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### **3 The Soviet Union, the CMEA, and the Nationalization of the Iraq Petroleum Company, 1967–1979**

#### **Introduction**

During much of the Cold War period, European member countries of the Council for Mutual Economic Assistance (CMEA) depended on Soviet energy resources for maintaining their Soviet-style, energy-intensive economies. The Soviet leadership after Joseph Stalin, fearing the socioeconomic instability of the region, grudgingly agreed to export substantial amounts of resources to CMEA countries in return for uncompetitive low-quality manufactured goods. This intra-bloc trade became more and more unacceptable for Soviet economic organizations, as the Eastern European demand for Soviet energy dramatically increased in the 1960s and 1970s. To restrict the increasing energy export to Eastern Europe, the Soviet government sought to find alternative exporters of oil in the Middle East and North Africa for these countries. Among them, Iraq was considered the most promising. Encouraged by the anti-Western policy of the Iraqi Baathist regime, the Soviet government sought to strengthen the relations between CMEA countries and Iraq by coordinating their foreign economic activities. However, the Soviet Union failed in its effort to coordinate the CMEA countries' actions on global oil markets because it was not as powerful as often assumed – neither in the Third World, nor in the CMEA. Other actors, like the Iraqi and the Eastern European governments, as well as other factors, such as the price of oil, could frustrate the Soviet policy.

On the basis of an array of Russian and German archival sources, this chapter will examine the triangular power relations between the Soviet Union, CMEA countries, and Iraq, focusing particularly on negotiations over oil. As to the limits of the “absolute” Soviet power within the CMEA, the scholarship sheds light on the Soviet “subsidies” for CMEA countries. According to this hypothesis, the Soviet Union accepted the economic burden of supporting Eastern European economies by supplying the countries of this region with Soviet natural resources well below the world market price and by importing low-quality manufactured goods above the world market price. Michael Marrese and Jan Vanous, among others, conclude that the Soviet Union subsidized the Eastern

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European economies in exchange for their political, military, and ideological contribution to Soviet foreign policy.<sup>1</sup> More recently, Dina and Martin Spechler deny the existence of significant subsidies for Eastern European economies and underline that the burden on the Soviet Union was small even at its peak.<sup>2</sup> Although the questions remain about the existence of, or amount of, subsidies, after the collapse of socialist regimes it became possible to analyse the actual negotiations within the CMEA. On the basis of interviews with former Soviet and Eastern European officials, the US-American political scientist Randall Stone clarifies how weak the Soviet Union was in its negotiations with other CMEA countries. According to Stone, the Soviet government tried to curtail the amount of subsidies, but Soviet leadership could not achieve its goals due to a lack of incentives within the Soviet bureaucracy.<sup>3</sup> In fact, the Soviet ability to coordinate the trade policy of CMEA countries was limited. As the Soviet government tried to expand Soviet-CMEA-Iraqi cooperation on oil, this limitation became more apparent.

Up to now, there are few studies about these trilateral relations and the oil business. Some studies have analysed these triangular economic relations, concentrating on trade patterns but without examining internal debates within the CMEA.<sup>4</sup> Other scholars investigate Soviet-Iraqi political as well as economic relations, however without including the CMEA and analysing the triangular power relations.<sup>5</sup> More recently, Sara Lorenzini provides an overview on the

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1 M. Marrese and J. Vanous, *Soviet Subsidization of Trade with Eastern Europe: A Soviet Perspective*, Berkeley: University of California Press, 1983. For more about Soviet subsidies, see M. Thomas, "Revisiting Soviet Oil Subsidies to East Europe: System Maintenance in the Soviet Hegemony, 1970–1984", PhD dissertation, University of Notre Dame, 2001, pp. 8–17.

2 D. Spechler and M. Spechler, "A Reassessment of the Burden of Eastern Europe on the USSR", *Europe-Asia Studies* 61 (2009) 9, pp. 1645–1657.

3 R. Stone, *Satellites and Commissars: Strategy and Conflict in the Politics of Soviet-Bloc Trade*, Princeton: Princeton University Press, 1995, pp. 36–39. About the Soviet energy policy with CMEA countries, see also L. Lüthi, "Drifting Apart: Soviet Energy and the Cohesion of the Communist Bloc in the 1970s and 1980s", in: J. Perović (ed.), *Cold War Energy: A Transnational History of Soviet Oil and Gas*, Cham: Palgrave Macmillan, 2017, pp. 371–399.

4 S. Bahri, "Economic Relations with OPEC Countries: Not Only Oil", in: M. Lavigne (ed.), *East-South Relations in the World Economy*, Boulder: Westview Press, 1988, pp. 145–169; J. Hannigan and C. McMillan, "CMEA Trade and Cooperation with the Third World in the Energy Sector", in: Economic Directorate (ed.), *CMEA: Energy 1980–1990: Colloquium 8–10 April 1981: Brussels*, Newtonville: Oriental Research Partners, 1981, pp. 215–237. For historiography of the East-South economic relations in general, see D. Engerman, "The Second World's Third World", *Kritika: Explorations in Russian and Eurasian History* 12 (2011) 1, pp. 183–211.

5 O. Smolansky and B. Smolansky, *The USSR and Iraq: The Soviet Quest for Influence*, Durham: Duke University Press, 1991. See also R. Freedman, "The Soviet Union and the

activities of the Standing Commission for Technical Assistance of the CMEA, but she does not analyse negotiations between the Soviets, Eastern Europeans, and developing countries in detail.<sup>6</sup> Therefore, this paper will analyse these triangular relations within the framework of the CMEA.

In the case of Iraq, as I will argue below, it was not the socialist superpower but the Iraqi government that succeeded in dictating the relations between CMEA and Iraq in the 1970s. In some instances, it even managed to manipulate relations between the Soviet Union and other CMEA countries. Thus the CMEA was not a transmission belt of Soviet interests but a “platform of negotiation”, first between its member countries and then between member countries and non-CMEA countries like Iraq. In this sense, the CMEA became a “space of interaction” between various actors of the Soviet Union, CMEA countries, and Iraq. Even though Iraq was not present in this organization, it could influence decisions within the CMEA by using various channels with trade officials of the Soviet Union and CMEA countries. Ironically, it was the Iraqis that succeeded in controlling this “space of interaction” more skillfully than its member countries by using their position as an exporter of oil.

## Soviet Oil Policy in Iraq

Since the 1920s, the Iraqi government signed concession agreements with the Iraq Petroleum Company (IPC), which was owned by major oil companies, like the Anglo-Persian Oil Company (later British Petroleum, BP), Royal Dutch Shell, Compagnie Française des Pétroles (CFP, later Total S.A.), and successor companies of Standard Oil. Through these agreements, the IPC gained almost all the rights for exploration and operation in the Iraqi oil sector. Therefore, after the revolution of 1958 the ensuing Iraqi nationalist regimes considered the

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Politics of Middle Eastern Oil”, in: N. Sherbiny and M. Tessler (eds.), *Arab Oil: Impact on the Arab Countries and Global Implications*, New York: Praeger Publishers, 1976, pp. 305–327; R. Freedman, “Soviet Policy toward Ba’athist Iraq, 1968–1979”, in: R. Donaldson (ed.), *The Soviet Union in the Third World: Successes and Failures*, Boulder: Westview Press, 1981, pp. 161–191. For the nationalization of the Iraq Petroleum Company and the role of the Soviet Union, see M. Brown, “The Nationalization of the Iraq Petroleum Company”, *International Journal of Middle East Studies* 10 (1979), pp. 107–124. For American policy vis-à-vis Iraq, see B. Wolfe-Hunnicut, “The End of the Concessionary Regime: Oil and American Power in Iraq, 1958–1972”, PhD dissertation, Stanford University (2011), pp. 209–262.

<sup>6</sup> S. Lorenzini, “The Socialist Camp and the Challenge of Economic Modernization in the Third World”, in: S. Pons et. al (eds.), *The Cambridge History of Communism*, vol. 2, Cambridge: Cambridge University Press, 2017, p. 355.

decolonization of the oil sector as one of their primary goals.<sup>7</sup> As in other developing countries that produced oil, this goal had to do with national sovereignty: the sovereign right to determine the use of their own natural resources.<sup>8</sup> In 1961, the Iraqi government enacted Law No. 80 and expropriated the IPC's concession areas where no oil had yet been produced. After the enactment of this law, the IPC retained only 0.5 per cent of the original concession areas. Law No. 11 was passed in 1964, which established the Iraq National Oil Company (INOC) two years later. Finally, in 1967 the Iraqi government conceded all the territory expropriated from the IPC to this newly founded national company.<sup>9</sup>

After the establishment of the INOC, the Iraqi government began to develop its own national oil industry. Shortly thereafter, the Soviets and Iraqis initiated negotiations to build up the Iraqi oil industry. In a conversation with Soviet Foreign Minister Andrei Gromyko in 1967, the Iraqi Foreign Minister Adnan Pachachi proposed that the Soviet Union should take part in the exploration and development of the Iraqi oil fields and asked him to send a delegation to Iraq. To encourage cooperation, Pachachi mentioned the possibility of joint production and sale of Iraqi oil and the importation of Soviet equipment to support development of the Iraqi oil sector. Nikolai Baibakov, chairman of the Soviet State Planning Commission (Gosplan), reacted positively to this proposal from the Iraqis.<sup>10</sup> In his opinion,

the use of oil resources of the developing countries, including Iraq, on a mutually beneficial basis, is one of the effective ways to satisfy the demands of the USSR [Union of Soviet Socialist Republics] and other socialist countries for fuel [...]. [P]articipation in the production of oil in Iraq can turn out to be very effective for us.<sup>11</sup>

At first glance, it might seem strange that Gosplan was active in the Iraqi question, but it played a crucial role in deciding foreign economic activities of the Soviet Union because it was responsible for maintaining the material balance of the entire economy. Foreign trade was no exception. Therefore, Baibakov's opinion carried weight in the Soviet decision over Iraqi oil.

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<sup>7</sup> P. Tristani, "Iraq and the Oil Cold War: A Superpower Struggle and the End of the Iraq Petroleum Company, 1958–1972", in: E. Bini, G. Garvini, and F. Romero (eds.), *Oil Shock: The 1973 Crisis and its Economic Legacy*, London: I.B. Tauris, 2016, pp. 68–69.

<sup>8</sup> C. Dietrich, *Oil Revolution: Anticolonial Elites, Sovereign Rights, and the Economic Culture of Decolonization*, Cambridge: Cambridge University Press, 2017.

<sup>9</sup> Brown, *The Nationalization of the Iraqi Petroleum Company*, pp. 108–109; Tristani, *Iraq and the Oil Cold War*, pp. 72–74.

<sup>10</sup> "Report from Baibakov to the Central Committee", 3 May 1967, f.4372, op.81, d.2429, ll.21–23, Rossiiskii Gosudarstvennyi Arkhiv Ekonomiki (RGAE), Moscow.

<sup>11</sup> *Ibid.*, ll.21–22.

On the basis of these economic as well as political calculations, Soviet economic organizations negotiated with the Iraqi government. Especially important in this regard was the State Committee for Foreign Economic Relations (GKES), which specialized in organizing economic and technical assistance for other countries, particularly for developing countries. Iliodor Kulyov, deputy chairman of the GKES, talked with the Iraqi officials about the oil industry in November and December 1967. In their conversations, the Iraqis showed great interest in Soviet economic and technical assistance. For example, Abdul Sattar al-Hussein, minister of oil, requested Soviet assistance in developing the southern oil field of North Rumaila.<sup>12</sup> Adib al-Jadir, president of the INOC, also showed strong interest in the development of Soviet-Iraqi economic relations by saying that it would be acceptable if the Iraqi market would “totally move from the West to the East”. Encouraged by Iraqi eagerness to expand economic cooperation and sell a large amount of oil, Kulyov proposed further cooperation between Iraq and CMEA countries. According to Kulyov, “the wider the Iraqi economic relations with the Soviet Union and other countries of CMEA will be, the more oil they will buy”.<sup>13</sup> There is no record of al-Jadir answering this proposal, but the Soviets remained committed to the expansion of Iraqi-Eastern European economic relations.

However, despite al-Jadir’s seeming support, the Iraqi government tried to avoid depending too heavily on one side in the bipolar Cold War order. If anything, they sought to negotiate with several counterparts at the same time, thereby balancing between the West and the East. For example, the INOC chose the French state company *Entreprise de Recherches et d’Activités Pétrolières* (ERA) as its first foreign partner for the exploration and development of its oil fields.<sup>14</sup> The Soviet embassy in Iraq reported to the Department of the Near East of the Ministry of Foreign Affairs that the Iraqi government and the INOC were looking for a future partner for the development of the southern oil field, especially the North Rumaila field. Alarmed by the French success in partnering with the INOC, the embassy urged the ministry department to speed up final negotiations concerning cooperation in the oil sector.<sup>15</sup>

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<sup>12</sup> “Record of conversation with Iraqi Minister of Oil Abdul Sattar al-Hussein”, 23 November 1967, f.365, op.2, d.2678, l.28, RGAE, Moscow.

<sup>13</sup> “Record of conversation between Kulyov I.A. and President of INOC Adib al-Jadir”, 2 December 1967, f.365, op.2, d.2678, l.34, RGAE, Moscow.

<sup>14</sup> Smolansky, *The USSR and Iraq*, p. 38.

<sup>15</sup> “Report by first secretary of Soviet embassy in Iraq, O. Peresyppkin to the Department of Near East of the Soviet Foreign Ministry”, 7 April 1968, f.365, op.2, d.2749, ll.87–88, RGAE, Moscow.

When the GKES was trying to reach an agreement with the Iraqi government, the Brezhnev leadership was in the middle of forming a general strategy for its foreign policies. For example, in July 1968, in a personal report to Leonid Brezhnev, Yuri Andropov, chairman of the Committee for State Security (KGB) proposed reorganizing the priorities of Soviet foreign policy. Andropov argued that “in the practical activity of our foreign political organization, there are deficits, worse still very critical ones”, that is to say, “too large a de-concentration”. Concerning Soviet economic aid to developing countries, he contended that

now, we are giving a bit to everyone, but as a result, we cannot maintain ‘competition’ with imperialistic opponents, and are weakening [our] own position even in those countries which have key importance to us. [...] Maybe, we had better delineate zones of our primal interests and concentrate force on ensuring these interests.<sup>16</sup>

Although Andropov himself did not mention any countries in which the Soviet Union should intensify its activities, by the spring of 1968 Semyon Skachkov, chairman of the GKES, had already listed some countries where the Soviets had concentrated their economic assistance: India, the United Arab Republic, Afghanistan, Iran, Syria, Iraq, and Turkey.<sup>17</sup>

On the basis of these political as well as economic calculations, the Soviets activated their policy vis-à-vis Iraq. In June and July 1969, the Soviet Union signed two economic agreements with Iraq concerning the development of the oil industry. Under these agreements, the Soviets supported the construction of oil production facilities, an oil pipeline to the port of Fao, and the exploration of several southern fields, among them the North Rumaila field. The construction cost was covered by a Soviet credit, which would be paid by Iraqi oil after the start of oil production.<sup>18</sup> After the agreement was signed, economic relations between the two countries accelerated. In June 1970, in a conversation with Kulyov, Ali Jaber, vice president of the INOC, requested Soviet technical assistance in some other projects: construction of a petroleum processing plant in Mosul, construction of an oil pipeline from the southern part of Iraq to the Syrian port of Tartus, exploitation of a phosphate field, and construction of a shipyard in Basra.<sup>19</sup> In a protocol

<sup>16</sup> “Report by Andropov to the Politburo”, f.80, op.1, d.314, ll.30–31, Rossiiskii Gosudarstvennyi Arkhiv Noveishei Istorii (RGANI), Moscow.

<sup>17</sup> “Report by GKES on its work in 1967”, f.5, op.60, d.400, l.4, RGANI, Moscow.

<sup>18</sup> Smolansky, *The USSR and Iraq*, pp. 47–48; “Agreement between the Soviet Union and Republic of Iraq on the economic and technical cooperation for the development of national oil industry of Republic of Iraq”, 4 July 1969, f.365, op.9, d.68, ll.4–8, RGAE, Moscow.

<sup>19</sup> “Record of conversation with Vice President of INOC”, 22 June 1970, f.365, op.9, d.377, ll.127–128, RGAE, Moscow.

from August 1970, the Soviets provisionally agreed to enlarging economic and technical assistance to Iraq in return for Iraqi oil.<sup>20</sup>

The Soviet economic bureaucracy welcomed the expansion of economic relations with Iraq. Ivan Arkhipov, deputy chairman of the GKES, reported to Aleksei Kosygin, chairman of the Council of Ministers of the Soviet Union, that import of Iraqi oil would be economically beneficial. According to Gosplan's calculations, importing Iraqi oil to the Soviet Far East in return for Soviet industrial equipment would be economically more efficient than transporting Siberian oil from Tyumen to the same region. While Tyumen is closer to the Soviet Far East, the transportation by pipeline or railway would cost much more than transportation of Iraqi oil through tankers.<sup>21</sup> Therefore, both Gosplan and the GKES preferred the import of Iraqi oil over domestic oil on the basis of the calculation of comparative costs. Apparently, these economic actors acted upon an economic rationale. For them, import substitution was not a dogma that should be defended.

As Soviet-Iraqi economic cooperation gained momentum and development of the North Rumaila oil field progressed as planned, the Iraqi government began to prepare for the nationalization of the IPC. In August 1970, Soviet leaders discussed the matter with Saddam Hussein when he visited Moscow. Furthermore, in a directive from March 1971, the Politburo decided to convey the Soviet support for the nationalization to the Iraqi government.<sup>22</sup> With this Soviet backing, the Iraqi government could prepare for the nationalization of the IPC, which still held a significant share of licences for oil fields in Iraq.

## Policy Coordination within the CMEA

At the same time as the Soviets were actively pursuing economic cooperation with Iraq, Soviet economic organizations and specialists became concerned about the growing Eastern European demand for Soviet oil. In fact, already in the early 1960s, Gosplan was keen on restricting the growing oil export to CMEA countries because of the tight energy balance in the European part of the Soviet

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<sup>20</sup> "Protocol of negotiations about problems of trade and economic cooperation between the Soviet Union and Republic of Iraq", 14 August 1970, f.365, op.9, d.405, ll.21–22, RGAE, Moscow.

<sup>21</sup> "Report by Arkhipov to Kosygin", 9 March 1971, f.365, op.9, d.669, ll.73–76, RGAE, Moscow.

<sup>22</sup> "Order of the Politburo for the Soviet delegation, visiting Iraq", 19 March 1971, f.3, op.72, d.427, ll.40–41, RGANI, Moscow.

Union and tremendous transportation cost for oil from its remote regions.<sup>23</sup> As a possible solution to this problem, specialists of Gosplan proposed four alternative options: CMEA countries should save energy, explore oil and gas in their territories, substitute oil with coal from Poland or the German Democratic Republic (GDR), and import fuel from Algeria and countries of the Near East.<sup>24</sup> Nikita Khrushchev, first secretary of the Central Committee of the Communist Party of the Soviet Union (CPSU), welcomed such an idea. In fact, already in May and June 1964, in conversations with Walter Ulbricht, first secretary of the Central Committee of the Socialist Unity Party of Germany (SED), he repeatedly demanded that the GDR import oil from Algeria.<sup>25</sup> By the middle of the 1960s, both the Soviet leadership and economic organizations appreciated the idea of invigorating economic relations between CMEA countries and oil-producing developing countries.

The first major chance to coordinate the oil import of CMEA countries from such developing countries came from Iran. In November 1966, the Iranian ambassador to the Soviet Union proposed to Kulyov, deputy chairman of GKES, that Iran and the Soviet Union jointly examine the export of Iranian oil to the Soviet Union and European socialist countries.<sup>26</sup> Both Gosplan and Mikhail Lesechko, deputy chairman of the Council of Ministers of the Soviet Union responsible for the CMEA, welcomed this Iranian proposal and discussed it with Eastern European CMEA countries, except Romania.<sup>27</sup> Representatives of CMEA countries also supported the idea of importing Iranian oil. Therefore, in January 1967, Baibakov and Lesechko submitted a joint report to the Central Committee of the CPSU, in which they emphasized the economic plausibility of importing oil from Iran. According to them, “economic expedience of the oil import from Iran is explained by higher efficiency of capital investments and

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23 “Report from A. Alekseev to P. Lomako”, 19 January 1963, f.4372, op.81, d.381, ll.111–115, RGAE, Moscow.

24 “Report to the Secretariat of the CMEA on the preliminary thought about the development of the national economy of the USSR in 1966–1970,” 11 June 1964, f.4372, op.81, d.847, ll.192–193, RGAE, Moscow.

25 D. Hoffmann and A. Malycha (eds.), *Erdöl, Mais und Devisen: Die ostdeutsch-sowjetischen Wirtschaftsbeziehungen, 1951–1967. Eine Dokumentation*, Berlin: De Gruyter, 2016, pp. 193–194, 197–198.

26 “Record of conversation between Kulyov and Iranian ambassador to the Soviet Union”, Mirfendereski, 24 November 1966, f.365, op.2, d.587, l.49, RGAE, Moscow.

27 Romania negotiated with the Shah separately. For more about the relations between Romania and Iran, see R. Alvandi and E. Gheorghe, “The Shah’s Petro-Diplomacy with Ceausescu: Iran and Romania in the Era of Détente”, *Cold War International History Project Working Paper 74* (2014), pp. 1–11.



lower costs of oil-production in Iran than in the Soviet Union". On the basis of this analysis, they recommended to import 5–8 millions of Iranian oil in 1970 and substantially increase its amounts.<sup>28</sup>

The Iranian proposal was especially timely for the Soviet specialists, for Soviet economic organizations were preparing to construct the second Druzhba pipeline at that time.<sup>29</sup> If the Soviet Union and CMEA countries could import substantial amounts of Iranian oil in exchange for industrial goods, then the Soviets could reduce oil export to Eastern Europe. Therefore, when the Iranians made this proposal, Gosplan seriously contemplated the possibility of connecting the pipeline from Iran with the Druzhba pipeline.<sup>30</sup> Here, Gosplan officials were not averse to incorporating the Druzhba pipeline – often seen by observers as a symbol of the bloc energy autarky – into the global flow of oil because they considered such a measure to be economically efficient.

At the same time, during further negotiations with Iran, it became apparent that the Shah wanted to use the negotiations with CMEA countries as an additional bargaining tool to gain concessions from the Consortium for Iran, mainly composed of BP, Royal Dutch Shell, Gulf Oil, CFP, and four successor companies of Standard Oil, which was alarmed by the negotiations between Iran and socialist countries. By skillfully using this Western fear, the Shah gained a further concession from the Consortium for Iran. In a 1967 agreement with the National Iranian Oil Company (NIOC), the Consortium for Iran agreed to increase oil production in Iran, hand over some areas back to the Iranians, and give oil to NIOC, which then could export it to some CMEA countries.<sup>31</sup>

After this successful agreement with the Consortium for Iran, the Shah once again turned to the socialist countries. At first, he suggested that the Soviet Union would buy Iranian oil on behalf of the entire CMEA countries because Iran was not interested in importing goods from some Eastern European countries, notably Bulgaria. In a conversation with Grigory Zaitsev, Soviet ambassador to Iran, he said that "cooperation with the Soviet Union would satisfy

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**28** "Report by Baibakov and Lesechko to the Central Committee of CPSU", 13 January 1967, f.4372, op.81, d.2428, ll.1–3, RGAE, Moscow.

**29** "Report by Misnik, Sorokin, and Arkhipov to Lesechko", 24 April 1967, f.4372, op.81, d.2355, ll.101–104, RGAE, Moscow.

**30** "Report from Gosplan to Lesechko", 28 December 1966, f.4372, op.81, d.1813, ll.34–36, RGAE, Moscow.

**31** R. Ferrier, "The Iranian Oil Industry", in: P. Avery, G. Hambly, and C. Melville (eds.), *The Cambridge History of Iran*, vol. 7, Cambridge: Cambridge University Press, 1991, pp. 669–672; "On some problems of Soviet-Iranian economic cooperation", f.4372, op.81, d.2428, ll.40–44, RGAE, Moscow.

him, and the Soviet Union itself would find appropriate forms of satisfying demands of oil of these countries.” The Shah made clear that “European socialist countries do not possess resources or goods which are interesting for Iran.”<sup>32</sup> This did not mean, however, that the Iranian government was averse to dealing with some CMEA countries separately. When the Soviet economic delegation led by Baibakov negotiated the purchase of oil with Iranian Prime Minister Amir-Abbas Hoveyda and other Iranian officials, they preferred not to discuss the problem of oil export to Eastern European countries on the grounds that some CMEA countries like Romania and Hungary wanted to negotiate with Iran directly.<sup>33</sup> While Romania did not show any interest in jointly purchasing Iranian oil from the beginning, Hungary did approve that the Soviet Union would enter into preliminary negotiations with Iran on behalf of CMEA countries.<sup>34</sup> As a result, the move towards joint purchase of Iranian oil lost momentum.

At the same time, many Eastern European countries were not so enthusiastic about importing huge amounts of oil from the developing countries of the Middle East.<sup>35</sup> At the 35th Session of the CMEA Executive Committee in 1968, representatives of CMEA countries discussed the problems of oil in detail. Piotr Jaroszewicz, deputy chairman of the Council of Ministers of Poland, clearly articulated the Polish position. “At the present time”, he said, “the main demand of Poland on oil is satisfied through the import from the Soviet Union, and we are counting on the total satisfaction of our not so large and limitedly increasing demands on the import of oil from the Soviet Union.”<sup>36</sup> Aleksandr Zademidko, the Soviet representative at the discussion, was visibly frustrated by the other CMEA countries’ lack of interest in this problem. He stated that in 1964 the Executive Committee had decided that the Standing Commission for the Oil and Gas Industry should study the possibility and plausibility of importing oil from developing countries; however, it did not come to any decision.

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<sup>32</sup> “On some problems of Soviet-Iranian economic cooperation”, f.4372, op.81, d.2428, ll.40–44, RGAE, Moscow.

<sup>33</sup> “Report from Baibakov to the Central Committee of the CPSU”, 20 April 1967, f.4372, op.81, d.2428, l.67, RGAE, Moscow; “Memorandum of Conversation with Prime Minister of Iran Amir Abbas Hoveyda”, 15 April 1967, f.4372, op.81, d.2428, ll.108–109, RGAE, Moscow.

<sup>34</sup> “Report from Baibakov and Lesechko to the Central Committee of the CPSU”, 13 January 1967, f.4372, op.81, d.2428, ll.4–5, RGAE, Moscow.

<sup>35</sup> The notable exception was Romania, which sought to avoid depending on Soviet oil for political reasons.

<sup>36</sup> “Stenographic record of the 31st Executive Committee of CMEA”, 16–17 July 1968, f.561, op.51s, d.15, l.133, RGAE, Moscow.

Zademidko demanded that the Standing Commission and each member country consider the production of fuel on its own soil and its import from developing countries.<sup>37</sup> However, the Soviets were rather disappointed with the result of the discussion. The protocol stated that the member country should merely “exchange information” about the purchase and transport of oil from developing countries.<sup>38</sup> Although the discussion within the commissions of the CMEA continued, the actual measures of cooperation were delayed.

Faced with these meagre results, Soviet economic specialists on the Eastern European economies criticized in their internal debates the lack of cooperation within the CMEA. They promoted closer cooperation between CMEA countries for buying oil in the Third World instead of relying solely on domestic oil. This was the main point of reports that the scholars of the Institute of Economics of the World Socialist System (IEMSS) sent to the Department for Relations with Socialist Countries of the Central Committee of the CPSU during the 1960s and 1970s. For example, in December 1970, I.V. Dudinsky, deputy director of the IEMSS, proposed in his report to the Central Committee a cooperation between CMEA countries and developing countries as “one of the most important factors in solving the economic problems of the CMEA countries and consolidating their situation in the international arena.”<sup>39</sup> Dudinsky calculated that CMEA countries could save at least 1 billion roubles annually by collectively importing 60–80 million tons of oil and 30–40 billion m<sup>3</sup> of gas from developing countries every year in the 1980s. To import such a huge amount of resources from developing countries, the Soviet Union and other CMEA countries would have to identify export commodities. For this purpose, as Dudinsky suggested, the interested CMEA countries should “take collective measures” to create export companies, cooperate in export branches, and encourage the International Investment Bank to invest in the foundation of big export companies.<sup>40</sup>

One year after Dudinsky’s report, in another IEMSS report sent to the Central Committee, the author N.A. Ushakova criticized Soviet policy concerning CMEA cooperation with developing countries. Ushakova argued that coordination of the economic policy towards developing countries remained unsatisfactory.

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37 “Stenographic record of the 31st Executive Committee of CMEA”, 16–17 July 1968, f.561, op.51s, d.15, ll.146–147, RGAE, Moscow.

38 “Protocol of the 31st Executive Committee”, July 1968, f.561, op.51s, d.11, l.10, RGAE, Moscow.

39 “Report by Dudinsky to the Central Committee”, December 1970, f.5, op.62, d.473, ll.170, RGANI, Moscow.

40 “Report by Dudinsky to the Central Committee”, December 1970, f.5, op.62, d.473, ll.175–176, RGANI, Moscow.

According to her, CMEA coordination for activities in developing countries was nothing more than an exchange of information between the member countries. In the ten years prior, CMEA countries had collectively exported only 1.3 per cent of the exported machinery and services to developing countries.<sup>41</sup>

However, according to Ushakova, the Soviet Union as well as CMEA countries could benefit from economic cooperation with developing countries because the cost of producing natural resources was much higher in the Soviet Union than in developing countries. For example, the Soviet Union could cut the cost of acquiring oil by 40–45 per cent if it imported the resource from Iran, Iraq, and Algeria instead of producing it inside the USSR. As for gas, the Soviet Union could save up to 70 per cent of the procurement cost by importing it from Iran and Afghanistan. On the basis of such calculation, Ushakova made some concrete proposals: CMEA countries should create collective organizations for geological surveys in developing countries; they should organize collective associations to process a wide range of resources in developing countries; and they should create international organizations that would specialize in importing resources from developing countries.<sup>42</sup> In fact, Ushakova's idea was to create a socialist consortium for purchasing oil and other resources from developing countries.

Apparently, some staff of the Department for Relations with Socialist Countries of the CPSU Central Committee showed interest in this proposal. According to a handwritten memo by an unidentified employee, Ushakova should conduct further investigation aimed at encouraging collaboration with other socialist countries in the near future. Such resources as oil, gas, and phosphorus-containing materials were mentioned as possible targets of cooperation.<sup>43</sup>

## The Nationalization of the IPC and the Reaction of the CMEA

The nationalization of the IPC in June 1972 offered the great opportunity for the CMEA cooperation that Soviet economists and specialists had been longing for. The Iraqis needed to find new customers after the nationalization of the IPC and asked the Soviet Union and CMEA countries to import as much Iraqi oil as possible. They even suggested that CMEA countries establish

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<sup>41</sup> "Report by Ushakova", 1970, f.5, op.63, d.492, ll.5–6, RGANI, Moscow.

<sup>42</sup> "Report by Ushakova", 1970, f.5, op.63, d.492, ll.18–22, RGANI, Moscow.

<sup>43</sup> "Report by Ushakova", 1970, f.5, op.63, d.492, l.2, RGANI, Moscow.

a socialist consortium that would coordinate importation of Iraqi oil. However, CMEA countries were not able to swiftly coordinate their activities because of the bureaucratic handling within CMEA organizations. In the meantime, demands on the oil market would increase steadily, as the global oil crisis hit in, and Iraq would lose interest in a cooperation with the CMEA as a whole for importing its oil.

Before this, shortly after the nationalization of the IPC, the Soviets urged CMEA countries to import Iraqi oil. In June 1972, presumably on request from the Iraqi government, Kosygin proposed to Willi Stoph, chairman of the Council of Ministers of the GDR, that CMEA countries should coordinate the purchase of oil from Iraq. After negotiation with Baibakov, the East Germans grudgingly agreed to import Iraqi oil as a re-export from the Soviet Union. The East German government was not overtly pleased with Kosygin's request. A report to the Politburo showed displeasure by stating that "the GDR accepted higher costs of transportation and problems of quality with this import."<sup>44</sup>

In addition to engaging in these bilateral talks, the Soviet economic organizations prompted CMEA coordination for importing Iraqi oil. On 5 July 1972, Arkhipov, in a report to the Council of Ministers of the USSR, proposed to establish a new international organization called "Interneft", which could import oil from national oil companies of developing countries.<sup>45</sup> Evidently, some high-ranking Soviet officials pushed the idea of creating a socialist consortium.

Indeed, at the 26th Plenum of the CMEA on 11 July 1972, Kosygin proposed a joint economic organization for importing oil from the Arab states. According to his calculation, although the Soviet Union would take all possible measures to increase the production of oil, it could not fully satisfy the demands of CMEA countries. Kosygin estimated that CMEA countries would have to import 100 million tons of oil every year by 1990. He insisted that CMEA countries should work out a programme to unite their efforts in the market of developing countries and allocate resources in five-year plans for this purpose. On the basis of this programme, CMEA countries could make agreements with oil-producing developing countries like Iraq, Syria, and Egypt and take measures to develop the local oil industries of these countries. Kosygin also argued that CMEA countries should find ways to unite their resources effectively and consider building joint organizations.<sup>46</sup>

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<sup>44</sup> "On oil supply of the Soviet Union to the GDR", DY30/2958, Bl. 27–29, Stiftung Archiv der Parteien und Massenorganisationen der DDR im Bundesarchiv (SAPMO BArch), Berlin.

<sup>45</sup> "Report by Arkhipov to Novikov", 5 July 1972, f.365, op.9, d.966, ll.120, RGAE, Moscow.

<sup>46</sup> "Speech of Kosygin at the 26th Plenum of CMEA", 11 July 1972, DY30/J IV 2/2A/1609, Bl. 86–87, SAPMO BArch, Berlin.

After Kosygin's speech, prime ministers of CMEA countries discussed the issue of assisting Iraq by jointly importing its oil. According to the Soviet representative at the CMEA, Mikhail Lesechko, a prime minister expressed concern about the political repercussions of such a cooperation. "Will it not be politically dissonant", he asked, "in the sense that capitalist monopoly goes and socialist [monopoly] comes in the form of bureau or trust". A participant, presumably Kosygin, answered that Iraq "ardently recommended precisely such a form of cooperation with it for supply of oil to socialist countries".<sup>47</sup> Apparently, it was the Iraqis that initially urged CMEA countries to organize a socialist consortium for Iraqi oil.

Shortly after the Plenum, on 3 and 4 August, the chairmen of the State Planning Commissions and the deputy ministers of foreign trade of CMEA countries gathered in Moscow to discuss the issue. They agreed to consider establishing an Oil Bureau for the purchase and transport of oil from Iraq.<sup>48</sup> Although the Oil Bureau would have far weaker competence than the consortium, it seemed that CMEA countries had found a way to solve the fuel problem and, at the same time, support the Iraqi quest for economic independence.

However, CMEA countries failed to swiftly establish this Oil Bureau because of the bureaucratic parallelism within CMEA. Several commissions had already examined a part of the question. For example, the Standing Commission for Oil and Gas Industry as well as the Standing Commission for Technical Assistance sought to coordinate CMEA countries' activities concerning oil exploration and technical assistance to developing countries. At the 61st Session of the CMEA Executive Committee, in January 1973, the Polish representative proposed that the Standing Commission for Foreign Trade (SCFT) examine tangible measures for establishing a socialist consortium for import and transport of oil. The Bulgarian, Czechoslovak, and Romanian representatives were against it and proposed that the Standing Commission for Oil and Gas Industry establish projects concerning this issue.<sup>49</sup> Lesechko could not conceal his frustration at the delay of the decision. "Although a very long time has passed", he said, "this Bureau has not been organized and has not begun to work yet [...]. This Bureau must work." At the same time, he stressed that "we should not allow that various organizations from CMEA countries would act in Iraq, Algeria, or

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<sup>47</sup> "Stenographic record of 62nd Executive Committee of CMEA", 17–18 April 1973, f.561, op.59s, d.15, l.235, RGAE, Moscow.

<sup>48</sup> "Report by Klopfer to Sölle", 8 August 1972, DC20/19969, Bl. 9–14, Bundesarchiv (BArch), Berlin.

<sup>49</sup> "Stenographic record of the 61st Executive Committee", 23–26 January 1973, DC20/22264, Bl. 145–146, 151, BArch, Berlin.

Syria.” Therefore, he recommended that the SCFT prepare for establishing the bureau.<sup>50</sup> After discussions, the Executive Committee decided that the SCFT would work out concrete proposals for cooperation.<sup>51</sup>

At the 62nd Session of the CMEA Executive Committee in April 1973, Nikolai Patolichev, Soviet minister of foreign trade, reported that the SCFT viewed it as a necessity to intensify negotiations with developing countries “on bilateral basis” in contrast to the position the Soviets held before. According to him, the Oil Bureau would be CMEA’s “internal organization” and would not participate in negotiations with third-party countries because these relations should be handled bilaterally. In other words, the Oil Bureau was supposed to be a forum where CMEA countries would exchange information about their oil import from developing countries and unify their positions. Through such measures, CMEA countries hoped that they would not be manipulated by oil-producing countries like Iraq.<sup>52</sup>

Mieczysław Jagielski, the Polish representative at the Executive Committee, was not satisfied with such a weak cooperation. According to Jagielski, “we did not get close to solve the task [...] of establishing a collective organization that embarks on acquiring oil from the Arab states.” Such a state was totally unacceptable for him, because, as he rightly predicted, “the energy crisis” was looming “in the near future”. According to Jagielski,

It is not easy to maintain competition. If we will act individually, without any doubt, we will pay a high price. Therefore, we think that the only solution that can bring benefits in economic and political sense is: to solve the problem of acquiring oil from third-party countries; for our countries to very closely cooperate in this matter. Of course, if the solution presented by Standing Commission for Foreign Trade totally satisfies other countries, the Polish side is ready to join them. However, we will remain conscious that [we] will most likely acquire oil alone with all negative consequences that arise from it.<sup>53</sup>

While the Poles had not been interested in importing oil from developing countries at the end of 1960s (as shown above), by the middle of the 1970s they clearly had

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<sup>50</sup> “Stenographic record of the 61st Executive Committee”, 23–26 January 1973, DC20/22264, Bl. 149–150, BArch, Berlin.

<sup>51</sup> “Protocol of the 61st Executive Committee”, 23–26 January 1973, DC20/22195, Bl. 22–24, BArch, Berlin.

<sup>52</sup> “Stenographic record of the 62nd meeting of the Executive Committee”, 17–18 April 1973, f.561, op.59s, d.15, ll.213–215, 230, RGAE, Moscow.

<sup>53</sup> “Stenographic record of the 62nd meeting of the Executive Committee”, 17–18 April 1973, f.561, op.59s, d.15, ll.221–226, RGAE, Moscow.

changed their position. Now Jagielski correctly grasped trends in the international oil market and demanded a more thorough coordination of CMEA countries. The Bulgarians also insisted that an organ for coordinating import and supply of oil should have “broader powers”.<sup>54</sup>

Lesechko, the Soviet representative at the CMEA, had to defend the proposal of the SCFT and Patolichev before the dissatisfied Poles and Bulgarians, while he himself might not have been totally satisfied with it. At one point, even he admitted that the SCFT’s “proposals are not as well conceived of in terms of its competence as [prime ministers of CMEA countries] talked about it”. According to him, prime ministers had mentioned that “this [international] organization can act on behalf of all [CMEA] countries in terms of capital investment. . . and supplies”. At the same time, he emphasized that “all organizational problems must be solved more quickly for the sake of timely securement of oil supply” because oil was in need.<sup>55</sup> For him, inadequate but quick measures for policy coordination were better than losing more time in discussion. In the end, CMEA Executive Committee managed to approve the proposal of SCFT.<sup>56</sup> Finally, CMEA countries could make a first step towards coordination concerning oil purchase in developing countries.

However, while CMEA countries had wasted time in coordinating their actions, the situation surrounding Iraqi oil changed dramatically. This was due to policies of the Organization of the Petroleum Exporting Countries (OPEC) and the West. Shortly after the nationalization of the IPC, OPEC declared its support for Iraqi action. Western European countries also accepted Baghdad’s decision and negotiated the purchase of the nationalized oil with the Iraqi government. Because the INOC succeeded in finding customers for its oil, the IPC headquarters, which were still operational, as they were located in London had no other way than to come to terms with the Iraqi government. On 1 March 1973, Baghdad reached an agreement with the IPC.<sup>57</sup>

As the conflict with the IPC had ended and demand for Iraqi oil had increased, the Iraqi government did not have to rely on CMEA countries for exporting its oil. The Soviet Ministry of Foreign Trade quickly sensed Baghdad’s new attitudes and distanced itself from the idea of a socialist consortium for Iraqi oil.

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<sup>54</sup> “Stenographic record of the 62nd meeting of the Executive Committee”, 17–18 April 1973, f.561, op.59s, d.15, ll.217–218, RGAE, Moscow.

<sup>55</sup> “Stenographic record of the 62nd meeting of the Executive Committee”, 17–18 April 1973, f.561, op.59s, d.15, ll.230–237, RGAE, Moscow.

<sup>56</sup> “Protocol of 62nd meeting of the Executive Committee”, April of 1973, f.561, op.59c, d.11, ll.23–24, RGAE, Moscow.

<sup>57</sup> Wolfe-Hunnicut, *The End of the Concessionary Regime*, pp. 256–261.



In fact, by September 1973, the Iraqis lost interest in exporting large amounts of oil to the Soviet Union and rejected a Soviet proposal for importing additional amounts of oil in 1973. They even suggested to cut the oil export to the Soviet Union in 1974.<sup>58</sup> Furthermore, the Iraqis seemed to have turned against the CMEA policy coordination for purchasing their oil. In September 1973, representatives of CMEA trading companies commented that it became difficult for them to coordinate terms of contracts for the purchase of oil because oil exporters insisted that importers “unconditionally” accept their conditions.<sup>59</sup> Leonid Zorin, Soviet deputy representative at the SCFT, sent a proposal to CMEA countries, in which he was cautious about establishing an “international economic organization” that would operate in the oil sector of developing countries. According to Zorin, CMEA countries should examine their “political” influence on oil-producing developing countries.<sup>60</sup>

As a result, CMEA countries faced the first oil crisis without any functional policy coordination. At the 67th Session of the CMEA Executive Committee, in April 1974, the Soviets and Eastern Europeans discussed the negative impact of the oil crisis. As Tano Tsolov, Bulgarian representative at the CMEA, pointed out, “as a result of regular oil supply to our countries from the Soviet Union, unfavorable results of the energy crisis were limited to a large degree.” Still, the negative impact of the oil crisis would have an influence on the Bulgarian economy. Therefore, to cope with the situation, Tsolov proposed to include the following condition in the draft protocol of the next CMEA Plenum: “Member countries of the CMEA will take more effective and coordinated actions in relation with the nonsocialist countries, which export oil and other resources”.<sup>61</sup> Other representatives of the Eastern European countries agreed with Tsolov. Evidently, the oil crisis caused concern among representatives of CMEA countries over the oil import from developing countries. Now they were ready to coordinate their activities more closely.

The Soviet representative Lesechko criticized the “inconsistent behavior” of CMEA countries. Two years previously, in 1972, the protocol of the Plenum stipulated that the member countries should coordinate and act collectively to buy oil

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58 “Report by Mordvinov to Lalayants”, 21 September 1973, f.365, op.9, d.1250, l.138, RGAE, Moscow.

59 “Protocol of the meeting of representatives of CMEA foreign trade companies on 21 September 1973”, DL2/16923, Bl. 6, BArch, Berlin.

60 “Preliminary proposal of the Soviet delegation to the Standing Commission for Foreign Trade”, 15 March 1973, DL2/16921, Bl. 6–7, BArch, Berlin.

61 “Stenographic record of the 67th Executive Committee”, 23 April 1974, f.561, op.60s, d.15, ll.12–13, RGAE, Moscow.

or exploit the market in Arab countries. “Regrettably”, he continued, “we have to admit as a fact that we haven’t done anything about this problem.” He further lamented,

Our Executive Committee gave up the binding decision of our heads of the governments. Of course, someone has done something. However, I want to say that if we will fight in the fuel-energy crisis in such ways and forms also in the future, we will have nothing to put not only in the power station [but also] in the furnace. [...] We need to coordinate [activities] better because we have never coordinated, and if we coordinated, then very ineffectively.<sup>62</sup>

Lesechko was right. However, the Iraqis clearly lost interest in the idea of dealing with a socialist consortium. At the second CMEA Oil Bureau meeting, in October 1973, Bulgaria, Poland, and Romania insisted on establishing an international economic organization for the purchase of oil from developing countries as well as for the export of industrial goods to these countries. Again, we see that some CMEA countries shifted their strategies because of changing external factors, namely the international oil market. Even Romania seemed to have changed its position: from acting on their own accord to being promoters of a common policy on oil purchases. However, by then, Ivan Grishin, the Soviet deputy minister of foreign trade, argued against such an organization. According to him, in a conversation with Patolichev, the Iraqis had complained about CMEA’s plan for an organization that aimed at coordinating CMEA countries for oil. Other CMEA countries also believed that such an organization would cause developing countries to react negatively.<sup>63</sup> In the end, the Oil Bureau could not resolve differences between proponents and opponents of an international economic organization for oil. As a result, the 3rd meeting of the Oil Bureau in February of 1974 decided to postpone discussing the issue until the situation of the oil market would be suitable for it.<sup>64</sup>

At the same time, it became difficult for CMEA countries to coordinate their exports and technical assistance to Iraq. After the successful nationalization of the IPC, Western companies from France, West Germany, and Japan grasped this new opportunity and began to intensify their economic activities in Iraq. Now, to get better terms of contracts for large investment projects, the Iraqis often put

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<sup>62</sup> “Stenographic record of the 67th Executive Committee”, 23 April 1974, f.561, op.60s, d.15, ll.28–31, RGAE, Moscow.

<sup>63</sup> “Report of the second meeting of the oil bureau”, 24–26 October 1973, DL2/20079, Bl. 1–5, BArch, Berlin.

<sup>64</sup> “Report of the third meeting of the oil bureau”, 20–21 March 1974, DL2/20079, Bl. 1, BArch, Berlin.

various projects out to international tender, even when they were originally part of Soviet-Iraqi economic agreements. For example, they put the construction of the Akashat phosphate-processing factory out to international tender although it was part of the Soviet-Iraqi agreement of 1971. In November 1974, in a conversation with Sa'dun Hammadi, Iraqi minister of oil, Skachkov, chairman of the GKES, criticized this "unfounded declaration of tender" as well as "unfounded requests of Iraqi organizations for a reduction of prices" for construction of the Mosul oil-processing factory. "The policy of declaring tender", Hammadi replied, "is explained by the effort to develop the economy in short period on the basis of competition, namely a high technical standard, a short period, and a standard of world prices".<sup>65</sup>

In this fierce competition with Western companies for contracts, the Soviets were clearly the loser. In a report to the GKES, I.E. Khotsialov, economic adviser in the Soviet embassy in Baghdad, admitted that competing with Western companies was "extremely difficult". According to him,

These [Western] countries [...] almost totally satisfy requests from the Iraqi side in terms not only of periods and technical demands [...] but also of prices of proposals, and therefore, [they] are in a privileged position and competing with them is extremely difficult. [...] It should be noted that Soviet organizations act in the Iraqi market without taking stated factors into consideration, they do not show necessary flexibility, and therefore they are often unsuccessful.<sup>66</sup>

Although the GKES and economic advisers repeatedly urged Soviet economic ministries and enterprises responsible for production and transportation of goods and construction of facilities on the ground to improve their activities in Iraq, they remained largely unsuccessful.<sup>67</sup>

The other CMEA countries faced a similar situation. In various CMEA Standing Commissions they tried to coordinate their economic activities in Iraq, but they achieved only limited results due to a general lack of efficiency in the CMEA and due to Iraqi policies. For example, in July 1975, the CMEA and Iraq signed an agreement for economic, scientific, and technological cooperation. However, the results were disappointing for CMEA countries. In December 1977, trade representatives and economic advisers of CMEA countries in Iraq discussed the problem of CMEA

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<sup>65</sup> "Short memorandum of conversation between Skachkov and Hammadi", 2 November 1974, f.365, op.9, d.1627, ll.40–41, RGAE, Moscow.

<sup>66</sup> "Report by Khotsialov to Sergeev and Skripkin", f.365, op.9, d.1625, ll.4–5, RGAE, Moscow.

<sup>67</sup> "Stenographic record of the meeting of economic advisers in foreign countries", 21 May 1980, f.365, op.9, d.2889, ll.18–19, RGAE, Moscow.

cooperation. Botev, the Bulgarian trade representative in Iraq, pointed out that the CMEA could not realize any tangible objects although it had signed the cooperation agreement two years before. He proposed to establish a joint organization in Iraq “that would swiftly solve problems of developing cooperation with Iraq”. Other representatives also criticized the lack of CMEA cooperation. Fedorov, the Soviet trade representative in Iraq, lamented that “some socialist countries” were trying to “go away from coordination of activities”. Dobrovolsky,<sup>68</sup> the Polish trade representative in Iraq, requested to establish a “consortium of socialist countries under the direction of CMEA”.<sup>69</sup>

However, in many cases, CMEA countries ended up negotiating bilaterally with Iraq because the Iraqis preferred to bring bidders into competition. As the Czechoslovakian trade representative pointed out in the 1977 meeting of economic advisers, deadlines for bidding were usually short.<sup>70</sup> Thus CMEA countries did not have enough time to coordinate their activities. Further-more, many organizations acted in a bureaucratic fashion. In the case of the Akashat phosphate-processing factory, Baghdad invited the Poles to the international tender. As this object was too large for the Poles to construct by themselves, in July 1974 the Poles asked the Soviet foreign trade firm for industrial facilities (Tekhnoexport), which was subordinated to the GKES, to cooperate with them. However, V.F. Zinin, its chairman, answered in a typically bureaucratic fashion: “This object does not belong to the competence of All-Union Trust ‘Tekhnoexport’.”<sup>71</sup> It is not clear whether the Poles could get a more positive answer from other Soviet organizations, but they eventually decided to cooperate with a Belgian company, Siebert, and won the tender – on a project, which originally had been part of the Soviet-Iraqi agreement for scientific-technical cooperation.<sup>72</sup>

As these examples show, the Soviet attempt to coordinate the policies of the CMEA in Iraq and other oil-producing countries failed because of the increasing competition in the Iraqi market, changes in the position of the Iraqi and accordingly Soviet foreign trade officials, and general dysfunctionality of the CMEA. In

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**68** First names of Botev, Fedorov, and Dobrovolsky are not written in the document.

**69** “Talk of economic advisers and trade representatives of CMEA countries in Iraq”, 6 December 1977, f.365, op.9, d.2372, ll.100–108, RGAE, Moscow.

**70** Talk of economic advisers and trade representatives of CMEA countries in Iraq”, 6 December 1977, f.365, op.9, d.2372, l.104, RGAE, Moscow.

**71** “Memorandum of conversation between Zinin and Dobrovsky”, 25 July 1974, f.365, op.9, d.1629, ll.41–42, RGAE, Moscow.

**72** “Report of the apparat of the economic adviser in the Soviet embassy in Iraq”, f.365, op.9, d.1906, p. 8, RGAE, Moscow.

the end, Moscow did not dispose of any means to impose its economic interests, neither on Third World oil exporters nor on its CMEA fellow countries.

## East German Response to the CMEA Cooperation

Policy-makers of CMEA countries understood the problem of CMEA cooperation all too well. Still, these countries needed to import oil from the Middle East. Among them, East Germany especially needed Middle Eastern oil because they had one of the most advanced chemical industries in the CMEA with the most urgent demand for oil. So, what was the actual East German policy vis-à-vis Iraq? This final section focuses on the East German side of the story. The East German policy-makers, who viewed multilateral cooperation within CMEA as ineffective, tended to act alone or cooperate bilaterally with other CMEA countries, especially with the Soviet Union.

By the second half of the 1960s, the East Germans realized that the Soviets were not ready for selling them as much oil as they needed. Therefore, they concluded that their demand could only be met through the import of oil from Arab countries. An East German internal report from 1966 estimated how much oil East Germany would need as well as how much the Soviet Union would supply. The report indicated that approximately 10.5 million tons of oil (42.3 per cent of total oil demand) should be imported from capitalist and developing countries by 1980.<sup>73</sup>

Faced with the urgent need to secure oil, the East German government examined cooperation with other Eastern European countries in acquiring oil from the Arab countries. On 23 November 1966, the Presidium of the Council of Ministers of the GDR decided to found a working group that would consist of specialists from the State Planning Commission, the Ministry of Foreign and Intra-German Trade, and some industrial ministries. According to the decision, the working group would study the possibility of importing oil from Arab countries; consider the potential for cooperation with socialist countries, especially Yugoslavia, in acquiring oil; and examine ways to acquire necessary hard currency through the export of East German industrial commodities.<sup>74</sup>

The East Germans looked for cooperation with Yugoslavia, presumably because the Yugoslavians had experience in negotiating with the Arab countries.

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<sup>73</sup> "Report on oil and gas demands from 1968 to 1980", 14 December 1966, DC20/10325, Bl. 1–4, BArch, Berlin.

<sup>74</sup> "Concept on the working group", DC20/I-4/1460, Bl. 2, 45–54, BArch, Berlin.

However, as the working group tackled these challenges, the East German embassy in Yugoslavia submitted a pessimistic report about the possibility of cooperation with Yugoslavia. The Yugoslavians told the East Germans that the purchase of oil in this region was not easy because the Arabian oil business was controlled by international oil companies. Moreover, Yugoslavia, as a self-proclaimed non-aligned country, had no interest in risking conflict with these states by importing oil.<sup>75</sup> Therefore, the first report of the East German working group, submitted to the Presidium of the Council of Ministers in March 1967, concluded that prospect of economic cooperation with Yugoslavia to import oil from Arab countries was not good.<sup>76</sup> As a result, the East Germans needed to establish bilateral relations with oil-producing countries.

As for the partner to purchase oil from, the working group considered Egypt to be suitable. Iraq also took a “priority place” as a possible oil-exporting country for the GDR. However, the working group considered Iraq to be the second-best oil prospect for the GDR because the INOC would likely not be able to export oil until 1970.<sup>77</sup>

Actual East German imports of oil took place as the report had recommended. As Table 1 shows, imports from Egypt increased sharply in 1969 and 1970, but when the North Rumaila oil field began its operation in 1972, Iraq replaced Egypt as the second-biggest oil supplier to the GDR after the Soviet Union.

**Table 1:** East German import of oil (by 1,000 ton) from Egypt and Iraq.

	1963	1964	1965	1966	1967	1968	1969	1970
Egypt	57	184	115	104	97	119	479	932
Iraq	–	–	–	–	–	–	–	–
	1971	1972	1973	1974	1975	1976	1977	1978
Egypt	538	140	132	105	187	180	135	179
Iraq	–	369	913	1760	1454	1576	1072	1095

*Statistisches Jahrbuch der Deutschen Demokratischen Republik*, Jahrgang 1968, 1970, 1973, 1975, 1978, 1980.

<sup>75</sup> “Information of the Embassy of the GDR in Yugoslavia”, DC20/10325, Bl. 8–14, BArch, Berlin.

<sup>76</sup> “Report by Weiss about the possible oil import from Arab countries”, DC20/I-4/1514, Bl. 119, BArch, Berlin.

<sup>77</sup> “Report by Weiss about the possible oil import from Arab countries”, DC20/I-4/1514, Bl. 108–110, 119, BArch, Berlin.

At the same time that the East Germans wanted to import Iraqi oil, the Iraqi government showed interest in gaining economic assistance from East Germany. For example, after the conversation with Sa'dun Hammadi, president of the INOC, in December 1969, Hans-Jürgen Weitz, East German ambassador to Iraq, reported that the Iraqi government was interested in cooperating with the GDR in the oil branch.<sup>78</sup> The East German government also needed to increase technical assistance as well as export to Iraq in exchange for future supply of oil. As a result, as Table 2 shows, East German export to Iraq increased continually.

**Table 2:** The GDR's balance of trade (by million Valuta mark) with Iraq.

	1960	1961	1962	1963	1964	1965	1966	1967
Export	9.3	11.1	7	9.8	16	12.7	12.1	7.8
Import	5.4	2	1	2.4	0.2	2	1.9	1.3
	1968	1969	1970	1971	1972	1973	1974	
Export	17.7	25.8	46.4	103	103.8	122.5	148.1	
Import	0.1	1.2	2.3	1.4	21.4	63.6	499.9	

*Statistisches Jahrbuch der Deutschen Demokratischen Republik*, Jahrgang 1968, 1970, 1973, 1975.

However, such a period of mutual interests in economic relations did not last long. When the Iraqi government nationalized the IPC, a first sign of divergence between the two countries appeared. Shortly after the nationalization of the IPC, the East German government considered helping the Iraqi government by importing additional Iraqi oil. However, economic benefits took priority over the political slogan of anti-imperialism. On 3 June 1972, Alexander Schalck-Golodkowski, deputy minister of foreign trade, pointed out that the total shift in the concept of oil imports would not be economically beneficial to the GDR. The GDR had already signed a contract with BP to buy 0.97 million tons of oil every year from 1973 to 1975. Cancellation of this contract for the sake of importing additional Iraqi oil would cost the GDR 63 million Valuta mark (VM), as the price agreed with BP was highly favourable for the GDR. Moreover, cancelling the contract with BP would cause the GDR incalculable damage in the capitalist market. The total effects of the economic damage would surpass VM 63 million

<sup>78</sup> "Memorandum of conversation between Weitz and Hamadi", 22 December 1969, DC20/11563, Bl. 10–11, BArch, Berlin.

by several times.<sup>79</sup> Although Gerhard Weiss, the East German representative at the CMEA, understood that cooperation with BP could hurt relations with Iraq, he accepted Schalck's analysis and wrote to Prime Minister Willi Stoph that "*additional effective support* [original emphasis] for the Republic of Iraq" would "*not be possible until 1975* [original emphasis]", as the GDR had already agreed to purchase oil from BP.<sup>80</sup>

Then came the oil price shock in the fall of 1973, which fundamentally changed the situation surrounding the GDR's oil diplomacy in the Middle East. As Table 2 shows, the GDR enjoyed a trade surplus with Iraq every year until 1973, but the skyrocketing price of oil changed the trade balance. Suddenly, the GDR developed a trade deficit with Iraq. East German policy-makers, nonetheless, found it necessary to increase oil imports from Arab countries and further develop relations with them. Therefore, in a 1975 agreement with Iraq, East Germany agreed to increase oil imports from 2 million tons in 1975 to 4 million tons in 1980.<sup>81</sup>

However, as Table 1 shows above, East Germany could never fulfil this agreement because the oil price at the world market was too high. To deal with this new situation, the GDR government introduced measures to reduce oil consumption, which enabled it to cut imports from the non-socialist world.<sup>82</sup> The Iraqis were bitter about the East German non-fulfillment of the agreement. In February 1978, Saddam Hussein wrote a letter to Stoph and demanded that the GDR fulfill its import obligation.<sup>83</sup> However, according to the new East German plan, which was approved at the Presidium of Council of Ministers in November 1978, East Germany would need only between 1.05 and 1.25 million tons of oil from the non-socialist world. If the GDR would import oil above these planned amounts, the surplus should be exported in order to obtain hard currency. In the face of mounting hard currency debts, the East Germans decided to abandon the 1975 agreement with Iraq.<sup>84</sup> East Germany increasingly viewed trade with Iraq and other developing countries as a means to gain hard currency by exporting machines instead of using oil from these countries as energy resources.

<sup>79</sup> "Information by Schalck to Rauchfuß", 3 June 1972, DC20/11835, pp. 174–178, BArch, Berlin.

<sup>80</sup> "Letter from Weiss to Stoph", 6 June 1972, DC20/10325, pp. 205–207, BArch, Berlin.

<sup>81</sup> "Information on the oil import of the GDR from Iraq", DE1/58665, Bl. 1, BArch, Berlin.

<sup>82</sup> Ibid.

<sup>83</sup> "Concept for forming trade and economic relations of the GDR with Iraq Republic up to 1985", DC20/I-4/4071, Bl. 8, BArch, Berlin.

<sup>84</sup> "Proposals for realizing oil import of the GDR from the nonsocialist world in 1979 and 1980", DC20/I-4/4217, Bl. 16–18, BArch, Berlin.



At the same time, although the East Germans continued to show interest in CMEA cooperation, in their practical activities they opted to act alone or cooperate with CMEA countries bilaterally, and avoided multilateral cooperation within the CMEA. In fact, already in December 1973, a report approved by the Presidium of the Council of Ministers of the GDR stated that the GDR should coordinate all Iraqi oil exploration activities with the Soviet Union. “Besides”, the report continued, “collective action of multiple interested CMEA countries is possible”. However, according to the report, “such an act is regarded as lengthy and complicated, as, besides negotiations with Iraq, the condition of the cooperation between the interested CMEA countries must be coordinated and agreed”.<sup>85</sup> The Presidium decided to cooperate with the Soviet Union, but there was no mention about the other CMEA countries.<sup>86</sup>

In fact, while the East German government continued to show interest in CMEA cooperation for concrete deals, they preferred bilateral cooperation with individual CMEA countries in constructing industrial and other objects in Iraq. For example, in September 1974, a proposal submitted to the Politburo of the SED requested that CMEA’s connections with Iraq, Algeria, and South Yemen be actively developed and “the creation of relations on the basis of the division of labor be carefully examined”.<sup>87</sup> However, as the East German trade representative pointed out in 1977, East German cooperation with CMEA countries had been undertaken on a bilateral basis.<sup>88</sup> In the end, the East Germans acted in the Iraqi market largely by themselves at a time when the oil price jumped and competition over contracts with Iraq became fierce.

## Conclusion

By examining the process of CMEA cooperation with regard to the question of Iraqi oil, this chapter has demonstrated how limited the Soviet power was in coordinating activities of member countries. This was largely due to three inter-related factors: time-consuming negotiations within the CMEA; the influence of the global economic context, namely the oil crisis; and, most crucially, the

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<sup>85</sup> “Information on the oil import from Arab countries”, DC20/I-4/2945, p. 130, BArch, Berlin.

<sup>86</sup> “Decision of the Presidium of Council of Ministers”, 27 September 1973, pp. 109–111, BArch, Berlin.

<sup>87</sup> “Concept for the long-time development of relations of the GDR with Iraq, Syria, Algeria, Yemen and Somalia”, DY30/J IV 2/2/1525, pp. 66, SAPMO BArch, Berlin.

<sup>88</sup> “Talk of economic advisers and trade representatives of CMEA countries in Iraq”, 6 December 1977, f.365, op.9, d.2372, ll.107–108, RGAE, Moscow.

influence of the Iraqi government on the extent and direction of CMEA coordination. In the case of the socialist consortium, the difference of positions between CMEA member countries widened as a result of shifting external factors, namely the international market and the Iraqi position. After 1973, sensing Iraqi disinterest in the CMEA policy coordination for oil, the Soviet Ministry of Foreign Trade swiftly discarded the idea of socialist consortium. While some countries agreed with the Soviet foreign trade officials, others vigorously backed the idea of CMEA cooperation for Iraqi oil promoted initially by the Soviets themselves. In this way, the CMEA functioned as a “platform of negotiation” between various actors within and outside the socialist world. Unexpectedly, it was the Iraqis that succeeded in influencing the discussion within this platform through bilateral negotiations with Soviet and Eastern European actors. In this sense, the CMEA became a “space of interaction” remotely influenced by the Iraqis.

The East Germans were clearly aware of the limit of CMEA cooperation for importing Iraqi oil. After the oil price shock, they decided to act alone in the Iraqi oil market. In doing so, they obeyed the logics of the market economy despite their allegedly anti-imperialist solidarity with developing countries. At one point, they even preferred to cooperate with BP, symbol of the “imperialist exploitation”, instead of assisting the Iraqi government by increasing oil import from the country. Furthermore, as the East German hard currency debt increased dramatically during the 1970s, the GDR government changed its policy priority in economic relations with Iraq: now acquiring hard currency became an overriding goal. Such a change of policy was possible partly due to the import of oil and gas from the Soviet Union. In the end, the East Germans did not have to adhere either to the CMEA cooperation or to a bilateral agreement concerning Iraqi oil as long as the Soviet Union behaved as a far more reliable and convenient supplier of oil. The Soviet economic bureaucracy undermined their own goals.