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Current Support Brief

PROSPECTS FOR GROWTH OF SOVIET IMPORTS
OF COPPER FROM CHILE



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PROSPECTS FOR GROWTH OF SOVIET IMPORTS
OF COPPER FROM CHILE

Soviet purchases of copper from the Chilean government, which began late in 1962 apparently as part of Soviet Bloc efforts to expand commercial relations and to establish diplomatic ties with Chile, may increase substantially in 1963. Soviet purchases in the last 4 months of 1962 totaled about 4,000 metric tons (mt). If continued at this monthly rate in 1963, purchases by the USSR will absorb about half the production of Chilean government-owned facilities. Because, in effect, the USSR has been buying Chilean copper from dealers in West Germany, the USSR could absorb purchases of this magnitude from the Chilean government without disrupting existing Soviet trading relations with other countries.

With regard to longer run prospects, the USSR has expressed interest at various times since mid-1960 in procuring up to 60,000 mt of Chilean copper annually under a 5-year contract, with at least part of the exchange involving a barter arrangement. Although earlier negotiations on such contracts broke down, ostensibly because the Chilean government had insisted on payment in hard currency only, eventually the Chilean government may be more willing to accept a long-term contract as a means of disposing of output from the nationalized sector, which is being expanded, if adequate markets elsewhere are not developed. On the other hand, a restraint on conclusion of such long-term arrangements may come from the Chilean government's concern about the reaction of the large US-owned subsidiaries, whose investment is essential to attainment of the higher production goals for copper established under the Chilean 10-year plan.

1. Imports in 1962

During September-December 1962 the Chilean national mining enterprise, ENAMI, sold to the Soviet trading corporation RAZNOIMPORT three lots of copper, as shown in the following tabulation 1/:

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<u>Period</u>	<u>Quantity (Metric Tons)</u>	<u>Value (Thousand US \$)</u>
September	1,000	644
November	1,950	1,300
December	800 to 1,000	515 to 644

In the first two transactions, and presumably in the third one, ENAMI agreed to ship blister copper from the government-owned smelter at Paipote to Hamburg, where it was to be electrolytically refined. When the copper was available for shipment to the USSR, RAZNOIMPORT was to pay the current average London market price in pounds sterling.

A noteworthy feature about these government-to-government transactions is that they changed the names of the contracting parties but not the origin of Soviet imports. ENAMI has regularly exported blister copper to Hamburg for refining and subsequent sale on the open market, 2/ and West Germany has regularly exported refined copper to the USSR -- for example, 13, 100 mt in 1959 and 16, 300 mt in 1961. 3/

2. Soviet Intentions to Buy Chilean Copper in 1963

The available evidence indicates that the USSR intends to continue purchasing Chilean copper in 1963, perhaps on a more regular basis. In December 1962, Soviet trade representatives reportedly told Chilean government officials that they planned to continue purchasing copper in small lots. 4/ In February 1963 the American Metal Market reported that the USSR was offering to buy copper from the Chilean government "on a monthly basis throughout most of 1963." 5/

3. Chilean Copper Position

The copper industry of Chile, supported by very large reserves, has ranked among the top producers in the world. The reserves, estimated to exceed 2 billion mt, 6/ rank second in the Free World only to

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those found in Rhodesia. Chilean production of copper amounted to about 586,000 mt in 1962, probably second highest in the world. 7/

The bulk of the Chilean copper industry is made up of three subsidiaries of two US firms, as follows: the Braden Copper Company, a subsidiary of the Kennecott Copper Corporation, and the Chile Exploration Company and the Andes Copper Mining Company, subsidiaries of the Anaconda Company. These subsidiaries accounted for about 83 percent of Chile's total production of copper in 1961, as follows: about 89 percent of the blister copper and 96 percent of the refined copper, including all the electrolytically refined copper, as shown in Table 1.

The rest of the Chilean copper industry consists of a number of smaller enterprises, some privately owned and some government owned. Among these, the most important ones are the Paipote smelter, having a capacity for producing about 25,000 mt of blister copper annually, and a privately owned plant with a capacity for producing about 12,000 mt of fire-refined copper annually. Also, there are a number of comparatively small privately owned copper fabricating plants having a combined capacity for producing about 56,000 mt of copper products annually. 8/ Copper metal apparently has been supplied to the fabricating plants by the US subsidiaries and by the plant producing fire-refined copper. Because of a lack of demand, however, only a small share of the fabricating capacity has been utilized recently -- about 20 percent late in 1961. 9/

The Chilean government announced in 1962 a 10-year development plan for the copper industry under which production of copper is to increase about 50 percent during the plan period. 10/ In addition to investment by US-owned subsidiaries, which is to play a dominant role in the plan, investment by West German firms will play an important role in expansion of the nationalized sector of the copper industry.

The first of two important projects undertaken by ENAMI with the aid of West German capital is a smelter at Las Ventanas (near Valparaiso), for which equipment is to be supplied and installed by a West German firm. 11/ The smelter is designed for an annual output of 25,000 mt, 12/ and construction is nearing completion. 13/ When the project is completed, ENAMI will have at its disposal a total of 50,000 mt of capacity

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Table 1

Production of Copper in Chile a/
1961

Organization	Refined Copper			Copper Concen- trate	Metric Tons Total
	Electro- lytically Refined	Fire- Refined	Blister Copper		
<u>Large Mining Industry</u>					
Chile Exploration Co. <u>b/</u>	0	0	96,344	0	96,344
Andes Copper Mining Co. <u>b/</u>	0	0	72,841	0	72,841
Braden Copper Co. <u>c/</u>	153,737	61,825	96,493	0	312,055
Total large mining industry	<u>153,737</u>	<u>61,825</u>	<u>265,678</u>	<u>0</u>	<u>481,240</u>
<u>Medium and Small Mining Industry</u>					
Paipote smelter <u>d/</u>	0	0	21,700	0	21,700
Chagra smelter <u>e/</u>	0	0	11,773	0	11,773
Empresa Minera de Mantos Blancos S.A. <u>e/</u>	0	9,600	0	0	9,600
Others	0	0	0	53,231 <u>f/</u>	53,231
Total medium and small mining industry	<u>0</u>	<u>9,600</u>	<u>24,473</u>	<u>53,231</u>	<u>96,304</u>
Aggregate total	<u>153,737</u>	<u>71,425</u>	<u>299,151</u>	<u>53,231</u>	<u>577,544</u>

a. 14/. Intermediate products are not recorded except when they are dis-
posed as such.

b. A subsidiary of the Anaconda Company, a US firm.

c. A subsidiary of the Kennecott Copper Corporation, a US firm.

d. A Chilean government enterprise.

e. A privately owned enterprise.

f. Processed from privately produced ore.

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for producing blister copper. The second project is an electrolytic refinery that is to be located at Las Ventanas adjacent to the smelter and is to have an annual capacity of 42,000 mt initially and 65,000 mt when completed. 15/ This capacity will be sufficient to refine all of the blister copper produced by the national sector of the economy. Completion of the initial stage of the refinery is scheduled for mid-1965. 16/

Anticipating that markets must be found, the Chilean government has established a promotion center whose membership includes both ENAMI and the US-owned subsidiaries. Emphasis is being placed on developing markets in Latin America, where per capita consumption of copper is well below the world average. 17/

4. Soviet Copper Position

The USSR has been importing comparatively large quantities of copper from the Free World in recent years, but the quantity imported annually has been decreasing steadily since 1959, the first full year after the elimination of the Free World (COCOM) embargo on the sale of copper to Bloc countries. During 1959-61 the USSR imported an average of 113,000 mt of copper per year from the Free World, but the quantity imported decreased about 28 percent during the period, from about 127,000 mt in 1959 to about 92,000 mt in 1961. The available data on Soviet imports during the first half of 1962 suggest that a further decrease in the rate of imports took place. Soviet imports of copper during the 1959-61 period are shown in Table 2.

The short-term trend of decreasing Soviet imports of copper, a result mainly of increased domestic production -- in 1962, Soviet production probably approached the level of 600,000 mt -- and of increased substitution of other materials for copper, may continue for the next few years, but the USSR almost certainly will not close the gap between requirements and production for some time. Thus to meet fully the requirements for internal programs during the next few years, the USSR probably will have to continue importing copper from the Free World.

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Table 2

Soviet Imports of Copper from the Free World a/
1959-61

<u>Origin</u>	<u>Thousand Metric Tons</u>		
	<u>1959</u>	<u>1960</u>	<u>1961</u>
Total	<u>127.1</u>	<u>119.7</u>	<u>91.5</u>
Sweden	6.8	7.2	10.2
UK	26.3	17.7	18.6
West Germany	13.1	22.2	16.3
Rhodesia and Nyasaland	45.1	39.0	20.6
Uganda	10.9	7.5	6.7
Others <u>b/</u>	24.9	26.1	19.1

a. Including ingot, wire bars, and such wrought forms of copper and copper alloys as rolled metal, bare wire, and castings and forgings. Compiled from data available in the files of this Office.

b. The composition of this group has changed from year to year. For the 3-year period the entire group was made up of the following countries: Angola, Australia, Austria, Belgium, Canada, Finland, France, Mexico, the Netherlands, Peru, Portuguese East Africa, Union of South Africa, Turkey, the US, and Yugoslavia.

5. Negotiations on Long-Term Contracts

Since about mid-1960 the USSR has shown interest in negotiating a contract to buy up to 300,000 mt of Chilean copper over a 5-year period. 18/ In mid-1961 the USSR offered to buy annually 25,000 mt of refined copper for hard currency and 35,000 mt of semifabricated copper products on a barter basis for industrial equipment, 19/ the barter end of the proposal apparently reflecting Soviet awareness of the general lack of demand for Chile's copper fabrications. The Chilean government, unwilling to enter a barter arrangement for copper, rejected the proposal, 20/ and negotiations were suspended. 21/ In

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December 1962 the Soviet trade mission, in effect, may have renewed the proposal for a barter deal. According to a report in the American Metal Market, the Soviet representatives were seeking a trade agreement with Chile for 1963 under which the USSR would acquire Chilean products, presumably copper, and in turn would supply Chile with zinc, aluminum, and machinery. 22/ Whether or not this report is true, it is to be expected that the USSR will make further attempts to obtain a share of the Chilean output of copper under a long-term contract of one kind or another.

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