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CENTRAL INTELLIGENCE AGENCY

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21 October 1948

INTELLIGENCE MEMORANDUM NO. 73

SUBJECT: Recent Soviet Purchases of and Negotiations to Obtain
Natural Rubber

1. Amounts purchased.

The USSR has greatly increased its purchases of natural rubber during the current year. Reliable trade estimates indicate that by mid-July the Soviets had purchased 80,000 long tons of rubber for delivery in 1948, and that by the end of the year total purchases from rubber-producing areas would be about 100,000 tons. From a study of many secret reports, CIA believes that this estimate is substantially correct; a figure of 105,000 tons might be more accurate, however, inasmuch as it includes a shipment of 5,000 tons not reported by regular sources.

This estimate of total Soviet purchases compares with 43,046 tons exported by producing areas to the USSR in 1947, and an average of 30,000 tons exported in each of the ten years preceding World War II.

The USSR is reported to be negotiating for the purchase of rubber in Siam and Ceylon, but it appears unlikely that agreements will be concluded. If, however, these agreements should be consummated and some quantities of rubber are purchased this year, it is probable that Soviet purchases in Malaya will be correspondingly reduced.

As of 1 October, 76,600 tons of the 1948 purchases had been shipped, leaving 28,400 tons still to be transported this year.

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2. Sources of purchases.

The sources of natural rubber purchase by the USSR during the current year are as follows:

	Shipped during first 9 months of 1948	Estimated shipments during last 3 months of 1948	Total shipments 1948
Malaya	70,406	23,500	93,906
Indonesia	6,000	5,000	11,000
United Kingdom*	200	-	200
Total	76,606	28,500	105,106

*Re-exports

The bulk of the purchases of Malayan rubber in 1948 were placed through London dealers; with one small exception, however, shipments were made directly from Malaya.

Re-exports of natural rubber from the United Kingdom to the USSR during the first nine months of 1948 amounted to only 200 tons in July. Statistics of exports of natural rubber from Indonesia by countries are not available, data on exports to the USSR having been obtained from a secret report and from the trade.

3. Dates of purchases.

Numerous reports have been received concerning purchases in Malaya for Soviet account in 1948. The fact that many of these transactions are more or less clandestine and usually provide for future delivery, however, prevents accurate reporting of purchase dates. Because of the impossibility of eliminating duplications as well as mere inquiries to buy, the task is rendered especially difficult. The most reliable data on Soviet takings of natural rubber from Malaya are the official Malayan export statistics. In this connection it is important to note that Malaya produced about half of the world's natural rubber in 1947. Its exports of that commodity to the USSR in 1948 by months were as follows:

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<u>Month</u>	<u>Long Tons</u>
January	4,725
February	1,225
March	3,700
April	4,251
May	5,266
June	5,531
July	13,359
August	18,086
September	14,263
Total, 9 months	70,406

Information on the purchase dates of Indonesia rubber is not available, but of the 6,000 tons involved, 5,000 tons are known to have been loaded prior to 2 July; the remaining 1,000 tons were purchased after that date.

4. Where shipments are loaded.

Most of the Malayan rubber for delivery to the USSR is loaded at Singapore, but some ships load part of their cargoes at Penang, Malacca, and Port Swettenham, all in Malaya.

A cargo of 5,000 tons of Indonesia rubber for the USSR was loaded at Menado (Celebes) during the early summer. Data are not available on the loading point of the remaining 1,000 tons shipped to the USSR from Indonesia during the first nine months of 1948. Re-exports of rubber from the United Kingdom to the USSR are presumably loaded at London.

5. Where shipments are unloaded.

Of the nine vessels carrying rubber from Malaya to the USSR during the first nine months of 1948, the destination of seven was Odessa, although two of them may have unloaded part of their cargoes at Batum. Both of these ports are convenient for rail trans-shipment to rubber processing factories in the USSR. The port of destination of the remaining two vessels have not been reported, but it is reasonable to assume that they are in the Black Sea. The destination of the vessel transporting rubber from Menado was Odeasa. Destinations of the remaining shipments from Indonesia and the United Kingdom have not been ascertained.

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A small portion of the recent heavy Soviet purchases of natural rubber may be intended for resale to Satellite countries. It is possible, therefore, that some of the vessels transporting rubber from southeast Asia to the USSR may have unloaded part of their cargoes at Bulgarian or Rumanian ports for transshipment. Czechoslovakia and Poland, the principal consumers of rubber among the Satellites, however, normally receive their requirements via Hamburg.

6. Other pertinent data

Reasons for increased Soviet purchases of natural rubber.

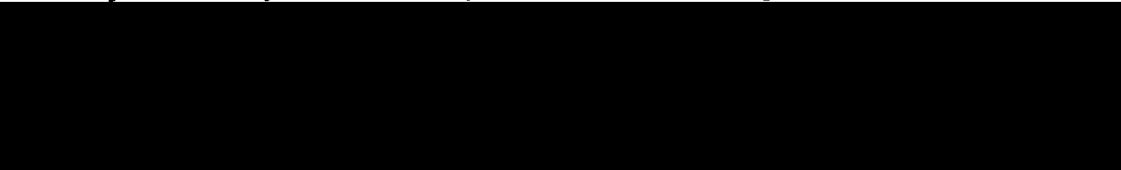
There are numerous reasons why the USSR has so greatly increased its purchases of natural rubber:

- a. Soviet desire to utilize accumulated sterling and dollar credits.
- b. Fear of embargo or restriction of rubber exports to the USSR under the export control program sponsored by the United States.
- c. Stockpiling. This motive is suggested by: current practice of paying premium prices; concentration of buying on the top grades especially suitable for stockpiling; and extra payment for special packing to permit longer storage. Moreover, the quantities of natural rubber currently being purchased are greatly in excess of pre-war and post-war purchases through 1947, and are believed to exceed greatly the USSR's capacity to process together with its large output of synthetic rubber.
- d. Desire of the USSR to obtain as much rubber as possible from Malaya and elsewhere in southeast Asia before Communist-instigated uprisings in that area begin to disturb production and exports.
- e. Growing interest of the USSR for economic and political expansion in southeast Asia.
- f. Soviet resale of part of the purchases to Orbit countries or for use in the Soviet Zone of Germany.

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United Kingdom - USSR trade agreement

The trade agreement between the United Kingdom and the USSR, which became effective 27 December 1947, provides among other things that: "negotiations will be immediately commenced with the object of supplying to the Union of Soviet Socialist Republics wool, rubber, aluminum, cocoa beans, coffee and other goods to be agreed."



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Natural rubber is one of the commodities whose exportation from the United States to the USSR and its Satellites is to be held to small quantities. The ECA, through the Department of State, is expected to request the United Kingdom and other countries participating in its recovery program, to take parallel action insofar as possible without actual violation of existing trade agreements.

Netherlands - USSR trade agreement

The Netherlands and the USSR signed a trade agreement effective 2 July 1948 which permits the exportation of 18,000 tons of natural rubber by the Netherlands to the USSR in the ensuing twelve months. According to a British trade report, only 1,000 tons of rubber have thus far been exported in accordance with the agreement. It is estimated that additional shipments in the remaining months of 1948 will be in the order of 5,000 tons. Although the Netherlands' commitments in the compensation-clearing agreement permit the exportation of 18,000 tons of rubber and although it has been reported from trade sources that some contracts for delivery have actually been placed under the agreement, the Dutch Government recently denied that the USSR was negotiating to buy 18,000 tons of rubber from the Netherlands. There is no conclusive evidence, therefore, to indicate the extent to which contracts for delivery will actually be placed under the agreement.

The Netherlands will be requested, as in the case of the United Kingdom, to take action to hold exports of rubber to the USSR to reasonably small quantities to the extent possible without violation of existing trade agreements.

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USSR - Siam Negotiations

Reports have recently been received by CIA indicating that the USSR is attempting to negotiate a "closed agreement" with the Government of Siam for the purchase of crude rubber. One of these reports states that the Soviets are seeking 2,000 metric tons of rubber per month, and another, 3,000 tons per months. CIA does not believe that such an agreement has been consummated. The Siamese Government does not engage in the purchase and sale of rubber, and is therefore unlikely to enter into this type of business by reason of negotiation of an agreement with the USSR. Furthermore, the Siamese Government is sufficiently oriented towards the West as to render acceptance of the rumored Soviet offer unlikely if equally favorable prices for rubber can be obtained from the United States or the United Kingdom.

Inasmuch as the USSR opened a legation in Siam in March 1948, it is not unreasonable to assume that the Soviets may purchase natural rubber from private Siamese interests, which produce about 50,000 tons per year. It is believed that Soviet inquiries for rubber in Siam and in Ceylon (discussed later) are motivated by the same reasons indicated for its activities in the Far East.

Statistics of Siamese rubber exports by countries of destination are inadequate, but the Embassy in Bangkok reported in May that there have been no direct shipments from Siam to the USSR. Some Siamese rubber, however, is shipped to the USSR via Singapore and the quantities are presumably included in the official Malayan export figures. Malayan import statistics show only 4,264 tons of rubber imported from Siam in the first six months of 1948.

There is some indication that Chinese intermediaries are smuggling Malayan rubber to the USSR via Siam, thus avoiding the Malayan export tax. These shipments may leave Siam from the southern ports of Songkhla or Pattani where clearances may not be rigorously enforced, and go thence to Hong Kong whence they could be smuggled directly or indirectly to Vladivostok or other convenient ports. Some vessels clearing Hong Kong for Macao are believed never to reach that destination. The bulk of the re-exports of rubber from Hong Kong ordinarily go to China, and the probabilities are that the volume of rubber smuggled from Siam to Hong Kong and thence ultimately to the USSR is not large.

Ceylon - USSR Negotiations

The USSR has recently made inquiry regarding the direct purchase of 30,000 tons of Ceylonese rubber this year and all of next year's output. Because of the strategic importance of the material, the Government of Ceylon has withheld reply until the offer could be discussed at the conference of Prime Ministers in London in October 1948. A Government spokesman has indicated that its decision "will be based on three main factors - price offered in relation to the world price, long range trade possibilities, and the world situation." The Government of Ceylon has asked whether the United States is prepared to make a purchase offer for all or part of the output. CIA has received no report of any decision of the Ceylon Government on the matter.

CIA believes that the Government of Ceylon's current pro-Western attitude should result in Ceylon's denial of the Soviet offer provided the United States and the United Kingdom make reasonable arrangements for the purchase of current as well as future production of rubber. A possible factor in this situation may be the recent Soviet veto of Ceylon's application for membership in the United Nations.

It is not probable that USSR purchases of rubber in Ceylon this year will increase its total purchases above the estimated 105,000 tons; rather it is believed that any Soviet buying of rubber in Ceylon will probably constitute a switch of buying from Malaya to that area. Reports have been received that not all of the Soviet purchases of Malayan rubber have conformed to specifications. This difficulty would account in part at least for the sudden interest of the USSR in Ceylonese rubber.

Ceylon did not export any rubber to the USSR in 1947 or during the first nine months of 1948. Its production, which reached a maximum of 105,000 long tons during the war and declined thereafter to 89,000 tons in 1947, is estimated at 80,000 tons in 1948.