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10 June 1966

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MEMORANDUM FOR THE RECORD

SUBJECT: DCI Briefing on Soviet Merchant Shipping

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1. The briefing was given at 0900 on Wednesday, 1 June. Copies of the text and the graphics used are attached.

2. Questions asked during and after the briefing were not confined to the material in my prepared text. The two topics from the text that evoked the most interest were the relative ages and efficiencies of ships in the Soviet and US merchant fleets and the nature of Soviet competition on the high seas. In addition there was considerable interest on the part of the Director in the outlook, from a businessman's point of view, for the US merchant fleet and one question from a staff member on the extent of US ownership of ships under flags of convenience.

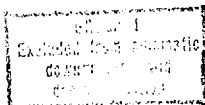
3. While it did become necessary for me to deviate significantly from my planned outline, I feel that the briefing went quite smoothly. I had prepared for questions on the US shipping situation and this preparation payed off. As I departed, the participants in the meeting were still discussing the dilemma subsidized US steamship lines currently find themselves in, trying to remain competitive in their commercial operations while at the same time fulfilling their commitments for the movement of cargoes to South Vietnam.

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Attachments:  
As stated.

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SOVIET MERCHANT SHIPPING

The Soviet merchant fleet is currently seventh largest in the world. As the result of expansion during the recent Seven Year Plan, its tonnage increased to two and one half times its 1958 level in 1965, from 3.4 to 8.4 million deadweight tons. This spectacular growth has caused considerable concern among Free World shipowners. Some merely fear an increase in competition from Soviet ships, but others talk of Soviet domination of the sealanes between now and 1980. I hope during the remainder of my talk to put some of these ideas into better perspective.

I first want to take a closer look at the standing of the Soviet fleet among the fleets of the world. I have already pointed out that the Soviet fleet is seventh largest in the world. In spite of its relatively high standing it must be remembered that the Soviet fleet still only makes up four percent of the shipping tonnage in the world. It is, nevertheless, one of the most modern fleets in the world. When the fleets are ranked on the basis of the tonnage of ships ten years old and under, the Soviet fleet ranks fifth. Because of the large bloc of war-built tonnage it includes, the US fleet drops from first to twelfth place when this criterion is applied. The Soviet fleet should move up to fifth place in terms of overall tonnage sometime during the early 1970's. By this time both the Greek and the US fleets should have fallen behind because of the retirements of large numbers of war-built ships. There is little chance of the Soviets overtaking the fleets of Liberia, Great Britain, Norway, and Japan within the next fifteen years. These fleets are too big and they are growing too fast.

Since before World War II the Soviet fleet has been adequate for the domestic shipping needs of the USSR -- in coastal navigation. However, in the movement of its seaborne foreign trade the USSR has had to supplement its ships with chartered foreign ships. Even though the main emphasis in operations of the Soviet fleet since 1956 has been on the movement of foreign trade cargoes, the fleet has been unable to keep up with the expansion of Soviet seaborne foreign trade. During each of the years 1959-1961 this trade increased at annual rates approaching 30 percent. As a result the share carried by Soviet ships dropped from 50 percent in 1958 to 37 percent in 1961. As the result of stepped up deliveries to the fleet in 1964 and 1965 the USSR succeeded in restoring the share carried by its ships to 50 percent in 1965. Because many of the Soviet foreign trade cargoes carried by foreign ships move on ships chartered by the USSR, the growth in the volume of Soviet seaborne foreign trade carried by foreign ships has resulted in increased expenditures of hard currency by the USSR and has thereby contributed significantly to the hard currency deficits experienced by the USSR in recent years. This dependence on foreign shipping has, of course, provided a strong motive for expansion of the Soviet fleet.

There is increasing evidence that the continuing participation of foreign ships in the movement of Soviet seaborne foreign trade will not deter the USSR from making the services of its ships available to foreign shippers on an increasingly larger scale. Free World shipowners can definitely expect increased competition from both Soviet cargo liners and tramps. Until two years ago the USSR operated cargo lines only on routes where there were

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significant volumes of Soviet or Satellite cargo to move. The thirty international cargo lines operated by the USSR now include two that operate on routes where a majority of the cargoes are neither Soviet nor Satellite. An important Soviet motive in the operation of these lines is the desire to increase foreign exchange income.

For many years the USSR has made small numbers of its ships available to foreign shippers on a voyage charter basis. In most cases these were ships returning to the USSR in ballast after the delivery of exports. In the past year the USSR has adopted a much more flexible policy in this field. The new criterion for the release of Soviet ships for chartering to foreign shippers appears to be whether or not it is expedient from the standpoint of foreign exchange earnings. The USSR plans to at least double the volume of cargoes its ships carry for foreign shippers during the period 1966 through 1970. The desired result of this is to put Soviet expenditures for the chartering of foreign ships into balance with revenues from the services performed by Soviet ships for foreign shippers.

Some Free World shipowners fear that the USSR will engage in rate cutting as its cargo liners increase their participation in the movement of foreign cargoes. In the short-run at least, this appears unlikely. The USSR is currently engaged in a campaign to acquire greater respectability as a sea power and in view of its desire to maximize foreign exchange income it will be desirable to leave rates at high levels as long as there is adequate business for available Soviet ships.

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