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File Folder SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION
UPDATES (6/4/82) (1)

FOIA

F03-002/5

Box Number 19

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117

ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
168969 MEMO	W. MARTIN THROUGH N. BAILEY TO W. CLARK: SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION UPDATE #25 PAR 1/22/2013 CREST 748-19-40-1-2	4	6/4/1982	B1
168970 REPORT	RE USSR (PAGE 2 ONLY) PAR 6/3/2013 CREST NLR-748-19-40-2-1	1	ND	B1
168971 CABLE	021930Z JUN 82	1	6/2/1982	B1
168972 REPORT	RE USSR (PAGES 31-33 ONLY) R 1/13/2012 CREST NLR-748-19-40-3-0	3	5/1/1982	B1
168973 REPORT	RE USSR (PP. 37-39 ONLY) PAR 10/8/2010 CREST NLR-748-19-40-4-9	3	5/1/1982	B1
168974 REPORT	RE USSR OILFIELD PAR 10/8/2010 CREST NLR-748-19-40-5-8	1	6/3/1982	B1

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168975 CABLE	021410Z JUN 82	1	6/2/1982	B1
168976 CABLE	281525Z MAY 82	1	5/28/1982	B1
168977 CABLE	011454Z JUN 82	1	6/1/1982	B1
168978 CABLE	RE USSR ET AL.	2	6/1/1982	B1
168979 CABLE	RE CREDIT ANALYSIS	5	5/27/1982	B1
168980 CABLE	RE USSR	2	6/1/1982	B1
168981 CABLE	RE USSR	4	6/3/1982	B1

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168982	CABLE	281745Z MAY 82	1	5/28/1982	B1
168983	REPORT	RE HUNGARY	1	5/28/1982	B1

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MEMORANDUM

NATIONAL SECURITY COUNCIL

June 4, 1982

~~TOP SECRET/~~CODEWORD

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

THROUGH: NORMAN A. BAILEY *NAB*

FROM: WILLIAM F. MARTIN *WFM*

SUBJECT: Soviet Bloc Economic and Financial
Situation Update #25

DECLASSIFIED IN PART

NLRR 748-19-40-1-2

BY KOB NARA DATE 8/3/25

Soviet Union

-- As expected, Moscow has been lobbying West European governments to resist the U.S. initiative on restricting credits to the USSR (Tab A). *(S)*



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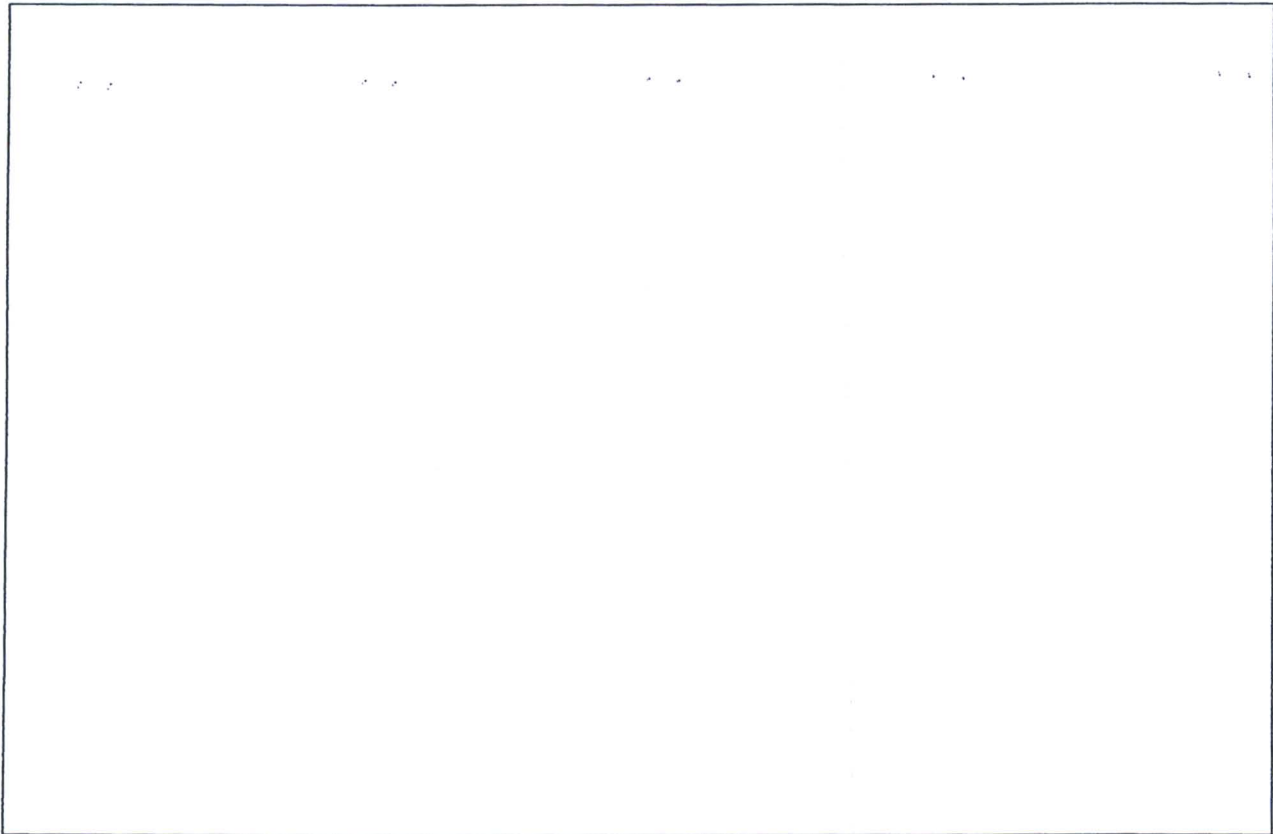
Review June 3, 2012

Derivative Classification by

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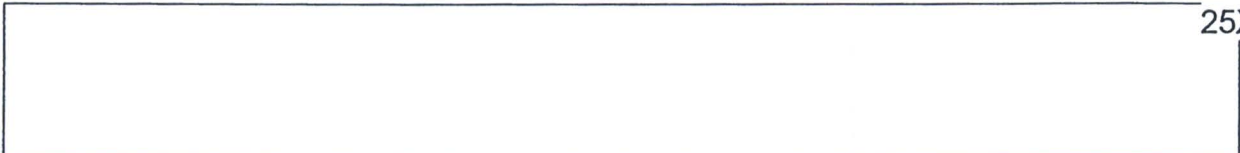


25X

Eastern Europe



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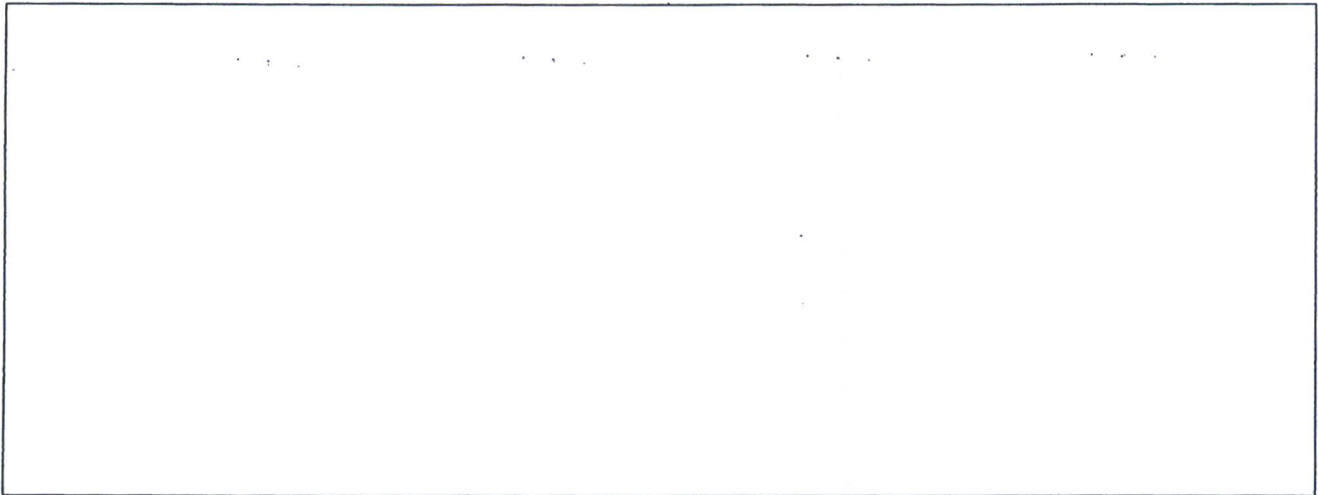
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Attachments

Tab A State Report re Western Credit Policy



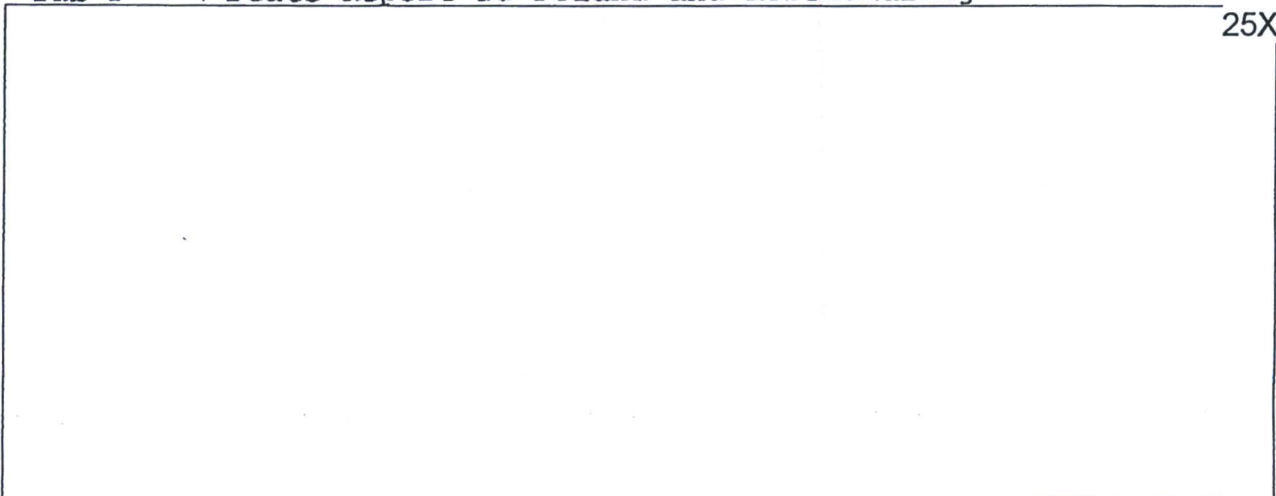
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Tab O



25X1

Tab P State Report re Poland and Rescheduling



25X1

cc: Tom Reed, Don Gregg, Richard Pipes, Henry Nau,
Paula Dobriansky

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BACK-UP FOR
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168970	REPORT RE USSR (PAGE 2 ONLY)	1	ND	B1

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A 6
C**2. USSR: LOBBYING AGAINST A RESTRICTIVE WESTERN CREDIT POLICY**

As expected, Moscow has been lobbying West European governments to resist the US initiative on restricting credits to the USSR. Given the Europeans' interest in East-West trade, Soviet overtures have struck a responsive chord. Meanwhile, Western banks continue to give favorable consideration to Moscow's short-term credit needs, despite growing caution about exposure in East Europe.

The West Germans believe that the US is moving too quickly on credit restraints, leaving little chance for even a limited agreement on this issue at Versailles. The Italians echo this sentiment and stress their view that Washington must recognize Europe's special interests with the Soviets.

In a meeting with FRG Economics Minister Lambsdorff last month, Gosbank Chairman Alkhimov spoke of the "special historical, political, and economic relationships which existed between the USSR and West Europe," for which the US often showed no understanding. 25x1 Alkhimov commented that sudden changes, such as a halt in credits, would be harmful to everyone.

Alkhimov also requested that the signing of the financial agreement with German banks for the gas pipeline be postponed until July. In the interim, Alkhimov wants assurances that Hermes guarantees will still apply to equipment already ordered; he also asked that the March 31 deadline for utilizing the framework credit be extended to the end of the year to enable the USSR to make more purchases. This would be tantamount to a new credit line. Such an extension would mollify German companies which have complained about not getting enough business from the pipeline project.

Delaying the agreement could ease Moscow's short-term cash flow problem. Assuming that they have not yet made their down-payments to the Germans, the Soviets could delay expenditures of roughly \$50 million for another few months. Because the bank credits will carry an interest rate reflecting the prevailing market, the Soviets may also hope that the rates will be lower at that time.

Early in May, Alkhimov was reported to have expressed concern that the Soviet Foreign Trade Bank did not have funds to meet all its commitments; he hoped the situation would improve as the year progressed. The Bank for International Settlements reportedly rebuffed a Soviet approach for assistance. But Western commercial banks still consider the USSR a good risk for grain financing, and are giving serious consideration to extending present loans. Moscow will welcome Canada's offer of credit guarantees for the financial relief it offers and also because it could help to undermine the US initiative on credit restraint.

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168971	CABLE 021930Z JUN 82	1	6/2/1982	B1

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Other Topics

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BY CA NARA DATE 1/13/12

168972

10

Metalworking Technology in the USSR: Problems and Prospects (U)

Moscow's efforts to raise industrial productivity by modernizing its machine tool industry are impeded by traditional manufacturing practices as well as by problems with the new technology. Much of the industry's current output consists of general purpose tools that are relatively inexpensive to produce but do not meet the needs of special purpose or complex production in a technologically changing society. The need to service a huge repair and spare parts sector (itself the result of poor quality in original equipment) and to replace the aging portion of the huge Soviet machine tool industry creates great pressure for continued large-scale production of conventional models.

The USSR also has problems producing automated machine tools and incorporating them into its industrial production system. The industrialized West has moved from the simpler numerically controlled (NC) two-axis point-to-point machines to multiaxis contouring models and, in the late 1970s, to widespread use of computer-operated (CNC) machinery. Soviet participation in this technological revolution in metalworking has lagged because of the backwardness of Soviet electronics and computer technology, managerial and structural rigidities reinforced by the Soviet incentive system, and a policy of concentrating resources on the mass production of simple models, such as NC two-axis point-to-point machines.

Despite some success in following the Western lead by shifting more production to complex *metalforming* tools¹ (with a cutback in general purpose *metalcutting*

tool production), the product mix of the machine tool inventory, has not changed substantially. As a result, the USSR now faces not only a still lagging tool modernization but shortages of conventional machinery as well.

Proponents of Modernization

The January issue of a leading Soviet economic journal² was devoted to an assessment of the technological level and production problems in the metalworking machinery sector. The 124-page issue contains special reports, interviews with officials, and the stenographic report of a conference of experts held in Ivanovo.

The contributors to the volume—government officials, plant managers, and other important figures in the planning, R&D, and production of advanced automated metalworking machinery in the USSR—have a professional stake in reforming the organization, management practices, and technology of the industry along Western lines and, if necessary, importing large amounts of Western machinery, components, and know-how to accomplish this goal. Their conception of the strategy to be followed in modernizing the metalworking machinery sector is summarized in an article by S. A. Kheyman, chief of the Institute of Economics of the Soviet Academy of Sciences, who

¹ Metalforming tools, such as hydraulic presses, precision forging machines, and stamping machines waste less metal and are more versatile and cost efficient than metalcutting equipment.

² *Ekonomika i organizatsiya promyshlennogo proizvodstva* (Economics and Organization of Industrial Production, EKO).

is perhaps the most widely published authority on Soviet machine tool modernization.³

Recommendations for Upgrading Soviet Machine Building

The consensus of the participants at the Ivanovo conference was that the USSR should adopt Western industrial production patterns and make major organizational changes in its metalworking machinery industry. These include centering primary responsibility for modernization in the machine-building industries by:

- Abolishing the prevailing system of producing machine tools in multipurpose plants.⁴
- Establishing a nationwide infrastructure of small-to-medium-size plants, employing 28 to 40 persons each, devoted solely to the manufacture of specialized machine tools and parts.
- Instituting a service industry of small-to-medium-size plants to serve users directly, as in the West.
- Stepping up the replacement rate from the pre-1981 2-percent level to 4 percent.
- Increasing vastly the production of key state-of-the-art components such as instruments, controllers, programing devices, and state-of-the-art cutting tools (diamond and sintered carbide).

³ Kheyman highlights Soviet problems by comparing recent Soviet and Western metalworking experience. He documents the greater efficiency and sophistication of metalworking equipment in the West by showing that:

- In 1978 roughly one-third of the machine tools in the US, Japanese, and West German inventories were of the metalforming type, compared with 20 percent for the USSR.
- The poor finishing quality in the USSR stems not only from the composition of the Soviet inventory itself, but from the products used in machining. The USSR uses mainly cast billets and bars, which require greater use of metalcutting than metalforming technology. The USSR lags behind the West in sheet metal production and has relatively few plastic molding machines.
- In the 1970s the rate of replacing obsolescent and wornout machinery was about 2 percent in the USSR as compared with 5 percent for the United States and 7 to 9 percent in West Germany.
- In the West, product specialization is extensive and machine building is supported by a vast infrastructure of secondary producers of specialized parts and components. In the USSR, the specialized machine-building plants produce less than half of the machine tools; nonspecialized plants and repair shops produce the rest.

⁴ The volume has much information on this practice. A striking example is Leningrad's Red Proletariat Plant, a major producer of advanced machine tools, which turns out tens of thousands of mowers on the side.

- Shifting more funds away from the large-scale production of conventional tools to increased production of advanced tools and their supporting infrastructure.

The journal offers extensive evidence that technological deficiencies and gaps in production have forced the USSR to continue its heavy reliance on imports. Total Soviet imports of machine tools are four times greater than exports.

The contributors differ, however, in their assessments of the impact on the USSR of such large, critical imports of metalworking machinery. A minority believes that imported state-of-the-art machinery and better conventional tools do not contribute to the long-range development of indigenous production capability and make the USSR dependent on foreign supply. Most are willing to import machines and components that are in short supply, not available in the quality required, or cheaper abroad. Some would agree with the view of N. Smelyakov, Deputy Minister for Foreign Trade, who recently called for more Soviet involvement in Western technology transfer and argued that the acquisition of foreign licenses and the purchase of state-of-the-art Western technology would help the USSR become a top producer of advanced metalworking machinery.

Pressures for Maintaining Established Production Practices

The thrust for modernizing is balanced by powerful pressures in the USSR for maintaining traditional strategy in the machine-building industry. This becomes clear from the remarks of the director of Gosplan's⁵ machine tool department, Lev Nikolayevich Snovskiy. According to Snovskiy, the pressures for the maintenance of the traditional metalworking machinery system are greater and more widespread than those for innovation. He stated, for example, that when a new plant is established, it is still equipped with machines having manual controls, other conventional metalworking equipment, an oversupply of available parts, and machines that are larger than needed.

⁵ State Planning Committee of the USSR.

Gosplan thus operates on the horns of a constant dilemma, planning investment for modernization while striving to satisfy those who operate the vast conventional machine-building system in the USSR. The planners, however, can satisfy neither those pushing for an increase in the production of advanced machine tools nor those wishing to maintain established production quotas for conventional tools. Advanced metalworking equipment is still produced too slowly, and the cutback since 1978 in production of metalcutting tools is causing shortages in lathes, milling machines, and other heavy machine tool equipment.

Conclusion

Innovation in the metalworking industry now has a permanent place in the Soviet industrial system. Soviet planners and policymakers are committed to some degree of upgrading in the metalworking industry. There is also a sizable group of both researchers and practitioners whose work is institutionally embedded and whose views, research, and experience find expression in trade journals and even in the central press. However, their work is inhibited by an industrial establishment still heavily committed to traditional manufacturing practices.

Since the late 1970s, the modernization of the machine tool sector, on which all metalworking depends, has been viewed as critical for the Soviet economy. There has been a steep decline in the growth of overall industrial labor productivity since the early 1970s, from 4.4 percent in the first half of the decade to 1.3 percent in 1981. Because of the rapid decline in the growth of the population of working age, the Soviets now expect labor-saving machinery to achieve the increase in productivity and to improve performance and output in critical sectors of the economy. These expectations may not be fulfilled, however. Since the late 1970s, the production of conventional machine tools, still the backbone of the industry, has fallen. The production of advanced tools, though increasing at a constant rate of growth, appears insufficient to take up the slack. Thus the USSR is short on both conventional and advanced tooling, and the response has been to rely more heavily on imports. Because of probable reduction in hard currency earnings by the

mid-1980s, however, the Soviet planners will be under considerable pressure to meet future needs for machine tools from domestic sources, and to reduce imports.

Annex

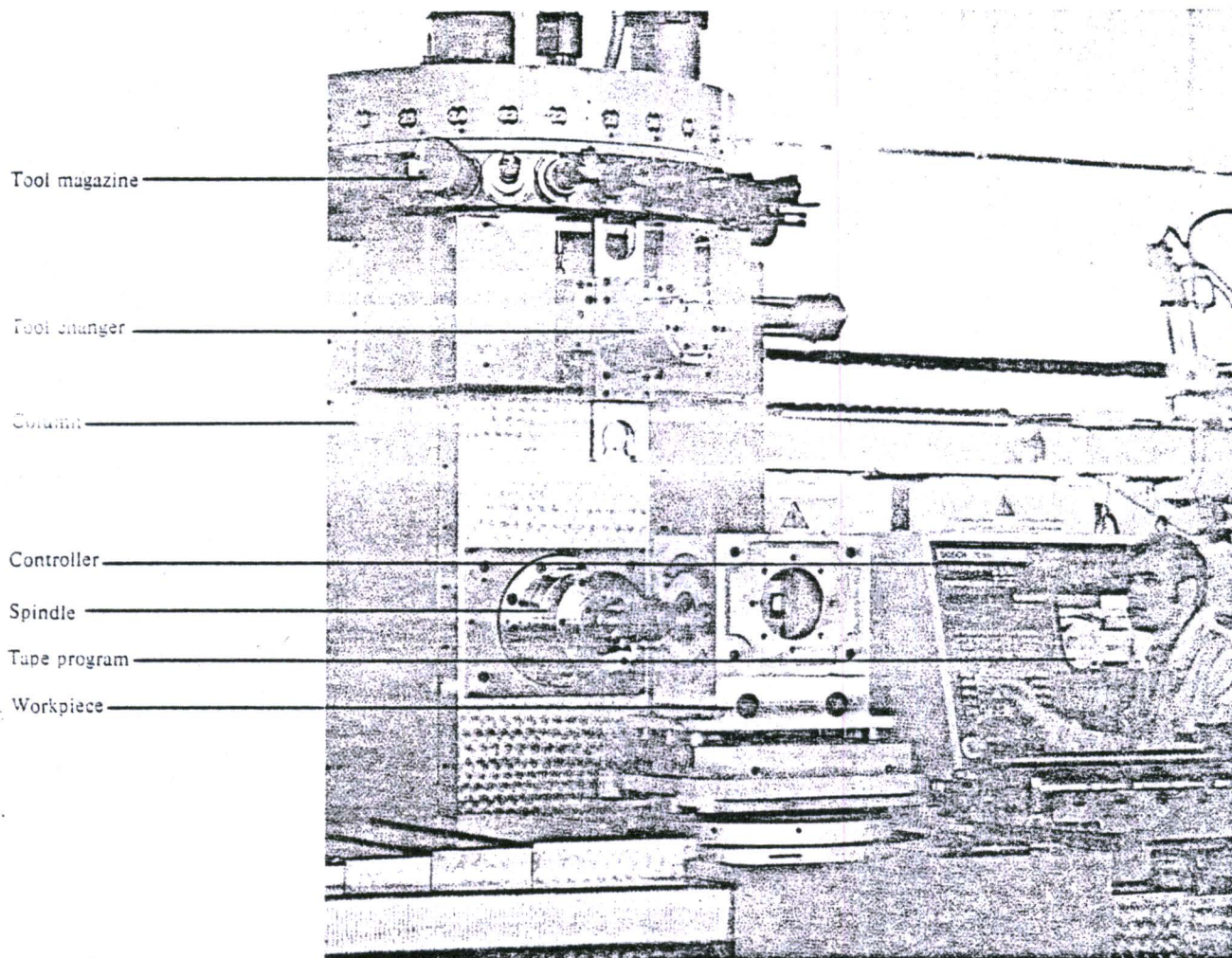
The Case of the Ivanovo Machine Tool Plant

Some of the difficulties and frustrations that Soviet machine builders encounter in modernizing their equipment and plants are described by V. P. Kabaidze, Director of the Ivanovo Machine Tool Plant, in a report about his efforts to change the plant from a repair facility for the Sverdlov Machine-Building Association in Leningrad into one of a handful of manufacturers of state-of-the-art machining centers in the USSR.⁶

Kabaidze's account shows how unusual managerial initiatives and all-out plant modernization efforts collided with powerful ministerial conservatism and established Soviet industrial practice over a 10-year period. Kabaidze, backed by his parent plant in Leningrad and his party organization, set up a long-range plan to manufacture NC machine tools in the early 1970s. He purchased NC machines and components from Japan, West Germany, and Switzerland and produced the first NC machine tool prototype in 1973. In 1975, after returning from the International Tool Exhibition in Paris, he realized that machining centers had the greatest potential for the marriage of machinery and electronics. With the help of his backers and a Siemens control system bought from West Germany, he built the first machining center, the IR 500 (see photograph). As of January 1982 the plant had built 863 metalcutting machine tools, of which 130 had numerical control and 40 were machining centers. Half of the NC tools are used in the plant itself, and 10 machining centers have been sold abroad. While the plant is not yet a large producer of either NC machines or machining centers, it is well known in the USSR.

⁶ This account is supplemented by a report by V. Ya. Maximov, chief of the plant's technical-programing division, in EKO, pp. 107-109, and by a lengthy article published in the national press by L. Gladysheva and V. Shilov, "Vneplanovaya initsiativa," *Sovetskaya Rossiya*, 13 September 1982, p. 2.

**The IR 500 MF4 Horizontal
Machining Center Produced at
Ivanovo**



A machining center is perhaps the most efficient and versatile machine tool combining electronics and machinery. In the past, a workpiece such as an engine block had to be drilled, milled, bored or threaded on two or three different machines. A machining center can perform all of these functions on the same workpiece, with great savings in labor and time.

The machining center is a complex integrated system with 20 or more tools attached. The workpiece is set on the table. The tool changer picks up a new tool from the magazine, removes the old tool from the spindle, and replaces it with the new one. The column moves along three axes (up and down, sideways, and forward), and the table with the workpiece on it can turn. All motion is produced electronically and dictated by a program inserted into the controller. The machining center in the photograph is the basic prototype produced by the Ivanovo plant. Note that the controller is from Bosch, a major electronics firm in West Germany.

Unclassified

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Singx

Kabaidze has had to engage in an unusual struggle to meet his goals. The plant has never had its plan for moving into series production of machining centers approved formally by its ministry. The director has broken with several Soviet managing practices, including the budgetary, which in the USSR still rewards conventional machine tool production. Indeed, in the past five years the plant lost 2 million rubles in incentive funds, and members of its engineering and technical staff lost 1,800 rubles each in bonus money. The enormous costs for electrical components and service, which are not built into the usual budget for machine tool plants, forced the plant to underfund housing, vacations, and other employee benefits, causing an exodus of 50 percent of its staff. Given these difficulties, no one has tried to emulate the example of Ivanovo.

This article is Unclassified.

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168973

Western Technology and Polish Production of Military Transport Vehicles for the USSR (s)

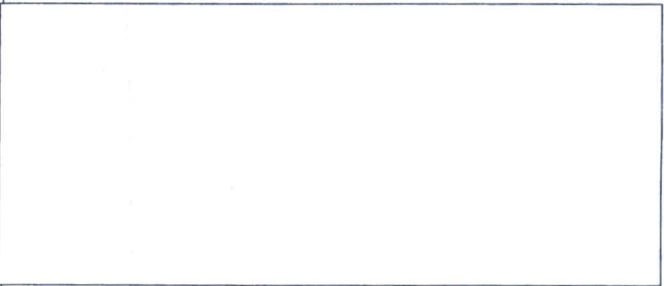
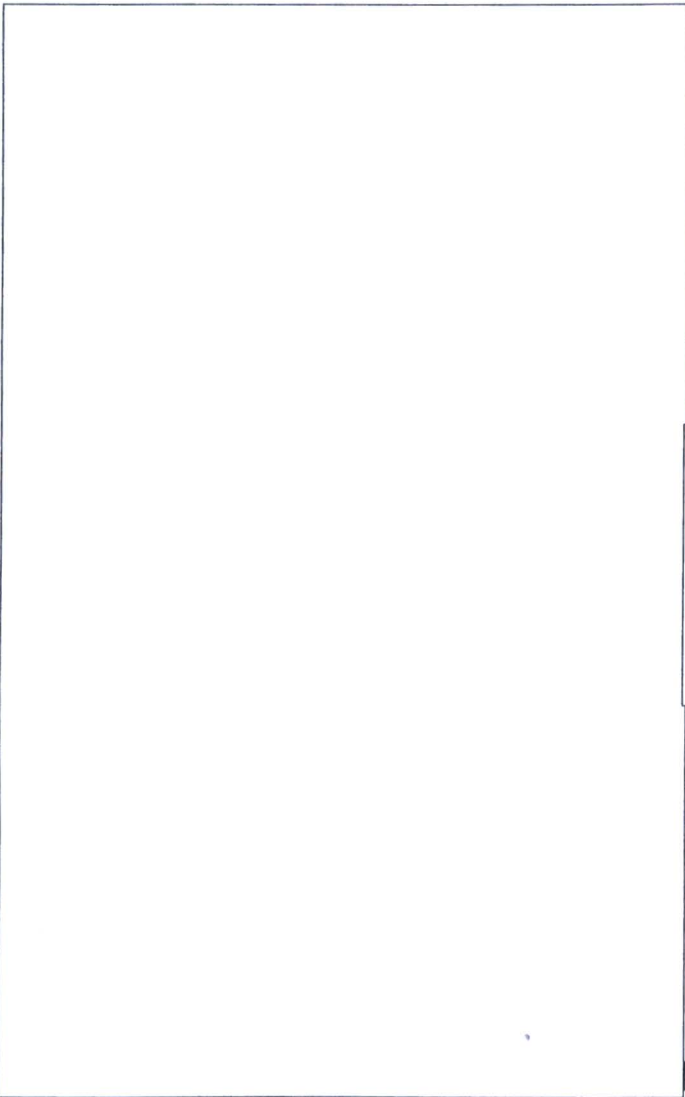
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Poland's giant Huta Stalowa Wola Steel and Machine Plant, which has benefited from Western financing and technology since the early 1970s, is now producing general purpose armored tracked vehicles (MT-LBs).¹ This plant has produced military equipment in the past, but its production of MT-LBs is part of a growing Polish involvement in producing tracked vehicles for the USSR. [redacted]



Military Production at HSW

In the past, HSW has produced military equipment including chassis for the ATS-59 medium tracked artillery tractor, which were shipped to Bumar Labedy Mechanical Works—the Polish tank plant—for final assembly.² In addition, HSW produced gun breech and barrel assemblies for the Polish T-55 tank and towed artillery pieces for domestic use and for export to Third World countries. HSW's role in military production apparently increased in the late 1970s, when the USSR laid requirements on Poland for production of both civilian and military tracked vehicles. The Soviets designated the Labedy plant as a producer of T-72 tanks for the Warsaw Pact countries, which forced the plant to retool and to relinquish production of the less sophisticated tracked printer mover to HSW.³ [redacted]



¹ In the past decade, HSW has shipped pipelaying tractors to the USSR. It is highly probable that many of the new tractors will be shipped to the USSR for pipeline construction. [redacted] 25X
² ATS-59 production was estimated at over 1,000 vehicles annually, of which 90 percent were exported to the USSR. Production was scheduled to be phased out in 1981 because of increasing shortages of raw material and to provide skilled labor for producing T-72 tanks. [redacted] 25X
³ In retooling for T-72 production, the Labedy plant purchased Western equipment, including a numerically controlled (NC) punchmaster press from the United States, a bending machine and seam welder from Belgium, spinning lathes and testing devices from Holland, and an NC pipe-bending machine from Sweden. [redacted] 25X

¹ Mashina transportnaya logkaya boyevaya. [redacted] 25X

~~Secret~~
SOV UR 82-005
May 1982

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168974	REPORT RE USSR OILFIELD	1	6/3/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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168974

E

USSR: Declining Production at Major Oilfield

[Redacted]

25X

[Redacted] the USSR's largest producing oilfield at Samotlor has peaked and will decline over the next five to seven years. Samotlor supplied one-fourth of total oil output in 1981 and, until then, accounted for over one-half of western Siberia's production. (C)

25X1

Comment:

[Redacted] Samotlor probably peaked at the end of 1980. This official admission suggests that the Soviets hold little hope that an extensive French gas-lift system--the installation of which continues to be plagued by delays--will be able to avert the decline. Although production from the USSR's richest oil province in western Siberia continues to increase, any loss from Samotlor would only put more pressure on other fields in western Siberia to make up for falling production elsewhere in the country. (C-NE)

25X

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[Redacted]

25X1

3 June 1982

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168975	CABLE 021410Z JUN 82	1	6/2/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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168976	CABLE 281525Z MAY 82	1	5/28/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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168977	CABLE 011454Z JUN 82	1	6/1/1982	B1

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168978	CABLE RE USSR ET AL.	2	6/1/1982	B1

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168979	CABLE RE CREDIT ANALYSIS	5	5/27/1982	B1

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168980	CABLE RE USSR	2	6/1/1982	B1

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168981	CABLE RE USSR	4	6/3/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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168982	CABLE 281745Z MAY 82	1	5/28/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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168983	REPORT RE HUNGARY	1	5/28/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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HUNGARY: Loan in Trouble

Hungary's effort to raise a \$300 million loan appears to be in jeopardy. [redacted]

25X
25X
25X

[redacted] Hungary's current account position appears worse than expected, perhaps as bad as that of Romania and Yugoslavia. [redacted] the loan effort has no prospect of success under these circumstances. Without a commercial bank loan and an IMF loan commitment, Hungary cannot obtain further credits from Western central banks through the Bank for International Settlements.

25X

[redacted]

25X

Comment: If Hungary's effort to obtain funds from commercial banks and the BIS fails, Budapest will face major debt servicing problems in the near future.

[redacted]

25X

~~Top Secret~~

28 May 1982

25X

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