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Current Support Brief

NEW STEEL PLANT MAY STRENGTHEN BULGARIA'S ECONOMIC TIES WITH THE WEST

CIA/RR CB 64-3

January 1964

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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Approved For Release 2000/06/01 : CIA-RDP79T01003A001800230004-3

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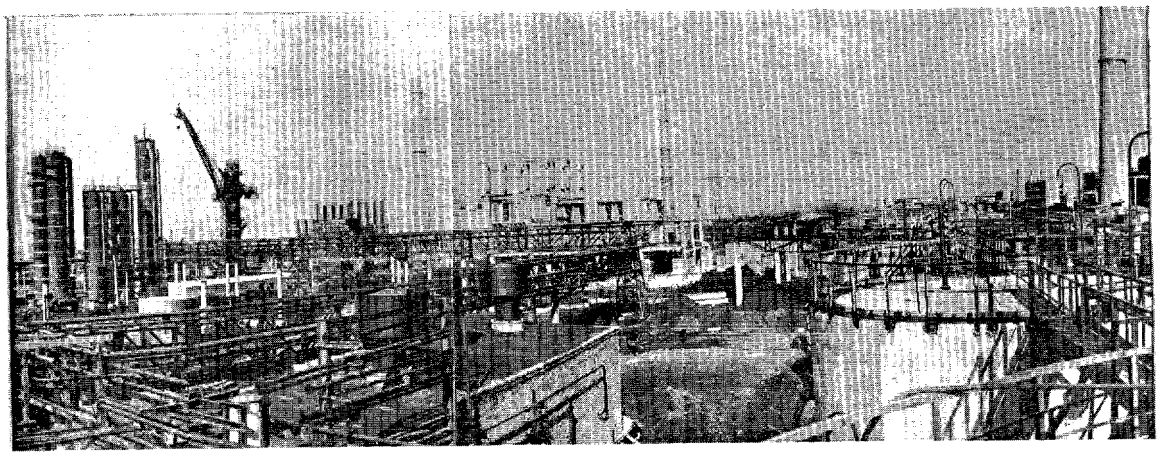
NEW STEEL PLANT MAY STRENGTHEN BULGARIA'S ECONOMIC TIES WITH THE WEST

Bulgaria is pushing ahead with the construction of the half billion dollar Kremikovtsi Metallurgical Combine (see the accompanying photograph), a project that may require a significant increase in imports



of equipment and raw materials from the Free World. The first five sections of the combine were opened formally in November 1963, and Bulgaria's economic plan for 1964 provides for continued large investment in the project. The plant, with a capacity of 1 million tons a year, is being built with financial and technical aid from the USSR, but Bulgaria has inquired in the West about buying the steelmaking and rolling mill equipment that the USSR may be unable or unwilling to supply. Moreover, recent reports indicate that the iron ore mined at Kremikovtsi may be unsuitable for economical operation of the blast furnaces and that Bulgaria plans to import iron ore from Brazil. In spite of doubts about the economics of the project, Party Chief and Premier Todor Zhivkov announced at the opening ceremonies at Kremikovtsi in November that production capacity subsequently would be tripled. He gave no timetable for his plan but evidently envisages completion of the second stage some time before 1980. The Soviet Ambassador to Bulgaria, Nikolay Organov, stated at the opening ceremonies that the USSR will continue to help with completion of the first stage (now about one-third finished), but Khrushchev, who has said that he is unhappy with the project, must be distressed with Zhivkov's talk about enlarging the combine.

1. Early Planning

Soviet planners in the beginning seemed optimistic about the possibilities of exploiting the low-grade deposits of iron ore at Kremikovtsi. They apparently decided that the capacity of the first stage should be greater than the Bulgarians originally had planned. The Bulgarian Third Five Year Plan (1958-62) provided for the construction of a combine to produce 450,000 tons* of crude steel, but in November 1959, after engineers from the Soviet metallurgical planning organization, Gipromez, had been brought in, the Bulgarian press announced that the USSR would provide assistance in the construction of a much larger facility. 1/ The Soviet plans envisaged -- in addition to ore mining, concentrating, and agglomerating facilities -- two coke batteries; two blast furnaces; three oxygen steelmaking converters; an electric steelmaking furnace; and a complex of rolling mills to produce sheet, sections, wire, and tubes. Projected capacities were 700,000 tons of metallurgical coke, 1.1 million tons of pig iron, 1.3 million tons of crude steel, and about 1 million tons of rolled steel. 2/ The total planned cost of these and auxiliary facilities was 660 million leva, a large undertaking for the Bulgarian economy. 3/** (At US prices the cost is estimated roughly at $500 million to $600 million.) According to a Bulgarian official, the USSR provided credits for "half the capital needed" to construct the combine. 4/

2. Construction

The construction of the Kremikovtsi Combine, which started early in 1960, has lagged behind schedule from the outset. The pace of construction is indicated by the fact that the first blast furnace, originally scheduled to be in operation late in 1962, 5/ was rescheduled for mid-1963 6/ but was not blown in until October 1963, nearly a year behind the original schedule. 7/ In addition to the first blast furnace, other basic sections that were formally inaugurated in November include the thermal power station, one coke battery, a machine and repair shop, and a plant for prefabricated building components.

* All tonnage figures in this publication are given in metric tons.
** Lev values in this publication may be converted at the official rate of exchange of 1.17 leva to US $1. This rate does not necessarily reflect the value of the lev in terms of the dollar.

The open-cast mine and concentration plant still are under construction. The former was due to be in operation by the end of 1963 and to be producing at the rate of 1 million tons of ore annually. The concentration plant is scheduled to be completed "during 1964." In the meantime, the first blast furnace is to operate with the use of imported ore. 8/ It has been reported that only 247 million leva, or 37.7 percent of the planned total, had been invested by November 1963. 9/

The USSR has supplied most of the equipment for the facilities already completed and now underway, and the Soviet-Bulgarian trade agreement for 1963 provided specifically for deliveries of equipment to the Kremikovtsi Combine. 10/ However, a trade agreement covering the period 1964-65 and a long-term agreement concerning capital assistance in the construction or expansion of 43 Bulgarian enterprises apparently contained no specific provisions for such aid to Kremikovtsi, although the latter agreement did mention aid in expanding a thermal powerplant at Kremikovtsi. 11/ For this and other reasons, it is not clear to what extent the USSR will continue to supply equipment, particularly steelmaking and rolling mill equipment. The USSR probably is in no position to help with the converter shops in view of the lag in its own converter program. The USSR, in fact, has contracted with Austria for the construction of such facilities.

Bulgaria also undertook negotiations as early as 1962 with Western European countries for a basic oxygen converter installation as well as for special types of rolling and finishing equipment. The latter equipment was for second-stage processing such as cold-rolled strip and sheet mills, electrolytic tinning lines, and continuous pickling and cleaning lines for flat-rolled products -- types of steel finishing capacity that have been developed less extensively in the Bloc than in Western countries. 12/ More recently, Bulgaria directed inquiries to a British firm concerning a large primary mill (for producing blooms and slabs), 13/ although one report indicated that part of the equipment for such a mill had been delivered by the USSR. 14/ In any case, there is no evidence that Bulgaria has placed firm contracts with either the West or the USSR for the steelmaking and rolling mill equipment required at the Kremikovtsi Combine.

3. Raw Materials Problems

Justification for the construction of the Kremikovtsi Combine was based on optimism concerning the adequacy of domestic sources of raw

materials and a favorable over-all comparison of estimated domestic costs for production of steel at Kremikovtsi with prices of imported steel. Although evidence is not available to assess the reliability of the comparison, difficulties in developing planned domestic sources of raw materials would appear likely to affect domestic cost estimates adversely.

One of the principal uncertainties concerning the efficiency of operations at the Kremikovtsi Combine is the quality of domestic sources of iron ore. Although existing reserves have been estimated to be adequate for operations at the Kremikovtsi Combine for 50 years at the projected rate of 1 million tons of rolled steel annually, 15/ it still remains to be demonstrated whether satisfactory results can be obtained with such low-quality ore in blast furnace operations. It is not clear to what extent the lags in the construction of mines and concentrating facilities, which have necessitated the use of imported ore at Kremikovtsi, can be attributed to technical difficulties in processing the ore. Such difficulties, even if overcome, could necessitate significant modifications of original plans for the processing facilities. One report, in fact, indicates that the iron ore is too poor to be processed in the equipment to be installed at Kremikovtsi. 16/ Other reports indicate that the ore is not rich enough to be utilized economically. 17/

As for coking coal, the other basic raw material required in the production of pig iron, Bulgaria has only limited domestic resources for the coking operations planned at Kremikovtsi. Known reserves, which are located in the Balkan Basin, are estimated to provide for little more than 20 years operation of the two-battery coke plant being built at Kremikovtsi. 18/ Bulgarian coal has a high sulfur and ash content and must be cleaned in order to yield a suitable concentrate for coking. Moreover, it is necessary to blend this cleaned coal with high volatile types of coal imported from Poland in order to obtain a suitable charge for coke ovens.

4. Soviet Misgivings

There is much evidence that the USSR now has misgivings about the Kremikovtsi Combine. The American Legation in Sofia has reported that rumors have circulated concerning Soviet unhappiness with the project. 19/ An earlier report stated that Khrushchev, during his visit to Sofia in 1962, refused to inspect the new combine. 20/

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Another source quoted him as asking Zhivkov on that occasion, "How did you ever get sucked into such a venture?" 21/ More recently, friction has been reported between Zhivkov and the Soviet Ambassador to Bulgaria, Organov, [redacted] It is possible that Soviet disenchantment with this project led to, or was related in some other way to, the bitter opposition of the USSR to the Galati steel project in Rumania, where the raw material base is similarly weak. Both Soviet and CEMA planners appear to have downgraded, sometime after 1960, the importance of overtaking the West in production of steel, and they may have decided that big steel industries in Bulgaria and Rumania did not make much sense economically. 25X1C

Although the USSR may regret that the project was undertaken, Soviet Ambassador Organov stated at the opening ceremonies at Kremikovtsi that his country "in the future will fulfill its brotherly obligations for showing technical cooperation in the further development of Bulgarian metallurgy," describing "brotherly obligations" as those "arising from international agreements." 23/ Organov's remarks probably mean that the USSR intends to continue its aid for the 1-million-ton first stage of the combine but is not committed to help with the expansion plans that Zhivkov has been talking about for some time.

5. Zhivkov's Expansion Plans

Premier Zhivkov has advocated pushing ahead with a second stage of the combine, apparently as a major objective of Bulgaria's 20-year plan (1961-80). He stated that completion of the second stage would increase total production capacity of the combine to 3 million tons of pig iron, 3.6 million tons of steel, and about 3 million tons of rolled steel. 24/ However, Yovcho Yovchev, Bulgaria's head geologist, has stated that "the combine's further expansion is contingent upon the discovery of new reserves of iron ore." 25/

The scale of operations planned for the first stage of the Kremikovtsi Combine reflected an estimate of domestic requirements for finished steel of 1.8 million tons in 1965 -- approximately 1 million tons from Kremikovtsi, 0.4 million tons from Bulgaria's other steel plant, and 0.4 million tons from imports. Consumption of steel in Bulgaria is likely to fall considerably short of the original estimate for consumption in 1965, but the Bulgarian market for steel products will develop

sufficiently in the near future to support a "first stage" Kremikovtsi Combine. However, a plant producing 3 million to 4 million tons annually appears unnecessary for many years, particularly in the face of a growing worldwide surplus of steelmaking capacity. In the view of Berthold Beitz, the General Director of Krupp, the construction of a plant with a capacity of 3 million to 4 million tons is ridiculous because "Bulgaria obviously cannot consume or export such an amount of steel." 26/

6. Outlook

Bulgaria undoubtedly will push ahead with its plans for the construction of the first stage of the Kremikovtsi Combine. The 1964 draft plan provides for a continuation of substantial investment in ferrous metallurgy (100 million leva), most of which is intended for the Kremikovtsi Combine. 27/ Completion of the first stage will require additional foreign assistance of which the USSR probably will provide an important share. Bulgaria may find it necessary, however, to turn to the Free World, as have the other European Satellites, for procurement of steelmaking and rolling mill equipment.

In the event that domestic iron ore proves to be unsatisfactory for blast furnace operations, plans for the first stage of the Kremikovtsi Combine might be cut back somewhat. More likely, however, Bulgaria would decide to go ahead with original plans by operating the combine to the extent necessary on imported ore. The USSR, which is now providing some of the stop-gap supplies of iron ore for the first blast furnace at Kremikovtsi, might be willing to expand shipments to Bulgaria on a permanent basis. Even without access to Soviet iron ore, Bulgaria probably would be encouraged to take this course of action in view of the surplus supplies of iron ore on world markets. Evidence of Bulgarian intentions to do so is provided by the recent trade agreement reportedly signed with Brazil calling for imports by Bulgaria of Brazilian iron ore, amounting to 300,000 tons in 1964 and increasing to 2 million tons by 1970. 28/

Enlargement of the Kremikovtsi Combine beyond the first stage may not be an important issue at the present time. Completion of the first stage does not appear likely before 1966 or 1967 at best. However, it appears certain that immediate expansion would be opposed strongly by both the USSR and CEMA. The Counselor of the Polish Embassy in Sofia, Stanislaw Zgrzywa, remarked to a US official that he doubted that Bulgaria would achieve its "great ambitions" for Kremikovtsi and that it would "eventually have to face facts and base economic planning on realities within the CEMA framework." 29/

Analysts: [redacted]

Coord: 25X1A

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