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File Folder SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION
UPDATES (7/9/82) (1)

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F03-002/5

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127

ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
169139 MEMO	W. MARTIN THROUGH N. BAILEY TO W. CLARK: SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION UPDATE #30 PAR 10/11/2010 CREST NLR-748-19-49-1-3	1	7/9/1982	B1
169140 CABLE		2	7/7/1982	B1
169141 REPORT	RE USSR-WESTERN EUROPE (PAGE 1 ONLY) PAR 10/11/2010 CREST NLR-748-19-49-2-2	1	7/2/1982	B1
169142 CABLE	282117Z JUN 82	1	6/28/1982	B1
169143 CABLE	021824Z JUL 82	1	7/2/1982	B1
169144 REPORT	RE BELGIUM-USSR PAR 10/11/2010 CREST NLR-748-19-49-3-1	1	7/8/1982	B1

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MEMORANDUM

NATIONAL SECURITY COUNCIL

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INFORMATION

July 9, 1982

MEMORANDUM FOR WILLIAM P. CLARK

THROUGH: NORMAN A. BAILEY *NAB*

FROM: WILLIAM F. MARTIN *WFM*

SUBJECT: Soviet Bloc Economic and Financial Situation
Update #30 (U)

Soviet Union

The Wall Street Journal has reported that an important Soviet economics magazine says the Soviet Union is bedeviled by shortages of fuel, raw materials, equipment, consumer goods, food and labor (Tab A). (U)

A USSR commercial official has predicted that in light of general trade conditions and East-West relations, 1982 is and will continue to be a very difficult year for the Soviet Union (Tab B). (S)

The Soviets are reported to have called a meeting this week in Moscow with key European companies to discuss the impact of the extended US embargo. (The Soviets would still prefer to avoid delays by using the US designed turbines on order. They are probably hoping that West European countries will disregard or circumvent the restrictions (Tab C). (C)

The Soviets want Nuovo Pignone to provide parts for the Soviet designed GTN-25 gas turbine (Tab D). (D)

Alstom Atlantique is reportedly not capable -- without significantly expanding its work force -- of replacing the GE rotors. Alstom officials have been reluctant to increase the firm's labor force because of potentially massive layoff problems when the project is finished (Tab E). (C)

Belgium may import Soviet gas if an alternative agreement for additional gas from the Netherlands cannot be worked out. (The US Ambassador to the Netherlands is appealing to the Dutch to consider more favorable terms with the Belgians.) (Tab F). (C)

The Soviet's efforts to increase production of a major oil field have been set back. The Soviet's need US steam generators, but have been unable to order them because of hard currency shortages (Tab G). (C)

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The Soviets are attempting to obtain \$10 million worth of credit from two West European banks for the purchase of grain (Tab H). (C)

The Soviets have recently paid cash to a US company for grain. Their willingness to pay cash, despite the purchase originally being contingent upon credit, reflects a very strong Soviet need for grain (Tab I). (C)

Eastern Europe

The Deputy President of Poland's Bank Handlowy, stated on July 1, that if the Western banks would grant Poland a six month delay in its interest payments (meaning that payments due last January would now be due in July), the Polish Government would try immediately to start making interest payments on its foreign debt as those payments fall due (Tab J). (S)

Western bank representatives held inconclusive talks on July 7 with Polish officials on rescheduling Warsaw's 1982 commercial debt (Tab K). (U)

[redacted] attributes Poland's declining trend in foreign trade to socio-political tensions in Poland and to a sharp reduction in short-term credits (Tab L). (S)

25X1

Poland is desperate to increase coal exports (Tab M). (C)

France and Germany will probably extend additional credits to Hungary to avert a rescheduling in 1982. This support could help Hungary out of its immediate hard currency bind, but Budapest's financial position will remain precarious at least for the remainder of the year (Tab N). (C)

Hungary is reported to be seeking a private loan of \$100 million. The Deputy Chairman of the Council of Ministers, in requesting the loan, observed that "as a result of the effect of international political and economic happenings our monetary relations have reached such a low level that they threaten the maintenance of our system of economic relations with the outside world (Tab O). (S)

[redacted] the political leadership is considering cuts in domestic consumption and defense expenditures to make foodstuffs available for export, but these measures may not be adequate to avert rescheduling this year (Tab P). [redacted]

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[redacted] Hungary needs \$300 million to avoid rescheduling during the third quarter (Tab Q). (C)

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The Romanian Government is firing bank officials who are not in agreement with the government's austerity program, especially those that have been strong advocates for increasing government expenditures to help strengthen the domestic economy (Tab R). (C)

On July 2, the Romanian Foreign Trade Bank proposed to Western creditors a repayment schedule on its 1982 foreign debt principal and subsequent maturities. Officials of a major US bank are not interested in the proposal (Tab S). (C)

[Redacted]

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[Redacted]

the dinar will probably be devalued in the autumn (Tab U). (S)

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US bankers are considering a \$200 million loan to Yugoslavia (Tab V). (S)

A Japanese petrochemical firm is having difficulty receiving timely payments for plants sold to Eastern European countries (Tab W). (S)

Other

The North Korean Foreign Trade Bank has informed some Japanese firms that a \$1 million payment due on June 1 would be delayed (Tab X). (S)

In an effort to reach a solution to the problem of non-payment of Libya of \$130 million due Spanish exporters for over a year, the Bank of Spain has frozen oil payments to Libya for oil imported in the second and third quarters (Tab Y). (LOU)

Vietnam's recent efforts to reschedule debts vividly illustrates Hanoi's difficult financial situation and lack of foreign exchange (Tab Z). (C)

cc: Tom Reed, Don Gregg, Norm Bailey, Dick Pipes, Paula Dobriansky, Henry Nau (w/o attachments)

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Soviet Economics Magazine Attacks Sacred Cows Of Communist Planning and Production Methods

By DAVID BRAND

Staff Reporter of THE WALL STREET JOURNAL.
NOVOSIBIRSK, U.S.S.R.—The Soviet Union, says the magazine, is bedeviled by shortages of fuel, raw materials, equipment, consumer goods, certain foodstuffs and labor.

The effects on the Soviet people, the magazine says, are wearing: "The major part of the population is preoccupied with the constant search for goods in short supply."

This is not, as you might expect, another Western commentary on the ailing Soviet economy. These comments come instead from two Soviet economists writing in the February issue of *Eko*, the Soviet Union's only magazine for businessmen and one of the most outspoken publications in a country not noted for openly discussing its problems.

The magazine, whose name is a shortened form of the Russian word for "economics" is published by the Soviet Institute of Economics and Organization of Industrial Production, one of a large complex of research centers on the outskirts of Novosibirsk, Siberia's largest city. With a circulation of only 100,000, *Eko* isn't in the class of a *Business Week* or a *Fortune*. But every month it goes out to the most influential factory managers, economists and government planners. And what it says in public are the kinds of things that most Russians only mutter about among themselves.

Inflation Troubles

Take inflation, a problem that, according to government assurances, has been eradicated by a centrally planned economy. The two economists who wrote about the shortages, V.D. Belkin and V.I. Zorkaltsev, in the same issue of *Eko* indicated that the Soviet Union suffers from many of the same inflationary troubles that plague capitalist economies. The problem, they wrote, is that the labor shortage means that employers must pay higher wages to attract and keep workers. As a result, "between 1976 and 1980 wages rose by 16%, but production of consumer goods grew by only 14%."

Eko, of course, doesn't go out to the ordinary Russian, who probably wouldn't have the patience to wade through its overlong and often turgid prose. But to Soviet managers it is the only major forum for a continuing critique of the Soviet economic disease.

"It's very unideological, very outspoken and very trendy," says Soviet-economy specialist, Philip Hanson of England's University of Birmingham.

The trendiness, in Soviet terms at least, comes from *Eko*'s attempts to portray Western industrial efficiency and work-styles for Soviet managers. The magazine has serialized Arthur Hailey's book "Wheels" and Dale Carnegie's "How to Win Friends and Influence People," and every month it car-

ries excerpts from U.S. business publications.

The reason for this emphasis on things American, says Boris Orlov, deputy editor, is that U.S. industry "has made a strong impact" that the Soviets would like to emulate. He cites the U.S. auto industry, which, he says, "has set the standard for labor and management techniques." The Soviet Union thus holds up the U.S. standard as the goal to surpass even in an area where the U.S. considers the Japanese standard the one to beat.

As is so often the case in Soviet society, there is a good deal of difference between the ideal and the reality. In issue after issue, *Eko* articles berate unrealistic planning and complain about backward technology and the lack of incentives. And they detail the chronic shortages that keep factory managers in a perpetual state of frustration.

Eko isn't alone in criticizing managers and workers for foot-dragging, laziness and just plain stupidity. *Pravda* regularly sends its reporters to investigate such things as corruption and bureaucratic bungling. And last year, in a stinging piece of enterprise, the weekly magazine *Literaturnaya Gazeta* sent a correspondent to the city of Krasnodar with instructions to buy a toothbrush, soap, razor blades, shaving cream, underclothes, socks and writing paper. After a day of scouring the stores, the reporter couldn't find any of these items. He resorted to buying them from black marketeers in the local cafe or on the street corner.

Daring to Criticize

But the Reader's Digest-sized *Eko* is unusual in that it dares to criticize the economic system itself, particularly the central planning of all economic life by Moscow.

In the January issue, for example, *Eko* presented what Mr. Hanson calls a "devastating critique" of the Soviet machine-tool industry, which has long been coddled by Soviet planners but which has fallen on bad times, partly because managers often prefer to buy Western or East European products. Part of the magazine's coverage of the subject included a round-table discussion between factory managers and government officials, held in Ivanova, a major textile-manufacturing city. The main conclusion was that this area of Soviet industry lags far behind the West and that the planning system is to blame.

Take the seemingly simple business of servicing a customer's machine tools. L.N. Snovsky, a government planner for the industry, related with seeming amazement that on a visit to the U.S. he found that machine-tool firms "routinely carried out repairs, modernization of old equipment and selling of secondhand equipment." Soviet companies, he said, "unfortunately have no interest in such activities, even though they are necessary."

typical issue are written by its staff of 17 journalists, most of them economists. It also carries many articles by outside contributors, such as factory managers and economists. Story ideas regularly come from readers, either in letters or from readers' panels that have been organized in a half-dozen cities to advise the magazine.

These outside contributors provide some of the toughest criticism in *Eko*. Last year, for example, M.N. Petrov, a Leningrad chemical engineer, demolished the government's system of quality grading of Soviet-made goods, which is supposed to provide an official guarantee that they are of the same quality as the best foreign-made goods.

For a start, he wrote, the grading is done by a panel that includes the manufacturers of the products. And the Soviet products are always compared with established Western goods, never with the latest technology just coming onto the market.

What Soviet manufacturer, he asked, would choose an equivalent product from the West that would make his product look bad?

Another contributor, Vlai Kaznacheyev, a leading Soviet medical researcher, wrote in the March issue of *Eko* about the health problems that are arising from the rapid industrial development of Siberia. Despite a high concentration of doctors and hospitals in some areas, he wrote, "the rate of disease is also, alas, quite high and the mortality figures are growing." When he visited an Omsk tire plant, he was quickly given production and quality figures, "but when we asked about the health condition of workers, no one knew anything about the subject."

Wrote Mr. Kaznacheyev: "Central planning should be for people, not just for industries."

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Why, asked Leningrad economist G.A. Kulagin, couldn't Soviet machine-tool makers simply have two or three specialists stationed abroad to service Soviet machinery in the export market? "They would travel around and service their equipment and would improve the reputation of our machinery," he said.

The answer to that came from V.P. Kabaizze, the general director of an Ivanova machine-tool concern. "We have to choose what to sacrifice, our plan or our prestige," he said. "Service hardly covers traveling expenses." His best workers, he said, "would have to be taken away to do the servicing."

Then, retorted Mr. Kulagin, things should be planned so that "servicing shouldn't be less profitable than production. I know for myself that some foreign firms make half their profits out of servicing."

That sort of criticism would normally inflame a Soviet bureaucrat, and Mr. Orlov, the deputy editor, admits that "we get angry letters from management." But, he says with a shrug, "our readers must be made to understand that life is a complicated thing of negatives and positives."

But the fact is that Eko can get away with such broadsides because its editor and founder is Abel Aganbegyan, a member of the Soviet Academy of Sciences, a distinguished economist and a man described by Mr. Hanson as "the in-house establishment critic."

Eko's Origins

Mr. Aganbegyan founded the magazine in 1970 at a time when the Soviet economy was booming and it was felt that businessmen needed a forum similar to the business press in the West. But as the economy has slid further downhill—industrial output rose by only 2.1% in the first quarter of this year, far below the year's growth target—Eko has become a sounding board for the mounting troubles of industrial managers.

Even Mr. Aganbegyan, a large man who, despite his excellent English, insists on being interviewed through a Russian interpreter, believes that something has to be done to improve incentives for managers in industry. His suggestion is to end the rigid system of state-planned salaries and instead to allow pay to rise with production. "Those with the highest efficiency would be able to earn up to 50% on top of their basic wage," he says.

It is the state's obsession with the central planning of everything from salaries to production quotas that regularly absorbs large amounts of space in Eko. In many ways "we don't know how to make a good plan," Mr. Aganbegyan wrote in one recent issue.

Three years ago a round-table discussion ripped apart the inefficiencies in the steel industry. Since then, subjects such as labor discipline and food supplies have been tackled. Mr. Orlov says that a number of experts in a field are simply invited to sit down and talk, and the recorded conversation is edited and printed: "We only shorten it, but we don't change a word," he hastens to add.

That is obvious, judging by the forthright comments of one round-table discussion last year that was supposed to analyze, and presumably to praise, the government's vaunted planning and management reforms. But the discussion turned into one long groan from the industrial managers taking part, and one manager said that the reforms succeeded only in bringing even more regulations to stifle production.

Eko doesn't rely solely on panel discussions. Many of its 10 or more articles in a



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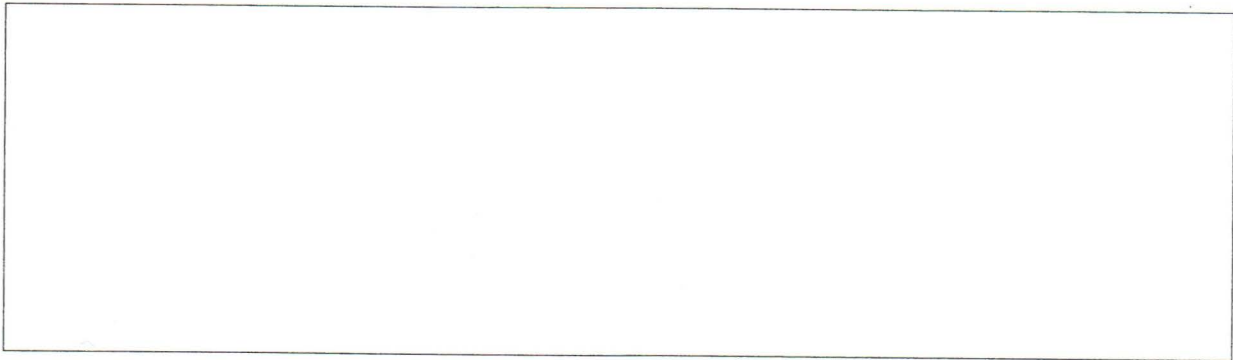
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169141

USSR - WESTERN EUROPE: Efforts To Counter US Embargo

The Soviets reportedly have called a meeting on Tuesday and Wednesday in Moscow with representatives of Mannesmann AG and Creusot-Loire, the general contractors for 22 of the 41 compressor stations for the Siberian export pipeline. (C)

The purpose of the session is to discuss the impact of the extended US embargo. An executive of the French firm Alsthom-Atlantique, which manufactures rotors under US license for pipeline turbines to drive the compressors, reportedly believes that the Soviets intend at that meeting to decide on alternatives to pipeline equipment made or designed in the US. (C)



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Comment: Moscow probably is calculating that pressure now may produce results because West European governments, angered by the US move, may prove willing to disregard or circumvent the restrictions. Although the Soviets are continuing to explore the possibility of using alternative equipment, they would prefer to avoid delays in completing the pipeline by using the US-designed turbines currently on order. (S NF)

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169142	CABLE 282117Z JUN 82	1	6/28/1982	B1

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169143	CABLE 021824Z JUL 82	1	7/2/1982	B1

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169144	REPORT RE BELGIUM-USSR	1	7/8/1982	B1

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

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169144

BELGIUM-USSR: Possible Gas Purchase

Belgium may import Soviet gas if an alternative agreement for additional gas from the Netherlands cannot be worked out. (C NF)

The Belgians and Soviets already have reached agreement on terms of a gas contract, which has not yet been signed. It calls for Belgium to buy 500 million cubic meters of Soviet gas annually from 1986 to 1991 and 2.5 billion cubic meters annually from 1991 forward. (C NF)

Brussels would prefer to buy Dutch gas, but the Dutch reportedly are offering unattractive terms. Dutch Prime Minister van Agt has directed his top economic aide to review the negotiations because van Agt believes it would be politically preferable for Belgium to obtain gas from the Dutch. Additional Belgian-Dutch negotiations will be held this week. (C NF)

Comment: Although The Hague may be willing to compromise on some issues, the interim government probably will delay a final decision for several more weeks. The Netherlands could use the revenues from extra sales to help cover the increasing costs of social programs. (C NF)

The Belgians hope that the US, because of concern about the Soviet pipeline, will urge the Dutch to make a better offer. If the Dutch cannot improve their offer and Moscow agrees to increase purchases of Belgian goods, Brussels is likely to buy Soviet gas. Belgium would then depend on the Soviets for almost one-fifth of its gas supplies, and Moscow would earn about \$500 million per year in the 1990s. (C)

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169146	CABLE 021730Z JUL 82	1	7/2/1982	B1

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169147	CABLE 072057Z JUL 82	1	7/7/1982	B1

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169148	CABLE 072102Z JUL 82	1	7/7/1982	B1

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169150	CABLE	1	7/6/1982	B1

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Update

WSJ 7/8/82

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Western Banks' Talks With Poles Are Inconclusive

Meeting on the Rescheduling Of Warsaw's 1982 Debt Is Called 'Constructive'

Special to THE WALL STREET JOURNAL
VIENNA, Austria—Western bank representatives held inconclusive talks with Polish officials on rescheduling Warsaw's 1982 commercial debt.

The meeting came as Warsaw assailed the U.S. for what it called "unprecedented economic aggression against Poland."

Citibank, the designated spokesman for the Western banks, said the discussions with officials from Bank Handlowy, the Polish foreign trade bank, were "constructive" but that no firm decisions were reached.

European banking sources said the talks centered on rescheduling Polish debts falling due in 1982 but also considered Poland's payment prospects for 1983 and 1984.

One source said there had been some disagreement among Western bankers, with some of the representatives preferring to examine longer-term payment agreements instead of settling rescheduling plans each year.

"We can't be doing this every year. It isn't good for anyone concerned," he said.

Another Meeting

Banking sources said they agreed to meet again with Handlowy officials, but added that no date had been set.

Yesterday's talks at Vienna's Citibank office broke with procedures used last year, when creditor banks insisted that Poland's debts to foreign governments be settled before any agreement was reached on commercial debts. This year, bankers were left with little choice because Western governments have refused to meet with Bank Handlowy, to protest Poland's continued martial law. Neither Western banks nor governments have received any money from the Poles this year, European bankers said earlier this week.

According to banking sources, Poland's 1982 debts include \$3.5 billion in principal and another \$3.5 billion in interest payments owed to banks and governments in the West. Warsaw is also liable for \$1.7 billion in short-term credits expiring this year, they added.

Poland's overall Western debt stands at an estimated \$27 billion.

Western Side

Yesterday's meeting was originally slated for July 1, but the sources said the Poles requested a delay because of high-level changes at Bank Handlowy. Heading the Polish delegation here was Jan Woloszyn, Handlowy vice president.

On the Western side were members of a 19-bank task force set up last year to represent the 500 European and American banks that hold Polish commercial credits.

On April 6, after months of negotiations

with the Poles, the task force met in Frankfurt, West Germany, to sign an agreement with Bank Handlowy officials that rescheduled Poland's 1981 debts. The arrangement gave Poland a four-year grace period in repaying its \$2.4 billion 1981 commercial debt and then called for seven semiannual payments.

In Warsaw, meanwhile, PAP, the official news agency, portrayed sanctions, imposed by the U.S. in December, as a crushing blow to the country's economy, which has continued to slide since the imposition of martial law Dec. 13. The freeze on credits—which has meant, for instance, that Poland has been unable to buy the grain and feed it needs for normal livestock and poultry production—was singled out as the most crippling affect of the embargo.

Addressing the question of debt rescheduling, PAP accused Poland's Western creditors of "consciously creating a situation in which it becomes impossible to repay the debt in due time." Refinancing negotiations coupled with the lack of new credit make it impossible for the country to find a way out of the economic crisis, PAP said.

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169151	CABLE	1	7/2/1982	B1

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