs lacked a clear vision of how trade could promote peace. If anything, Friderichs saw trade in strictly economic terms. For him, nations traded with one another largely for one reason: they needed each others’

\textsuperscript{129} Christoph Meyer, \textit{Herbert Wehner: Biographie} (Munich: Deutscher Taschenbuch, 2006), 388; Brigitte Seebacher, \textit{Willy Brandt} (Munich: Piper Verlag, 2004), 23
products. Thus, despite positive structural developments, West German-Soviet trade increased but not dramatically until the energy crisis of 1973-74, when West Germany suddenly needed Soviet energy resources. To his credit, Soviet leader Brezhnev already had achieved his goal of having a solid structure in place for such trade to take off when the time was right.

Figure 1: The Dramatic Rise of West German-Soviet Trade during the 1970s

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130 This assessment, which will become clear in later pages, is based on comparing Friderich’s statements and actions to Schiller’s and Lambsdorff’s on trade.

Everything, of course, was not smooth sailing. In early 1973, a small problem in *Osthandel* began to surface: the growing lack of diversification in Soviet exports. In a letter to Kosygin, Valentin Falin, the Soviet ambassador to West Germany, discussed the need for more print advertisements of Soviet products. For the most part, though, the Soviets blamed a lack of liberalization in trade for their situation. Otto Wolff rejected this claim, however, noting that the USSR was free to export approximately 90 percent of all goods without any restrictions. Rather, Wolff argued that a lack of resourcefulness explained the Soviet situation.

To be fair, through the joint-economic commission, the Soviets made several efforts to sell other natural resources to West Germany besides oil and natural gas. V.A. Pervago, the Soviet Deputy Director of the Division of Geology and a representative on the joint-economic commission, emerged as the chief individual to “push” other resources. These raw materials included “large deposits” of titanium located in the Komi Republic (northwestern Siberia), a huge supply of graphite around Lake Baikal, and enormous deposits of iron ore located in three places: the Donjetz Basin (Ukraine), Orenburg (South Urals), and Krasnoyarsk (Siberia). The Soviets also marketed asbestos, lead, zinc, nickel and tin to West Germany. Later, the Soviet Union stressed the great

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amounts of kaolin in Ukraine and chrome in Kazakhstan to pique the interests of the West Germans.¹³⁵

Still, West German interest in other Soviet natural resources besides oil and natural gas was largely nonexistent. Titanium, used widely in the medical, chemical, and cosmetic industries—not to mention its applications in military hardware—did attract considerable attention from such large West German firms as Bayer and Sachtleben. But West German experts on the joint economic commission put the nail in the coffin on such trade. The West German side judged the “chances for cooperation” in the titanium trade to be “not very positive,” claiming that “the production costs will be presumably very high” and that “the Soviets obviously for military reasons want to retain their treatment processes.”¹³⁶

Of course, not all minerals had considerable military applicability, but the FRG showed relatively little enthusiasm in these regardless when compared to gas and oil. The West German firm Kropfmühl, a major European graphite purveyor, showed limited interest in Soviet supplies of that mineral located near Lake Baikal. Although Kropfmühl was never represented at meetings of the joint economic commission, commission members pointed out that the company seemed “to be interested” provided that long-term supply contracts were guaranteed. Kropfmühl imported meager quantities of graphite from the Soviets, just as the West German firm Rosenthal probed Ukraine in search of

kaolin. At the same time, however, trade in non-energy resources never became a prominent feature of West German-Soviet economic relations. The amount of attention that the joint economic commission devoted to such raw materials paled in comparison to energy resources.

At the same time as the joint economic commission began to work, the West Germans began watching with great interest the possibility that the United States and the Soviet Union would become partners in the energy trade. In June 1973, Soviet Deputy Foreign Trade Minister Osipov met with the leaders of the Occidental Petroleum Company and the El Paso Gas Company to discuss the development of Soviet energy resources in Yakutia (eastern Siberia.) The Soviets had wanted to exploit these U.S. firms’ expertise to explore the area and later possibly to transport natural gas from Vladivostok to the west coast of the United States. At the time, however, the West Germans downplayed for logistical reasons the potential for energy trade between the two superpowers, reporting that it would take about five years to explore the region before any commercial production and transport of gas to the American West could be carried out.

West German observers indeed proved correct as several developments led the Soviets to shift their focus on foreign assistance for energy development from the United States to West Germany. The most important was new American red-tape to prevent U.S.-Soviet trade. The Jackson-Vanik amendment, which would later become part of the Trade Act of 1974, denied most-favored-nation trading status to the Kremlin, severely

hindering the sale of American high technology. This restriction, implemented to coerce the Soviets into allowing more Jewish emigration, also severely damaged U.S.-Soviet economic relations and undermined détente. Because the Church-Stevenson Amendment also limited total U.S. credit to the Soviet Union to $300 million, the Kremlin did not turn to the United States for machinery and equipment.\textsuperscript{139} Such legal restrictions meant that West Germany would far outpace the United States in overall trade with the Soviet Union.

At the same time, West German interest in Soviet natural resources also increased. In May 1973, Brezhnev first informed West German Economics Minister Friderichs that the Soviets had discovered tremendous volumes of gas in northwest Siberia. Suggesting that the resources were nearly “unlimited,” Brezhnev claimed that prospectors had found between twelve and thirteen trillion cubic meters of gas between Tyumen and Tobolsk alone.\textsuperscript{140} Later, amidst the oil crisis, Soviet Deputy Prime Minister V.N. Novikov also told the West Germans of Moscow’s interest in developing the enormous Tyumen oil fields as well, pointing out the “large projects” there in the coming years that Gosplan had plans for. “All of this requires high costs,” Novikov worried. “Nations that want raw materials from us must also help finance these investments... This means: loans.”\textsuperscript{141} Brezhnev later publicly confirmed the importance of developing the

\textsuperscript{139} Mike Bowker, “Brezhnev and Superpower Relations,” in Bacon and Sandle (eds.), Brezhnev Reconsidered, 99.

\textsuperscript{140} Ergebnis des Gesprächs von Generalsekretär Breščnew mit Vertretern der deutschen Wirtschaft, 19 May, 1973, AA 61/117678 (2320).

northwest Siberia complex, boasting that it would “be able to account for nearly one half of the Soviet Union's oil and natural gas” in the long term.\(^\text{142}\)

More than any other single event, the energy crisis in the wake of the Yom Kippur War (October 1973) led to the intensification of the Soviet energy trade with West Germany. Between 1973 and 1974, the price for oil in West Germany quadrupled as a result of the OPEC embargo. During the crisis, the situation of need and provision was so fundamental to the economic survival of the FRG that it sometimes risked straining relations between West Germany and the United States regarding the latter’s Middle Eastern policy. At one point, Brandt even told Washington to stop sending arms to Israel from German ports for fear of offending oil-rich Middle Eastern nations.\(^\text{143}\) Yet the Brandt administration’s strategy was not simply to look to the Middle East for energy. Rather, the FRG would rely more on the Soviets. Indeed, less than a month after the Yom Kippur War ended, the Soviet Foreign Trade Ministry received reports that the FRG wanted more oil and that Bonn was anxious, complaining that its orders were not on schedule.\(^\text{144}\)

At the height of the energy crisis, the Soviet Union, West Germany, and Iran also began negotiations for a tri-lateral gas agreement. In December 1973, Soviet Deputy Foreign Trade Minister Manshulo informed the West Germans that Kosygin and Foreign Minister Andrei Gromyko were discussing either building a gas-line between the USSR


\(^{144}\) Memo, V. Bolshakov to N.G. Osipov, 19 Nov. 1973, RGAE, Fond 413, Opis 31, Delo 6915.
and Iran or considering using a semi-liquidification process to acquire Iranian gas.\textsuperscript{145} The technical possibility of acquiring liquefied natural gas had been proven in the 1950s, but the idea was largely abandoned for lack of economic feasibility.\textsuperscript{146} For this reason, Soviet officials preferred the construction of gas-lines. The Soviets, who at the time lacked sufficient gas-lines connected to Western Europe, had wanted Iranian gas to resell to the West, given the marked rise in the world market energy prices. But to build a gas-line required large-diameter steel pipe, and the Soviets needed West German assistance. At the time, Manshulo had considered a tri-lateral agreement involving West Germany among the “top 4” things to do.\textsuperscript{147}

As the oil crisis intensified, the trilateral pipeline increasingly became a priority. In January 1974, Soviet Deputy Prime Minister Novikov first broached the issue with Brandt and West German Economics Minister Friderichs.\textsuperscript{148} Three months later, Novikov gave Friderichs the welcome news that Tehran had agreed in principle to a gas-line and requested that Bonn “take the initiative” on the project. It remains unclear why exactly Novikov made such a request. Conceivably, if Bonn initiated the talks, it is reasonable to believe that Washington might be less fearful that the Kremlin was conspiring somehow to undermine the Shah’s relationship with the United States. The Soviet Union, Novikov

had pointed out, would be flexible on where and when the negotiations would take place.\footnote{Besprechung BM H. Friderichs mit stellv. Ministerpräsidenten W.N. Nowikov, 25 Mar. 1974, AA 23/117700 ((01617)).}

Although tri-lateral talks did indeed occur later that year, an agreement did not come until the following year. In April 1975 at Tehran, Ruhrgas AG, the Iranian National Gas Company (NIGC), and the Soviet Gas Ministry came to a three-page general agreement to build a gas-line called IGAT II. Mannesmann, along with Thyssen, would provide the pipe for what was then a proposed 500-kilometer-long project.\footnote{Sowjetische wirtschaftliche Grossprojekte, 18 Aug. 1975, AA, 61/117678 (2417).} When the final agreement emerged, though, all three sides committed to the construction of a pipeline (now 1,400 kilometers long) linking the Kangan gas fields of southern Iran to the Soviet border city of Astara, Azerbaijan. Estimated costs were $2.4 billion. The IGAT II pipeline was expected to be completed by 1981, and gas was to flow through it for twenty years.\footnote{Robert G. Jensen, Theodore Shabbad, and Arthur W. Wright (eds.), Soviet Natural Resources in the World Economy (Chicago: University of Chicago Press, 1983), 375.}

Unfortunately, from the vantage point of chancellor, Brandt never had the chance to see the pipeline’s construction. In mid-1974, he was embroiled in a personal fiasco, the Guillaume affair, that ultimately led to his resignation. Günther Guillaume, an assistant to the chancellor, threatened to blackmail Brandt, claiming the chancellor had had numerous extramarital affairs. At the same time, Guillaume himself was a spy for the Stasi.\footnote{Anthony Glees, Reinventing Germany: German Political Development since 1945 (Oxford, UK: Berg, 1996),190.} Once these facts were made known, Brandt felt he could not govern effectively and resigned his office in May.
In August, Helmut Schmidt, the former finance minister, became chancellor. In addition to being an economist, Schmidt previously had been the West German defense minister as well. From the same political party as Brandt, he shared his predecessor’s view that West German-Soviet trade was a stabilizing force for Europe. In his memoir, Schmidt writes that he took part “in the intellectual preparations” for Brandt’s Ostpolitik. Additionally, he “was fully determined to continue and elaborate on these policies, as the Soviets well knew.”

The great irony of Osthandel, by summer 1974, was that the two West German politicians who had first worked so hard for it to blossom had stepped away—first, Schiller and, then, Brandt. At the same time, they had achieved much. Schiller’s integrationist philosophy was structurally successful, as evidenced by the creation of a joint-economic commission. Additionally, Brandt’s Ostpolitik had produced a genuine change for the better in relations with the Soviets and their East European allies. In fact, he had received the Nobel Peace Prize (1971) for his efforts. More important, for Osthandel, the Brandt administration had overcome the major barriers to trade that the preceding Christian Democrats had erected.

From Moscow’s side, the foundation for Brezhnev’s vision of a Soviet oil-exporting empire was also firmly in place. The Soviet leader’s emphasis on the export of energy had marked a dramatic change, not continuity, with the past. Just because the USSR always had possessed oil and gas beforehand did not mean that nation had

153 Schmidt, Men and Powers, 23.
succeeded in exporting such energy sources. Not only the infrastructure necessary for transporting such resources but also the appropriate international climate to create that infrastructure had been absent. But ever since February 1970, exploiting West German expertise to create pipelines had been the most salient characteristic of bilateral trade. As the next chapter especially shows, the mid-1970s saw an intensification of Osthandel’s role in the exploration and augmentation of the Soviet energy sector, a development that would come to define West German-Soviet trade relations.

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CHAPTER 2

THE FLOWERING OF OSTHANDEL: WEST GERMAN-SOVIEIT TRADE IN AN ERA OF GLOBAL ECONOMIC TURMOIL, 1974-1979

When pondering the European international situation of the mid-1970s, one word often comes to mind: détente. Indeed, the old fear in the inevitability of war between the communist bloc, directed by the Soviet Union, and the Western world, led by the United States, seemed increasingly a delusion of the past. Building on Brandt’s Ostpolitik and such other achievements as the Strategic Arms Limitation Treaty (SALT) and the Anti-Ballistic Missile (ABM) Treaty, the Helsinki Accords (1975) marked the high point of détente, as both Eastern and Western Europe recognized the international importance of human rights and took steps toward accepting the continent’s post-World War II boundaries.

At the same time, however, the period saw significant new economic challenges. The ongoing global energy crisis, inflation, rising unemployment, the emergence of a new phenomenon called “stagflation,” and the rise of domestic violence in Western Europe partly as a response to economic inequality were some of the most conspicuous demons that came to haunt governments. These challenges affected West German-Soviet trade, but there were also mutual benefits for both parties. As the decade wore on, the FRG increasingly relied on the USSR as an energy partner, while the Soviet Union sought more and more West German assistance to develop its energy-export infrastructure not only to profit from unprecedented oil and gas sales to Western Europe.
amid the energy crises but also to provide the communist bloc nations with much-needed energy necessary for its survival. Against this backdrop, West German-Soviet trade relations intensified, with the FRG becoming the Soviet Union’s most important capitalist trading partner both in terms of overall volume of trade and in the area of energy relations. At the same time, Brezhnev’s acceleration of Soviet oil and gas production and his relative lack of investment in other sectors produced a rapid transformation of his nation’s export structure.

New Developments

From the West German side, the leadership was new. As chancellor, Helmut Schmidt differed in many ways from Brandt, despite their membership in the same political party. Unlike the more cautious and humble Brandt, Schmidt possessed a kind of self-confidence that bordered on arrogance. Schmidt often gave unsolicited economic advice to world leaders. In West Germany, he was known as “The Lip” because of his acerbic nature.\(^{155}\) Despite his sincere commitment to the principles of the SPD, Schmidt also was more conservative that Brandt. Richard Nixon’s National Security Advisor Henry Kissinger once remarked that Schmidt “is on the right wing of the socialist party.”\(^{156}\) At the same time, Schmidt was uniquely prepared to guide Osthandel.

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156 Conversation among President Nixon, the President's Assistant for National Security Affairs (Kissinger), and Secretary of the Treasury (Shultz), 7 Mar. 1973, FRUS, XXXI: Foreign Economic Relations, 1973-1976, 110.
most basic level, West German-Soviet trade was an economic enterprise. Trained as an economist, Schmidt was also “a highly intelligent and popular pragmatist.”

Still, there was much more continuity than change in West German-Soviet trade between the Brandt and the Schmidt administrations. After Schiller’s resignation as economics minister in July 1972, Schmidt, more than any other person, had shaped Bonn’s economic policy, including foreign trade. In fact, for a period of time in 1972, Schmidt was both the West German finance minister and the economics minister, a feat unprecedented in the FRG’s history. Schmidt developed a positive working relationship with the Osthandlers. Otto Wolff was said to have “failed to establish a close relationship with Brandt, but his links with Schmidt, gave him constant access to a man whose influence not only on European but also on world policy was even more decisive than Brandt’s.”

Schmidt’s relationship with Brezhnev also differed from his predecessor’s, and unlike his highly diplomatic foreign minister Hans-Dietrich Genscher, the new chancellor was often blunt. Schmidt often criticized Brezhnev’s arms policy and refused to let the Soviet leader, who could be crude, liken FRG soldiers to Nazis. For Schmidt, both sides had to move on and put the past behind. Brezhnev, on the other hand, often evoked the Great Patriotic War in his conversations, undoubtedly to gain advantage from the Soviets’

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military victory and occupation of Eastern Europe as well as to remind Schmidt of his
countrymen’s moral failures. For the Soviet leader, the war was so ingrained in the minds
of his countrymen, who had suffered horrendous casualties, that it was simply impossible
for forget—especially in dealing with a former member of the Wehrmacht who had
fought on the Eastern front. Despite these elements, Brezhnev and Schmidt largely came
to have a good working relationship.

As for West German-Soviet trade, Schmidt sought to reassure Brezhnev that he
would continue Brandt’s policy. The Soviet leader approved of Schmidt’s commitment
and stated that the Soviet Union intended to reciprocate. As the global oil crisis
became damaging to the West, the Soviet leadership increasingly realized the value of
developing energy resources. Brezhnev called the development of the oil and gas
industries in Tyumen (northwest Siberia) “one of the most important developments in
recent years for the Soviet people.” "Experts have expressed, in particular, the proposal
for an even greater emphasis on gas,” Brezhnev later announced, adding that the reserves
were “enormous.” Obtaining these resources, however, required intensive work.

Not unexpectedly, one area in which the Soviet Union sought West German
technical assistance was oil prospecting. On the eve of Brandt’s departure, a conflict had
arisen between the Soviet Union and the West German oil prospecting firm VEBA over
petroleum deliveries. In the previous year, VEBA had ordered 3.4 million tons of Soviet
crude oil but had received only 2.9 million tons. As a result, VEBA had questioned

162 L.I. Brezhnev, Ob osnovnykh voprosakh ekonomicheskoi KPSS na sovremennom etape:rechi i
doklady (Moscow: Izdatel'stvo Politicheskoi Literatury, 1979), 205
163 Ibid., 297.
publicly the reliability of the Soviet Union as an oil supplier. The Kremlin had wanted to meet its contractual obligations, but more important strategic issues had prevented fulfillment. With the energy crisis, East European countries, like Western nations, had faced hardships paying for Middle Eastern oil on world markets. To ensure that the energy needs of Soviet satellite nations were met in these situations, the USSR had curtailed its oil exports from VEBA to divert to Eastern Europe.

Yet, as the energy crisis became increasingly dire, the Soviet Union and VEBA buried the hatchet. In April 1974, the West German firm even signed a new contract to purchase three million tons of crude oil with the option of adding another 1 million tons. The terms were relatively good, with VEBA paying $12/barrel. More important, to help resolve the crisis, VEBA and the Soviet Union became joint partners in oil prospecting. In 1969, VEBA, along with seven other West German companies, had formed a new firm called Deminex to prospect for crude oil. This relatively new firm, which had Bonn’s support, increasingly had the responsibility to find solutions to the energy crisis.

Amid the energy crisis, the Soviets shifted their focus in energy exploration and development from eastern to western Siberia. Western Europe, the Kremlin thought, would be avid customers of oil and gas, and plus transporting energy would be much easier because of geographic proximity. At the time, A.D. Schtscheglov, the Soviet Deputy Director of the Division of Geology and representative on the commission, had

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several meetings with Deminex head Herbert Löfters in Moscow to discuss developments. Deminex, the FRG’s leading petroleum exploration firm, sought to make its presence felt in exploring oil, especially around the Barents Sea. Yet Schtscheglov informed Löfters and the other members on the commission that cooperation in the exploration of oil and natural gas in the northern continental shelf (Barents Sea) was not a priority. Rather, Schtscheglov indicated that the upcoming five-year plan (1976-1980) would concentrate the exploration of Soviet oil and natural gas in three areas: northwest Siberia, Yakutia, and the lower Caspian. 166 

Given the ongoing global energy crisis, Schmidt was eager to reach an agreement with Brezhnev on Soviet oil and gas development. In September 1974, the West German leader met Soviet Foreign Minister Andrei Gromyko to discuss the matter. The Soviet Union, Schmidt told Gromyko, had taken advantage of the world market situation to raise its price on oil sales to West Germany. At the same time, Schmidt insisted that the two nations must come to an energy agreement, stressing long-term cooperation and the importance of a reciprocal partnership. “[R]eliability of future energy supplies was of the utmost importance,” the chancellor said, “and was linked to the reliability of our supplies.”167 If, in other words, the Soviet Union wanted to acquire West German capital goods, supplies, and financial assistance for energy exploration and development, a formal agreement on energy collaboration was necessary.

In late October, Schmidt and Hans Dietrich Genscher traveled to Moscow to meet Brezhnev. Among other topics discussed was the Soviets’ granting of exit visas to ethnic Germans. As a gesture of goodwill to the new West German leader, Brezhnev promised Schmidt that he would grant approximately 3,500 to 4,000 such visas per annum. Yet the high point of the visit was when the two leaders, having discussed energy at great length, signed the first of what would become several economic agreements.

Three of the first five articles of the October 1974 agreement dealt explicitly with West German-Soviet cooperation on the energy question. “The contract parties strive for the expansion and involvement of collaboration between its responsible organizations and businesses,” Article Three stated, “in the production of raw materials and energy in order to secure the provision of raw materials and energy in the coming years.” “Cooperation in the raw material and energy sector,” Article Four added, “shall include the prospecting, exploration, promotion, treatment, transportation and the mutual supply of raw materials and energy.” Article Five stated that development would be grounded in “mutual economic, industrial and technical collaboration.” All of these articles not only mentioned energy but also raw materials.

In addition to the framework for future energy cooperation, Schmidt’s and Brezhnev’s three-day meeting produced more immediate concrete results. From the West German side, one issue of concern had been West Berlin’s ability to withstand the energy crisis. Both sides, however, were able to reach a partial resolution on this matter. The

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West German firm Kraftwerk Union AG proposed building a nuclear power plant that could produce 1300 megawatts of electricity specifically for West Berlin. As part of the trade deal, the FRG agreed to construct such a power plant in the Soviet city of Kaliningrad, which would supply West Berlin with electricity.\(^{170}\) The choice of Kaliningrad, the post-war Soviet name of the old German city of Königsberg that dated from the Middle Ages, had strategic advantages. Given its location as a Soviet enclave, Moscow could directly supply energy to West Berlin, bypassing the GDR and any political fallout that might ensue.

Still, the main trade issue was not West Berlin but the FRG’s energy crisis. To this end, Mannesmann, Ruhrgas AG, and Thyssen worked out another gas-for-pipe arrangement. Modeled after the first and second Soviet-West German pipeline deals (February 1970 and July 1972), this third deal saw the two major West German pipe-making firms, Mannesmann and Thyssen, supply 950,000 tons of large-diameter steel pipe. In return, the Soviets would pay for the pipe through deliveries of 9.5 billion cubic meters of natural gas. The *New York Times* reported that Bonn was “satisfied” with the trade deal.\(^{171}\)

Around the same time, however, the new problem of “compensation credit” or (barter-trade) began to threaten Soviet-West German trade. During his visit to Bonn in May 1973, Brezhnev had championed the idea of barter.\(^{172}\) From the Soviet perspective, barter was a central feature of trade, as the USSR exchanged products with its satellite


\(^{172}\) Zapis’ besedy s deputatom ot HDS Otto Vul’fom, 9 Oct. 1974, RGAE, Fond 413, Opis 31, Delo 6615.
nations frequently. Given that the ruble was not a convertible currency on western markets, barter was even more important for East-West trade from the Kremlin’s perspective. The Soviet Union often paid for Western goods with gold or some form of barter. In exchange for American Pepsi Cola, for example, the USSR bartered Stolichnaya vodka. Thus, in the United States, Soviet barter trade had earned the nickname “vodka-cola.” But barter deals were not a prominent feature of West German trade. Many West Germans disapproved of such arrangements, largely because of the perceived inferiority of Soviet products. Chancellor Schmidt typified this sentiment. In his memoir, he recounted how a cheerful Brezhnev presented him with a Soviet quartz wristwatch. “Unfortunately,” he recalled, “it stopped working after a few days.”

In the context of the trade negotiations, Osthandler Otto Wolff spoke out most vocally against barter’s potential to ruin bilateral trade. Although he congratulated the Soviets on the great strides in economic cooperation over the past few years, he was fearful about the future. As both the president of the German Federation of Chambers of Industry and Commerce and the chairman of the German East-West Trade Committee, Wolff had heard the complaints about barter. At the time, the huge West German chemical firm BASF expressed concerns about fairness and emphasized the potential for problems in calculating payments, implying that the Soviets were apt to cheat through substandard deliveries of machinery and equipment. Thus, Wolff urged the Soviet leadership to find other ways to finance imports.

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175 Zapis’ besedy pervogo zamestitelia ministra tov. Semichastonova I.F. s direktorom firmy BASF P.
At the same time, Schmidt faced a new economic problem that arose concomitantly with the global energy crisis: inflation. Schmidt, like many economists of the time, believed in an economic principle called the “Phillips Curve.” According to this principle, which economists Milton Friedman and Edmund Phelps earlier had challenged and which the phenomenon of “stagflation” later proved incorrect, inflation and unemployment were inversely correlated. If a government wanted to reduce unemployment, according to the Phillips Curve, measures to increase inflation would bring immediate short-term results and vice versa. In general, Schmidt privileged combatting unemployment over inflation.\(^\text{177}\) Early in his chancellorship, though, he was highly successful at preventing inflation.

Amid growing inflation in the West, Soviet Foreign Trade Minister Patolichev and West German Economics Minister Friderichs continued to work on West German-Soviet trade. Friderichs informed the Soviet foreign trade minister that Bonn intended not to grant subsidized export credits for foreign trade because of increasing inflation, a development that had the potential to undermine Osthandel dramatically. Cutting credits was one step in the Schmidt government’s broader anti-inflation initiative. Of course, Patolichev was surprised and concerned about this development, fearing its ramifications for trade. But Friderichs attempted to allay these fears and even suggested that the development actually would promote greater West German-Soviet trade. Bonn was succeeding much more than other nations in checking inflation, Friderichs maintained,

\(^{176}\) Metcentinom, 9 Sep. 1972, RGAE, Fond 413, Opis 31, Delo 6615.

\(^{176}\) Zapis’ besedy s deputatom ot HDS Otto Vul’fom, 9 Oct. 1974, RGAE, Fond 413, Opis 31, Delo 6615.

thus leading to lower prices of goods on West German markets. As a result, West German goods would be cheaper than those from other Western nations that were struggling to combat inflation. Friderichs was correct about inflation. As the following graph shows, West Germany was indeed performing much better than other major Western nations in controlling it.

![Annual Inflation Rate for 1974](image)

**Figure 2:** Inflation Levels for Selected Nations

The Schmidt government’s early success in combating inflation received considerable international attention, as observers predicted that the FRG would reap the

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179 Data from Worldwide Inflation Data, [www.inflation.eu](http://www.inflation.eu). This inflation measure is based on the Consumer Price Index (CPI).
benefits of higher investment and trade. “Curiously, the one leader whom I believe understands the nature of the game, and appears to be playing it to his country’s best advantage is Helmut Schmidt,” the American economics observer Joseph Cacciotti wrote in December 1974. “Schmidt wants a strong D-mark because he understands that a strong currency is the sine qua non for attracting investment…Schmidt grasps the opportunity to encourage petrodollar holders to convert into petromarks.”

West Germany’s stronger economic profile, especially in combatting inflation, had much explanatory power—it actually accounted in part for the emergence of West Germany as the energy-rich Soviet Union’s most important capitalist trading partner in terms of overall volume of trade.

Indeed, to appreciate the value of Osthandel to the Soviets, some important facts need mentioning. For the decade of the 1970s, West Germany was by far the USSR’s largest trading partner among Western nations. In fact, the value of all West German exports to the Soviet Union for the decade was almost as high as total French, Italian, and British exports to the USSR combined. During the decade, West Germany exported $24.1 billion worth of goods to the Soviet Union. The combined value for France, Italy, and the United Kingdom, the Soviets’ second, third, and fourth largest trading partners in Western Europe, was only $25 billion. The value of all American exports to the Soviet Union during the 1970s was $14.7 billion. This figure resulted largely from grain exports because of American restrictions on technology exports to the USSR.

Moreover, West German-Soviet trade was also much greater than Japanese-Soviet trade. As the graph

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showed, Japan’s very high inflation rate hampered trade.\textsuperscript{182} At this time, Chinese-Soviet trade was also exceptionally poor, largely as a result of the earlier Sino-Soviet split. In fact, Moscow’s trade with Beijing fell well below the $500 million mark for almost every year during the 1970s.\textsuperscript{183}

A significant development in \textit{Osthandel} to emerge in the mid-1970s was the trilateral pipeline agreement between the FRG, USSR, and Iran (IGAT-2). This project had its roots during the height of the energy crisis. As far back as December 1973, Soviet Deputy Foreign Trade Minister Manshulo had informed the West Germans that Kosygin and Gromyko were seeking Iranian gas to resell to the West.\textsuperscript{184} At the time, Manshulo had considered a tri-lateral agreement involving West Germany a priority.\textsuperscript{185} By April 1974, Soviet Deputy Premier Vladimir Novikov had informed Friderichs that Tehran

\begin{footnotesize}
\textsuperscript{182} One might expect Japan, given its booming economy and energy needs, to have been a major competitor of West Germany’s in seeking to transform the Soviet economy towards energy exports. Yet that is not really the case for a variety of reasons. Above all, the Soviet energy pipelines built in the 1970s almost all tended to flow westward toward the communist bloc and the West. Thus, the West had a much stronger vested interest in their construction. Although the Japanese in the 1980s began to challenge West Germany's dominance as the USSR's main capitalist trading partner, the effort was a failure, as West Germany held its top position until the fall of the Soviet Union. One of the reasons for West Germany's dominance was the tendency of the FRG to provide more favorable credit terms to the Soviet Union. "As for interest rates," the \textit{Japan Economic Journal} reported in 1980 amid discussions of the Urengoi pipeline's construction, "the West German banking syndicate has reportedly offered an annual rate of 7.75 per cent, far lower than Japan's governmental Export-Import Bank's corresponding offer of 8.5 per cent, a minimum rate permitted under the existing international agreement on such international capital goods exports among the member nations of OECD (the Organization for Economic Cooperation and Development )." See \textit{Japan Economic Journal}, December 23, 1980, p. 3.

\textsuperscript{183} At its height for the decade of the 1970s, Sino-Soviet trade only rose above $500 million for the years 1977-79. This volume paled in comparison to FRG-Soviet trade. For figures, see “The Changing Sino-Soviet Relationship,” CIA Report, U.S. Central Intelligence Agency, NIE 13/11-84, 30 Mar. 1984, 11.


\end{footnotesize}
agreed “in principle” to a gas-line and said that he wished that Bonn would “take the initiative” on the project.\textsuperscript{186}

Beginning in February 1975, much progress occurred on the trilateral gas pipeline involving the Soviet Union, Iran, and West Germany. At the time, Ruhrgas head Herbert Schelberger sent a telegram to Soviet Deputy Foreign Trade Minister Nikolai Osipov, expressing his eagerness to see the project come to fruition. Not wanting the Iranians to dominate the talks, Schelberger first called for two-way negotiations between the Soviet and West German sides to discuss the costs of the pipeline. As a date, Schelberger proposed the first week of March to have such negotiations. Then in April, he suggested, there should be trilateral discussions involving the Iranians. Osipov agreed to Schelberger’s request.\textsuperscript{187} Around the same time, the head of Mannesmann’s export department, M. Hartmann, asked Osipov for a meeting to discuss the important issue of pipe price.\textsuperscript{188}

Success occurred a month later, when a delegation of West German officials and businessmen traveled to Moscow to discuss the trilateral pipeline. The highlight of the visit, Friderichs’s meeting with Novikov, was productive. “We were able to find the solution to all major problems,” the West German delegation reported. During the meeting, a discussion also ensued over a new energy-related project. Kosygin had wanted assistance in developing a major oil-refining facility in the Baltic. The firm VEBA proposed an offer, Novikov reported, which Kosygin found very satisfactory. By

\textsuperscript{187} Telegram, H. Schelberger to N.G. Osipov, 19 Feb. 1975, RGAE, Fond 413, Opis 31, Delo 7748.
\textsuperscript{188} Telegram, M.M. Hartmann to N.G. Osipov, 20 Feb. 1975, RGAE, Fond 413, Opis 31, Delo 7748.
meeting’s end, both sides agreed that talks over this project would occur at the next joint-economic commission in June.\footnote{Memo, Hans Friderichs to Helmut Schmidt, 1 Apr. 1975, FES, Helmut Schmidt Papers, 1/HSAA009026, 2.}

More important, in April 1975 at Tehran, Ruhrgas AG, the Iranian National Gas Company (NIGC), and the Soviet Gas Ministry came to a three-page general agreement to build a gas-line called IGAT II. Mannesmann, along with Thyssen, would provide the pipe for what was then a proposed 500-kilometer-long project.\footnote{Sowjetische wirtschaftliche Grossprojekte, 18 Aug. 1975, AA, 61/117678 (2417).} When the final agreement emerged, though, all three sides committed to the construction of a pipeline (now 1,400 kilometers long) linking the Kangan gas fields of southern Iran to the Soviet border city of Astara, Azerbaijan. Estimated costs were $2.4 billion. The IGAT II pipeline was expected to be completed by 1981, and gas was to flow through it for twenty years.\footnote{Robert G. Jensen, Theodore Shabbad, and Arthur W. Wright (eds.), \textit{Soviet Natural Resources in the World Economy} (Chicago: University of Chicago Press, 1983), 375.}

A month later, the independent West German oil firm Bomin began negotiations with the Soviet oil exporting agency, \textit{Soyuzneftexport}, for major oil and gas contracts. Although Bomin had entered into contracts for Soviet oil before,\footnote{Memo, Pervyi zam. ministir vneshnei torgovli tov. Kuz'min M.R. prinial vladel'ca zapadnogermanskoi firmi Bomin G-Na Shapku, 19 Dec.1973, RGAE, Fond 413, Opis 31, Delo 6915.} Bomin’s leaders now requested to purchase 200 thousand additional tons of petroleum, which it would receive through the Baltic and Black Seas and thus bypass Eastern Europe. At the same time, \textit{Soyuzneftexport} representative I.I. Federov highlighted other petroleum products to pique the interest of Bomin. Of particular importance was AI-93 gasoline, a high-quality unleaded product which was relatively simple and cheap to process. Realizing the
potential for profit, Bomin expressed interest in concluding a contract to buy AI-93 gasoline. Additionally, Bomin signed a contract to purchase sixty thousand tons of diesel fuel for West Berlin.\footnote{Zapis’ besed zam. predsedatel’ia V/O Soiuznefteeksport t. Federova I.I. s direktorom firmy Bomin Broniatovskim, 13-16 May 1975, RGAE, Fond 413, Opis 31, Delo 7748.}

At least in part, such contracts reflected the general improvement in broader European politics induced by the Helsinki Accords (1975). Thirty-five nations had attended the momentous summit in Finland, which produced an unprecedented discourse on the international importance of human rights. More than any event of 1975, the Helsinki Accords reinforced bilateral trade. In fact, economic issues arose in backroom discussions.

In one such meeting, Brezhnev and Gromyko, along with Brezhnev’s personal aide Anatoly Blatov and Central Committee member A. Bondarenko, spoke with Schmidt and Genscher about expanding commercial relations. Concerned about growing Soviet trade deficits, Schmidt informed the Soviet delegation about the importance of balanced trade. Indeed, Helsinki marked the first time that such a concern was expressed. Yet the tone was positive on both sides, as the chancellor suggested that Brezhnev could make up the deficits through increased deliveries of gas and the export of smelted ores from the completion of the ongoing Kursk project, a West German-financed endeavor intended to be the world’s largest steel mill. Schmidt praised Brezhnev’s personal intervention in the project.\footnote{Deutsche-sowjetisches Regierungsgespräch in Helsinki, 31 Jul. 1975, AAPD, 1975, II:1099.} Because of the financial enormity of the project, West German investors had threatened to pull the plug.\footnote{Memo, Kursk-Projekt, 18 Sept. 1973, BA-Koblenz, 102/135253.}
With the trade agreement in place, together with the positive international atmosphere that Helsinki had induced, the Soviets increasingly reported with delight much progress in energy cooperation. Soviet Deputy Premier Vladimir Novikov claimed that trade was “being implemented with complete success.”¹⁹⁶ Both sides spent considerable time and effort addressing energy exploration and development.

“Agreements on the delivery of Soviet natural gas to the FRG and of large-bore pipe and equipment to the gas industry of the USSR are being successfully carried out,” Izvestia reported, bragging that trade had increased significantly over the previous year.¹⁹⁷ Such a development was indeed a testament to the flowering of economic cooperation stemming from the joint economic agreement.

But exactly why, one might ask, did the Soviet Union remain dependent on West German large-diameter pipe? Could the superpower that was the first to put a man in space not produce it itself? Several experts have stated explicitly that the USSR was dependent on imports of pipe for the successful transportation of oil and natural gas.¹⁹⁸ Yet what did it mean to be dependent? Did dependency signify that the Soviet Union was incapable of producing the pipe, or did it mean something else? In reality, according to the best estimates, the Soviets acquired approximately two-thirds of the pipe needed for their oil and gas lines from abroad. “The overall dependence of the Soviet Union on imported oil and gas pipe of above 40 in. diameter has been variously estimated at around

56-68 percent,” one expert has written, adding that “the dependence on imports of wide-diameter gas pipe alone is probably considerably higher.”

The Soviet Ministry of Ferrous Metallurgy (Minchermet) was responsible for the bulk of domestic pipeline production, but it had tremendous difficulty in fabricating high-performance pipe because of technological backwardness, poor innovation and inefficiency, and resource misallocation. More important was the quality of product that the Soviet Ministry of Ferrous Metallurgy actually created. Although Mannesmann produced exceedingly strong double-walled spiral pipe, Minchermet only made single-walled pipe. “As is known,” Pravda even acknowledged, “pipe is the most complex type of rolled metal,” and “the manufacture of two-layer, spiral-seamed pipe is much more difficult.” This Soviet pipe, however, did not please Soviet planners because its excessive heaviness necessitated alloying to be effective, and the metals necessary for that process—nickel and molybdenum—were exceedingly scarce. Not until 1982, with the Novomoskovsk pipe plant in Dnepropetrovsk did the Soviets begin making a serious effort to fabricate high-performance steel pipe. In that year, Soviet pipe-welder B. Ivlev happily announced: “This is the first time that pipe of such strength has been rolled in our country.”

Thus, in the mid-to-late 1970s and the early 1980s, the Soviets had to acquire their pipe elsewhere if they wanted to turn profits from their energy exports. The Kremlin naturally sought West German assistance because the FRG had supplied a staggering 87

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percent of the pipe for Soviet oil lines in the early 1960s before the NATO pipeline embargo of 1963. Besides, the strength of Mannesmann pipe was unmatched in the world. U.S. pipe did not approach its strength. Indeed, according to a Congressional report, the United States did “not produce the large-diameter pipe” that “constituted the USSR’s single most important energy-related import.” In 1980, it is known, Soviet planners did discuss fabricating their own high-performance pipe that could withstand 100 atmospheres of pressure. Yet while the State Planning Committee of the Soviet Union supported such a development, the Soviet Gas Ministry opposed it, deeming it not economically viable. The idea was ultimately dropped.

Not surprisingly, then, Mannesmann was involved in all the major Soviet-West German energy projects. In February 1970, Mannesmann had provided 1.2 million tons of pipe for the first West German-Soviet gas-line constructed during Brandt’s term in office. In July 1972, Mannesmann was again the main player in a natural gas contract valued at “well over 10 billion DM.” In October 1974, Mannesmann had signed another 1.5 billion DM contract to deliver 405,000 tons of pipe in 1975 and 480,000 tons a year later. “European exports to the Soviets, such as Mannesmann pipe, dwarf U.S. exports,” the American periodical Business Week lamented in 1976.

The Broader Effects of Osthandel

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202 Jentleson, Pipeline Politics, 22.
Although it is tempting to label the global oil crisis a jackpot for the energy-rich Soviets, the situation was not entirely bright from the Kremlin’s point of view. The main problem concerned energy provision for Eastern Europe. According to a somewhat common misconception, the Soviet Union always provided its satellite nations with cheap energy. Reality, however, had been much more complex. Before the Arab oil embargo, Eastern Europe had received much of its oil and natural gas from the Middle East. The energy crisis changed the situation. The Soviet Union began to sell oil and natural gas to Eastern Europe according to a new plan called the “Bucharest formula.” This complicated formula, ostensibly derived from the five-year moving average of the world market price for petroleum, was essentially energy subsidization.\(^{207}\) The formula symbolized a new and increasingly important plank in Brezhnevian petro-centrism: the Soviet emphasis on providing the communist bloc with cheap energy in order to keep the bloc afloat economically and politically. To that end, Osthandel took on a new dimension. With the communist bloc in mind, not simply Western Europe, the Soviet Union now sought to exploit West German expertise, scientific know-how, and capital to strengthen its energy-exporting infrastructure.

Against this backdrop, Mannesmann was involved in a project of monumental significance that enabled the Soviet Union to provide oil to Warsaw Pact nations, the so-called *Druzhba* “Friendship” pipeline. This project, which today remains the world’s largest oil pipeline, brought Volga oil to the Oder. Its construction had begun in 1960, and Mannesmann initially had been set to lead a consortium of West German pipe-

making firms in providing 138,000 tons of rolled-pipe for its construction. At the time, Mannesmann had agreed to provide 80,000 tons, Phoenix Rheinrohr AG 52,000 tons, and Hoesch 31,000 tons. But the anti-Osthandel Christian Democrat leadership at the time, in accordance with the wishes of NATO, had implemented an embargo against West German sales of pipe to the communist bloc, thus curtailing Mannesmann’s initial involvement. With the switch to Social Democrat leadership in the 1970s, however, the spirit of Osthandel blossomed. Against this backdrop, Mannesmann now replaced much of the low-quality pipe on the Druzhba pipeline with high-performance pipe. This pipeline allowed the Soviets to export 8.6 to 17 million tons of crude oil yearly to the DDR between 1970 and 1975, and, by 1976, Moscow had expected to export 23 million tons by 1980.208

Besides Druzhba, major West German-Soviet negotiations in the mid-1970s ensued over the Soyuz (Orenburg) pipeline. This pipeline, the construction of which began in 1976 and was completed two years later, was 2,750 km. in length and connected the Urals gas fields to Czechoslovakia. The specific purpose of this Soviet project was to supply communist Eastern Europe, not democratic Western Europe, with natural gas. But although the CMEA-Six nations were the intended recipients of the energy, the Kremlin needed West German supplies to get the project off the ground. Mannesmann did not disappoint and not only provided large-diameter steel pipe for the project but also such “ancillary equipment” as drill pipe and casing. Furthermore, West German firms

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208 Erfolgreiches Zusammenwirken der Volkswirtschaften DDR und der UdSSR, 2 Apr. 1976, BA-Koblenz (913518/6).
provided twenty-two compressor stations for this project. AEG-Kanis, a part of AEG-Telefunken, often provided compressor stations for Soviet pipelines because of the inadequacy of Soviet attempts to produce them. Not until 1981, with the Leningrad Metallicheskii Zavod, did the USSR start to manufacture sufficient compressor stations to meet energy pipeline needs.

Another significant development in the Osthandel of the mid-1970s was the Soviets’ solicitation of West German assistance in acquiring technologies to help themselves produce some of the large-diameter steel pipe necessary for the successful transportation of energy. To this end, the FRG financed an enormous project in the small town of Stary Oskol in the Volga region, an area of the USSR that had once been settled by Palatine Germans. This project was intended to be one step in addressing the main problem that had plagued Soviet steel production: the lack of direct-reduction technology. Between 1973 and 1976, a consortium led by the Dresdner Bank had given communist nations $4.6 billion in loans, more than half of which went to the Soviet Union to build a gigantic complex in Kursk to produce steel from pellets. But with West German assistance, the Soviets constructed their first direct-reduction steel producing center, an enormous electro-metallurgical combine, in what became known as the Oskol project.

In April 1976, the negotiations for this project had begun during a session of the joint

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economic commission. At that time, Berthold Beitz, the head of Krupp, had voiced his strong support for the project.212

Moreover, a salient feature of Soviet trade since its inception, as Brezhnev had envisioned it, had been to acquire West German technology to improve Soviet industry. A major step in this direction occurred in February 1976, when several major West German petrochemical firms agreed to grant licenses to the Soviet Ministry of Foreign Trade to build complexes for the production of polyester fibers and threads. These petrochemical byproducts, seen in everything from plastic grocery bags and film to soda pop bottles, were used in the development of light and heavy plastics. Such internationally respected firms as Hoehst, Krupp-Koppers GmbH, Troisdorf, Dynamit Nobel AG, Friedrich Unde GmbH, and Brenntag AG were the major West German participants in the agreement. In exchange for granting licenses to the Soviet Union, these businesses agreed to purchase Soviet petrochemicals at discounted rates. In addition to methanol, Hoechst and Dynamit Nobel AG sought such crude oil byproducts as dimethyl terephthalate (DMT), para-xylol, while Brenntag bought ortho-xylol and acetic acid.213 After the signing of the agreement, several of the West German petrochemical firms involved sent letters to the Soviet Foreign Trade Ministry expressing satisfaction and a hope for a good future business relationship.214

213 Soglashenie o sotrudnichestve v sozdaniy v SSSR kompleksha po proizvodstvu poliiefirnykh volokon, netei i syr’ya dla nikh u o postavakhkh khimicheskakh produktov i khlopka, 20 Feb. 1976, RGAE Fond 413, Opis 31, Delo 8318.
New Problems in Trade: Debt, Barter, and Energy Diversification

Despite the dramatic expansion of trade, Osthandel nonetheless faced new challenges. The mid-1970s saw some major new features in West German-Soviet trade relations. For the first time, in 1975, the total value of such trade rose above DM 10 billion. As a consequence, West Germany solidified its position as the Soviet Union’s most important Western trading partner in terms of overall volume of trade, an achievement the FRG would maintain until the Soviet collapse sixteen years later. At the same time, the Soviet trade deficit with the FRG also began to skyrocket. During the first eleven months of 1976, the value of West German imports from the Soviet Union was only 38 percent of the previous year’s value.215 The picture, it had become clear, was far from rosy.

The main problem was the rise of Soviet debt. In fact, West German-Soviet trade relations almost stalled in 1976 over this issue. In March, the joint economic commission met to address the matter. First Deputy Chairman of the U.S.S.R. Council of Ministers Nikolai Tikhonov, Kosygin’s deputy, felt compelled to attend the meetings. According to Schmidt, Tikhonov was a “relaxed, friendly man who was always a pleasure to talk with.”216 More important, this elder Soviet statesman was charged with the task of safeguarding Osthandel. At the meeting, he informed Otto Wolff of the importance of West German trade to Soviet economic development, saying that Soviet planners were seeking a “doubling of the volume of goods” exchanged between the two nations

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215 Bericht, Stand der deutsch-sowjetischen Beziehungen vor dem zu erwartenden Breschnew-Besuch, Jan. 1977, FES, Helmut Schmidt Papers, 1/HSAA006688
216 Helmut Schmidt, Men and Powers, 51.
between 1976 and 1980. “Before the 25th Party Congress,” Tikhonov pointed out, “Brezhnev had labeled the Bundesrepublik as one of the most important partners known.” Sympathetic to Tikhonov’s ambitious plans but also realizing that there was a serious problem, Wolff was highly diplomatic about the debt issue. He discussed the importance of the balance-of-trade as a means for the Soviets to reduce deficits and thereby debt. “The responsibility for the deficit was not to be imputed to the USSR only,” Wolff kindly asserted. “The German economy also shares responsibility, even if a little more responsibility would lie on the Soviet side.” Tikhonov listened to the talk about deficits and then broached the issue of “compensation transactions” (barter deals) as a method for the Soviet to pay off debt.217

Around the same time, West German Economics Minister Friderichs traveled to Moscow and Leningrad to discuss trade with Soviet Premier Kosygin, First Deputy Premier Tikhonov, and other officials. Minutes from the discussions show that both sides considered debt a major problem that had the potential to strain Osthandel. Friderichs was not sympathetic to barter arrangements, and there seemed to be no solution to the impasse by meeting’s end. “The question of how the Soviet Union wants to pay for its growing import demand in the future remained without a satisfactory answer,” the minutes record, “even after the financial statements of the meeting.”218

A few months later, West Germans expressed a loss of confidence in the Soviet ability to repay loans, a development that irked Moscow tremendously. In an unprecedented act, Dresdner Bank head Hans Joachim Schreiber, a close friend of

Friderichs, called for the formation of an information clearing house to decrease the
guesswork about the USSR’s debt.\footnote{Quoted in “Communist Borrowing in Western Credit Markets May Total $40 Billion,” \textit{New York Times}, 16 Aug. 1976.} Yet Soviet opinion-shapers blamed conspirators
and “Cold War adherents” for overemphasizing their debt. Some people wanted “to
throw doubt on the purely economic goals and aims of our use of credits,” the Soviet
periodical \textit{Ekonomicheskaya gazeta} reported, “and have even tried to cast aspersions on
the USSR's solvency.” Friderichs was not responsible for this development, the
newspaper insisted, but rather the Christian Democrat opposition. \textit{Ekonomicheskaya
gazeta} even provided a quote that portrayed Friderichs as a supporter of barter. “The
FRG is a very important and worldwide exporter of plant equipment. These are not
commodities that can be sold for cash at any moment,” Friderichs allegedly said. “The
conclusion of such transactions requires long-term credits. The elimination of such
credits would put an end to our exports.”\footnote{A. Dostal, \textit{Ekonomicheskaya gazeta}, 31 (Jul.1977): 21.}

In autumn 1976, despite new debt concerns, the Soviets asked for West German
assistance in the development of a new crude oil refining center in Tomsk, Siberia. This
enormous petrochemical facility, Moscow claimed at the time, would have the processing
capacity of ten million tons of crude oil and would cost approximately 7.5 billion marks.
According to Wolff, the Soviets planned to barter crude oil for the West German
financing of the machine tools and the equipment necessary for the facility’s
construction. Wolff opposed a full-scale barter arrangement, however, claiming that total
barter would put jobs at risk back home in the West German petrochemical industry. To
safeguard domestic jobs, on the one hand, and to compromise with the Soviets, on the
other, Wolff introduced the concept of “limited barter,” making it a new feature of Osthandel. For the construction of the Tomsk project, he pleaded the case for only two to four million tons of crude oil to be used as barter, together with a limited range of other complementary products, such as phosphates and vegetable oils.\textsuperscript{221}

Although appreciative of limited barter arrangements, the Soviets spent considerable energy in promoting as many full compensation (barter) agreements as possible, a development that was Brezhnev’s idea.\textsuperscript{222} The Kremlin’s actions here reveal some interesting possible motives behind Soviet Westhandel. At the most basic level, this development shows that Moscow at least desired to export other products besides oil and natural gas to the FRG. In following this train of thought, barter demonstrated that Soviet economic policy was not entirely bent on developing oil and gas to sell to the detriment of other sectors. It is a basic economic principle that a nation should not depend excessively on the export of one or two products because, should the market value of those products crash, that nation's export economy would be in no position to respond. Instead, economists understand that it is in a nation's best interest to have a diversified export economy so that if problems arise in one sector, the results would not be as devastating. This economic logic is so basic that there is absolutely no reason at all to think that the Soviets did not understand it.

Rather, evidence suggests that the Soviets did indeed realize in the mid-1970s that their export economy was beginning to depend excessively on natural resources and

\textsuperscript{221} Wolff von Amerongen, \textit{Der Weg nach Osten}, 170-71.
\textsuperscript{222} Nikolai Tikhonov, “The Federal Republic of Germany Today is One of Our Main Partners in Mutually Advantageous Business Cooperation with the West,” in N. Tikhonov, \textit{Selected Speeches and Writings} (Oxford: Pergamon Press, 1982), 300.
sought to diversify—only to be rebuffed by the West Germans (the USSR's most important capitalist trading partner). By 1976, Moscow wanted to pay for its imports from West Germany with manufactured goods and chemicals (especially methanol to run German power plants.) “For financial reasons,” Soviet Foreign Trade Minister Patolichev begged, “we are forced to plead ever more for barter deals.”

Soviet Chemicals Minister Leonid Kostandov had also many meetings with major Osthandlers, trying to persuade them to acquire methanol and other Soviet chemicals as forms of barter. Kostandov was so aggressively ambitious in his task that the Osthandlers came to refer to him as “Mr. Methanol.”

From the Soviet side, the problem with trade was not only the restrictions on barter; rather, the decline had also been caused by fewer West German deliveries of steel pipe for energy transportation. A Soviet memorandum from August 1977 highlighted this development. Soviet Deputy Foreign Trade Minister Aleksei Manshulo informed V.V. Chistov, Tikhonov’s secretary, of the bleak situation. During the first half of 1977, West German exports to the Soviet Union declined by 13 percent. This reduction, the memorandum claimed, resulted from a reduction in West German deliveries of large-diameter steel pipe for Soviet energy exports. At the same time, the Soviet memorandum indicated that Mannesmann head Egon Overbeck, who planned to be in Moscow in October to attend the “Kemiya -77” conference, wished to meet personally with Tikhonov.

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224 Wolff von Amerongen, Der Weg nach Osten, 124-25.
225 Memo, V.N. Mashura to A. Manshulo and V.V. Chistov, 29 Aug. 1977, RGAE, Fond 413, Opis 31, Delo 9073.
Given the centrality of energy and the special importance of Mannesmann to Osthandel, the Soviet leadership immediately sought to honor the request. In fact, less than a week later, Overbeck met with Tikhonov and Osipov. Surprisingly, despite growing Soviet debt, the Mannesmann leader actually informed Tikhonov of his intention of increase business relations. Overbeck expressed a desire to develop new areas of cooperation, particularly in machine building, as well as in the production of pipe from plastic and synthetic materials. The West German businessman also expressed preparedness to buy Soviet products and to promote those products on Third World markets. Overbeck emphasized that Tikhonov’s visit was helpful and would have significance for future developments. 226

Around the same time, the domestic energy politics of the Soviet Union began to have important implications for Osthandel, as the Kremlin experienced internal debates over energy provision for the future. A cause of this development was the structure of the Soviet ministerial system itself. Although the governments of many nations often had anywhere from a dozen to perhaps a couple dozen of ministries, the Soviet Union was in a league of its own bureaucratically, with scores of ministries. In a system with so many ministries and limited resources, each ministry had to compete with others for government attention, investment, and financial assistance. At the same time, the mid-to-late 1970s saw many people worldwide sing the praises of nuclear power, despite the tragedies later associated with such energy. For these reasons, it was not surprising that officials from ministries outside the gas and oil industries often advocated a sharp increase in the use of other forms of energy, especially nuclear power and coal. Thus,

226 Memo, V.N. Mashura to N.S. Osipov, 8 Sep. 1977, RGAE, Fond 413, Opis 31, Delo 9073.
Minister of Coal Boris Bratchenko fiercely competed with Boris Shcherbina, the minister of construction of petroleum and gas industry enterprises.\textsuperscript{227}

Against this backdrop, a struggle over energy planning emerged within the highest ranks of Soviet power. On the one side were those led by Brezhnev and his protégé Tikhonov, who privileged investment in hydrocarbons (oil and gas) above anything else. On the other side were officials led by Kosygin and Gosplan head Baibakov, who championed more diversified investment in nuclear energy and coal. In fact, throughout 1975 and 1976, Kosygin had played a decisive role in the creation of a long-range nuclear and coal program.\textsuperscript{228} And as late as September 1979, before the West Germans, Kosygin touted nuclear energy as a necessary development for medium- and long-term planning. The Soviet premier called for more nuclear power plants west of the Urals because “petroleum was too valuable to be burned.”\textsuperscript{229} But Brezhnev, who increasingly decided to take the reins on energy policy personally, largely curtailed long-term nuclear and coal programs in order to devote more attention to the oil and gas industries. Tikhonov became Brezhnev’s attack dog, criticizing the coal industry.\textsuperscript{230}

The reasons for the Brezhnev/Tikhonov and the Kosygin/Baibakov factions were complex. No doubt, the personal history between Brezhnev and Kosygin influenced the situation. Although both men had conspired to overthrow Khrushchev, they had competed with each other for party influence. If one advocated one position, it was not uncommon to see the other take the diametrically opposite one. Although Brezhnev held

\textsuperscript{228} Gustafson, \textit{Crisis amid Plenty}, 31-35, 321.
\textsuperscript{229} Aufzeichnung des Ministerialdirigenten Ungerer, 21 Aug. 1979, AAPD, 1979, II:1163.
the reins of power, he was also jealous of Kosygin, who was more popular both in the party and among the citizenry of the Soviet Union.231

More important, Brezhnev was convinced of the potential of the nearly unlimited resources of the Tyuman region in west Siberia. A major reason, mentioned in the previous chapter, was his belief that oil and gas sales abroad were “the keys” to improving the Soviet economic, political, and geostrategic position in the world.232 Besides, the Western nations wanted Soviet oil and gas, not the other forms of energy that Kosygin was championing. It only made sense, then, to give the consumers what they wanted. At the same time, Soviet officials fed Brezhnev’s vision. More than any other person, Boris Shcherbina had the most impact in shaping the general secretary’s position. As the minister of construction of petroleum and gas industry enterprises, Shcherbina constantly emphasized the enormous resources in the region. Not only that, he announced that building the region would require much effort. “To be sure,” Shcherbina argued, “all of this demands the solution of a broad range of tasks—technical, economic, and social, and the efforts of many ministries and departments.”233

In accelerating the Tyumen region’s oil and gas production, Brezhnev was in a position to allocate resources to many ministries and thereby please a wide range of party political players. Doing so was important for Brezhnev, especially since 1977 saw a new Soviet constitution. The need to consolidate and maintain personal power was more

231 Jonathan Haslam, Russia’s Cold War: From the October Revolution to the Fall of the Wall (New Haven: Yale University Press, 2011), 219.
urgent than ever before. Thus, in a December 1977 meeting of the Plenum of the Central Committee, Brezhnev endorsed the dramatic intensification of oil and gas production in Tyumen. Five months later, the general secretary gave an important speech that demonstrated his commitment to the development of the Soviet oil and gas industries. There was no talk of Kosygian energy diversification; rather, Brezhnev’s emphasis was on the glories of “black gold”:

Let me discuss just one such region here. Its importance for the homeland’s future is growing day by day. I have in mind Western Siberia, or, more precisely, Tyumen. In only ten years we have transformed this taiga region into the country’s main petroleum base. A large-capacity gas and chemical industry is being developed there now. The Tyumen Province landscape is no longer characterized by forest and deer paths but by young cities, oil and gas fields, factories, railways and highways. And on what a scale! Just think, comrades: A territory of one million square kilometers along the Ob is being economically developed and populated. This approximately equals the areas of Spain, Italy and Britain taken together. Yes, we boldly invested enormous sums of money there. And we were not mistaken. The expenditures were justified. Today Tyumen supplies almost half of all Soviet petroleum and large amounts of gas. A few days ago the Party Central Committee congratulated Western Siberia’s oil workers: They gave the homeland their billionth ton of petroleum. This is a great labor victory. Honor and glory to our northern extractors of black gold!

That Brezhnev stressed here the honor and glory owed to the workers showed the importance of oil development in his thinking. Despite his colorful use of language, the effectiveness of which likely was hampered by his speech impediment, Brezhnev’s message was clear. Tyumen had emerged as the major energy center of Siberia, and the energy-rich region held the keys to future progress. In addition to oil, there were vast

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234 Ibid., 3.
amounts of gas in the region (as much as 12-13 billion cubic meters). The possibilities seemed endless.

Still, from the West German side, there was a major change. In October 1977, West German Economics Minister Friderichs resigned his post in order to become Dresdner Bank board spokesperson after the murder of the previous spokesman Jürgen Ponto. This decision revealed much about the kind of person Friderichs was. At the most basic level, it showed his flexibility, moving from public office to the private sector. At a deeper level, the decision perhaps demonstrated the limits of his commitment to government service. The lure of riches and the prestige of the bank world seemed to have prevailed.

Friderichs’ successor as economics minister, Otto Graf Lambsdorff, shared both similarities and differences with his predecessor. As for similarities, both Lambsdorff and Friderichs were Free Democrats. More interesting, in the mid-1980s, each was subject to charges of corruption. The differences, however, were significant. Lambsdorff was much more loquacious and quarrelsome. In fact, Soviet Foreign Trade Minister Patolichev sometimes became stern with him. “We will not argue,” the older Soviet official once told Lambsdorff. The most important difference between Friderichs and Lambsdorff, however, was economic philosophy. Like Friderichs’ predecessor Karl

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Schiller but unlike Friderichs himself, Lambsdorf believed in economic integration and sought to promote integrative trade structures for the promotion of Osthandel.240

In May 1978, Lambsdorff held discussions with Tikhonov and Patolichev that revealed much about the growing lack of diversification with regard to the USSR’s export economy. At the meeting, Patolichev informed Lambsdorff that “nobody should look at the Soviet Union as a land only of raw materials.” Patolichev remarked that he was “not opposed to raw materials, for example, supplying natural gas” but added that the Soviet Union had much more to offer. There was a “large-range of semi-finished goods,” the Soviet Foreign Trade Minister insisted, that the USSR could provide the West Germans, including machinery and products derived from wood such as pulp and paper. “The USSR,” Patolichev insisted, “was prepared to be more flexible.” Yet Lambsdorff did not seem enthusiastic, warning that the West German business community would not support such a move. Although “one does not intend to import only raw materials,” the West German Economics Minister replied, large quantities of barter and compensation credit for Soviet goods would be a source of trouble for West German producers and unions. 241

The major Osthandlers demonstrated their power by rejecting Soviet manufactured goods and chemicals as forms of barter. In fact, some key West German representatives on the joint economic commission considered barter a grotesque sign of backwardness in a sophisticated world economy increasingly characterized by monetary interconnectedness. Krupp’s Beitz condemned talk of barter, noting the shoddy quality

240 This point will become clear through development later in this chapter.
of Soviet products. “Osthandel is approaching the barter commerce of the Stone Age,” he warned, “clubs for bone, bone for furs, and skins for stone axes.”

Although they might seem harsh, Beitz's words were somewhat restrained compared to what other Osthandlers had to say. One West German chemical executive even went so far as to announce that “trade has gone about as far as it can for the time being.” Wolff's comments on the matter made it into the Washington Post. “There are limits to such compensation deals,” Wolff said bluntly.

Insofar as the Osthandlers agreed to barter arrangements, they called for the Soviets to barter oil or gas. Wolff earlier had established this precedent in the gas-pipe deal he worked out in 1970. That pipe deal was paid for, in essence, through Soviet gas deliveries. It is important to note that Soviet goods were not floated on West German markets to determine whether there was a demand for them or not. Rather, the Osthandlers on the joint economic commission like Wolff and Beitz, along with Economics Minister Lambsdorff, were the agents who decided whether or not to accept barter agreements. This fact is important because of what it reveals about the Soviet Union: it shows that the Kremlin in the mid-to-late 1970s made an effort to diversify their export economy but was unsuccessful.

Almost paradoxically, despite debt concerns and the inadequacy of barter, West German-Soviet trade not only continued but actually intensified as the decade drew to a close. The first indication that trade would persist came in January 1978, when Bonn guaranteed more loans to the Soviet Union for pipeline construction. A consortium of banks consisting of the Dresdner Bank, Commerzbank, and the Westdeutsche Landsman

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Bank agreed to provide the two major Soviet import agencies, *Promsyrioimport* and *Maschinoimport*, with DM 705 million to finance various energy industry-related projects. Specifically, these Soviet agencies received DM 550 million to purchase pipe from Mannesmann and Thyssen, as well as DM 50 million for other materials.\(^{244}\)

After concluding the pipe contact, Lambsdorff and Patolichev met to discuss long-term energy goals. Patolichev indicated that the FRG was buying more Soviet oil and suggested that West Germany lacked space for the construction of new power plants. As a solution, the Soviet foreign trade minister stated that the underway Tomsk project would allow the FRG to derive much needed energy products from oil. Not only that, the Oskol project would indirectly help the situation. In response, Lambsdorff approved of these positive developments. At the same time, he expressed concern about Moscow’s balance of payments and bluntly told Patolichev that the Soviet Union should “enrich its compensation position.” West German firms, Lambsdorff warned, would simply not accept any kind of Soviets chemicals—they desired oil, natural gas, phosphates, and vegetable oils.\(^{245}\)

Despite the balance-of-payments issue, *Osthandel* continued to thrive. In fact, in May 1978 in Bonn, Brezhnev and Schmidt signed a long-term economic agreement that called for cooperation for twenty-five years. This agreement was unprecedented, and Schmidt even told Brezhnev that “there was no parallel in the world” for it. Noting the great progress in relations, Gromyko and Genscher indicated that a treaty of this sort

\(^{244}\) Hermes Kreditversicherungs-Aktiengesellschaft an die Botshaft der Bundesrepublik Deutschland (Moskau) AA, 32/122518 (1933).

\(^{245}\) Zapis' besedy pervogo zamestitelia predsedatelia sovmina SSSR t. Tikhonova N.A. i ministra vneshei torgovli t. Patolicheva N.S. s ministrom ekonomiki FRG O. Lambsdorffom, 5 May 1978, RGAE,Fond 413, Opis 31, Delo 9655.
would not have been possible ten years before. Meanwhile, Lambsdorff called the natural
gas-pipe business “an excellent example of Soviet-German economic cooperation.”

Tikhonov was estatic: “The agreement is really an excellent document that has opened
great possibilities for a favorable development of economic relations between our
countries for the intended period of twenty-five years.”246 Such expressions demonstrate
exactly how much economic cooperation had been achieved in the era of Ostpolitik, even
though it may have seemed counterintuitive to increase trade amid new problems such as
Soviet debt.

Significantly, there were West German political motives behind the seemingly
counterintuitive action of intensifying FRG-USSR trade despite Soviet debt, as evidenced
by various statements from FRG officials. Schmidt insisted that Brezhnev’s motive was
“in part of an economic nature,” while, for West Germany, Osthandel was driven by
“purely political interests.”247 Schmidt never liked to discuss West German-Soviet
economic relations with U.S. President Jimmy Carter, perhaps because of what he
believed were the latter’s controlling behavior and unmitigated arrogance.

Unsurprisingly, U.S. records fail to reveal whether Schmidt had some broader political
strategy. However, Schmidt did occasionally discuss Osthandel with British Prime
Minister James Callaghan. A month before Brezhnev and Schmidt signed the long-term
economic agreement, Schmidt informed Callaghan of his desire to “engage” the Russians
in long-term trade to foster “a greater Soviet dependence upon European supplies.” Such

247 Helmut Schmidt, Die Deutschen und ihre Nachbarn: Menschen und Machte II (Berlin: Siedler,
1990), 448.
an action, Schmidt insisted, would result “in more European influence” on Moscow’s policies.248

Otto Wolff has corroborated that making the Soviets dependent on West Germany for energy development was a key effect of Osthandel. Years later, during a speech before the Bundeswehr-Führungsakademie in January 1986—at the same time as the global oil price collapse was intensifying and beginning to harm the Soviet economy—Wolff made a revealing comment:

I think, and this is indeed the case in world trade, that trade creates total dependencies...The best example here is again the natural gas business. What noise was made because of the supposedly large dependence of the Federal Republic on Soviet natural gas. None of this happened. On the contrary! The Soviets depend more on the deliveries for western foreign currency revenue, than we require Soviet natural gas.249

Although Wolff’s words fail to indicate any overarching plan to make the Soviets dependent on West German capital goods, they show that this leading Osthandler understood that trade was having exactly that effect on Moscow.

Tellingly, Economics Minister Lambsdorff also had an integrationist philosophy of economics that reinforced Soviet dependence on West Germany for energy development. In May 1979, he laid out this philosophy to the new Soviet ambassador, Vladimir Semyonov. Both nations, Lambsdorff asserted, should agree in their economic relations to three principles: continuity, a departure into new dimensions, and increasing international integration. As far as Lambsdorff was concerned, all three principles were

248 Prime Minister's Meeting with Chancellor Schmidt at Chequers on Monday, 24 Apr. 1978, PREM 16/1655.
geared toward one issue: greater energy cooperation. Continuity would entail building on the recent history of West German-Soviet cooperation in solving the world energy problem. A departure into new dimensions simply meant that the world energy problem had created the need for new structures. Increasing international integration stemmed from the realization that all nations shared a “common responsibility” for one another.250 “That their economic problems are ours and our economic problems are theirs,” Lambsdorff reported, “is an insight that has been expressed only fairly recently on both sides.”251 Thus, an integrationist economic philosophy predisposed Lambsdorff to promote Osthandel, even when there were such bumps in the road as Soviet debt issues.

Despite Lambsdorff’s lofty idealism and talk of integration, Bonn also had a much more important reason to encourage FRG-Soviet energy cooperation: the new energy crisis. After Ayatollah Ruhollah Khomeini came to power in Iran as the leader of the new Islamic Republic, the second major energy crisis ensued in the United States and Western Europe. Throughout 1979, Iran sharply curtailed oil exports to the West. Although Saudi Arabia and other OPEC nations, as well as Mexico and Venezuela, collectively increased oil sales by approximately three million barrels per day to offset Iran’s production decline,252 Western Europe and the United States still experienced panic. Equally frightening for the FRG were the implications of the Iranian Revolution.

252 Memo, Lambsdorff to Schmidt, 2 Apr. 1979, Helmut Schmidt Papers, 1/HSSA009020.
for Osthandel. The fanatical new Iranian leader reneged on the trilateral IGAT II gas agreement.  

Amid the new energy crisis, the Schmidt administration was forced to take steps to augment the FRG’s energy supply. To this end, Lambsdorff recommended the exploration of oil in the North Sea. The West German oil prospecting firm Deminex, he proposed, should receive government support to search for petroleum with the help of Norway. Lambsdorff even went so far as to suggest that Bonn share research and technology with the Norwegians. In principle, Schmidt supported Lambsdorff’s recommendation. The chancellor had West German Minister for Research and Technology Volker Hauff travel to Norway to discuss cooperation in energy exploration.

For the Soviets, Mannesmann was to play an increasingly significant role in bilateral trade, given the range of energy-related products the firm produced. In October, Soviet Deputy Foreign Trade Minister Osipov and Overbeck agreed that a diversified product range made Mannesmann particularly important for future trade. An especially attractive feature was the firm’s growing eagerness to produce not only the pipe but also the other essential products necessary for pipeline construction. In addition to supplying more than six million tons of large-diameter pipe, Mannesmann had exported substantial quantities of oil pipe accessories, including casing, drill pipe, fittings, and welding

253 Cheryl Benard and Zalmay Kahlilzad, Iran’s Islamic Republic (New York: Columbia University Press, 1986), 175.
255 Letter, Volker Hauff to Helmut Schmidt, 30 Mar. 1979, FES, Helmut Schmidt Papers, 1/HSAA009020
electrodes. At the same time, Overbeck pointed out that his firm was working out the necessary credit issues to allow Mannesmann to supply the Russians with between six hundred and seven hundred thousand tons of pipe over the next year.256

More important, the Overbeck-Osipov talks formed the basis of a monumental future development for Osthandel: the creation a huge new gas-line directly linking the Soviet gas-fields of western Siberia to the FRG. This project, which came to be known as the Urengoi pipeline, became the single most costly joint East-West project during the Cold War. The gas-line was the defining achievement of Osthandel in the early 1980s and will be the focus of the next chapter.

It is appropriate, however, to close this chapter by highlighting Osthandel’s impact on the Soviet export economy during the decade of the 1970s alone. Statistics show exactly how transformational West German trade was for the Soviet export economy. Amid the first energy crisis, the volume of West German-Soviet trade increased dramatically. In 1970, 1975, and 1980 mineral fuel exports (almost exclusively natural gas and oil) to West Germany constituted 28.1 percent, 59.1 percent and 75.7 percent of total Soviet exports to the FRG respectively, showing the absolute predominance of energy resources as the major export by the end of the decade. These numbers topped 80% in the 1980s. By contrast, in 1970, 1975, and 1980, Soviet exports of manufactured goods to West Germany constituted 21.9 percent, 10 percent, and 7.2 percent of the USSR's total exports respectively, demonstrating a sharp decline. As gas

and oil exports rose in significance, manufactured goods simply fell in relative importance.

The increasing Soviet emphasis on the export of oil and natural gas amid the energy crises marked a dramatic change with the past. Just because the USSR always had possessed oil and gas beforehand did not mean that nation had done a good job at exporting such energy sources. Not only the infrastructure necessary for transporting such resources but also the appropriate political climate to create that infrastructure had been absent. The value of Soviet exports of manufactured goods in 1970 was almost as high as exports of natural resources. To say that this situation had changed by the end of the decade is certainly an understatement. By 1980, the Soviets clearly had put all their export eggs into one basket: fuel sources.

Although the statistics on the next page address only the evolution of West German-Soviet trade, it is important to examine the data relevant to the broader Soviet export economy. The data for West Germany agree with the data for Soviet exports to the West broadly speaking and reveal the USSR’s snowballing lack of export diversification. According to political economist Marie Lavigne, energy exports had accounted for 34 percent of total Soviet exports to the West in 1973; however, these exports rose to 80 percent by 1980. Economist Friedemann Müller has put forth similar figures. In 1982

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and 1983, he points out, energy exports constituted 78 percent of all Soviet exports to Western nations.²⁵⁹

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Table 1: West German-Soviet Trade by Commodity²⁶⁰


²⁶⁰ Data from OECD, Trade by Commodities, Series C.
Acquiring a percentage share figure for Soviet energy exports to communist Eastern Europe difficult because Moscow stopped listing total energy exports in its official statistics after 1976 (the above scholars’ statistics derive from Western sources). Nevertheless, scholars know that a major increase in Soviet energy sales to the communist bloc also occurred in the 1970s. Astonishingly, according to R. Dietz, such Soviet net exports to the CMEA Six were fourteen times higher in 1983 than in 1972.261

That the Soviets came to lack economic diversification may not come as a surprise. Today, scholars and lay observers alike who are interested in international business understand the centrality of energy to the Russian export economy. Yet contemporary observers should not superimpose knowledge of present-day facts onto the Soviet economic situation of the past. The situation in the early 1970s had been strikingly different before the transformation that Osthandel helped make possible. In fact, as Russian economist Stanislav Menshikov writes, the Soviet export economy actually had considerable diversification before the first energy crisis. Not only did the USSR sell hardly any gas abroad but oil exports paled in comparison to other categories of Soviet exports:

In 1970, the Soviet Union exported 96 million tons of oil and petroleum products…but world market prices at that time were low, and the share of fuel in our exports was only 16 percent--less than that of machinery, equipment, ores, and metals. In other words, Soviet exports were more diversified and less susceptible to world market fluctuations and crashes.262

*Osthandel* was of monumental importance in helping to initiate the transformation of the Soviet export structure that began in the 1970s not only because the FRG emerged

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262 Menshikov, *Catastrophe or Catharsis*, 224.
as a new major importer of Soviet oil and gas, but also because of the nature of West German exports, which enabled the USSR to develop the infrastructure to transport such energy resources. As the testimonies of Schmidt and others attest, the Soviet leadership was concerned with economic expansion more than strategic issues between the two energy crises. As 1980 rolled around, Bonn and Moscow’s relationship was set to continue much the same way it had for the previous five years. Economic cooperation, of course, would be centered on energy. As the next chapter will show, the early 1980s saw a rapid acceleration of West Germany’s role in the exploration and augmentation of the Soviet energy sector, a development that would come to strain U.S.-German relations and produce one of the most notorious conflicts within NATO’s history.
CHAPTER 3

THE URENGOI PIPELINE: A THORN IN WASHINGTON’S SIDE

As 1980 began, Bonn increasingly emphasized its need for a secure energy source. Two major oil crises during the previous decade had underscored the precarious nature of relying on Middle East oil producers. OPEC’s ability to curtail oil flow had become an albatross hanging over the neck of Europe. Thus, greater energy diversification had become more important than ever. Against this backdrop emerged one of the most monumental developments in Osthandel’s history: the decision by Bonn and Moscow to build an enormous natural gas pipeline that later became the single most costly joint East-West trade project of the Cold War.

Although it was only a partial solution to the energy problem, the Urengoi pipeline produced a sharp deterioration in U.S.-West German relations. American policymakers feared that Moscow would now use energy as a lever to shape West German foreign policy and weaken NATO as well. Consequently, Washington broke from its previously permissive position on USSR-FRG trade and embarked on a fierce campaign to halt the pipeline’s construction. However, instead of weakening Osthandel, U.S. actions actually produced the exact opposite effect. In formulating their responses to Washington, Bonn and Moscow developed a stronger commitment to increase trade and came together to condemn American meddling. The eventual West German and Soviet success in reversing U.S. actions revealed the limits of American control over its ally’s political and economic policies.
The Pipeline’s Origins

Given the considerable expansion of USSR-FRG trade over time, West German Chancellor Schmidt believed that Soviet oil and natural gas could contribute to Bonn’s program of energy diversification. In the spring of 1980, Economics Minister Lambsdorff reinforced Schmidt’s outlook by informing the chancellor that OPEC would likely continue to increase oil prices throughout the new decade.\(^{263}\) Schmidt was prepared to build on the Overbeck-Osipov talks (October 1979)\(^{264}\) to create a major gas-line that would enable the Soviet Union to supply unprecedented volumes of energy to the FRG and Western Europe more broadly.

The Soviet side also wanted to expand natural gas sales in part because gas extraction had risen to unprecedented levels, thus making exports an attractive source of hard-currency income. In 1980, the suggested maximum level of annual gas extraction set forth in the Soviet five-year plan, 435 billion cubic meters, was easily surpassed. Soviet Gas Minister S.A. Orudzhev now called for and predicted even greater levels in the future, as much as 670 billion cubic meters by 1985. Specifically seeking the “acceleration” of gas production from the recently developed “gigantic Urengoi deposits,” Orudzhev foresaw between 250 and 270 billion cubic meters of gas from this source alone. “‘Blue gold’ must continue to be an important principle behind all our economic and social activity,” Orudzhev announced, echoing what Brezhnev had said earlier.\(^ {265}\)

\(^{263}\) Letter, Otto von Lambsdorff to Helmut Schmidt, 14 Mar. 1980, Helmut Schmidt Papers 1/HSAA009020
\(^{264}\) Zapis’ besedy zamestitel’ia ministra vneshnei torgovli t. Osipov N.G. s predsedatelem pravleniia firmy Mannesmann, 9 Oct. 1979, RGAE, Fond 413, Opis 32, Delo 258.
### Table 2: Soviet Production of Natural Gas, Major Areas of Production

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<tr>
<td>USSR</td>
<td>198</td>
<td>289</td>
<td>435</td>
<td>465</td>
<td>500</td>
<td>630</td>
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<tr>
<td>West Siberia</td>
<td>9.3</td>
<td>36</td>
<td>156</td>
<td>190</td>
<td>230</td>
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<tr>
<td>Urengoi</td>
<td>X</td>
<td>X</td>
<td>50</td>
<td>81</td>
<td>X</td>
<td>250</td>
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<tr>
<td>Medvezhye</td>
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<td>71</td>
<td>71</td>
<td>X</td>
<td>71</td>
</tr>
<tr>
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<td>16</td>
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<td>Oilfield gas</td>
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<td>110</td>
<td>109</td>
<td>X</td>
<td>120</td>
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<tr>
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<td>82</td>
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<td>X</td>
<td>37</td>
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<td>X</td>
<td>37</td>
</tr>
<tr>
<td>Others</td>
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<td>143</td>
<td>121</td>
<td>116</td>
<td>X</td>
<td>102</td>
</tr>
</tbody>
</table>

In addition to gaining hard currency from Soviet exports, Brezhnev sought to reap political rewards by increasing the sale of natural gas to Western Europe. In a speech in October 1980, the Soviet leader emphasized the jobs that gas extraction would generate.

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He noted not only the sectors directly related to gas production but also those under the supervision of the Ministry of Power Machinery, the Ministry of the Shipbuilding Industry, the Ministry of Chemical and Petroleum Machinery and even the Ministry of the Aviation Industry. As mentioned in the previous chapter, Brezhnev’s proclivity to gain favor with Soviet officialdom was part of his broader strategy to maintain his personal power. By contrast, Kosygin and Baibakov had continued to champion investments in new forms of energy, especially nuclear energy, that were less labor intensive and thus less apt to generate the broad appeal of Brezhnev’s strategy.

According to a secret Soviet protocol, Brezhnev was so focused on energy development that he created a special commission for the preparation of the energy program during the 26th Party Congress. At that congress, the general secretary emphasized the importance of energy for the Soviet future. More important for Osthandel, he singled out the experience of West Germany as an energy purchaser and suggested that the FRG could be an outlet through which the Soviet Union could supply more gas to the rest of Western Europe. Although Brezhnev was silent on his motives, the world market price of energy no doubt shaped his thinking. Between 1979 and 1980, two oil price hikes on the world petroleum market had occurred, resulting in a cumulative rise from $12 per barrel to $36 per barrel. Given the dramatic rise in oil prices after the Iranian Revolution, the potential for profit was unprecedented.

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268 Protokol no. 3 zasadaniu ekonomichesko sobeta pri posle SSSR v FRG, 15 Dec. 1980, RGAE, Fond 413, Opis 32, Delo 977.
269 Jacques Cremer and Djavad Salehi-Isfahani (eds.), Models of the Oil Market (Amsterdam: Harwood
In June 1980, Brezhnev and Schmidt held formal talks to discuss the construction of the pipeline, which later came to have several names depending on the observer. The project was called the Urengoi pipeline, the Urengoi-Uzhgorod pipeline, the Urengoi–Pomary–Uzhgorod pipeline, the Yamal pipeline, the Siberian pipeline, the West-Siberian pipeline, and the Trans-Siberian pipeline. The Soviet Union now hoped to sell natural gas not only to West Germany but also to France, Italy, the Netherlands, and Belgium. The German periodical Der Spiegel estimated that the proposed pipeline, if constructed, could deliver forty billion cubic meters of natural gas annually by 1984.

By November, Schmidt and Brezhnev at last reached an agreement. West Germany would provide the Soviet Union with the pipes and turbines, as well as DM 10 billion, to finance the construction of the 3,000-mile pipeline that would link the Urengoi gas fields in Siberia to the city of Uzhhorod, Ukraine. Bonn insisted on diverting the route away from East Germany out of a fear that its communist leadership might use a political crisis to turn off the valves. A very pleased Brezhnev praised the agreement, assuring Der Spiegel that “Germany is today the leading trading partner with the Soviet Union among Western nations.”

But just as Brezhnev and Schmidt were about to sign the agreement, the Economist divulged some of the details and raised questions about the ramifications of Bonn’s dependence on Soviet gas:

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270 For the sake of simplicity, I will call the pipeline the Siberian pipeline and the Urengoi pipeline, the latter of which was the common term in the Soviet Union.
272 “Pandora’s Pipeline,” The Economist, 29 Nov. 1980, 49.
273 Quoted in Der Spiegel, 2 Nov. 1981, 35.
Is it sensible for the West Germans to near-double their dependence on the Soviet Union for natural gas, from about 16% now to 30% of their needs in four or five years’ time? Under a deal about to be signed, West Germany will provide the pipes, the turbines and much of the money to bring the gas more than 3,000 miles from Siberia. The gas will then be pumped into a grid to boost supplies not only to West Germany but also to France, Italy, Ireland and Belgium, and later perhaps to Spain, Greece and Sweden. All this makes it probably the biggest contract ever negotiated between eastern and western Europe.  

Nonetheless, several governments hastened to sign contracts with the Soviet Union to receive gas from the pipeline. As the largest recipient, West Germany would receive 10.5 BCM of gas annually. France, the second largest recipient, would get 8 BCM per year, and Austria 1.5 BCM. Although Spain, the Netherlands, and Belgium did not conclude an agreement at this time, each left open the possibility of doing so at a later time. The Soviet press, which estimated the pipeline’s cost at approximately $15 billion, labeled the project “the deal of the century and the cause of peace.”

Washington: A Look Back

Although the Soviets had called the pipeline a cause for peace, Washington had a different perspective. Most West European leaders, including the UK’s Conservative Prime Minister Margaret Thatcher, were not opposed to the new turn to the Soviets for energy provision. Yet the United States was apprehensive over the prospect of West Germany’s providing a grid for Moscow to supply energy to NATO members. Simply put, American policymakers, especially those in the incoming Reagan administration,

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274 “Pandora’s Pipeline,” The Economist, 29 Nov. 1980, 49.
277 Thatcher would later criticize Ronald Reagan’s anti-pipeline position largely because she claimed that it hurt the ability of John Brown, a Scottish company, to sell turbines.
feared that the Kremlin could use energy provision to wield unprecedented influence over Western Europe.

To understand this issue, however, requires a broader analysis of the evolution of U.S. perceptions and attitudes toward Osthandel since its inception during the Nixon presidency. After all, Washington’s opposition to the Urengoi pipeline marked a dramatic change, not continuity, with the past attitudes of the détente presidents toward West German-Soviet trade. Regardless of the presidential administration, certain beliefs and convictions had governed U.S. official perceptions of and reactions to Osthandel. A belief, in this sense, must be distinguished from a conviction, given the qualitative difference between the two terms. The latter carries an intense sense of “rightness” in action that the former lacks. An emerging belief, though not a conviction, that trade was an incentive for Soviet participation in détente largely explained Richard Nixon and Gerald Ford's efforts to expand U.S.-Soviet trade, as well as their relatively relaxed outlook toward West German-Soviet economic relations.

By contrast, Jimmy Carter's administration brought a significant change. The president’s deep convictions that economic sanctions were necessary to force the Soviets to improve their human rights record and that America’s allies should follow its lead ushered in a period of considerable tension between Washington and Bonn. After his election in November 1980, Ronald Reagan added another factor: an insistence that Western Europe not become dependent on Soviet energy. The Reagan administration’s aggressive actions in attempting to prevent the construction of the Urengoi pipeline became the most contentious event in Osthandel's history.
Earlier, the Nixon administration had largely given West Germany a free hand to begin strengthening its economic relations with Moscow. As one scholar has argued, Nixon's preoccupation with the Vietnam War explains the speed with which the FRG and the USSR were able to conclude an economic agreement in August 1970 and why Osthandel caught Nixon and Kissinger off guard.\textsuperscript{278} Had Washington seriously opposed West German-Soviet trade, it could have applied great pressure on West Germany to change its policy. Yet the Nixon administration failed to do so. In fact, the White House came to think that the United States should follow the West German example and expand U.S. trade with the Soviets for commercial reasons and to strengthen détente.

At first, the Nixon administration had feared that the Soviet Union, as a superpower, would exert a powerful influence on West Germany and downplayed the FRG's potential to foment any positive change in the communist bloc through trade. Brandt, who indeed had hoped to improve the lives of people in East Germany,\textsuperscript{279} defended Osthandel before the Americans in more practical terms, by emphasizing the Kremlin's desire for Western technology. But U.S. officials remained skeptical. Martin J. Hillenbrand, the U.S. Assistant Secretary for Europe, saw “some wishful thinking” in Bonn and speculated that “an additional [Soviet] motive was to confuse the West.”\textsuperscript{280} Kissinger, who initially downplayed talk of trade and economics, claimed that there was


\textsuperscript{279}“Vor einer neuen Phase der Ostpolitik,” Brandt’s speech, 7 May 1969, in Die Außenpolitik der Bundesrepublik Deutschland: Dokumente von 1949 bis 1994 (Cologne : Verlag Wissenschaft und Politik, 1995), 324.

“no empirical evidence” that Brandt could affect East German policies through economic pressure.\textsuperscript{281} In one of his first assessments of Ostpolitik, Kissinger feared that the Soviets had “much to offer,” while Brandt “has little.”\textsuperscript{282} Thus, to secure U.S. approval for Ostpolitik, Brandt had agreed to consult periodically with the United States and to “avoid adventurism.”\textsuperscript{283}

At the same time, in the Nixon administration, Osthandel had first emerged as a push factor for increased U.S.-Soviet trade. In fact, less than a week after Brandt was elected, Kissinger's staff began to study the implications of greater West German-Soviet trade on U.S.-East European relations. The prevailing view that emerged was that Osthandel would necessitate greater U.S. trade with the communist bloc, which had been severely restricted. C. Fred Bergsten, an assistant to Kissinger, observed that “the new moves of the Brandt government” would “highlight the appearance of U.S. immobility and with the passage of time our own domestic posture will seem more rigid.”\textsuperscript{284} In an action memorandum to Kissinger, Bergsten raised the possibility of greater U.S. trade liberalization, allowing the export of “non-strategic items” such as drill bits, farming machines, and aluminum ingots.\textsuperscript{285}

Two months later, Secretary of State William Rogers also came out in favor of trade liberalization with the Soviet Union. Rogers insisted that increased U.S.-Soviet trade would “provide tangible benefits to our export interests” and could also ease “the

\textsuperscript{285} Ibid.
way for an improvement of our relations with other Eastern European countries, whose Western associations are inevitably a source of apprehension to the Soviets.” 286

Although there was no immediate change in U.S. trade policy, American policymakers in 1970 increasingly cited Osthandel as a catalyst for expanding U.S.-Soviet economic relations. In June, Robert Ellsworth, the U.S. ambassador to NATO, informed Kissinger that the West Germans had made trade with the Soviets “respectable” and that the United States would face pressure to increase its East-West trade. Osthandel, he predicted, would first lead to other Western European nations jockeying to do business with the Soviets, a situation that Washington would have to confront. “Few [West European Governments] will be prepared to accept the FRG's 'privileged' position for long,” Ellsworth remarked, “and the U.S., as the last holdout against a relaxation on trade with the East, will come under increasing pressure to change its policy.” 287 A month later, highlighting growing East-West trade, an NSC staffer informed Kissinger that Americans were simply “pathetic observers.” 288 Ellsworth proved correct in suggesting that Western Europe would follow Brandt's lead on trade, as the State Department was informed in October of Brandt's anger at the French, who now had secured a contract to build a truck factory in the Soviet Union without first having consulted with West Germany. 289

287 Memo, Permanent Representative to the North Atlantic Treaty Organization (Ellsworth) to the President's Assistant for National Security Affairs (Kissinger), undated, FRUS, 1969-1974, 40:272. The FRUS commentary says in a footnote that the memo was from “June-July 1970,” even though the document is undated.
Nixon was concerned that, if Western Europe dramatically expanded trade with the Soviet Union, U.S. relations with its allies could be jeopardized. “European leaders want to 'screw' us and we want to 'screw' them in the economic area,” he once noted in a private discussion with his advisors. Yet Nixon's prescription was not to undermine Osthandel. Rather, the president insisted that U.S.-Western European trade relations must strengthen simultaneously as Western Europe increased its commercial relations with the East. “We should not allow the umbilical cord between the US and Europe to be cut and Europe to be nibbled away by the Soviets,” Nixon explained. “We need to strengthen the bonds of trade, monetary relations, exchanges, etc.”

As the West Germans made trade with the Soviets more respectable, the White House faced increasing pressure to liberalize trade. The State and Commerce departments supported such a move. Although Kissinger informed these departments in March 1971 that Nixon had decided to “defer any decision,” the president began to make economic overtures to Moscow, seeking in large part to use U.S. trade as a lever to influence Soviet bargaining power. That same year, Nixon actually signed an executive order to liberalize controls on grain exports to the USSR, an action that led Brezhnev to abandon his requirement for an ABM treaty before an accord on the reduction of strategic missiles. Recognizing the strategic usefulness of trade, the White House increasingly deemed economic relations with the Soviet Union a necessary component to solidify

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292 For a detailed checklist of commercial motives for U.S.-Soviet trade, see Information Memorandum from Ernest Johnston of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger), 7 Jul. 1971, FRUS, 1969-76, 4:862-64.
293 Jentleson, Pipeline Politics, 134.
détente. By October 1972, Nixon and Brezhnev had signed an unprecedented U.S.-Soviet trade agreement containing a pledge to grant the Soviet Union most-favored-nation trade status.\(^{294}\)

Nixon later took pride in his efforts to achieve a dramatic expansion of U.S.-Soviet trade to undergird détente, and he blamed domestic politics—liberal and conservative—for hindering his success. On the one hand, Nixon castigated “the liberals and the American Zionists” for having decided to link trade with Soviet emigration policy, particularly regarding Jews. On the other side, Nixon criticized conservatives, noting “their ideological opposition to contacts with communist countries.”\(^{295}\) For Nixon, the liberals and Zionists were naïve. A refusal to extend most favored nation trading status would not change Soviet behavior. And in contrast with conservatives, Nixon preferred the carrot to the stick. In April 1973, despite opposition from both liberals and conservatives, Nixon requested congressional authority to extend most-favored-nation trade status to the USSR.\(^{296}\)

Yet Senator Henry Jackson (D-WA) and Representative Charles Vanik (D-OH) put the nail in the coffin on greater U.S.-Soviet trade. For the Soviets to receive most-favored-nation status, they argued, the USSR had to curb drastically its restrictions on Jewish emigration. Their amendment, which became part of the Trade Act of 1974, denied favorable credit terms to the Kremlin, severely hindering the sale of American high technology. Because the Church-Stevenson Amendment also limited total U.S. credit to the Soviet Union to $300 million, the Kremlin did not turn to the United States

\(^{294}\)Ibid., 133-34, 142.  
\(^{296}\)Ibid., 875.
for machinery and equipment.\textsuperscript{297} Such legal restrictions, however, came to mean that West Germany would far outpace the United States in trade with the Soviet Union.

Although it would be an overstatement to suggest that Osthandel had caused the Nixon administration to seek to liberalize U.S.-Soviet trade relations, the new West German-Soviet commercial relationship established under Brandt was definitely a push factor in that direction. Early on, the Nixon administration had sought to expand U.S.-Eastern European trade to edge the Eastern Europeans away from the Soviets.\textsuperscript{298} Yet Osthandel first made direct trade with the Soviet Union respectable, and, against this backdrop, Nixon had tried unsuccessfully to make a policy change.

As with Nixon, Gerald Ford was an advocate of economic liberalization with the Soviet Union, believing it was a requirement for détente. “My country intends to continue the strengthening of détente,” Ford told Schmidt and others in November 1975, “through improved economic relations and increased trade with the communist countries.” Although Ford lamented that the most-favored-nation issue had hampered U.S.-Soviet trade, he stated that he was trying to modify it and boasted of having worked out a “long term grain sale agreement” between the United States and the USSR.\textsuperscript{299}

During the Ford era, a new term briefly entered the diplomatic vocabulary with respect to trade with the Soviet Union: “the Gentlemen's Agreement.” The purpose of this development, established at an economic summit in Rambouillet, France in November 1975, was to prevent Western nations from competing with one another in providing

\textsuperscript{297} Mike Bowker, “Brezhnev and Superpower Relations,” in Edwin Bacon and Mark Sandle (eds.), Brezhnev Reconsidered (Houndsmills, NH: Palgrave McMillan, 2002), 99.
\textsuperscript{298} Lippert, “The Economics of Ostpolitik: West Germany, the United States, and the Gas Pipeline Deal,” 72.See, for example, Memorandum from C. Fred Bergsten (NSC) to President's Assistant for National Security Affairs (Kissinger), 3 Jul.1969, FRUS, 1969-1976, 4: 303.
\textsuperscript{299} Memorandum of Conversation, 17 Nov. 1975, FRUS, 1969-76, 31:448.
Moscow with export credits. Ford first broached the idea of the “Gentlemen's Agreement” to address the Soviets' tendency to play one nation off against another. Indeed, the Soviets often shopped around for credits, telling one nation that another offered better terms. “[W]e must work closely together to ensure,” Ford insisted, “that our policies are consistent and in the mutual interest of all concerned.” Although Schmidt was happy with such an arrangement, claiming it was in everyone's best interests, he disliked the term “Gentlemen's Agreement” and recommended deleting it.300 The shady connotations of such a term perhaps irked the chancellor.

Ford had shared Kissinger's conviction that Jackson-Vanik was harmful and later criticized Scoop Jackson for his showmanship on the issue.301 But, as president, he signed the legislation not out of choice but because of political realism. The Senate, after all, had passed Jackson-Vanik by a margin of 88-0.302 The same domestic politics that had restrained Nixon from expanding U.S-Soviet trade also hindered Ford. Thus, the Soviets had to look elsewhere. In November 1976, Brezhnev told U.S. Secretary of the Treasury William Simon that such discrimination was not a good sign for Soviet-American relations. When the Soviet leader stated that “we now naturally prefer partners who trade with us on a normal, equal basis,”303 he had the West Germans in mind.

302 Quoted in Yanek Mieczkowski, Gerald Ford and the Challenges of the 1970s (Lexington: University of Kentucky Press, 2005), 279.
Jimmy Carter’s accession to the White House marked a dramatic change in presidential thinking. Congress had prevented Nixon and Ford from increasing U.S.-Soviet trade, but Carter personally wished to curb any expansion. Presidential Directive (PD) 18, which he signed in August 1977, reflected the NSC's primary role in formulating a more aggressive U.S. policy toward trade with the Soviet Union. NSC official Samuel Huntington, the author of the directive, championed the use of trade as a lever to force the Soviets to improve their human rights record. Moreover, Carter's policies contrasted sharply with Schmidt’s. Although no historian has examined Osthandel as a prism through which to explore the two leaders’ worldviews, West German-Soviet trade undoubtedly contributed to their notoriously awful relationship.

In line with his human rights agenda, Jimmy Carter implemented policies that specifically sought to thwart the development of the Soviet energy sector, the very heart of Osthandel. In a direct response to Moscow's imprisonment of two Soviet dissidents, Aleksandr Ginzburg and Anatoly Shcharansky, Carter in July 1978 restricted U.S. exports of technology used for the exploration and development of the Soviet oil and natural gas industries. This action marked an aggressive break from the past. Although Jackson-Vanik had denied the USSR most favorable nation status, this amendment had not mandated any specific restrictions on American exports.

305 Up to now scholars have emphasized their different personalities and their dispute over the neutron bomb and Afghanistan. See, e.g., Betty Glad’s recent book An Outsider in the White House: Jimmy Carter, His Advisors, and the Making of Foreign Policy (Ithaca: Cornell University Press, 2010), especially chp. 19 on Afghanistan. See also Tony Crain’s upcoming dissertation for an in-depth treatment of the neutron bomb fiasco.
306 Jentleson, Pipeline Politics, 20.
Before the announcement of the sanctions, the *New York Times* reported that National Security Advisor Zbigniew Brzezinski, Huntington's boss, had supported these economic measures, whereas the more-dovish Secretary of State Cyrus Vance and Secretary of Commerce Juanita Kreps had opposed them.³⁰⁷ Brzezinski later confirmed the accuracy of this coverage but recalled that the decision had rested with Carter. Brzezinski claimed that the State and Commerce Departments, both of which considered the president's action harsh and detrimental to détente, wanted to “go around” the president's decision on export controls. Brzezinski had become involved in a bitter debate with Vance over this issue as Carter traveled to Bonn for an economic summit. Yet Carter “turned all of a sudden to Cy and said that he doesn't want new trade initiatives started by Treasury, Commerce, or State, with the effect of going around his recent decision.” Carter was so adamant about the trade restrictions that he warned one quibbler, a minor official, to “support my policies.”³⁰⁸

Schmidt disagreed with Carter's approach, rejecting the idea that economic sanctions would result in an improvement in the Soviets’ stance toward human rights. The chancellor was convinced that the somewhat paranoid Soviet leadership would consider Carter’s human rights campaign an unacceptable form of interference in its domestic affairs.³⁰⁹ Terming Carter an “idealistic preacher,” Schmidt doubted that the

president’s crusade would succeed and sought to “put a damper on Carter's human rights campaign.”

Schmidt was prepared to prove his point by intensifying Osthandel. In contrast to Carter, the West German leader thought that trade should be a carrot, not a stick. Thus, at the same time as the Carter administration was debating whether to employ sanctions to punish the Soviets for imprisoning the dissidents, Schmidt actually rewarded Brezhnev with an unprecedented twenty-five-year West German-USSR economic agreement. By calling it a “cooperation agreement,” not a trade agreement per se, Schmidt circumvented an EEC policy according to which trade agreements with the USSR required Community support.

In 1979, a year that saw a new major energy crisis, the U.S. Congress held hearings on East-West trade that revealed some conspicuous differences between the American and European approaches. Throughout the hearings, several senators pondered whether the United States should help develop Soviet energy-exporting capabilities through greater U.S.-Soviet trade in order to relieve pressures on Europe stemming from the crisis. But John Gibbons, the Director of the Congressional Office of Technology Assessment (OTA), stated that the United States privileged strategic, political, and military concerns over any economic benefits that could arise from U.S.-Soviet trade. “Western Europe and Japan do not appear to share the concerns expressed in the United States over the military, political, and strategic implications of transferring technology to

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310 Ibid., 58.
the East,” Gibbons asserted, adding that these nations “consider the sale of technology as a primarily economic issue.”

The Soviets' Christmas-day invasion of Afghanistan became the central event around which Carter took a tougher stance on U.S.-Soviet trade and decided to undermine Osthandel. As Carter imposed new economic sanctions on the USSR, including a grain embargo that hurt American farmers, Brzezinski inquired into West German economic relations with the Soviet Union. An aide forwarded the National Security Adviser a CIA report on the subject to inform Carter of the pressures that Schmidt faced. The “Schmidt government has given considerable backing to the United States in many diplomatic and economic areas,” the report stated, “while balking at taking steps, such as halting export credit guarantees, that could have a substantial adverse impact on certain sectors of West German industry.” The West German steel-producing sector, the report suggested, would be among the most damaged, noting that the West German firm Mannesmann recently had secured "almost certainly with official approval" a major contract to construct an enormous pipeline in Siberia.

Despite foreknowledge of the unlikelihood that Schmidt would adopt economic sanctions against the Soviet Union, Carter decided to broach the possibility with the chancellor. He did so at a meeting with Schmidt in April 1980. Carter first told Schmidt that he wished that the German leader "had agreed to do more" than boycott the Olympics. When Carter proposed a weakening of the FRG’s economic ties with the Soviets, Schmidt became irritable. This request was not an option. Having signed a long-

312-Trade and Technology, Part II: East-West Trade and Technology Transfer, Senate Subcommittee on International Finance, Committee on Banking, Housing, and Urban Affairs, 28 Nov. 1979, 4.
term economic agreement with Brezhnev, Schmidt insisted on the necessity of West Germany's honoring its agreement with the USSR and cited Hitler's failure to keep his agreements and the disastrous effects that resulted. At one point, Carter told Schmidt that he was “quite discouraged” by the fact that the chancellor was unwilling to reconsider, but acknowledged that the FRG’s policy was “very clear” to him and that he would inform “Vance and others” that national interests governed Schmidt's position.314

In the context of the Iranian Revolution, Osthandel became another source of tension between Schmidt and Carter. Under the Shah, Schmidt remembered, West German businessmen had “made pilgrimages to Tehran” looking for contracts.315 In 1975, West Germany, the USSR, and Iran had also signed a trilateral gas agreement. According to the terms, Mannesmann would deliver one million tons of pipe to Iran to construct a pipeline to send gas to the Soviets and then to West Germany.316 As intermediaries, the Soviets would receive compensation for their deliveries. This project, named IGAT II, was expected to be completed in 1981. Khomeini’s rise to power changed the situation, because Iran’s fanatical new leader reneged on the agreement.317 In March, Carter informed the ambassadors from several Western European nations that he intended to impose economic and political sanctions on Iran in response to the hostage crisis and asked for their assistance. “We warned them that without active support from

315 Schmidt, Men and Powers, 197.
our friends,” Vance later recalled, “unilateral actions more severe than those the president had described to their heads of government would be forthcoming.”318

Although the British bent to American pressure, West Germany was reluctant to do so. Schmidt did not want to adopt a hard-line approach toward Iran in part because of his hope of salvaging the gas agreement, especially in the context of the new energy crisis that the Iranian Revolution had helped precipitate. On Iran, Schmidt was “a constant source of trouble,” Carter later remembered. “Helmut Schmidt was now criticizing the British for supporting our position and opposed any kind of sanction against either the Soviet Union or Iran.”319 Yet what Carter did not realize was that the failure of IGAT II had accelerated West German-Soviet talks on the construction of the Urengoi pipeline.320

A Nightmare: Ronald Reagan and the Pipeline

If the situation had been less than ideal under Carter, Ronald Reagan's crushing victory in the 1980 U.S. presidential election truly raised alarm among Osthandlers. Soon after, a West German banker involved in the negotiations on the Siberian gas-line informed the American press of his fear that Reagan would try to block the pipeline's construction. Although the Carter administration had initially expressed concern over the project and feared growing West German dependence on Soviet gas, the banker remarked, Carter had not jeopardized the deal.321 Reagan's anti-Soviet rhetoric revived

321 “Bonn Wary Lest Reagan oppose Soviet Gas Deal,” New York Times, 27 Nov. 1980, 4. Also, a CIA report given to Brzezinski indeed highlighted the potential that West Germany could become
the FRG's anxiety. Schmidt later recalled that he knew as early as 1975 that Reagan would be difficult to work with because of Reagan's opposition to SALT.\textsuperscript{322}

What Schmidt did not know, however, was the extent of Reagan’s passion to undermine Osthandel. Reagan stated later that his belief in self-determination (self-determination here meant freedom for the Soviet Union’s East European satellites) had driven his policies regarding the pipeline, which went as far as the decision to ban the sale of American technology to Western allies, and West Germany in particular, which would be used to construct the gas-line. Reagan cited the Polish government’s imposition of martial law in December 1981 as the reason for his policy. He was disappointed with Europe's reluctance to follow his lead on Poland. The “reaction of some of our allies,” Reagan later recalled, “suggested that money spoke louder than principle.”\textsuperscript{323}

Yet Reagan's talk of promoting self-determination in Poland revealed only part of the picture. Washington was even more concerned about Western Europe’s growing dependence on Soviet energy, fearing that Moscow could use gas as a form of economic leverage to drive a wedge between the United States and its allies. In fact, well before Polish General Wojciech Jaruzelski declared martial law, the Reagan administration had been planning to obstruct the pipeline. In July 1981, Defense Secretary Caspar Weinberger had formulated a policy to ban U.S. exports to European allies that intended to provide materials for the construction of the pipeline. “Our strategy,” Weinberger asserted, “is aimed at limiting Soviet economic leverage over the West. The export

control laws should be pushed as far as possible to capture the overseas transfer of U.S.
technology and equipment by licenses and subsidiaries.” The Defense Secretary added
that the White House should target technologies such as pipelayers, large-diameter pipe,
and compressors. At the time, Weinberger anticipated intense West German opposition to
his policy. In fact, he wrote that “diplomatic resistance would probably be greatest in
West Germany (because of the Ostpolitik policy and left-wing pressure on Schmidt) and
France (sensitivity to responding to US pressure).” 324

Secretary of State Alexander Haig sent a much different recommendation that
day, revealing the recurring tension between the State and Defense departments over
détente. Haig, who expressed his “deep concerns on the subject,” noted that he and
Reagan had concurred that the pipeline did not affect U.S. national security. Moreover,
Haig insisted “for any controls to work we need the cooperation of our allies.” A rigid
stance by Reagan not only risked a confrontation with America’s allies but also provided
the Soviets with an opportunity to gain influence over Western Europe. To underscore his
point, Haig reminded his colleagues of the Carter’s “disastrous confrontation” with
Schmidt over West Germany’s sales of nuclear technology to Brazil. But National
Security Adviser Richard Allen was not convinced. 325

The Reagan administration’s opposition to the Soviet pipeline was backed by the
statistics. By 1980, West Germany imported 17.5 percent of its total gas consumption

324 Memorandum to the Assistant to the President for National Security Affairs, 8 Jul. 1981, Reagan
Library, NSC Meetings, box 91282, reproduced by the Margaret Thatcher Foundation Archive and
325 Memorandum to the President from Secretary of State Haig, 8 July 1981, Reagan Library, NSC
Meetings, box 91282, reproduced by the Margaret Thatcher Foundation Archive and accessed through
from the USSR, and the German Institute for Economic Development estimated that this number would rise to 30 percent by 1990. Reagan also feared the pipeline would enable the Soviets to earn hard currency to engage in military adventurism abroad. Thus, in November 1981, the president banned American companies from participating in the pipeline’s development.

In a key move, Reagan decided to use the crisis in Poland to justify his actions against the pipeline. The White House accurately held Moscow responsible for Jaruzelski’s crackdown on Solidarity and accused the Kremlin of violating the Helsinki Final Act by supporting martial law. According to Haig, Moscow had “conspired with the Polish military authorities” to deprive Poland “of the right to choose and develop [its] political, social, economic, and cultural system.” Richard Perle, Assistant Secretary of the Defense Department, now pressed more forcefully to ban technology exports to allies who were likely to be aiding the construction of the pipeline. He claimed that the State Department had overplayed the difficulties that might arise from such a ban. Perle and Weinberger insisted that the danger of a temporary conflict with America’s allies was far outweighed by the prospect of their becoming dependent on Soviet energy and establishing stronger ties with Moscow.

328 Secretary of State Alexander Haig’s Speech before the Conference on Security and Cooperation in Europe (CSCE) in Madrid, Spain, 9 Feb. 1982, 298.
George Shultz, Haig’s replacement as Secretary of State, recalled that CIA director William Casey and NSC adviser Bill Clark joined Weinberger and Perle in supporting the extension of sanctions on American licenses to firms in Europe. Reagan was thus under heavy pressure to act, with only Haig's voice being the most critical of the move. The president went along with the majority and implemented the policy on June 18, 1982. Indeed, Haig later suggested that the pipeline issue had helped persuade him to resign.

Bonn’s and Moscow’s Response to Washington

Even before the declaration of martial law in Poland, Bonn and Moscow had feared that the Reagan administration wanted to halt the pipeline. In fact, less than a month after Schmidt and Brezhnev had signed the agreement to build the pipeline in November 1980, West German officials felt compelled to answer American critics of the project. Accordingly, in December, Bundestag member Ulrich Steger traveled to the United States to discuss the pipeline with American policymakers. Steger spoke with Bud Brown (R-OH), the Ranking Republican on the Energy and Commerce Committee in the U.S. House of Representatives and Senator Jim McClure (R-ID), the Chairman of the

332 At the time, U.S.-FRG relations also were strained over Afghanistan, so the need for dialogue was important.
Senate Energy Committee, as well as with Ellen Frost of the Defense Department and Edward Morris of the State Department. To ease worries that Bonn might become dependent on Soviet oil and natural gas, Steger discussed the possibility of setting a 15 percent cap on total West German energy imports from the Eastern bloc.  

More important, Steger discussed two energy-related concepts: risk diversification and risk compensation. Risk diversification was the process of relying on multiple sources of energy from different countries, especially Middle Eastern nations, to prevent the possibility of resource dependence on any one country. As Steger presented it, risk diversification was necessary to allay American geostrategic fears relating to the Soviet potential to use energy as a political lever against the West. At the same time, though, risk diversification was an expensive process requiring time and finances. Thus, Steger suggested that compensating West Germany for diversifying was necessary. Put another way, Steger was politely asking the United States to help finance West German energy diversification. He received, however, no positive answer. Steger reported back to Schmidt that Congress planned to commission a study, but that success would probably require a “special kind of lobbying.”

This type of lobbying occurred at the Ottawa Economic Summit in July 1981, when Schmidt directly challenged the Reagan administration’s position with an interesting argument. According to Walter F. Martin, a special assistant to the American Undersecretary of Economic Affairs, Schmidt argued that Western Europe and the NATO countries would not become dependent on the Soviet energy; rather, the Soviet

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334 Ibid.
Union would become dependent on Western hard currency, a development which would work to the free world’s advantage. One observer later called Schmidt’s argument “a brilliant display of rhetorical sophistry,” but there is no reason to think that the chancellor was insincere in holding this position. The best evidence of his sincerity was the fact that Schmidt had made the exact same argument to Britain’s James Callaghan in 1978, well before Reagan had even run for president or there had been any idea about the Urengoi pipeline.  

Bonn also consulted with Soviet officials. Two months after the Ottawa summit, Lambsdorff held an important meeting on bilateral trade with a delegation of Soviet officials led by Tikhonov, now the Soviet prime minister following Kosygin’s death. Above all, the discussions emphasized trade as necessary for peace. Lambsdorff called it an important stabilizing factor for the world, despite political differences such as opinion over the Soviet invasion of Afghanistan. Lambsdorff also reinforced Bonn’s commitment to see the pipeline come to fruition, despite any obstacles that Washington might put into place. The Soviets responded positively. Soviet Chemicals Minister Leonid Kostandov pointed out that energy would be the focus of the upcoming joint economic commission. He hoped that the session would engender “mutual satisfaction” and produce a “major win-win agreement that can open up new prospects.”

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Indeed, during the tenth meeting of the FRG-USSR joint economic commission in September 1981, both the West German and the Soviet sides pledged to expand cooperation in energy production, especially in the areas of natural gas, diesel fuel, and electricity. Each side invoked the 1978 long-term economic agreement as the basis for this development. Additionally, the commission called for greater bilateral cooperation in the provision of such energy related equipment as pumps, compressor stations, and industrial pipe-fitting. In an article about the commission meeting, the West German trade journal *Handelsblatt* suggested that “economic cooperation is being strengthened.”

One reason Schmidt was determined to expand the energy trade with the Soviet Union was the dire energy situation of the FRG by autumn 1981. At the time, Schmidt received an internal report from West German finance minister Hans Mattheffer entitled “The Financial Importance of the Federal Oil Reserve.” This report stressed the growing urgency of finding a solution to the energy issue. Long-term energy uncertainty had a potential trickle-down effect of harming West German financial markets, Mattheffer pointed out, and accessing the oil reserve could only be done in a crisis. Not only that, the reserve, which also stocked mineral oil, had a limited supply (approximately 179 days of coverage).

Unsurprisingly, Schmidt did not prevent Mannesmann from moving beyond negotiations and entering into a contract to build the pipeline. In October, Mannesmann

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signed an agreement to supply 555 thousand tons of large diameter steel pipe, as well as equipment for diagnostics and repairs. In addition, Mannesmann, along with AEG Kanis, agreed to provide twenty-two compression stations for the pipeline, to be delivered between 1982 and 1983 and valued at 264 million rubles. As in previous West German-Soviet energy projects, Deutsche Bank agreed to finance the project.341

Yet the Soviets remained anxious over the Reagan administration’s anti-pipeline sentiment. Kremlin observers feared that Washington’s aggressive stance would destroy Osthandel. D.V. Kozmin, a Soviet trade representative, had the task of monitoring the West German press to determine Bonn’s reactions. In October, Kozmin happily informed V.V. Chistov, the Soviet joint economic commission secretary, that West Germany had steadfastly resisted American control of its foreign economic policy, adding that Otto Wolff was calling for the continuation of trade and the possibility of developing even more Soviet natural gas around the Caspian Sea.342

In an interesting new move soon thereafter, Brezhnev rebuked the Reagan administration for failing to realize that a thriving West German economy required Soviet trade. “As I understand it,” Brezhnev announced, “the development of large-scale and long-term economic ties with the USSR is helping the FRG to solve serious problems facing its economy.” Echoing Schmidt’s assertion that the pipeline was necessary to combat West German joblessness, Brezhnev specifically asserted that the FRG “needs reliable sources of energy and other raw materials and foreign orders to provide employment for its population.” At the same time, the Soviet leader also admitted the

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341 Spravka o khode realizatsii soglashenii s FRG na kompensatsionnoi osnove, undated (Oct.) 1981, RGAE, Fond 413, Opis 31, Delo 1699.
significance of West German trade for his country. “Cooperation with the FRG is beneficial to the Soviet Union in a number of important fields of our economic life.”

Brezhnev nonetheless remained optimistic. Echoing his decade-long dedication to selling energy to the West, the Soviet leader now assured a West German audience of both economic and political advantages of the pipeline. He also claimed to have no adversarial outlook in mind. There was no talk of any Soviet use of energy as a lever to shape Bonn’s domestic and foreign policies. Instead, Brezhnev emphasized the mutually advantageous aspects of trade for the future:

It is essential that our economic ties not simply meet today's requirements but [that they are] built with an eye to the long-term future. In my opinion, some of our joint projects, which will extend into the 21st century, are good examples of such cooperation. Of course, they have not only economic but also political significance—in the best sense of the term (ital., mine). After all, an orientation toward the long-term future in economic ties is also an orientation toward lasting peaceful coexistence and good-neighborliness…. [O]ur economic cooperation… is not detrimental to anyone and, in the final analysis, it benefits everyone, since it strengthens the foundations of peace in Europe and throughout the world.

Brezhnev’s rosy portrait of trade and peace changed after the Polish imposition of martial law in December 1981. The Soviet press accused the Reagan administration of seeking to harm U.S. relations with other Western nations by not coordinating policy with allies in Europe. At the same time, Soviet analysts suggested that economic needs in the West would win out over so-called issues of national security. “The U.S.'s West European allies,” Pravda insisted, “will think twice before joining in the US's

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discriminatory measures against the Soviet Union. One reason for this… is that constructing a gas pipeline from Siberia to Western Europe means that $11 billion in orders will be placed in the FRG, Italy, France and Britain.” The West Germans most vociferously rebuked Washington and were the most blunt about the failure of the boycott. An announcer from West German ARD Television, Pravda noted, had asserted that “the Americans have again decided to use the weapon of economic boycott, although it's generally known that this is ineffective. Moreover, these actions were obviously not coordinated with the US's allies in Europe.”^346

From the West German side, Reagan's opposition to Jaruzelski's imposition of martial law did not persuade Schmidt to apply sanctions against the Soviet Union or abandon the pipeline. Schmidt denounced the American request and steadfastly refused to apply sanctions. “We should not punish ourselves with sanctions,” he remarked, “because there are developments in Eastern Europe which one cannot accept.” “We need the gas,” Schmidt added bluntly^347

West German businessmen followed the chancellor’s lead. In September 1982, Otto Wolff had a friendly meeting with Soviet Foreign Trade Minister Patolichev about the pipe embargo. Both men acknowledged the great strides that had been made in trade before the embargo, especially in recent years. Wolf even pointed out that his father had delivered the first oil pipe to the newly founded USSR sixty years earlier to develop the oil fields of Baku. Also reflecting positively on the past, Patolichev suggested that the American embargo would not prevail in the end and claimed that, above all, the

^347 Quoted in Wormann, Osthandel als Problem der Atlantischen Allianz, 149.
American action had been directed primarily against Western Europe. Wolff seemed to agree and condemned U.S. meddling in Osthandel.  ^348

Except for the friction between Washington and Bonn, the Reagan administration’s boycott produced no immediate reduction in West German reliance on Soviet energy supply. In fact, in a bold act of resistance, Bonn and Moscow signed new oil contracts. In August, the West German energy association, MRX, agreed to buy Soviet crude from Soyuzneftexport at $31.43 per barrel, while Veba secured contracts for oil at the cheaper rate of $27.50 per barrel.  ^349

Internal Soviet documents suggest that Soviet economic planners believed that American hostility toward Osthandel would harm West Germany. Soviet Deputy Foreign Trade Minister Aleksei Manshulo provided a “critical characterization” of the prospects of Soviet-West German trade and suggested that Washington’s actions would damage Soviet relations with such traditional partners as Mannesmann, Thyssen, and Kloekner.  ^4,000 workers from Mannesmann, one document suggested, would be put out of work, given that the bulk of this firm’s pipe orders came from the USSR.  ^350

Washington's hard-line stance against the pipeline caused much bickering in October 1982, when the U.S. Department of Commerce restricted technology exports to four West German firms involved in the pipeline's construction: AEG-Kanis; Mannesmann; Essener Hochdruck-Rohrleitungsbau GMBH; and Kocks Pipeline Planung.


GMBH. “This step has thrown the legal basis of business relations into confusion,” Otto Wolff protested to the Russians.351 The American ban hurt the German firm AEG-Kanis, which had agreed to supply electrical equipment for the gas-line. Hans Fehr, the chair of AEG-Kanis, complained about the American prohibition on rotors that his firm needed to acquire from General Electric. “The Federal Government must now help,” he said. This action, however, did not affect Mannesmann's ability to produce the pipe. “We are in the end,” company head Egon Overbeck remarked, “no subsidiary of an American corporation.”352

After failing to halt the project, the Reagan administration then concocted stories of “slaves” being used to build the pipeline. “There is clear evidence,” a State Department official told Senator William Armstrong, “that the Soviet Union is using forced labor on a massive scale.” Noting that the Soviets had employed “four million forced laborers” on “domestic pipeline construction” in the past, the official suggested that Moscow would continue to employ such labor.353

Western Europe dismissed American talk of slave labor as “poppycock.” Washington was certain to claim next, one British journalist joked, that “Afghani freedom fighters” provided the labor. The following parody of a three-way conversation among Reagan, National Security Advisor Richard Allen, and Secretary of Defense Caspar Weinberger reveals British perceptions that the slave labor story was contrived: Reagan: You know, Caspar, that slave labour pitch was a lousy idea in the first place.

**Weinberger:** I know it was Ron, but it was Richard's not mine.

**Allen:** What do you mean, I never gave you that idea.

**Weinberger:** Look, I didn't say Richard Allen, I meant Richard (Pipes).

**Allen:** Well, you should have said so.

**Reagan:** OK boys, calm down. I want something productive. Caspar?

**Weinberger:** Well, maybe we could bring Poland into the picture.

**Reagan:** How do you react to that Richard?

**Allen:** Negative. I like the idea of child labour. That always gets a reaction.\(^{354}\)

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Thomas C. Reed, the former Secretary of the Air Force and former Director of the National Reconnaissance Office, has asserted that Reagan even ordered the CIA to sabotage the pipeline by providing faulty turbines. At an economic summit in July 1981, Reed pointed out, French President François Mitterrand had informed Reagan that French intelligence had recruited a Soviet spy, Colonel Vladimir Vetrov, who had provided a series of files on the Kremlin's desire to acquire Western technology. Mitterrand had passed on to Reagan the files--collectively known as the "Farewell Dossier" because Vetrov's codename was "Farewell." Then Reagan asked CIA director William Casey to study the files and formulate a "clandestine operational use" of the documents. Reed recalled that one of his NSC associates, Dr. Gus Weiss, was assigned the task of reviewing the materials, and Weiss created a plan "to help the Soviets with their

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shopping." While reading the dossier, Weiss discovered that a KGB operative was at work in Canada seeking to steal software codes necessary to run the pipeline. In response, he recommended that the CIA create faulty software to blow up the pipeline and ensure that the product ended up in the hands of the Soviet operative.\textsuperscript{355} The effort, Reed recalled, was successful:

Once in the Soviet Union, computers and software, working together, ran the pipeline beautifully--for a while. But that tranquility was deceptive. Buried in the stolen Canadian goods--the software operating this whole new pipeline system--was a Trojan horse. In order to disrupt the Soviet gas supply, its hard currency earnings from the West, and the internal Russian economy, the pipeline software that was to run the pumps, turbines, and valves was programmed to go haywire, after a decent interval, to reset pump speeds and valve settings to produce pressures far beyond those acceptable to the pipeline joints and welds. The result was the most monumental non-nuclear explosion and fire ever seen from space.\textsuperscript{356}

Significantly, while Reed may have embellished his recounting of this event, several press accounts at the time acknowledged a major Soviet pipeline explosion in December 1983. These accounts claimed that a fire damaged the main pipeline control center in the town of Urengoi and speculated that the project’s completion might be delayed. At the same time, the press accounts did not implicate U.S. sabotage as the cause.\textsuperscript{357} Even so, there would be no expectation of such a claim for a clandestine CIA operation.

Although Reed’s account of espionage is certainly thrilling, the available evidence cannot validate the claim entirely. No declassified memoranda involving CIA director

\textsuperscript{355} Thomas C. Reed, \textit{At the Abyss: An Insider’s History of the Cold War} (New York: Random House, 2004), 268-69.
\textsuperscript{356} Ibid., 269.
William Casey or his published writings mention this episode. Additionally, no major U.S. policymaker involved in the intense deliberations on the pipeline, including Reagan, Haig, Weinberger, Allen, and Perle, have confirmed the action. It should be pointed out, however, that there is no evidence that a historian, journalist, or anyone else has ever asked any of these individuals to speak publicly on the subject.

Some facts, however, may lend credibility to the sabotage episode. To begin with, Reed has impressive credentials and is well-respected, his position as the Director of the National Reconnaissance Office putting him in a unique position to know of such things. Only with caution, then, should one reject his account. More important, Gus Weiss, while not acknowledging that he formulated the plan, has confirmed that the CIA made an effort to sabotage the pipeline based on information culled from the Farewell Dossier. "[F]lawed turbines were installed on a gas pipeline…," Weiss writes in his CIA article (1996) explaining the dossier. Still, the occurrence of this episode needs the revelation of more evidence to determine its certainty.

Other developments are much more certain. Two major events in autumn 1982, Schmidt's leaving office and Brezhnev's death, formed the context in which Reagan changed his aggressive policy against the pipeline. In October, Schmidt was swept from power, replaced by Christian Democrat Helmut Kohl. No public announcement of a resolution to the pipeline conflict came for a month. Then Brezhnev, whose health had

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been deteriorating, suddenly died. Four days later, Reagan lifted the sanctions against the pipeline.\textsuperscript{360} Reagan later recalled that, even before Brezhnev's death, he had already had made up his mind to lift sanctions in mid-November. Yet he did so, he claimed, only after persuading allies to agree to “impose limited trade and credit restrictions on the Soviets...to restrict the flow of products and technology that would increase Soviet military capabilities.” There is no evidence that any such agreement ever took place; besides, the rise in West German-Soviet energy trade in the coming years demonstrated the ineffectiveness of such a secret deal regardless. Still, Reagan remembered that both Kohl and Thatcher had sent “messages of joy about the agreement” after Brezhnev’s death.\textsuperscript{361}

No doubt, the conflict over the Urengoi pipeline was the most dramatic event in the history of Osthandel, pitting the United States against one of its closest allies. Given the long-term implications of greater Western reliance on Soviet energy, Washington considered the pipeline a serious threat to NATO’s security. By contrast, the Schmidt administration viewed greater energy cooperation with the Soviets as a necessary development, given the sharp rises in energy costs over the 1970s. From Bonn’s perspective, an added advantage was the belief that cooperation promoted peace and security, a position that Moscow upheld and Washington rebuked.

In the end, the lifting of the boycott attested to the failure of American coercion as a means of dealing with Western Europe. From 1983 until the fall of the Soviet Union in 1991, the United States never again attempted to curtail West German-Soviet trade. The

\textsuperscript{360} Shultz, \textit{Turmoil and Triumph}, .

\textsuperscript{361} Reagan, \textit{An American Life}, 559.
result, as the next chapter shows, was the further expansion of West German-Soviet commercial relations between 1983 and 1985. Although the leadership in Moscow and Bonn had changed, trade nonetheless remained a centerpiece of their relations, which both sides believed contributed to the cause of peace, especially at a time when East-West tension had revived over the issue of missile deployment.
CHAPTER 4
THE GOLDEN INTERREGNUM: OSTHANDEL’S ZENITH DURING THE ANDROPOV/CHERNENKO AND EARLY KOHL YEARS

The period between Leonid Brezhnev’s death in November 1982 and Mikhail Gorbachev’s rise to power in March 1985 has been the most understudied era of Soviet history. Historians have tended to focus attention on leaders who made a lasting impact on a nation. Because Yuri Andropov and Konstantin Chernenko governed the Soviet Union for approximately one year each, and since both were exceedingly ill for much of the time, historians have largely passed over them or treated their stints in power in a superficial manner.\footnote{This fact is especially true regarding economic matters. No monograph in the English language exists on the economic policies of the interregnum Soviet leaders. The best extant work is Meaghan Elizabeth Bernard, “The End of Stagnation? A Reexamination of Domestic Policy in the Soviet Union from 1982-1985 under the Leadership of Iurii Andropov and Konstantin Chernenko,” Master’s Thesis, University of Alberta, 2008, 14-95.}

Any history of West German-Soviet trade relations, however, cannot overlook the interregnum period between Brezhnev and Gorbachev. After all, the years from 1983 through 1985 marked the statistical zenith of Osthandel. Indeed, if one looks at the yearly values of West German-Soviet trade in terms of overall volume from 1969 until 1991, the three years that saw the greatest levels of trade were 1984, 1985, and 1983 respectively.\footnote{Wolff von Amerongen, Der Weg nach Osten, 340-41.} If anything, the sheer volume of trade between the USSR and the FRG during these years necessitates historical inquiry.
The intensification of West German-Soviet trade during the Andropov-Chernenko interregnum resulted less from new economic initiatives than from other developments. The seeds that West Germany’s Social Democrat leadership and Brezhnev had sown the previous decade started to blossom during these years. The high world market price for oil and natural gas during the early-to-mid 1980s resulted in unprecedented Soviet profits. Without the energy-exporting infrastructure that both sides had jointly created the decade before, the volume of trade that occurred between 1983 and 1985 would not have been possible.

At the same time, Andropov, Chernenko, and new West German Chancellor Helmut Kohl also played significant roles that helped bring about Osthandel’s zenith. All were sincere champions of bilateral trade. Even with increasingly strained political relations between Bonn and Moscow—i.e. the Euromissile crisis—commercial relations remained strong. Indeed, there is considerable evidence that bilateral trade served a unique purpose: it was a moderating force that reduced tensions amid heightened fears of conflict. Although the Soviets continued to promote trade largely for economic motives, they also had a vested interest in the reduction of tension. For Kohl, Osthandel was a delicate balancing act. Whenever Washington pressured the West German leader to take a firm stance against the Soviets over some political issue, Kohl felt greater weight than his Social Democrat predecessors to concede to U.S. pressure. And, in fact, Kohl was more inclined to follow Washington’s lead. At the same time, though, Kohl strongly invoked the past success of Soviet-West German commercial relations and encouraged the expansion of trade to maintain the legitimacy of Ostpolitik, which he embraced during his chancellorship.
New Leadership

One of the most conspicuous features that affected Osthandel during the interregnum period was the change of leadership on both the West German and Soviet sides. By late 1982, the individuals who had striven to improve the political climate between Bonn and Moscow over the previous decade were out of office. On the West German side, Christian Democrat Helmut Kohl became chancellor, a position he would hold until 1998. On the Soviet side, Yuri Andropov replaced Brezhnev as general secretary—only to be replaced himself a year later by Konstantin Chernenko. The new leaders differed from their predecessors in personality, life experience, and worldview.

Kohl, who had been CDU leader since 1976, was more of a pragmatist than an idealist and not as vocal an opponent of Ostpolitik as his predecessor Ranier Barzel. At the same time, Kohl had expressed serious qualms about rapprochement with the communist bloc. Above all, he feared that Ostpolitik had perpetuated the division of Germany, a situation that few West German politicians considered attractive.\(^{364}\) Looking back on his career after he left office, Kohl maintained that he always had wanted German reunification.\(^{365}\) A united Germany, he insisted, had been the decisive factor in shaping his policy initiatives. Although not all scholars agree with this view,\(^{366}\) few would argue that Kohl was not bold in broaching the thorny topic of reunification publicly.

Despite misgivings about Ostpolitik, Kohl had viewed Osthandel consistently in a much more positive light. The Christian Democrats, despite their long-standing reputation as the party of big business, had during the late 1960s and early 1970s lost votes to the Social Democrats from the business sector because of opposition to Ostpolitik. Unlike the Barzel wing of the CDU party, Kohl had been strongly supportive of trade with the communist bloc largely because he realized his party’s need to attract business interests again.

Unsurprisingly, when he became chancellor, Kohl introduced no new obstacles to trade with the Soviet Union. Rather, he described his trade policy as “Die Politik der Kontinuität.” Repeatedly, Kohl emphasized the importance of not only continuing but also strengthening West German-Soviet trade. In fact, one of his first acts as chancellor was to assure the Kremlin that Christian Democrat leadership posed no threat to Osthandel. “The Federal Government,” Kohl announced in October 1982, “regards economic relations with the Soviet Union and the CMEA countries as an important part of overall East-West relations.”

Early in his chancellorship, Kohl publicly praised the framework for West German-Soviet economic relations that had largely been a legacy of Social Democrat policy. In speeches, the chancellor noted the many positive developments in Osthandel that had occurred: the Trade and Navigation Treaty of April 25, 1958; the agreement on the development of economic, industrial, and technical cooperation of May 19, 1973;

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367 See Gespräch des Bundeskanzlers mit dem Leiter der sowjetischen Delegation, 10 Sep. 1984, BA-Koblenz, B102/ 364337. The quote here comes from the above report on the thirteenth annual meeting of the West German-Soviet Economic Commission (Sept. 1984), which contains a list of quotes from Kohl on FRG-USSR trade.

the agreement on the development of economic cooperation of October 30, 1974; the
deepening of long-term cooperation in the area of economics and industry signed on May
6, 1978; the long-term program on the cooperation in economics and industry that began
in July 1980; and the agreement to avoid double taxation signed in November 24,
1981.\(^{369}\)

Yet an emerging political crisis over the deployment of nuclear missiles in West
Germany became a structural constraint on West German-Soviet trade. The crisis had
begun in 1975, when the Soviets first deployed a new missile capable of targeting
Western Europe with three nuclear warheads, the SS-20. Throughout the late 1970s,
hard-liners had advocated the deployment of the U.S. Pershing II and cruise missiles in
West Germany that could strike the Soviet Union.\(^{370}\) A debate had also ensued within
NATO about an appropriate response, culminating in a 1979 pledge to begin deployment
within four years if the Soviets did not back down.

At the same time, large segments of West German society were deeply divided
over such a response. Many, especially those on the political left, believed that
deployment would not deter potential Soviet aggression but make war more likely.
Earlier, Kohl had been able to exploit divisions on the Euromissile issue to raise his
stature as a political player. In October 1981, as leader of the opposition, he had criticized
the divisions within the SPD for producing deadlock. At the time, Brandt had led a
faction that opposed deployment, while Schmidt had been more open to deployment.\(^{371}\)

\(^{369}\) Ibid.

\(^{370}\) Jeffrey Herf, War by Other Means: Soviet Power, West German Resistance, and the Battle of the

\(^{371}\) Bundestagsdebatte zur Nachrüstung, 10 Oct.1981, Deutsche Geschichte in Dokumenten und
Bildern (DGDB), German Historical Institute, Washington, DC, available online at www.ghi-dc.org.
As chancellor, Kohl highlighted the growing importance of NATO security considerations in FRG-Soviet trade, a move that differed markedly from the Schmidt administration. Specifically, Kohl announced that Bonn would continue economic relations with Moscow on the basis of the Harmel Report (1967), the Bonn Declaration of the Alliance (June 1982), and the Versailles economic summit (June 1982).\footnote{Bonn Government Declaration, 13 Oct. 1982, cited in Betr: 13. Tagung der deutsch-sowjetischen Wirtschaftskommission, 10 Sep. 1984, BA-Koblenz, B102/ 364337.} The Harmel Report, a fifteen-year-old document issued by Belgian Foreign Minister Pierre Harmel, had called for a balanced force reduction for both NATO and the Warsaw Pact and closer economic ties within Europe. It had also pointed out the need for a solution to the German problem. Kohl’s invocation of this old report demonstrated his willingness to link trade with a resolution of the Euromissile crisis.\footnote{See “The Harmel Report,” NATO official website, \url{http://www.nato.int/cps/en/natolive/topics_67927.htm}, accessed 14 Feb. 2012;} Kohl’s reference to the Bonn Declaration was less important a factor influencing trade. With the declaration, NATO had laid out a six-point plan called the “Program for Peace in Freedom.” Essentially, this declaration had championed the idea of peace through strength but lacked serious implications for West German-Soviet trade.\footnote{Ian Q.R. Thomas, The Promise of Alliance: NATO and the Political Imagination (Oxford, UK: Rowan & Littlefield, 1997), 126.}

By contrast, the economic summit at Versailles had serious potential to harm Osthandel. After the summit, Ronald Reagan claimed that Western Europe had “agreed to exercise prudence in financial relations with the Soviet Union, including limiting export credits.”\footnote{Ronald Reagan’s Statement following the Versailles Economic Summit Conference, 6 Jun. 1982, Ronald Reagan Presidential Foundation and Library, \url{http://www.reagan.utexas.edu/archives/speeches/1982/60682b.htm}, accessed 19 Feb. 2012.} Although Schmidt had been chancellor when this agreement was
reached, he never discussed it openly. More important, there was no evidence that it had affected West German-Soviet trade (which actually rose during 1982 under Schmidt’s leadership).³⁷⁶ That Kohl was willing to invoke the Versailles agreement early on, however, signaled that allied security would play a larger role in Bonn’s trade policy under his leadership. Kohl intended to be tough.

The German chancellor met his match, however, with Brezhnev’s successor, Yuri Vladimirovich Andropov. Born into a family of railroad workers in Stavropol Territory as World War I broke out, Andropov had embraced communism at age sixteen and first made a name for himself in the Young Communist League during the 1930s. After the Great Patriotic War, Andropov’s career blossomed. In the 1950s, he served for a period as Soviet ambassador to Hungary. In 1967, Andropov assumed a much greater position of authority, becoming the head of the State Security Committee (KGB). In 1973, his power as a Soviet decision-maker and member of the party elite increased when he became a full Politburo member. A highly decorated Soviet official, Andropov was honored on numerous occasions for this commitment to the Soviet state. He received the Order of the October Revolution, three Orders of the Red Banner of Labor, and four Orders of Lenin. Various medals covered his uniform and attested to his many accomplishments, which dated as far back as his days as a resistance fighter in Nazi-occupied Karelia during the Great Patriotic War.³⁷⁷

A phenomenon that later came to be known as “the Andropov Hoax” emerged as the new Soviet leader came to power. The hoax consisted of certain Soviet reporters

conspiring to paint a false portrait of Andropov before the Western press, exaggerating certain qualities of his to create an image of strength and gentleness. Unfortunately, journalists in Western nations often unwittingly parroted such depictions. Andropov was portrayed as “tall and urbane,” for example, even though he stood only 5’8”. As for his alleged urbanity and sophistication, little evidence confirmed this portrayal. Rather, it seems to have been a myth generated by the thick glasses that he wore—often associated at the time with the intellectual class. As part of the hoax, Andropov was said to love jazz, poetry, and American novels. Other distorted images featured the new Soviet leader as a “Renaissance man,” whose cosmopolitan tastes included Austrian and Hungarian styles of dance, gypsy music, the finest West European fashion, the best brands of Scotch whisky, oriental rugs, and the music of Frank Sinatra and Chubby Checker.  

In reality, Andropov had been one of the strictest Soviet hard-liners in issues of foreign policy. This side of Andropov first had become evident when he supported Soviet aggression in Hungary in 1956. Although Brezhnev had expressed some degree of reservation about the later Soviet invasion of Czechoslovakia during the Prague Spring in 1968, Andropov had been a strong supporter of intervention. Similarly, in the early 1980s, Andropov had pressured the Polish leadership in a train car to impose martial law to crackdown on the Solidarity movement. All of these episodes demonstrated Andropov’s commitment to a secure Soviet-dominated Eastern bloc.

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Andropov’s selection to replace Brezhnev as general secretary resulted from the perceived need for a tough Soviet leader, especially amid the growing East-West tensions stemming from the Reagan administration’s provocative actions. The earlier death of Mikhail Suslov, the Soviet chief ideologue and the long-anticipated successor of Brezhnev, had cleared the way for Andropov’s virtually unopposed ascendency to power. Like Suslov, Andropov had built his career by emphasizing the supposed ideological strengths of the Soviet system, as various speeches attest.  

Although he had rarely dealt with major economic questions as KGB head, Andropov was forced to stress the importance of economic issues as general secretary. To his credit, since he had considerable learning to do, Andropov made an effort to understand the Soviet domestic economy, often meeting with industry leaders, machine-tool builders, and factory workers in a much more public way than Brezhnev had. In an article in Kommunist (April 1983), Andropov laid out his vision of economics, which reflected a belief in Marxist economic solutions to national problems. At the same time, Andropov emphasized greater coordination of the Soviet domestic economy and the reintroduction of discipline, which had been lax under Brezhnev, as solutions to growing economic stagnation.

Before the West Germans, Andropov tended to blame Washington for the missiles controversy. In an interview with Der Spiegel, the Soviet leader claimed that he had

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proposed to remove all nuclear arms, including medium-range and tactical weapons, from Europe because he did not want to give the West a cause for alarm. Yet the United States, Andropov pointed out, had refused to consider this proposal and instead insisted on its own “zero option” policy. In an attempt to earn ideological capital from his interview, Andropov asserted that the true reason that the United States wanted to deploy its nuclear weapons was to “make you, the West Germans…its hostages.”

Trade Marches On: Economic and Commercial Developments

A conspicuous feature of West German-Soviet relations throughout 1983 was the continuity of trade. Although it may have seemed counterintuitive to increase business dealings amid growing political conflict, Bonn and Moscow did just that. As concerns over the Euromissile issue grew, both the West Germans and the Soviets called for the intensification of trade. Still, the type of trade differed from that of the past because Andropov and his advisors held somewhat different views about energy than Brezhnev had. Whereas oil and natural gas were the heart of Brezhnevan petro-centrism, the Andropov administration favored greater energy diversification. Soviet planners advocated not only more intense oil and gas development but also greater coal and nuclear energy production. As a result, a thriving Osthandel took on new forms as West German firms expanded their commercial endeavors beyond the Soviet oil and natural gas industries.

Amid rising tensions over the missile deployment issue, the West German embassy in Moscow sent a favorable report to Bonn that highlighted the prospects for growing bilateral trade. The report, written in June 1983, expressed the appeal of West German-Soviet commercial relations from the Kremlin’s perspective. “The Soviet interest in permanent and stable bilateral economic relations,” the report stated, “is obvious.” The report also pointed out that the Soviets preferred long term contracts and sought the preservation of the institutional framework for Osthandel (the joint economic commission). More important, the report indicated that the foreign exchange the Soviets earned from gas exports, which were set to increase throughout 1984, were indispensable to Moscow’s credit possibilities within the Western banking system.  

For pure monetary reasons, if nothing else, the continuation of Osthandel was highly attractive from Moscow’s point of view.

During Andropov’s time in power, some major new Soviet oil refining and gas processing centers opened—a development that later piqued the interest of West German businessmen. Noyabrsknelftegazgeofizika, an open joint stock company specializing in natural gas processing, came into operation. This facility employed more than 1,000 personnel. Noyabrsknelftegazgeofizika’s significance was not immediate, but it later became a component of Gazprom, the world’s largest and most famous natural gas company created in 1989. Also, under Andropov, a huge oil refinery at Achinsk opened. This center, located at the heart of West Siberia, produced petroleum products and ultimately employed more than 3,000 personnel.  

Above all, the Achinsk refinery

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testified to the continuity of energy as a central plank for the Soviet economy. In this sense, there was little change from the Brezhnevian petro-centrism established more than a decade before.

Yet Andropov differed markedly from Brezhnev on the crucial issue of large-diameter pipe necessary to transport gas and oil. Brezhnev had been exceedingly eager, as previous chapters have shown, to import pipe largely from West Germany, but Andropov called for greater domestic pipeline production within the Soviet Union. The reasons for this move are not entirely clear. But there can be no doubt that the ongoing Euromissile crisis inspired less confidence in Bonn than in the past. More important, the Reagan administration’s very recent pipeline embargo and the resultant fiasco likely affected confidence in Western support for energy development. At a plenary session in November 1982, right after becoming general secretary and Reagan’s announcement to end the pipeline sanctions, Andropov had emphasized the importance of the independence of Soviet enterprises.\textsuperscript{388} A few months later, Gosplan head Nikolai Baibakov pointed out the shortcomings of the Ministry of Ferrous Metallurgy, which was responsible for domestic pipe production. Specifically, this ministry, along with several others, was singled out for failure to fulfill production plans.\textsuperscript{389} The situation needed improvement.

Thus, under Andropov’s leadership, the Soviets announced the accelerated production of large-diameter steel pipe (1,400 mm.) at the new Vyska plant. By the end

of 1983, Soviet planners predicted that 250,000 tons of such pipe would be created at this plant alone. This amount of pipe was not statistically significant, but it marked a new focus on domestic pipeline production. A year earlier, the Vyska facility had first successfully experimented with multilayer pipe (the kind that Mannesmann was renowned for), around the same time that the Novomoskovsk pipe plant in Dnepropetrovsk began fabricating high-quality pipe. Although the Soviets’ effort to produce their own pipe under Andropov marked a break from the past, it is important to stress that the USSR still remained dependent on foreign imports of pipe. At the time, a CIA report stated that the Soviet Union would “be almost totally dependent on the West” for its large-diameter gas pipelines until 1985.390

Unsurprisingly, the Soviet Union continued to rely on the West German firm Mannesmann to supply large-diameter pipe. In fact, less than a month after Andropov became general secretary, representatives from Mannesmann signed a new contract to provide $196.6 million in pipe and refinery equipment to develop the Astrakhan gas fields, located east of the Volga River and near the Caspian Sea. These gas fields were intended to supply gas to the southern parts of the Soviet Union. A month later, Mannesmann entered into an additional agreement to provide more supplies for this project, valued at $177 million. At the time, Soviet planners hoped to obtain 630 billion cubic feet/year from these fields.391

For the first time, in spring 1983, Mannesmann also became involved in developing the Soviet Union’s coal industry in the Kansk-Achinsk region of Siberia, the

391 “Soviets order Equipment for the Astrakhan Field,” Oil and Gas Journal, 3 Jan. 1983, 43.
same area that had recently opened a major oil refinery. This region, it turned out, also had large quantities of low-grade lignite, and Soviet planners had consulted West German industry leaders since the late 1970s for advice on development. As mentioned in previous chapters, the Soviet leadership had been divided on the importance of coal. The Brezhnev/Tikhonov faction, which had won the argument, had privileged oil and natural gas over other forms of energy, while the Kosygin/Baibakov faction had championed greater energy diversification. While Brezhnev was leader, Andropov had stayed out of these debates. But Andropov’s embrace of coal in 1983 put him in the later camp. The West German-Soviet joint-economic commission approved development in coal slowly over the course of 1981. Against this backdrop, Mannesmann provided technical advice and won contracts to provide some equipment for coal refinement. The Kohl administration approved of the development, and Lambsdorff announced that “every effort by the East bloc to increase energy sources for these countries relieves world energy markets.”

Mannesmann was not the only West German firm to become interested in the Soviet coal industry. In the spring, Friedrich Wilhelm Christian, the CEO of Deutsche Bank, flew to Moscow to discuss major West German lending to develop Soviet coal. Astonishingly, the Kremlin sought approximately $40 billion to purchase West German equipment and technology to convert the large brown coal reserves of central Siberia into gasoline. The West German engineering firms Lurgi and Imhausen were interested in the project, as well as such other firms as Ruhrkohle, Salzgitter, and Veba. Mannesmann and Lurgi even carried out a joint study commissioned by the Soviets to determine the

feasibility of transporting coal-derived gasoline over long distances. Although Christian did not commit the Deutsche Bank to financing the project, he suggested that the officials discuss it later. There was much optimism from the West German press. *Der Spiegel* claimed that the Soviet Union needed German engineering and financial assistance to see the project come to fruition.393

Yet Mannesmann’s real area of expertise was producing the large-diameter pipe for oil and gas pipelines. To this end, the firm continued to be reliable. In October, Mannesmann and the Soviet foreign trade agency, *Promsyryeimport*, negotiated another agreement for large-diameter steel pipe. The agreement finalized an arrangement, based on negotiations begun a year before, for Mannesmann to deliver 900,000 tons of pipe to the Soviet Union before the spring of 1984. Thyssen, which had often joined Mannesmann in negotiating major pipe deals with the USSR, declined to participate in the negotiations. At the same time, Otto Freimann, the director of Hoesch Salzgitter, announced that his firm would provide 100,000 tons of pipe over 1983 and expected to provide a similar amount of pipe in 1984.394 Thus, the traditional pattern of West German pipe exports of one million tons or greater to the Soviet Union was set to continue just as it had done since the early 1970s.

Not everything, however, was set to continue as usual. In an important turn of events, 1983 marked the last year of Egon Overbeck’s tenure as Mannesmann CEO. The successful businessman, whose firm had become the face of *Osthandel*, announced his plan to retire early in the year. Overbeck did not retire on bad terms with the company or

in any major dispute with management. Rather, he received praise for the success of his firm and for his forward-looking managerial approach.\textsuperscript{395} His departure instead had more to do with the company’s corporate policy that placed age limits on its leadership. Overbeck, who had led the firm for twenty-one years, reached that limit in 1983.\textsuperscript{396}

Overbeck had been highly successful in securing pipe contracts with the Soviets for his firm. His leadership had led Mannesmann to receive numerous pipe orders from the USSR.\textsuperscript{397} Not only that, Overbeck had developed a highly productive and friendly relationship with Soviet officials. Thus, there was concern within the Soviet Foreign Trade Ministry about the implications of his departure. In June 1983, West German Economics Minister Lambsdorff first informed Soviet Foreign Trade Minister Patolichev about Overbeck’s departure. Patolichev seemed surprised, but he informed Lambsdorff to give the outgoing Mannesmann leader his best wishes. “With Overbeck,” Patolichev remarked, “we work[ed] well.”\textsuperscript{398}

The retirement of Mannesmann’s long-time head was accompanied by strains. The issue of missile deployment began to test the Soviet foreign minister’s rapport with Lambsdorff as the year progressed. In the earlier days of their relationship, neither man had discussed the political and ideological differences between the Soviet Union and West Germany. The situation, however, had changed. Patolichev started bragging before

\textsuperscript{395} See Egon Overbeck, \textit{Mut zur Verantwortung: Vom Generalstaboffizier zum Generaldirektor} (Düsseldorf: ST Verlag, 1995), 142. Overbeck was widely praised, even being named the "Manager of the Year" by \textit{Wirtschaftswoche} in 1974.

\textsuperscript{396} Horst A. Wessel, \textit{Kontinuität im Wandel: 100 Jahre Mannesmann, 1890-1990} (unpublished company history), Mannesmann Archive, Mülheim, Germany, 488.

\textsuperscript{397} For a sample of early Mannesmann pipe orders, see Aufzeichnung des Ministerialdirektors Lautenschlager (footnote), 4 Mar. 1976, AAPD, 1976, I:345.

the West Germans that he had been a communist for fifty-six years and had served forty-five years on the central committee of the party. He also repeatedly claimed that the Soviet economic system was superior to that of capitalist nations. West German officials disliked such talk of ideology in the context of trade negotiations, claiming it was a violation of protocol. “We have not followed and do not intend to follow,” Lambsdorff pointed out, “the course of Karl Marx in the future.” Patolichev replied, “That’s your biggest mistake.”

In July, Kohl traveled to Moscow to meet with Andropov and Tikhonov. The Soviet general secretary’s rapidly declining health, along with the scheduled deployment of U.S. nuclear missiles in the FRG, framed the context of the meeting. In response to U.S. plans to place medium-range missiles in Germany, Andropov warned Kohl of unspecified Soviet counter-measures. Although the Soviet leader stopped short of threatening to deploy short-range missiles in East Germany and Czechoslovakia, Andropov was clearly agitated. Like Andropov, Tikhonov also criticized the United States. The Kremlin was sincerely committed to obtaining a mutually satisfactory agreement on reducing medium-range nuclear arms in Europe, Tikhonov stated, but the U.S. participation in the Geneva talks were only a façade. To calm the situation, Kohl shifted the conversation topic. Among other things, he broached the importance of West German-Soviet trade and noted that it had risen eight-fold since 1970. “We can look with
satisfaction,” Kohl remarked, “at the gratifying development of economic relations between our two states.”

As summer came to a close, the Euromissile crisis led to rising political tension between Bonn and Moscow. Against this backdrop, a group of West German SPD politicians pleaded for Andropov to do his part to reduce tension. Implicit in this plea was a desire to remove the threat of SS-20 missiles. The general secretary claimed that he was willing to remove two-thirds of all medium range nuclear weapons. But he also urged Bonn to honor the request of 72 percent of the West German people, who Andropov claimed were opposed to deployment.

Significantly, as tension over the missile issue grew, dialogue on trade continued as usual. In October, Vladimir Novikov, the head of the Soviet delegation within the joint-economic commission, traveled to Cologne to discuss trade with prominent West German businessmen, including Otto Wolff. Both the Soviets and the West Germans expressed a commitment to trade, even though each side feared that economic indicators were not positive. At one point, Novikov revealed that gas deliveries were approximately 10 percent lower in 1983 than in 1982 and were presently at the lower limit of contractual obligations. Later, Novikov claimed that Soviet sales of natural gas, petroleum, and mineral oil to the FRG for 1983, valued so far at 3.3 billion rubles, were 86.9% of the level achieved the previous year. Novikov did not cite the political situation for the decline in trade. Rather, he claimed that credit restrictions had hampered commercial relations and proposed that the West German government, through the Hermes Credit Insurance Company, guarantee more government-backed loans to promote Osthandel.

This development, Novikov pointed out, would be addressed in November, when the joint-economic commission held its annual meeting in Moscow. 403

At the same time, NATO’s Nuclear Planning Group (NPG) met in Montebello, Canada to discuss ways to resolve the Euromissile crisis. The western alliance’s leaders urged the Soviets to curtail their warheads in order to improve the political climate and restore détente. At the same time, in an act of goodwill, the NPG pledged to withdraw 1,400 NATO warheads over the next year. In the communiqué, NATO cited this number, together with the 1,000 warheads that the alliance had removed since 1979, to emphasize a serious commitment to decrease tension. But the exact locations for the planned withdrawal remained unclear, even though NATO’s leaders stressed that the alliance’s nuclear potential was the lowest that it had been in twenty years. For the Soviets and many West Germans, though, the communiqué meant little. Indeed, because the planned reduction did not include Pershing II or other medium-range missiles, the NPG’s goodwill gesture sidestepped the immediate source of anxiety. 404

A month later, a monumental debate occurred in the Bundestag over the planned deployment of medium-range missiles in West Germany. Kohl gave a powerful speech in which he vowed that West Germans should resist the Soviet quest for ―hegemony‖ in central Europe. Security, the chancellor maintained, demanded no less. Kohl, who condemned the Social Democrats for turning a blind eye to Soviet armament and criticizing U.S. actions, voiced support for the stationing of American medium-range

missiles in West Germany. His party’s resolution calling for the deployment of such weapons passed as 286 members of the CDU/CSU-FDP coalition voted for it, although a large number of Social Democrats and Greens were against it. As December approached, Pershing IIs were deployed on West German soil for the first time.\(^{405}\)

Still, Kohl sought to minimize the damage in Bonn’s relations with the Kremlin over the missiles issue. In November, the West German leader traveled to Moscow but did not meet with Andropov. The general secretary, it was becoming increasingly clear, had been growing sicker by the day. In fact, since summer, Andropov was spending more and more time at the central clinical hospital undergoing hemodialysis. Although Kohl did not know it at the time, Andropov had chaired what would be his last Politburo meeting two months before.\(^{406}\) Despite the general secretary’s sharp decline in health, Kohl was able to hold discussions with several other officials within the top brass of the Kremlin’s leadership, most notably Soviet Premier Tikhonov and his deputy Leonid Kostandov.

Just as the West German and Soviet leadership had advocated greater economic cooperation to resist American meddling during the pipeline crisis, both sides again vowed to expand commerce. Regarding the missiles, Kostandov insisted that “nothing should come in the way of improving West German-Soviet trade relations.”\(^{407}\) Equally important, Tikhonov unveiled two new changes to augment bilateral trade. First, West German business offices within the Soviet Union would receive the ability to dial the


\(^{406}\)Haslam, Russia’s Cold War, 344.

\(^{407}\)“Missile Dispute not linked to Trade; Soviets reassure Bonn on Economic Ties,” 16 Nov. 1983, Washington Post, A22.
FRG directly by phone. This change, the Kremlin hoped, would streamline communications, which Osthandlers had deemed inefficient. The previous year, because of technological problems with equipment, the Soviet Communications Ministry had curtailed the number of telephone links to the West. The FRG had been affected, losing more than half of its circuits.408 Thus, the new Soviet pledge to restore and enhance communication was a positive development. Second, Tikhonov vowed to give West German businessmen multiple Soviet entry-exit visas beginning in January 1984. Kohl and Lambsdorff were content with the talks, which lasted six days. Lambsdorff later recalled that there was “not a hint of tension” in the discussions.409 In the end, missiles did not trump trade.

There may have been no tension in the discussions, but the situation within the Soviet Union was different. As Andropov’s health failed, his ability to govern sharply declined. A few months after Andropov had come to power, the CIA had warned that he had lacked majority support in the Politburo and required a consensus to govern effectively.410 But Andropov’s condition and hospitalization prevented him from building strong support for his initiatives. In the process, his initiative for greater Soviet pipe production faded in importance. The pipe issue had been affected by a lack of consensus. Baibakov, of the State Planning Committee (Gosplan), was critical of the Ministry of Ferrous Metallurgy (Mnchermet) for failing to meet production goals.411

Minchermet and Gosplan, it would later become clear during the Chernenko period, had not worked well together on the issue of domestic pipe production, a fact that ultimately led to the government’s halting the financing the Novomoskovsk plant. Given Andropov’s health, the general secretary was in no position to referee the situation. In fact, his days were numbered.

Chernenko and Tikhonov: A Return to Brezhnevian Petro-Centrism

Andropov’s death in February 1984 produced a power struggle within the Kremlin largely consisting of two factions: the Brezhnevites and the Andropovites. The former, who had opposed Andropov’s discipline, toughness, and micromanaging, championed a return to Brezhnev’s relatively hands-off style of leadership. In combatting the widespread corruption associated with the Brezhnev era, Andropov had acquired fierce critics, especially those who owed their power to Brezhnev. Examples included Soviet Premier Tikhonov (Kosygin’s replacement) and long-time Politburo member Konstantin Chernenko. As a good friend, Tikhonov vigorously promoted Chernenko to become Andropov’s replacement. On the other side, the Andropovites supported the anti-corruption measures and clashed with the Brezhnevites for the future of the party. The Andropovite faction consisted of both older and younger party leaders, including Foreign Minister Andrei Gromyko, Defense Minister Dmitri Ustinov, and the young Politburo member Mikhail Gorbachev. Ultimately, Chernenko, who one observer called a “loyal

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413 Ibid.
squire” of Brezhnev’s,\textsuperscript{415} prevailed in the power dispute and became Andropov’s replacement as general secretary.

From the village of Bolshaya Tes, Novoselovo District, Krasnoyarsk Territory, Chernenko had experienced a colorful history. He came from a poor family that had worked as “hands” for kulaks, and all evidence attests to his commitment to the October Revolution. In fact, Chernenko earned the label “The Last Bolshevik.” Like Andropov, he had joined the Young Communist League as a young man. Also, like Andropov, Chernenko had first made a name for himself in the 1950s—he had been so skilled at propaganda that he became the head of the Soviet Propaganda Department. In the 1970s, Chernenko’s status in the party rose, ultimately culminating in his election to the Politburo.\textsuperscript{416} Although he owed much of his growing political clout over the years to Brezhnev, party leaders largely did not see Chernenko’s rise as a threat. Chernenko was a master of self-control. A distinguished party member, he possessed the ability to unite various factions within the Soviet power elite. In fact, although he had wanted to oppose Andropov after Brezhnev’s demise, Chernenko eventually decided to support Andropov for fear that his opposition would cause his own marginalization within the party.\textsuperscript{417}

Interestingly, despite his earlier career as a Soviet propagandist, Chernenko was not as ideological as Andropov was. It is true that Chernenko had written a large number of articles about Marxist-Leninism.\textsuperscript{418} Yet, like Brezhnev, he had become a defender of

\footnotesize{Feb. 1984, 22.
\textsuperscript{416} Konstantin Ustinovich Chernenko (Inagural Biography), \textit{Pravda}, 14 Feb. 1984, 1.
\textsuperscript{417} Zemtsov, \textit{Chernenko}, 132.
\textsuperscript{418} K.U. Chernenko, “Nekotorye voprosy leninskogo stilia v rabote KPSS,” “Resheniia XXVI s”ezda KPSS –Leninizm v deistvii,” in \textit{Izbrannye rechi i stat’i} (Moscow: Izdatel’tvo Politicheskoi Literatury, 1984), 109-45, 429-49.}
détente in the 1970s, composing speeches and articles that advocated greater cooperation with Western Europe as a means to promote a longstanding peace. More important for Osthandel, not long before becoming general secretary, Chernenko had pointed out the great strides in economic relations with NATO nations and had cited the Helsinki accords as a basis for peaceful cooperation between the communist bloc and the West.419

Less than a month after Chernenko came to power, the new Soviet leadership announced good news for Osthandel: West Siberia’s Urengoi gas pipeline, which the Reagan administration had worked so hard to undermine, would soon be operating at full capacity. Soviet planners predicted that the pipeline would deliver approximately 3.53 billion cubic feet of gas per day. This pipeline was set to export unprecedented volumes of gas to Western Europe via the grid system of West Germany. By contrast, West Germany, France, Austria, Italy, and later Switzerland would receive large quantities of gas. Soviet Premier Tikhonov was optimistic that other nations would also sign contracts and noted efforts to market the resource to Spain and Finland.420 Not long thereafter, the firm British Gas also reportedly expressed interest in acquiring Siberian gas, but the Thatcher government stopped the effort.421 Still, Brezhnev’s vision of a Soviet petro-empire engaging the West in trade clearly had come to fruition.

During Chernenko’s time as general secretary, there was much less emphasis on developing Soviet potential to manufacture pipe for energy pipelines. In fact, soon after Chernenko became the general secretary, the USSR Ministry of Ferrous Metallurgy halted its earlier efforts—begun during the late-Brezhnev era and intensified under

Andropov—to produce Soviet high-performance large-diameter pipe. “The USSR Ministry of Ferrous Metallurgy has stopped the financing of the [Novomoskovsk] facility,” industry insider V. Cherkasov reported in summer 1984, “where the new type of pipe is supposed to be manufactured.” Cherkasov suggested that Gosplan and Minchermet had disagreed on how best to proceed:

Despite a whole series of decisions by the USSR State Planning Committee, the USSR State Committee for Science and Technology, and the USSR Ministry of Ferrous Metallurgy itself, as well as the large amount of scientific and technical groundwork that has been laid for the production of the new type of pipe, the project is at a standstill...A mountain of paper has been produced with regard to the establishment of a shop to produce high-strength pipe for gas pipelines, but the problem remains unsolved.422

Although Cherkasov did not lay out the specific details of the disagreement, it seems likely that Soviet attempts to manufacture double-spiral pipe that could withstand high pressure—i.e. pipe that could withstand approximately 125 atmospheres of pressure like Mannesmann’s—were unsuccessful. The Soviets could not simply use an inferior product, because weak pipe would mean a significant reduction in energy export capacity and thus less earning potential. Although Soviet pipe could withstand 60 and 75 atmospheres of pressure, the much stronger Mannesmann pipe could accommodate 100 to 125 atmospheres. Amazingly, by changing from 75 atmospheres to 100 and 120 atmospheres, the USSR could transport approximately one-third more gas through any given pipeline. A difference of this magnitude made importing Mannesmann pipe more cost-effective than relying on the technologically inferior Soviet product.423 Unsurprising,

from the Soviet perspective, Mannesmann became important for the ongoing discussions on the construction of the new Yamburg pipeline, intended to be completed in 1986. In the long-term, once the project was complete in 1986, the FRG could obtain substantial quantities of gas. Although observers did not envision receiving huge quantities of gas from the Yamburg pipeline, they did believe that the project would be larger than IGATT II.424

Although the spring of 1984 saw USSR-FRG trade relations blossom, it was also a time of tremendous change because of a scandal in West German domestic politics. What became known as the Flick affair led to the resignations in June of several major politicians with intimate ties to Osthandel, including Economics Minister Lambsdorff and Christian Democrat party stalwart Rainer Barzel. The extremely wealthy West German businessman Friedrich Flick had holdings in many corporations including Dynamit Nobel AG, which had been actively involved in commercial relations with the Soviet Union.425 Yet Flick had been corrupt. Over the years, he had made large political contributions to Lambsdorff and Barzel in exchange for illegal tax concessions.426

The resignations of Lambsdorff and Barzel had serious implications, both positive and negative, for Osthandel. One the one hand, Barzel’s departure was a positive development, given the former Christian Democrat leader’s opposition to Ostpolitik and Osthandel. Indeed, Barzel’s resignation seemed little more than the removal of a hurdle

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426 Alan Montifiore and David Vines (eds.), *Integrity in the Public and Private Domains* (London: Routledge, 1999), 239.
against bilateral trade. On the other hand, Lambsdorff’s departure was a much more problematic issue. As economics minister, Lambsdorff had been a strong advocate of West German-Soviet trade. Since 1977, he had not only been involved in but had also personally overseen many of the major agreements and joint projects between the Soviet Union and the FRG. Thus, Lambsdorff’s absence was an issue of concern for all sides involved.

Yet the new West German economics minister, Free Democrat Martin Bangemann, laid to rest all fears that Osthandel would change course. Put simply, Bangemann was about as strong a supporter of West German-Soviet trade as possible. On the one hand, he brought to the job a new level of enthusiasm that Lambsdorff and Friderichs had lacked. On the other hand, this same enthusiasm made Bangemann somewhat of a provocateur as he cultivated an image of toughness in vowing to defend Osthandel. In reference to the Reagan administration’s earlier attempt to block East-West trade, for example, Bangemann announced that West Germany would “not tolerate” such intimidation. In October, to prevent such episodes from happening again, the new West German economics minister even called for legislation to make it illegal for West German firms to honor any trade restrictions that the United States or any other nation demanded. For Bangemann, the extraterritorial application of trade restrictions was unacceptable and violated sovereignty.427

Around the same time, Kohl gave a speech that stressed the growing importance of West German trade with the USSR. He called the Soviet Union the FRG’s “greatest Osthandelspartner.” Kohl also pointed out new features in the trade relationship. During

the 1970s, the Soviet Union had had an unfavorable balance of trade with West Germany for practically every year of the decade. At the time, Moscow had spent enormous sums of money purchasing West German steel pipe, machine tools, and capital goods to develop the Soviet energy-exporting infrastructure. Yet Kohl noted that the situation now had changed. In 1982 and 1983, the Soviets had achieved favorable balances—a trend that was continuing into the present. From the West German perspective, Kohl stated that the unfavorable balance of trade was a “negative development.”

On the bright side, the Soviet export surpluses during the period between Brezhnev and Gorbachev had enabled the Kremlin to control its foreign debt. The construction of the Siberian pipeline did not increase the Soviet hard-currency debt to the West. In fact, the USSR maintained a hard-currency debt of approximately $10 billion from 1980 to 1984. Because the price of oil and natural gas remained high, the Kremlin kept its debt in check largely through energy exports.

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<td>Total Soviet Exports to the FRG</td>
<td>7517.4</td>
<td>9224.8</td>
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<td>Total Soviet Imports from the FRG</td>
<td>7943.2</td>
<td>7621.4</td>
<td>9395</td>
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<td>10766.8</td>
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<tr>
<td>Soviet Balance of Trade with West Germany</td>
<td>-425.8</td>
<td>1603.4</td>
<td>1962.7</td>
<td>543.6</td>
<td>3624.8</td>
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Table 3: Soviet Balance of Trade with West Germany in DM Millions, 1980-1985

429 Newnham, Deutsche Mark Diplomacy, 189.
The Soviet Union was producing natural gas at unprecedented levels. Although the failure to meet five-year plan targets in many economic areas was a common feature of Soviet central planning, the communist superpower had no difficulties in surpassing gas targets. In fact, thanks to dramatic increases in natural gas production in the previous year, the Soviet Union was approximately 318 billion cubic feet above the planned target. Equally fascinating was the dramatic rise in the size of Soviet natural gas reserves, estimated at 1.7-1.8 quadrillion cubic feet on 1 January 1985. Western Siberia, specifically Tyumen, held the bulk of these reserves. At the same time, Soviet planners were exceedingly enthusiastic about the development of new fields. The “supergiant” Yamburg gas field, located north of Urengoi, was under development. Some industry experts believed that its production would rise twice as rapidly as the Urengoi fields.\textsuperscript{431}

With the rise in Soviet energy production came a marked increase in the USSR’s oil and gas exports to the West. In fact, 1984 saw such exports reach record levels. West Germany remained the Soviets’ largest consumer, just as it had been in 1982-1983. Natural gas, oil, and oil products constituted approximately 80 percent of the value of the Soviet exports to the FRG. By contrast, West German exports to the Soviet Union were more diversified, consisting of iron and steel goods, machinery, chemicals, manufactured goods, electronics and cars.\textsuperscript{432}

There were three main factors behind the rise in Soviet energy exports to the West. First, OPEC was producing less oil partly as a result of the Iran-Iraq war, a

\textsuperscript{431}“Soviet Gas Industry to surpass most 1985 Targets,” \textit{Oil and Gas Journal}, 28 Jan. 1985, 64.
\textsuperscript{432}Betr: Gegenwärtiger Stand der Wirtschaftsbeziehungen mit der Sowjetunion, 26 Jun. 1984, BA-Koblenz, B102/ 364337 (913949); Gespräch des Bundeskanzlers mit dem Leiter der sowjetischen Delegation, 10 Sep. 1984, BA-Koblenz, B102/ 364337.
development which opened new doors for the Soviets to market their energy. This war, it is important to stress, had a minimal effect on oil prices, which were already high before its outbreak.\textsuperscript{433} But as refineries, tankers, and pipelines in the Middle East were damaged, the war created an image of instability in that region. Thus, other oil producing areas became attractive. Second, given the high world market oil price at the time, the Chernenko administration slightly curtailed oil sales from Eastern Europe to divert to the West. Doing so allowed greater hard currency profits. Lastly, the stabilization in Soviet oil consumption domestically allowed new opportunities for exports. Indeed, during the Chernenko period, the Soviet Union made considerable progress in substituting gas for oil and petroleum products.\textsuperscript{434} This action freed up Moscow to sell the more profitable oil abroad for much needed hard currency.

As had happened often in the past, the January 1985 meeting of the West German-Soviet joint economic commission went smoothly, despite the presence of new representatives. This meeting was Bangemann’s first major venue to discuss bilateral trade. It also was A.K. Antonov’s first time heading up the Soviet delegation, which in the past had been led by Vladimir Novikov, Aleksei Manshulo, or Nikolai Osipov. At the meeting, both sides invoked the 1978 long-term cooperation agreement as the basis for a renewed effort to expand trade. Although energy remained the focus of bilateral commercial relations, the commission discussed new possibilities for cooperation in the

chemical, power engineering and machine building industries, as well as in large-scale agricultural projects.435

But the opportunity to expand trade hit a roadblock as Chernenko’s health declined. Just as Andropov had become ill in the summer of the previous year, Chernenko had fallen sick in the summer of 1984. Emphysema and renal failure had increasingly wreaked havoc on the Soviet leader thereafter.436 In fact, Chernenko had been forced to spend much time on a renal machine in a hospital throughout the autumn and winter. He, in effect, had become little more than a patient in a high-class nursing home for the party elite. Top Soviet officials knew that the general secretary’s demise was imminent, but the public remained largely unaware. In fact, a deception to portray Chernenko as healthy emerged, as evidenced by articles published under his name, despite his hospitalization. The ruse ended on 11 March 1985, when Chernenko died.437

Significance of the Interregnum

The period when Andropov and Chernenko led the Soviet Union marked the statistical high-point of West German-Soviet commercial relations. The volume of bilateral trade in 1984 was the highest for the entire period of 1969-1991, and the volume for 1983 was not far behind. The sheer magnitude of trade between late 1982 and early 1985 raises a number of significant questions.438 What factors or historical forces best

437 Ibid., 29.
explain the period as the highpoint of Osthandel? What role did the new leadership, both on the Soviet and the West German sides, play in this development? What was the overall significance of the Osthandel of the interregnum period?

To be sure, it would be a mistake to suggest that the new leadership during the interregnum, whether Soviet or West German, deserves the bulk of the credit for the intensification of trade. For the most part, the new leadership actually reaped the benefits of all of the pro-trade policies that previous administrations on both sides had implemented since Brandt introduced his Ostpolitik. 1984 saw the gigantic Urengoi pipeline begin operations—a fact that partly explains the high volume of trade for that year. Yet this pipeline, like all the others before, was the product of an earlier combination of Brezhnevian petro-centrism and Social Democrat trade initiatives discussed in previous chapters.

At the same time, given their personal histories and personalities, it is easy to imagine that Kohl, Andropov, and Chernenko each could have erected serious obstacles to trade, but they refrained from doing so. Early in his career, Kohl had had misgivings about Ostpolitik, but he continued Osthandel as chancellor. He did so largely for reasons of practicality and political expediency but also to preserve peace. Similarly, Andropov had cultivated a reputation as a hard-liner in foreign policy, but this aspect of his personality was absent with regard to trade. As a professional propagandist and ideologue, Chernenko had spilled much ink decrying West German revanchism, but commercial relations thrived under his stint as general secretary. In the end, both sides considered trade a necessary component of détente. That no side seriously considered halting economic relations demonstrates this fact conclusively. Thus, all three leaders
played an important role in maintaining the economic relationship that their predecessors had created.

To its credit, despite the missiles issue, the Reagan administration also did nothing to prevent the strengthening of Osthandel. Bad memories over the pipeline fiasco, discussed in the previous chapter, had led to a change in Washington’s policy toward West German-Soviet trade. Thus, during the interregnum, Bonn and Moscow were largely free to expand commercial relations.

Yet, as the adage says, all that glitters is not gold! As the next chapter will show, the interregnum years masked large structural problems within the Soviet economy that Osthandel had helped create. Specifically, West German trade had helped transform the Soviet export structure in ways that were detrimental to the USSR’s economy. This point became painfully clear after the oil price collapse of 1986. A couple of decades of building oil and gas pipelines, the new Soviet leader Mikhail Gorbachev would discover, had been a poor idea in times when there was little profit to be made.
In the context of West German-Soviet political relations, Soviet leader Mikhail
Gorbachev has developed somewhat of a mythic reputation. He, much more than his
predecessors, had a positive relationship with both Helmut Kohl and Ronald Reagan.
Gorbachev also curtailed the arms race, a development that won him much admiration
from Social Democrats and Greens inside the FRG. Furthermore, Gorbachev’s frequent
reference to a single Europe resonated with many West Germans, especially those on the
political left. Above all, he relinquished Soviet control over Eastern Europe, a
prerequisite for German reunification and a major development for which he received the
Nobel Peace Prize. For these reasons, there is little wonder that many Germans held and
continue to hold the Soviet leader in high esteem.

Yet, in sharp contrast to political relations, West German-Soviet trade relations
were disastrous during Gorbachev’s tenure. As this chapter shows, the period from 1985
to 1989 marked Osthandel’s most dramatic decline in its history. For the most part, this
development resulted not from the failure of Gorbachev’s economic reforms through
perestroika (restructuring). Neither did the poor trade performance arise from any new
measure that Kohl implemented. Rather, the decline in trade stemmed from the ongoing
global energy price collapse that began in 1986 and persisted for years after. Given the
centrality of energy to the development of Osthandel over the previous decade and a half, the bleak picture of trade was not surprising.

At the same time, Osthandel, which had constrained Soviet export diversification over the previous decade and a half with its almost exclusive focus on energy, became an important factor in Gorbachev’s perestroika. This restructuring, as its main theoretician Vadim Zagladin had envisioned it, would produce the “transformation of all society.”

Perestroika not only encompassed domestic reforms but also foreign trade, especially Osthandel. In response to the energy price collapse, Gorbachev embarked on an intense campaign to foster diversification in Soviet exports. With bleak prospects for profits amid exceedingly low energy prices, the Soviets largely stopped the most conspicuous feature of the Osthandel of the past decade and a half: the solicitation of West German assistance in pipeline construction.

Instead, Gorbachev championed a new foreign trade model, the joint-enterprise model, in which West German firms and Soviets ministries jointly created new businesses. This model was aimed at increasing the quality and quantity of consumer goods available to Soviet citizens. The joint-enterprise model, however, was not especially successful. Revealed first in 1987, it did not take hold among Osthandlers until the next year. By that time, the momentous developments that would end the Cold War and produce German reunification were under way.

A Time of Change

Gorbachev’s March 1985 rise to the most important position in Soviet politics, general secretary, shocked much of the world. After a series of sickly general secretaries, a vibrant, healthy leader emerged to head the Soviet Union. Much speculation ensued about whether he would bring change or continuity. Less than a couple of years later, the verdict was clear: dramatic change. New words and phrases entered Soviet and international lectionaries, such as “new thinking,” “perestroika,” “glasnost,” “demokratsiya,” and “a common European home.”

To understand Gorbachev’s reformist mindset requires some knowledge of his life experiences. Unlike his predecessors as general secretary, Gorbachev had been only a child during the Great Patriotic War. World War II did not have the same impact on him as it did on the older generation who had encountered its horrors in battle and against Soviet citizens. Still, Gorbachev was an extremely ambitious youth who had found personal fulfillment through participation in the party structure. He joined the Young Communist League (Komsomol), became an activist, and applied for party membership at the youngest possible age.

However, when he went off to the university, Gorbachev learned an important lesson that no doubt influenced his later thinking profoundly: he discovered that Marxist idealism and other socialist principles in the textbooks did not match the realities that he had experienced in his life. The collective farm laws that he had studied, he told a friend, were much less significant than the use of “brute force.” Gorbachev knew first-hand

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about life in the countryside since he had once operated a combine. This same critical spirit that he developed at the university led him to question other aspects of Soviet life. When he later became general secretary, Gorbachev expressed criticism of “statistical theory” in Marxist-Leninist accounts of economic development.

The sources behind Gorbachev’s economic reform planning had much to do with the growing stagnation of the Soviet economy. Since the mid-1960s, the growth rate of the Soviet Union had declined. Furthermore, such macroeconomic indicators as per capita income, consumption, and agricultural production had seen little tangible improvement. For the most part, Soviet workers did not use resources efficiently, and they had few incentives to increase industrial production. Drawing on ideas promoted a quarter-of-a-century before by the Soviet economist Evgeni Liberman, Gorbachev sought to raise consumption and production and also invest in light energy, which he thought would promote efficiency.

As long-time Osthandler Otto Wolff recalled, Gorbachev seemed committed to economic reform early on. At the most basic level, the Soviet rhetoric changed. Modernization, Wolff remembered, became the new catchword, and the past Soviet emphasis on construction, the rational use of resources, and energy-related matters faded in strength. Wolff credited Gorbachev’s dynamic spirit for this development. On another level, Wolff perceived an apparent decline in the Kremlin’s central control over

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444 Pis’mo M.S. Gorbacheva Gerbertu [Misu, Germania], 12 Feb. 1987, Gorbachev Foundation Archive, Fond 1, Delo 4855.
ministries. As the Kremlin reduced central power over the export economy, Wolff saw new opportunities for Soviet ministries to operate directly in foreign markets.446

_Osthandel_ became one area in which Washington sought to test the new Soviet leader’s resolve. Less than a month after Gorbachev’s ascendency, tension again emerged between Bonn and Washington about the role that trade should play in East-West relations. The _New York Times_ laid out the dispute succinctly and accurately:

> The Reagan Administration means to put heavy pressure on the Soviet Union by a rapid increase in military spending, new technology and economic development that will either put unbearable strains on the Soviet economy or force the Russians to disarm and reduce their threats to the West and in other parts of the world... But the Germans see high risks in the American approach, and prefer to build closer, complementary economic relations with the Soviet Union and its satellites as the means of achieving greater stability, safeguarding their independence and furthering their economic development. 447

The need to preserve the Christian Democrat-Free Democrat ruling coalition in part explained the Kohl administration's hesitancy to embrace Washington's position. The Free Democrats, crucial to Kohl's maintenance of power, had always championed trade with the Soviet Union and put up much resistance to Washington. In spring 1985, pro-_Osthandel_ sentiment increased in intensity when West German Economics Minister Martin Bangemann replaced Hans-Dietrich Genscher as head of the Free Democrat Party. A feisty, charismatic, and highly influential politician, Bangemann demanded the continuation of strong West German-Soviet economic relations in his capacities as both the economic minister and Free Democrat leader. “The Russians still have a very good position in Europe, with their raw materials, oil and gas,” Bangemann insisted. “We want joint ventures with them. We want to introduce more commercial activities. There is a

446 Otto Wolff von Amerongen, _Der Weg nach Osten_, 177-78.
certain interest on the European side to do that — that is the major difference between American and European approaches to the East." Bangemann’s tough approach worked, because Washington ceased meddling in Osthandel.

In May 1985, former chancellor Willy Brandt traveled to the Kremlin to speak with the new Soviet general secretary. Brandt described Gorbachev as “versatile and well-informed,” as well as “confident, relaxed, and friendly.” While Brandt discussed his goal of clearing away nuclear weapons at the meeting, Gorbachev stressed the importance of European solutions to European problems. The Soviet leader did not want Washington controlling European policy. “Europe does not live under a glass dome; it solves its problems in the real world,” Gorbachev asserted. “It has its traditions, its similarities and differences. It's important that European policy is designed in Europe.” Gorbachev stated that he had this pan-Europeanism in mind on matters of economic cooperation. This suggestion was aimed in part at past American meddling in West German-Soviet trade.

Brandt, who had worked intimately with Brezhnev in developing Ostpolitik, was more positive toward Gorbachev than was Kohl. The current chancellor noted nothing remarkable about the new Soviet leader. Yet, according to the former chancellor’s first impression, Gorbachev, although humble, was knowledgeable in foreign policy issues. Additionally, Brandt pointed out that Brezhnev generally had stuck to texts and hand-
written notes whereas Gorbachev spoke freely. Apparently, for Brandt, this quality was a positive sign. At the same time, the SPD leader noted that Gorbachev exhibited a dominant demeanor in his relations with other Soviet officials. This feature was apparent even in Gorbachev’s relationship with Andrei Gromyko, who had a long career as Soviet foreign minister.452

Brandt was right in his assessment. Within a few months, Gorbachev’s need to establish dominance had led him to dismiss many veteran Soviet politicians of the top-brass, including several with intimate ties to Osthandel. Foreign Trade Minister Nikolai Patolichev, Gosplan head Nikolai Baibakov, Foreign Minister Andrei Gromyko, and Prime Minister Nikolai Tikhonov all retired. No evidence suggests that Patolichev stepped down either out of personal animosity toward Gorbachev or pressure from the new general secretary. Rather, Patolichev, one of the highest decorated Soviet officials, was simply an old man. He had overseen Osthandel since its inception during the late 1960s and early 1970s. At the time of his departure, Patolichev had been a member of the communist party for approximately sixty years and had been an official in the Foreign Trade Ministry for decades.453

Yet Tikhonov, who officially had been the Soviet head of state since Kosygin’s departure in 1980, left office on extremely bad terms with Gorbachev. A close friend to both Brezhnev and Chernenko, Tikhonov had been both a strong proponent of West German-Soviet trade and Brezhnevian petro-centrism. He had also wielded tremendous political power. In fact, during Chernenko’s long hospitalization, Tikhonov had governed

the Soviet Union unofficially. It is reasonable, then, to suspect that Gorbachev saw him as a threat. According to one observer, Tikhonov, along with Baibakov, were “allowed to retire gracefully while temporarily retaining some honors.” Gorbachev apparently had worked out a plan with other Politburo members to remove these men, according to rumors within Soviet officialdom, as part of his broader pre-election plan. 454

Tikhonov’s successor as prime minister, Nikolai Ryzhkov, was an important political force. On the one hand, he was also a humble man who did not possess strong authoritarian tendencies. Ryzhkov was well liked for his ability to compromise, even though he was shrewd. On the other hand, his tendency to compromise created a reputation for indecisiveness. 455 Nonetheless, the new prime minister, a political moderate, supported Gorbachev against attacks from more conservative officials like Egor Ligachev. 456 Even more important was Ryzhkov’s economic acumen. He, more than any other Soviet official, consistently recognized the impact of the oil price collapse on his nation’s socio-economic problems 457 and called for the need to diversify the Soviet economy. 458

Another important new individual was Soviet economist and perestroika theoretician Vadim Zagladin. In September 1985, Zagladin sent a letter to Social Democrat Johannes Rau, the Minister President of North-Rhine Westphalia (West

Germany’s most populous region). The letter began by pointing out that the Soviet people felt no hostility toward the people of the FRG, and that West Germany was not at fault for the current troubled state of Soviet-West German political relations. The letter then moved on to its main purpose: it acknowledged the limits of the socialist system in terms of economic development. “Much of what we have in the economic sphere today,” Zagladin wrote, “was formed 20-30 years ago.” Zagladin added that there would soon be a restructuring of the Soviet economic system, and he asked for cooperation among capitalist nations, including West Germany. 459 The Zagladin letter was a harbinger of a change that would soon take place in the structure of Osthandel. Yet neither Zagladin nor anyone else recognized the problems that lay ahead for the Soviet Union.

The Great Oil Price Collapse of 1986

As 1986 dawned, Gorbachev was firmly in charge of the Soviet Union. He, however, had much to worry about. Although he was determined to introduce widespread political and economic reforms, a new crisis for the Soviets was brewing: an international oil price collapse. Between 1973 and 1984, Soviet revenues from energy exports had increased a staggering twenty fold. 460 Osthandel, with its emphasis on pipeline construction, had helped enabled that result. In the process, the Soviet Union had gone from a nation in which oil had accounted for only sixteen percent of its exports in 1970 to a nation with almost all energy exports nearly two decades later. 461 Yet disaster had now

459 Pis’mo I. Rau, 10 Sep. 1985, Gorbachev Foundation Archive, Fond 3, Delo 4784.
struck, as the oil price collapse resulted immediately in a four-fold decline in oil prices.

This development meant a sharp decline in Soviet hard currency supplies.

The oil price collapse of 1986 had its beginnings with OPEC developments. During the early 1980s, the oil-rich Middle East had increasingly experienced a decline in global market share of crude as the Soviets and others had increased their market share. There also had been recent discoveries of new oil fields in the North Sea, which further threatened OPEC’s future status as the major crude purveyor. Just as important was the feeling among Saudis, who held the largest oil reserves, that they were being cheated out of their earning potential. In the early 1980s, Saudi exports had declined sharply as OPEC essentially established a quota to prevent Riyadh’s dominance. The combination of these developments led OPEC throughout 1986 to dramatically increase its oil output to solidify its dominance as the major petroleum-exporting entity in the world. The nations within the organization, especially Saudia Arabia, flooded the market with unprecedented amounts of crude. Shockingly, although observers in the early 1980s had envisioned a time in the very near future in which the world market price of oil would be $100 per barrel, actual events turned in the exact opposite direction. Oil dropped to $10 per barrel and averaged approximately $15-$17 per barrel after stabilization.

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The sharp decline in oil prices produced a similar effect with natural gas. Technically, when speaking generally about the relationship between the price of crude oil and natural gas, it can be somewhat imprecise to suggest a direct correlation. Rather, there exists a co-integration of the crude oil and natural gas markets. Natural gas has tended to be *causally subordinate* to petroleum in this integration; that is, when there is a decline in oil prices, a decline in natural gas prices naturally follows, but not vice versa. Since oil prices dropped in the case of the 1986 crisis, natural gas prices declined sharply as well. Otto Wolff called the development the "*Preisverfall bei Erdöl und Erdgas*." \(^{466}\)

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464 Graphic from Energy Information Association (EIA)
465 For more information about the relationship between crude oil and natural gas, see Katharina Averdunk’s recently published Ph.D Dissertation, *Analysis of the Link between Crude Oil and Staple Food Prices and Its Implications on Developing Countries* (Berlin: Grin Verlag, 2011), 21-28. Averdunk has a section entitled “The Cointegration of Natural Gas and Crude Oil Markets,” in which she cites the work of four sets of economists and scholars to support the above claim about the precise description between the relationship between crude oil and natural gas prices: Ghouri (2006), Villar and Youtz (2006), Brown and Youcel (2007), and Hartley et al. (2007).
466 Wolff von Amerongen, *Der Weg nach Osten*, 337.
By spring 1986, Gorbachev’s frustration was clearly present, and West Germans felt his anxiety. Just as the oil crisis was beginning, the Soviet leader began to draw a clear distinction between the Kremlin’s political and economic relations with West Germany. Although it might have come as a surprise, this development marked a dramatic change in the Soviet leadership’s past relationship with Bonn. After all, as previous chapters have shown, Brezhnev did not separate economics from politics; rather, as an economic determinist, he had argued that a vibrant economic policy based on Soviet oil and gas exports was the key to Soviet political influence over the West. For Gorbachev, however, the situation had changed. He now created a dichotomy between economics and politics, a development that produced tension in Gorbachev’s thinking about how to deal with West Germany. On the one hand, after he learned of the unproductive arms talks between Kohl and Soviet arms negotiator Yuli Kvitsinsky, Gorbachev insisted that the Kremlin must not help Kohl in the upcoming elections. On the other hand, the Soviet general secretary stated that he was very interested in economic cooperation.

In April, West German Economics Minister Bangemann traveled to Moscow to discuss bilateral trade with Soviet Prime Minister Ryzhkov. This was the first major economics meeting to occur amid the energy price collapse. Unsurprisingly, the discussions were much different from the vast majority of such talks on commercial relations that had happened in the past. Beforehand, both the Soviet and West German

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468 Zapis’ A.S. Cherniaeva, Na uzkom soveshchaniu u M.S. Gorbacheva, 26 May 1986, Gorbachev Foundation Archive, Fond 2, Opis 2.
sides had discussed energy at length. Yet the Soviets, with the four-fold decline in oil prices now in effect, certainly did not want to discuss building more oil or natural gas pipelines. Bangemann and Ryzhkov both agreed that economic cooperation was an important part of bilateral relations. But the Kremlin’s frustration was present in the discussions. The longstanding Soviet position not to mix politics and trade, established by Brezhnev, was now out of practice. Ryzhkov stressed the priority of security concerns over economic issues.469

Yet Gorbachev and Ryzhkov’s outlook was a façade. At a meeting with communist officials in Budapest in June, Gorbachev secretly emphasized the continuing importance of West Germany as a trade partner for the eastern bloc. “At all meetings with friends,” Gorbachev advisor Anatoly Chernyaev recalled at the time, “there has been general agreement that it is necessary to work with the FRG.” The Soviet leader bluntly acknowledged that economic matters were the most significant factor in West German-East European relations. In fact, Chernyaev remembered that Gorbachev had claimed that communist friends “are all connected with [West Germany], economically, in the first place.”470

At the time, Vadim Zagladin, the theoretician behind perestroika, acknowledged his nation’s economic problems before a delegation of West German Social Democrat politicians. The Soviet Union, he pointed out, was experiencing difficulties in accelerating social-economic development. Such an admission before West Europeans was uncommon among Soviet officials, who typically sought to convey an image of their

nation’s strength. Yet Zagladin was honest, and he suggested that an improvement in the Soviet internal situation was in the best interest of the world. More important, Zagladin, while not yet announcing the major reform that would come to be known as perestroika, suggested that the Soviet Union would take steps to improve its development and suggested that his nation sought the peaceful cooperation of other countries.\footnote{Zapis’ besedy V.V. Zagladina s delegatsiei sotsial-demokraticheskoi partii Germanii vo glabe s chlenom pravleniia CDPG, zam. predsedatelia sotsial-demokraticheskoi fraktsii v bundestage FRG F. Khaufom, 1 Oct. 1986, Gorbachev Foundation Archive, Fond 3, Delo 4843.}

From the German side came a recognition of the impending changes. In a speech in Hamburg, Otto Wolff highlighted the problems of the Soviet economy, including stagnation, the use of obsolete technology, and the lack of economic diversification in exports. Wolff pointed out that the vast majority of such exports consisted of oil, natural gas, and products derived from petroleum.\footnote{Otto Wolff von Amerongen, Rede vor Bundeswehr-Führungsakademie am 16. 1. 1986 in Hamburg, zum Thema: “The Sowjetunion als Wirtschaftsmacht, Möglichkeiten und Grenzen politischer Einflussnahme.” 16 Jan. 1986, BA-Koblenz, B102/364337.} From his first-hand experience as an Osthandler, Wolff later recalled that the 1986 oil price collapse had been devastating for the Soviet economy, especially because 80 percent of Soviet exports had been energy sales. With the recent price collapse, the USSR’s foreign earnings from these exports had been halved since 1985.\footnote{Wolff von Amerongen Der Weg nach Osten, 179.} In other words, one of the leading Osthandlers acknowledged that the Soviet Union, by putting all of its eggs in one basket, had now fallen on extremely hard times.

Unsurprisingly, with the oil price collapse, the most conspicuous element of Osthandel was suddenly threatened. With earnings from oil and gas at an all-time low, Soviet purchases of Mannesmann’s large-diameter steel pipe and the construction of new
pipelines were halted. Instead the Soviet leadership now began to move away from energy and to promote economic diversification. Soviet Prime Minister Ryzhkov typified this sentiment. After bemoaning the “sharp decrease in oil and gas prices on the world market” he asked, “What was to be done?” His answer: “The most logical thing was to change the structure of the exports.”

For the Osthandlers, this development represented the loss of its major client. At its peak between the mid-1970s and early 1980s, Mannesmann’s pipe exports to the Soviet Union had constituted the bulk of the firm’s earnings, with 60 percent of its large Mülheim plants dedicated to filling Soviet pipe orders. According to a Business Week report in 1976, “European exports to the Soviets, such as Mannesmann pipe, dwarf U.S. exports.” In the next decade, until energy prices collapsed, Mannesmann had delivered more than ten million tons of large-diameter steel pipe. Put in other terms, Mannesmann alone had provided the material for the Soviets to create several export-pipelines whose collective length had totaled 40,000 kilometers—an amazing 24,855 miles. It is no exaggeration to claim that this particular West German firm, much more than any other international business, had played the most significant role in helping to direct the Soviet economic structure towards energy exports.

Mannesmann survived the energy price collapse by diversifying its own focus and products. This process had already begun in the early 1980s, when Overbeck was still

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474 Quoted in Gaidar, Collapse of an Empire, 122.
477 Horst A. Wessel, Kontinuität im Wandel: 100 Jahre Mannesmann, 1890-1990 (unpublished company history), Mannesmann Archive, Mülheim, Germany, 417.
CEO.\textsuperscript{478} One area that the firm had invested heavily in was electronics and early cellular telephone technology. In 1981, Mannesmann had acquired the technology firms Hartmann & Braun and Kienzle Apparate Gm, leading world players in automation engineering and data processing. These acquisitions helped lay the foundation for Mannesmann’s entry into the telecommunications industry in the early 1990s, when its Mobilfunk GmbH won major bids to build and operate the D2 cellular telephone network. In the process, Mannesmann turned away from pipe in favor of the cell phone, a decision that ultimately laid the basis for its ultimate demise. In 2000, Vodafone, the world’s largest cell phone company, acquired Mannesmann.\textsuperscript{479}

**New Developments in Osthandel**

As the energy price collapse persisted, the Soviet Union was forced to address the economic situation and implement reforms. In January 1987, Gorbachev unveiled *perestroika* before the Central Committee of the Soviet Communist Party plenum. The general idea, hinted at earlier by Zagladin to the West Germans,\textsuperscript{480} was that the Soviet economic system needed restructuring. In practical economic terms, *perestroika* entailed the transition from a central-planned economy to market socialism. The most dramatic change was that Soviet ministries were now given permission to act directly in business

\textsuperscript{478} Ibid., 488-89.
\textsuperscript{480} Pis’mo I. Rau, 10 Sep. 1985, Gorbachev Foundation Archive, Fond 3, Delo 4784; Zapis’ besedy V.V. Zagladina s delegatsiei sotsial-demokraticheskoi partii Germanii vo glabe s chlenom pravleniiia CDPG, zam. predsedatelia sotsial-demokraticheskoi fraktsii v bundestage FRG F. Khaufom, 1 Oct. 1986, Gorbachev Foundation Archive, Fond 3, Delo 4843.
relations with foreign nations.481 The impact on Osthandel was immediate: no longer was the Soviet Foreign Trade Ministry in charge.

Soon after Gorbachev unveiled perestroika, the Soviet general secretary felt the need to justify his reforms to West German communists. In a remarkable letter to West German communist party chairman Herbert Mies, Gorbachev explained that Marxist-Leninism, with its scientific and statistical façade, had failed to produce viable economies. “Statistical theory has brought enormous harm,” the general secretary wrote, “to the business of socialism and every revolutionary movement.” Perestroika, Gorbachev suggested, was aimed at correcting the situation, even though the process would not be simple. So that Mies and other West German communists maintained confidence in their ideology, Gorbachev added that he would turn to Lenin for advice. “This is a necessity,” he remarked, “like quenching thirst.”482

One new area of cooperation was associated with tragedy. In the wake of the 1986 Chernobyl disaster, West German businessmen sought to assist the Soviets in the development of safer nuclear plants. According to Kohl, reactor safety became a prominent feature of East-West dialogue.483 According to Die Zeit, West German businessmen dreamt of “a billion dollar business” in the sale of nuclear power technology. Among the chief promoters of such dreams was West German Minister of Scientific Research Heinz Riesenhuber, a strong proponent of nuclear energy. In spring 1987, he traveled to Moscow to market the FRG’s high technology in nuclear power

482 Pis’mo M.S. Gorbacheva Gerbertu [Misu, Germania], 12 Feb. 1987, Gorbachev Foundation Archive, Fond 1, Delo 4855.
production. When he returned, Reisenhuber announced a billion-dollar agreement for West German firms to retrofit seventy-eight nuclear reactors within the Soviet Union. At the time, Matthias Engelsberger, the CDU energy spokesperson, praised the agreement. Cooperation in promoting the peaceful use of nuclear power, all sides tended to agree, was central to the maintenance and strengthening of bilateral relations. 484

At the same time, other prominent West German officials and businessmen expressed some pessimism about the prospects of serious bilateral cooperation in nuclear energy. Wolfgang Breyer of Kraftwerk Union (KWU), the FRG’s main producer of nuclear power plants, had for many years promoted industrial cooperation in such energy, but he had had limited success. This fact had especially been the case during the Brezhnev era. Unsurprisingly, Breyer expressed cautious optimism. And though an Economics Ministry spokesperson highlighted positive discussions between Bangemann and Deputy Soviet Prime Minister Aleksei Antonov on the subject, the spokesperson noted that it was too early to cultivate high expectations of earning billions of dollars in possible transactions. 485

Meanwhile, the continuing oil price collapse began to strain Soviet-East European relations. At a Politburo meeting in March 1988, Gorbachev admitted his deep frustration and fears over trade relations with Eastern Europe amid the oil price collapse. When Rhyzkov pointed out that the price per ton of Soviet oil had dropped from 180 to 54 rubles, Gorbachev stated that “we cannot remain a provider of cheap resources [for allies] forever.” Gorbachev went on to criticize the lack of diversification in Soviet

485 Ibid.
exports and acknowledged that this feature was a key reason for Moscow’s current economic problems. Regarding Eastern Europe, the general secretary lamented that “we almost have no trade, only primitive exchange” with the exception of energy exports.\textsuperscript{486}

On Brandt’s second trip to Moscow, he and the general secretary discussed the full implications of Gorbachev’s reforms. Their wide-ranging conversation included \textit{perestroika} and \textit{Osthandel} and also the question of nationalities. Moreover, Brandt discerned that Gorbachev’s \textit{demokratisiya} within the Soviet Union had obvious implications for Germany. Would the republics within the USSR obtain the right of self-determination? Would they be allowed to break free from the Soviet Union? And could the Soviets encourage democratization in satellite nations? If so, could this mean that German reunification, provided that East Germans desired it, occur in the near future?

Gorbachev assured Brandt that Soviet democratization was indeed a sincere process. The Soviet leader pointed out that in Nagorno-Karabakh, a crisis-prone area within the USSR, there already existed considerable anti-socialist solutions but no desire to secede from the Soviet Union. Although the question of German reunification was not directly addressed, the direction of Gorbachev’s new policies seemed not to rule it out.\textsuperscript{487}

Meanwhile, the business of trade carried on.

In the meantime Gorbachev plunged ahead with his new joint-enterprise model of foreign trade. At a symposium aptly called “Joint Enterprises 1988,” leading Soviet scholars, economists, engineers, and lawyers came together to discuss this new form of

\textsuperscript{486} Zapis’ TsK KPCC (Politburo Session), 10 Mar.1988, Gorbachev Foundation Archive, Fond 2, Opis 2.

\textsuperscript{487} Aus der Aufzeichnung des Gesprächs des Praesidenten der SI und Ehrenvorsitzenden der SPD, Brandt, mit dem Generalsekretär des ZK der KPDUS, Gorbatschow, in Moskau, in \textit{Willy Brandt: Berliner Ausgabe}, Bd. 10, Dok. Nr. 43, 324-41.
commercial cooperation. This new model, which had originated in Yugoslavia during the late 1960s and was later adopted by Hungary and China, was now introduced into Soviet economic relations with the West. Speakers at this symposium were enthusiastic over the prospects of broadening trade and gaining access to crucial Western technology—especially computer technology—an area in which the second world notoriously lagged behind the first world. One speaker referred to China’s success in producing 30,000 personal computers a year.

Leaders of the West German computer industry were also enthusiastic about gaining access to Soviet markets. However, legal hurdles and tight regulation restrained their ambitions. Peter Rasch, whose business was located in the Hessian city of Rödermark, complained that he could not sell his personal computers in the Soviet Union or Eastern Europe because of CoCom restrictions against their export. “I lose one job after another,” Rasch lamented. When many West German politicians attempted to skirt CoCom restrictions, the Kohl government was forced to address this matter.

Under the new conditions of perestroika, the Soviet Union still wished to expand economic cooperation with the FRG. In 1988 Soviet Deputy Foreign Trade Minister Yuri Alexandrovich Znamensky traveled to Stuttgart, Dusseldorf, and Frankfurt to promote joint business ventures. In July, a major milestone in Osthandel’s history occurred: the creation of the first joint West German-Soviet business. The Ordzhonikidze machine-tool factory in Moscow entered into a joint venture with Heinemann, a machine factory

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489 Ibid.
490 The Coordinating Committee for Multi-lateral Export Controls (CoCom), a NATO committee located in Paris, had to approve each transaction in which a Western nation sought to export products that had military applicability to the Soviet Union or communist bloc.
producer from the Black Forest, to establish the machine-tool firm Homatek. The success of this project led to a similar arrangement a couple of months later, when the Swabian Liebherr Group and the Soviet Production Association of Heavy Industry agreed jointly to manufacture mobile cranes in Odessa, Ukraine. Soon thereafter, joint ventures extended into areas beyond machines. In October, the West German shoe-making firm Salamander from Kornwestheim joined with two major Soviet shoe producers, “Proletarian Victory” in Leningrad and “Red Star” in Vitebsk, Belarus to produce high-quality, attractive footwear for Soviet citizens.492

Such joint enterprises became a positive topic of conversation between Gorbachev and Bangemann. In May 1988, these two leaders met to discuss the ways in which perestroika would affect bilateral trade. Much of the talks addressed the most recent annual meeting of the West German-Soviet joint commission on economic, technological, and scientific cooperation. Bangemann called this meeting, the sixteenth since the commission’s formation in 1972, the most effective in the commission’s history. Unlike the past commission meetings—almost all of which had championed the expansion of trade into new areas of cooperation besides energy—this meeting highlighted concrete results. In particular, Bangemann praised recent developments that had produced new forms of economic interaction, especially the nine joint ventures that had been created. Gorbachev, who gave assurances that the Soviet Union did not want to cause tension between the FRG and the United States or Western Europe, nevertheless rejoiced in these bilateral developments.493

493 Besed’ M.S. Gorbacheva s M. Bangemanom, 16 May 1988, Gorbachev Foundation Archive, Fond
To some extent, Gorbachev’s conversation with Bangemann revealed the Soviet leader’s deep interest not only in expanding his nation’s relations with West German businesses but also his hopes for expanded Soviet trade with the European Economic Community (EEC or Common Market). Both the communist bloc and Western Europe, Gorbachev suggested, shared a single European home. Thus, the CMEA and the Common Market should not only meet but form structures for pan-European economic cooperation. Given perestroika’s emphasis on the importance of greater trade with capitalist nations, this feature was unsurprising. What was surprising, however, was Gorbachev’s lack of understanding of the EEC, which he apparently assumed was much more centralized that it really was. To some extent, he envisioned it as the West European equivalent of CMEA, which indeed operated under rigid centralization. Yet in matters of foreign trade outside of member nations, the EEC still lacked supranational structures, a strong bureaucracy, or central planning. Not unexpectedly, this proposal represented more of a pipe dream than a realistic prospect. 494

In dealing with the Soviets, Kohl effectively used trade and economic issues as a lever to enhance West German bargaining power. This fact was obvious in his October 1988 visit to the Kremlin. Kohl’s delegation did not include close advisors, major foreign policy experts, or politicians of opposition parties. Rather, the delegation consisted of a few CDU politicians but also of many individuals closely connected with Osthandel. His entourage included Otto Wolff von Amerongen (Committee on Eastern European economy), Berthold Beitz (Krupp), Carl Horst Hahn (Volkswagen), Fran Severding

1, Opis 1.

494 Ibid.
Kohl’s October 1988 visit was path breaking in his relationship with the Kremlin. As a result, he and Gorbachev drew closer, ending the tension in the relationship between Soviet and West German leaders that had existed since Brezhnev’s demise and Schmidt’s departure in late 1982. At the meeting, Gorbachev emphasized important themes that resonated with Kohl, including a “mutual respect for each other’s values,” “liquidation of nuclear weapons,” and “freedom of choice.” Given the positive relationship between the two leaders that developed during this visit, Kohl later emerged as the main middleman or intermediary between the leadership in Washington and Moscow.\(^{496}\) That Kohl’s wife Hannelore accompanied the chancellor during the visit likely added a positive element to the atmosphere. Both Kohl and Chernyaev, Gorbachev’s advisor, mentioned her presence in their respective memoirs and diaries.\(^{497}\)

As a result of Kohl’s visit, both nations agreed to establish the first program of cultural and scientific cooperation. This development included greater bilateral interaction in research and technology, an area of collaboration that had largely been off-limits for the greater part of the Cold War. The hope, according to Kohl, was to establish contacts between the German Society for Foreign Policy in Bonn and the Soviet Academy of Sciences in Moscow. That the German Society for Foreign Policy should

\(^{495}\) Kohl, Erinnerungen, 755-56.
\(^{496}\) Savranskaya, Blanton, and Zubok, The Peaceful End of the Cold War, 309.
oversee such cooperation no doubt was an interesting feature.\textsuperscript{498} It probably resulted from Bonn’s belief in the need to maintain limits on the contacts between Soviet and West German scientists and intellectuals. Indeed, such a position reflected Kohl’s broader strategy of privileging national security issues over cultural exchange, economic issues, and other concerns.\textsuperscript{499}

More important for Osthandel, the October 1988 agreement saw a new pledge of economic cooperation. Bonn announced its preparedness to take part in a program aimed at modernizing the Soviet economy, especially in the areas of food production and the lighting industry. To this end, Kohl even discussed the possibility of a consortium of West German banks granting the Soviet Foreign Trade Bank a small loan of one-billion rubles (approximately $15 million), although the details had to be worked out later. Repeating the sentiments of the Gorbachev-Bangemann meeting a few months earlier, both the West German and Soviet sides praised the new joint economic ventures, which Kohl depicted as “a major contribution to the intensification of economic relations and to the improvement of infrastructure.”\textsuperscript{500}

The Soviets were obviously keen on gaining West German support. In answer to the questions posed by the FRG businessmen, Zagladin characterized perestroika as a process that would improve Soviet relations with foreign nations. The joint enterprises would expand cooperation and consumers would benefit from their high-quality products. Acknowledging the problem of the CoCom restrictions, Zagladin stressed the the

\textsuperscript{498} Offizieller Besuch in der Sowjetunion: Bundeskanzler Kohl vor der Presse in Moskau, 26 Oct. 1988, in 40 Jahren Aussenpolitik der Bundesrepublik Deutschland, dok. nr. 264, 533-34
\textsuperscript{500} Offizieller Besuch in der Sowjetunion: Bundeskanzler Kohl vor der Presse in Moskau, 26 Oct. 1988, in 40 Jahren Aussenpolitik der Bundesrepublik Deutschland, dok. nr. 264, 533-37.
necessity of establishing full cooperation in order that East-West trade reach its fullest potential.\textsuperscript{501}

In Zagladin’s \textit{perestroika} and Gorbachev’s joint-enterprise model, there were strong echoes of the earlier integrationist ideas of Karl Schiller. As the FRG’s economics minister from 1969 until 1972, Schiller had argued that economic integration was one of the surest ways to obtain peace and achieve mutual happiness between Western Europe and the communist bloc. The spiritual father of \textit{Osthandel} had claimed that “the inclusion of the Soviet Union and Eastern Europe into the international division of labor, into the process of global economic integration” was even more important than the creation of West German markets.\textsuperscript{502} Gorbachev’s joint-enterprise model seemed to be the triumph of this mindset. Beforehand, although there had been numerous joint West German-Soviet projects—especially in the area of energy—there had been no firms jointly owned by both countries.

At the same time, despite Gorbachev’s new initiatives and emphasis on joint-economic ventures, West German-Soviet trade statistics were puzzling. On the one hand, for the first time in three years, trade turnover actually had increased by October 1988. On the other hand, the increase (0.4 \%) was so low as to be almost insignificant. For the year, the value of trade was approximately half of the level three years before, the already bygone era of high oil and natural gas prices. More important, the rise in total volume of trade masked the one-sidedness of the business relationship. In reality, West German exports to the Soviet Union had risen by approximately 10 percent, whereas Soviet

\textsuperscript{501} Otchet o komandirovke v FRG,” Gorbachev Foundation Archive, Fond 3, File 7166.

exports to the FRG had fallen by approximately the same amount. \(^{503}\) Gone were the glory days of Osthandel.

One development that eroded Osthandel in late 1988, although unintentionally, was the Soviet Union’s new reforms to combat cronyism and corruption. In December, amid the 12\(^{th}\) Session of the Supreme Soviet, the Kremlin embarked on a campaign to increase greater geographical and ethnic diversity within the Soviet decision-making structure. According to a new law, of 2250 deputies, 750 would come from territorial districts, 750 from socialist organizations, including only 100 from KPCC, the Komsomol, and trade unions. \(^{504}\) On the one hand, this restructuring gave new people with fresh ideas a powerful voice in the decision-making process. On the other hand, many apparatchiks who had built their careers in ministries saw their influence wane.

Another significant element of Gorbachev’s perestroika was the creation of the International Department, a new Soviet bureaucracy led by former Soviet ambassador to West Germany Valentin Falin. This department, which combined several smaller and older units, was tasked with creating a broad strategy for Soviet relations with European socialist countries. But given the four-fold decline in oil and gas prices, Falin also recognized the dim prospects of providing Eastern Europe with cheap energy. An International Department memo from February 1989 stated that the “old forms of economic cooperation have largely been exhausted.” If the Soviet Union continued to provide its satellites with subsidized energy, it would experience an unacceptable negative balance of trade with its CMEA partners. Thus, the memo proposed curtailing


\(^{504}\) Ol’ga Kryshtanovskaia, Anatomia Rossiiskoi Elity (Moscow: Zakharov, 2004), 109.
energy exports in the coming five-year period. The consequences were clearly anticipated. The highly influential Bogomolov Institute bemoaned the “degradation of common ties” between the Soviet Union and its satellites.

Undoubtedly, the Soviet decision to reduce its oil and gas exports to Eastern Europe undermined the stability of the communist bloc. “We used to sell oil to [Warsaw Pact members] four or six times cheaper than on the world market,” the Armenian economist Georgy Shakhnazarov later recalled, “and that way we were able to support all socialist countries more or less. We began reconsidering the price system. That was a substantial blow to the socialist countries.”

Another important departure occurred when Gorbachev, as a special guest of Otto Wolff, gave a speech before the Cologne Chamber of Commerce and Industry in June 1989. It was somewhat rare for the leader of any nation, much less a superpower, to address a municipal body. At the event, Gorbachev praised the complementarity of the West German and Soviet economies and the long business tradition that had enabled the FRG to retain its leadership as the most important Soviet trading partner among Western nations, including Japan and the United States. After admitting that the drop in oil price had had a harmful effect on West German-Soviet trade, Gorbachev expressed

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507 Ibid.,156.
disappointment with the reluctance of West German businessmen to develop new commercial ties with the Soviet Union:

There is a kind of guardedness among FRG business circles [to engage in commercial activity]. In this case I am speaking about you who are presently here. I have heard reports...that representatives of your nation's business circles have asked: Why should we be in a hurry to develop ties with the Soviet Union? First let them sort out their own issues in the USSR and we'll wait.\footnote{Uglublenia ekonomicheskovo sotrudnichestva,” Ekonomicheskaia Gazeta, 25 (Jun. 1989):1-3.}

Now desperate for German support, Gorbachev painted the Soviet Union as a safe and viable destination for West German investment, claiming that there were some 72 joint-economic ventures underway.\footnote{This reference was apparently the total number of joint ventures with all nations. Indeed, Gorbachev implemented the joint venture feature in Soviet trade with many nations, including the United States. See “The West can do Business with the Soviet Union,” Wall Street Journal, 28 Dec. 1987, 1.} At the same time, Gorbachev directly challenged Wolff’s assertion that the joint-venture model was a panacea for preserving the Soviet economy. “We are not such simpletons who consider and think that some single thing will save us,” Gorbachev remarked. “We champion broad and highly diverse kinds of cooperation and do not underestimate the importance of trade in goods. Yet all the same, we favor cooperative production ties, cooperation between scientific and technical collectives, joint enterprises and other new forms.”\footnote{Ibid.} But given the increasingly chaotic political environment in the communist bloc, West German-Soviet trade, despite Gorbachev’s pleas, did not increase significantly as the year wore on.

In fact, during the summer of 1989, Gorbachev laid the groundwork for the ultimate disintegration of the communist bloc. During his June visit, the Soviet leader had met Kohl and discussed his ideas of pan-Europeanism. But by this time, the Solidarity
movement had won elections in Poland, and East Germans had begun their exodus through Hungary and Czechoslovakia. Although Gorbachev cautioned Kohl against using events in Poland as a springboard to wage a broader campaign against communism, the Soviet leader unequivocally repudiated the Brezhnev Doctrine.\footnote{Record of Conversation between Mikhail Gorbachev and Helmut Kohl, 12 Jun. 1989, in Savranskaya, Blanton, and Zubok (eds.), \textit{Masterpieces of History: The Peaceful End of the Cold War}, doc. 63, 463-67.} This was not Gorbachev’s first denunciation of this doctrine. He had done so publicly before the UN in December 1988. Yet this renewal of his pledge to honor his commitment, especially in a time when regimes in Eastern Europe were coming apart, was especially meaningful. In July, in an address before the Council of Europe in Strasbourg, Gorbachev again laid to rest fears that the Soviet Union would use military force to prevent its satellites from implementing democratic reforms.\footnote{Address by Mikhail Gorbachev to the Council of Europe in Strasbourg, 6 Jul. 1989, in Savranskaya, Blanton, and Zubok (eds.), \textit{Masterpieces of History: The Peaceful End of the Cold War}, doc. 73, 492-96.} This speech, one observer later noted, was also “Gorbachev’s \textit{cri de coeur} for Soviet integration into Europe.”\footnote{Ibid., 492.}

To be sure, events in autumn 1989 marked the beginning of the end of German division. From the East German side, there was a growing crisis of citizens leaving the GDR. Throughout September and October, a number of peaceful protesters also began clamoring for democracy in Leipzig, East Germany. Over time, their numbers snowballed, putting great pressure on Erich Honecker’s communist regime. The widespread dissatisfaction with the East German system became especially evident during Gorbachev’s visit to East Berlin in October to commemorate the 40th anniversary of the GDR. The Soviet leader was startled to find dissidents appealing to him for help.
Soon after, Honecker, who had ruled the GDR since the early 1970s, was dropped by a GDR regime still hoping to save itself.

An event more ingrained in the consciousness of millions of Germans and people around the globe occurred next: On November 9, 1989, the Berlin Wall fell. This event resulted from miscommunication. Gorbachev certainly did not authorize it. In fact, he was angry over it. The opening of the wall, taken over by the crowds, also struck fear among the Bonn leadership until Kohl could come up with a response. In the meantime, the fall of the Berlin Wall emerged as a harbinger of East Germany’s doom and became a symbol for the broader movement for German reunification.\(^5\) It also helped produce a cascade of events in Czechoslovakia, Hungary, Bulgaria, and Romania, which by the end of 1989 had ended Soviet control in Eastern Europe and then began spreading to the Baltics. The Iron Curtain’s end was in sight.

The Fall of the Berlin wall and Kohl’s 10 points placed the issue of German unification on the international agenda. On January 25, 1990, Gorbachev assembled the Soviet top brass, including Ryzhkov, Chernyaev, Shevardnadze, and Falin to discuss Germany’s future. According to Chernyaev, a deep sense of fatalism characterized the meeting. Everyone agreed that the Soviets could do little, if anything, to stop reunification. At the same time, the Soviet leadership insisted that Moscow needed to take part in the process if only to “see that it does not turn against us.” Ryzhkov, who passionately argued against “giving everything to Kohl,” pointed out that economic disparity between the rich FRG and the poor GDR represented a serious hurdle to

unification. Yet the other Soviet leaders did not find Ryzhkov’s position persuasive and expressed the view that they no longer had a partner among the East German leadership. As one official indicated, the communist organizational structure within the GDR had all but disintegrated.\footnote{Zapis’ A.S. Cherniaeva, obyszhdenie germanskovo voprosa na uzkom soveshehanii v kabinete general’noy sekretar’ TsK KPSS, 26 Jan. 1990, Gorbachev Foundation Archive, Fond 2, Opis 1; Diary of Anatoly Chernyaev regarding German Reunification, 28 Jan. 1990, in Savranskaya, Blanton, and Zubok (eds.), Masterpieces of History: The Peaceful End of the Cold War, doc. 118, 673-74.}

Meanwhile, Kohl used economic incentives as a carrot to entice Gorbachev into allowing the creation of a single German state within NATO. In July 1990, the West German leader traveled to Zhleznovodsk to discuss this thorny national security issue. At the time, U.S. President George H.W. Bush strongly pressured Kohl into seeking a single German state with strong membership in NATO, claiming it was vital for maintaining U.S. and European security.\footnote{Frank R. Douglas, The United States, NATO, and a New Multilateral Relationship (Westport, CT: Praeger, 2008), 62.} But the Soviet general secretary had two major concerns. On the one hand, he feared that a united Germany might acquire nuclear or biological weapons. On the other hand, Gorbachev had to address the implications of unification on the large number of Soviet soldiers stationed in East Germany. Were they to stay? Were they to return to Soviet soil? Who would pay for their repatriation?\footnote{Beced’ M.S. Gorbacheva s G. Kolem, 16 Jun. 1990, Gorbachev Foundation Archive, Fond 1, Opis 1.}

Kohl was prepared to accommodate the Soviet leader. He vowed that the united German state would never possess weapons that could threaten Soviet national security, whether nuclear, chemical, or biological. Furthermore, Kohl suggested that Germany would bear much of the costs for repatriating the Soviet troops. The FRG, he asserted, would provide DM 13 billion to defray the costs of repatriation, which had to be

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completed by 1994. On October 3, 1990, less than a year after Fall of the Berlin Wall, the GDR was absorbed by the FRG and German unification—the original goal of Brandt’s Ostpolitik—was fulfilled long before its author or anyone else had anticipated.  

_**Osthandel:** As a Long-term Cause that Contributed to the Economic Decline of the Soviet Union

The fall of the iron curtain in 1989 and the collapse of the Soviet Union two years later ushered in an era of tremendous change across Europe. To his credit, Gorbachev did much to bring the Cold War to a peaceful end. He had worked to end the arms race, actively sought peace, and relinquished Soviet control over Eastern Europe. But among citizens of the newly created Russian Federation, Gorbachev became a symbol of failure. When he attempted to run for president in 1996, he only carried 0.5 percent of the vote. Yet what, in the final analysis, is the verdict on Gorbachev’s economic policy? Does he deserve much of the blame for the economic problems that beset his people in the late 1980s, or were his reforms on the right path but simply too little, too late? If Gorbachev’s policies were not responsible for the economic decline, then whose policies were? More important, what role, if any, did Osthandel play in helping to create the negative economic climate that Gorbachev felt compelled to respond to? All of these

questions are essential for a deep understanding of late twentieth century European history.

When an empire's main source of income is cut off (as was the case with the Soviet Union during the oil price collapse) or when the mother country is in economic free-fall, scholars should expect the mother country to focus on promoting domestic stability at the expense of colonial commitments. Domestic survival, after all, takes precedence over international commitments. After World War II, Britain was forced to relinquish India early on largely because Britain no longer had the economic resources to maintain the colony.

With the energy price collapse, Gorbachev's actions had been no different. Gorbachev focused on saving Russia and began letting Eastern Europe go its own way. As Eugene Rostow has noted, Gorbachev's market reforms beginning in 1987 were “primarily domestic.” “The Gorbachev programme,” Rostow writes, focused on “two primarily domestic problems within the Soviet Union: the manifest failure of socialism as a principle of social and economic organization, and the yearning of the educated Soviet elite for more personal freedom and for the truth about the history of the Bolshevik regime.”\(^523\) Of course, there had been some enthusiasm for market reforms among some Russians. “Everywhere that we have a monopoly, we have stagnation,” one Soviet capitalist reformer had remarked in 1987, adding that “today we are determined to restore competition.”\(^524\) But such opinion was the exception rather the norm. In discovering now that “the final stage of socialism is capitalism,” most Soviet citizens were


overwhelmingly confused.\footnote{Eugene V. Rostow, "Impact of Gorbachevshchina on United States Foreign Policy," in ed. Uri Ra'anan, \textit{Gorbachev's USSR: A System in Crisis} (London: MacMillan, 1990), 139.} They had been weaned on the myth of the superiority of their own economic system only now to see it begin to resemble the West.\footnote{At the same time, whatever its failures, the Soviet Union had, after 1929, created a powerful modern economy that survived – with Allied help to be sure – the Nazi onslaught in 1941, revived after 1945, and put the first man in space before it bogged down in the 1960s because of the swollen military budget, “imperial” over-commitments (Cuba, Vietnam, the China border, occupation armies in Eastern Europe, etc.}

The Soviet economy did not improve under Gorbachev because, above all, the price of oil and gas remained low until the USSR finally collapsed. Gorbachev’s market reforms did not change the fact that the USSR's export economy still depended almost exclusively on energy sources. With the USSR's income reduced by more than half and with a snowballing foreign debt, the Soviet economic situation became a major focal point for democratic change. “Never in my life have I ever had to search for bread before,” lamented Anatoly Znamensky, a 66-year-old retired taxi driver in 1990. “Vegetables, fruit, cheese, butter, meat—they appear and disappear. But with bread there was never a problem, until now.”\footnote{"Bread Lines in Moscow Signal Woes," \textit{USA Today}, September 4, 1990.} No doubt, the notorious bread lines in Moscow became a symbol of \textit{perestroika's} failure. Also, thanks to \textit{glasnost} and the political reforms introduced by Gorbachev, Soviet citizens could complain publicly in an unprecedented number of venues, which undoubtedly reinforced the urgency of the situation and helped produce the Soviet collapse of 1991.

Of course, numerous factors fed into the causal matrix to produce an event as momentous as the Soviet Union’s political and economic collapse. These included, on the one hand, the varied protest movements that demanded human rights, consumer choice,

\footnote{"Bread Lines in Moscow Signal Woes," \textit{USA Today}, September 4, 1990.}
and individual dignity and, on the other, the long-term structural problems such as inefficiency, corruption, and stagnation. These structural weaknesses had existed, in various forms and degrees, from the eras of Lenin and Stalin to Brezhnev and Gorbachev. Undoubtedly, the inability to correct these problems damaged the legitimacy of the Soviet system.

Still, economists and other scholars have tended to note that the energy price collapse of 1986 played a particularly important role in setting the USSR's economic decline in motion. Pulitzer Prize winning journalist Thomas Friedman, remembering his talks with eminent American economist Philip Verleger, has an interesting take on this subject:

In November 1985, oil was $30 a barrel, recalled the noted economist Philip Verleger. By July of 1986, oil had fallen to $10 a barrel, and it did not climb back to $20 until April 1989. Everyone thinks Ronald Reagan brought down the Soviets, said Verleger. That is wrong.

More important, Verleger’s opinion is shared by Egor Gaidar. Not only was Gaidar a first-rate Soviet economist, but he was also the main individual in charge of correcting the economic problems that Russia had inherited from the Soviet era. As Russia’s First Minister of Economy and Finance (1991-92) and later as First Deputy Prime Minister (1992-94), Gaidar knew first-hand of the economic situation. “Everything depended on a single source of income in the form of revenue from the export of oil, petroleum products and gas,” Gaidar stated in reference to the Soviet collapse. “Once oil

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528 For a recent book on some of the issues, see Sara B. Snyder, Human Rights Activism and the End of the Cold War: A Transnational History (Cambridge: Cambridge University Press, 2011).
Prices collapsed—they collapsed in 1985-86—the fate of the Soviet Union was more or less sealed.\textsuperscript{531}

Besides economists, historians have acknowledged the detrimental effects of the oil price collapse. Stephen Kotkin quotes one expert to claim that “overnight, the windfall oil and dollar profits the Soviets had been enjoying for years were wiped out” with the collapse.\textsuperscript{532} For the Soviets, the price of petroleum nearly bottomed out, dropping by a staggering 69 percent.\textsuperscript{533} The Soviets had put all of their eggs in one basket, and they paid the price. More recently, Svetlana Savranskaya, Thomas Blanton, and Vladislav Zubok (2011) have drawn attention to the importance of the energy price collapse and Gorbachev’s decision to relinquish Soviet control of Eastern Europe. “Along with the drastic drop in oil prices that began in 1986 came the slow realization that not only were the [East European] partners in fact a burden,” they write, “but that the CMEA itself was unsustainable, in part because the Soviet Union was losing the economic leverage needed to keep the community tied together and to the USSR.”\textsuperscript{534}

Gorbachev was not to blame for the energy price collapse—that development resulted from the Brezhnevian petro-centrism discussed in previous chapters. As Egor Gaidar remembered, Brezhnev had not expected that anything like the oil price collapse would ever occur. “Brezhnev had firmly believed in high oil prices,” Gaidar writes, “and


\textsuperscript{532} Kotkin, \textit{Armageddon Averted}, 17.

\textsuperscript{533} Ibid., 16.

\textsuperscript{534} Savranskaya, Blanton, and Zubok (eds.), \textit{Masterpieces of History: The Peaceful End of the Cold War}, 16.
ignored predictions of volatility from Soviet economists." This position, though ludicrous today, was understandable to an extent. After all, oil prices had risen almost every year during Brezhnev’s long tenure, so experience had led the general secretary to make the wrong gamble in the end.

_Osthander_ Otto Wolff has also placed the blame on Brezhnev, not Gorbachev, for this situation. Brezhnev “should have arranged for a structural improvement of Soviet exports, which consisted of between eighty and ninety percent of energy and raw materials," Wolff recalled. “He should have increased the share of industrial semi-finished and finished products.” By failing to diversify and relying far too heavily on the export of oil and natural gas, the Soviets' export economy was like a time bomb waiting to go off. As long as the market price of oil and gas remained high, the Soviet economy was at no risk of collapse. Yet a sharp decline meant disaster for the USSR. For Wolff, Gorbachev merely inherited Brezhnev's disaster-in-waiting.

If Brezhnev shoulders great responsibility for putting all of his nation’s eggs into a single oil and gas basket, _Osthandel_ also played a crucial role over time (as a structural, non-intentional cause) in promoting the Soviet Union's economic collapse. After all, Brezhnev had turned to West German politicians and businessmen in the first place to make his energy dream a reality. In this respect, the extent of the FRG’s influence is hard to overestimate. The West German firm Mannesmann alone provided the Soviet Union with the pipe to create numerous pipelines totaling 25,000 miles in length.^538

Additionally, as other chapters have shown, such other West German pipe firms as

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536 See graph on page 173.  
537 Wolff von Amerongen, Der Weg nach Osten, 166.  
538 Wessel, Kontinuität im Wandel, 417.
Thyssen Stahlwerks, and Hoesch Salzgiter also were active in helping to direct the Soviet export structure towards energy sales, while firms like Ruhrgas AG purchased considerable Soviet energy. Also important was West Germany’s location. At the heart of central Europe, the FRG was the gateway through which the Soviets sold energy to much of the rest of Western Europe. Thus, for two decades, the relationship between Soviet politicians and West German officials and businessmen was like a garden perpetually under cultivation.

Although Osthandel helped transform the Soviet export structure, a critic of the argument above could counter that it also prolonged the Soviet Union's existence by postponing the economic collapse of the USSR. “Oil seemed to save the Soviet Union in the 1970s,” Stephen Kotkin writes, “but it merely delayed the inevitable.” On one level, such a contention is problematic because of its counterfactual nature. It is presumptuous to pretend to know what the Soviet Union’s outcome would have been like. Although one can indeed imagine the USSR collapsing, one can equally envision a scenario in which Brezhnev and others had listened to their economic advisors and created a diversified economy that survived to the present day. In history, rarely is anything inevitable. Equally fascinating, the critical view fails to take into account the almost certain harmful effects of the alternative scenario on West Germany and the West. Had there been no Soviet Union to export cheap oil and gas to the FRG and Western Europe, life in these places likely would have been much more difficult than it was.

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539 This scenario is a hypothetical that I am introducing but will critique. No scholar has endorsed such a view with respect to Osthandel.
540 Kotkin, Armageddon Averted, 16.
during the energy price hikes of the 1970s. Thus, the same kinds of protests that
destabilized the communist bloc in the late 1980s may have occurred in the West earlier.

Although Gorbachev had taken the correct course in his effort to diversify the
Soviet economy, it was insufficient to save his nation. Gorbachev had not inherited an
economy that was correctable overnight or even in a few years, so long as the oil price
collapse persisted. Over the previous decades, too much effort, energy, and time had been
directed toward Brezhnevian petro-centrism. According to the general secretary’s long-
term interpreter Pavel Palazhchenko, Gorbachev naively had hoped and expected greater
Western assistance, especially in terms of economic support. He had brought the Cold
War to an end, and he believed that the Western powers would reward him by providing
the necessary life support for his nation. “What are our friends waiting for?” the Soviet
leader asked in 1991. “We need a new kind of and new level of cooperation, which would
really integrate my country into the world economy.” That support, however, never came.

After turning chiefly to the West Germans in the 1970s and 1980s to develop their
infrastructure for energy exports, few Soviets foresaw that they were sowing one of the
many seeds of their demise. But as the most conspicuous Western feature in channeling
the Soviet export economy toward an overemphasis on energy sales, Osthandel helped
lay the structural foundation that proved disastrous for the USSR after the oil price
collapse of 1986. In addition to supplying the bulk of machine tools throughout the 1970s
and early 1980s, West Germany supplied most of the pipe to construct natural gas lines
and oil lines. An aggressive policy to stop Soviet energy earnings would no doubt have

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Pavel Palazhchenko, *My Years with Gorbachev and Shevardnadze: The Memoir of a Soviet
been foolhardy and likely have produced desperate Soviet responses instead of a peaceful end to the Cold War. If the Cold War were to end, few could argue that it was not better that it end a little later than earlier if brinkmanship and a more intense superpower rivalry ensued in the meantime. Indeed, the greatest legacy of Osthandel seems to have been that it was a structure conducive to ending the Cold War peacefully.
CONCLUSION

As this dissertation has shown, the Soviet-West German energy trade was the defining feature of Osthandel between 1969 and 1991. Many factors, both from Moscow’s and Bonn’s perspective, fed into the causal matrix to promote a vibrant relationship in such trade. At first, a desire to reduce Cold War tensions, led by Brandt and others, laid the framework for Osthandel, even though the energy trade did not truly blossom until after the first energy crisis. Brezhnev, who had thought that a robust Soviet energy trade was a panacea for Soviet domestic economic problems—as well as the keys to greater Soviet prestige, leverage, and power internationally—became the chief promoter of the West German-Soviet energy relationship from the Kremlin’s side. The two energy crises during the 1970s reinforced Brezhnev’s mindset.

As a result, the energy trade flowered. West German businesses, especially Mannesmann, eagerly provided pipe for the construction of the Soviet energy-export infrastructure, and the Soviets in return delivered massive quantities of natural gas and crude oil to the FRG, and by extension, to Western Europe more broadly. In the process, a robust trade sparked.

The history of Osthandel, however, was not always positive. There was opposition from other nations. The GDR, especially during Walter Ulbricht’s tenure, strongly opposed West German-Soviet trade in the late 1960s and early 1970s, fearing it would destabilize East Germany. Likewise, by the late 1970s and early 1980s, U.S. opposition to West German-Soviet trade during the Carter and Reagan administrations
became an issue of international politics. Nevertheless, Bonn and Moscow successfully withstood such opposition, and trade actually increased and became stronger in the face of such challenges.

Undoubtedly, there were also many unforeseen and unpredictable variables that entered into the Osthandel equation. Personality clashes and changes in leadership, both on the West German and Soviet sides, promoted and harmed West German-Soviet commercial relations. Furthermore, nobody foresaw such events as the two energy crises of the 1970s and the oil price collapse of 1986. Yet these developments had profound effects on West German-Soviet trade. The energy crises opened the doors to more intense cooperation, but the global energy price collapse played an important role in closing those same doors.

Evaluation of Osthandel

What, one might ask, is the verdict on Osthandel? Policy historians perform three main tasks. They describe, explain, and evaluate policy. By its very nature, evaluation is always the most contentious part of the historian’s craft, as different scholars reach a multitude of conclusions about how historical agents should have acted, even if they agree on the basic description and explanation of events. This dissertation has presented evidence that suggests that Osthandel, on balance, was a positive development for several reasons.

Osthandel’s major triumph was its peace-promoting quality over time. Karl Schiller, Willy Brandt, Otto Wolff, Egon Overbeck, Leonid Brezhnev and Nikolai Patolichev all correctly contended that business relations promoted bilateral peace.
Indeed, trade and commercial relations between West Germany and the Soviet Union were never a source of East-West tension. As this dissertation has shown, whenever Bonn and Moscow reached a new trade agreement, peace was almost always listed as a goal. Furthermore, at almost all of the meetings of the joint economic commission, discussion of the peace-making qualities of trade ensued. Granted, Osthandel caused some temporary problems between Bonn and Washington, but one should not exaggerate these. The conflict over the Urengoi pipeline, despite being a thorn in the side of the Reagan administration, never threatened the continuity of NATO.

Another major strength of Osthandel was the close relationships and friendships, necessary for positive diplomacy, that such trade formed. During the Adenauer administration, West German-Soviet relations had been so strained as to preclude serious diplomacy, but businessman like Otto Wolff and Berthold Beitz demanded change. These Osthandlers cultivated personal relationships with all of the Soviet leaders from Khrushchev to Gorbachev. Just as important, they served as the model for such policymakers as Brandt and Schiller to champion trade as a mechanism to promote dialogue and reduce tension. The continuity of a robust trade policy, regardless of the political orientation of subsequent West German and Soviet leadership, helped ensure open diplomatic relations. To be sure, the potential existed for conflict between Bonn and Moscow over such political issues as the Berlin question, the Soviet invasion of Afghanistan, the imposition of martial law in Poland, the Euromissile crisis, and human rights. Yet amid all of these episodes and issues, among others, both sides made efforts to expand trade. In a real sense, then, Osthandel had a moderating influence on relations.
An additional, albeit less significant, strength was trade’s role in improving the quality of life of people, especially in the Soviet Union. Because life in the communist bloc was harder than in the West, it is easy to overlook the progress that was made. Brandt and Bahr had talked of “Wandel durch Annäherung,” while Schiller had called for “Wandel auch durch Handel.” Although these concepts, especially the latter, had several layers of meaning, there was agreement that integrating the communist bloc into the global economy would improve the quality of products available in Eastern Europe. In retrospect, this claim seems correct with regard to the Soviet Union. By allowing much greater Soviet hard currency earnings due to strong energy sales, trade was a means to enhance Soviet income and provide citizens within the USSR with consumer goods they had lacked, such as refrigerators, television sets, and washing machines. The number of such household items increased dramatically over time. Of course, the Soviets did not purchase such items directly from the FRG, but unprecedented Soviet income from energy sales abroad helped allow such conveniences for the first time. Beginning with Brezhnev, Soviet apartments came furnished with private kitchens and baths, features that had been shared previously communally.  

Much more important, Brandt’s Ostpolitik had sought German reunification and Osthandel contributed to that outcome. Trade’s contribution was indirect, it must be stressed, as no one envisioned that it directly would help produce German reunification or even the end of the Cold War. Some West Germans, especially Helmut Schmidt and Otto Wolff, did realize Osthandel’s ability to influence Soviet behavior, but nobody early on foresaw the fortuitous events that would transpire between 1989 and 1991. Even so,

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542 Stephen Kotkin, Armageddon Averted, 40-42.
Brandt and others had always hoped and believed that *intimate interaction* with Eastern Europe—whether political dialogue, cultural exchange, or trade—was a prerequisite for eventual reunification. This conviction undoubtedly was correct. It is almost impossible to imagine reunification ever occurring had the Hallstein Doctrine still been in effect in 1989.

Similar to this issue was *Osthandel’s* unforeseen role in helping end the Cold War. Although this conflict did not see open war between NATO and the Warsaw Pact, many Europeans lost their lives or became victims. One only has to ponder the individuals who were shot trying to cross the Berlin Wall and the East European protestors who were victims of Soviet tanks. An even worse legacy was the effect of the Cold War on the so-called Third World. Millions of lives were lost in Africa and Asia as the Soviets and Americans supported violent political movements. Given such victimhood, few could argue that the end of the Cold War was not a positive development. Although far from being the only factor, *Osthandel* was important in the Cold War’s end. It had helped lay the structural foundation that proved disastrous for the USSR after the energy price collapse of 1986. The world is better off without the Cold War, and any policy that hastened its peaceful demise in retrospect seems to have been appropriate.

Although the evaluation of West German *Ostpolitik* and *Osthandel* has been overwhelmingly positive, not every policy seems appropriate in hindsight. Unlike the continuity in West German pro-*Osthandel* policy from Brandt to Kohl, U.S. policy toward West German-Soviet trade between 1969 and the 1980s saw dramatic change. Nixon and Ford’s response was not antithetical to such trade, but Carter’s and Reagan’s
policies were. To be sure, Carter’s and Reagan’s early approaches toward West German-Soviet trade were ineffective in key respects. Their actions, especially the latter's, intensely strained U.S. relations with Germany, America's most important ally in central Europe. Equally important, both Carter's and Reagan's policies undermined détente with the Soviet Union. Because Nixon and Ford's approach to Osthandel harmed neither U.S.-German relations nor U.S.-Soviet relations, these presidents' responses had major advantages over succeeding administrations.

**Osthandel Today**

It has now been more than two decades since the reunification of Germany and the collapse of the Soviet Union. Unsurprisingly, there have been monumental developments since the early 1990s. Russia has had two strong leaders, Boris Yeltsin and Vladimir Putin. Similarly, robust leadership has characterized the FRG. Kohl continued in his role as chancellor until 1998. His successors, Social Democrat Gerhard Schröder and later Christian Democrat Angela Merkel, have both had long tenures in power.

At the same time, there have been conspicuous changes. Despite continuing to maintain a superior military, Russia’s status as a superpower has fallen, while China’s influence in global affairs has increased tremendously. Just as significant, all of the East European nations now are at least ostensibly democracies. For Germany, the integration of the former GDR has been both a blessing and a curse. On the one hand, numerous families whose lives had been disrupted during the Cold War have been reunited. On the
other, eastern Germany continues to suffer from a lower standard of living and has experienced the rise of a Neo-Nazi movement among the youth.

Still, Russia’s relationship with Germany has continued in much the same way as it had in the past: there have been ups-and-downs depending on which political party has been in power. Under Schröder’s Social Democrat leadership, Moscow and Bonn had a strong, vibrant relationship. In fact, it was reminiscent of Brandt’s Ostpolitik. The energy trade blossomed, and Schroeder himself later took a job with Gazprom.\(^{543}\) By contrast, with Merkel’s rise to power, German-Russian relations have become increasingly strained. A clash of personalities, in large part, explains this development. Putin, with his Russian machismo, has not had a positive relationship with Merkel because she “scolds” him. He has criticized her for being “pro-American,” while she has expressed distrust of him.\(^{544}\)

Nonetheless, Osthandel has thrived and persevered regardless of politics. Today, Germany remains Russia’s most important capitalist trading partner, just as West Germany had been to the Soviets before the Cold War ended. Just as significant, energy has continued to dominate trade. Within Russia, Gazprom billboards and advertisements are ubiquitous, and the prospects for future energy development are high. In fact, new pipelines projects are underway, including the large Nord Stream pipeline (commissioned in 2011). As of 2012, Russia and Germany and other nations are also in negotiations to


construct the Nabuco pipeline in southern Europe.\textsuperscript{545} The present is very much like the past.

\footnote{\textsuperscript{545} Ibid. Interestingly, China today is Russia’s most important trading partner, and Germany is second. But for the period that this dissertation covers, China was not a major trading partner with the Soviet Union. This fact presumably derived from the Sino-Soviet split and the very recent rise of China as an economic powerhouse.}
APPENDIX A

PIPELINE GRAPHIC
The pipeline graphic above is from Der Spiegel, 10 Jan. 2007. This graphic has been slightly modified by the author to show where the West German grid system to supply Western Europe with Russian gas starts. The addition is in black color. Soviet gas entered West Germany at the city of Waidhaus (encapsulated in the black box above). At Waidhaus was a grid system (Mittel-Europäische-Gasleitungsgesellschaft (MEGAL)), to supply Soviet gas to other Western European nations. The Open Grid Europe website states, “The MEGAL station in Waidhaus was built in 1982. Together with the Open Grid Europe compressor station it supplies gas not only to Germany but also to France, Italy, Switzerland and via Belgium to the UK. In Waidhaus a total of three Open Grid Europe and six MEGAL compressor units are in operation. The two stations transport approx. 33 billion m$^3$ of gas annually, which enables some 27 million homes to be supplied. Russian gas takes about ten days to cover the roughly 6,000 km to Waidhaus.” See http://www.open-grid-europe.com. This image does not show all of the pipelines discussed in this dissertation, but the major ones. Included are the Druzhba oil pipeline, the Urengoi pipeline, the Soyuz (Orenburg) pipeline, and part of the Yamburg pipeline. The dotted red lines represent projects that developed in the post-Soviet era.
APPENDIX B

SOVIET GAS EXPORTS BY NATION
As the graph above shows, West Germany was the largest customer of Soviet natural gas for the last decade of the USSR’s existence. It is quite striking that the FRG far outpaced all nations, including Warsaw Pact countries, in such purchases. Notice that West German imports of Soviet gas doubled East German imports.

Source: Report, “USSR: Fuel for the 1990s,” U.S. Central Intelligence Agency, SOV 88-10058, Aug. 1988, p.4. Note: This graph is based on data from 1980-1987, 1990. *The report does not include data from the years 1988 and 1989, as the CIA did not have full data for all of these nations for those years.
APPENDIX C

THE EVOLUTION OF TRADE
This image is of bilateral trade between West Germany and the Soviet Union between 1969 and 1989 in DM billions. It captures well the effects of the energy price collapse. After a decade and a half of rising exports largely as a result of Brezhnevian petrocentrism, the decline is sharp between 1985 and 1986, the period when the price collapse occurred. Trade remained low for several years given low energy prices.

APPENDIX D

THE TRANSFORMATION OF THE SOVIET EXPORT STRUCTURE
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