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WITHDRAWAL SHEET

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Collection Name MATLOCK, JACK: FILES

Withdrawer

JET 5/5/2005

File Folder USSR-ECONOMY 3/10

FOIA

F06-114/7

Box Number 25

YARHI-MILO

2504

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
9621	MEMO	BAILEY TO CLARK RE SOVIET BLOC ECONOMIC AND FINANCIAL CONDITION: UPDATE NO. 5 PAR 12/27/2012 M554/1; PAR UPHELD 5/7/2013 F06-114/7	3	1/18/1982	B1 B3
9633	CABLE	151115Z JAN 82 R 7/7/2008 NLRRF06-114/7	1	1/15/1982	B1
9639	CABLE	CUBA/USSR D 5/7/2013 F2006-114/7	3	1/12/1982	B1 B3
9634	CABLE	131111Z JAN 82 R 7/7/2008 NLRRF06-114/7	1	1/13/1982	B1
9622	MEMO	CLARK TO PRESIDENT REAGAN RE SOVIET EMBARGO R 12/27/2012 M554/1	7	1/22/1982	B1
9635	CABLE	230122Z JAN 82 R 7/7/2008 NLRRF06-114/7	1	1/23/1982	B1
9623	PAPER	USSR: HARD CURRENCY OUTLOOK PAR 12/27/2012 M554/1; PAR UPHELD 5/7/2013 F06-114/7	3	2/3/1982	B1 B3
9624	PAPER	THE SOVIET UNION'S HARD CURRENCY SITUATION R 12/27/2012 M554/1	2	ND	B1

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

- B-1 National security classified information [(b)(1) of the FOIA]
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- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
9625	PAPER	USSR: WESTERN DEBT STILL MANAGEABLE R 10/23/2018 M2018/1	1	2/11/1982	B1
9626	PAPER	USSR: STATUS OF THE HARVEST AND GRAIN TRADE	1	2/18/1982	B1
9627	PAPER	USSR: ECONOMIC OUTLOOK FOR 1982	1	3/4/1982	B1
9636	CABLE	081723Z MAR 82 R 11/24/2009 F06-114/7	2	3/8/1982	B1
9637	CABLE	081809Z MAR 82 R 7/7/2008 NLRRF06-114/7	2	3/8/1982	B1
9638	CABLE	100455Z MAR 82 R 11/24/2009 F06-114/7	4	3/10/1982	B1
9640	CABLE	USSR D 5/7/2013 F2006-114/7	3	4/8/1982	B1 B3
9641	CABLE	USSR D 5/7/2013 F2006-114/7	3	4/8/1982	B1 B3
9642	CABLE	USSR D 12/27/2012 M554/1; D UPHELD 5/7/2013 F06-114/7	2	4/8/1982	B1 B3

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
9628	MEMO	CLARK TO PRESIDENT REAGAN RE EFFECT OF HARD CURRENCY SHORTAGES ON SOVIET BLOC FOREIGN ADVENTURES <i>R 3/16/2011 F2006-114/7</i>	1	4/24/1982	B1
9629	MEMO	PIPES RE SOVIET BLOC REASSESSES FOREIGN AID AND TRADE <i>PAR 3/16/2011 F06-114/7; PAR 10/15/2012 M11-554 #9629</i>	2	4/13/1982	B3 B6
9630	MEMO	PIPES TO CLARK RE EFFECT OF HARD CURRENCY SHORTAGES ON SOVIET BLOC FOREIGN ADVENTURES <i>R 6/25/2009 F2006-114/7</i>	1	4/13/1982	B1
9643	CABLE	USSR <i>D 5/7/2013 F2006-114/7</i>	2	5/19/1982	B1 B3
9631	MEMO	USSR: MIXED ECONOMIC TRENDS IN 1982 <i>R 10/23/2018 M2018/1</i>	1	5/21/1982	B1
9632	MEMO	USSR: LOBBYING AGAINST A RESTRICTIVE WESTERN CREDIT POLICY	1	6/2/1982	B1

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Dobrovansky

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9621

MEMORANDUM

NATIONAL SECURITY COUNCIL

January 18, 1982

~~SECRET~~

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *MB*

SUBJECT: Soviet Bloc Economic and Financial
Condition: Update No. 5

Two recent CIA reports have called attention to the Soviet economy's distress and the relief provided by certain Western exports to the Soviet Union. The Reagan Administration's strong general presumption favoring freedom of trade cannot, of course, govern commerce with the Soviets. We have an overriding interest in ensuring that Western trade does not (1) unduly alleviate pressures on Moscow to make painful guns-versus-butter choices or (2) directly contribute to the enhancement of Soviet military capabilities.

● According to the CIA, Soviet economic growth has fallen from an average of 4% per year to an average of 1.5% per year in 1980 and 1981, with agriculture constituting Moscow's "biggest headache." Soviet industrial output grew less than 2% in 1981, the lowest such rate in the postwar period. Soviet oil output will likely remain 12 million barrels per day through the early 1980's before dropping; natural gas and nuclear power will have to provide nearly all the growth in Soviet energy output.

● Empire is costly. Soviet trade and other aid for Eastern Europe alone rose from nearly \$5 billion in 1975 to more than \$18 billion in 1980.

● Moscow is entering into a "hard currency bind," which will impair its ability to import. Natural gas sales to West European customers of the planned Yamal pipeline represent the Soviet Union's only hope for a new substantial source of hard currency in the near future. Soviet arms sales -- now \$5 billion per year -- are not expected to increase much.

~~SECRET~~

Review January 12, 2002
Derivative Classification by CIA
DRV D9C1

DECLASSIFIED IN PART

NLRR M554/1 #9621

BY KML NARA DATE 12/27/12

~~SECRET~~

Western Credits -- Under the circumstances, as sketched above, Moscow's import decisions will hinge to a large extent on the willingness of Western lenders to extend credit. The CIA concludes:

Western imposition of credit restrictions -- plus Soviet retrenchment -- would accelerate the decline in Soviet import capacity in 1982-85. . . .

A harder Western stance on financing terms would also raise the cost of Soviet imports. Moscow now benefits substantially from subsidized credits extended by Western Europe and Japan.

* * *

A denial of concessionary terms on the roughly \$2 billion a year the USSR now receives in official financing, for example, would raise Moscow's annual debt service costs by an average \$100 million per year in 1982-90.

Trade Restrictions -- The CIA makes an important point about restrictions against trade with the Soviet Union -- unilateral U.S. actions cannot substantially harm the Soviet economy. This is so because embargoes, as a rule, do not work. The U.S. grain embargo imposed by President Carter and lifted by President Reagan demonstrated this; it neither restricted the amount of grain the Soviets could import nor increased substantially the costs of such imports. The embargo was economically insignificant because (1) a number of nations beside the United States export wheat, (2) a simple declaration that one exporter refuses to sell to a given country does not affect the total amount of wheat in the international "pool," hence the market clearing price of that wheat does not change, and (3) in any event, one cannot monitor and prevent resale of a tangible commodity like wheat. (Incidentally, this analysis applies to oil threats as well as wheat threats, as proved by both 1973-74 Arab embargo of the U.S. and the Netherlands and the 1979 Iranian embargo of the U.S.)

This is not to say, however, that trade restrictions imposed by the U.S. and its allies together against the Soviet Union would have no substantial effect on the Soviet economy. The success of such measures would depend on the nature of the items restricted and the degree of allied cooperation. The CIA has concluded that the U.S. and the allies together could cause "substantial" harm by restricting trade in the following areas: Grain, oil and gas equipment, large-diameter pipe and rolled steel (this is crucial to Soviet plans for growth in

natural gas exports), machine tools and robots, and microelectronics.

Note, in addition, the following items:


-- Reports from Krakow that CARE packages are being diverted to the army and police (Tab I). (C)



-- Serious Polish production problems due to lack of energy, raw materials and spare parts (Tab III). (C)

cc: Richard Pipes
William Stearman
Paula Dobriansky
Gus Weiss
Henry Nau
Allen Lenz

Attachments

- Tab I Cable from Krakow
- Tab II 
- Tab III Cable from Krakow

CONFIDENTIAL

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE #1 AMCONSUL KRAKOW #039 DTG: 151115Z JAN 82 PSN: 032646
EOB868 AN#09349 TOR: 015/1425Z CSN: HCE268

CERTAIN WINTER DAY HE THREW OFF THE
MASK, IT TURNED OUT THAT THERE WAS NO FACE BEHIND IT."
BASTIANI
BT

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ZEN/AMCONSUL POZNAN (BY POUCH)

~~CONFIDENTIAL~~ KRAKOW #039

E.O. 12065: GDS 1/14/88 (BASTIANI, CARL A.) OR-M
TAGS: PINS, SHUM, PL
SUBJECT: KRAKOW POTPOURRI

1. (~~CONFIDENTIAL~~ - ENTIRE TEXT)

2. WHERE GIEREK IS INTERNED: OUR WRITERS' UNION PRINCIPAL
SOURCE TELLS US GIEREK AND HIS ILK ARE INTERNED IN A
BUILDING ON A LAKE IN DRAWSK (PLACE NAME QUESTIONABLE), WHILE
INTELLECTUAL INTERNEES ARE HELD IN A BUILDING ON THE OPPOSITE SHORE.
(COMMENT: THE PLACE MAY BE DRAWSKO POMORSKIE, WHICH IS IN
KOSZALIN PROVINCE WHERE WE KNOW SOME INTELLECTUALS, ALREADY
RELEASED WERE DETAINED IN COMFORT).

3. THE SAME SOURCE SAID WORKERS AT NOWA HUTA STEEL
MILL ARE ALSO BEING FORCED TO DISAVOW SOLIDARITY. THOSE
WHO DO ARE GIVEN A NEW CONTRACT WITH A RAISE IN WAGES.
THOSE WHO DO NOT DON'T KNOW WHAT WILL HAPPEN TO THEM
WHEN THEIR PRESENT WORK CONTRACTS RUN OUT.

4. WE HAVE BEEN TOLD THAT A CLANDESTINE RADIO, RADIO
FREE POLAND, IS ON NIGHTLY FOR BRIEF PERIODS AT
1900, 2000, AND 2200 ON 2931 KCS. (COMMENT: OUR
FIRST ATTEMPT TO CONFIRM ITS EXISTENCE BY LISTENING
DID NOT.)

5. A PROFESSIONAL WELL AND FAVORABLY KNOWN TO SOME
MEMBERS OF THE CONSULAR COMMUNITY INSISTS THAT HE
KNOWS WITHOUT DOUBT THAT RUSSIAN TROOPS IN POLISH
UNIFORM ARE NEAR BOCHNIA (JUST EAST OF KRAKOW IN
TARNOW PROVINCE), AND THAT CARE PACKAGES ARE BEING
DIVERTED TO POLICE AND SOLDIERS.

6. INDICATIONS OF POPULAR ATTITUDES IN KRAKOW
TOWARD JARUZELSKI: IT IS SAID THAT THE GENERAL'S
REAL NAME IS ZOMOSA (THE CHANGE IN THE FIRST LETTER
INITIATES THE ACRONYM FOR THE MECHANIZED SECURITY
POLICE--ZOMO). MUCH IS MADE OF THE FACT THAT THE
JARUZELSKI FAMILY'S COAT OF ARMS FEATURES A BLIND
RAVEN (SLEPOWRON), AND THAT THE ACRONYM FOR THE
MILITARY COUNCIL OF NATIONAL SALVATION (WRON), IS
THE WORD FOR RAVEN. THE (POLISH) EAGLE, SOME ADD,
HAS YET TO LOSE A FIGHT WITH A RAVEN. AND THE
JANUARY NUMBER OF AN UNDERGROUND TYPEWRITER
SOLIDARITY SAMIZDAT HAS THIS "STORY FROM A STRANGE
LAND": "ONCE UPON A TIME IN A CERTAIN FARAWAY LAND
A GENERAL RULED WHO ALWAYS WORE A MASK. WHNE ON A

1/18

DECLASSIFIED

NLRR F06-114/7 #9633

BY CJ NARADATE 7/7/08

CONFIDENTIAL

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE #1 AMCONSUL KRAKOW 0032 DTG: 131111Z JAN 82 PSN: 029825
EOB642 AN008225 TOR: 013/1324Z CSN: HCE351

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O 131111Z JAN 82
FM AMCONSUL KRAKOW

TO SECSTATE WASHDC IMMEDIATE 2750
ZEN/AMEMBASSY WARSAW 1831
ZEN/AMCONSUL POZNAN

~~C O N F I D E N T I A L~~ KRAKOW 0032

EO 12065: 1/12/88 (BASTIANI, CARL A.) OR-M
TAGS: ECON ELAB PL
SUBJ: (U) PRODUCTION DEFICIENCIES AT HUTA LENINA (NOWA HUTA)

1. (U) ACCORDING TO REPORT PUBLISHED JAN 12 IN KRAKOW NEWSPAPER, THE GIANT STEEL MILL COMPLEX (HUTA LENINA) NEAR KRAKOW IS EXPERIENCING DEFICIENCIES IN PRODUCTION DUE TO SHORTAGES OF ELECTRICITY, NATURAL GAS, AND OTHER NECESSARY SUPPLIES. AMONG THE NECESSARY ITEMS IN SHORT SUPPLY ARE GEAR OIL AND SPECIAL LUBRICANTS "INDISPENSABLE FOR THE FUNCTIONING OF ROLLING MACHINES."
2. (U) BECAUSE OF THESE SHORTAGES, THE SMELTING OF PIG IRON HAS FALLEN TO 7.5 PERCENT BELOW PLAN RATE FOR THE MONTH IN THE PAST FEW DAYS; OVERALL STEEL PRODUCTION 2.9 PERCENT BELOW THE PLAN RATE; AND PRODUCTION OF STEEL FOR AUTO BODIES 9.3 PERCENT BELOW PLAN. ALTHOUGH THESE DEFICIENCIES WERE CALLED "MINIMAL", THE REPORT INDICATED THAT THEY COULD INCREASE AND COULD LEAD TO A FAILURE TO MEET PLANNED PRODUCTION LEVELS FOR THE MONTH "AND EVEN FOR THE YEAR."
3. (U) REPORTEDLY, OFFICIALS AT THE MILL ARE OPTIMISTIC AABOUT PROSPECTS FOR OBTAINING SUFFICIENT QUANTITIES OF COAL FROM SILESIA, "AFTER INITIAL PROBLEMS WITH TRANSPORTATION." THEY ALSO CLAIMED THAT SUPPLIES OF IRON ORE FROM THE USSR HAVE CONTINUED TO BE RECEIVED WITHOUT INTERRUPTION, AND THE AMOUNT HAS "INCREASED."
4. (L/U) IN REGARD TO PROBLEMS WITH WORKING CONDITIONS, THE REPORT NOTED THAT WORKERS LACK ADEQUATE FOOTWEAR AND SAFETY CLOTHING, AND FREQUENTLY MUST WORK IN STREET CLOTHING (NOTE: THIS PROBLEM WAS COMPLAINED ABOUT LOUDLY AND FREQUENTLY BY SOLIDARITY OFFICIALS AT THE MILL BEFORE DEC 13.), "WHICH NOT ONLY RISKS RUINING THE CLOTHING BUT ALSO VIOLATES SAFETY REGULATIONS." ON A RELATED MATTER, THE REPORT STATES THAT "WORKERS" SOCIAL COMMITTEE" HAS BEEN ESTABLISHED AT HUTA LENINA WITH THE RIGHT TO:
-- GIVE VIEWS ON MATTERS OF PAY, HOUSING,
AND SANITARY CONDITIONS; AND
--REVIEW AND COMMENT ON THE STATUTARY ALLOWANCES "ALLOCATED DIRECTLY BY LABOR UNIONS."
5. (C) COMMENT: ARTICLE WAS WRITTEN TO PUT BEST FACE ON SITUATION AT THE STEEL MILL; REAL SITUATION

MUST THEREFORE BE MUCH WORSE THAN ADMISSION OF "MINIMAL DEFICIENCIES" IMPLIES. ONLY PLAN FIGURES MENTIONED IN ARTICLE ARE FOR THE MONTH OF JANUARY. THESE PROJECTED FOR THE YEAR GIVE A TOTAL 1982 PLANNED PRODUCTION OF ONLY 2,316,000 TONS, CONSIDERABLY LESS THAN HALF OF NOWA HUTA'S CAPACITY. WHILE THERE WAS TALK OF CUTTING NOWA HUTA'S PRODUCTION IN HALF BEFORE MARTIAL LAW FOR ENVIRONMENTAL REASONS, WE DOUBT THESE CONSIDERATION HAVE ANY WEIGHT NOW. AT THE LEAST, JANUARY'S LOW PLAN FIGURE INDICATES THAT AUTHORITIES CAN ONLY FORESEE A GRADUAL INCREASE TO NORMAL LEVELS OF PRODUCTION.
BASTIANI
BT

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NLRR FOB-114/7 #9634

BY CU NARADATE 7/7/08

1/18

~~CONFIDENTIAL~~

~~SECRET~~

Sov Economy 9
380 9622

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

The President has seen _____

SECRET ATTACHMENT
INFORMATION

January 22, 1982

Rip's
MC

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK *MC*

SUBJECT: Soviet Embargo

Attached is an analysis conducted by the CIA outlining the effects of an embargo on the Soviet Union of specific items by the United States. As will be seen, a unilateral embargo is not particularly effective whereas a US/Allied embargo could do substantial damage to the Soviet economy.

Attachment

DECLASSIFIED
NLRR M554/1 #9622
BY KML NARA DATE 12/27/12

SECRET ATTACHMENT

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~~SECRET~~ NOFORN

Table 1: The Effect of Further Trade Restrictions
on Selected Technologies and End-Products

<u>Technology or End-Product</u>	<u>Effect*</u>		<u>Remarks</u>
	<u>US</u>	<u>US/Allies</u>	
Grain	Small	Substantial	Even if replaced by foreign suppliers, the US action probably would raise Soviet costs and strain Soviet hard currency reserves. Given poor Soviet and world harvests, unilateral USG action could exacerbate Soviet food shortages. Allied action could cut Soviet grain imports by 70%.
Agricultural Machinery	Moderate	Substantial	US action would inhibit long-term Soviet drive for self-sufficiency. Allied action would further inhibit this drive.
Microelectronics	Moderate	Substantial	Legal acquisitions, coupled with illegal ones, have given the Soviets an entire industry. US actions would slow Soviet advances. Allied action would substantially retard Soviet advances.

* In increasing order of magnitude, from Small through Moderate to Substantial

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Chemicals	Moderate	Moderate	US and/or Allied action would affect Soviet agricultural productivity.
° fertilizer			
° pesticides			
Oil and gas equipment/ technology	Small	Substantial	Allied action would reduce expected Soviet oil and gas recovery by 2 or 3 million barrels per day by late 1980s.
° submersibles			
° off-shore rigs			
° drill bits and pipe			
° pipeline equipment, including compressors			
° recovery chemicals			
Construction equipment/materials	Small	Substantial	Non-US equipment is widely available.
° large-diameter pipe			
° rolled steel			
° bulldozers/excavators/ dumpsters			Allied action would cause severe disruptions in machine building and gas transmission.
Materials	Small	Substantial	Allied action would inhibit advanced Soviet work.
° ceramics			
° composites/powders			
° special steel alloys			
Computers	Small	Substantial	US action would be reduced by foreign availability.
° software			
° large-frame			
° minis			
° peripherals			

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Machinery*	Small	Substantial	Non-US suppliers are numerous. Allied action would seriously hamper Soviet efforts to boost quality/quantity in production.
° NC/CNC/robotics			
° CAD/CAM			
° mills/foundries/fabrication			
° precision machinery			
Shipbuilding	Small	Substantial	Allied action would curtail Soviet naval construction and repair capabilities.
° floating drydocks			
° heavy-lift cranes			

* NC: numerically controlled
CNC: computer numerically controlled
CAD: computer-aided design
CAM: computer-aided manufacture

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Table 2: Related USG Sanctions

<u>Technology/action</u>	<u>Impact</u>	<u>Foreign availability</u>	<u>Commentary</u>
1. Total cut-off of export credits, including retroactive action on outstanding credit	Forces Soviets to pay scarce hard currency and/or compete for market rates	Europeans and Japanese already offer "below prime" rates <u>but</u> increased Soviet demand may increase cost of borrowing	Now suspended by US only
2. Terminate maritime agreement	Shipping and cross-trading with and by Soviets would increase their costs and reduce hard currency earnings	Allies have stronger flag- shipping requirements and the Soviet fleet would not encroach on their markets	Now suspended by US only
3. Terminate fishing agreement	Deprives Soviets access to fertile grounds and would cut Soviet protein consumption	World fisheries are already strained; may cause friction with allied competitors	Now suspended by US only
4. Reduce Soviet commercial presence	Reduces Soviet presence and would limit intelligence service (IS) uses	Soviets would probably shift commercial activities to allies	An easy, low-cost action--if we trade less, they don't need commercial offices
5. Eliminate all S&T* agreements (including Article 4 exchanges of technical data with US firms) not up for renewal in short-run, including "unofficial" exchanges (e.g., direct university-Academy exchanges, Fulbright Scholars, etc.)	Cuts off direct Soviet access to US academies and business	Allies have such agreements and Soviets are strengthening them	These generally are of one-way benefit to Soviets and are very difficult to monitor--no loss to USG

*See Appendix

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|--|--|---|--|
| 6. Reduce or eliminate US participation in trade shows attended by Soviets, and restrict sales presentations, and industry tours | Cuts Soviets off from personnel relations with US firms and state-of-the-art technology and reduces IS involvement | Allies could and probably would pick up slack | Reduces the risk of theft, inadvertent losses of know-how and design processes, and IS recruitment/assessment threat |
| 7. Reduce or eliminate US presence in international organizations (e.g., IIASA, UNDP) with large Soviet presence | Cuts Soviets off from close contacts with US experts and reduces IS involvement | Allies may pick up tab, but not likely | A rather simple way of restricting US "subsidies" to Soviets, but may cause problems in multilateral contexts (e.g., UN) |
| 8. Eliminate Soviet access to USG open source documents (NTIS, Library of Congress) | Would restrict Soviet access to USG-sponsored research | Some agreements with Allies (e.g., British library) must be altered | |
| 9. Regulated activities of Soviet-owned, US-chartered companies | Would weaken Soviet commercial presence, and use of same for IS related activities | NA | Would probably require legal action, but well worthwhile in any event |
| 10. Restrict imports of Soviet-origin goods | Damages Soviet prestige and may crimp somewhat Soviet hard-currency earnings | NA | Mostly symbolic, as we don't import a great deal |

Appendix: US-USSR BILATERAL TECHNICAL AGREEMENTS

As you know - ^{ON} Dec. 29
Pres. already announced this will not
be renewed. McGaffigan following
this. (P)

<u>Name</u>	<u>Date for Renewal</u>	<u>Notification</u>
Science & Technology	<u>July 8, 1982</u>	-
Agriculture	June 19, 1983	By Dec. 1982
Artificial Heart Research & Development	June 28, 1987	-
Atomic Energy	June 21, 1983	-
Energy	June 28, 1982	30 day advance
Environmental Pro- tection	May 23, 1987	-
Housing and Con- struction	June 28, 1984	By Dec. 1983
Medical Science and Public Health	May 23, 1987	-
Exploration and Use of Outer Space for Peaceful Purposes	May 24, 1982	-
Transportation	June 19, 1983	-
Studies of the World Ocean	Dec. 15, 1986	-

(UNCLASSIFIED)

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SOV. ECON.

NATIONAL SECURITY COUNCIL
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E.O. 12065:GDS 1/22/88 (MILAM, WILLIAM)

TAGS: EFIN, EEWT

SUBJECT: SOVIET AND EASTERN EUROPEAN INDEBTEDNESS TO U.S.

REF: STATE 014771

1. AS BACKGROUND TO REFTEL, THE FOLLOWING ARE LATEST AVAILABLE STATISTICS ON SOVIET AND EASTERN EUROPEAN INDEBTEDNESS (DIRECT CREDITS, GUARANTEES AND INSURANCE) TO THE USG AS OF JUNE 30, 1981 (IN MILLION OF US DOLS):

AMOUNTS DISBURSED AND OUTSTANDING

SOVIET UNION 1095.1
ROMANIA 198.4
EAST GERMANY 1.5
POLAND 1821.6
CZECHOSLOVAKIA 4.9
BULGARIA
ALBANIA
HUNGARY 10.2

2. NET US PRIVATE BANK CLAIMS ON EASTERN BLOC COUNTRIES ARE ASFOLLOWS (IN MILLIONS OF US DOLS):

	CLAIMS	LIABILITIES	NET CLAIMS
SOVIET UNION	480	87	393
ROMANIA	406	183	223
EAST GERMANY (INCLUDES POSITION OF BANKS LOCATED IN FEDERAL REPUBLIC OF GERMANY)	1038	188	850
POLAND	2021	94	1927
CZECHOSLOVAKIA	197	62	135
BULGARIA	308	30	278
ALBANIA	1	--	1
HUNGARY	922	158	764
TOTAL	5373	802	4571

3. POST MAY PROVIDE THESE FIGURES TO HOST GOVERNMENTS IF ASKED.

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TAGS: ECON, UR
SUBJECT: SOVIETS ANNOUNCE 1981 ECONOMIC RESULTS

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1. SUMMARY. 1981 ECONOMIC RESULTS, RELEASED HERE TODAY, CONFIRM THAT LAST YEAR PROVIDED A STUMBLING START FOR THE SOVIET ELEVENTH FIVE YEAR PLAN. GROWTH RATES FOR NATIONAL INCOME, INDUSTRIAL PRODUCTION AND LABOR PRODUCTIVITY WERE LOWER THAN ECONOMIC PLANNERS HAD FORESEEN, AND EVEN LAGGED BEHIND 1980'S DISAPPOINTING RESULTS. IN THE ENERGY SECTOR, ONLY NATURAL GAS OUTPUT ACHIEVED PRODUCTION GOALS FOR THE YEAR. THE STATISTICS PAINT A GLOOMY PICTURE FOR SOVIET CONSUMERS, WITH OUTPUT OF MEAT AND TEXTILES FAILING TO ACHIEVE PLAN GOALS, WHILE DAIRY PRODUCTS WERE LESS AVAILABLE LAST YEAR THAN IN 1980. THE SOVIET LEADERSHIP HAS MANAGED TO KEEP ONE KEY PROMISE TO CONSUMERS, HOWEVER; OUTPUT OF CONSUMER ITEMS LAST YEAR GREW AT A FASTER PACE THAN INVESTMENT GOODS. END SUMMARY.

2. "IZVESTIYA" JANUARY 23 CARRIES FINAL SOVIET ECONOMIC STATISTICS FOR 1981. NATIONAL INCOME REPORTEDLY GREW 3.2 PERCENT LAST YEAR, LESS THAN THE 3.4 PERCENT INCREASE SOVIET PLANNERS HAD FORECAST AND THE 3.8 PERCENT GROWTH ACTUALLY ACHIEVED IN 1980. THE PICTURE WAS SIMILAR FOR OTHER KEY ECONOMIC AGGREGATES. INDUSTRIAL PRODUCTION INCREASED 3.4 PERCENT IN 1981; PLANS HAD CALLED FOR 4.1 PERCENT GROWTH, AND 1980'S INCREASE WAS 3.6 PERCENT. INDUSTRIAL OUTPUT GROWTH DECELERATED DURING THE FINAL MONTHS OF 1981; INDUSTRIAL PRODUCTION GREW BY 3.7 PERCENT IN THE FIRST HALF OF LAST YEAR. FREIGHT TURNOVER AND ELECTRICITY OUTPUT, INDICES WHICH WOULD NORMALLY BE EXPECTED TO GROW AT A PACE MIRRORING OVERALL ECONOMIC PERFORMANCE, WERE SHARPLY LOWER THAN REPORTED INDUSTRIAL OUTPUT GROWTH. FREIGHT TURNOVER INCREASED BY ONLY 2.3 PERCENT LAST YEAR, AND ELECTRICITY GENERATION BY ONLY 2 PERCENT.

3. LABOR PRODUCTIVITY GROWTH LAST YEAR WILL BE

PARTICULARLY DISAPPOINTING FOR SOVIET PLANNERS. PRODUCTIVITY IN INDUSTRY INCREASED BY ONLY 2.6 PERCENT LAST YEAR, SLIGHTLY ABOVE THE 1980 RATE (2.6 PERCENT), BUT SHARPLY LOWER THAN THE PLANNED 3.6 PERCENT INCREASE. HOPES FOR A REBOUND IN PRODUCTIVITY GROWTH ARE CENTRAL TO SOVIET ECONOMIC STRATEGY IN THE 1980'S, A PERIOD WHEN INVESTMENT IS SLATED TO BE CUT BACK, RESOURCE AVAILABILITY WILL BE INCREASINGLY CONSTRAINED, AND THE SOVIET WORKING AGE POPULATION WILL ACTUALLY CONTRACT.

4. NATURAL GAS OUTPUT INCREASED 7 PERCENT LAST YEAR, TO 465 BILLION CUBIC METERS, SLIGHTLY OVERFULFILLING PRODUCTION TARGETS. LONG THE STAR PERFORMER ON THE SOVIET ENERGY STAGE, GAS WAS THE ONLY ENERGY SECTOR EVEN TO ACHIEVE PLAN IN 1981. THE SOVIET OIL INDUSTRY DIDN'T MISS BY MUCH, HOWEVER, WITH 1981 PRODUCTION REACHING 609 MILLION METRIC TONS, SIX MILLION TONS ABOVE 1980 OUTPUT AND LESS THAN ONE PERCENT OFF TARGET. RECENT SOVIET COMMENTARY SUGGESTS THAT DISAPPOINTING RESULTS AND HIGH COSTS OF THE NATION'S ENHANCED OIL RECOVERY PROGRAM WERE THE MAJOR REASONS FOR THE SHORTFALL. COAL OUTPUT SLUMPED TO 704 MILLION TONS LAST YEAR, WELL BELOW PLAN TARGETS AND 12 MILLION TONS LESS THAN 1980 PRODUCTION TOTALS. THE SOVIETS ANNOUNCED AN AMBITIOUS PROGRAM OF EQUIPMENT INVESTMENT AND HIGHER WAGES EARLIER THIS YEAR IN AN EFFORT TO REVERSE A STEADY SLIDE IN ANNUAL COAL OUTPUT SINCE 1978.

5. PRODUCTION TOTALS FOR SEVERAL KEY INDUSTRIAL INPUTS, INCLUDING ROLLED STEEL AND MINERAL FERTILIZERS, ALSO LAGGED BEHIND PLAN TARGETS IN 1981. FAILURE OF MEAT AND TEXTILES TO ACHIEVE PLANNED OUTPUT LEVELS, AND OF MILK AND BUTTER TO EVEN MATCH 1980 OUTPUT PERFORMANCE, UNDERLINED

THAT LAST YEAR WAS A LEAN ONE FOR SOVIET CONSUMERS. INDICATING HIGH-LEVEL CONCERN FOR THE SITUATION, BREZHNEV ASSERTED THAT MEAT, DAIRY PRODUCT AND TEXTILE AVAILABILITY WAS THE KEY TO FULFILLMENT OF THE CURRENT FIVE YEAR PLAN IN HIS NOVEMBER 1981 ECONOMIC SPEECH. THE SOVIET ECONOMY DID MANAGE TO DELIVER ON BREZHNEV'S PLEDGE, IN AN OCTOBER 1980 ADDRESS, THAT CONSUMER GOODS OUTPUT WOULD OUTSTRIP PRODUCTION OF INVESTMENT GOODS IN 1981. "PRODUCTION BT

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(MILLION HORSEPOWER)	3.8	3.8	-2
.			
WASHING MACHINES (MILLIONS)	3.9	3.8	3
PASSENGER CARS (THOUSANDS)	1,324	1,327	-0.2
TEXTILES, ALL SORTS BCM	11.0	10.7	2
.			
MEAT, FROM STATE SOURCES			
MMT	15.2	15.1	1
.			
BUTTER, FROM STATE SOURCES			
MMT	1.2	1.3	-5
ZIMMERMANN			
BT			

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OF CONSUMER ITEMS" INCREASED AT A FASTER RATE THAN
"PRODUCTION OF THE MEANS OF PRODUCTION" LAST YEAR,
A RARE OCCURRENCE IN THE USSR SINCE THE LATE
TWENTIES, ALTHOUGH THE RATE OF INCREASE FOR BOTH
CATEGORIES WAS BELOW THE TARGETS SOVIET PLANNING
CHIEF BAYBAKOV HAD ANNOUNCED FOR 1981. UNLIKE
LAST YEAR THE STATISTICS DID NOT PUBLISH A FINAL
TOTAL FOR THIS YEAR'S SOVIET GRAIN CROP, AN
ELOQUENT COMMENTARY ON THE DISAPPOINTING DIMEN-
SIONS OF THE 1981 HARVEST.

6. OUTPUT PERFORMANCE IN A REPRESENTATIVE SAMPLE
OF ENERGY, INDUSTRIAL AND CONSUMER CATEGORIES IS
DISPLAYED BELOW:

	1981	1980	PERCENTAGE
	OUTPUT	OUTPUT	INCREASE
.			
ELECTRICITY (BILLION			
KILOWATT HOURS)	1,325	1,295	2
.			
OIL AND GAS CONDEN-			
SATES (MILLION METRIC			
TONS) (MMT)	609	603	0.9
.			
NATURAL GAS (BILLION CUBIC			
METERS) (BCM)	465	435	7
COAL MMT	704	716	-2
.			
STEEL MMT	149	148	0.4
.			
ROLLED STEEL MMT	103	103	0.1
.			
STEEL PIPE MMT	18.3	18.2	0.5
.			
CEMENT MMT	127	125	2
.			
LUMBER (MILLION CUBIC			
METERS) (MCM)	274	275	-0.3
.			
TRUCKS (THOUSANDS)	786.6	787	--
.			

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BALANCE OF TRADE - 1ST NINE MONTHS OF
1980 & 1981
(Million Rubles)

	<u>Exports From the USSR</u>		<u>Imports to the USSR</u>	
	1980	1981	1980	1981
Austria	433	632	261	362
Belgium	612	350	263	342
Great Britain	560	515	727	785
Greece	292	448	66	82
Denmark	187	168	53	194
Spain	175	216	109	347
Italy	1467	1761	648	757
Netherlands	888	662	274	385
Norway	37	44	54	73
Germany	1839	2501	2264	2099
France	1577	1749	1236	1289
Switzerland	297	183	301	390
Sweden	256	182	242	281
Japan	715	589	1265	1593
Subtotal	9335	10,000	7763	8979
Sub-Balance of Trade			+1572	+1021
Argentina	27	28	891	2069
U.S.A.	99	105	882	1058
Canada	21	41	614	892
Australia	4	10	589	461
New Zealand	2	5	148	146
Brazil	16	9	169	523
Total	9504	10198	11056	14128
Balance of Trade			-1552	-3930

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE
FOR JANUARY - SEPTEMBER
(in million rubles)

	Exports from USSR			Imports to USSR		
	1979	1980	1981	1979	1980	1981
Bulgaria	2505	2692	3225	2335	2622	2751
Czechoslovakia	2475	2701	3108	2230	2617	3060
GDR	3152	3559	4037	2901	3195	3861
Hungary	2035	2161	2445	1776	2035	2413
Poland	2793	3211	3667	2653	2757	2419
Romania	785	961	1111	788	1065	1237
	13745	15285	17593	12683	14291	15741
<u>Balance of Trade</u>						
	+1062	+994	+1852			
Poland	+140	+454	+1248			

Eastern Europe: Gross and Net Hard Currency Debt to the West

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total										
Gross	6,072	7,398	9,762	15,352	23,033	29,351	36,695	46,901	54,730	
Net	4,927	5,723	7,950	12,732	18,657	25,297	32,860	42,267	49,260	
Bulgaria										
Gross	743	1,009	1,020	1,703	2,640	3,198	3,707	4,263	4,500	
Net	723	909	997	1,360	2,257	2,756	3,169	3,710	3,730	3,000
Czechoslovakia										
Gross	485	630	757	1,048	1,132	1,862	2,616	3,206	4,020	
Net	160	176	273	640	827	1,434	2,121	2,513	3,070	3,300
East Germany										
Gross	1,408	1,554	2,136	3,136	5,188	5,856	7,145	8,894	10,140	
Net	1,205	1,229	1,876	2,592	3,548	5,047	6,159	7,548	8,440	9,700
Hungary										
Gross	1,071	1,392	1,442	2,129	3,135	4,049	5,655	7,473	8,020	
Net	848	1,055	1,096	1,537	2,195	2,852	4,491	6,532	7,320	7,100
Poland										
Gross	1,138	1,564	2,796	4,643	8,014	11,483	13,967	17,844	21,100	
Net	764	1,150	2,213	4,120	7,381	10,680	13,532	16,972	20,000	24,500
Romania										
Gross	1,227	1,249	1,611	2,693	2,924	2,903	3,605	5,221	6,950	
Net	1,227	1,204	1,495	2,483	2,449	2,528	3,388	4,992	6,700	8,600

Source: CIA, Handbook of Economic Statistics 1980, Washington, D.C., U.S. Government Printing Office, October 1980, ER80-10452, P. 39

Figures for 1980 from: Soviet Business & Trade, June 7, 1981, p. 6

* Preliminary figures

~~Top Secret~~

SPECIAL ANALYSIS

E. O. 12958-
~~As Amended~~
Sec. 3.3(b)(1),
3.5(c)

USSR: Hard Currency Outlook

by [redacted] CIA

Skyrocketing imports from the West--especially grain--and a soft world market for Soviet oil are the major factors in the Soviet hard currency squeeze. Only in the unlikely event that both are reversed can the USSR expect relief over the next few years. Substantial hard currency support to Poland would seriously compound the problem.

Moscow has already stepped up gold sales.

[redacted] The Soviets also have increased their borrowing from Western banks and have been seeking longer term credits.

In addition, the USSR appears to be rethinking its short-term import plans. Soviet trade officials reportedly have been instructed not to place new orders for Western electronics equipment--a high-priority item--until next summer at the earliest. Some orders for spare parts and maintenance contracts also have been postponed.

The Longer Term

If, as appears likely, the USSR fails to maintain its current level of crude oil exports to the West, a major hard currency shortage is in store for the coming years. The only possible significant new source of hard currency earnings is the Yamal natural gas pipeline; but it will not come on stream until 1986 at the earliest. Even anticipated annual net earnings from the pipeline of \$5 billion will not offset the expected drop in income from oil exports unless Moscow reduces supplies now going to Eastern Europe--a possible but politically risky alternative.

--continued

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NLRR M554/1 #9623

3 February 1982

BY KML NARA DATE 12/27/12

Other exports are likely to show little or no growth in the 1980s. Prospects for nonenergy raw materials exports are poor because production and transportation costs are high. Exports of manufactures probably will not increase much because of deficiencies in quality and marketing. [REDACTED]

Receipts from arms sales, including payments for earlier deliveries, are already large--about \$5 billion a year--and a substantial increase appears unlikely. More gold sales run the risk of spoiling the market. [REDACTED]

Credits Crucial

A stagnation or decline in hard currency earnings will mean no increase in hard currency imports unless the West provides the necessary credits and Moscow accepts the resultant major increase in its hard currency debt. If imports increase at only 3 percent a year in real terms, indebtedness and debt service requirements would almost certainly reach an unacceptable level by the end of the decade. [REDACTED]

Debt would rise from \$12 billion at present to nearly \$40 billion in 1985, and to \$100 billion or more by 1990. The debt service ratio would be at least double by 1985. If Moscow funds some of the estimated \$2 billion to \$3 billion a year in imports Poland can no longer buy from the West, the Soviet debt would climb commensurately. [REDACTED]

The USSR is not likely to push hard currency imports to the limit that Western creditors will finance. Instead, Moscow probably will choose to cut back on imports judged least essential. [REDACTED]

This will require tough decisions because most of the goods imported from the West are important to such high-priority goals as military-related production, food production, energy development, and higher technological and productivity levels for Soviet industry. [REDACTED]

Measures of the Importance of Soviet-Western Trade
to Selected Western Countries, 1980

Soviet Trading Partner	Exports to USSR as Percent of Exports to World	Imports From USSR as Percent of Imports From World	Percent of Trading Partner's GNP	
			Exports to the USSR	Imports From the USSR
Argentina ^a	15.0	0.2	0.8	NEGL
Australia	5.1	0.1	0.8	NEGL
Austria	2.7	4.2	0.6	1.3
Brazil ^a	2.1	0.2	0.2	NEGL
Canada	2.1	0.1	0.5	NEGL
France	2.2	2.7	0.4	0.6
Italy	1.6	3.0	0.4	0.8
Japan	2.1	1.3	0.3	0.2
Netherlands	0.7	1.6	0.3	0.8
United Kingdom	0.9	1.5	0.2	0.4
United States	0.7	0.2	0.1	NEGL
West Germany	2.3	2.2	0.5	0.5

^a Estimated.

The Soviet Union's Hard Currency Situation

At the February 4 NSC meeting, a question arose as to what the Soviet Union's hard currency balance of payments prospects are. An analysis of the situation is outlined below:

The Soviet Union experienced a sharp erosion in its hard currency position during the past year. This weakening is due primarily to a combination of increased imports from the West -- especially grain -- and soft Western markets for Soviet crude oil and other primary product exports. The current situation represents a turnaround from the strong position the USSR enjoyed during the past several years, when increased revenues from energy and raw material exports to the West allowed a substantial buildup of hard currency reserves as well as a steady growth of imports from the West.

This is not to say, however, that the USSR is on the brink of disaster. Its capacity to service its debt remains good; it has substantial amounts of hard currency assets. Its gold stocks are worth \$20-25 billion at current market prices, and its deposits in Western banks total some \$5 billion (as of September 1981). Nevertheless, the Soviets will not be able to continue to import substantially more from the West unless they can borrow massive amounts. Even to maintain their current import levels, they would need to increase their borrowing significantly. Their alternatives will be to cut their imports sharply, and/or sell substantial amounts of their gold.

In 1981, the Soviet Union was able to finance its \$6 billion trade deficit in a variety of ways. It drew down its hard currency assets in Western banks by some \$4 billion through the first nine months; sold gold for \$2.8 billion (almost \$1 billion more than in 1980), and increased its borrowing -- primarily in the form of short-term trade credits. The USSR also benefited from increased arms sales -- up \$1.7 billion on the strength of orders from previous years.

As for this year, the USSR's hard currency situation is continuing to deteriorate, and its trade deficit is projected

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at \$8 billion compared to \$6 billion last year.^{1/} It will be hard-pressed to come up with the resources to meet this increased deficit because it faces continued soft demand for its exports in world markets -- especially in Western Europe. (The critical factor will be whether oil prices continue to decline.) On the import side, we expect the Soviet Union's agricultural import bill to increase by about \$1 billion. According to numerous reports the USSR is cutting imports in other areas, in part just to offset the effects of expected Western price increases. Taking these factors into account, the Soviets' hard currency trade balance could deteriorate by as much as \$2 billion in 1982 to the above \$8 billion figure.

Moscow has some options available to meet its prospective financing requirements. They involve, however, a continuing financial squeeze or a depletion of a national asset, gold. Moscow has commitments for about \$1.7 billion in guaranteed credits to be used primarily to purchase machinery and other goods not associated with the pipeline. The Soviets would have the option of drawing upon hard currency deposits in Western banks, which totaled about \$4.5 billion as of September 1981 (compared to \$8 billion in December 1980). Finally, they will have to sell large amounts of gold. Estimates range between 12 and 15 million ounces, an amount which exceeds the USSR's annual 10 million ounce production and would be more than double their sales of 1981.

The Soviets will not be able to turn to their East Bloc allies for assistance. The Eastern European countries have been experiencing financial difficulties, and their prospects are not likely to improve, with adverse consequences for their balance of payments positions. Some are finding it difficult to manage their internal and external economic sectors and are encountering problems with servicing their debt and finding new financing. In fact, the Soviets face the prospect of having their Bloc allies turn to them for assistance, at a time when the USSR can ill afford it. Almost certainly, the USSR

1/ These figures and the subsequent discussion on financing do not include the import and the government guaranteed financing arrangements for the Siberian pipeline. Most of the imports for the pipeline would be covered by Western credits. Consequently, it would be of little significance for Soviet financing needs over the next few years.

2/11/82

4. USSR: WESTERN DEBT STILL MANAGEABLE

Moscow's overall financial position remains sound despite the sharp deterioration in its hard-currency balance of payments last year. Recent reports of credit restrictions tend to exaggerate the problems--real though they are--facing the USSR as it copes with rising import bills and near stagnation in export earnings. The USSR, however, is entering a period of increasing financial difficulty.

* * *

Despite a projected hard-currency trade deficit last year of as much as \$6 billion--roughly two and a half times larger than in 1980--Moscow is estimated to have run surpluses in both its current and capital accounts. Its debt-service obligations--equivalent to 15 percent of estimated hard-currency earnings from all sources--were no less manageable than in most years over the past decade.

The Soviets met their payments requirements in 1981 by increased borrowing, drawing down on their sizable assets in Western banks, and stepped up gold sales. Late in the year, the USSR also sought to increase sales of primary commodities (including oil and metals) even though prices were low. By the end of the year, deposits in Western banks may have recovered to \$7 billion, compared to \$8.6 billion at the end of 1980. Gold reserves increased to some 60 million troy ounces (worth more than \$22 billion at current prices).

Some Soviet foreign trade organizations (FTO's) were putting off new foreign purchases. Other Soviet FTO's attempted to stretch payments to Western suppliers. Some of these efforts have been rebuffed and the Soviets made the payments when extensions were refused. The Soviets apparently were not turned down in all cases, however. And despite the uneasiness of Western banks at this time, there still appears to be a willingness among some--including US banks--to roll over credits to the USSR. (Some of the Western firms that refused extended payments were prompted by their own cash flow problems and not by concerns about Moscow's credit rating.)

European and Japanese Governments remain committed to their existing contracts with the USSR, including those for the Siberian pipeline. Short of an agreement by these governments to restrict official credits to the USSR, we expect the door to remain open for commercial credits as well. The Soviets may have to pay marginally higher interest rates on government-backed credits if an OECD consensus can be reached on "rich-country status" for the USSR. Such higher rates would apply to new export credits and not to those already committed.

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BY AW NARA DATE 10/23/18

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LIMDIS GREENBACK
E.O. 12065: GDS 3/8/88 (HOLMES, JOHN W) OR-M
TAGS: EFIN, IT
SUBJECT: CREDITS TO SOVIET UNION AND EASTERN EUROPE
REF: A. STATE 59627, B. ROME 2346

1. (C - ENTIRE TEXT)

2. AS A GENERAL STATEMENT OF THE MOOD OF ITALIAN OFFICIALS AND PRIVATE LENDERS TOWARD THEIR EXPOSURE TO EASTERN EUROPEAN COUNTRIES, WE BELIEVE THE HIGH LEVEL MISSION WILL FIND THE ITALIANS VERY MUCH CONCERNED. WHILE THESE CONCERNS ARE NOT BEING EXPRESSED PUBLICLY, WE HAVE FOUND THAT IN THE PAST SEVERAL MONTHS STEPS HAVE BEEN TAKEN BY BOTH PUBLIC ENTITIES AND PRIVATE LENDERS TO REDUCE SIGNIFICANTLY THEIR ACTIVITIES WITH THE EASTERN BLOC. NOT ALL THE COUNTRIES, HOWEVER, HAVE BEEN TREATED EQUALLY. POLAND AND ROMANIA HAVE BEEN VIRTUALLY CUT OFF, WHILE LENDING TO THE OTHERS--INCLUDING THE SOVIET UNION--HAS BEEN DRASTICALLY REDUCED. MOST RECENT DATA ON ITALIAN EXPOSURE IS GIVEN IN REFTEL B.

3. FOLLOWING IS A SUMMARY OF ITALIAN POLICIES AND ATTITUDES IN SAME ORDER AS QUESTIONS RAISED PARA 1 REFTEL A:
A. BOTH PUBLIC AND PRIVATE SECTORS HAVE TAKEN (MAINLY) INFORMAL STEPS TO LIMIT LENDING TO SOVIET BLOC COUNTRIES. THIS POLICY, HOWEVER, IS AN ARTICULATED ONE. WITH RESPECT TO THE PUBLIC SECTOR, ALL LENDING TO POLAND HAS BEEN STOPPED--INCLUDING THE PREVENTION OF DRAWDOWNS ON EXISTING LINES OF CREDIT--EXCEPT FOR MEETING THE TERMS OF THE 1981 DEBT RESCHEDULING AGREEMENT. IN THE PAST FEW WEEKS, ROMANIA HAS ALSO BEEN INCLUDED ON THE NO-LENDING LIST. AS FOR THE SOVIET UNION, DURING THE PAST YEAR NO NEW FINANCIAL (GOVERNMENT-TO-GOVERNMENT) AGREEMENTS HAVE BEEN SIGNED. SOME SUPPLIERS' CREDITS WERE NEGOTIATED (WITH BOTH GOVERNMENT GUARANTEE AND SUBSIDIZED INTEREST RATE), BUT THESE WERE REPORTEDLY RELATIVELY SMALL. THE REALLY LARGE TRANSACTIONS WITH THE USSR ARE FINANCED THROUGH THE FINANCIAL CREDIT ARRANGEMENT. NO NEW OFFICIAL LENDING HAS BEEN GRANTED IN THE PAST YEAR TO BULGARIA, HUNGARY, CZECHOSLOVAKIA OR EAST GERMANY. THESE FOUR COUNTRIES WERE ABLE, HOWEVER, TO DRAW ON EXISTING CREDIT LINES.

PRIVATE LENDERS HAVE MORE OR LESS FOLLOWED THE OFFICIAL LINE. OUR INFORMATION IS THAT BOTH POLAND AND ROMANIA ARE NOT GETTING NEW PRIVATE CREDITS, THE SOVIET UNION IS RECEIVING SOME SMALL AMOUNTS OF VERY SHORT-TERM MONEY AND THE OTHERS ARE BEING LOOKED AT WITH GREAT SKEPTICISM.
B. TO THE EXTENT THAT PRIVATE BANKS LEND TO THE SOVIET UNION, IT IS PURELY ON COMMERCIAL TERMS AND ON A VERY SHORT-TERM BASIS (THREE MONTHS). THIS REPRESENTS A TIGHTENING UP FROM ABOUT A YEAR AGO.
C. PRIVATE LENDERS DO NOT SEEK OFFICIAL COVER FOR SHORT-TERM LENDING. THEY INSIST INSTEAD ON COLLATERAL IF AVAILABLE.
D. THE ITALIAN MEDIUM-TERM CREDIT INSTITUTE INTERBANCA RECEIVED ON MARCH 2 A REQUEST FROM ROMANIA TO RESCHEDULE UNPAID 1981 MATURITIES AND ALL 1982 PAYMENTS DUE ON OUTSTANDING DEBTS TO ITALY. ROMANIA ASKED TO RESCHEDULE 80 PERCENT OF PAYMENTS DUE, AT AN INTEREST RATE OF 1.75 PERCENT OVER LIBOR, REPAYABLE OVER 6.5 YEARS PLUS A THREE-YEAR GRACE PERIOD. THE REQUEST WAS JUSTIFIED ON THE GROUNDS THAT SINCE ROMANIA COULD NOT REPAY ALL OF ITS DEBTS, IT DECIDED NOT TO REPAY ANY. WITH THE EXCEPTION OF POLAND, ALL THE OTHERS ARE PAYING THEIR BILLS ON TIME.
E. THERE HAVE BEEN NO NOTICEABLE CHANGES IN ATTITUDES IN THE LAST MONTH. ABOUT TWO MONTHS AGO, ONE LEADING ITALIAN BANK REPORTEDLY REFUSED AN EAST GERMAN REQUEST TO RENEW A CREDIT LINE.
F. IN ADDITION TO THE SIBERIAN PIPELINE FINANCING, THE ONLY OTHER LOAN ON WHICH THE GOVERNMENT WILL HAVE TO DECIDE SOON IS THE FINANCING OF THE GE/ANSALDO NUCLEAR POWER PLANT UNDER CONSTRUCTION IN ROMANIA. THE ITALIAN SHARE AMOUNTS TO ABOUT 100 MILLION DOLLARS. IN THE LIGHT OF ROMANIA'S REQUEST FOR RESCHEDULING AND THE U.S. EXIMBANK'S DECISION TO POSTPONE ITS SHARE OF THE FINANCING, THE ITALIANS WILL BE FACING A DIFFICULT DECISION

WHEN THIS LOAN COMES UP FOR APPROVAL. THIS WOULD BE THE BT

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LIMDIS GREENBACK
FIRST LOAN TO BE FINANCED BY MONEY BORROWED IN THE EURO-
DOLLAR MARKET BY MEDIOCREDITO, ITALY'S OFFICIAL EXPORT
CREDIT AGENCY. HERETOFORE, MEDIOCREDITO HAS OPERATED
SOLELY WITH APPROPRIATED FUNDS. IN ADDITION, WE HAVE
LEARNED THAT THE GOI HAS UNDER CONSIDERATION REQUESTS
FOR LINES OF CREDIT FROM BULGARIA AND CZECHOSLOVAKIA
AMOUNTING TO 100 MILLION DOLLARS, EVEN THOUGH BOTH COUN-
TRIES ASKED FOR LARGER AMOUNTS.

4. ADDITIONAL ASPECTS OF EXPORT CREDIT ISSUE BEING
TREATED IN SEPTEL RESPONDING TO STATE 58402. RABB
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LIMDIS GREENBACK
E.O. 12065: GDS 3/8/88 (NEWMAN, JERRY M) OR-T
TAGS: EF, IN, UK
SUBJECT: (C) CREDITS TO SOVIET UNION AND EASTERN EUROPE
REF: (A) STATE 59627, (B) LONDON 5018, (C) LONDON 4615,
(D) BUDAPEST 1073

1. (C - ENTIRE TEXT)

2. OUR CONVERSATIONS WITH U.S. AND U.K. BANKERS OVER PAST MONTH HAVE INDICATED THAT THERE IS GENERAL PERCEPTION IN FINANCIAL COMMUNITY THAT INTERNATIONAL BANKS AS A WHOLE HAVE ADOPTED EXTREMELY CAUTIOUS ATTITUDE TOWARD LENDING TO USSR AND EASTERN EUROPEAN COUNTRIES. OF COURSE, NO ONE BANK KNOWS WHAT EVERYONE ELSE IS DOING, AND BANKS TYPICALLY RETICENT TO PROVIDE DETAILS OF THEIR OWN OPERATIONS.

3. BANKS IN U.K. SAY THAT THEY ARE UNAWARE OF ANY MAJOR BANK INCREASING ITS UNCOVERED EXPOSURE TO ANYONE IN SOVIET BLOC. SUCH NEW MEDIUM- OR LONG-TERM CREDIT THAT MAY BE EXTENDED -- E.G., FOR GAS PIPELINE -- WOULD IN ALMOST ALL CASES REQUIRE OFFICIAL GUARANTEES. THE EXCEPTIONS HAVE BEEN WHERE MAJOR CUSTOMERS HAVE PRESSED BANKS INTO EXTENDING CREDIT IN CONJUNCTION WITH THESE CUSTOMERS' SALES, AND THE AMOUNTS INVOLVED ARE SMALL.

4. WE DO NOT HAVE IMPRESSION THAT BROAD EFFORT UNDERWAY TO REDUCE IN ANY MAJOR WAY EXPOSURE TO SOVIETS, ROMANIANS, OR OTHER BLOC COUNTRIES, ALTHOUGH MANY BANKS TRYING TO REDUCE AT THE MARGIN. TYPICAL BANK REACTION WOULD BE TO ATTEMPT SHORTEN-MATURITY STRUCTURE OF CLAIMS ON BLOC COUNTRIES, ALTHOUGH IN SOME CASES BANKS HAVE ACTUALLY HAD THE MATURITY OF THEIR PORTFOLIO LENGTHENED BECAUSE THEY HAVE REFUSED RENEW SHORT-TERM LINES. WE ARE UNAWARE OF GENERAL LARGE SCALE REPLACEMENT OF MATURING LONG-TERM DEBT WITH INCREASE IN SHORT-TERM LINES OF CREDIT.

THUS IT IS LIKELY THAT SOME REDUCTION IN OVERALL EXPOSURE TO BLOC BOTH FOR INDIVIDUAL BANKS AND BANKS AS A GROUP MAY BE OCCURRING. THIS IS ALSO THOUGHT TO BE OCCURRING IN GERMANY.

5. BANKS IN U.K. HAVE CONFIRMED THAT SOVIETS HAVE ATTEMPTED ARRANGE FINANCING IN JAPAN TO COVER DOWN-PAYMENT FOR THEIR IMPORTS BUT HAVE CITED NO ADDITIONAL CASES. THEY ARE ALSO AWARE THAT SOVIETS HAVE BEEN SEEKING DELAYS ON REPAYMENT OF BILLS COMING DUE, BUT NO BANK HAS INDICATED IT IS EXPERIENCING UNUSUAL DIFFICULTY IN AMORTIZATION OF BANK DEBT BY BLOC OTHER THAN POLAND AND ROMANIA.

6. ON MORE GENERAL PLANE, BOTH THE BANKS AND HMT EXPERTS ARE OF VIEW THAT WHILE SOVIETS PRESENTLY FACING LIQUIDITY BIND THAT LONG-TERM FINANCIAL PROSPECTS RELATIVELY GOOD AND COULD SUPPORT INCREASED EXTERNAL INDEBTEDNESS. FEELING ALSO SEEMS TO BE THAT ROMANIA IS NOT AS SERIOUS A PROBLEM AS POLAND (REF C) AND HUNGARY'S PROBLEMS AS CONVEYED REF D NOT GENERALLY KNOWN OR APPRECIATED. ONE HEARS LITTLE ABOUT SOVIET UMBRELLA NOWADAYS. SOME BANKS ARE NOW TALKING ABOUT THE SOVIET "SIPHON" BY WHICH THE SOVIETS LIKELY TO RECHANNEL FINANCIAL RESOURCES FROM ONE DIRECTION TO ANOTHER WITHIN THE BLOC BY ALTERING THE TERMS OF ITS TRADE WITH MEMBER COUNTRIES. OTHER BANKS, HOWEVER, BELIEVE SOVIETS WILL PROVIDE SUPPORT TO EASTERN EUROPEANS TO HELP THEM REPAY THEIR EXTERNAL OBLIGATIONS, BUT WHETHER SUCH SUPPORT WOULD BE MODEST OR SIGNIFICANT IS UNCLEAR TO THEM. MAJOR, BUT NOT ONLY, FACTOR WILL BE SPEED AND DEGREE OF IMPROVEMENT IN SOVIET FINANCIAL POSITION WHICH AGAIN MOST BANKS FEEL WILL OCCUR.

NUMBER OF BANKERS HERE HAVE EXPRESSED THEIR GREAT CONCERN THAT U.S. WILL ATTEMPT TO EXACERBATE SOVIETS' FINANCIAL DIFFICULTIES AND THAT IF SUCCESSFUL AND IF SOVIETS FEEL PUSHED TO WALL THEY MIGHT STRIKE BACK IN DESPERATION. THIS CONCERN IS A GENERAL ONE, AND THOSE WHO HOLD IT DO NOT SEEM TO BE VERY CLEAR ON LIKELY CANDIDATES FOR SOVIET COUNTERMEASURES. SOME U.S. BANKS SAY THAT TOUGH LINE TAKEN BY USG HAS BEEN A MAJOR FACTOR IN THEIR PULLING BACK AND THAT IT HAS ALSO INFLUENCED BANKS IN OTHER COUNTRIES WHO PROPERLY SEE RISKS INCREASING AS U.S. BANKS RETRENCH.
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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 05179

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LIMDIS GREENBACK

7. AMERICAN BANKS HERE SAY THAT THEY HAVE NOT BEEN GREATLY PRESSED BY BLOC COUNTRIES WHOSE CREDIT LINES HAVE BEEN TIGHTENED OR WITHDRAWN. THEY FEEL THIS IS BECAUSE THE BLOC IS CONVINCED THAT THE POLICY OF U. S. BANKS IS BEING DIRECTED BY USG.
-

8. EMBASSY HAS PROVIDED VIEWS OF U.K. AUTHORITIES ON NUMBER OF ASPECTS OF ISSUES RAISED REF A IN REF B.
-

9. BANKS HERE ARE UNAWARE OF ANY NEW SYNDICATIONS IN THE WORKS ALTHOUGH YUGOSLAVS APPARENTLY STILL HOPE BE ABLE TO ARRANGE ONE.
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SOVIET
ECON.
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EXDIS/FOR AMBASSADOR
E. O. 12065: RDS-1 & 3 3/9/12 (HOLMES, H. ALLEN)
TAGS: PEPR, FI
SUBJECT: PERSONAL RELATIONS WITH KOIVISTO

REF: HELSINKI 742

1. (SECRET - ENTIRE TEXT).

2. WE OF COURSE AGREE THAT IT WOULD BE BENEFICIAL FOR YOU TO BUILD A RELATIONSHIP WITH KOIVISTO WHICH WOULD BE CONDUCTIVE TO FULL AND CONFIDENTIAL DISCUSSION OF CURRENT ISSUES OF MUTUAL INTEREST. WE WOULD LIKE TO DO WHATEVER WE CAN TO ASSIST YOU.

3. REGARDING SUBJECT MATTER, WE BELIEVE SOVIET TRADE AND DEBT PROBLEMS ARE PROMISING ISSUES TO RAISE INITIALLY WITH KOIVISTO. HOWEVER, WE PROBABLY ARE NOT ABLE TO PROVIDE YOU WITH THE KIND OF ANALYSIS OF INTEREST TO AN ACADEMIC ECONOMIST SUCH AS KOIVISTO. MOREOVER, MOST INR STUDIES OF SOVIET ECONOMIC CONDITIONS ARE BASED ON EXTREMELY SENSITIVE MATERIAL NOT RELEASABLE TO FOREIGNERS. WITH THE COOPERATION OF EUR/SOV, WE PREPARED

THE TALKING POINTS IN PARA. 5 BELOW ON SOVIET ECONOMIC PROBLEMS. YOU SHOULD ALSO DRAW ON THESE POINTS IN DISCUSSION WITH PRIME MINISTER SORSA AND FOREIGN MINISTER STENBACK. HOWEVER, WE WOULD SUGGEST SOME CAUTION IN GOING MUCH BEYOND THESE THREE; WE MUST ALWAYS BEAR IN MIND THE SENSITIVITY OF THE FINNISH-SOVIET RELATIONSHIP AND FINNISH NERVOUSNESS TO HEAR ASSESSMENTS ABOUT THE INTERNAL SITUATION IN THE USSR FROM THE "OTHER SUPERPOWER". FOR THIS REASON, WE BELIEVE YOU SHOULD ONLY DRAW ON THESE POINTS--NOT REPEAT NOT LEAVE THEM AS A "NON-PAPER" OR IN ANY OTHER WRITTEN FORM.

4. YOU SHOULD INFORM US OF OTHER TOPICS OF INTEREST FOR WHICH YOU NEED BACKGROUND INFORMATION. YOU MAY ALSO CONSIDER MENTIONING TO KOIVISTO THAT YOU WOULD LIKE TO SUPPORT HIM IN ANY APPROPRIATE WAY IN HIS NEW ROLE AS PRESIDENT OF FINLAND AND INVITE HIM TO INFORM YOU OF HIS INTERESTS.

5. TALKING POINTS:

GENERAL:

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EXDIS

-- SOVIET ECONOMIC PERFORMANCE IS WORSENING. ALTHOUGH THE ECONOMY IS STILL GROWING, ITS RATE OF GROWTH IS FALLING, FROM NEARLY 4 PERCENT PER YEAR IN THE 1970'S TO AN AVERAGE OF 1.5 PERCENT PER YEAR IN 1980 AND 1981. THE CHIEF CAUSES OF THE SLOWDOWN ARE RISING RESOURCE COSTS, AN INEFFICIENT ECONOMIC SYSTEM, PRODUCTION SHORTFALLS IN AGRICULTURE AND INDUSTRY, AND AN ACCUMULATION OF PLANNING MISTAKES. AS A RESULT, GROWTH IN LABOR PRODUCTIVITY HAS SLOWED.

AGRICULTURE:

-- AGRICULTURE HAS BEEN MOSCOW'S BIGGEST HEADACHE. THE SOVIETS HAVE NOW SUFFERED THEIR THIRD STRAIGHT HARVEST FAILURE. WE ESTIMATE THAT THE 1981 GRAIN CROP WAS ABOUT 170 MILLION TONS- 19 MILLION TONS LESS THAN 1980'S POOR CROP.

EXDIS

-- WHILE THE ODDS ARE THAT THE WEATHER WILL BE BETTER THIS YEAR, AN EARLY RETURN TO THE UNUSUALLY FAVORABLE WEATHER PATTERNS THAT EXISTED FROM THE MID-1960S TO THE MID-1970S SEEMS UNLIKELY. RATHER, THE SOMEWHAT HARSHER CONDITIONS THAT PREVAILED FOR 20 YEARS PRIOR TO THE MID-1960S ARE LIKELY TO BE THE RULE. THE GAINS IN AGRICULTURAL OUTPUT THAT ACCRUED BETWEEN THE MID-1960S AND MID-1970S-LARGELY THE RESULT OF GOOD WEATHER-WILL BE NEARLY IMPOSSIBLE TO ACHIEVE IN THE 1980S.

INDUSTRY:

EXDIS

-- INDUSTRY ALSO HAS BEEN DOING POORLY. GROWTH IN ALMOST EVERY MAJOR SECTOR IS RUNNING BEHIND THE PACE OF A YEAR AGO. INDUSTRIAL OUTPUT GREW BY LESS THAN 2 PERCENT IN 1981, WELL BELOW ITS NEARLY 3-PERCENT GROWTH DURING THE 1980. THIS IS THE WORST PERFORMANCE IN THE

POST WAR PERIOD.

ENERGY:

-- TRADITIONAL, LOW-COST SOURCES OF ENERGY IN THE WESTERN USSR ARE DRAWING TOWARDS DEPLETION. THE SOVIETS HAVE COME TO INCREASINGLY RELY UPON REMOTE SIBERIA FOR THEIR ENERGY SUPPLIES. YET THESE RESOURCES ARE MARKEDLY MORE EXPENSIVE AND TECHNICALLY DIFFICULT TO EXTRACT.

EXDIS

-- SLUGGISH INCREASES IN ENERGY OUTPUT WILL POSE A MAJOR PROBLEM DURING THE COMING DECADE. GROWTH IN PRIMARY ENERGY PRODUCTION IS LIKELY TO AVERAGE ONLY 2 TO 3 PERCENT THROUGH THE MID-1980'S DESPITE A SUBSTANTIAL INVESTMENT IN ENERGY. (ENERGY GROWTH DURING MOST OF THE 1970'S, IN CONTRAST, AVERAGED ALMOST 5 PERCENT ANNUALLY).

-- OIL OUTPUT HAS STAGNATED AT 12 MILLION BARRELS PER DAY AND IS EXPECTED TO DECLINE FROM THE MID-1980'S. COAL PRODUCTION DECLINED FOR THE THIRD CONSECUTIVE YEAR IN 1981, THOUGH A SLIGHT INCREASE IN OUTPUT IS FORECAST FOR MOST OF THE DECADE.

-- CONSEQUENTLY, NATURAL GAS AND NUCLEAR POWER MUST PROVIDE PRACTICALLY ALL OF THE GROWTH IN ENERGY OUTPUT THROUGH AT LEAST THE MID-1980'S. GAS PRODUCTION REMAINS THE STRONG SJIT IN THE SOVIET ENERGY HAND. OUTPUT DOUBLED DURING THE 1970'S AND POSTED A 6.4 PERCENT INCREASE IN 1981.

TRADE AND DEBT:

-- MOSCOW CAN LOOSEN SOME OF THE DOMESTIC RESOURCE CONSTRAINTS BY IMPORTING FOREIGN GOODS AND TECHNOLOGY-BUT ITS ABILITY TO IMPORT IS THREATENED BY DECLINING HARD CURRENCY REVENUES. THE SOVIET HARD CURRENCY POSITION DETERIORATED IN 1981 BECAUSE OF SOFTER

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WORLD PRICES FOR SOVIET OIL AND OTHER RAW MATERIALS AND SHARPLY INCREASED IMPORTS OF WESTERN AGRICULTURAL GOODS. THE 1981 SOVIET TRADE DEFICIT PROBABLY REACHED 6 BILLION DOLLARS.

-- HARD CURRENCY EARNINGS WILL ALMOST CERTAINLY WORSEN DURING THE 1980S AS EXPORTS DECLINE. THE BASIC PROBLEM IS THAT SOVIET OIL DELIVERIES TO THE WEST WILL PROBABLY FALL IN THE NEXT FEW YEARS BECAUSE OF STAGNATING OR FALLING PRODUCTION AND RISING DEMAND AT HOME. THE SOVIET'S ONLY SUBSTANTIAL NEW HARD CURRENCY EARNER WILL BE GAS EXPORTS, IF THE SIBERIA-TO-EUROPE PIPELINE PROJECT IS COMPLETED. GAS EARNINGS WILL NOT RISE SUBSTANTIALLY BEFORE THE MID-1980S, HOWEVER, AND TOTAL

GAS EARNINGS BY THE LATE 1980S WILL BARELY COVER THE DROP IN OIL REVENUES.

-- IN COMMODITIES OTHER THAN OIL AND GAS, THE SOVIETS WILL DO WELL TO HOLD ANNUAL EXPORTS CONSTANT AT ROUGHLY 9 BILLION DOLLARS THROUGH THE 1980S. PROSPECTS ARE POOR FOR SALES OF BOTH RAW MATERIALS AND MANUFACTURED GOODS.

-- SOVIET ARMS SALES ARE ALREADY SUBSTANTIAL-CURRENTLY 5 BILLION DOLLARS A YEAR-AND ARE UNLIKELY TO INCREASE MUCH FURTHER, WHILE EXPORTS OF SOVIET GOLD AND PLATINUM GROUP METALS COULD NOT INCREASE SUBSTANTIALLY ABOVE CURRENT LEVELS WITHOUT DEPRESSING THE MARKET.

-- SOVIET AID TO POLAND HAS BEEN AND PROMISES TO BECOME A SIGNIFICANT LONG-TERM DRAIN ON SOVIET RESOURCES AND POSSIBLY HARD CURRENCY REVENUES. IN 1981 POLISH DEBT REPAYMENT WAS AIDED BY THE USSR TO A LIMITED DEGREE. IN A MARKED DEPARTURE FROM THE BLOC PRACTICE OF BALANCED BILATERAL TRADE, THE USSR PERMITTED POLAND TO RUN A SIZEABLE TRADE DEFICIT IN 1981. WHILE THE 500 MILLION DOLLAR CUT (USING THE OFFICIAL RUBLE/DOLLAR EXCHANGE RATE WHICH INFLATES RUBLE VALUE) IN PROJECTED 1982 DEFICIT SIGNALS A SOVIET DESIRE TO CUT THE REAL AND OPPORTUNITY COSTS OF THE BILATERAL TRADE RELATIONSHIP, POLISH AUTHORITIES ARE PRESSING THE SOVIETS TO EXTEND SUBSTANTIAL NEW AID IN ORDER TO PARTIALLY OFFSET THE DAMAGE TO AN ALREADY SHATTERED ECONOMY CAUSED BY WESTERN SANCTIONS AND DOMESTIC WORKER RESISTANCE. WHETHER OR NOT THE POLES INSTITUTE MEANINGFUL ECONOMIC REFORMS THE SOVIETS WILL FACE LARGE COSTS OVER A PERIOD OF YEARS IN SUPPORTING THEIR INDIGENT ALLY.

CURRENT POLICY:

-- THE SOVIETS ARE RESPONDING TO THE HARD CURRENCY SHORTAGE BY:

----- DRAWING DOWN THEIR CASH RESERVES IN WESTERN BANKS,

----- INCREASING GOLD SALES,

----- DIVERTING OIL FROM EASTERN EUROPEAN MARKETS TO THE WEST, AND AGGRESSIVELY MARKETING IT BY PRICE-CUTTING,

----- SEEKING EXTENSIONS OF SHORT TERM FINANCING FROM 60/90 DAYS TO 180 DAYS, AND

----- REQUESTING ADDITIONAL MEDIUM/LONG TERM FINANCING FROM WESTERN BANKS.

-- THE SOVIETS HAVE NOT BEEN ACTIVE IN THE EURODOLLAR MARKET IN OVER A YEAR, BUT THE CEMA INTERNATIONAL

INVESTMENT BANK, WHICH PROVIDES MEDIUM AND LONG TERM CREDITS TO SOVIET BLOC COUNTRIES, DID OBTAIN A 100 MILLION DOLLAR LOAN IN DECEMBER (FIVE EUROPEAN BANKS PARTICIPATED, INCLUDING THE LONDON SUBSIDIARY OF

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CITIBANK).

--THE SOVIETS HAVE SO FAR APPROACHED GERMAN, FRENCH, AND JAPANESE BANKS FOR NEW MEDIUM-TERM CREDITS, PRINCIPALLY BRIDGE FINANCING TO COVER THE 15 PERCENT CASH DOWN PAYMENT REQUIRED ON SIBERIAN PIPELINE-RELATED CONTRACTS, AND THE BRITISH AND ITALIANS ARE REPORTEDLY NEXT ON THE LIST. GERMAN BANKS TURNED DOWN THE SOVIETS IN JANUARY WHEN THEY LEARNED THAT GERMAN GOVERNMENT LOAN GUARANTEES WOULD NOT BE FORTHCOMING. THE FRENCH, HOWEVER, RECENTLY AGREED TO GRANT A 140 MILLION DOLLAR LOAN AT MARKET INTEREST RATES (ABOUT 17 PERCENT), WITH REPAYMENT IN EIGHT YEARS. JAPANESE BANKS HAVE REJECTED SOME REQUESTS, BUT STILL HAVE OTHERS UNDER STUDY.

SEPARATELY, AUSTRIA RECENTLY RENEWED A 600 MILLION DOLLAR CREDIT LINE TO THE USSR, BUT AT A HIGHER RATE OF 7.8 PERCENT. A REAL RATE OF 9.5 PERCENT WILL APPLY IF REFINANCING AND OFFICIAL GUARANTEES ARE SOUGHT BY AUSTRIAN BANKS. SWEDISH BANKS RECENTLY ARRANGED LINES OF CREDIT TOTALLING 210 MILLION DOLLARS, WITH ONE LINE A SIMPLE RENEWAL.

-- IT SHOULD NEVERTHELESS BE POINTED OUT THAT THE SOVIET FINANCIAL SITUATION, THOUGH WEAKENED, REMAINS STRONG IN THE LONG RUN. THE SOVIET DEBT-SERVICE RATIO IS A RESPECTABLE 15 AND THEIR APPROACH TO INCURRING THE DEBT IS CONSERVATIVE. RECENT SOVIET DRAWDOWNS OF WESTERN ASSETS STILL LEAVE THEM FAIRLY FLUSH, AND SOVIET GOLD RESERVES OF SOME 60 MILLION TROY OUNCES ARE WORTH MORE THAN 22 BILLION DOLLARS AT CURRENT MARKET PRICES. IT MAY BE THAT RECENT SOVIET FINANCIAL DEMARCHES IN WESTERN CAPITALS ARE LESS A REFLECTION OF ACTUAL HARD CURRENCY SHORTAGES THAN ANTICIPATION OF A SHORTAGE AND/OR WESTERN

CREDIT SANCTIONS. AS SUCH, THE DEMARCHES CAN BE VIEWED AS PRUDENT CASH FLOW PLANNING.
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WASHINGTON (AP) -- AGRICULTURE SECRETARY JOHN R. BLOCK SAID TODAY
THE UNITED STATES CAN PUNISH THE SOVIET UNION BY SELLING IT CORN AND
WHEAT, THUS FORCING THE KREMLIN TO SPEND SOME OF ITS SCARCE FOREIGN
CURRENCY RESERVES.

"THE SOVIET UNION TAKES IN ABOUT \$20 BILLION A YEAR IN HARD FOREIGN CURRENCY," BLOCK SAID. "IF THEY ARE OBLIGATED TO SPEND 25 OR 30 PERCENT OF THAT HARD FOREIGN CURRENCY, WHICH IS INVALUABLE TO THEM, ON FOOD WHICH THEY EAT UP ALMOST IMMEDIATELY WHEN IT ARRIVES IN THEIR COUNTRY, IT LOOKS TO ME LIKE IT'S SOMEWHAT TO OUR ADVANTAGE TO SEE THEM TRANSFER THOSE HARD-EARNED RESOURCES TO THE UNITED STATES.

"I THINK WE'RE A WINNER IN THAT KIND OF RELATIONSHIP," BLOCK SAID. "ABSOLUTELY, WE CAN HURT THEM BECAUSE ALL THEY DO IS EAT THE FOOD."

BLOCK SPOKE WITH REPORTERS AT THE WHITE HOUSE AFTER JOINING FARM-STATE SENATORS IN A MEETING WITH PRESIDENT REAGAN.

THE SECRETARY SAID THE UNITED STATES "NEEDS TO ESTABLISH ITSELF AS A RELIABLE SUPPLIER OF AGRICULTURAL PRODUCTS AROUND THE WORLD. WE HAVE BEEN VICTIMIZED IN THE LAST 10 YEARS WITH A SERIES OF EMBARGOES AND TRADE SANCTIONS FOR MANY DIFFERENT REASONS."

ALMOST A YEAR AGO, THE REAGAN ADMINISTRATION LIFTED THE PARTIAL EMBARGO IMPOSED BY THE CARTER ADMINISTRATION ON CORN AND WHEAT SALES TO THE SOVIET UNION.

AP-WX-03-22-82 1144EST

SOV. 38
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D W
MISSILES-STRAUSS

WASHINGTON (UPI) -- WEST GERMAN OPPOSITION LEADER FRANZ-JOSEF STRAUSS BELIEVES THAT TO FREEZE CURRENT NUCLEAR FORCES IN EUROPE WOULD LOCK AMERICA INTO AN INFERIOR MILITARY POSITION.

STRAUSS, CHAIRMAN OF THE CHRISTIAN-SOCIAL UNION AND A FORMER DEFENSE MINISTER, SAID IN AN INTERVIEW SUNDAY DEPLOYMENT OF ADVANCED AMERICAN NUCLEAR MISSILES IN WESTERN EUROPE WILL DETER THE SOVIET UNION FROM LAUNCHING A WAR.

STRAUSS, QUESTIONED ON CABLE NEWS NETWORK'S "NEWSMAKER -- SUNDAY," SAID THE WESTERN ALLIES "MUST MAINTAIN THE STRATEGY" OF NUCLEAR REARMAMENT.

"I AM FOR THIS KIND OF REARMAMENT, NOT IN ORDER TO USE IT, BUT TO HAVE A 100 PERCENT GUARANTEE THAT THE SOVIETS WILL NEVER COME TO THE IDEA TO TAKE MILITARY ACTIONS IN EUROPE," HE SAID.

"DEPLOYMENT OF THOSE (NEW U.S.) WEAPONS...IS THE ONLY REALISTIC APPROACH IN OUR AGE FOR A RELIABLE AND LONG-LASTING PEACE," STRAUSS SAID.

STRAUSS SAID HE DOESN'T BELIEVE THE SOVIET UNION WANTS WAR WITH THE UNITED STATES BECAUSE THE "RUSSIANS WILL NEVER PUT AT STAKE WHAT

BUREAU OF INTELLIGENCE AND RESEARCH - ANALYSIS - MARCH 23, 1982

1. USSR: BREZHNEV IN FAVOR OF THE CONSUMER

Brezhnev initiated no major domestic policy moves in his speech to the Soviet trade union congress last week. He did, however, emphasize his concern for popular morale. Brezhnev seemed eager to commit somewhat more resources to the consumer sector while at the same time showing party stalwarts that he was appropriately tough on issues of labor discipline.

* * *

Because he was addressing a global as well as a domestic audience, Brezhnev could not emulate his protege Chernenko who has twice warned of the danger of internal crisis if popular wants are neglected. Nevertheless, Brezhnev drew similar lessons from the Polish experience. He urged officials to strive to improve the ordinary citizen's morale. Unions were forcefully reminded of their duty to ensure the equitable distribution of housing.

Brezhnev also acknowledged tacitly that economic inefficiency can lead to unrest. He called for improved methods of factory labor organization, deplored the conservatism of economic managers in this regard, encouraged a new round of tinkering with planning procedures and rated economic practitioners over mere theorists.

Against a background of recent debate over investment policy, Brezhnev seemed to be arguing against those wanting more heavy industry for its own sake or for armaments production. He insisted that the food problem "can and must be tackled immediately," and that "the more mature our society becomes, the greater the attention we can, and should pay to the people's everyday needs...."

Rather than endorse a strengthening of Soviet defenses, he regretted that the USSR had to maintain them "at the due level," thus "diverting considerable resources to the detriment of our plans of peaceful construction." Brezhnev vowed not to spend "a single ruble more" than "absolutely necessary" for security.

Offsetting this advocacy of the consumer interest, however, Brezhnev in effect agreed with hardliners that stiffer laws were needed to combat violations of labor discipline. He also assured the party elite that, while Soviet trade unions should be protecting workers' rights, union "neutrality" vis-a-vis the party would remain unacceptable.

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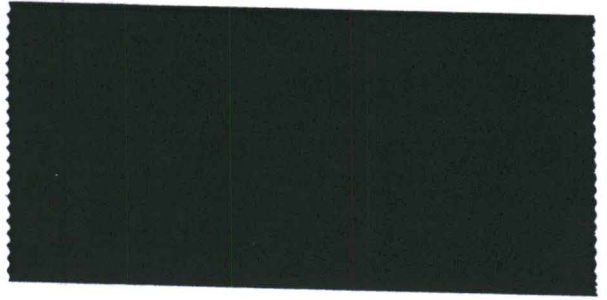
4

failures and the need to import record amounts of food have severely strained the Soviet hard currency position. In Eastern Europe, falling productivity has limited the flow of saleable commodities to the West, making Western imports required for industrial expansion difficult to finance.

These financial difficulties are likely to persist. Thus, we expect the USSR and Eastern Europe to continue to reassess foreign aid with the Third World and trade with the West in an effort to alleviate their faltering hard currency positions.

FOIA(b)(3)

cc:
RADM Poindexter
Chris Shoemaker
William Stearman



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The President has seen _____

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MEMORANDUM

THE WHITE HOUSE
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INFORMATION

April 24, 1982

PR

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK *wpc*

SUBJECT: Effect of Hard Currency Shortages on Soviet
Bloc Foreign Adventures

Economic stringencies are beginning to produce their first visible effects on Communist Bloc expansionist policies. DIA reports (Tab A) that

- an official of the 10th Directorate (Foreign Military Assistance) of the Soviet General Staff last December has indicated that economic pressures will compel a reduction in the number of Soviet military advisors and instructors serving abroad.
- East Germany is said to be contemplating a 30 percent reduction of its personnel in Ethiopia. (S)

All this suggests how significant the West's economic and financial pressures are in inhibiting Soviet aggressiveness in the Third World. (S)

Attachment:

Tab A DIA Memorandum dated April 13, 1982, "Soviet Bloc Reassesses Foreign Aid and Trade"

Prepared by:
Richard Pipes

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Derivative/multiple sources
Review April 13, 2002.

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DECLASSIFIED
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BY *RW* NARA DATE 3/16/11

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Director's Staff Group Memorandum

13 APR 1982

To: RICHARD PIPES

Subject: Soviet Bloc Reassesses Foreign Aid and Trade

Recent reporting indicates that the USSR, East Germany, and Czechoslovakia are considering measures that would restructure some aspects of their foreign aid to the Third World, as well as trade with the industrial West. The policy deliberations can be linked to these nations' growing shortages of hard currency -- an outgrowth of Poland's financial crisis -- and to the declining growth in their domestic economies.

Last December, an official of the 10th Directorate (Foreign Military Assistance) of the General Staff of the Soviet Ministry of Defense reported that the USSR's military aid programs were coming under pressure from the ailing Soviet economy and from needs of the armed forces. Consequently, the overall number of Soviet military advisers and instructors abroad might be reduced.

Since January, we have seen similar reports regarding a possible change in East Germany's aid and trade policies. In response to economic problems, including a growing trade deficit, the East German Government is considering a 30-percent reduction in its technical assistance personnel in Ethiopia; a cutback in imports of Western components needed for East Germany's military research and development program; and a redirection of trade from financially strapped Third World nations to those capable of paying with hard currency, important energy sources, or raw materials.

Czechoslovakia clearly considered a similar change in its foreign policy. Last September, the Czechoslovak Party Presidium endorsed a decision to reduce aid to Third World nations, a measure designed to alleviate the nation's financial problems.

DIA COMMENT: We believe these reports accurately reflect the seriousness of the Soviet and East European hard currency situation, characterized by fewer available Western credits and a diminished ability to generate hard currency earnings.

Poland's financial crisis has exacerbated Eastern Europe's hard currency problems in two ways. First, the specter of a Polish default has made the West less willing to extend credit to other East European countries. Second, shortfalls in Polish deliveries of coal and other goods have forced several East European nations to purchase additional supplies from the West, thereby adding to their hard-currency indebtedness.

Overall economic malaise in the USSR and Eastern Europe is another factor aggravating the region's financial problems. In the USSR, consecutive crop

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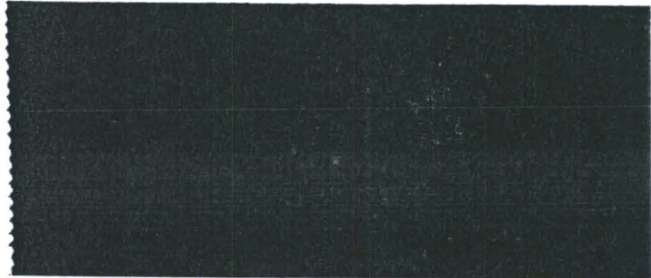
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failures and the need to import record amounts of food have severely strained the Soviet hard currency position. In Eastern Europe, falling productivity has limited the flow of saleable commodities to the West, making Western imports required for industrial expansion difficult to finance.

These financial difficulties are likely to persist. Thus, we expect the USSR and Eastern Europe to continue to reassess foreign aid with the Third World and trade with the West in an effort to alleviate their faltering hard currency positions.

FOIA(b)(3)

cc:
RADM Poindexter



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NATIONAL SECURITY COUNCIL

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April 13, 1982

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

SIGNED

FROM: RICHARD PIPES *RP*SUBJECT: Effect of Hard Currency Shortages on Soviet
Bloc Foreign Adventures

The memorandum at Tab I to the President forwarding an interesting DIA report entitled "Soviet Bloc Reassesses Foreign Aid and Trade" is self-explanatory, and I believe it will be of interest to the President. *(S)*

RECOMMENDATION

That you sign and forward the memorandum at Tab I to the President.

Approve *WPC* Disapprove _____

Attachments:

- Tab I Memorandum to the President
- Tab A DIA Memorandum dated April 13, 1982.

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Derivative/multiple sources
Review April 12, 2002.

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BY CIS NARA DATE 6/25/09

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USDOC FOR BEWT
E.O. 12065: N/A
TAGS: ECON, UR
SUBJECT: APRIL 1982 SOVIET ECONOMIC OUTPUT

CS 7/16/02

ROSE 6.8 PERCENT IN APRIL OVER APRIL 1981 FOR A CUMULATIVE TOTAL IN 1982 OF 7.1 PERCENT ABOVE LAST YEAR; ELECTRICITY IN APRIL WAS 0.9 PERCENT ABOVE APRIL 1981. OIL PRODUCTION WAS 0.6 PERCENT OVER LEVELS ACHIEVED IN APRIL 1981, BUT THE TOTAL FOR JANUARY-APRIL 1982 IS IDENTICAL TO THAT ACHIEVED IN 1981. EVEN COAL OUTPUT WAS UP FOR THE MONTH AND THE FIRST FOUR MONTHS, INDICATING THAT THE CONSISTENT DECLINES IN COAL PRODUCTION RECORDED SINCE 1978 HAVE AT LAST BEEN HALTED.

3. ~~LOW~~ HEAVY INDUSTRY: SERIOUS SHORTFALLS CONTINUE TO EXIST IN SOVIET OUTPUT OF INDUSTRIAL PRODUCER GOODS AND INCLUDE SUCH CRUCIAL ITEMS AS STEEL (DOWN 3.1 PERCENT), ROLLED STEEL (DOWN 2.5 PERCENT) STEEL PIPE (DOWN 1.7 PERCENT), ELECTRIC MOTORS (DOWN 2.8 PERCENT), DIESEL AND ELECTRIC LOCOMOTIVES (DOWN 4.8 PERCENT AND 3.3 PERCENT, RESPECTIVELY), RAILROAD CARS (DOWN 6.4 PERCENT) AND CEMENT (DOWN 7.1 PERCENT); IRON ORE PRODUCTION, WHICH HAS USUALLY BEEN LISTED IN THE MONTHLY OUTPUT REPORTS, WAS OMITTED FROM THE STATISTICS THIS MONTH, AS WERE SULFURIC ACID, CAUSTIC SODA, TIRES AND OIL EQUIPMENT. THE SOVIETS CAN, HOWEVER, POINT WITH PRIDE TO INCREASES OF 5-7.5 PERCENT IN PRODUCTION OF HERBICIDES AND PESTICIDES, CHEMICAL EQUIPMENT, EQUIPMENT FOR LIGHT AND FOOD INDUSTRIES, MACHINERY FOR LIVESTOCK AND THE FEED INDUSTRY, GRAIN COMBINES AND OTHER AGRICULTURAL EQUIPMENT.

4. ~~LOW~~ CONSUMER GOODS: WITH THE EXCEPTION OF EDIBLE FISH AND A FEW LUXURY GOODS SUCH AS CHINA, MOTORCYCLES, COLOR TELEVISIONS AND FURNITURE, OUTPUT OF CONSUMER GOODS EITHER REMAINED STAGNANT OR FELL DURING THE FIRST FOUR MONTHS OF 1982. APRIL OUTPUT OF KNITWEAR AND LEATHER FOOTWEAR FELL 2.0 PERCENT AND 1.6 PERCENT RESPECTIVELY FROM THE LEVEL OF LAST YEAR, AND PRODUCTION OF ANIMAL OILS AND FATS AND VEGETABLE OILS WAS DOWN 5.0 PERCENT AND 9.4 PERCENT, RESPECTIVELY. MEAT AND MILK PRODUCTION REMAINED STAGNANT IN APRIL RELATIVE TO LAST YEAR, BUT

JANUARY-APRIL MEAT OUTPUT WAS 3.7 PERCENT BELOW LAST YEAR'S LEVEL.
BT

1. ~~LOW~~ SUMMARY: APRIL 1982 SOVIET INDUSTRIAL OUTPUT STATISTICS CONFIRM THE TREND BEGUN IN THE FIRST QUARTER AND INDICATE THAT 1982 WILL BE A DIFFICULT YEAR FOR THE SOVIET ECONOMY. OVER HALF -- 27 OF 48 -- CATEGORIES LISTED SHOW STAGNANT PRODUCTION OR DECLINES FROM LEVELS ACHIEVED IN THE FIRST FOUR MONTHS OF 1981. ACCORDING TO THE MAY 12 EKONOMICHESKAYA GAZETA (NO. 20) OUTPUT FOR JANUARY - APRIL 1982 INCREASED 2.1 PERCENT AND LABOR PRODUCTIVITY ROSE 1.5 PERCENT OVER THE SAME PERIOD LAST YEAR. THESE TOTALS ARE THE LOWEST SINCE WORLD WAR II AND ARE WELL BELOW 1982 PLAN TARGETS OF 4.7 PERCENT AND 4.2 PERCENT, RESPECTIVELY AND BELOW 1981 GROWTH FOR THE SAME PERIOD WHICH WAS 3.1 PERCENT AND 2.3 PERCENT, RESPECTIVELY. SERIOUS SHORTFALLS CONTINUE IN SUCH CRUCIAL SECTORS AS IRON AND STEEL, LOCOMOTIVES AND FREIGHT CARS, AUTOMOBILES AND TRUCKS, CEMENT, KNITWEAR, FOOTWEAR, MEAT, AND ANIMAL AND VEGETABLE FATS AND OILS. THE ONLY SIGNIFICANT SUCCESSES ARE NATURAL GAS, HERBICIDES AND PESTICIDES AND CHEMICAL, AGRICULTURAL AND RELATED EQUIPMENT. END SUMMARY.

2. ~~LOW~~ ENERGY: EVERY SECTOR IN SOVIET ENERGY PRODUCTION TURNED IN POSITIVE RESULTS IN APRIL. NATURAL GAS OUTPUT

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PEGGED AT 107 PERCENT OF LAST YEAR'S. A SIMILAR ANOMOLY APPEARS FOR AGRICULTURAL MACHINERY, WHICH INCREASED 19.4 PERCENT IN APRIL OVER LAST YEAR AND 17.0 PERCENT FOR THE FIRST FOUR MONTHS OF THE YEAR; EKON GAZ LISTS AGRICULTURAL MACHINERY OUTPUT FOR JANUARY-APRIL 1982 AT 105 PERCENT OF LAST YEAR'S PRODUCTION. FINALLY, EDIBLE FISH PRODUCTION IS UP 30.8 PERCENT FOR THE FIRST FOUR MONTHS IN RUBLE VALUE, BUT EKON GAZ SHOWS PRODUCTION AT 105 PERCENT OF LAST YEAR'S LEVEL.

7. (LOW) A SECOND ANOMOLY CONCERNS ROUNDING PROBLEMS. OUR CALCULATIONS SHOW OUTPUT INCREASES OF 25 PERCENT, 50 PERCENT AND 20 PERCENT FOR PAPER, COLOR TELEVISIONS AND FURNITURE, RESPECTIVELY, FOR APRIL 1982 OVER LAST YEAR. WHILE JANUARY-APRIL PRODUCTION TOTALS DO SHOW SUBSTANTIAL GROWTH IN OUTPUT OF COLOR TELEVISIONS AND FURNITURE (11.1 AND 4.8 PERCENT, RESPECTIVELY), THE HUGE INCREASES FOR APRIL PRESUMABLY RESULT FROM THE STATISTICAL BUREAU'S ROUNDING OF NUMBERS.

(U) APRIL 1982 SOVIET INDUSTRIAL INPUT AND HISTORICAL COMPARISON:

	(1)	(2)	(3)	(4)	(5)	(6)
ELECTRICITY (BILLION KWH)	110	109	0.9	479	469	2.1
OIL & GAS CONDENSATES (MILLION METRIC TONS)	50.2	49.9	0.6	200	200	0
GAS (BILLION CUBIC METERS)	40.7	38.1	6.8	166	155	7.1
COAL (MILLION TONS)	60.7	60.6	0.2	247	246	0.4
STEEL (MT)	12.5	12.8	-2.3	49.3	50.9	-3.1
ROLLED STEEL (MMT)	8.6	8.7	-1.1	34.5	35.4	-2.5
STEEL PIPE (MMT)	1.5	1.5	0	5.9	6.0	-1.7
MINERAL FERTILIZER (MMT)	2.3	2.2	4.5	9.0	8.9	1.1
HERBICIDES/PESTICIDES						
BT						

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5. (DNC) SOVIET COMMENTARY: EKON GAZ COMMENTARY IS TYPICALLY UPBEAT ON THESE DISMAL PRODUCTION STATISTICS. HOWEVER, IN TWO NEGATIVE NOTES, IT ADMITS THAT WHILE ALL MINISTRIES AND REPUBLICS OVERFULFILLED THE PLAN FOR JANUARY-APRIL 1982 (101.5 PERCENT), SEVERAL MINISTRIES DID NOT MEET PLAN TARGETS FOR DELIVERIES OF VARIOUS ITEMS, INCLUDING ROLLED STEEL, MINERAL FERTILIZERS, SYNTHETIC FIBERS, ELECTRIC MOTORS, FREIGHT CARS, TIMBER, CEMENT AND REFRIGERATORS. EKON GAZ ALSO STATES THAT 60-70 PERCENT OF ALL ENTERPRISES FAILED TO MEET PLAN TARGETS FOR DELIVERIES OF GOODS IN THE MINISTRIES OF FERROUS METALS; MINERAL FERTILIZER; THE CHEMICAL INDUSTRY; THE ELECTRICAL EQUIPMENT INDUSTRY; THE TIMBER, PULP AND PAPER AND WOOD PROCESSING INDUSTRY; AND MACHINE BUILDING FOR LIGHT AND FOOD INDUSTRY AND HOUSEHOLD APPLIANCES.

6. (LOW) STATISTICAL ANOMALIES: WASHINGTON AGENCIES HAVE ALREADY NOTICED ANOMOLIES WITH RESPECT TO THE STATISTICS REPORTED FOR PREVIOUS MONTHS AND EMBASSY DRAWS ADDRESSEES ATTENTION TO SEVERAL HIGHLIGHTS IN THESE STATISTICS. FIGURES FOR INSTRUMENT AND COMPUTER PRODUCTION SHOW 20 PERCENT AND 50 PERCENT DECLINES FOR THE MONTH AND 15.8 PERCENT AND 43.8 PERCENT DECLINES, RESPECTIVELY FOR THE PERIOD JANUARY - APRIL 1982 OVER LAST YEAR. THESE DRASTIC CHANGES PRESUMABLY RESULT FROM THE WHOLESALE PRICE CHANGES INTRODUCED IN JANUARY. EKON GAS STATES THAT INSTRUMENTS PRODUCTION WAS 105 PERCENT OF JANUARY-APRIL 1981 OUTPUT AND COMPUTER PRODUCTION IS

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MARGARINE (TT)	132	127	3.9	507	493	2.8
VEGETABLE OILS (FROM STATE SOURCES) (TT)	192	212	-9.4	879	894	-1.7
WATCHES (MILLION)	6.0	6.0	0	23.2	22.9	1.3
CHINA (MR)	70.3	66.8	5.2	280	262	6.9
RADIOS (MILLION)	0.7	0.7	0	2.9	2.9	0
TELEVISIONS (MILLIONS)	0.7	0.7	0	2.7	2.7	0
COLOR TELEVISIONS (M)	0.3	0.2	50.0	1.0	0.9	11.1
REFRIGERATORS (M)	0.5	0.5	0	2.0	2.0	0
MOTORCYCLES (T)	97.0	93.8	3.4	380	351	8.3
FURNITURE (BR)	0.6	0.5	20.0	2.2	2.1	4.8

NOTES:

- (1) APRIL 1982 OUTPUT.
 - (2) APRIL 1981 OUTPUT.
 - (3) PERCENT CHANGE FROM APRIL 1981 TO APRIL 1982.
 - (4) JANUARY-APRIL 1982 OUTPUT.
 - (5) JANUARY-APRIL 1981 OUTPUT.
 - (6) PERCENTAGE CHANGE FROM JANUARY-APRIL 1981 TO JANUARY-APRIL 1982. HARTMAN
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USDOC FOR BEWT (THOUSAND TONS)	48.0	44.0	9.0	186	174	6.9
PLASTICS (MT)	0.3	0.3	0	1.4	1.4	0
SYNTHETIC FIBERS (TT)	108	107	0.9	425	416	2.2
ELECTRIC MOTORS (MILLION KW)	4.6	4.5	2.2	17.6	18.1	-2.8
MACHINE TOOLS (MILLION RUBLES)	170	169	0.6	688	678	1.5
PRESSES (MILLION RUBLES)	51.3	50.1	2.4	203	204	-0.5
ROBOTS	346	N/A	N/A	1510	N/A	N/A
INSTRUMENTS (BR)	0.4	0.5	-20.0	1.6	1.9	-15.8
COMPUTERS (BR)	0.2	0.4	-50.0	0.9	1.6	-43.8
	(1)	(2)	(3)	(4)	(5)	(6)

CHEMICAL EQUIPMENT (MR)	64.0	60.2	6.3	258	240	
7.5						
EQUIPMENT FOR LIGHT INDUSTRY AND FOOD PRODUCTION (MR)	124	117	5.9	690	463	5.8
DIESEL LOCOMOTIVES (THOUSAND HORSEPOWER)	272	300	-9.3	1237	1300	-4.8
ELECTRIC LOCOMOTIVES (THOUSAND HORSEPOWER)	289	300	-3.7	1257	1300	-3.3
FREIGHT CARS (THOUSAND)	5.2	5.2	0	20.4	21.8	-6.4
TRUCKS & CARS (THOUSAND)	184	189	-2.6	726	747	-2.8
TRACTORS (T)	47.7	48.4	-1.4	190	190	0
AGRICULTURAL						

MACHINERY (MR)	283	237	19.4	1073	917	17.0
MACHINERY FOR LIVESTOCK AND FEED INDUSTRY (MR)	192	182	5.5	751	708	6.1
GRAIN COMBINES (T)	9.2	8.8	4.5	35.9	33.5	7.1
EXCAVATORS (T)	3.6	3.6	0	14.5	14.2	2.1
TIMBER (MILLION CUBIC METERS)	18.9	19.1	-1.0	110	110	0
PAPER (MT)	0.5	0.4	25.0	1.8	1.8	0
CEMENT (MT)	10.6	10.7	-0.9	39.1	42.1	-7.1
PREFABRICATED REIN- FORCED CONCRETE (M CUBIC METERS)	9.2	9.2	0	34.9	35.9	-2.8
-	(1)	(2)	(3)	(4)	(5)	(6)
TEXTILES (BILLION SQUARE METERS)	1.0	1.0	0	3.8	3.8	0
KNITWEAR (MILLION PIECES)	141	144	-2.0	551	562	-2.0
LEATHER FOOTWEAR (MILLION PAIR)	66.2	67.3	-1.6	255	261	-2.3
MEAT FROM STATE SOURCES (MT)	0.5	0.5	0	2.6	2.7	-3.7
EDIBLE FISH, INCLUDING CANNED (BR)	0.4	0.3	33.3	1.7	1.3	30.8
ANIMAL FATS/OILS FROM STATE SOURCES (TT)	84.4	88.9	-5.0	256	269	-4.8
MILK PRODUCTS FROM SOURCES (MT)						
BT						

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2. USSR: MIXED ECONOMIC TRENDS IN 1982

During 1982 Soviet industry has registered its lowest growth rates since the end of World War II. The outlook for agriculture remains fair to favorable, although it is too early to make a firm judgment on this year's grain harvest. Moscow's hard currency position improved considerably during the last half of 1981. A surge in exports cut the trade deficit for the year to \$4 billion and allowed Moscow to rebuild its assets in Western banks.

* * *

Soviet industrial output grew by only 2.1 percent during the first four months of this year compared with January-April 1981, less than half the planned annual rate. The increase in labor productivity, which was to account for most of the greater output, was about two-thirds below the planned level. Steel output was down more than 3 percent compared with the same period last year (metal shortages have been cited as the main problem affecting the civilian machinery sector). Transportation bottlenecks continue to plague the economy. In the energy sector, natural gas remains the only bright spot.

The economy as a whole may grow by some 2 percent this year. This is about half the average annual rate implicit in the Five Year Plan, but would be consistent with recent trends (Soviet GNP grew by 1.8 percent last year). The 2-percent growth rate assumes some improvement in industry during the remaining months and no further disasters in agriculture, which now accounts for some one-seventh of GNP.

The Soviet annual grain target of 238 million metric tons (mmt) is clearly out of reach this year. Last week, USDA forecast a crop of 200 mmt (plus or minus 10 percent). CIA believes that a crop of 220 mmt is possible depending upon weather conditions between now and harvest--which peaks between late July and mid-August and lasts into October. After three years of poor grain crops, the Soviets will have to maintain a high volume of grain imports for at least the next 12 months regardless of the size of this year's harvest. Increased port capacity (now estimated at 48 mmt per year) has eliminated one import bottleneck; financial considerations henceforth will be a major constraint on future purchases abroad.

Moscow did manage to improve its hard currency situation considerably by the end of last year. A \$6 billion trade deficit for the first six months of 1981 reduced Soviet assets at Western banks by \$5 billion to a level of \$3.6 billion. During the second half, however, a decline in the dollar value of imports and a surge in exports (especially to West Germany, France, Italy, and Iraq) combined to produce a surplus of nearly \$2 billion. By the end of the year, Moscow had rebuilt its assets in Western banks to \$8.4 billion.