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MIPT: SCHMIDT'S VISIT TO MOSCOW: PROPOSED GAS DEAL.

1. THIS IS A MAJOR EVENT, ABOUT WHICH THE GERMAN GOVERNMENT, OFFICIALS AND PRESS HAVE BEEN AMAZINGLY COY. THERE HAS BEEN FULL COVERAGE IN THE FINANCIAL TIMES.

2. IN ESSENCE BOTH GOVERNMENTS HAVE NOW ENDORSED PRIVATE SECTOR NEGOTIATIONS STARTED AFTER THE 1978 ECONOMIC COOPERATION AGREEMENT. COMMERCIAL CONTACTS HAVE ALREADY BEEN UNDER WAY FOR SOME MONTHS (SEE LONGWORTH'S LETTER OF 25 JANUARY TO EESD). NEGOTIATIONS ARE, IN THE ESTIMATE OF GERMAN OFFICIALS, LIKELY TO LAST UNTIL SEPTEMBER OR OCTOBER. THEY WILL NOT BE CONDUCTED EXCLUSIVELY BY GERMAN FIRMS. BUT THE GERMAN POLITICAL ENDORSEMENT IS SIGNIFICANT GIVEN THE TIME AND SCALE OF THE PROJECT.

3. AS REPORTED IN MOSCOW CREDA 42 (NOT TO ALL), THE SOVIET UNION PROPOSES TO EXPORT ANOTHER 40 BILLION CUBIC METRES OF GAS ANNUALLY FROM SIBERIA AS PART OF THE BIGGEST SUCH PROJECT THEY HAVE PLANNED. THE CHAMBER OF DUETSCHE BP TOLD ME THAT 4000 KMS OF NEW PIPELINE ARE REQUIRED, OF WHICH 400 KMS WILL BE THROUGH PERMAFROST (THIS APPARENTLY COMPARES WITH AN ALASKAN PIPELINE OF 1600KMS.). THE GERMANS SAY THAT THE SYSTEM SHOULD BE READY IN 1984 OR 1985. AN EXTRA 10 BILLION CUBIC METRES WIL BE ABSORBED IN RUNNING THE SYSTEM.

4. WITHIN THESE OUTLINES MUCH REMAINS TO BE SETTLED. THE COST OF THE PROJECT IS ESTIMATED BY BOTH BP AND THE PRESS AT DM 20 BILLION BUT OUR OFFICIAL CONTACTS WILL NOT CONFIRM THIS, PARTICULARLY SINCE A GOOD DEAL OF THE FINANCING WILL BE ON COMPENSATION TERMS. NOR IS PARTICIPATION ON THE WESTERN SIDE YET FIXED.

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5. THE FEDERAL CHANCELLOR'S OFFICE HAVE CONFIRMED THAT THE GERMAN CABINET DECIDED RECENTLY TO RAISE THE UPPER LIMIT FOR FRG DEPENDANCE ON SOVIET GAS TO 30 PER CENT. THE PRESENT PROJECT, OF WHICH THE GERMANS EXPECT TO TAKE ABOUT A THIRD, IE. AN ADDITIONAL 14-16 BILLION CUBIC METRES, SHOULD RAISE THE DEPENDENCE TO ABOUT 26 PER CENT.

6. THE CHAIRMAN OF DEUTSCHE BP CLAIMED TO ME RECENTLY THAT THE AMERICANS HAD ACCEPTED THE POLITICAL LOGIC OF THE DEAL. IT WAS BETTER FOR THE SOVIET UNION TO CONTINUE TO MEET ITS NEEDS FROM ITS OWN RESOURCES RATHER THAN COMPETE, FOR EXAMPLE, FOR MIDDLE EAST SUPPLIES. IT IS NEVERTHELESS BOUND TO BE READ AS A STRIKING EXAMPLE OF QUOTE BUSINESS AS USUAL UNQUOTE, DESPITE AFGHANISTAN.

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