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20 September 1963

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Current Support Brief

RUMANIA REAFFIRMS INTENTION
TO BUILD LARGE STEEL COMBINE
AT GALATI



CIA/RR CB 63-75

16 September 1963

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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RUMANIA REAFFIRMS INTENTION
TO BUILD LARGE STEEL COMBINE
AT GALATI

After the recent Moscow CEMA meeting, at which the proposal for supranational planning was placed in abeyance, top-level Rumanian officials reaffirmed their intention to construct a large steel combine at Galati. Rumania hopes to make maximum use of its own reserves of raw materials but also expects to continue to rely heavily on Soviet and Eastern European suppliers of iron ore and coking coal. If, however, raw materials cannot be obtained from Bloc sources for any reason, the Rumanians have claimed that they could be obtained from a number of possible Free World suppliers. 1/ Although the USSR promised in 1960 to assist in building and equipping the Galati Combine, Rumanian officials have been silent on the question of Soviet participation for some time. However, a contract has been signed with a French-British consortium for construction of a plate mill, and negotiations are underway with other Western countries for steelmaking equipment. 2/

1. Background

Controversy over the merits of the Galati Combine is generally considered to have been one of the main issues in the recent quarrel between Rumanian and CEMA planners over Bloc economic integration. CEMA opposition to the Galati Combine had been foreshadowed in June 1962 in a CEMA directive, Basic Principles of the International Socialist Division of Labor, which stated in part:

It would be advisable to develop metallurgy with a complete production cycle chiefly in those countries that are fully or almost fully supplied with ore and industrial fuel, or with at least one of these basic raw materials. 3/

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Adoption of this principle would have precluded development of a significant steel industry by Rumania, which has the necessary supplies neither of coking coal nor of iron ore to support a large steel combine like Galati. However, Rumania considers construction of the Galati Combine to be one of the key projects in the industrialization of its economy. When completed in 1970, Galati is to account for 4 million tons of the planned national production of 7.5 million tons of crude steel that year. 4/

The apparent Soviet sanction for building of the Galati Combine appears to represent another concession to national economic aspirations. There has been no concrete evidence as yet, however, that the USSR will uphold its agreement to participate in the construction of the combine. Rumania has been heavily dependent on the Soviet Bloc, principally the USSR, for the technical assistance, equipment, and raw materials required for the development of its iron and steel industry to date. Undoubtedly Rumania desires a continuation of this help in constructing the Galati Combine and may even have agreed to reduce the size of the project to obtain that help. On the other hand, Rumania already has turned to the Free World as a source of equipment for new metallurgical facilities as well as for iron ore and coking coal to supplement supplies available from the Bloc and domestic sources. Free World participation appears likely to assume considerable importance in the construction and operation of the Galati Combine.

2. Equipment Procurement

In 1961, Rumania made a pronounced shift away from the USSR toward Western manufacturers of metallurgical equipment for its steel industry. It has procured from West Germany a complex of four structural and wire rolling mills with a combined capacity of 1 million tons for the Hunedoara Combine and two spiral-weld mills for a pipe-fabricating plant in Bucharest. 5/ In addition, Rumania has sought to contract with Western manufacturers for cold-rolling and tinplate equipment for a new plant at Iasi near the Soviet border. 6/

Rumania has signed a \$42 million contract with a French-British consortium for delivery for the Galati Combine between mid-1964 and

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early 1965 of a plate mill and accessory equipment with a capacity of 600,000 tons. Inquiries also have been directed to other Western manufacturers of equipment for other rolling mill facilities for Galati. Negotiations are now underway with the Voest firm of Austria, a US firm, and possibly several other Western European firms for the purchase of basic oxygen steelmaking facilities. Available information indicates that the capacity of the initial converter units planned for Galati will not exceed 1.8 million tons of steel per year. 7/ This apparent reduction in the size of the first stage of the Galati Combine, which earlier was reported at 2.5 million tons, may represent a Rumanian concession to obtain Soviet support for Galati.

It is not clear at this point to what extent the USSR will assist Rumania in equipping the Galati Combine. In June 1960, Rumania announced that the USSR was to provide a blooming-slabbing mill with an annual capacity of 3.3 million tons and a semicontinuous sheet mill with an annual capacity of 1.5 million tons. 8/ An agreement subsequently signed in November 1960 between the USSR and Rumania provided for extensive Soviet technical assistance in the construction of the Galati Combine but included no specific provisions for delivery of equipment. 9/ In July 1963 the head of the Rumanian Institute of Industrial Designing reportedly was to visit Moscow to discuss Soviet technical aid for Galati, but results of this visit have not been disclosed. 10/

3. Supplies of Raw Materials

A major problem facing Rumania in operating the large Galati Combine is that of assuring adequate domestic supplies of iron ore. Production of iron ore now appears to be leveling off -- output in 1962 was not significantly higher than in 1961. In addition, the ore being mined is of increasingly lower grade, and the deposits now being exploited are increasingly difficult and costly to mine. These two factors cast considerable doubt on fulfillment of the goal for 1965 of 4 million tons of iron ore. Moreover, the new reserves expected to supply a substantial portion of this planned increase in production are still largely unproved. Consequently, Rumania may not be able to supply from domestic sources the planned 50 to 60 percent (in terms of iron content)

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of its requirements in 1965, and its ability to supply any significant portion of its needs will decline rapidly after 1965 as the Galati Combine comes into operation.

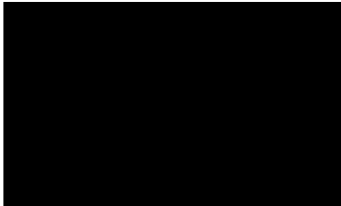
The USSR is Rumania's principal external supplier of iron ore, but imports from the Free World have assumed increasing importance in recent years. In 1960, imports of iron ore from the Free World amounted to only 58,000 tons, all from India. By 1962, combined shipments of iron ore from India and Brazil amounted to 533,000 tons (28 percent of total imports), and plans call for these imports to increase considerably in 1963 and in the future. 11/ In view of the marked improvement in the world supply position for iron ore since 1957, prospects appear favorable for Rumania to obtain desired quantities of ore from Free World suppliers.

As in the case of iron ore, Rumania is largely dependent on imports of coking coal. Czechoslovakia and the USSR have been the principal suppliers of these imports, but in 1962, as shortages developed in Eastern Europe, Rumania began to import coking coal from the Free World. An estimated 50,000 tons of premium-quality coking coal were obtained from the UK in 1962, 12/ and recent reports indicate that substantial (although undetermined) amounts of coking coal were received from the UK in 1963. 13/ Furthermore, in July 1963, Rumania obtained 10,000 tons of premium-quality coking coal from the US for the first time and also was seeking 125,000 additional tons of US coal. 14/

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Analysts:



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2. State, Bucharest. Incoming Telegram no 96, Sec II, 6 Aug 63. C.
3. The Current Digest of the Soviet Press, 11 Jul 62, p. 5. U.
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Ibid., 26 Jul 63, p. 192. U.
13. Ibid., 28 Jun 63, p. 1243. U.
14. Ibid., p. 1225. U.
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167	25X1C	[redacted]	"
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170	[redacted]	[redacted]	"
171	[redacted]	[redacted]	"
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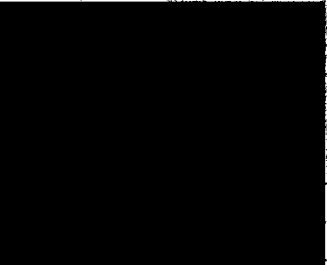

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