



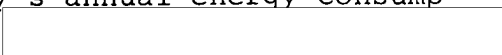
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SOVIETS ENTER WEST EUROPE'S NATURAL GAS MARKET

Moscow has made a major breakthrough in sales of natural gas to Western Europe after several years of off-and-on negotiations. Long-term agreements have been reached with Italy and West Germany on the exchange of gas for large-diameter steel pipe, and further discussions with France are planned.

The USSR and Italy signed an agreement on 10 December involving the delivery of Soviet natural gas beginning in 1973. Deliveries are expected to total more than 100 billion cubic meters over a 20-year period. The USSR will receive a credit of some \$200 million from Italy for the purchase of pipe and other equipment needed for the expansion of Soviet natural gas pipeline systems. Although details on the price of Soviet gas are not yet clear, Moscow apparently lowered its price to Italy below that already agreed on for sales to Austria and West Germany.

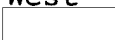
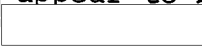
Earlier this month, Moscow concluded a 20-year agreement with a West German firm for the delivery of natural gas to Bavaria. A final contract is expected to be concluded in January specifying Soviet deliveries of gas beginning with 500 million cubic meters in late 1973 and increasing to a maximum level of three billion cubic meters annually within six years. Deliveries of Soviet gas, even at peak level, however, will supply less than 10 percent of Germany's annual energy consumption.



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The USSR and France also have agreed in principle to conclude a similar gas-pipe deal. Although many matters, including price and quantity must be worked out before final accord is reached, recent press reports indicate that deliveries of Soviet natural gas to France would start around 1977 and eventually reach a peak delivery rate of about 2.5 billion cubic meters annually. In exchange, the Soviets would receive credits amounting to \$180-200 million for the purchase of steel pipe. The pipeline through West Germany would facilitate delivery to major French consuming areas.

These deals are particularly advantageous to the USSR because they provide Moscow with Western credits for the early delivery of pipe and other equipment needed to spur the lagging construction of oil and gas pipeline networks from Siberia and Central Asia. By the time Soviet deliveries to West Europe begin in the early 1970s, natural gas imports from Iran scheduled to begin next year and increased flows from Afghanistan will more than offset gas exports to Western Europe. Moreover, these deals come at a time when Soviet hard-currency earnings from petroleum deliveries to the West appear to be leveling off.



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GOVERNMENT CHANGE CONSIDERED IN ITALY

Recent bomb explosions in Milan and Rome and the resulting casualties have increased speculation about an early change in government. The minority Christian Democratic government, installed last August, had been intended to serve until regional and local elections could give a new reading on popular attitudes toward the various political parties. These elections are now expected to take place in March or April.

In reaction to the explosions, Prime Minister Rumor on 15 December met with the secretaries of the Christian Democratic, Socialist, Unitary Socialist, and Republican parties that made up the center-left coalitions of recent years. This was the first time the party secretaries had met since the Socialists divided into two political parties last July. The leadership of the four parties agreed to look into Rumor's proposal that they return to a coalition.

An atmosphere of instability has surrounded the Rumor government, fostered by the continuation of a series of short strikes. Although several of the most important labor contracts have now been signed, the metalworkers'

federations have not yet come to an agreement with management except in the state-owned sector. The strike pattern this year has led to a greater total loss of output than in the disruptive negotiations of 1962-63 although losses in time worked are less. Labor productivity increases in recent years, however, appear to be sufficient to permit substantial wage raises of 25-30 percent over the next three years with only marginal effect on Italy's competitive position in world markets.

Another factor in the uncertainty surrounding the Rumor government has been a continuing discussion of the possibility that the Communist Party may gain a greater role in Italian political life. Such speculation is central to differences between the two Socialist parties. Recently a disagreement among Italian Communists, which resulted in the ouster of "new left" leaders, highlighted the preference of one important faction of the party for following Soviet direction, while another prefers revolutionary action. Both positions are repugnant to most Italian non-Communist leaders, and discussion of their working more closely with the Communists has thus been curtailed for the time being.

treaty with Germany that permanently fixes its borders.

Moreover, while already acknowledging the existence of two German states, and indeed calling for binding agreements with East Germany, Brandt maintains that relations between the two Germanies have a special quality and that Bonn cannot give full recognition under international law. Although disappointed at the initial Soviet stand, Bonn officials are hopeful that further probes will reveal some give in the Soviet position. They will be particularly anxious to discover to what extent progress in talks with one East European state depends on progress in negotiations with others, as the latest Soviet position suggests. In any event, even should the Moscow talks on renunciation of force progress very slowly, Bonn will hope for a tolerant Soviet attitude toward its anticipated early bilateral political talks with the Poles and possibly with the East Germans.

Berlin

Reaction to the new aide-memoire presented to the USSR by the three Western Allies this week may shed light on how cooperative the USSR will be. The Western proposal of talks aimed at easing the situation in Berlin complements the current West German drive to improve relations with the USSR and Eastern Europe. Moreover, both Bonn and Washington tend to regard concrete steps to improve the situation in Berlin or to improve all-German relations as essential to their

participation in the Soviet-proposed European security conference.

East German Attitudes

Meanwhile, the East Germans have moved to engage Bonn in direct talks. The parliament on 17 December authorized both the State Council and the government to take the necessary measures for "conducting relations" with West Germany. The following day a letter addressed from Ulbricht, Chairman of the State Council, to President Heinemann was delivered in Bonn. This message presumably discussed the initiation of talks. Another letter from Premier Stoph to Brandt may be in the offing.

The parliament's resolution did not mention preconditions for beginning talks, nor did Ulbricht in his long speech on 13 December. The East Germans have indicated, however, that they want negotiations to result in agreements that are valid under international law. Ulbricht and other East German leaders have also rejected the idea that East-West German relations can be of some special type.

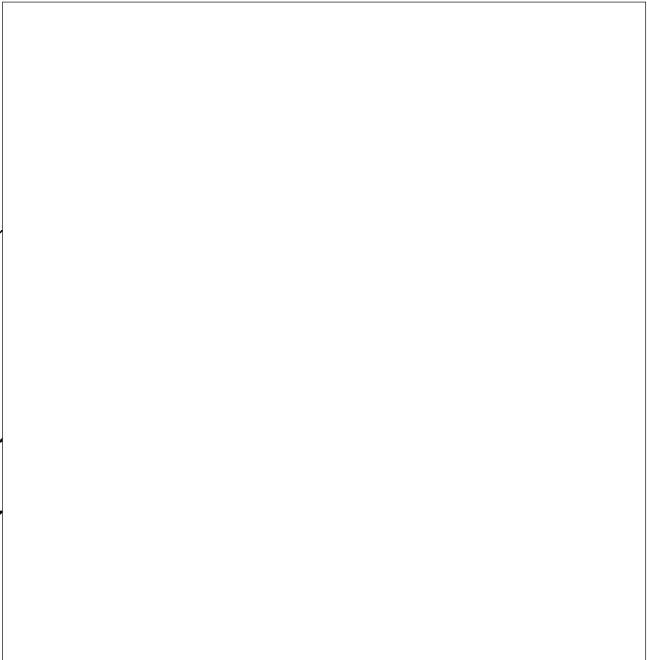
Because Bonn and Pankow seem far apart concerning the possible legal nature of eventual agreements, no early breakthrough should be anticipated even if high-level talks do begin.

With Poland and other Eastern states about to follow Moscow's example in negotiating bilaterally with the Federal Republic, the East German actions probably are defensive in nature. During his speech, Ulbricht took



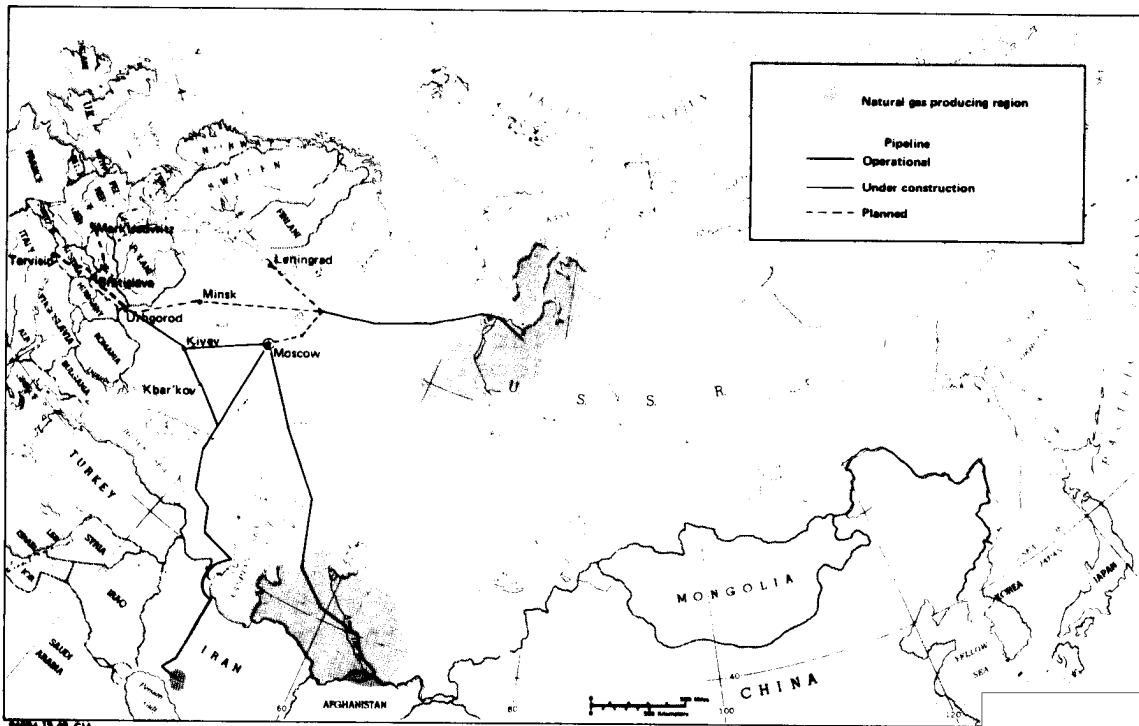
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the rare tack of acknowledging that Bonn wishes to begin negotiations with Warsaw. His remarks suggest that he was talking to Warsaw, and that the East Germans remain piqued by the Polish proposal that Bonn sign a formal treaty recognizing the Oder-Neisse border.



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His comments also suggested that the East Germans were willing to await a proposal from Bonn to begin talks. The fact that the East Germans seized the initiative may indicate that they believe it urgent that they meet with the West Germans before the Poles and others do.



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