On file DOC release instructions apply.

State Dept. review completed. On file Dept. of Commerce release instructions apply.

Approved For Release 2003/04/24 : CIA-RDP79T01049A000800140001-7

[redacted] 25X1

Rm. 2117 M

25X1

TRENDS IN ECONOMIC POLICY OF USSR SINCE 1945

CIA/RR IP-342 (WP)

(ORR Project 0.12)

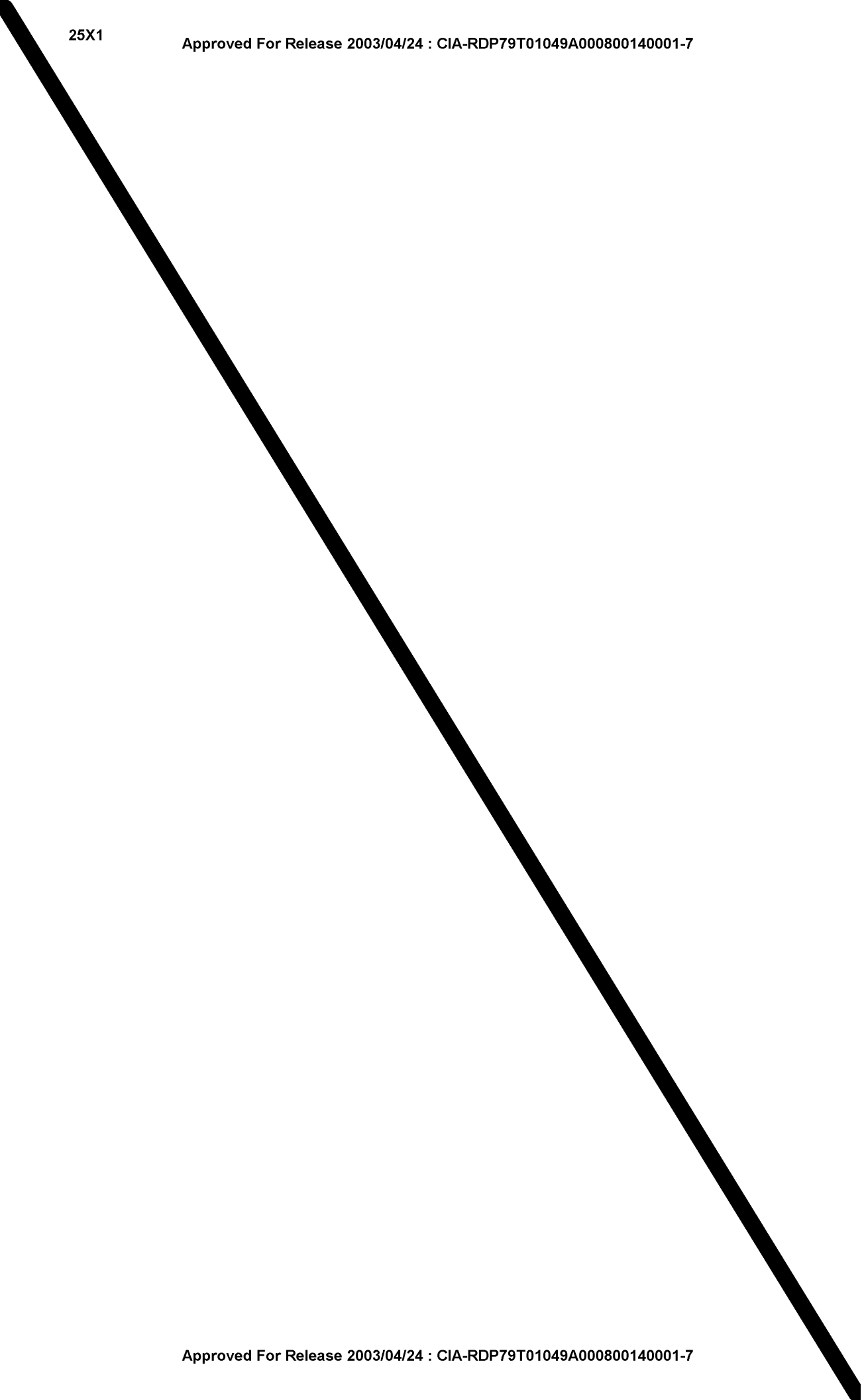
NOTICE

This document is a working paper and is intended for the use of the addressee alone, and not for further dissemination. The data and conclusions contained herein are provisional and subject to revision. This document has not been edited or released for publication. It may not be quoted without permission of the originating office.

24 August 1953

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports



SECRET

25X1

OCI REQUEST

I. Economic Aggregates

A. This question should be rephrased as follows: how can the growth of Soviet gross national product since 1945 be explained in terms of the principal economic determinants?

It is not possible to single out a particular determinant and quantatively determine what percentage of economic growth was occasioned by that particular variable. The interaction of one variable upon another precludes the possibility of measuring the effect of any single determinant in isolation. However, a rough notion of the contribution of the principal determinants to growth can be gained by analyzing their behavior in the relevant time period.

Statistics on changes in the composition and size of the USSR labor force are available in Appendix E to CIA/RR 23 "The Economy of the Soviet Bloc: Production Trends and 1957 Potential.," pages 56, 59-60. Statistics on investments can be found in RAND RM-735, "Capital Investments in the Soviet Union, 1924-1951" by Norman Kaplan, page 195. Rudimentary productivity estimates are available in CIA/RR 1P-333, "ORR Contribution to NIE-90, Economic Factor Affecting Bloc Capabilities Through Mid-1955, page 18.

Discussion of the principal factors responsible for postwar Soviet economic growth may be found in CIA/RR-23, op.cit., pages 3-5. No data is available concerning the contributions of foreign capital and labor to postwar expansion.

B. What effect do the following Soviet statistical procedures exert on the calculation of gross national product?

In the past the use of 1926/27 prices has tended to inflate gross national product estimates, as the fastest growing industries have been valued at higher price

SECRET

25X1

levels than those which have grown more slowly. Presumably the 1952 price base used in the Fifth Five Year Plan should eliminate this source of distortion. If the 1952 prices are used for more than a five year period, distorting elements will appear again. The inclusion of turnover taxes in the price structure does tend to inflate the absolute GNP figure. The degree of inflation over time will vary with the average rate of taxation. The omission of services from Soviet methodology also contributes to inflation of the GNP growth rate, as the slowly growing personal and welfare service activities are excluded.

More comprehensive discussions of the deficiencies in Soviet national income accounting can be found in articles by academic scholars. The best work has been done by Abram Bergson in the Quarterly Journal of Economics for May 1950, pages 208-241 and August 1950, pages 408-441. Another critical discussion of Soviet national income methodology appears in Gregory Grossman's article in the volume edited by Professor Bergson, Soviet Economic Growth, pages 1-23. Grossman's article is followed by information comments by Bergson, Alexander Gerschenkron, and Wassily Leontief.

C. What is the relationship between the prospective increase in GNP and the growth of economic potential for war?

Since war supporting economic capabilities are mainly based on industrial potential the answer to the question hinges upon the relative expansion of GNP and industrial production. In industrialized nations the expansion of industry tends to exceed that of gross national product in those years in which there is net growth. In the USSR the tendency for industrial expansion to exceed that of the economy as a whole has been particularly marked. Therefore, a given expansion in gross national product will lead to a proportionately greater increase in economic war supporting potential.

No precise estimate can be made as to the increase in economic war potential unless an unambiguous definition of the term is provided. One such estimate appears in CIA/RR-23, op.cit., pages 14 and 15. A more sophistocated treatment of the problem will appear in ORR research project 13.2, Munitions Producing Capabilities of the USSR, now in process of preparation.

D. To what extent will physical and geographic factors limit in the long run the growth of the Soviet economy? When , if at all, will these factors begin to have a serious effect?

(Examples of such factors are: disposition of resources, requiring long freight hauls; location of resources in areas difficult to reach and difficult to live in; availability of arable land; climate; direction of flow of rivers, etc.)

D. Introduction

Physical or geographic limitation of the growth of the Soviet economy or any other large national economy must always be to some extent a matter of conjecture. Growth limits may only be postulated in terms of some projected rate of growth for the economy. Extremely rapid rates of economic growth tend to tax resources limits somewhat more rapidly than slow growth rates. However, extremely rapid growth rates tend to expand the resource base at a faster rate than do slow rates of growth. Recognition of the elasticity of a resource base is fundamental to any analysis of economic growth. Resources are not immutable, they vary in scope and availability with variation in the culture and technology of the society which occupies the land area. Development of a fission process creates an entirely new pattern of resources, one which did not exist for the society prior to this development. Development of an electrolytic refining process sets off a hunt for aluminum ores bauxite which previously were so many waste deposits on the face of the earth. 1/ An economy develops a pattern of wants and at technological framework within which goods and services are produced. The limits of such production are more a function of the pattern of wants and techniques than they are a function of the physical resource base of any particular moment.

Wants in a Planned Totalitarian Economy

The want pattern of a planned totalitarian economy such as the USSR is created by the planning agency which administers the economy. Certain basic requirements of the population are parameters for the planning group. How these requirements are met may be determined in major part by the planners, and the people are then conditioned by advertisement or directive of the planners to consume a particular package of goods and services. The capital equipment required for producers of consumption goods is determined by the planning authority in liason with production managers. The basic industry requirements are fashioned in terms of capital needed to meet some overall state objective. In general the want patterns are spelled out by the planning agents for the satisfaction of specified major objectives of the totalitarian state.

The primary objective of the totalitarian state has been the consolidation of the state's authority. The Soviet Union views itself as a worker's state so that one of it's overriding objectives has been the creation of a large scale industrial economy in which the workers would constitute the dominant political force. A second basic objective of the Soviet Union has been the development of a military force at least capable of the defense of the Union and possibly strong enough to support a program of aggression designed to enlist a consecutively increasing portion of the world within

the orbit of the Soviet system. Each of these objectives establish a want pattern which requires the development of a broad base of heavy industry and a complex system of machine production. Production of consumer goods, other than those required to support the population at some minimum decency standard, is relegated to a time when the above objectives have been achieved.

Technological Pattern

A stipulated level of technological competence must be present before production to satisfy the want pattern can be carried out. The wanted modern industrial and armaments production required an intensively trained highly skilled labor force, backstopped by a super-skilled corps of pure scientists and production engineers. Russia inaugurated its program of modern industrialisation with a relatively small resevoir of industrial and scientific skills. The first claim upon Russia's training facilities has been the expansion of training in scientific and technical studies. Numberwise, Russia has turned out a larger volume of technically and scientifically trained personnel in recent years than any other nation in the world. There has been some dispute about the quality of the product of the schools but no dispute of the interest of the Russians in this training or the quantity of persons being trained. Political training, inculcation of the national ideology, is carried on concurrently with all training. There have been several manifestations of the effectiveness of this training in areas in which it has been possible to observe the product of Soviet technology. Foreign personnel have been employed wherever available to facilitate the training of personnel. German science and industrial skill was hired until 1941 and impresses thereafter into the USSR program for expansion of industrial and scientific training and capability.

Nowhere has Russian scientific effort been as highly concentrated as in the area dealing with resource exploration and development. Large teams of scientists are organized on a continuous basis and are dispatvhed to some highly restricted area to explore and record in great detail the resurce pattern and resource potential of the area. 2/ Intensive exploration of the resource base had extended to less than fifty percent of the USSR by 1939. It may be assumed that the job is less than complete at present although its precise status is not known.

The USSR has devoted and probably will continue to devote a large portion of its training and research activity to resource development and to the development of new production functions many of which would involve substitution of readily available commodities for commodities which are not readily available.

Physical Setting-Natural Forces

The USSR includes within its boundaries more than sixteen percent of the ice-free land mass of the earth, an area about equal to the entire continent of North America. Much of this vast area cannot be exploited under current technology. Large areas of the country yield an insignificant, perhaps even a negative product to the nation as a whole.

Climate, natural vegetation and soils available in the Soviet Union run the gamut of known natural forces outside of the tropical rain forest. Every sub-tropical, temperate and arctic type of climate, vegetation and soil is represented in the USSR. The varied natural conditions make possible a wide range of growing conditions and a wide range of agricultural and forest outputs, all within the confines of a single economy.

Although climatic variations create a wide range of possible outputs, the severity of the continental climate creates a vast waste land in Soviet Asia. Long, severely cold winters create an area of permanent ground frost (permafrost) equal to 10,000,000 square kilometers, about 47 percent of the total land area of the USSR. Despite vigorous attempts to develop this area, settlement is largely confined to prison camps, lumber and mining camps and weather stations. In recent years some industrial and agricultural activity has been introduced in the far north, but it is thought that production costs are extremely high relative to the value of outputs. Russian conquest of this vast northland remains one of the fervent dreams of the Soviet Union and receives a high priority for funds, equipment and personnel in each of the long term plans.

The USSR although continental in magnitude has very limited access to the ocean. Russia has only two or three ice free ocean ports although she has limited access to the oceans via the Black Sea and the Mediterranean and via the Baltic Sea. Russia has an extensive coastline an the Arctic Ocean but this waterway is available for only limited periods of time during the Arctic summer.

An extensive system of inland waterways is available to the USSR. The lakes and rivers of the European north offer connections with Moscow and the southern system of rivers and inland seas. Asiatic Russia has a number of major rivers but the rivers courses flow from south to north emptying into the Arctic Ocean except for the Amur which empties into the Tartarski Proliv. All of these waterway systems are subject to frozen harbors for varying periods of the year, and to variations in water levels as well.

Physical Setting-Industrial Resources

The USSR has one of the largest and most varied industrial resource bases in the world. Statements of reserves of industrial minerals and energy resources are of limited value because of their highly tentative nature. 3/ Significant areas of the USSR have been subject to only cursory geologic and hydrographic exploration. United States experience has indicated that estimates of reserves are highly transient, particularly is this proposition accurate in the relatively early stages of resources exploration.

The vast area of the USSR, almost 1/6 of the ice free earth, renders this resource base less effective than it would appear at first glance. Hundreds of miles, in some cases thousands of miles separate principal centers of production of raw materials, principal manufacturing locations and the major European markets in which the final products will be consumed. In most instances these great distances must be overcome by overland transportation. Only in the Donbas do all of the components of the iron and steel industry lie in adjacent areas and, at the same time, near the major industrial areas of the country.

The USSR lacks sifficient industrial resources to achieve internal or even Bloc autarky. Products of the tropical rain forest are not produced in any quantity. Production in most of the nonferrous metals and complex machinery items is less than Soviet requirements and these items are imported from the Bloc and the West to meet current requirements. Deposits of nonferrous metals are available but the deposits are limited and the technology required to exploit these products seems incompletely developed. Most of the nonferrous metal production is carried on in Siberia and the far east at considerable distance from principal industrial consuming areas.

The energy resources of the USSR at present are small compared to the potential energy resources. Again the principal potential energy resources are in the eastern regions rather than in the west. Transfer of coal and oil to the principal industrial areas involves expensive rail hauls although development of the Volga-Don canal may have the effect of reducing the transport cost from the Don and Caucasus areas.

The agricultural resources of the USSR are probably the most diverse of any nation in the world. Varied climates and soils make possible the production of all crops and animals except those indigenous to the humid tropics. Intensive research and development of major grain, fiber and tree crops has expanded the tolerances of many of these crops. Substantial efforts are being made to expand acreages in the dry steppe by tree plantings to reduce the evaporation effect of southeast winds during the summer.

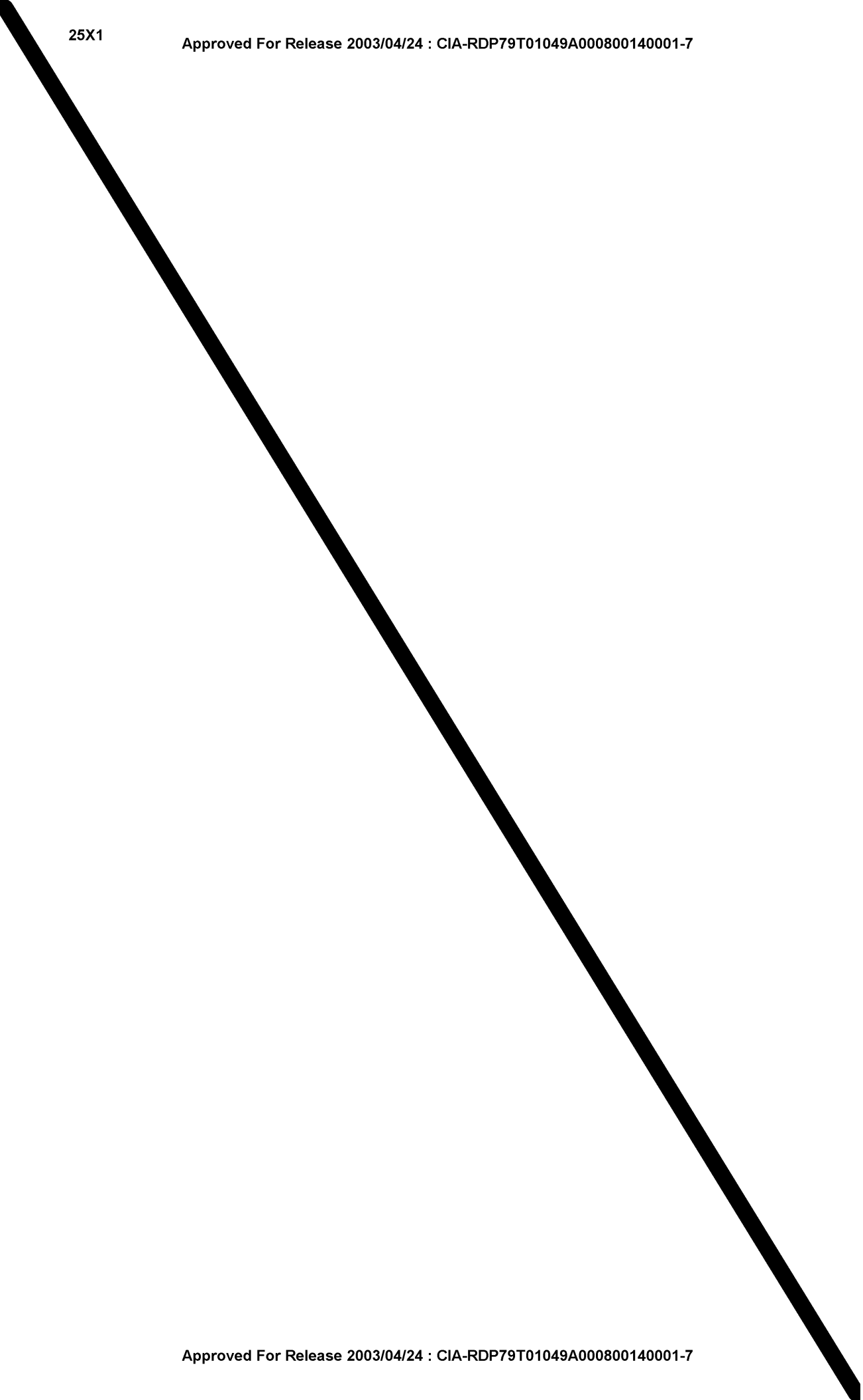
Increased efforts to control stream flow in European Russia will yield some by-product water for irrigation. Additional water supplies will make possible increased yields in this area but little in the way of additional cultivated land. Control of stream flow in Central Asia will have the effect of significantly increasing the acreage of cultivated land and the acreage which may be devoted to cotton and subtropical fruit and vegetables.

Animal production in the USSR will continue to be relatively small on any per capita basis. Efforts to expand pasture land have met with little success and grain production has not sufficiently exceeded cereal demands to permit a larger scale production of animals.

Agricultural production of the USSR faces the traditional national problem of vast distances. Principal specialty producing regions are on the periphery of the country. Thus products from these areas must move long distances to the central consuming areas in European Russia. Substantial efforts have been made to develop regional self-sufficiency in food grains and potatoes. These efforts should lead to some relief from transport expense but they tend also to reduce the potential agricultural output of the country.

Summary

The principal physical or geographic limit upon the Russian economy seems to be the very magnitude of its physical extension. The nation is continental in its land extension. Maintenance of present levels of expansion of the Russian economy over a long period appears to be contingent upon a large scale expansion of the transport system and an increase in the intensity of development of Western Siberia. If Russia were able to construct and maintain a highly flexible, low cost transport system and to maintain current rates of technological advance, contemplated rates of economic growth 1952-57 could be maintained for a period of at least fifty years and positive rates of economic growth could be expected for the indefinite future. If technological developments which would allow economic exploitation of the north Siberian lowlands were to develop from current research, it should be possible to maintain current rates of economic growth for a period of 100-200 years.



Contribution of [redacted]

Economy of the USSR Since World War II.

Topic IV (Labor)

A. 1. What have been the annual increments in the labor force of the USSR? This topic is analyzed in some detail in CIA RR/PR 32 1953. The following series summarizes the trend:

	Collective Farms Thousands	Workers and Employees Thousands
1947	52,000	32,200
1948	52,000	33,400
1949	51,000	35,400
1950	50,000	37,200
1951	49,000	39,200
1952	48,000	40,800
1953	48,000	41,875

A. 2. What have been the sources of these increments? The only source of postwar increment has been from a population increase of about 1.5 million per year 1947-1952, rising to about 3 million per year 1952 to 1957. During the war the labor force was augmented by drawing in large numbers of women and by using PWs. Immediately afterward German civilians were imported. The proportion of women employed is stable or slightly declining and most PWs and foreign nationals have been returned.

B. 1. Conflict between agriculture and industry? None indicated since the population increase has been sufficient to supply the industrial needs with only a modest decrease in agriculture. There are still over 6 times as many collective farmers in the USSR as the number employed in agriculture in the US. Reduction in agricultural employment has probably been compensated by mechanization and improved practices.

B. 2. Has the rapid expansion in the industrial labor force handicapped

agricultural production! Agricultural expansion is more handicapped by climate and shortage of good land than by shortage of labor. There is still probably much underemployment on farms.

C. 1. Shifts in training. Developments in vocational training may be best characterized not as a shift but as extension and intensification of the prewar trends. Cf CIA RR/PR 16 1952 for detailed discussion.

C 2. Shifts in labor allocation. In addition to the shift from farms shown in A 1 there has been a continuing emphasis on maximizing employment in the producer goods segments and minimizing employment in the production of consumer goods. This again is not a postwar "shift" but a continuation of prewar trends. Geographically the buildup of the labor force of the far eastern regions was [illegible] policies. Cf CIA RR/PR 16 1952 and PR 16 1952.

D [illegible] during the fourth five-year plan the goal was to train [illegible] reserve schools. Only [illegible] million were graduated. However the enrollment jumped from a million in 1949 to less than [illegible] thousand in 1951. It is not clear whether this seeming failure to meet the plan was because of difficulties in recruitment or whether it was the result of preference for other types of training. We are inclined to the latter view because the need for quick recruitment and training of youth whose education had been interrupted by the war is not so pressing and because enrollments in the regular upper elementary and secondary grades are expanding substantially, and the authorities would probably prefer the product of the more thorough training. To this end effort is being made to promote universal seven grade compulsory training and to inaugurate 10 year compulsory education [illegible]

This would put the regular schools in competition for the youth in the labor reserve age bracket. The belief that the labor reserves are to be coordinated with the public schools is strengthened by the organizational shift of the labor reserves to the Ministry of Culture. (Cf. CIA RR/PR 16 1952)

All satellites have set up some counterpart of the labor reserves and it is not yet apparent whether they will follow the example of the USSR in de-emphasis.

Additional questions which are of current interest [redacted] 25X1

1. Wages. ORR/PR 33 1953 indicates no change in the basic wage scales in the USSR since 1946. Take home pay can, however, be affected by changes in work norms or bonuses [redacted] is particularly interested in any changes of this nature. Recent Soviet announcements indicate that the Communists plan that future increases [illegible] wages are to be attained by lowering prices and increase in the [illegible] of consumer goods. A condition precedent to this will [illegible] increase in agricultural production and/or increase [illegible]

25X1

2. Slave Labor. Although project [illegible] soon to be published [illegible] slave labor in the satellites, no similar summary of material on slave labor in the USSR has recently been made [redacted] We are particularly [illegible] material indicating the results of recent amnesties. 25X1

25X1

3. Agricultural Labor. [redacted] does not have sufficient information [illegible] the effects of collective farm consolidation on the release of [illegible] particularly of the administrative cadres.

25X1

4. Labor Productivity. [redacted] is beginning work on project [illegible]

[illegible] of labor productivity [illegible]

interested in the ways in which productivity may be affected by changes in morale as evidenced by drunkenness, absenteeism, labor turnover, sabotage, etc.

25X1

5. Migration. [redacted] has a continuing interest in migration patterns. The induced migration of population within the Soviet Union appears to continue prewar policies as does the geographic migration of labor. Cf CIA RR/PR 14 1952. Further information is required to measure the magnitude of migration more accurately, and to pinpoint local areas of increase.

25X1

TRENDS IN SOVIET ECONOMIC POLICIES SINCE 1945
OFFICE-WIDE PROJECT 0.12

Major Metals

III. State Reserves:

In October 1931, a Committee on Reserves was established under the Council of Labor and Defense, Council of People's Commissars USSR. In August of 1938, it was reorganized into the Administration of State Reserves, responsible directly to the Council of People's Commissars. The Administration of State Reserves was abolished eight years later (1946) and its functions assumed by the newly established All-Union Ministries of Food Reserves and Material Reserves. These two Ministries were consolidated by 23 July 1948 ukase into the All-Union Ministry of State Food and Material Reserves.

Since 1948 there probably have been other organizational changes in the administration of State Reserves, but it is believed the purpose and policy has remained the same throughout all of the reorganizations.

The original purpose of the Committee on State Reserves was to supply the whole national economy and defense system with materials and equipment in case of war.

The Committee accumulates and stores stocks of strategic materials and technical equipment which can be used only when necessary in war time and on the instructions of the supreme command of the country's defense. Stocks of items I through VI below, sufficient to maintain uninterrupted operation for a period of at least 3 months and up to a year, must be kept sealed in plant warehouses. These stocks are under the sole authority of the Second Section, that is, the apparatus of the Committee on State Reserves.

The Items I through VI are:

I	Nonferrous Metals
II	Rare Metals
III	Materials
IV	Ferrous Metals
V	Liquid Fuel
VI	Hard Fuel

25X1

Methods of Accumulating and Storing Reserves

1. Plants producing non ferrous metals such as copper, lead and zinc are required to have at least a 3 month stock of the metal in special warehouses. The exact limits of stocks are established individually in each case.

2. Plants consuming these items are required to have, in special warehouses on the plant grounds, stocks sufficient for continuous production for a period of one to six months.

3. The Committee on State Reserves has its own reserves warehouses where stocks of material from all groups are kept in sufficient quantity for uninterrupted supply of industry for a period of 1 to 12 months.

In all cases of storrage, stocks of each type material are renewed after a certain period. The storage period for materials customarily varies from one month to two years. During the stomage period, materials are shipped to industry for use, and are replaced by the same quantity of new stocks.

The above policy is believed to have been adhered to through out the many organizational changes and is in effect at the present time.

There were, according to prisoners of war reports, substantial stocks of copper, lead, and zinc in storage in mid 1949 and it is believed there have been additions to these stocks in each subsequent year, either from production or imports or both.

There is no information as the amounts of copper, lead and zinc allocated to State Reserves each year, but since the USSR is deficient in these metals and knows of their essentiallity for war purposes, it is inconceivable that they would not build up the stocks just as we are doing in the United States.

25X1

The amounts allocated to Reserve Stocks from production each year are estimated to be:

Copper	10 to 15 percent
Lead	20 to 30 percent
Zinc	10 to 15 percent

The above percentages could vary up or down from year to year and as the stocks build up could be substantially reduced.

In a recent editorial on 8 July 1953, Pravda stated that this year additional reserves have been found for an increased output of consumers goods amounting to over twenty billion rubles in excess of the envisaged annual plan for consumer goods turn over. This is the first mention of reserves that has been noted and would indicate that they are either not stockpiling certain items or dipping into the reserve stocks.

The Korean War may have caused some drain in the reserve stocks of copper, lead and zinc but there is no information to indicate any withdrawal from stocks.

25X1

MEMORANDUM TO: Chief, Materials Division, ORR DATE: 22 July 1952

FROM: Chief, Petroleum Branch

SUBJECT: Contribution to Office Wide Project 0.12
Trends in Soviet Economic Policies since 1945

1. The following information concerning the petroleum industry in the USSR, is submitted with reference to designated parts of the Requirements Outline for Project 0.12.

a. (Part III) State Reserves.

A chronological history of the mobilization and state reserve program for petroleum stockpiling in the USSR since 1945 cannot be formulated from available knowledge. This matter is the subject of current research, and it is anticipated that the first results of this research will be available later this year.

Based on the progress made to date, the information obtainable and existing research techniques do not appear adequate to provide quantitative data on the stockpiling of petroleum in the USSR since 1945.

It is well known that a high priority program for stockpiling petroleum, for both civilian and military use, has been in existence in the USSR since at least 1945. This program appears to be organized in the same general way as the stockpiling of other commodities that have both civilian and military end use. For a generalized discussion of the organization of stockpiling in the USSR, refer to the D/E contribution to Office Wide Project 0.1.

A variety of unsupported guesses exist currently as to the magnitude of the stockpiles of petroleum products in the USSR. None of these appear valid on close examination. Many of them have been formulated on the basis of misleading estimates of consumption of petroleum products in the USSR and omissions of the production of natural

[redacted]

25X1

and synthetic petroleum products in the USSR. Stockpiling estimates for petroleum products arrived at in this manner can have a range of error of at least 100%, and are therefore not acceptable.

The best limitation that can be placed on the magnitude of petroleum stockpiles in the USSR, in the light of present knowledge, is that total inventory on hand, including operational stocks, cannot exceed the total capacity of storage facilities. The identified storage capacity for petroleum products in the USSR is presently estimated to be about 12.2 million metric tons. 1/

On the basis of the identified storage capacity, Air Force Intelligence officers have informally estimated that the total storage capacity for petroleum products in the USSR will be about 17.6 million metric tons at the end of 1953. 2/ This figure represents the best available judgment as to the maximum possible upper limit of petroleum stocks in the USSR today. It is also believed that a more realistic estimate of maximum inventory in the USSR would be in the order of magnitude of 75% of total storage capacity or approximately 13.2 million metric tons. This figure includes, as previously indicated, operational stocks as well as civilian and military stockpiles.

[illegible] changes in the reserve programs, nor about the percentage of production which is allocated to these reserve programs. With respect to releases from reserve stocks, and the replenishment of these stocks, certain technical data on the maximum length of storage time before petroleum products require "freshening" will be presented as a contribution to Office [illegible] Project G.1. Preliminary

25X1

data on this subject is now available in the Petroleum Branch.

[redacted]

Approved For Release 2003/04/24 : CIA-RDP79T01049A000800140001-7
SECRET

Trends in Soviet Economic Policies

Project 0.12, Item III. [redacted] Contribution 25X1

The Coal Industry

State Reserves

There is almost no information regarding stocks of coal in the USSR, other than a few brief references in PW reports to a pile of coal at an industrial plant, a power plant or a railroad yard. Such reports, in general, furnish little data of any value as to size either in tonnage figures or in terms of day's supply.

Despite the paucity of information about the subject, it is known that there were coal shortages in the Soviet Union during the post-war period and extending at least until 1950. These shortages were especially serious in the European part of the country and were due to the destruction of the Donets mines, which produced 57 per cent of total Soviet coal production in 1940. There was almost no output from these mines during 1942 and very little in 1943. They did not reach their prewar level of output (about 260,000 tons daily in 1940) until the last quarter of 1949.

Since 1945, it has been necessary to import coal from Poland to make up for the deficits in the western part of the country. Poland exported 5.2 million tons to the USSR in 1945 and from 7.5 to 9 million tons annually during the years 1946-51. These imports into the USSR are believed to have been necessary to meet requirements and allowed for little accretion in stocks in terms of days supply on hand.

Stocks probably vary considerably between industries and plants and also from time to time during the year. It is logical to assume that they increase during the summer and decline during the winter, reaching their lowest point in the spring.

It is known that coal is stockpiled during the summer months in the Volga region when the Volga River is open to navigation and some plants in that area receive little or no coal during the winter.

It is not known if there are so-called state coal reserves as distinguished from working inventories. If there are such reserves they would be subject to constant withdrawal and replenishment because a large proportion of the coal produced in the Soviet Union will not store satisfactorily. The reasons are that brown coal disintegrates readily to dust with loss of moisture and much of the coal is easily susceptible to spontaneous combustion. Moreover, the coals which will store better, such as anthracite and certain bituminous coals, are the very coals which are in greatest demand.

It is believed that average stocks of coal on hand are never sufficient to last more than a month. Some consumers would have only sufficient coal to last a week or less and others would have enough to last three months or more.

The conclusion is that stocks fluctuate considerably during the year, but the major consumers--railroads, electric power stations and ferous metallurgy--which take about two-thirds of the production are dependent on a steady flow of coal from the mines and would be in difficulty in a short time if there was interruption in coal shipments. It is probable that these consumers receive priority and, if an emergency arises, coal is diverted to them from consumers of lower priority. A policy of hoarding raw materials at industrial plants is deplored and there is nothing to indicate that the USSR has any large surplus of coal either at the plants or in so-called state reserves. It is possible that the latter do not even exist in so far as

25X1

coal is concerned, at least in the sense that certain minimum quantities of coal are held in permanent storage to meet contingences. It is more likely that stockpiles would be increased in the consumers' own stocks and each would attempt to keep a minimum number of days' supply of coal on hand. When an emergency should arise whereby a source, which in many cases would be a particular mine, could not meet a commitment, it is probable that another mine would be ordered to fulfill the need.

In the United States, coal stocks are normally in the range of 60 to 85 million tons. It is the opinion that coal stocks in the USSR have probably never been more than 25 million tons. Furthermore, it must be pointed out that as production has increased in the USSR, the tonnages of coal in stockpiles have increased, but requirements have also expanded, and stocks, in terms of day's supply, may not be increasing significantly.

25X1

[redacted]

Bilateralism as a feature of USSR's postwar trade has come into the foreground, with a major portion of Soviet foreign trade with the West governed by bilateral economic agreements. There is no substantial evidence that Soviet trade on a bilateral basis will decline in importance in the near future, although instances of trilateralism have been noted in recent years.

25X1

I. Postwar Soviet Trade Policy Toward the West

Since World War II, the foreign trade policy of the USSR toward non-Bloc countries has been governed, in the main, by two primary objectives -- developing maximum economic self-sufficiency and acquiring maximum political advantage. Identification of these twin objectives results from an examination of the trade activities of the Soviet Union rather than from a direct knowledge of its policy decisions.

Imports of heavy industrial equipment to restore and expand the capital goods industries have improved the prospect for a high level of economic self-sufficiency in the long run. Imports of industrial raw materials to facilitate this industrial rehabilitation and expansion and also to provide a stockpile backstop in the event of hostilities have greatly enhanced the short-run prospects for a high degree of industrial independence. In addition, the favorable Soviet balance of merchandise trade with Western Europe has tended to encourage Western Europe to increase its exports of those types of goods desired by the USSR.

25X1

Political advantage in Western Europe has accrued through continued dependence upon the USSR as a soft-currency source of essential agricultural products. Political advantages in both Southeast Asia and Western Europe has accrued from timely Soviet offers to increase purchases of the products of depressed industries. In the tight export market situation facing Western Europe, Soviet political advantage has varied directly with the economic success of Western security trade controls directed against the Bloc.

During the years 1944-1946, the Soviets showed signs of friendly cooperation with the West in the field of international economic relations. They sent delegates to participate in the discussions at Bretton Woods. They accepted a loan of over $250 million from the United States for Lend-Lease commodities. They acquired an additional $200 million worth of badly needed goods from the United Nations Relief and Rehabilitation Administration. They received a credit of one billion dollars from the Export-Import Bank in 1945.

Optimistic attitudes concerning economic cooperation between the USSR and the West gradually disappeared as the "cold war" devel-

25X1

oped. The USSR refused to participate in any of the independent international organizations such as the World Bank, International Monetary Fund or the proposed International Trade Organization. In July 1947, the Soviets not only refused to take part in the European Recovery Program, but ordered two Satellites, Poland and Czechoslovakia, to reverse their original decisions to participate. In the fall of 1947, a manifesto, issued by the newly formed Communist Information Bureau, vehemently attached the Marshall Plan, its originators, and participating countries, especially the United States and Great Britain.

In January 1949 the Soviets announced that a Council for Economic Mutual Assistance (CEMA), consisting of appropriate officials from the USSR, Bulgaria, Hungary, Poland, Rumania, and Czechoslovakia, had been formed. The officially reported purposes of this organization included exchanging economic experience and rendering technical and mutual assistance in the production and exchange of raw materials, food stuffs, and machinery.

The annual sessions of the United Nation's Economic Commission for Europe (ECE) served as a forum which the Soviet delegations have used in publicizing the Moscow propaganda line. In these sessions the

25X1

major Soviet positions have been notable for their consistency, though the tactics employed have varied from time to time. The major Soviet lines can be seen or deduced by briefly recounting the arguments presented at the annual ECE session held in Geneva, March 3-18, 1952.

Changes in approach were evidenced by:

1. A milder criticism of Western European countries.
2. A noticeable absence of criticism of Yugoslavia.
3. A concentrated attack on United States influence as responsible for West European rearmament, the decline in East-West trade, European balances of payments difficulties, and many other European economic problems.

Major emphasis was placed on:

1. A drive for expansion of East-West trade in the face of Western export control policies.
2. An attempt to split the United States and Western Europe by emphasizing that the community of interests between East and West Europe had been disrupted by the United States.
3. An attempt to discredit the ECE Secretariat for its appraisal of Soviet economic development in the Economic Survey of Europe in 1951. 1/

The much publicized International Economic Conference was held in Moscow during April 1952. Originally proposed by the World

25X1

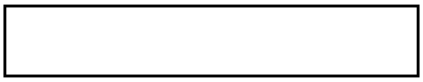
Peace Council in February 1951, attempts were made to dissociate the conference from any specific organization and thus make its inception appear as a unanimous desire of politically disinterested business and labor representatives. The basic objective of the Conference appears to have been political, i.e. a manifestation to the world that the USSR was the champion of peace and as such was wholeheartedly desirous of increasing East-West trade, the stifling of which was represented as being a major cause of world friction. The trade policies of the Western Governments, particularly the United States, were portrayed, by inference, as the antithesis to increased East-West trade and therefore antithetical to world peace. As byproducts of this primary objective broad secondary objectives were evidenced:

1. The disruption of United States foreign aid programs and a lessening of the political advantages derived therefrom by offering increased East-West trade opportunities.

2. The fostering of West European discontent by stressing the economic waste of rearmament and employment difficulties attributed to Western export control policies.

3. The severance of friendly ties between the West and underdeveloped countries by playing up the alleged advantages

25X1



of the Socialist system in rapid economic development.

4. The acquisition of economic aid for Communist China.

The announcement by Nesterov, president of the Soviet Chamber of Commerce, concerning the Soviet readiness to double foreign trade within two or three years was the high spot of the conference. It was indicated that during these years the USSR's annual trade turnover with the West could approach a value of $3.75 billion. Concerning the products to be exchanged however, references to Bloc imports of consumer goods were carefully hedged by qualifying words and phrases. The interest displayed in Western textiles was undoubtedly an attempt to capitalize on the depressed conditions of that industry throughout Western Europe. 2/ It was reported that trade negotiations carried on between the delegates at the conference resulted in commercial agreements valued at $500 million. However, as of June 1952, the actual consummation of these agreements was estimated at less than $10 million, or approximately two percent of fulfillment. 3/

The recent "peace offensive" has caused much speculation concerning the possibility of a shift in the USSR's trade policy with the

25X1

West. During the East-West trade consultations of the ECE (Geneva, April 1953) the Soviet representative pointed out that during the next twelve months the USSR could increase exports to the West by more than 15 percent. Desired Soviet imports were mentioned as ships, metals, and industrial equipment, but the delegate also indicated that the USSR would be willing to import some consumer goods such as herring, fats, cork, textiles and citrus fruits. 4/

Subsequently, Soviet trade delegations followed up along the lines indicated at the ECE meeting. Trade discussions with Denmark in May were reportedly based on commodity lists exchanged at the ECE meeting. Soviet-Franco negotiations in June for a three year trade agreement were basically dependent on Soviet textile imports "packaged" with French ships. The exchange of Greek citrus fruit and tobacco for Russian coal and petroleum were negotiated in May and June. June negotiations with Argentina for a trade agreement included the anticipated exchange of meats, hides, wool and animal fats for Soviet shipments of coal, iron and steel products and capital goods. The 1953 trade agreement signed in April with Norway includes exports to the USSR of aluminum, herring, and fats. Although many consumer goods mentioned at the

25X1

[redacted]

ECE meeting have been mentioned at subsequent negotiations, the significance of their mention is difficult to judge. In any event, many of these goods have been imported regularly by the Soviets since the war and their appearance in new agreements represents little departure from the recent past.

It appears that one of the Soviet's primary objectives in tying their import demand for consumer goods to increased availability of strategic commodities has been to take the teeth out of Western security trade controls. 1/ Considering other recent events in the Soviet Union — the smaller 1953 Soviet State Loan, the reduction of retail prices, a planned increase in consumer goods production — a basis for some degree of change in Soviet trade relations with the West has emerged. Such a change may be made either by a temporary compromise of long term trade policy objectives in the face of internal stresses or by the development of new tactics aimed at hastening fulfillment of these objectives. In attempting to evaluate the trend of events, the difference between Soviet trade policy and trade activities should be borne in mind for, as has been evidenced in the past, Soviet tactics have been manipulated to fit the policy and not vice versa.

25X1

[redacted]

II. Trade with the West

Soviet foreign trade turnover with the West during the period 1947-1952 fluctuated widely in terms of current value (Appendix 1). The USSR's trade with the West in 1948, over one billion dollars, was about double the 1950 turnover with that area. On a comparable basis, Soviet trade in 1952 roughly approximated the 1948 level.

Over the period, noticeable shifts took place in the pattern of Soviet trade with the West. The outstanding and consistent decline of trade with the United States undoubtedly resulted from three main causes: Termination of Lend-Lease and other non-commercial shipments, imposition by the United States of security trade controls, and mounting political friction. Soviet trade with Canada, relatively insignificant after 1947, showed signs of stimulation in 1952 in the form of Canadian imports.

After 1947, the OEEC countries composed the predominant Soviet trade area in the West. The USSR's trade turnover with this area reached its peak in 1952 with an absolute value of $531 million,

25X1

representing over 55 percent of total Soviet trade with the West. Excepting a small unfavorable balance in 1949, trade with these countries recurrently produced substantial Soviet export surpluses. The major trading countries were the United Kingdom, Scandinavian nations, Italy, France, Belgium-Luxembourg, and the Netherlands. Soviet primary products were generally exchanged for manufactured goods, machinery and transport equipment, and industrial raw materials.

The USSR's trade with the Near East and Africa showed a general increase throughout the period. Accounting for 44 million or 6 percent of Soviet trade with the West in 1947, trade with this area increased to $118 million or 13 percent in 1952. Soviet imports from the area generally resulted in yearly trade deficits. Egypt, Iran, and the Gold Coast were the outstanding trade partners with cotton, wool and cocoa the main Soviet imports.

Soviet trade with the Far East reached its highest point, $96 million, in 1948 and has declined steadily ever since. Heavily endowed with raw materials of great interest to the USSR, this area

25X1

has maintained a consistent export surplus in its trade with the Soviet Union. The 1952 level of trade, $30 million, was roughly the same as in 1947. India, Malaya and Pakistan supplied the USSR with quantities of cotton, jute, rubber, pepper and tea.

The USSR's trade with Australia and New Zealand consisted almost entirely of Soviet imports. From a peak of $44 million in 1949, Soviet trade turnover with these countries decreased to less than two million dollars in 1952. Wool remained the most important commodity traded throughout the period.

The value of Soviet trade with Latin America was relatively small throughout the period. Amounting to $18 million in 1947, it decreased to less than one million dollars in 1952. As with other non-industrialized regions, trade with Latin America generally reflected a continuous Soviet trade deficit resulting from raw material imports.

25X1

III. Trade Agreements

An outstanding feature of Soviet trade relations in the postwar period has been the increased emphasis placed on bilateral trade. Bilateral agreements have been a chief modus operandi in economic relations not only with Communist China and the Eastern European Satellites, but also with many Western nations. During the period, 1947-1952, bilateral agreements were concluded with Belgium, Denmark, Finland, France, Greece, Italy, Netherlands, Norway, Sweden, Switzerland, Turkey, Yugoslavia, Egypt, Iran, Iraq, Afghanistan, India, Pakistan, and Japan.

Bilateralism has a number of potential advantages for the Soviet Union. By arranging at one time for all sales and purchases, the USSR is in a position to bring all of its military, political, and economic power to bear at each bargaining table. In the country-by-country approach, postwar problems of exchange restrictions and non-convertibility of currencies are minimized. By consummating most of its agreements within a fixed period of time or by being able to schedule their negotiation, the Soviet Union is in a position to better

25X1

formulate and execute its economic plans. 6/

Though certain trilateral agreements involving the USSR have been concluded since 1949 there is at present no firm indication that trilateralism is about to replace bilateralism on a large scale in Soviet economic relations with non-Bloc countries. Such trilateral arrangements as have been made arose from special circumstances rather than from any apparent broad Soviet policy change.

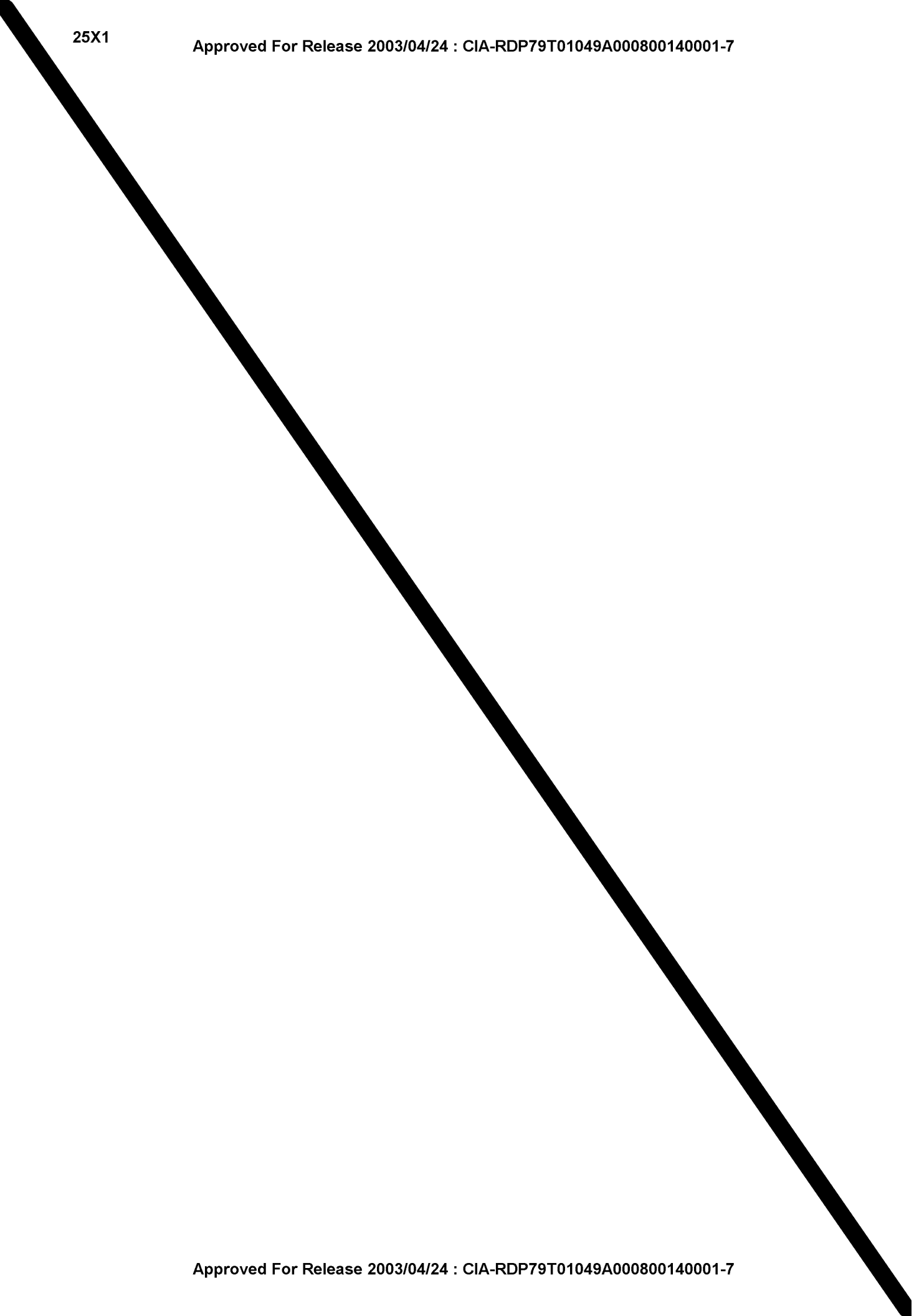
Finland is involved in a complex of trilateral agreements with the USSR and various third parties. Agreements involving the USSR, Finland, and Poland and the USSR, Finland, and Czechoslovakia were concluded in 1949. These were tied to the USSR-Finnish bilateral agreements in 1950. In 1952 the USSR, Finland, and China concluded a triangular agreement, but 1953 negotiations did not include the USSR.

At the April ECE meeting, Finland discussed the possibility of triangular agreements being concluded among Finland, Denmark, and the USSR, and among Finland, France, and the USSR. Negotiation of such an agreement involving Denmark are underway. If an agreement materializes it will be the first instance of another Western European country

25X1

being included in the system of trilateral trade developed in recent years between Finland and the Soviet Bloc. 7/

In addition to the above departures from strict bilateralism, the USSR and Egypt have been parties to two special purpose four-way barter agreements. Such an agreement involving the USSR, Egypt, Rumania and Hungary was made in 1951, while another involving the USSR, Egypt, Poland, and Bulgaria was made in 1953. These agreements supplemented rather than replaced the bilateral agreements in force between the USSR and Egypt.



25X1

SUMMARY

After a brief period of international cooperation during the closing and immediate postwar years, the foreign economic relations of the USSR with non-Bloc countries have generally deteriorated. Political friction between the USSR and Western countries, particularly the United States, has been carried into international trade discussions by Soviet delegates whose trade positions have often been based more on political than on economic considerations. It is yet too early to see whether the recent "peace offensive" will be reflected more in Soviet foreign trade tactics or in foreign trade policies.

During the years 1947-1952 noticeable changes took place in the USSR's trade with non-Bloc areas. Over the period, yearly Soviet trade turnover with the West fluctuated widely and the pattern of trade indicated definite geographic shifts. The decline of Soviet trade with the United States was notable and the share of the OEEC countries in Soviet trade with the West about doubled in terms of current value.

25X1

APPENDIX 1

Geographic Distribution of USSR Trade with Non-Bloc Countries, 1947-1952 8/ a/
(in current prices)

Millions of US Dollars

	United States	Canada	OEEC Countries	Other Europe b/ (Excl. Bloc)	Near East and Africa	Far East	Oceania	Latin America	Total
1947									
Imports	149.1	4.9	114.4	146.4	20.0	24.1	2.3	16.1	477.3
Exports	77.1	0.2	100.1	63.8	24.3	3.5	0.2	2.0	271.2
Trade Balance	- 72.0 c/	- 4.7	- 14.3	- 82.6	4.3	- 20.6	- 2.1	- 14.1	- 206.1
1948									
Imports	28.0	0.1	121.5	192.4	64.0	80.6	34.5	12.4	533.5
Exports	86.8	d/	253.5	84.9	49.9	15.5	0.2	0.9	491.7
Trade Balance	58.8	- 0.1	132.0	- 107.5	- 14.1	- 65.1	- 34.3	- 11.5	- 41.8
1949									
Imports	6.6	0.1	150.9	145.8	22.7	60.2	41.9	8.7	436.9
Exports	39.2	d/	144.5	39.6	12.6	33.2	2.3	1.0	272.4
Trade Balance	32.6	- 0.1	- 6.4	- 106.2	- 10.1	- 27.0	- 39.6	- 7.7	- 164.5
1950									
Imports	0.8	0.2	120.3	64.8	33.4	46.6	26.1	1.1	293.3
Exports	38.3	0.1	154.9	23.7	28.0	5.9	1.2	d/	252.1
Trade Balance	37.5	- 0.1	34.6	- 41.1	- 5.4	- 40.7	- 24.9	- 1.1	- 41.2
1951									
Imports	0.1	d/	166.4	121.5	39.7	41.9	16.7	0.3	386.6
Exports	27.5	0.3	274.4	41.4	40.6	3.6	8.7	0.1	396.6
Trade Balance	27.4	0.3	108.0	- 80.1	0.9	- 38.3	- 8.0	- 0.2	10.0
1952									
Imports	d/	d/	229.8	155.0	62.6	29.5	d/	0.1	477.0
Exports	16.7	2.3	301.4	81.6	55.3	2.7	1.3	d/	461.3
Trade Balance	16.7	2.3	71.6	- 73.4	- 7.3	- 26.8	1.3	- 0.1	- 15.7

See following page for footnotes.

25X1

APPENDIX 1 (Cont'd)

Footnotes

a/ Data are unadjusted as reported by Commerce Department; 1952 figures are preliminary.
b/ Figures represent trade of Finland and Yugoslavia for period 1947 through 1949; Finland alone after 1949.
c/ A minus sign indicates a Soviet import surplus.
d/ Less than $50 thousand.

25X1 [redacted]

APPENDIX 2

USSR Trade Agreements with Non-Bloc Countries

Information contained in this Appendix include that

25X1 available in [redacted] trade agreement files as of 8 July 1953.

Data in the body of the tables covers agreements in effect, whereas information on discussions not concluded is contained in the appropriate footnotes.

25X1 Requests for additional information should be directed to [redacted]

25X1

APPENDIX 2

USSR Postwar Trade Agreements with Non-Bloc Countries 9/

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
WESTERN EUROPE				
USSR-Austria a/				
USSR-Belgium	(2 Feb 1948)	Until terminated by either party on six months' notice	Trade and payments	Belgian exports - steel and products, non-ferrous metals, equipment and tools USSR exports - grain, wood and paper, manganese, asbestos, phosphate Trade - 10 billion francs ($229 million at 1948 rate)
	(17 Nov 1950)	1 May 50 - 1 May 51	Protocol to trade and payments agreement of 2 Feb 1948	Belgian exports - steel products, non-ferrous metals, industrial boilers USSR exports - grain, ferro-manganese, manganese minerals Trade - 600-700 million francs ($12-$14 million)
		1 May 51 - 1 May 52	Additional protocol to trade agreement	Provides for additional USSR grain exports
USSR-Denmark b/ c/	(8 Jul 1948)	1 Jul 48 - 31 Dec 49	Protocol to agreement of 19 Jul 46 (never ratified)	Denmark exports - refrigerator ships, butter, cattle, petroleum products USSR exports - coal briquettes, pig iron, apatite, asbestos Trade - $25 million each way

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Denmark b/ c/	1. (25 Apr 1949)		Barter agreements	Denmark exports - horses and salted herring USSR exports - lignite briquettes 1. 16 million Kroner total 2. 11,270,000 Kroner total 3. 3,400,000 Kroner total
	2. (27 Jul 1950)			
	3. (10 Aug 1950)			
	(20 Jan 1951)		Barter agreement	Denmark exports - breeding cattle USSR exports - potash Trade - 4,600,000 Kroner each way
	(15 Dec 1951)	1 Dec 51 - 31 Mar 52	Barter agreement	Denmark exports - butter and meat - 47 million Kroner USSR exports - rye, wheat, oats and oil cakes - 51 million Kroner
		Dec 1952	N. A.	Supply of 25,000 T oilcakes by USSR in part settlement of credit for tankers being constructed by Denmark
USSR-Finland c/	(31 Jan 1945)		Trade agreement	Deliveries by USSR of foodstuffs in compensation for strategic materials and repairs to warships by Finland
	(5 Dec 1946)	5 Dec 46 - 4 Dec 48	Trade and payments	Finland exports - prefabricated houses, timber, cellulose, newsprint USSR exports - grain, fodder Trade - 1947 - $26 million

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Finland c/	(17 Dec 1948)	1 Jan 49 - 31 Dec 49	Protocol to trade and payments agreement of 5 Dec 46	Finland exports - prefabricated houses, paper and paper products, wood and wood products USSR exports - cereal grains, petroleum, products, fertilizers, iron and steel products Trade - 1949 - $100 million (about same as in 1948)
USSR-Finland-Poland)) USSR-Finland-Czech)	(29 Jun 1949)	1 Jul 49 - 30 Jun 50	Trilateral trade and payments agreements	Finland to deliver to USSR goods to value of 100 million rubles, 80 million rubles on Polish account and 20 million rubles on Czech account. USSR will deliver goods of equal values to Poland and Czech, which, in turn, will make equivalent shipments to Finland.
USSR-Finland	(13 Jun 1950)	1. 1 Jul 50 - 31 Dec 50 2. 1 Jan 51 - 31 Dec 55	Trade agreement Long-term trade agreement	1. Second half 1950 - US 32 million each way 2. 1951-1955 - 1,410 million rubles each way Under 5-year agreement Finland's exports will exceed imports and the difference will be made up by deliveries from Poland and Czech under trilateral agreements.
	(2 Dec 1950)	1 Jan 51 - 31 Dec 51	Under framework of long-term agreement of 13 Jun 50	Finland exports - $67 million USSR exports - $47 million plus $20 million in deliveries from Poland and Czech under trilateral arrangements

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Finland-Poland	(22 Mar 1951)	Year 1951	Tripartite trade protocols to 1951-1955 trade and payments agreement	Finland is to supply goods to value of 80 million rubles to USSR. Poland is to supply goods worth 48 million rubles to Finland and Czech is to supply goods worth 32 million rubles to Finland
USSR-Finland-Czech	(26 May 1951)	Year 1951		
USSR-Finland	(21 Dec 1951)	1 Jan 52 - 31 Dec 52	Under framework of long-term agreement of 13 Jun 50	Provides for exchanges between Finland and USSR of 585.5 million rubles, equivalent to $146.4 million. In addition trilateral arrangements with Poland and Czech to be included.
USSR-Finland-Poland	(1 Mar 1952)	Year 1952	Tripartite trade protocols to 1951-1955 trade and payments agreement	Finland to export to USSR goods to value of 85 million rubles, receiving in exchange goods valued at 52 million rubles from Poland and goods from Czech valued at 33 million rubles
USSR-Finland-Czech	(24 Mar 1952)	Year 1952		
USSR-Finland	(23 Sep 1952)	1. For 1952 2. For 1953-1955	Supplementary trade agreements	1. 85 million rubles 2. Annual exchanges at 175 million rubles
USSR-Finland-China	(21 Sep 1952)		Trilateral trade agreement	Finland to deliver China goods valued at 34 million rubles and the USSR to send same value of goods to Finland. China to send products of equal value to USSR.
USSR-Finland	(23 Feb 1953)	1 Jan 53 - 31 Dec 53	Within framework of long-term agreement of 13 Jun 50	Finland exports - $150 million USSR exports - $112.5 million

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Finland-Poland))	(24 Feb 1953)	Year 1953	Trilateral trade protocols to 1951-1955 long-term agreement	Compensating deliveries to Finland by Poland and Czech in 1953. Poland exports - $14.5 million Czech exports - $8 million
USSR-Finland-Czech)				
USSR-France d/	(Late Feb 52)		Barter agreement	Russian pitprops and anthracite for French textiles and iron and steel products, value $3 million.
	(Jan 1953)		Barter agreement	155,000 T Russian anthracite for essential oils, cork, iron and steel products from France.
USSR-Greece e/	(Jul 1952)		Barter agreement	Exchange of Greek tobacco and bay leaves for Rumanian timber, Russian fertilizer and caviar. Estimated value of total transactions - $2-$3 million in each direction.
	(Feb 1953)		Tobacco contract	
USSR-Italy	(11 Dec 1948)	1. 11 Dec 48 - 11 Dec 49 2. 3-Year Trade Agreement	Trade and payments Investments	1. $50 million each way 2. $100 million each way for 3 years. Italy exports industrial equipment and ships in exchange for raw materials, especially wheat, pig iron, steel ingots and petroleum.

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Italy	(12 Sep 1950)	Oct 50 - Feb 51	Grain Contract under Investment Agreement of 11 Dec 48	USSR exports - wheat (200,000 tons)
	(Mar 1952)	1 Jan 52 - 31 Dec 52	Trade and payments agreement replacing agreement of Dec 48.	Italian exports - ball and roller bearings, citrus fruit, spices, textiles, ($21 million) USSR exports - wheat, anthracite coal, petroleum products, manganese ore, ($26 million) Unutilized quotas of 1948 3-year investment agreement still in effect.
USSR-Netherlands	(10 Jun 1948)	Five-year TA	Long-term trade and payments	First postwar trade agreement. No annual schedules for later years. Original quota lists for most part intended for 12-month period; in practice have been treated as 5-year quota. Trade for first year - 90 million guilders each way (approximately $23.7 million).
	(Oct 1951)		Contract	5,000 T rubber and five 14-knot refrigerator ships from Netherlands in exchange for 120,000 T grain and 75,000 T coal.
USSR-Norway	(27 Dec 1946)	Valid two years	Trade and payments	Quotas for year 1947 given.

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Norway	(6 Jan 1948)	1 Jan 48 - 31 Dec 48	Protocol to trade and payments agreement of Dec 46	Norway exports - aluminum, fish oils, herring, pyrites, molybdenum concentrates USSR exports - grains, phosphate, manganese and chrome ore, asbestos
	(10 Jan 1949)	1 Jan 49 - 31 Dec 49	Replaces protocol of Jan 48 to trade agreement of Dec 46	Essentially same commodities
	(10 Jan 1949)	1 Jan 49 - 31 Dec 51	Long-term agreement	Switch to barter type agreement because Norwegians felt it to be more workable with Soviets
	(May 1952)	Jan - Dec 1952	Compensation agreement	Norway exports - herring, aluminum (2,000 T) USSR exports - cereals, manganese ore (20,000 T)
	(Apr 1953)	1 Jan 53 - 31 Dec 53	Barter agreement	Norway exports - aluminum, increased to 3,000 T, fats, herring USSR exports - manganese ore, increased to 30,000 T, cereals, chrome ore (10,000 T (only commodity to be effected by payments and it will be paid in pounds sterling).

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Sweden	(Oct 1946)	Year 1947	Trade and payments	
	(Oct 1946)	Oct 46 - Dec 51	Investment and credit	One billion Swedish Kronor to USSR by Sweden until end Dec 51.
	(Jan 1948)	Year 1948	Protocol to TA of Oct 46	30,000,000 Swedish Kronor each way - 1948
	(? Apr 1949)	Year 1949	Replaces protocol of Jan 48 to trade and payments of Oct 46	Swedish exports - 45 million Kronor Swedish imports - 25 million Kronor
	Note: No protocol actually signed for 50. Estimated quota lists for 1950.			
	(20 Apr 51)	Year 1951	Protocol to trade and payments of Oct 46	Trade - 40 million Kronor each way for 1951
	(Jan 1952)	Year 1952	Trade and payments protocol	Swedish exports - 80 million Kronor plus 35-40 million Kronor of commodities previously under credit and now to be paid in cash Swedish imports - 90-100 million Kronor
	(Apr 1953)	Year 1953	Trade and payments protocol	Trade for 1953 - 75 million Kronor each way

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Switzerland	(17 Mar 1948)	1 Apr 48 - 1 Apr 49 Extended to Dec 49	Trade and payments	First postwar agreement with investment protocol; deliveries to 1951
		1 Apr 48 to 1951	Investment schedules	
USSR-Turkey f/				
USSR-UK	(27 Dec 1947)	Dec 47 - Dec 51	Trade, payments, and investment	Soviet deliveries and UK deliveries - 1 Feb - 30 Sep 48 (under short-term arrangement) UK deliveries - 1948-1951 (long-term arrangements - delivery of capital equipment) Trade contracts regarding grain deliveries, Sep 49 and Nov 50; timber deliveries, Jun 50.
	(May 1952)		Herring contract	Cured herring supplied by UK in exchange for salmon and crab
		Oct 52 - Jan 53	Grain contract	
USSR-West Germany g/				

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Yugoslavia	(Apr 45)	13 Apr 45 - 31 Dec 45	Commercial	8 months period
	(Jul 47)	1. 1950-1957	Investment	Deliveries of installations from USSR to begin in 1948.
		2. 1948-1950	Goods and payments	Yugoslavia to fulfill her obligations in course of 7 years, beginning in 1950. Soviet cotton, paper, cellulose, petrol, coal and coke in exchange for lead, zinc, pyrite concentrates, copper, tobacco (1 Jun 47 - 31 May 48)
	(Dec 48)	Year 1949	Trade Pact	Yugoslavia exports - lead and other metals, hemp, tannin USSR exports - petroleum products, rolling mill products, drilling rig parts, chemicals; trade reduced one-eighth.

NEAR EAST

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Egypt	(3 Mar 1948)	Mar-Jun 48	Barter agreement	Russian wheat and corn for Egyptian cotton
	(Dec 1950)		Barter agreement	USSR - wheat (100,000 T) Egypt - cotton
USSR-Egypt-Rumania-Hungary	(9 Jul 1951)		4-way Barter agreement	Russian wheat for rice from Egypt - $18.2 million each way. Hungary and Rumania to sell wheat to Egypt for exchange of Egyptian cotton - value of exchange of 2 satellites approximately $19 million.
USSR-Egypt	(3 Mar 1952)	1 Mar 52 - 30 Jun 52	Barter agreement	Exchange of 200,000 T Russian wheat for 20,000 T Egyptian cotton
	(End May 1952)		Barter agreement	Exchange of 50,000 T Russian wheat for Egyptian long staple cotton
	(Jan 1953)		Barter agreement	Exchange of cotton valued at 3,000,000 pounds sterling for industrial materials, especially machinery
USSR-Egypt-Poland-Bulgaria	(10 Mar 1953)		4-way Barter agreement	Exchange of wheat for cotton. Total value - $12,600,000. USSR - 90,000 T wheat against 9,900 T cotton. Bulgaria - 15,000 T wheat against 1,600 T cotton. Poland - 10,000 wheat against 1,170 T cotton.

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Iran	(4 Nov 1950)	10 Nov 50 - 10 Nov 51	Protocol to 1940 Commerce and Navigation Agreement	USSR exports - sugar, iron, rails and rail equipment, cement Iran exports - rice, raw cotton, tobacco, dried fruits and nuts Total value - $30 million each way
	Note: Trade carried on in diminishing degree under quotas estimated in Nov 50 agreement although it expired in Nov 51.			
		1 Apr 52 - 31 Mar 53	Barter agreement	Products essentially same although in most instances in reduced quantity. Additions to Iran exports are 6,000 T zinc ore and 4,000 T lead ore. Additions to USSR exports are 800 T lubricants, 1,200 T fuel oil and 1,000 T tar.
USSR-Iraq h/				
R-Israel	(10 Dec 1951)		Contract	Info received from Israel Legation of sale of citrus fruits to USSR
	(1 Mar 1952)		Contract	Shipment of 30,000 cases oranges and 50 T bananas by Israel

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Israel	(4 Sep 1952)		Contract	140,000 cases oranges with option that USSR could buy another 160,000 cases
		Dec 52 - Apr 53	Contract	15,000 T oranges during winter shipping season of 1952 - 1953. Soviets paying about 1 million pounds sterling for whole shipment.

FAR EAST

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-Afghanistan	(Nov 1947)		Barter - although not entirely as Afghanistan not able to offer enough goods payment in dollars for some of Russian petrol	USSR exports - petrol, sugar, piece goods Afghanistan exports - wool
	(Aug 1948)		Trade and Payments	USSR exports - petrol, sugar, cotton cloth, white and black iron Afghanistan exports - goat and sheep skins, wool Trade - 3 1/3 million US dollars
	(17 Jul 50)	1950 - 1954 1 Jul 50 - 30 Jun 51	Long-Term Agreement Trade and Payments	USSR exports - gasoline, kerosene, sugar, cotton piece goods Afghanistan exports - sheep and goat skins, wool, cotton, opium Trade - approximately 5 million dollars each way annually
		1. 1 Jul 52 - 30 Jun 53	Within agreement of 17 Jul 50	Commodities principally same - addition of exports of Afghanistan fruits and nuts
	(28 Nov 52)	2. Jul 52 - Jun 53	Supplement to agreement of 1 Jul 52 - 30 Jun 53	Increase of Russian refined sugar exports and an increase of Afghanistan exports of cold-washed wool
		Negotiations for period 1 Jul 53 - 30 Jun 54	Within agreement of 17 Jul 50	Commodities same as previous years - actual trade lagged in past years because of Afghanistans inability to export its goods and to store Soviet petrol products.

AGREEMENT PARTNERS	(DATE OF SIGNATURE)	PERIOD	TYPE OF AGREEMENT	REMARKS
USSR-India	(Feb 1949) (Apr 1949)		Barter agreements	USSR exports - grains India exports - jute, tea, castor oil Information from OIR
	(22 Jun 1951)		Barter agreement	USSR exports - 100,000 T wheat India exports - jute, tea, tobacco, lac
USSR-Indonesia i/				
USSR-Japan j/	(Aug 1952)		Barter agreement	An exchange of 13,000 T Sakhalin coking coal for 189,000 pounds Japanese rayon yarn - approved by MITI
USSR-Pakistan	(16 Sep 1952)		Barter agreement	Exchange of Soviet wheat (150,000 T) for 22,000 T jute and 13,150 T cotton - first official trade agreement

25X1

[redacted]

APPENDIX 2 FOOTNOTES

WESTERN EUROPE

a. USSR-Austria

A note was sent by the Austrian Government to the Soviet Political Representative in Vienna on 5 September 1952, suggesting the basis for renewal negotiations for a trade and payments agreement between the two countries. No action to date.

b. USSR-Denmark

Information received in May 1953 indicated that discussions had commenced with regard to an exchange of commodities between the two countries. The commodities are based on lists exchanged at ECE Executive Secretary's Consultation on East-West trade held in Geneva in April.

c. USSR-Finland-Denmark

Information in June 1953 stated that the trilateral agreement approved in principle by USSR and Denmark. This is first trilateral agreement that Finland would have which would involve another Western country as a third partner. By these trilateral

25X1

arrangements, Finland plans to use her credit with Bloc countries in reducing her deficit with Western countries.

d. USSR-France

Two other barter agreements were being contemplated in December 1952 but, to date, no notification of authorization has been received. The first proposed an exchange of storage batteries and lead valued at 300 million French francs for brai of Russian origin of an equal value. The second called for an exchange of 1,000 tons of lead for Russian asbestos of equivalent commercial value.

Negotiations for a 3-year trade agreement between the two countries were in process in June 1953. The trade agreement seems dependent on the sale of ships to USSR by France. Russia's offer to purchase large amount of textiles will appeal strongly to French whose textile industry is seriously depressed.

e. USSR-Greece

Negotiations in May and June 1953 for an agreement involving the exchange of Russian anthracite coal and petroleum for

25X1

Greek tobacco, bay leaves and citrus fruits.

f. USSR-Turkey

Information received in December 1952 concerning a barter agreement involving 50,000 head Turkish cattle for 30,000 metric tons of Russian kerosene. Difficulties ensued because of the inability of Turkey to deliver the cattle due to government requirements and the Russians would make no promise regarding the delivery date of the kerosene.

g. USSR-West Germany

Provisional trade treaty signed 7 April 1952. German negotiators represented tentative trade organization called OSTAG which is not a binding legal instrument. Treaty required ratification by proper authorities in West Germany and USSR.

Barter agreement of $20 million each way expected to be signed the beginning of 1953 between USSR and West Germany. The agreement originally was to have been between East Germany and West Germany but was refused by East Germany.

Negotiations began in January 1953 for the import of Russian

25X1

grain into West Germany. The West German firms involved are Deutsche Getreide Futtermittel and Fischer-Wepples.

NEAR EAST

h. USSR-Iraq

Negotiations were in progress in February and March 1951 for the conclusion of a barter agreement providing Iraq with Russian merchandise (mainly agricultural machinery, motor cars, newsprint, electrical equipment, cotton piece goods and sugar) in exchange for dates, maize, wool and hides.

FAR EAST

i. USSR-Indonesia

In November 1952 preliminary talks envisaged an exchange of Indonesian rubber for wheat. December 1952 information reported the possibility of the USSR asking for the conclusion of a long-term contract for the purchase of Indonesian rubber. Information in June 1953 stated the USSR may be negotiating long-rumored barter agreement with Indonesia, possibly for rubber supplies at slightly below world price.

25X1

[redacted]

j. USSR-Japan

Information in March 1953 stated USSR was offering 250,000 tons Sakhalin coal to two Japanese trading companies in the hope that they will barter tunafishing boats in return. Export of wooden fishing craft of limited specifications approved by SCAP in exchange for Sakhalin coal. In February 1952, however, SCAP refused a barter arrangement of 110,000 tons Sakhalin coal for three 30-foot fishing vessels as being beyond the limits provided in the Japanese Export Trade Control Ordinance. Information in May 1953 stated Soviet trade representatives in Tokyo reportedly negotiating with various Japanese firms for the barter of timber and oil in return for Japanese products including electric wiring.

LATIN AMERICA

The only trade agreement with Latin American countries is the one pending with Argentina. Information in June 1953 stated that a trade pact between USSR and Argentina would be concluded shortly. The value of trade is estimated at $100 million each way, 1/ although press reports state the total value of trade at $150 million.

1/ A draft of the Argentine-USSR trade agreement shows Argentine imports valued at $96 million and exports at $75 million.

25X1

[redacted]

Argentina is to supply linseed oil, mutton and pork, hides, wool, cheese, and animal fats for rails, railway wheels, petroleum, coal, iron and steel products, capital goods, including oilwell equipment and agricultural machinery.

Covering memo from

STAT [redacted]

and

Explanatory memo from

STAT [redacted] member

who prepared contribution

missing here.

10 August 1953

Developments in INTERNATIONAL SECURITY TRADE CONTROLS Including US Measures of International Impact December 1947-August 1953

Contents

VII. The Second Year of the Battle Act, up to the Truce in Korea — Jan - Aug '53

(a) Pertinent Political and Economic Events
(b) Main Problems
(c) Security Trade Controls

I. The Pre-CoCom Period: December 1947 - December 1949

(a) Pertinent Political and Economic Events

26 June 1946: Signing of the United Nations Charter in San Francisco.

Winter 1946/47: East/West tension begins to develop in Germany and elsewhere.

June 1947: General Marshall's speech at Harvard University on Aid to Europe.

July 1947: Molotov withdraws from the Marshall Plan Conference in Paris.

1947: Soviets obstruct plans for European Recovery and show intransigence at meetings of the Council of Foreign Ministers in Moscow and London.

Summer and Fall 1947: The (temporary) Committee for European Economic Cooperation formulates a program for European recovery and submits its report to the US Government in September.

3 April 1948: Enactment of the Foreign Assistance Act of 1948 (Public Law 472, 80th Congress), creating the Economic Cooperation Administration (ECA) for economic aid to Europe and China.

April 1948: Establishment of the (Permanent) Organization for European Economic Cooperation (OEEC) in Paris

Spring 1948: Soviets leave the Control Council for Germany and the Berlin Kommandatura, thus disrupting the quadripartite administration of Germany.

June 1948: Yugoslavia's break with the Cominform. Tito gradually turns to the West.

June 1948-May 1949: Berlin Blockade by Soviets and the Allied Airlift.

April 4, 1949: Signing of the North Atlantic Treaty Organization (NATO) in Washington.

August 24, 1949: The NATO Treaty becomes effective after ratification by all member nations.

(b) Security Trade Controls

17 December 1947: Decision of the U.S. National Security Council to stop shipments of short supply or strategic commodities to the Sovbloc.

* 1 March 1948: Department of Commerce establishes export licensing controls over all US exports to Europe (under authority of the Act of July 2, 1940) and thus initiates US security trade controls.

* 3 April 1948: The Foreign Assistance Act of 1948, Public Law 472 (See Sub-Chapter (a)) is enacted, creating the Economic Cooperation Administration. Section 117(d) of this Act contains the first, though qualified, restrictions on the export of strategic items. Subsequent US legislation in the field of security trade controls referred to or was based upon this initial provision until it was repealed by the Battle Act in October 1951.

Spring and Summer 1948: An inter-agency Advisory Committee on Requirements (ACR) is formed and a special Steering Committee under its direction develops two lists of strategic items for control: List IA for embargo and List IB for quantitative controls.

* 27 August 1948: Following an earlier Cabinet decision, the Special Representative of the ECA in Europe (OSR) is instructed by TOSEP 816 to open discussions with aid-receiving countries in Europe regarding "parallel action" in security export controls on the basis of the US control lists. (Section 117 (d) of the Foreign Assistance Act of April 1948 provided for limited parallel action.) These instructions of OSR constitute the basic policy directive to obtain cooperation in security trade controls from WEP countries, namely: critical items must be denied to the Sovbloc, but since Europe's recovery depends on E-W trade, essential trade must continue; existing commitments to the Bloc are to be recognised if their abrogation would have serious economic effects; cooperation should be voluntary; full "parallel action" to be required only with regard to List IA, but not List IB.

* 1949: The US Export Control Act of 1949 replaces the Act of July 1940. This is the basic US law for all subsequent US security trade control regulations.

First half of 1949: A period of bilateral negotiations.
a) Early 1949, an Anglo-French List for controls is established.
b) Bilateral talks between the UK and individual countries.
c) July 1949: US-UK technical meeting concerning their respective embargo lists.

Second half of 1949: The need for multilateral approach is recognised.

October 11-14, 1949: Meetings in Paris by six countries. An informal "Consultative Group" (CG) is established.

November 14-23, 1949: Meetings of the Consultative Group produce the following results:

a) The Consultative Group will be continued on a permanent basis at the ministerial level with working committees and a secretariat.
b) Three International Control Lists are established, viz. List I (IL/I) embargo; List II quantitative controls; List III consultation.
c) An understanding with regard to trade agreements is reached, namely: strategic commitments in existing commitments should be fulfilled only if no substitute solution can be found; they should be avoided in new agreements.
d) The transit trade problem is discussed. See Working Group Paper: Report on Transit Trade, November 17, 1949.
e) The problem of cooperation by Sweden and Switzerland is raised.

II. From the Establishment of CoCom to the Tripartite Meetings in New York and London: January to December 1950

(a) Pertinent Political and Economic Events

27 June 1950: Outbreak of hostilities in Korea.

1 July 1950: The European Payments Union (EPU) begins to function

Fall 1950: A war-induced economic boom grips the world markets.

November 1950: Chinese Forces join in the Korean War in support of North Korea.

(b) Security Trade Controls

* 9-20 January 1950: Meeting of the Consultative Group in Paris which decides to establish a permanent Coordinating Committee (CoCom).

* February 1950: CoCom begins to function with the following Participating Countries ("PC's"): UK, France, Italy, Belgium, Luxembourg, Netherlands, Denmark, Norway, Canada, and US. Germany and Portugal joined later, raising the membership to twelve.

24 April 1950: Effective date for the transfer of East-West trade responsibilities with regard to CG/CoCom from ECA to the State Department.

July 1950: US revokes all outstanding licenses of US Positive List items destined for Communist China, North Korea, Hong Kong and Macao.

* July 1950: CoCom re-defines the Soviet Bloc to include Communist China and North Korea. This action makes all CoCom controls in force against the Bloc, equally applicable to China and North Korea.

Summer and Fall 1950: Several technical meetings on US IB List, on transit trade problems (July, October, December) and on possible cooperation of Sweden and Switzerland.

September 19, 1950: Big Three Foreign Ministers Meeting in New York, reaches agreement on policy differences between members of CoCom, especially the US and UK.

* 27 September 1950: The "Cannon Amendment" (Supplemental Appropriation Act of 1951, Public Law 843) prohibits economic assistance under the Economic Cooperation Act of 1948 to any country whose trade with the Soviet bloc is found by the National Security Council to be contrary to the security interests of the US.

The NSC determined on 21 December 1950, after scrutinising trade on a country-by-country basis, that economic aid should not be cut off to a number of countries. No recommendation for a cessation of aid was made at this or a later date.

17 October-20 November 1950: Tripartite Meetings in London (US,UK and France). Major changes in the control lists: 1) number of items on the embargo and quantitative control lists is increased; 2) a new list of potentially strategic items set up for exchange of information; 3) control of items needed for Western defense referred to NATO.

29 November: Final Tripartite Agreement presented to Participating Countries at a CO Meeting for submission to their governments. The work of CoCom is reviewed at the same meeting.

17 December 1950: US Foreign Assets Control Regulations respecting China (except Formosa) and North Korea, issued by the Treasury, block the assets in the US of China, North Korea and their Nationals. The transactions involving such assets require Treasury licenses. Dollar Accounts of the USSR and the Satellites are not blocked at this date.

* December 1950: The US embargo against Communist China, Manchuria and North Korea with regard to exports and shipping is completed (pertinent orders of June 28, July 20, December 3, 4 and 6, 1950 and several transportation orders in late 1950 and early 1951); All imports are prohibited with the exception of a few strategic items; Chinese dollar assets are frozen by the Foreign Assets Control Regulations (see above).

III. From the Acceptance of the Tripartite Agreement to the United Nations Resolution on Embargo Against China - January-May 1951

(a) Pertinent Political and Economic Events

The war in Korea continues.
World markets are booming.

February 1951: Supreme Headquarters of the Allied Forces (SHAPE) are opened near Paris. Supreme Commander: General Eisenhower.

11 April 1951: Recall of General Douglas MacArthur from his command in Korea. Senate Inquiry.

18 April 1951: Signing of the European Coal and Steel Community Treaty (Schuman Plan Organization).

(b) Security Trade Controls

* 16 January 1951: At a meeting of the Consultative Group, the PC's signify acceptance of the Tripartite (US, UK and France) Agreement with certain exceptions. Tripartite demarches have been made earlier to Sweden and Switzerland and the two neutral countries were given copies of the Tripartite Lists.

16 January 1951: Main discussion topics: transit trade, secrecy, trade agreements, economic impact of security controls.

22 January 1951: US General Order 59 prohibits chartering of US documented vessels for carriage of cargoes to or from any Soviet bloc country.

13 February 1951: Meeting in Brussels of the Working Party on continental rail and road transport.

2 March 1951: Meeting of the sub-committee on transit trade control which recommends, among others, the adoption of a system of Import Certificates-Delivery Verification (IC/DV).

Spring 1951: New versions of the International Control List were issued by CoCom, including the items on the Tripartite List.

A great number of technical questions were discussed in CoCom over several months.

2 March 1951: The US institutes a licensing system for all shipments to the USSR and the Eastern Europe Satellites.

21 March 1951: An inter-agency meeting in Washington on German export controls marks the beginning of a thorough overhauling and rebuilding, under the supervision of HICOG and the US Department of Commerce, of the utterly inadequate German export control system.

The task required many months during which Germany was visited for lengthy periods by a US Technical Mission and a Congressional Committee. Controls began to improve by the fall of 1951, but it took until spring 1952 before they worked smoothly and satisfactorily.

7 April 1951: Resolution of the Latin American Foreign Ministers to the effect that the American Republics agree to cooperate with one another in the adoption of effective measures of economic defense and security controls.

* 12 April 1951: The US states its "Policies and Programs in the Economic Field which may affect the War Potential of the Soviet bloc" (NSC 104/2).

Progress reports on the implementation of NSC 104/2 are issued quarterly. The first one on 15 May 1951.

NSC 104/2 is the basic policy statement of the US in the field of economic defense.

* 18 May 1951: The General Assembly of the United Nations passes a resolution on a qualified Embargo against China: 45 nations in the UN agree to apply embargoes on the shipment to Communist China of "Arms, ammunition, implements of war, atomic energy materials, petroleum, transportation materials and items useful in the production of arms, ammunition and implements of war". The definition of individual items and the methods of controls are left to the interpretation of the various countries; the scope and effectiveness of controls, therefore, varied considerably.

Note: The UN Resolution does not introduce a complete embargo against Communist China, but one limited only to "articles of war".

The draft resolution for the Embargo proposal is of US origin; it was introduced to the "Additional Measures Committee", on 7 May. Prolonged informal negotiations preceded this act.

May 1951: CoCom agrees to the introduction of the IC/DV system. It begins to work effectively only during the fall of 1952.

IV. From the Kem Amendment to the Enactment of the Battle Act - 2 June - 26 October 1951

(a) Pertinent Political and Economic Events

The war in Korea continues.
The World Economic Boom, caused by the war, continues, but flattens out toward the end of the year.

July 1951: Armistice Negotiations in Korea begin.

8 September 1951: Signing of the Treaty of Peace with Japan (ratification on 28 April 1952).

September 1951: Signing of Treaties of Defense with Australia, New Zealand and the Philippines.

25 October 1951: General Elections in Great Britain. The Labor Party is defeated after six years in power; the Conservatives win with a narrow margin. Winston Churchill heads the government.

(b) Security Trade Controls

* 2 June 1951: The Kem Amendment (section 1302 (a) of the Third Supplemental Appropriations Bill of 1951). This amendment - which repeals the Cannon Amendment of September 1950 - provides that no economic or financial assistance other than military, may be given to any country which exports to the Soviet bloc arms and ammunition; or material which may be used in the manufacture thereof; or any commodity the shipment of which to the Soviet bloc from the US is prohibited by the US. The countries are required to certify monthly (the first time fifteen days after passage of the Act) that they have complied with this rule.

The National Security Council may grant exceptions "in the security interest of the US". Such exceptions are to be reported to six committees of Congress.

2 June 1951: President Truman signs the Appropriation Bill into law, but issues a vigorous protest against the Kem "rider" as unjust, unrealistic, unwieldly and unworkable. He urges Congress to replace the rider by better provisions.

5 June 1951: The Secretary of Defense issues the list of items, based on US embargo lists, which - under the Kem Amendment - may not be shipped by any country receiving US economic aid.

June 1951: The "China Prohibited List" is promulgated by the UK and adopted by its Colonies including Hong Kong. It includes all items on International Lists I and II, a number of International List III items and 36 additional items. Aside from the complete

embargo proposed by the U.S., this represents the most stringent form of export controls against China instituted by any country as of this date.

June 1951: Hong Kong introduces the "Essential Supply Certificates", an import license granted only for legitimate consumption in Hong Kong and for controlled re-export to non-communist countries.

Summer 1951: A bilateral informal "Understanding" between the U.S. and Switzerland assures farreaching cooperation of the Swiss in international security controls.

18 June 1951: This is the date when the first certifications of compliance with the Kem Amendment by aid-receiving countries are due. Not many countries were in a position to meet the deadline and/or the requirements. Therefore on June 18,1951, the National Security Council grants a "general interim exception" for all countries until such date when they are able to furnish the required certifications or until specific country exceptions can be made by the NSC upon recommendations of its Special Inter-Agency East-West Trade Committee. This amounts to a virtual suspension of the sanctions of the Kem Amendment.

June-October 1951: The NSC reviews 66 countries in all. Twenty-five countries (mainly South American, Mediterranean and some Far and Middle Eastern) provide the necessary certifications on the target date and supply renewals at 30-day intervals.

The others - temporarily covered by the "interim exception" - are subjected to thorough analyses by NSC's special Committee on East-West Trade. General economic conditions, trade patterns and special circumstances are taken into account in writing the "special determinations for exception" which gradually, country by country replace the general interim exception.

V. From the Enactment of the Battle Act to the Effective Date of its Enforcement - October 26, 1951 - 24 January 1952

(a) Pertinent Political and Economic Events

Fall 1951: Signs of a beginning economic recession in world markets follow the war-induced boom. The mild recession continues through the middle of 1952 when a general improvement becomes evident.

Fall 1951: Important meetings on NATO questions take place in Ottawa and Rome.

(b) Security Trade Controls

* 26 October 1951: The "Mutual Defense Assistance Control Act of 1951" (Public Law 213-82d Congress) generally called the "Battle Act" is enacted.

Effective the same date, the Act repeals the Kem Amendment and Section 117(d) of the Foreign Assistance Act of 1948 (See Chapter I).

This Act establishes as the policy of the US the termination of all military, economic or financial assistance to any nation which "knowingly permits" the shipment of certain stated categories of strategic commodities to a nation or nations which threaten the security of the United States.

In accordance with the provisions of the Act, two embargo lists of strategic items have to be set up within thirty days after its enactment; the aid-receiving nations are to be provided with copies. Sixty days thereafter - on January 24, 1952 - the embargo lists become effective and the provisions of Section 103(b) of the Act, calling for termination of aid in case of strategic shipments, come into force.

1 November 1951: The Administrator for Mutual Security establishes the "Mutual Trade Security Advisory Committee"(MTSAC), an inter-agency group, designed to assist him in carrying out the provisions of the Battle Act.

Standing members are the Departments of State, Treasury, Defense, Commerce, the Office of Defense Mobilization, the Mutual Security Administration and the Central Intelligence Agency. This group was later (on 24 March 1952) re-named "EDAC".

25 November 1951: The Administrator under the Battle Act establishes the two embargo lists required under the provisions of Title I. The lists will become effective sixty days later, after which time sanctions will apply (see above).

These lists, usually designated as "MDAC Lists" or "Battle Act Lists" are:

1. The Title 1, Category A List or "Embargo List". It comprises arms ammunition, implements of war, atomic

energy material. Items on this list are embargoed to the Soviet Bloc . Shipments by any of the aid-receiving countries would cause immediate termination of aid - this is mandatory and there are no exceptions. The List is unclassified and has been published.

2. The Title I, Category B List or "Presidential Exceptions List". (The List was revised on December 31, 1952). It consists of Petroleum, Strategic Transportation Materials and Items of Primary Strategic Significance.

Shipment of any of these items to the Sovbloc by aid-receiving countries would entail a termination of aid, unless a presidential exception is granted.

Category B covers 264 listings, each encompassing numerous individual items.

28 November 1951: The Administrator under the Battle Act determines the third export control list, namely:

3. The Title II List (amended on December 31, 1952). This List contains items of lesser strategic importance about which the Administrator may negotiate a controlling program with the aid-receiving countries. At present, it contains only 16 items. Seven of which are on IL/II, seven on IL/III and two on neither.

30 November 1951: A US Technical Mission, sent to Germany as consultants on security export controls, submits its final report after a two months study. Great progress is noted in the establishment of a workable German control mechanism, which was initiated in the spring of 1951, under US auspices.

November 1951: The UK imposes (limited) physical controls over transshipments.

November/December 1951: CoCom discusses shipping problems.

December 1951/January 1952: The aid receiving countries are being furnished with the Battle Act List and with explanations of the meaning and the implications of the Act. The reception in the European press is rather unfavorable, culminating in an article in the London "Economist", entitled "The Battle Ax".

January 1952: An upsurge in strategic shipments to the Sovbloc is noted in an effort by aid-receiving countries to liquidate as many trade commitments as possible before the "deadline" of 24 January, when the Battle Act sanctions become mandatory.

* 24 January 1952: The effective date of the Battle Act provisions for aid-receiving countries.

After this date the provisions of Section 103(b) of the Act come into force, which means that shipments to the Sovbloc of items on the MDAC (Battle) Lists would result in the termination of US aid, unless the President explicitly directs that aid should continue because its cessation would be detrimental to the security interest of the US.

VI. The First Year of the Battle Act up to the Formation of ChinCom January - DECEMBER 1952

(a) Pertinent Political and Economic Events

February 1952: The NATO Council meets in Lisbon and establishes NATO goals for the European Army.

April 5 - 12, 1952: An "International Economic Conference" held in Moscow, presided over by the president of the Russian Chamber of Commerce (See under b) security controls.

April 28, 1952: The Peace Treaty with Japan comes into force after ratification by the US Senate.

May 26, 1952: A "Contractual Agreement" is signed in Bonn between the Three Big Powers and Germany. This ends the USF status, restores Germany's independence and controls the occupational regime, in absence of a Peace Treaty to which the USSR is opposed.

May 27, 1952: The European Defense Community Treaty (EDC) is signed in Paris.

June 16, 1952: The European Coal & Steel Community (Schuman Plan Organisation) is ratified by all six member nations (it was signed in April 1951).

Summer and Fall 1952: American Election Campaign.

August 8, 1952: Syngman Rhee is elected President in South Korea's first presidential election.

October 1952: Publication of Stalin's article on politico-economic questions in the magazine "Bolshevik".

5 October 1952: The 19th Congress of the Communist Party of the Soviet Union convenes in Moscow. The Soviet Directorate is reorganised.

November 4, 1952: Elections in the U.S. The Republican Party wins, with Eisenhower as president-elect.

(b) Catalogue of Main Problems

The year 1952: During the year the essential problems connected with the international control of strategic shipments gradually unfolded and their various aspects were discussed in many meetings, too numerous to list chronologically.

(1) The Secrecy Problem: The fact that the very existence of the international control committee (CoCom) is kept secret often interferes with the application of controls by individual countries and prevents effective propaganda for the necessity of withholding strategic goods from the Soviet Bloc. Many Participating Countries, however, insisted on keeping CoCom secret out of fear

of compromising their neutral attitude towards both East and West, of retaliations from the Soviet bloc, and of difficulties from their own leftish political parties.

(2) Prior Commitments: These concern the PC's obligations regarding contracts -- both private or trade agreements -- which were concluded before the Battle Act became effective.

If a country ships strategic commodities under such previous obligations, it is liable to the sanctions of the Battle Act unless a presidential exemption is granted.

(3) The strategic lists are under continued scrutiny for possible revisions. The International Lists (IL I, IL II and IL III) are binding on the CoCom countries; the Battle Act Lists based on a US law, are not binding, in the meaning of international law, on any foreign country; but since non-compliance evokes the sanctions of the Act (termination of economic, military or financial aid from the US) they are effective for all practical purposes.

The Department of Commerce issues a loose-leaf publication entitled "Correlation of Security Listings". It correlates the various US and International Control Lists in tabular form and is kept up-to-date through revisions.

(4) Trade Agreements: The problems under this heading concern both prior commitments (see above) and new agreements which, for economic or political reasons, may include items on the MDAC Lists.

The PC's are required to inform CoCom of such possible new obligations while negotiations with the prospective Soviet bloc trading partner are still under way. The other members have the opportunity to voice their approval or disapproval of the projected commitments. A compromise is usually found by reducing the amounts or by substituting items of lesser strategic significance.

After such shipments have taken place, a presidential exemption is again required to insure continuance of aid to the shipping country. A prior tacit or implicit concurrence by CoCom with the trade agreements, as submitted, is not sufficient to exempt a country from the mandatory sanctions of the Act.

(5) Transit Trade, Transshipments, Free Port privileges have proved to be the major stumbling block to effective controls. Free transit trade privileges, however, are rooted in a number of international agreements which until recently have been jealously observed. Painstaking negotiations, however, produced some limited results in the course of 1952 (see chronological list) and promised more effective solutions by July 1953.

(6) Shipping and Bunkering controls were tightened considerably in 1952 and later, both on a national and on an international scale.

(7) The IC/DV system, a system of "import certificates and delivery verifications" was devised to control the ultimate destination of strategic exports and prevent re-routing. It was designed to supplement transit trade and transshipment controls but in their absence it serves as a substitute for them, often a rather poor one. The deliberations under this topic turned mainly around (a) the assignment of responsibility for the safety of a transaction between exporting and importing country, (b) the prevention of illegitimate uses of such certificates, (c) the inability of many countries to revoke valid licenses, even if misused, because of lack of legal provisions, and (d) the prevention and discovery of outright forgeries.

According to the underlying idea of the IC/DV system the exporting country is responsible for the ultimate safety of its strategic exports. In practice, however, the countries accepted the import certificate of a friendly nation as proof for the legitimacy of a transaction, without checking any further. Thus, the responsibility was shifted to the importing country and the field was wide open for abuses. A number of such cases occurred in Italy.

(8) International Trade considers as "Custom Processing" the work of refining, extracting, improving by one country of raw materials, sent by another country for just that purpose with the request for return of the refined product. Most of the custom processing is done in the metallurgical field, because some highly industrialized countries are better prepared to treat ores or "concentrates" to a refined stage than are the countries of origin.

CoCom deliberated if (a) such work should be done at all for Soviet countries and (b) if done, if the amounts exported under such a contract should be included in the prevailing quantitative embargo provisions. Several cases came up for discussion in late 1952.

(9) Cooperation of the Neutrals (Sweden and Switzerland). Since the very beginning of international security controls negotiations with Sweden and Switzerland (mostly on a bilateral basis, conducted by the US) have assured a far reaching cooperation of these two countries, neither of which belongs to CoCom or receives US aid (see listing under 1951, 1952 and 1953).

In fact, their performance has been superior to that of many CoCom members. Sweden's exports of ballbearings and ores to the bloc have been substantially reduced in several steps; Switzerland's exports of List I commodities fell from $5 million in the second half of 1951 to $1 million in the corresponding period of 1952, while total CoCom shipments of List I items during the same period rose from slightly over $1 million to close to $4 million.

Negotiations with the neutral countries continued, on a recurrent basis, through 1952 and 1953.

(10) Controls in the occupied Countries: Germany, Austria, Japan; Strategic export controls in these three countries were introduced and supervised under the respective occupation status by the occupying Powers. Enforcement was in varying degrees left to the countries themselves, under Allied supervision.

(a) Germany: Its rather deficient and much neglected controls underwent a thorough overhauling under HICOG supervision, beginning in the spring of 1951. Improvements continued under US Department of Commerce sponsorship through the rest of 1951 and the first half of 1952. By this time the controls had been perfected to a remarkable degree and full responsibility for their functioning was turned over to Germany, which had acquired near-sovereignty after the signing of the Contractural Agreements in May.

(b) Japan: During the Occupation Japan's export controls were administered by SCAP and corresponded in severity to US controls, with some minor exceptions. The export controls could be maintained even after Japan had regained her sovereignty with the signing of the Peace Treaty in September 1951, because heavy US expenditures in Japan in connection with the war in Korea, were offsetting Japan's serious trade deficit. In the spring of 1953 Japan's controls were still stricter than that of other members of CoCom. Japan joined that group in September 1952.

(c) Austria: Austria's export controls have been strictly supervised since the end of the war by the Allied Occupation Authorities who work in close cooperation with the Austrian government. Austria is not a member of CoCom but under a bilateral agreement with the US, concluded in late 1948, the government is obligated to "institute controls parallel to those in force in the USA". A number of informal committees - the East-West Trade Committee, the Vienna Screening Committee - have handled the screening of both import and export licenses, and made countless informal end-use checks. The present successor to these committees is the Trade Advisory Panel (TAP). Austrian controls are rather haphazardly organized and in need of tightening and strengthening. Yet, under TAP's supervision and prodding they work surprisingly well, within limits.

The real problem in Austria's controls, however, is the presence of the Soviets, who have the right, under the Occupation Statute, to export as "military shipments" whatever commodities they wish without recourse to licenses and without paying taxes or duties.

(11) Far Eastern Controls: The important dates for these controls from the US embargo to the UN resolution in May 1951, to the UK China Prohibited List, to further tightening of those controls in CoCom will be found in the chronological list.

For a more detailed analysis of the problem refer to: 1) Japanese Security Export Controls on Trade with China, IWG/D-12, 28 January 1953 ; 2) Special Economic Defense Control Problems with respect to the Far East, FEDO D-7, May 22, 1953, and 3) EIC-R1-S2 of May 28, 1953, Chapter II, "Current States of Controls against Communist China".

(12) Technical Assistance. By mid-1952, pursuant to Section 302, a, b, and c of the Battle Act, an inter-agency committee began to survey the export control systems of all countries to ascertain whether they needed technical advice and assistance. A program for the exchange of study groups, composed of experts on trade controls, was developed. Visits of foreign groups to the US were to be followed by return visits of US experts to the respective countries.

The first team of visitors, though under another program, was a German Group which came in July 1952. The first group to visit under the Technical Advice and Assistance Program were Britishers who stayed here for about ten days at the turn of November/December 1952. The program lay dormant until May 1953 when an Italian Study Group was brought over. The program is now being revived with the forthcoming visit of a US team to Paris next September. It may be expected that the exchange project which is to cover at least all CoCom countries, will carry over well into 1954, possibly longer.

(c) Security Trade Controls

October 1951-August 1952: CoCom begins negotiations for specific Quotas for Items on IL/II for the year 1952. The deliberations continue to August 1952. This is the first series of discussions on List II quotas which, thereafter, became a regular annual feature, starting each year in the late fall.

January 4, 1952: The PC's agree to embargo all IL/I and IL/II items to China, a much more restrictive policy than that of UK's China Prohibited List of June 1951.

January 23, 1952: Macao introduces control legislation.

January 1952: CoCom Members agree to submit lists of Prior Commitments for items appearing on the Title I, Category B List (Presidential Exceptions List) of the Battle Act.

February 24, 1952: The US Dept. of Commerce announces the implementation by the US Government of the IC/DV system (See also "October")

* 24 March 1952: EDAC (Economic Defense Advisory Committee) replaces the MTSAC (see November 1951). Two standing inter-agency committees and several Working Groups under EDAC support the work of the ODMS (Office of the Director for Mutual Security).

* 5-12 April 1952: The International Economic Conference in Moscow under the sponsorship of the Russian Chamber of Commerce, holds out great promises to Western visitors for increased and lucrative East-West trade. A good deal of emphasis is on trade with China.

The immediate commercial effects of this conference prove to be minor, upon closer analysis. The propaganda value is very great and repercussion far-reaching.

23 April 1952: The President issues his first exception letter under the Battle Act, stating that termination of aid to the Netherlands would be "detrimental to the security interest of the United States". The Netherlands had shipped petroleum exploration equipment to Poland, under a prior commitment.

27 June 1952: The President issues the second letter of exception under the Battle Act, concerning the shipment of a grinding machine from Italy to Rumania.

30 June 1952: Belgium proposes transshipment controls in CoCom.

7 July 1952: Denmark delivers the 13,000 ton tanker APSHERON, built in a Danish shipyard under prior commitment, to the USSR.

25 July 1952: The President issues the third letter of exception under the Battle Act for the above case.

25 July 1952: The Netherlands, in CoCom, proposes the introduction of "transaction" controls in addition to transshipment controls.

July/August 1952: US-Japanese negotiations on Controls against China.

August 1952: Five Power Conference: US, UK, Canada, France, Japan. Invitation to Japan to join CoCom.

September 2, 1952: Press release of the US Dept. of Commerce on the IC/DV system (Import Certificate-Delivery Verification).

8 September 1952: US Dept of Commerce "Current Export Bulletin No. 678" on the IC/DV system with US rules of application. See also Current Export Bulletin No. 659 of 21 February 1952.

* 18 September 1952: Japan joins CoCom.

September 1952: First series of discussions on II/II quotas (begun in October 1951) are concluded.

US had proposed a quota limitation of $5 million. CoCom approved quotas valu[illegible] of the European CoCom

members against the US demands for stringent controls becomes ever more apparent, as time goes by.

October 1952: CoCom begins discussions for specific Quotas for Items on II/II for the year 1953. Increasing pressure for a relaxation of controls and for quota increases over the 1952 level is generally noticeable.

Negotiations are not concluded before August 1953.

Summer and Fall 1952: As a consequence of the Moscow Economic Conference of April 1952, a number of East-West Trading Organizations - some of them not communistic - are being formed in Western countries during the latter part of 1952, such as:

COFRACI in France, which issues a very well made Monthly Bulletin, appealing to the business world and extolling an expansion of East-West trade. Communist affiliations not clear.

The OSTAUSSCHUSS in Germany, a government sponsored committee of large business firms and manufacturers. Works in the interest of East-West trade. Definitely not communistic.

Two Committees in Belgium, composed of big business firms.

The Austrian Bureau for East-West trade, formed by the Communist professor of economics, Dr. Dobretsberger.

The ASSORCAMEI in Italy. Communist influenced.

And several others.

Fall 1952: Several cases of custom processing (see Problem #8 above) come up for discussion. It was decided that the rules governing the exports of all other commodities should apply; thus the processing work was refused to the Soviet countries. Cases under deliberations involved: the processing of ferro-tungsten and tungstic acid from wolframite by Italy and the Netherlands for Czechoslovakia; of aluminum alloys from aluminum scrap by Germany for Poland; of lead for Bulgaria and of cobalt even for Finland.

Summer, Fall and Winter 1952: An inter-agency "Working Group on Technical Advice and Assistance" (TAAWG) is established in the summer of 1952 pursuant to Title III, Section 302, a, b, c of the Battle Act (See above under b).). The Group meets weekly, studies the export control system of most foreign countries and establishes a procedure for exchanging study groups of experts on trade controls between the US and other countries. In 1953, the work is continued by the EDAC Working Groups on Application and Enforcement.

31 October 1952: First meeting of the US Joint Committee on Export Control Levels (JECCL). For details see CC Documents 956 of Oct. 22 and CC Doc. 956 of Nov 3,1952.

* November 1952: Establishment of ChinCom, CoCom's "little brother", dealing exclusively with controls directed against China and with Far Eastern control problems.

* 26 November-6 December 1952: The first study group of control experts, a team from Great Britain, visits the US under the TAAWC program (see above). The visit is under the auspices of the Dept. of Commerce and the Mutual Security Agency. Expenses are paid out of Battle Act Funds.

Late December 1952: The Battle Act Lists are revised.

* 30 December 1952: The President's "Letter of Exception" to Congress determining that aid to the UK, France and Italy should continue in the security interest of the US, in spite of shipment made to the Bloc in the total amount of about $2.5 million under "prior commitments".

VII. The Second Year of the Battle Act up to the Truce in Korea January - August 1953

(a) Pertinent Political and Economic Events

The War in Korea continues.

January 20, 1953: President Eisenhower takes Office.

February 10, 1953: The European Coal and Steel Community (CSC) begins to function by opening a common coal market.

February 22, 1953: Elections in Austria with no increase in the communist vote (about 5% of the total).

March 6, 1953: Death of Stalin. Malenkov succeeds him in the USSR.

April 13, 1953: An East-West Trade Conference opens in Geneva, Switzerland, arranged by the Economic Commission for Europe, a United Nations subsidiary.

Late April, 1953: The European Coal and Steel Community opens the common steel market.

June 7, 1953: Elections in Italy. The Coalition Government survives with a dangerously narrow margin.

Late July 1953: A Truce is concluded in Korea.

(b) Main Problems

The same problems which dominated the discussions in the field of strategic trade controls in 1952 continued to be vital issues in 1953. There were in addition three other problems, none of them completely new, which received special attention during the months under review.

(1) The problem of alternate markets. Under the pressure of the European members of COCOM, the economic implications of strategic trade controls commanded increasing consideration. The fear of an impending protectionist policy in the US, combined with a softening of the world economic situation, lead to continued demands for the opening of new markets and for a

(2) Relaxation of Controls. This attitude was particularly noticeable in discussions on trade agreements when the member countries showed increasing inclination to approve strategic commitments on the basis of economic hardships, the threat of unemployment, the need for preserving and expanding all available outlets.

Some pressure in this direction was noticeable even in the US. It is quite possible that the second half of 1953 may witness a change in the US policy approach to security trade controls.

(3) The Far East has received increased and specialized attention during the period. This chronological paper has listed only the most important events in the Far East and referred in appropriate places to the comprehensive documents available in this field.

(c) Strategic Trade Controls

January and throughout the period: COCOM discussions on country quotas for items on IL/II continue with growing pressure for increased quotas from the European members.

December 52/January 53: Two mixed consignments of obviously strategic goods, on transit from Switzerland through Austria and destined for Rumania, are stopped in Salzburg by the US occupation forces and held for many months while investigations as to type and origin continue.

26 January 1953: An article in the magazine "Life", entitled "Stalin's Sixth Column" points an accusing finger on East-West dealers, on transit trade through Switzerland and Austria, on trade with East Germany. Its exaggerated statements meet with indignant retorts from the European press.

HICOG, Bonn, answers its claims in a well-reasoned lengthy Despatch of January 31, 1953, for US official information.

11 February 1953: Informal bilateral negotiations are started between the US and Switzerland with a view of obtaining closer coordinated cooperation on security export controls by the Swiss. Negotiations end in the summer with gratifying though not completely satisfactory results.

SECRET

27 February 1953: Announcement of the Formosa Clause by MSA. This provision prohibits MSA chartered ships from proceeding to any Soviet Far East port after discharging cargoes in Formosa.

February, March 1953: Large orders for aluminum placed with the Austrian Aluminum Works at RANSHOFEN disclose the fact that Italian Import Certificates (IC's) are occasionally issued to doubtful or non-existent firms and can easily be forged.

Forgeries of Italian certificates also show up in connection with shipments of copper from Chile.

The aluminum shipments are prevented and pressure is exerted on the Italian government to improve its system. This leads finally to the institution of new controls by Italy in early May 1953.

Spring 1953: The two consignments in Salsburg are still held under US occupation authority. Investigations disclose that one shipment is mainly of German manufacture, collected and transshipped by "General Transport" in Basel. The other one seems to be exclusively of Italian origin, and was also transshipped through Switzerland. Both contain mainly bearings.

A third shipment, containing copper, is being held in Villach, by British authorities.

The problem of who has the legal responsibility and the right to impound the shipments is being discussed between Vienna, Bern, Bonn, Rome and Washington. The question of demurrage charges is raised. Switzerland and Germany disclaim any legal authority to confiscate the shipments.

* March 10, 1953: The four most important Swiss Free Port Companies decide, on a confidential basis, to withdraw free port privileges from all traders who misuse them.

March 5, 1953: Greece prohibits its flag vessels from calling at Communist Chinese Port and North Korea.

March 6 and 10, 1953: COCOM authorizes the release of the CHINCOM Lists to the Swiss and Swedish governments for purposes of discussion and cooperation.

* March 31, 1953: The UK voyage license system for vessels in the China trade becomes effective.

SECRET

• April 13, 1953: The ECE Conference on East West trade starts in Geneva, Switzerland. For the first time, in any of these conferences, the Sovbloc refrains from propaganda. Discussions are kept on a business-like basis, lists of possible exports and desired imports are exchanged between Western and Eastern representatives, but no definite commitments are made. These are left to later discussions in the course of regular bilateral trade agreement negotiations.

Western countries voice their dissatisfactions with Eastern delivery schedules, the scarcity of desirable commodities and the clumsiness of contract procedures applied by the Eastern purchasing organizations.

April 15, 1953: The US tightens its bunker controls ~~(previous pertinent date: August 4, 1955)~~.

April 29, 1953: The UK issues bunker control regulations to its oil companies.

May 5, 1953: COCOM approaches Austria and Yugoslavia to make these two countries join in the application of the IC/DV system.

May 6, 1953: Japan resumes trade with Communist China by sending the first three ships since the end of the War to a Chinese port.

• May 8, 1953: France, after 2½ years of resistance, finally agrees in a qualified way, to lift the secrecy with regard to the existence and activities of COCOM.

• May 12, 1953: The Netherlands prohibits its flag vessels from carrying strategic cargoes to China.

May 14, 1953: The Finnish tanker WIIMA is stopped in Singapore and prevented from carrying jet-fuel to China.

May 15, 1953: The Chinese Nationalists enforce the Formosa Clause.

• May, 1953: Italy institutes a number of tight security export controls, and strengthens her hitherto inadequate system of issuing import certificates (IC's).

The recent disclosures in the Austrian aluminum case and in some cases of copper shipments plus US persuasion contributed to this effort.

May 19-29, 1953: An Italian Study Group of experts on export control visits the US under the Technical Assistance provisions of the Battle Act (section 302). The visit is sponsored by MSA and Commerce, upon recommendation last fall of the EDAC Working Group for Technical Advice and Assistance and its successor, the Working Group on Application and Enforcement.

* June 23-26, 1953: Far East Economic Defense Officers Meeting in Manila, Philippines.

March-July 1953: Meetings of the EDAC Working Group on Application and Enforcement discuss exemption cases, the problem of alternate markets and a change of procedure for presidential exemption letters under the Battle Act.

* Early July 1953: Negotiations concerning the two shipments retained in Salzburg since January have yielded partial results: Italy has agreed to accept the return of the Italian shipment and to impound it. At this very moment, the US authorities in Vienna find out that both shipments had been released by the Austrian railroads and shipped to Rumania during the 4th of July weekend. The release was presumably based on the instructions of a civilian employee of the USFA forces. An investigation is under way. (See: Dec/Jan 53 and Spring 53.)

14 July 1953: The second Danish Tanker, built under a trade agreement with the USSR of 1948, is ready for delivery. (The first one was delivered a year earlier.)

19 July 1953: McCarthy's report on "Control of Trade with the Soviet Bloc".

July 1953: Switzerland institutes reconsignment controls for bloc bound goods with "broken transit" in Switzerland.

July 1953: COCOM's system of Transit Authorization Certificates (TAC's) is nearing adoption.

* January-July, 1953: Numerous COCOM discussions on various proposed trade agreements between West-European and Eastern countries, containing provisions for deliveries of strategic items. The most important among these are two Italian requests for exemption, concerning the delivery of ball bearings to Poland in the amount of $450,000 and to Czechoslovakia for the sum of $1,000,000.

The US is definitely opposed to the granting of these exceptions, especially in view of the fact that Sweden and Austria have stood firm against all Eastern requests for strategic bearings in 1953 negotiations.

In the later COCOM meetings, however, the US got little if any support for its position of denial. Most countries yielded to Italy's arguments that economic conditions, the threat of unemployment, the special situation of her bearing industries and the need for markets justified the inclusion of these bearing deliveries in her trade agreements.

When COCOM started its summer vacation early in July, a few proposals had been made to reduce Italy's requests by a certain percentage and to substitute some of the highly strategic types by less important ones, but the matter was still pending.

July 1953: Discussions on International List II items, so far, have been disappointing for the US. At the beginning of 1953, the US submitted 31 proposals, 19 of them for upgrading of items on the lists. COCOM rejected about two thirds of these proposals outright and is giving only partial consideration to the others.

• Late July 1953: Invitations are extended to and accepted by Greece and Turkey to join COCOM. They will attend for the first time on August 4, when COCOM reconvenes after its vacation.

Summary: COCOM goes on vacation with a number of accomplishments to its credit with regard to the perfection of the mechanics of control. The general mood, however, is for a relaxation of restrictions and an expansion of non-strategic trade with the Bloc. Even a change of US policy toward controls may be in the offing.

II. Current Status of Controls Against Communist China

A. Present Controls [1]

1. Trade Controls

Most of the nations outside the Soviet Bloc now apply some form of export controls against Communist China. In January 1948, the US and the UK imposed a ban on the export of arms, ammunition, and implements of war to China. Following the Communist domination of China in 1949, both agreed in December of that year to control exports of additional strategic commodities, subject to the cooperation of other CHEC countries. In view of the Communist aggression in Korea, the US, in June 1950, revoked all outstanding licenses of US Positive List items [2] destined for Communist China, North Korea, Hong Kong, and Macao; in December 1950 when the Chinese Communists intervened on a large scale in Korea, the restrictions applicable to Communist China were extended to a complete ban on exports and shipping, a ban on imports except for certain strategic items when specifically authorized, and a freezing of its dollar assets. US export and shipping regulations were applied also to Hong Kong and Macao in order to prevent diversions of US exports to Communist China. The latter regulations in effect banned for a period the export to these ports of US goods including those en route. In the case of Hong Kong only, these controls were gradually relaxed to permit some exports to that colony for domestic consumption. Canada and Japan followed suit with embargoes which were almost total. The UK controls were augmented throughout this period to prohibit the export of a wide range of items of strategic importance but UK policy stopped considerably short of a complete ban on exports. In June 1950 Hong Kong prohibited the export

1/ The effectiveness of these controls is treated in subsequent sections.

2/ The Positive List is the US official public list issued by the Department of Commerce comprising those items the export of which requires an individual validated export license issued by the Office of International Trade of the Department of Commerce. The Positive List includes all of the items covered by the US security lists (except for a few on the I-C list) and also all items controlled for reasons of short supply.

of all articles to North Korea, and in July and August of the same year Hong Kong prohibited the export to China of some 200 items of strategic importance including petroleum. This export control list was further augmented in December 1950 and again in March 1951.

a. Coordinated Controls

Prior to the outbreak of the Korean War the countries participating in the international Consultative Group (CG) and Coordinating Committee (COCOM) 1/ in Paris had not agreed to a uniform policy to control the export of strategic items to Communist China which at that time was not treated formally by the Committee as a part of the Soviet Bloc. In July 1950 the Coordinating Committee redefined the Soviet Bloc to include Communist China and North Korea. This action made applicable to Communist China the COCOM controls then in force against the Soviet Bloc. Briefly stated, these controls consisted of: (1) embargo, except for prior commitments or hardship cases, of International List I (IL/I) items; (2) restriction of exports of IL/II items to agreed quantitative quotas or to a quid pro quo basis; and (3) exchange of information and surveillance on shipments of IL/III items. 2/

1/ The countries participating in the Coordinating Committee (COCOM) as of June 1950 were Belgium, Canada, Denmark, France, German Federal Republic, Italy, Luxembourg, The Netherlands, Norway, the UK and the US. Portugal was admitted to COCOM in the summer of 1951, and Japan in September 1952. It was agreed in principle that the controls exercised by these countries should apply to their overseas territories, but there was a time lag in the full application.

2/ International List criteria informally applied are:

(a) IL/I -- Embargo:

(1) Items which are designed or used principally for the production and/or development of arms, ammunition, and implements of war.

(2) Items which would contribute significantly to the war potential of the Soviet Bloc where the items incorporate advanced technology or unique technological know-how. This applies only to goods sufficiently important to the war potential of the Soviet Bloc that the absence of an embargo would permit a significant advance in Soviet Bloc technology over its present level of development.

(3) Items which would contribute significantly to the war potential of the Soviet Bloc in that the items, if embargoed, would maintain or create a critical deficiency in the war potential of the Soviet Bloc.

(b) IL/II -- Quantitative Control:

Items which are highly important from the point of view of their contribution to the war potential of the Soviet Bloc and of which the high strategic character is directly related to the quantitative extent to which they may be exported to the Soviet Bloc.

(c) IL/III -- Exchange of Information:

Items of potential strategic significance for which information currently available on the Soviet Bloc needs is insufficient to establish clearly the necessity for control of types indicated.

Associated with the COCOM controls was the "Reference" Munitions List, drawn up in 1950, which, for the most part, was a composite of the munitions lists of the participating countries. This list was set up for the guidance of the COCOM countries in administering their own controls over munitions. The participating countries agreed to embargo all of the items on the reference list.

b. UN Additional Measures Resolution

Pursuant to a resolution of the United Nations General Assembly on 18 May 1951, 45 nations indicated that in accordance with the recommendations of the resolution they were applying embargoes on the shipment to Communist China of "arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value and items useful in the production of arms, ammunition, and implements of war." However, since each country has been free under this resolution to adopt its own interpretation as to what constitutes "transportation materials of strategic value" and "items useful in the production of arms, ammunition, and implements of war," lists in individual countries vary widely. Furthermore, the control mechanisms and their effectiveness likewise differ considerably from country to country.1/

The United Nations resolution further recommended that every state "prevent by all means within its jurisdiction the circumvention of controls on shipments applied by other states." The interpretation of this part of the resolution also was left to the discretion of the individual states, with the result that the degree of implementation varied perhaps even more widely than in the case of controls over exports of indigenous products.

An important achievement of the UN resolution was to increase the number of countries accepting the principle of collective economic

1/ For example, exports by parcel post to Communist China, North Korea and Macao, are generally not controlled except by the US, the UK and Hong Kong.

sanctions against aggression. Some countries, because they did not produce or trade in the strategic items listed in the resolution, limited their responses to a general undertaking not to supply these items to Communist China and North Korea. Certain countries in South and southeast Asia and in the Middle East, however, were unwilling firmly to commit themselves publicly to support of the resolution. In this category were Ceylon, Egypt, India, Pakistan and Burma. Argentina refused to give support to the resolution.

In June 1951 the United Kingdom and its colonies including Hong Kong adopted the China Prohibited List which included, although not in identical terminology, all items on International Lists I and II, a number of International List III items, and a Supplementary List 1/ of 36 items or categories of goods not covered or inadequately covered by the International Lists. Hong Kong, in addition to banning the export to Communist China of all such goods plus certain others on the US Positive List, and quantitatively controlling their export to Macao, imposed an import control over the same range of items and issued import licenses only for legitimate consumption in Hong Kong and for controlled re-export to non-Communist countries.

c. Additional COCOM Measures

In September 1951, at the request of the UK, COCOM began discussion of a more restrictive policy based upon the UK China Prohibited List of June 1951. By 4 January 1952 the participating countries had agreed to ban the export of all IL/I and IL/II items, but several countries were unwilling to include particular items on IL/III and the UK Supplementary List. On 10 June 1952 COCOM unanimously agreed to ban the export of all IL/III items. Subsequently 10 items on the UK Supplementary List were added by COCOM to the agreed embargo list for Communist China.

d. CHINCOM

In the fall of 1952 a China Committee (CHINCOM) was set up in Paris for the purpose of developing detailed aspects of security export control

---

1/ See page 23.

policy relating to Communist China,1/ as laid down by the Consultative Group (CG/COCOM) and for implementing such policy. This committee is concerned specifically with security export control problems relating to Communist China, such as lists of items to be denied, and shipping and transshipment questions relating to China trade. 2/ Permantly represented on this Committee are Canada, France, Japan, the UK and the US. In addition, all governments of the Consultative Group are entitled to participate fully in deliberations and discussions of the China Committee with respect to any issues in which they have a genuine interest. In order to ensure a speedy and efficient handling of problems relating to China, this committee maintains close relationship with the chairman of COCOM. Any COCOM member may propose items for the agenda of CHINCOM.

A progress report on the work of CHINCOM is summarized in tabular form on pages 23 - 25. As of 30 April 1953 approximately 24 items on the UK Supplementary List plus 4 additional items had been agreed to for embargo. Efforts are continuing to be made by the US and the UK to persuade the other COCOM-CHINCOM countries to ban the export to Communist China of all the items on the UK Supplementary List. Controls on certain additional items are under discussion. Voyage licensing and bunkering controls have been agreed to by several of the countries (see subsection 2.c.).

As a result of Japan's joining COCOM and CHINCOM and the withdrawal of SCAP supervision, a relaxation of the Japanese ban on exports to Communist China is taking place, and the list of items which may be exported to Communist China is being expanded.

1/ For the purposes of this decision, the term "China" is intended to include Communist China, North Korea, and such other areas, excluding Soviet territory, as may be agreed.

2/ "China trade" is intended to cover not only direct trade subject to security export controls with those areas, but also transshipment trade.

The special position of Macao, which renders that colony unwilling to apply vigorously the full CHINCOM controls, has been under active discussion in CHINCOM.

e. Battle Act 1/

Under the provisions of this statute, effective in January 1952, all recipients of US military, economic, or financial aid are to apply selective export controls against the Soviet Bloc as a condition for the continued receipt of such aid, and the Act is to be "administered in such a way as to bring about the fullest support" for the UN Additional Measures Resolution. The list of commodities to be embargoed under Title I, Category A, comprises "Arms, ammunition, implements of war, and atomic energy materials." Title I, Category B, is composed of "Petroleum, transportation materials of strategic value, and those items of primary strategic significance used in the production of arms, ammunition, and implements of war." The Title I, Category B, lists in general coincides with International List I with the exception of four items on the US List IA (heavy rails, general-service locomotives, automatic railway signal equipment, and important forms of aluminum) which are on International List II. The Act requires that the President of the US terminate aid to any country which knowingly permits shipments of Title I, Category A, items to the Soviet Bloc countries. In the case of items under Title I, Category B, the President may direct the continuance of aid to a country which permits shipments of those items when unusual circumstances indicate that the cessation of aid would clearly be detrimental to the security of the US. As of March 1953 the President, after careful study, and upon the advice of the Administrator of the Battle Act, has granted 6 exceptions to Western European aid-recipients who have made shipments to the Soviet Bloc of strategic materials on the Title I, Category B List. None of the exceptions, however, involved shipments to Communist China.

1/ Public Law 213, 82nd Congress: The Mutual Defense Assistance Control Act of 1951.

The statute further requires under Title II that the US Government negotiate a program for the control of items which are of strategic importance but do not require complete embargo. Aid may be withdrawn from any country which does not effectively cooperate with the US in establishing a program for controlling exports of these items of strategic importance or which fails to furnish information sufficient to determine whether it is effectively cooperating with the US.

f. Mechanisms for Trade Controls

The security export controls exercised by non-Soviet bloc countries, in general, have been superimposed on the existing trade control machinery, usually an export-import licensing office. In certain countries of Western Europe, private trade associations play an important part in the export control decisions.

The principal means by which the major industrial countries of the non-Soviet world control the export of security items is through a requirement that a validated license be secured for each shipment. In order to avoid evasion of controls over direct shipments to Communist China, many non-Soviet nations exercise precautions aimed at preventing the materials from being diverted from the receiving country to Communist China, or to a third nation which might reship the commodity. One of the precautionary measures employed by the exporting countries is the end-use check. The COCOM countries have also introduced the Import Certificate/Delivery Verification (ICDV) system, whereby the government of the importing country certifies the statement of the importer that the specific commodity will be used either domestically or re-exported only in conformity with agreed export control policies. This procedure is intended to reduce the need for time-consuming end-use checks and provide evidence of diversions. There has been a considerable time lag, however, in the implementation of this system in certain countries. COCOM countries have recently agreed to make more extensive use of this system, and are preparing to exchange lists of export licenses issued against import certificates (ICs). The ICDV scheme has been extended to certain Far Eastern overseas territories and further extension of the system is currently under discussion in COCOM. In Hong Kong a more comprehensive system of end-use guarantees known as Essential Supplies Certificates was introduced as early as January 195[illegible].

2. Other Controls

a. Transshipment Controls

The US and Canada have instituted a system of transshipment licensing for goods of all kinds destined for Communist China, North Korea, Hong Kong and Macao. The UK has a similar transshipment licensing system but uses a less comprehensive list which covers in effect arms and munitions, all goods on International List I, a few on II/II, all metal working machine tools and rubber, as these are considered by the UK to be of major strategic importance to Communist China. The UK transshipment control applies to goods on the transshipment list when in transit, whether or not on a through bill of lading, landed on the quay side or transferred from one vessel to another in the UK but not to goods in transit which remain on board a vessel even when they are reconsigned to a new destination. There are no transshipment controls applied by Hong Kong although legal powers to control transshipment cargo exist to be applied at the discretion of the Hong Kong Government.

To date, Belgium and The Netherlands, whose ports traditionally have served as major transit points in Western Europe, have not adopted transshipment licensing. All COCOM countries, however, have agreed that transshipment controls are necessary, and they are at present engaged in working out the details of such controls.

b. Financial and Transaction Controls

Under regulations issued 17 December 1950, the US Government prohibited all trade and financial transactions involving the Chinese Communist and North Korean regimes and their nationals by persons subject to the jurisdiction of the US, except with the prior approval of the Treasury Department. To make these regulations effective all Chinese Communist and North Korean assets in the US were frozen and provisions were made for

remittances to those areas only on a licensed basis. This action has resulted in an embargo of US imports from Communist China and North Korea, except for certain purchases of strategic commodities specifically authorized by the US Government prior to early May 1952.

The US Government also instituted controls during 1952 over the import from Hong Kong, Macao, Japan, Formosa, and other areas, of Chinese type merchandise and permitted their import only when they could be proved to be of non-Chinese Communist origin. The authorities in Hong Kong, Japan, Formosa and South Korea have cooperated in these controls by the issue of special certificates of origin in accordance with procedures agreed upon with the US Government. The US is the only country which has applied such controls against Communist China.

The UK does not apply transaction controls at present but has indicated a willingness to adopt such controls in the UK only and that conditionally upon agreement of all other COCOM countries to institute simultaneously effective transaction and transshipment controls.

c. Transport Controls

The security export control programs have also covered certain aspects of the shipping field. Sales of ships to the Soviet Bloc by COCOM countries have been placed under control as items on the export control lists. On 27 October 1952, COCOM countries banned the export to Communist China of all watercraft (ships and boats) and their important components. Except for the denial of important components, there is no uniform control over the repair and servicing of Chinese Communist vessels in COCOM countries.

The US prohibits its oil companies from bunkering vessels carrying strategic cargoes to Far East Communist ports and Macao, or strategic cargoes destined for these areas even though the vessel itself does not call at such ports. Although petroleum products are on IL/I, neither the US nor the UK prohibits their oil companies from supplying bunkers to vessels carrying non-strategic cargoes to Communist China. In each case where bunkers are requested of a US company, the burden of proof as to the strategic character of the cargo rests with the oil company, unless it seeks prior advice of consular officials.

Until recently, British companies continued to honor bunkering contracts for vessels of Soviet flag. Since the beginning of 1953, however, the UK Government has taken steps to tighten up the operation of its policy to deny bunkers where possible to ships carrying strategic goods to/China, and a new set of instructions was brought into use on 30 April 1953 covering bunkering requests for ports East of and including Port Said. Under these instructions the British oil companies must refer to the UK Government every request for the supply of bunkers to ships sailing to/China if they are of Soviet Bloc registry or sailing from Soviet Bloc ports. In such cases the request will be refused. Bunkering requests for other ships sailing to/China and not subject to voyage licensing are referred to the UK Government for guidance where time permits, and will be refused, or acceptances cancelled, if there is available information that they are carrying a significant quantity of strategic cargo. In any case where a request has been refused, it is open to the owners or charterers to produce evidence that the cargo is non-strategic, and if this is done to the satisfaction of the government, bunkers may be supplied. A similar system of control applies to the supply of marine lubricants and bunker coal.

Where ships believed to be carrying strategic cargo ask or are expected to ask British oil companies for bunkers in ports not under British control, the local government will be asked not to countermand any instructions given by the UK Government to the company, but in the last resort the final decision rests with the local government.

In Hong Kong a system of bunkering controls has been in operation since mid-1951 whereby the three major oil companies refuse bunker oil and lubricants to any vessel, whether ocean-going or junk, unless specifically exempted or in possession of a government permit or other authorization stipulating the exact amount of petroleum products that may be purchased.

The French Government refused in December 1952, to renew the contract held by Mory Bros. to bunker Polish vessels at Djibouti. On 28 March 1953 the French Government announced that it would institute controls to deny bunkers to vessels carrying strategic cargo to Communist China.

On 15 April 1953, the US instructed its oil companies and their foreign branches and subsidiaries to refuse bunkers to any vessel returning from Far East Communist ports and Macao unless it can be proved that the vessel carried solely non-strategic cargo to these areas on its outbound voyage. They were further instructed to deny bunkers to any vessel returning from any Far East ports, where there is cause to believe that the vessel was refused bunkers on its outbound voyage. In the case of the UK, however, British oil companies are free to bunker on the return voyage ships that have carried strategic cargo to Communist China.

US and Costa Rica formally control (and in practice prohibit) chartering of their flag vessels for trade with the Soviet Bloc. In addition the US prohibits its flag vessels from calling at ports under the control of Communist China. Liberia exercises controls over cargoes that can be carried by its flag vessels to the Bloc. The Mutual Security Agency now inserts a clause in its charterparties for movement of cargoes to Formosa which stipulates that vessels will not engage in trade with Communist China or any other Soviet Bloc destination for a period of 60 days after discharge of cargo in Formosa. The MSA now also inserts a restrictive clause in its charterparties for the movement of cargoes to Indochina, Thailand and the Philippines which prohibits a vessel from calling at any Communist Far East port (the minimum clause) for 60 days after discharge of cargo in the specified areas. Other government agencies have agreed to take similar action for charterparties applicable to areas covered by their programs.

Until recently, only three countries (Panama, Costa Rica and Honduras) had regulations similar to the US prohibition of flag vessels calling at Chinese Communist ports. Most of the Panamanian vessels engaged in trade with Communist China withdrew after the Panamanian decree of 18 August 1951. By March 1953, Panama had revoked the registry of those vessels which remained in that trade. It is assumed that those vessels are now flying the Chinese Communist Flag. Effective 17 March 1953, the Greek Government prohibited Greek-registered vessels from calling at ports controlled by Communist China and North Korea.

On 31 March 1953, the UK and colonies imposed a system of voyage licensing to prohibit British ships over 500 GRT from carrying strategic cargo to any Chinese Communist port. This system applies to all ships registered in the UK and the colonies, whether or not chartered to foreign charterers, and irrespective of the origin of the cargo. Its provisions, therefore, cover voyages from one Communist Chinese port to another. Strategic cargo, for voyage licensing purposes, is defined by a list covering substantially the items on the UK China Prohibited List, but simplified in statement for purposes of recognition. The terms of the licence prohibit the ship from carrying listed goods to Communist Chinese ports, and the duty of compliance rests with the owners and masters. In every case the grant or refusal of a licence is at the discretion of the authorities. Proof of compliance with the order, by submission of manifests, is not normally required, and where infringement is suspected, the proof of guilt is the responsibility of the authorities. Canada has adopted similar legislation. France and the Netherlands have taken steps which in effect go a considerable way toward this objective.

B. Uncontrolled Items

The present selective export controls permit the shipment to Communist China of a wide range of goods that are not included on control lists of various countries because they are not judged by

those countries to be strategic. Goods not on the UK China Prohibited List include general industrial chemicals and dyes, fertilizers, pharmaceuticals, 1/ paper, jute, jute bags, cotton textiles, raw cotton, foodstuffs, textile machinery, some general-purpose machinery, and some metal manufactures. In general, the continental European countries of COCOM do not ban exports to Communist China of many types of products including industrial and electrical equipment and machinery, precision instruments, and iron and steel semi-manufactures which are embargoed by the US, the UK, Hong Kong and Canada. Natural rubber, although placed on the China Prohibited List by the UK in June 1951, and about the same time embargoed by Thailand and Indonesia, has continued to move directly to Communist China from Ceylon. Burma also made one shipment but subsequently prohibited all exports of rubber to Communist China.

Of the non-Soviet nations that trade with Communist China on a significant scale, India, Pakistan, Finland, Switzerland, Sweden, Egypt and Ceylon have not established export controls specifically designed to deny strategic items to Communist China.

Under present COCOM controls, Western European countries allow the export to the USSR and its European Satellites of any items on IL/II, subject to quotas, and in the case of IL/I items, exceptions are made occasionally for prior commitments and "hardship" after preconsultation with other COCOM countries. There is, of course, nothing to prevent the re-export of these items as well as International List III and Supplementary List items to Communist China by other Soviet Bloc countries.

1/ Embargoed by the US; voluntary reduction in volume by the UK.

C. Comparison of Controls Against Communist China and the Remainder of the Soviet Bloc

A comparison of controls by COCOM countries with respect to Communist China and the remainder of the Soviet Bloc is summarized below in tabular form and shows where the controls differ significantly. The tabulation shows identical treatment (embargo) for the Munitions List, International List I, and Atomic Energy Materials.

The controls differ mainly with regard to International List II and III. Both these lists are subject to embargo for Communist China, but with reference to shipments to the Soviet Bloc countries other than Communist China, IL/II is subject to quantitative control only, and IL/III to exchange of information only. One of the objectives of current US and UK efforts in CHINCOM is to extend the embargo against Communist China to additional items on the UK Supplementary List.

The fact that COCOM controls against the European Soviet Bloc countries are less stringent than those applied against Communist China makes it possible for certain commodities that are embargoed to Communist China to be shipped legally from COCOM countries to the European Soviet Bloc and from there to Communist China. (See page 22.)

Comparison of Controls Against Communist China

And the Remainder of the Soviet Bloc

Commodity Lists	Applied by	Applied Against Communist China	Applied Against Remainder of Soviet Bloc
Atomic Energy Materials	45 UN countries	Embargo	Embargo
International Munitions List	45 UN countries	Embargo	Embargo
International List I	COCOM countries	Embargo	Embargo
International List II	COCOM countries	Embargo	Quantitative control
International List III	COCOM countries	Embargo	Exchange of information
UK China Supplementary List	UK and colonies including Hong Kong	Embargo	Uncontrolled
UK China Supplementary List	Other COCOM countries	Embargo of about two-thirds	Uncontrolled

Notes: 1. The US and Canada have a complete embargo on exports to Communist China. In practice the US has a virtual embargo on exports to the remainder of the Soviet Bloc; Canadian controls are nearly as restrictive.

2. Portuguese colonies, particularly Macao, exercise only a very limited form of control.

3. The Hong Kong Government supplies to the US and UK information on additional items not on any of the above lists which are exported to Communist China and Macao.

4. A liberal exceptions procedure is provided by the COCOM agreement of June 1952 covering embargo of II/III and UK Supplementary List items. It is provided that each COCOM country may export, at its own discretion, such items to Communist China without quantitative restrictions if it is satisfied that such exports are solely for civilian use and will not contribute to the military strength of Communist China. Such shipments must be reported to COCOM within the following month.

SUMMARY OF CHINA COMMITTEE PROGRESS TO 30 APRIL 1953

I. Items Considered by China Committee as Addition to Embargo List

A. UK Supplementary List Items	China Committee Action
1. Paraffin wax and petroleum jelly	Agreed
2. Petroleum refinery equipment	Agreed
3. Containers suitable for use in storing or transporting petroleum, of capacity of 4 gallons or more	Agreed redefined
4. Internal combustion engines	Unagreed: German, Italian, Danish reservations. Referred to COCOM TWG*
5. Motor vehicles (including tractors and motor cycles); trailers and components and spares, servicing equipment	Agreed redefined
6. Rails, locomotives and railway rolling stock and parts thereof	Agreed redefined
7. Watercraft and important components	Agreed
8. Cranes	Unagreed. French reservation.
9. Excavators including power shovels	Agreed
10. Bulldozers, angledozers, and trail builders	Agreed
11. All classes of iron and steel products (including alloy steels) up to and including finished stage.	Unagreed: French reservation. German redefinitions proposed.
12. Barbed wire	Agreed
13. Steel wire strand, cable and rope	Unagreed: French reservation. Referred to COCOM TWG*
14. Asbestos and asbestos yarn, textiles and clothing	Agreed redefined by French
15. Tires and tubes, other than those for pedal cycles and scooters	Agreed redefined
16. Telescopes and binoculars	Agreed redefined by Japan
17. Communications equipment	Agreed redefined; partial acceptance
18. Electric motors	Unagreed: referred to COCOM TWG

* Technical Working Group

19.	Power equipment	Unagreed: referred to COCOM TWG
20.	Metalworking machine tools and accessories thereof	Unagreed: referred to COCOM TWG, German redefinition
21.	Precision, scientific, and optical instruments, etc. capable of being used in the development, production and testing of military equipment	Unagreed: French will make counter proposal.
22.	Measuring and testing instruments for use in engineering workshops	Unagreed: German reservation
23.	Portable hand-held power tools (pneumatic electric and petrol) including parts	Agreed
24.	Welding machines and equipment and parts incl. rods and electrodes	Unagreed: referred to COCOM TWG
25.	Mining machinery	Agreed
26.	Flexible metal tubing	Agreed
27.	Electronic instruments	Agreed redefined by French
28.	Surveying instruments	Unagreed: German reservation
29.	Map-making, map reproduction, stereoscopic and photo-interpretation equipment	Agreed redefined by French
30.	Rubber solution	Agreed
31.	Rubber scrap	Agreed
32.	Foundry plant	Agreed
33.	Engineers cutting and forming tools	Unagreed: referred to COCOM TWG, German redefinition
34.	Cresylic acid incl. para meta and ortho-cresol and rylenal	Agreed
35.	Photo-plan printing machines, non-optical	Agreed
36.	Electrocardiographs (except where clearly required for medical use)	Agreed redefined by French

B. Additional Items

1.	Cement guns	Agreed
2.	Fork-lift and elevating platform trucks.	Agreed
3.	Metal-spraying equipment	Agreed

4.	Gas carburizing furnaces	Agreed
5.	Heat-treating and annealing furnaces	Pending: UK definition
6.	Cold chrome plating plants	Pending: UK definition
7.	Other materials handling equipment	Pending: US definition
8.	Copper wire	Pending: US definition
9.	10-ton jacks	Pending: US definition
10.	Road Rollers	"
11.	Crushing equipment	"
12.	Radio transmitters	"
13.	Radio receivers	"
II.	Antibiotics and sulphonamides	US counter-proposal for quantitative control pending. Status Hong Kong and Macao to be clarified.
III.	Exceptions	
A.	Macao	Discussed and temporarily dropped.
B.	Special	
1.	Tinplate	UK reported shipment in accordance exception procedure.
2.	Aluminum foils	German redefinition approved.
3.	Turbo-alternator	UK exception discussed. US reservation
4.	Water-tube boilers	German exception under discussion
IV.	Shipping Controls	
	Voyage licensing and bunkering controls	UK proposal under active discussion. Accepted by France, Netherlands, Canada.
V.	IC/DV system	General discussion of extension to Far East and Southeast Asia. Agreed make complete use of system for exports to Hong Kong and Macao. UK submitted list of overseas territories where certificates could be obtained. Other destinations to be considered.

VI. Exchange of Information

A. General	Principle accepted
1. Questionnaire on China export controls of individual PC	Replies submitted
2. Questionnaire on willingness submit monthly trade statistics of exports to China and other areas.	Replies submitted
B. Special	
1. France-Chinese trade negotiations	Discussed
2. Japan-China trade negotiations	Report made by Japanese Delegate.
3. French exports of diesels engines	Discussed, export already made.
4. Purchase by Ceylon of truck tires	US submitted memo. Delegates reported intended and actual shipments.
5. Construction of heavy industry in China	Japan submitted memo.
6. Aluminum landing sheets	Canada reported possible order from China.
7. Peking Economic Conference	PC's reported Government policy and possible participation their nationals.

a. THE RAILROAD EQUIPMENT INDUSTRY

THE RAILROAD EQUIPMENT INDUSTRY

1. Dates of Changes in Industrial Activities, Their Exact Nature and Their Implications.

With the end of hostilities the locomotive and rolling stock industries of the USSR began a tremendous program of reorganisation, restoration, and new construction. The Moscow "Dynamo" plant which prior to the war had produced electrical and Diesel locomotives turned to the production of parts and sub-assemblies for the production of this type of unit at other plants. The locomotive (steam) plant at Kharkov was re-equipped and converted to the production of main-line Diesel locomotives. The Novocherkassk plant began the production of mainline electric lovomotives. Voroshilovgrad, Bezhitsa, and Kolomna were reconstructed and began production of steam locomotives once again. Nizhniy Tagil was reconverted, in part, to the production of freight cars and Kalinin and Dneprodzherzhinsk were rebuilt and resumed the production of freight cars. Locomotive and rolling stock production, which had been negligible during the war due to destruction, evacuation, or conversion of facilities, again became an important segment of the Soviet industrial expansion plans.

The basic date for these changes in the activities of these plants may be said to be October 15, 1945 when the People's Commissariat of Transport Machine Building was created from the People's Commissariat of the Tank Industry. In March, 1946, the name was changed to the Ministry of Transport Machine Building. It is entirely possible that the reason for the upgrading from a People's Commissariat level to the Ministry level was to place emphasis on the importance of the industry.

OH MY GOD!

The inventory of locomotives and rolling stock was at a low level at the end of the war and realization of the planned increases in the industrial development of the USSR were to a large degree dependent upon the ability of the railroads to provide necessary services to industries which required such services. Two methods existed for the enlargement of the inventories; the production of new equipment within the USSR and the exploitation of the Soviet controlled sections of Europe. Both of the methods were employed.... indeed, are still being employed. In this discussion we are concerned only with the internal program of production of new equipment but it should be remembered that this program is given added importance by virture of the fact that even domestic production at the planned rate (presumably a maximum rate under normal Soviet planning) was not enough to meet requirements and imports were recognized as imperative.

2. The Major Problems Encountered in the Industry Starting with January 1948.

The major problems encountered in the industry started, not in 1948, but in 1946 with the levying of the 4th Five-Year Plan. These are discussed in paragraph 7, below. Referring to paragraph 7, the discussion of the degree of plan fulfillment and considering here only specific difficulties encountered in the industry starting with January 1948, the following items seem pertinent:

a. At least one plant in the Far East (Krasnoyarsk Locomotive and Crane Plant, Imeni Stalin) the repatriation of Japanese PWs in 1948 caused a shortage of labor. The same difficulty was probably experienced by the plant in Ulan Ude. The net result of the repatriation of these PWs was a drop in the "quota" of the plant from nine locomotives per month from 1946 to 1948 to seven locomotives per month in 1949.

b. Although specific references cannot be cited, it is probable that the return of German PWs from plants located in the Western regions also caused problems of labor shortages. Plant studies indicate sizeable PW labor groups at most of the locomotive and rolling stock plants and even though it is probable that they were repatriated in a predetermined pattern so as to minimize disruptions in production, there undoubtedly was a need for the recruiting and training of new labor as these PWs left.

c. The other problems which existed in the industry in January 1948 and thereafter should not be considered as starting in 1948. They existed prior to 1948 and more particularly with the start of the 4th Five-Year Plan in 1946 and, as previously stated, will be discussed under paragraph 7.

3. Changes in "Norms" of Labor Production within the Industry .

Changes in "norms" of labor production are less significant in the case of the railroad equipment industry than in perhaps any other industry in the USSR. The industry is one of the oldest in the USSR, existing in sizeable form even before the Revolution and growing in size steadily throughout the pre-war years. Norms of labor productivity were well established in these years and increases were largely the result of technological developments which, by the addition of machinery and the adoption of assembly line techniques, made the man-hours of labor per unit of production decrease steadily to a probable minimum in 1940-41.

The changes in norms which have occurred since 1946 then are primarily due to an attempt to reach these pre-war lows. Stated in another way, the principal effort has been towards the training of the new elements of the labor force in the use of machinery and mass production techniques in an attempt to reach the maximum norms of 1940-41. Stakonovite movements and the training of workers in one plant by the temporary transfer to the plant of a delegation of trained workers from a more "advanced" plant are the primary means used for the realization of this goal.

The foregoing statement should not be interpreted to mean that the labor norms of plants that have reached pre-war efficiencies are then held static. Additional technological improvements as well as basic Communist philosophy suggest that norms will continue to be increased. The rate of increase as these earlier efficiencies are realized, however, will be in smaller annual increments and may well be of the order of 2 or 3% per annum as are normal in Western "capitalist" economies.

4. Plans and Estimates of Plan Fulfillment Since 1945 for the Principal Products of the Industry.

Table I

Plans and Estimated Accomplishments of the 4th Five-Year Plan 1946-1950

Products	1946 Plan	1946 Actual	1947 Plan	1947 Actual	1948 Plan	1948 Actual	1949 Plan	1949 Actual	1950 Plan	1950 Actual
Steam Locomotives	300	330	865	900	1200	1360	1600	1700	2200	2040
Electric Locomotives	5	2	50	25	110	60	170	110	220	170
Diesel Locomotives	10	1	90	40	190	75	275	140	300	185
Freight Cars*	30.5	28	63.5	54.2	105.6	78	127	103	146	121
Passenger Cars	100	110	500	500	1100	1140	1700	1750	2600	2500

* In thousands of equivalent 2-axle units. All other estimates in physical units.

Table II

Estimates of Railroad Equipment Production a/

1951, 1952, 1953

In physical Units

Products	1951	1952	1953
Steam Locomotives	2170	2250	2310
Electric Locomotives	225	280	340
Diesel Locomotives	205	230	250
Freight Cars b/	131,000	137,000	140,400
Passenger Cars	2,740	2,800	2,840

a/ No Plan figures have been cited.
b/ Estimate is in equivalent 2-axle units.

5. The Major Causes of the Annual Increases in Production within each Industry.

a. From a physical, or "plant" aspect the major causes of annual increases in production have been threefold.

(1) The reconstruction and re-equipping of war damaged facilities.

(2) The reconversion of railroad equipment plants from military production to railroad equipment production at the end of the war.

(3) The construction of new facilities and the expansion of existing facilities.

Of the three items, (1) and (2) have been responsible for the large annual increases in production noted in Table I, while (3) accounts for the more normal increases apparent in Table II. Indications are that the re-conversion and re-equipment phases were complete by the end of 1950 and that increases in production after that date can be largely ascribed to a combination of increases in labor productivity due to technological improvements and to the gradual completion of additional facilities appended to existing plants.

b. From the point of view of labor productivity as a causative item in annual increases in production, a number of comments in earlier paragraphs are applicable here too. In addition, the probable effect on labor productivity of the forcible retention in the USSR of a number of German engineers and technical personnel should be mentioned. These persons are known to have been used in both the electric and Diesel locomotive segments of the industry, and their knowledge of both the design and production of such equipment has almost

certainly been a major factor in the rapid postwar rise in production of these units. Prewar production of both of these items was very small as compared to prewar production of steam locomotives and freight and passenger rolling stock. That at least some of these persons have finally been repatriated to East Germany is known by the defection of a few to the West. Whether or not a sufficient number still remain in the USSR and whether or not their assistance is still as vital as it undoubtedly was at first is difficult to judge. Production is estimated to have reached sizeable proportions by this time and their contribution to efficiency has probably lowered correspondingly.

6. The Estimated Annual Increases in Productivity and Labor Force in the Industry since 1945 and the Causes.

No definitive estimates of the size of the labor force is available. One, made as the result of a US-USSR analogy study, is not felt worthy of dissemination in a report of this type. Only the relative magnitude of the annual increases of labor productivity can be estimated at this time. As brought out earlier, during the 4th Five-Year Plan labor productivity gains were probably large. This was due to the re-establishment of the industry after the close of the war. Once back into a full production cycle with capacity usage of equipment, gains in labor productivity have probably decreased to a point where primarily technological innovations are the responsible factor. It is known that mass production techniques have been re-established in the industry; the refining of these techniques by innovations such as extensive

welding in place of riveting, high speed machining, and the like, have and undoubtedly will continue to increase the productivity of labor in terms of output per man. Whether these gains will or will not be offset by the introduction of more complex products is a matter of conjecture. Enough newly designed locomotives and cars have been introduced in recent years to indicate that labor efficiency is high.

7. Specific Difficulties Encountered in the Fulfillment of Plan Goals since 1945.

It is estimated that the 4th Five-Year Plan was fulfilled in the following percentages:

Steam Locomotives	103%
Electric Locomotives	66%
Diesel Locomotives	51%
Freight Cars	81%
Passenger Cars	100%

The chief underfulfillments in the Plan were in Electric and Diesel locomotives. The primary difficulties were:

(1) A lack of adequate prewar experience in the production of these items.

(2) A lack of adequate, properly equipped, plant facilities.

(3) A lack of trained personnel, both technical and skilled, thus causing considerable production time loss while personnel were being trained.

In the case of freight cars it is felt that the underfulfillment was largely due to an overestimation on the part of the planners of the ability of the industry to rehabilitate itself after the exigencies of war had caused considerable damage, conversion, and evacuation of equipment and personnel.

8. Are the Specific Goals of the 5th Five-Year Plan Realistic?

No specific goals for the production of railroad equipment have been announced for the 5th Five-Year Plan. Continued improvement in the inventory is stated as a goal, if, indeed, such a statement can be considered a goal. That the inventory will continue to improve both qualitatively and quantitatively is to be expected. The industry is at a high level of production efficiency and, barring political decisions to reconvert the industry in whole or in part to military production, continuation at this high level is to be expected.

9. Limiting Factors which will tend to Slow Industrial Growth in the Future. When will these begin to Operate?

The factors which will tend to limit industrial growth are already estimated to be in effect. All facilities are believed by this time to be operating at full capacity. Additional increases in production are dependent upon increases in productivity and/or the construction of new facilities. No evidence of the latter has come to notice as yet. When the era of 1945-1950, when huge annual increases in production due to the "reclamation" efforts after the war was over and since about 1951, increases have been and will be due to the more normal aspects of industrial growth.

10. Other Comments.

The postwar increases in the production of Diesel locomotives have caused some speculation that the USSR might be going the way of the US (as it has so often done before) into an intensive Dieselisation program. The facts do not support such a conclusion however. The steam locomotive inventory of the USSR is the youngest in the world. The US inventory, at the beginnings of the trend towards Dieselization, had a large number of aged units which could be scrapped with little loss. A large part of the Soviet inventory must operate in extreme cold weather conditions. Even in this country severe winter weather has shown the advantage in the use of modern steam power in preference to Diesel locomotives. Conversion to Diesel power on a grand scale would necessitate new plants and capital p for these plants. No indications of any such plans have been increased use of Diesel fuel might present a supply problem to the petro ndustry of the USSR. Such Diesel locomotive production as takes place in the USSR is the result of the inherent advantage of the Diesel in waterless (desert) regions where the operation of steam locomotives requires either extensive watering stations or the use of condensor type steam locomotives.

In summary, the continued, but gradual, expansion of the Soviet inventory of Diesel locomotives is expected. Steam power will continue to be prevalent for at least the foreseeable future however.

b. THE COAL MINING EQUIPMENT INDUSTRY

THE COAL MINING EQUIPMENT INDUSTRY

Introduction.

The contribution herein in answer to Questions 1 through 9 in Part V of the Requirement Outline for ORR/O.12 has been abstracted from CIA/RR 21, "The Coal Mining Equipment Industry of the USSR". CIA/RR 21 is a thorough, basic study of this industry in the USSR and it is recommended that the reader obtain a copy of it for use in amplification of the contribution which follows.

1. and 2. Dates of Changes in Industrial Activities and the Major Problems Encountered in the Industry.

The USSR emerged from the war determined to restore its coal mining equipment industry. By 1950 the USSR proposed to build 11,000 coal cutters, 33,000 conveyors, 4,900 electric mine locomotives, and large quantities of related equipment. Following the war the evacuated equipment/plants continued to operate at their new locations beyond the Urals, and the old plants in the Ukraine were reestablished. The capacity of the plants were thereby increased, and mechanization also took on a new meaning: (1) new types of heavier coal cutters were devised; (2) intensive efforts were made to develop successful coal combines; (3) the first serious effort was made to mechanize coal loading; (4) the conveyor system was revamped and converted from the shaker, or reciprocating, type to the scraper and belt types; and (5) a transition was begun towards heavier mine locomotives.

Mechanization (of coal cutting) was to be increased extensively. In order to provide the mines with this considerable quantity of equipment it was planned to erect 13 new coal mining equipment plants and to rehabilitate or restore 16 existing plants in the 5-year period.

In addition, extensive technological development in the design of the new types of coal mining equipment which was to be manufactured in these plants was a major problem of the industry.

3. Changes in "Norms" of Labor Production within the Industry.

CIA/RR 21 does not make specific to changes in labor norms in the industry, but it seems likely, as the building, restoration, and rehabilitation of these 29 plants has progressed, that labor norms have been progressively increased.

4. The Available Estimates of the Annual Volume of Production and the Divergence Between Plan Goals and Achievement.

Table 1 shows the estimated volume of annual production, 1946-1952, and the Plan totals, 1946-1950. No annual statistics for the Plan are available.

Table 1.

Coal Mining Machinery Production 1946-1952

UNITS

	1946	1947	1948	1949	1950	1951	1952	Plan 1946-1950
Coal Cutters	845	1400	1325	1405	1125	1100	1250	11,000
Coal Combines (Including Cutter-Loaders)	20	85	213	216	310	340	400	N.A.
Coal and Rock Loaders	N.A.	91	476	525	505	750	850	N.A.
Coal Conveyors	N.A.	N.A.	N.A.	4200	4500	4500	4650	33,000
Coal Mine Locomotives	700	900	901	1190	1700	1700	1800	4,900
Coal Mine Cars	N.A.	N.A.	N.A.	N.A.	N.A.	100,000	N.A.	565,000
Pneumatic Picks	N.A.	N.A.	N.A.	N.A.	N.A.	25,000	N.A.	N.A.

5. The Major Causes of the Annual Increases in Production.

The underlying cause for the annual increases in production has been the intensive Soviet effort to increase coal production. This goal has been directly responsible for the efforts of the industry to produce large amounts of equipment needed for this increase in coal output. More directly, the causes have been the program of building, restoring, and rehabilitating the coal mining machinery plants and the training of labor in the efficient operation of these facilities.

6. The Estimated Annual Increases in Productivity and Labor Force in the Industry Since 1945 and the Causes.

This information is not available.

7. Specific Difficulties Encountered in Fulfillment of Plan Goals Since 1945.

This question has been answered, in a broad sense, by the answers to Questions 1, 2, and 5. More specifically, the most important difficulty has probably been in the technological development of coal mining equipment suitable for efficient use in the various types of Soviet coal mines. CIA/RR 21 contains historical material on the development of each model of equipment and reference to it will point out the nature of this difficulty.

8. Are the Specific Goals of the Fifth Five-Year Plan Realistic.

In the Fifth Five-Year Plan the USSR declares its aim to be as follows: "To improve systematically the methods of working coal deposits. To introduce on a wider scale the coal mining machines and equipment for comprehensive

mechanization, to aim at the further technical re-equipment of the coal industry, and to insure a growth of labor productivity."

In view of the intensive development of the coal mining machinery industry in the postwar years, such a general goal is entirely realistic. Since no specific figures for planned output of equipment have been cited by the Soviets, it is impossible to judge the Plan in detail.

9. Limiting Factors which will Tend to Slow Industrial Growth in the Future.

The factors which will tend to slow industrial growth in the future are those which slow down the industrial growth of any industry as it reaches maturity. Gains in productivity which result from increased efficiency will become smaller as the labor force becomes more experienced and gains due to technological improvements will be reduced in a like manner.

c. THE ANTI-FRICTION BEARING INDUSTRY

THE ANTI-FRICTION BEARING INDUSTRY

1. Dates of Changes in Industrial Activities, their Exact Nature and their Implications.

At the close of the war there were six plants in the USSR engaged in the production of anti-friction bearings. Their total output was roughly equivalent to the total output of the three plants which existed at the beginning of the war. (The difference of the three plants is accounted for by the evacuation of equipment from the original three plants, State Bearing Plants 1 and 2 in Moscow and No. 3 in Saratov, to three additional sites, No. 4 at Kuybyshev, No. 5 at Tomsk, and No. 6 at Sverdlovsk.)

Since the end of the war three additional plants have been constructed and placed in operation and a fourth is at, or near, completion with production an immediate prospect. These plants are as follows:

a. No. 7 State Bearing Plant, Baku.

Was being built and in partial operation during 1947. The second section of the plant site was to be in operation by the middle of 1948. Its primary product is large size bearings for the oil industry.

b. No. 8 State Bearing Plant, Kharkov.

Construction started in 1946. One main production shop completed in May 1948. A second in process of construction in Summer of 1948. Produces various types and sizes of ball and roller bearings largely for tractors, combines, automobiles and machine tools.

c. No. 9 State Bearing Plant, Kuybyshev (Bezymyanka).

Formerly a railroad equipment repair shop. Has been producing and assembling anti-friction bearings since the end of WW-II. Bearings of this plant are reported to be used by motor vehicle, tank, tractor, and aircraft plants.

d. No. 10 State Bearing Plant, Minsk.

Construction of this plant started in 1950. It was scheduled for completion in 1952 but reports indicate construction is so far behind schedule that production may not begin until 1954.

The implication derived from the construction of these plants is the awareness of the Soviets of the importance of anti-friction bearings in modern industry and a desire by them to become self-sufficient in the production of these bearings.

2. The Major Problems Encountered in the Industry, Starting with January 1948.

No problems arose after January 1948 which did not exist prior to that date. The design, production, and import of capital equipment for both the old plants and the newly constructed plants was a continuing problem as was the recruiting and training of new labor to man the new facilities. More specific details of these problems are discussed in paragraph 7.

3. Changes in "Norms" of Labor Production within the Industry.

Norms of labor production have been on a continual rise in the industry. The No. 1 State Bearing Works at Moscow has been the leader in the raising of norms. The other bearing works may be considered as also raising norms throughout the postwar years, but to a somewhat lesser degree than the No. 1 works.

During the course of the 4th Five-Year Plan, the No. 1 Works has been reported as raising output six times with no increase in production area and with only a doubling of the labor force. Thus, labor productivity has increased by some 200% over the five year period or an average of 40% per year. That this productivity increase was actually higher in the first few years of the Plan and tapered off in recent years is indicated by the fact that labor productivity has increased by an average of only 24% in the years 1950, 1951, and the first six months of 1952.

It is believed that this increase was large during the early years of the plan primarily due to two factors:

a. Increases in the Amount of New and More Efficient Equipment.

b. Large Gains in Labor Efficiency as the Result of Training.

In the later years the rate of increase of labor productivity has lessened because of the smaller amounts of new equipment received and the higher level of skills of the working force which cannot, therefore, be increased at the earlier rates. That noteworthy annual increases in labor productivity still continue is due to the adoption of more modern methods of materials handling, inspection, and improved use of existing equipment. These increases in productivity will probably continue to be noted but the increases will continue to decline as the industry becomes technologically more competent.

4. Available Estimates of Annual Production and Divergence between Plan Goals and Achievement.

No specific statements of output under the 4th Five-Year Plan have been found. Statements of yearly increases in production in percentage terms, and statements that the Plan figures have been reached as a result of these percentage increases indicate that there has been no significant divergence between planned and actual accomplishments. Production estimates for 1946 through 1952 are shown below.

Year	Output in Thousands of Bearings
1946	27,000
1947	38,000
1948	50,000
1949	63,000
1950	83,000
1951	101,000
1952	115,000

5. The Major Causes of the Annual Increases in Production.

The major causes of the increases in annual production have been twofold. First, the construction of new plant facilities has increased the total capacity of the industry. Second, technological improvements in the methods of production have greatly increased the productivity of both machine and worker.

6. The Estimated Annual Increases in Productivity and Labor Force since 1945.

The information available is insufficient for estimating annual increases in productivity. The total labor force for each year is not available. The existence of either of these estimates would make possible the calculation of

the other. Such information as is available on productivity and labor increases is related in paragraph 3 preceding.

7. Specific Difficulties Encountered in the Fulfillment of the Plan Goals Since 1945.

Difficulties were encountered in solving the following problems:

a. The construction and equipping of new plant facilities.

b. The introduction of modern machines in both new and existing facilities.

c. The introduction of efficient methods of materials handling, inspection, and allied mass production techniques in all plants.

d. The training of new labor and the retraining of the existing labor in the use of the new equipment and new production techniques.

8. Are the Specific Goals of the Fifth Five-Year Plan Realistic.

No mention is made of specific goals for the production of anti-friction bearings in the Fifth Five-Year Plan. The reference in the Plan to the "introduction" of roller bearings on railway rolling stock is vague enough to cover a number of possible intentions. Until further information on this aspect of the Plan becomes available, it must be assumed that the probable intention is to equip all new rolling stock with roller bearings if these bearings are available. As stated, this reference cannot be interpreted as a specific goal.

9. Limiting Factors Which Will Tend to Slow Industrial Growth in the Future.

The factors which will slow industrial growth in the future are those common to any industry which has completed its initial growth phase. Increases in annual production will tend to be limited largely to those caused by technological improvements, and the rate of increase will correspond to the rate of technological advancement. There is apparently still sufficient slack between their technical knowledge and its application in the Soviet anti-friction bearing industry to allow sizeable gains in productivity for at least a few years. When this slack will disappear is conjectural. A "Guesstimate" places the date about 1955.

d. THE CONSTRUCTION EQUIPMENT INDUSTRY

THE CONSTRUCTION EQUIPMENT INDUSTRY

1. A Change in the Construction Equipment Industry.

A change of marked importance in the Construction Equipment Industry was effected in 1946 at which time the Ministry of Construction and Roadbuilding Machinery was formed from the Main Administration for the Production of Construction Machinery and Equipment for Manufacturing Construction Materials which had been under the People's Commissariat for General Machine Building.

Subsequent to the formation of the Ministry in 1946, the industry, by construction of new plants, by reconversion of those plants which produced wartime materiel, by rehabilitation of obsolete and destroyed plants, and by transfer of others from allied industries, had expanded until by 1950 more than 50 plants were directly under the administration of the Ministry of Construction and Road-building Machinery.

2. Problems which Confronted the Industry Following World War II.

The major problems which confronted the industry immediately following World War II were: (1) Reconversion of plants previously converted to the production of war materiel; (2) rebuilding destroyed and obsolete plants; (3) securing sufficient and proper equipment for operating these plants; and (4) developing Soviet technology.

During World War II at least 8 plants were converted to the production of war materiel. Reconversion of those which survived the war was essential to the growth of the industry.

At least four plants, including two converted plants, and possibly more, were either wholly or partially destroyed. Due to shortages in labor and construction materials and also due to the low priority of the industry in the reconstruction of USSR's peace-time economy, the industry experienced great difficulty in rehabilitating their war-wrecked plants. Likewise, the same difficulty was experienced in modernizing some 13 plants built prior to 1918.

Re-equipping these plants once they were built was another great problem. Lend Lease equipment and equipment removed from German plants partially answered the problem but unavailability of sufficient equipment slowed down early postwar development.

Prior to 1948, the Soviet construction equipment industry depended largely on the use of U.S. prototypes for the development of new machinery. Following implementation of western embargo controls in March, 1949, the Soviets, in an attempt to keep up with the western world in the development of construction machinery, were forced to place greater emphasis on the development of their own technology. Although there is no apparent evidence that the Soviets have actually produced a piece of construction equipment wholly free from some similarity in basic design to U.S. produced equipment, their general trend in technological development has been toward an increase in the range of products and improved technique of production.

3. "Norms" of Labor Production within the Construction Equipment Industry.

There is no available information indicating to what extent norms have been increased for the present five-year plan. Factors which influence the "fixing" of norms are: Plant equipment, working conditions, wages, and skilled workers.

4. Estimates of Annual Volume of Production of Principal Products of the Construction Equipment Industry in the USSR.

Shown below are estimates in metric tons and ruble value of the years 1947 through 1955 for the construction equipment industry. Estimates for the years 1947 through 1951 are derived from reported inventories for those years and can be considered accurate within plus or minus 20%. The tonnage for 1955 is estimated to be the minimum necessary to fulfill planned requirements. Tonnages for the years 1952, 1953, and 1954 are interpolations based on the 1951 and 1955 figures. Hence, the figures shown for the present five-year plan, 1951-55, are what is estimated the industry must produce in order to meet Plan goals. They could be from 25% to 40% above the amount that the industry will actually produce.

Year	Metric Tons of Equipment	Ruble Value (1000s)
1947	49,500	360,000
1948	81,000	590,000
1949	129,800	945,000
1950	168,200	1,225,000
1951	195,100	1,420,000
1952	225,000	1,640,000
1953	260,000	1,890,000
1954	300,000	2,185,000
1955	350,000	2,550,000

5. Major Sources of Annual Increases in Production.

Increases in production of construction equipment probably were effected by a combination of several factors. Modernization of existing plants, construction of new plants, improved production line methods, and an increase in the productivity of labor are contributing factors toward achievement of the goals of the postwar 5-year plan.

6. Estimated Annual Increases in Productivity and Labor Force in the Industry.

Labor requirements must, of necessity, be increased from year to year as the industry expands. Following is an estimate of labor requirements from 1947 through 1955 in order to achieve estimated production.

Year	Man-Years	Remarks
1947	3,700	Bureau of Labor Statistics figures of the U.S. Construction Equipment Industry were used to compute Soviet labor requirements on the basis that U.S. labor is 50% more efficient than Soviet labor.
1948	6,100	
1949	9,700	
1950	12,600	
1951	14,600	
1952	16,800	
1953	19,500	
1954	22,400	
1955	26,200	

Lack of information precludes any estimate being made as to the increases in productivity of labor.

7. Specific Difficulties Encountered in Fulfillment of Plan Goals.

Difficulties encountered in fulfilling annual production goals probably include: (1) General scarcity of raw materials; (2) Irregular deliveries of prefabricated and semi-finished parts; (3) Scarcity of trained and experienced workers.

The USSR has constantly suffered from a lack of raw materials, particularly since 1948. And, in as much as the construction equipment industry has a fairly low priority in comparison to some of the more strategic industries, the unavailability of sufficient raw materials continues to be an obstacle in fulfilling production quotas.

Many delays are caused also by lack of slowness of deliveries of prefabricated parts for which many plants of the construction equipment industry contract with other machinery plants which specialize in the production of specific items such as motors, tires, and semi-finished castings, etc.

During the war years when production of construction equipment practially stopped, no new cadres of skilled workers were trained in the construction industry. Many of the older workers became war casualties or were absorbed by other machinery industries. Since reactivation of the industry, this dearth of skilled workers has continued to be a problem although it has been alleviated to some extent by trainees from trade schools and shop apprentices.

8. Are Specific Goals of the Fifth Five-Year Plan Realistic?

The aims of the Fifth Five-Year Plan for the construction equipment industry appear to be over-ambitious. The Plan proposes (over 1950 production figures) "to increase in five years the fleet of excavators by approximately 2.5 times, scrapers and bulldozers by 3 to 4 times, and mobile cranes by 4.5 times." If production of all categories of construction equipment is kept in balance, it is estimated that the total annual production required will approximate 350,000

tons by 1955 at the very minimum, in order to fulfill the Plan. It is highly improbable that this goal can be attained.

9. Limiting Factors Which Will Tend to Slow Industrial Growth in the Future.

At the moment there is no apparent indication of a situation which would tend to slow down future production of construction equipment. There continues to be a great demand for this type of equipment and in view of the number and size of construction projects planned for the period 1951-1955, the industry should flourish. However, in the event of a world crisis, or the imminence of war, it is believed that some of the plants of the construction equipment industry would be among those converted to the production of war materiel.

e. THE MOTOR VEHICLE AND TRACTOR INDUSTRY

THE MOTOR VEHICLE AND TRACTOR INDUSTRY

1. Important Changes in the Industry.

At the close of WW II, the motor vehicle plants were under the jurisdiction of the Chief Administration of the Motor Vehicle Industry which was under the Commissariat of Medium Machine Building. On 17 February 1946 this Chief Administration was raised to the level of a Commissariat and one month later it was redesignated as the Ministry of the Motor Vehicle Industry.

In speculating on the reason for giving the motor vehicle industry a more exalted position in the Soviet cabinet, we believe that the high priority placed on increasing the level of production and of quality of motor vehicles under the postwar five year plan made it necessary to grant this industry more autonomy, greater authority in the struggle for scarce materials and labor.

In August 1947, due to the poor showing of the tractor industry under the Ministry of Agricultural Machinery, it was combined with the motor vehicle industry in the Ministry of the Motor Vehicle and Tractor Industry.

It was logical to combine the tractor industry in the same ministry with the motor vehicle industry because both industries faced the same problems in the postwar period. Furthermore, many subcontracting plants produced parts for both tractors and vehicles, both for original equipment and for repairs.

There have been no apparent sudden changes in production schedules or plans. The models now in production were designed or developed during WW II and are based on long range planning for the needs of the Soviet economy.

The recent reduction of the Ministry of the Motor Vehicle and Tractor Industry to a Main Administration under the Ministry of Machine Building is

considered evidence that the serious postwar problems of the industry have been alleviated and the industry no longer needs a special spokesman on the Council of Ministers.

2. The Major Problems Encountered in the Motor Vehicle and Tractor Industry.

The motor vehicle industry faced great problems in the postwar period. It was charged with introducing new models in all plants, the first model changes since serious production was first organized in 1932. It had to expand and modernize the five existing plants at Moscow[1], Gorki, Yaroslavl and Miass. It had to build five new plants[2] and three assembly plants[3], equip them and master the production of new models of vehicles, and by 1950 the industry was required to produce 500,000 vehicles per year. The industry was beset by many difficulties and did not achieve its goals.

The tractor industry also faced great problems under the fourth five year plan. These were (1) to rebuild the war damaged plants, (2) to expand the existing plants, (3) to build new plants, (4) to produce new, more efficient models of tractors in a more complete family of horsepower sizes to fit every farming and construction need, (5) to introduce Diesel power into as many models as practicable, (6) to produce 112,000 tractors in 1950.

3. Changes of Norms of Labor Production in the Motor Vehicle Industry.

a. The industry expanded greatly in the postwar period and in doing so it had to train many new workers, frequently peasants. Further, technology has been much improved thus making possible an increase in labor productivity and creating training problems. The entire period since the war can be considered a period of great effort to increase norms of work. The Soviet Press has given much publicity

1/ Two plants in Moscow - ZIS and Moskvich.
2/ Minsk, Novosibirsk, Kutaisi, Dneperpetrovsk, Ulyanovsk.
3/ Lvov, Irkutsk, Odessa.

to savings achieved by faster machining, improved methods, modern equipment and the efforts of the individual workers and their brigades. This trend to increase norms, especially by technological improvements and workers innovations may be expected to continue indefinitely in the motor vehicle industry.

b. The ministry recognizes the importance of properly setting both norms and wages and recognizes that these two factors together are the most important lever for raising labor efficiency.

c. In March 1948, Minister Akopov called for an increase in labor efficiency of at least 17.5 percent during 1948. This may be considered an indication of the desired increase in labor norms at that time. It certainly is not an unreal aspiration in view of the quantities of inexperienced labor on which the expansion of the industry depended.

4. Estimates of the Annual Volume of Production of the Principal Products Since 1945.

These estimates are quoted from NIE-90 [redacted] contribution). 25X1

4. (continued)

Thousands of Vehicles

	1945	1946	1947	1948	1949	1950	1951	1952
Trucks	86	118	146	209	272	353	390	410
Passenger Cars	1.1	1.4	4	8.4	20	29	36	40
Tractors	7.6	13	27	56	86	106	116	121

Divergence from plan goals for 1950 are shown below:

	Plan	Actual (estimated)
Trucks	435,000	353,000
Passenger cars	65,000	29,000
Tractors	112,000	106,000

5. The Major Causes of Annual Increases in Production.

The annual increases in production since 1945 have not been mainly due to new plant construction. Actually the major production at this time (65% of tractors and 75% of the motor vehicles) is carried out in the prewar plants.

Probably the largest single cause of annual increases has been the technological improvement in the manufacturing process, e.g., the installation of more highly productive equipment in existing plants. The increasing skill of labor reflected in a reduction of production rejects has been another large factor. The older prewar plants have been expanded somewhat and this expansion plus the construction of new postwar plants accounts for some of the annual production increases.

6. Estimated nnual Increases in Productivity and Labor Force in the Industry Since 1945 and the Causes.

These estimates of the size of the labor force have not been attempted and the analyst cannot devote sufficient time to such a large project at this time.

We can be sure that productivity has greatly increased and that the increase results chiefly from the training of labor and the installation of labor saving equipment.

7. Specific Difficulties Encountered in Fulfillment of Plan Goals Since 1945.

The fourth five year plan for the production of motor vehicles and tractors was not realized. At least one plant, Novosibirsk, was probably never built and has not been mentioned in the Soviet press since 1946. This plant was intended to produce 35,000 diesel powered trucks per year by 1950. The motor vehicle plants at Ulyanovsk, Kutaisi, Dniepropetrovsk and Minsk have been very slow in coming into production. In fact there is not yet sufficient evidence to prove that Kutaisi and Dniepropetrovsk are producing complete vehicles without the help of subassemblies from the ZIS Plant in Moskow.

The new tractor plants at Lipetsk and Minsk were slow in putting their new models into production. The existing plants at Rubtsovsk, Vladimir and Chelyabinsk were slow in increasing their output in the postwar period and were much criticized in the press. Nevertheless, it appears that the tractor plants have come closer to fulfilling the five year plan goals than have the motor vehicle plants.

In March 1948, a conference of the executives of the Ministry of the Motor Vehicle and Tractor Industry took place in Moscow. The conference summed up the results of the first two years of the fourth five year plan and found the results to be unsatisfactory. A.A. Akopov, minister of this industry, outlined the following steps which must be taken in order to fulfill the five year plan in spite of the bad beginning.

(a) Shortages in output and loss incurred in the course of the first two years of the five year plan must be covered to a considerable extent in 1948.

(b) The output of major products in 1949 must be increased by at least 60 to 70% in comparison to 1948. This means that in 1949 at least 80-85% of the new plants provided for must be in operation if the five year plan is to be fulfilled. Particular attention must be devoted to completing plants which are already in the process of construction.

(c) The new postwar models must predominate in production.

(d) A vital problem is to accelerate housing construction to correspond with increasing plant capacity. This is considered a decisive condition for fulfillment of the 1949 plan and the five year plan.

(e) Orders for new equipment must be fully justified; equipment on hand must be strictly controlled and new equipment must be placed in operation without delay. Moreover, the motor vehicle factories must build more of their own equipment particularly the specialized types of forging, casting, machining and materials handling machinery.

(f) Labor productivity and quality of workmanship must be sharply raised. Waste and scrap reductions, especially in the foundry, can go far toward increasing revenues.

It therefore appears that in the beginning of 1948 a crisis was recognized to exist in regard to the fulfillment of the fourth five year plan in the motor vehicle industry. This crisis was caused by failure to complete the new plant constructions and old plant extensions on schedule, failure to provide housing for the workers brought into new industrial areas, failure to equip the existing plants, failure to use existing equipment efficiently, failure to raise labor productivity and workmanship quality, failure to introduce the new models into production, and failure to achieve steady rhythmic production at the planned rate.

The importance of steady rhythmical output should be emphasized. The major plants depend on specialty subcontractors for component parts, e.g., the Noginsk Fuel Apparatus Plant supplies Diesel fuel apparatus to the Lipetsk Tractor Plant and in accordance with the plan is to ship a prescribed quantity each month. The Noginsk plant owing to its lack of steady rhythmic production, achieved and shipped most of its output in the last ten days of the month. This practice caused tractors to pile up in the yard at Lipetsk awaiting fuel apparatus, thus interrupting steady rhythmic production in that plant.

Noginsk was a victim of the same problem, receiving essential materials in the last ten days of each month. In fact, there is a vicious circle of last minute fulfillment throughout all Soviet industry from the extraction of ore to the delivery of the finished major product to the consumer.

Since plans do not provide for reserves, it is all too common place for assembly lines to shut down for lack of some component or other. The successful plant director is the one who is able to acquire an illegal reserve of critical components in order to absorb the fluctuation of his suppliers' shipping schedule and thus achieve a steady rhythm of production in his own plant.

8. The Fifth Five-Year Plan-Realistic or Unrealistic.

The fifth five year plan requires that 19% more tractors and 20% more motor vehicles be produced in 1955 than were produced in 1950. These modest increases are realizable and can be accomplished without any extension to the postwar expansion program which was to have been completed during the fourth five year plan.

The completion and equipping of the presently unfinished plants together with normal increases in labor productivity in all plants will probably permit the achievement of the 1955 goals.

9. Limiting Factors which will Slow the Growth of Industry.

It appears from a study of the goals of the fifth five year plan that the rate of growth is decelerating at the present time. The minimum satisfactory size of the industry is that size which will allow annual production of enough vehicles and tractors to increase the national parks* at the same rate as the increase in national requirements for these parks (taking into account both the necessary annual increments to the parks and the replacement of worn out vehicles and tractors).

* The term "parks" refers to the number of vehicles and tractors in use.

The very large annual increases in production in the postwar period have been necessary because the industry started from a negligible rate of production to satisfy a tremendous deficit in the national park. Now (1953) that a high rate of production has been established, compared to 1945, very small annual increases in production should be sufficient.

PROJECT 0.12

USSR MACHINE TOOL INDUSTRY

1. The postwar pattern of development of the Soviet machine tool industry is one of steady and logical development. Evidence of changes in production schedules or of sudden changes in plans is sparse. The Soviets in the 4th Five Year Plan set a high but reasonable production target for 1950 of 74,000 machine tools and production increased consistently over the five year period until the target was met and apparently exceeded.

The greatest change in the industry to occur during this period was the reconversion of machine tool plants from military to peace time production. Since there was a substantial production of machine tools during the entire period of the war, the reconversion problem of the machine tool industry was not so great as that of other machine building industries which had totally converted their facilities to military production. That it was a real problem, however, is evidenced by a 1946 plan fulfillment for the machine tool industry of only 98%. This was the only postwar year in which the industry failed to fulfill the yearly plan. The machine tool industry, however, fared better than industry as a whole which fulfilled the 1946 plan only 96%.

In addition to the Fourth Five Year Plan goal of a 1950 production of 74,000 machine tools, the Plan called for the developing of the production of multipurpose, special-purpose automatics and semiautomatic machine tools for a total production of 12,300 for the year 1950. Construction goals for the

25X1

industry comprised the rehabilitation of 18 machine tool plants, the building of two new plants for the production of heavy machine tools and three plants for the production of multipurpose machine tools.

These rehabilitated and new plants would presumably be equipped with dismantled equipment from German factories, U.S. and British machinery received during the last phase of the lend-lease program, and with machine tools produced domestically during the first postwar years. Several PW reports mention the arrival of dismantled German machine tools at Soviet machine tool plants during 1945 and 1946.

Machine tool production in 1947 increased 50% over 1946, an increase that can be attributed to the installation of the equipment mentioned above plus the fact that two large plants at Dmitrov and Kharkov resumed full production during the year.

A possible change in the machine tool production schedule may have occurred during 1949. Sometime during that year the Soviet Government increased the plan for industrial production established for that year and this increased plan was fulfilled 103%. It is probable that this change in plan applied to the machine tool industry. An improved production situation for 1949 would certainly be logical inasmuch as the bulk of the plant reconstruction program had been completed by that time.

The Fifth Five Year Plan forecast a change in emphasis in the machine tool industry to production of more specialized types. No planned percentage increases were given for the general category of machine tools. Instead the plan called for a 1955 production of large machine tools 2.6 times that of 1950,

25X1

and of high precision machine tools 2 times that of 1950. 1952 machine tool production increased only 3% over 1951, which is a probable indication that the emphasis on specialized types of tools had considerably slowed the rate of increase in volume of output.

2. No apparent insurmountable problems have faced the machine tool industry since 1 January 1948. The industry has apparently had no difficulty in obtaining supplies of raw materials or skilled labor. Producing one of the basic means of production it has probably been accorded a high priority for the securing of its material and labor requirements. The problems that it has had can be grouped in the following categories:

a. Completion of reconstruction of damaged plants and of the new plants scheduled in the Fourth Five Year Plan. The Minsk and Kramatorsk plants were still under construction in the summer and fall of 1948, respectively. Another Minsk plant did not complete its reconstruction until 1949. Construction of the two new plants for heavy machine tools was completed within the plan period but only near the end of it. Part of the Kolomna plant was in operation by October 1949, while Ryazan began production in 1950.

b. Production of new models. Since 1948 the machine tool industry has put into batch and mass production many new models of machine tools embodying advanced technological designs. Introduction of new models requires retooling, yet this had to be accomplished without decreasing the rate of output. If Soviet

reports of plan fulfillment are correct, this task was successfully carried out. The industry was also called upon to design and produce automatic transfer lines for auto, tractor and agricultural machinery plants, as well as the construction of a fully automatic plant for the production of automobile pistons. These tasks presented a formidable problem to the design and production engineers in the industry. Judging by the absence of criticism of the machine tool ministry in the press, this program was apparently executed on schedule.

3. There is no available information on changes in "Norms" of production in the machine tool industry.

4. Estimates of the annual volume of production of machine tools are presented in Appendix "A".

5. The major sources of the annual increases in production within the machine tool industry are as follows:

a. Reconstruction of damaged plants, expansion of existing plants, and construction of new plants. These were equipped, as pointed out above, with new machine tools of domestic production, dismantled equipment from German plants (and to a lesser extent from Manchurian and Hungarian plants), and from U.S. and British lend-lease shipments. Newly constructed plants, because they got into production in the last part of the Fourth Plan period and in addition produce only a small volume of complex machine tools, contributed very little to increases in the volume of production.

b. Better organization of production. In a number of machine tool plants during the postwar period production was organized on a flow line basis.

This large scale production was made possible because of the standardization of models and component parts. Flow line production, according to Soviet writers, considerably increased the rate of output.

6. No information is available on the labor force employed in the machine tool industry, hence it is impossible to determine annual increases in the labor force. Although it can be assumed that labor productivity increased due to better organization of production, there is no way of measuring the amount of this increase.

7. The only year in which the machine tool industry failed to fulfill its plan was in 1946, and this failure, as pointed out above, can be attributed to the difficulties of reconversion to peace time production. The production plans for the years 1947 through 1949 were overfulfilled by a comfortable margin. There were, therefore, no apparent difficulties during this period. The plans for 1950 and 1951 were each fulfilled 100% but no more. During this period there were a number of criticisms of individual plants in Soviet newspapers. In March 1950 the Yegorevsk plant was severely criticized; in December the Chkalov plant was severely criticized for failing to meet deliveries; the Novosibirsk plant was criticized for unsatisfactory results. In March 1951 the Leningrad Avtomat plant was criticized for lagging production; in September the Chkalov plant was blasted again for failure to fulfill the plan. Two Moscow plants were also taken to task during the year. It would therefore appear that the 1950 and 1951 plans were fulfilled only as the result of some strong prodding from sources outside the Ministry. During the early part of 1952 at least five plants were

dealt with severely by the newspapers, and the yearly plan was fulfilled 100.5%.

8. The goals of the Fifth Five Year Plan deal only with increases in the production of large and high precision machine tools. Since we do not know how many of those two categories were produced in 1950, we cannot properly evaluate the significance of the percentage increases. Since five new plants for production of heavy and special purpose machine tools were completed near the end of the Fourth Five Year Plan, there is a considerably increased capacity for the production of the types called for in the Fifth plan, so that substantial production increases appear to be quite reasonable.

9. It can be expected that for the next few years the Soviet machine tool industry will be reaping the rewards of its reconstruction and expansion program of the Fourth Five Year Plan. The rate of increase in volume production, however, has been on the decline since 1947, dropping to only 3% in 1952. With a current rate of production of over 80,000 units a year, it is only reasonable to expect a levelling off of the output of general purpose machine tools to the point where total unit production may not increase at all, or even decrease. This would not necessarily be a result of any limiting factor but merely because the machine building industry might be adequately satisfied with the current rate of output. Value of output, on the other hand, can be expected to increase steadily owing to the emphasis on specialized machine tools during the Fifth Five Year Plan, and this increase will probably continue to the end of the 1955.

SECRET

25X1

USSR MACHINE TOOL PRODUCTION INDEX

APPENDIX A

YEAR	VOLUME OF PRODUCTION (IN UNITS)	% INCREASE OF PRODUCTION OVER PRECEDING YR. MACHINE TOOLS	ALL INDUSTRY	% OF FULFILLMENT OF PLAN MACHINE TOOLS	ALL INDUSTRY
1946	31,400	34	20	98	96
1947	47,800	50	22	108	103.5
1948	59,200	24	27	106	106
1949	70,500	19	20	102	103
1950	78,900	12	23	100	102
1951	81,400	11*	16	100	103.5
1952	83,842	3	11	100.5	101

*Large, heavy and special-purpose machine tools only.

SECRET

25X1

SUBJECT: PROJECT 0.12

AGRICULTURAL MACHINE BUILDING

1. During the war, the agricultural machinery industry was mobilized for the production of munitions. There was some reconversions to agricultural machinery before the end of the war, but, for the most part, reconversion did not take place until 1945 and 1946. In 1948 and 1949, there was a limited conversion back to munitions in some plants. This conversion was by no means as widespread as it was in the period just before the war. There are certain plants which have not ceased producing munitions since the war, though their entire productive facilities are not so engaged. Numerous prisoner of war reports indicate that a complete conversion to munitions would be a relatively simple matter, since many plants retained the necessary machine tools in storage.

The major effort in the first years after the war was concentrated on the production of the basic agricultural machines such as combines, plows, threshing machines, seed drills, and cultivators. Since about 1950, there appear to have been increases in production of the smaller machines for the mechanization of non-field farm tasks. The big change in the agricultural machinery industry came in 1952. Combine production decreased for the first time in the postwar period, about 23 percent from 1951. This decrease appears to have been the result of a change in plans, since planned production for 1951-1952 at 100,000 units was only 40,000 more than the 1950 plan of 60,000 units. Actual production for 1951-1952 was 94,000 units or 94 percent of plan.

2. The major problems of the agricultural machinery industry since 1948 are: a) reconstruct war damaged plants while erecting a number of new plants;

b) to expand production (including spare parts) sufficiently to replace machines lost or damaged during the war while expanding over-all agricultural mechanization; c) to mechanize more of the non-field types of farm tasks; d) to improve the generally backward technology of the industry; and e) to achieve all this while still devoting a part of its facilities to munitions production.

3. There is insufficient information available on the agricultural machinery industry to allow for a comment on changes in "norms" of production.

4. Unit production figures for the four main types of agricultural machines for which estimates are available are given below (including plan figures where known):

Year	Type of Agricultural Machine: All Combines		Self-Propelled Combines		Tractor Moldboard Plows		Tractor Seed Drills		Tractor Cultivators	
	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
1945	300		0		6,800		1,700		900	
1946	1,350	2,000	0		11,900		7,100		15,300	
1947	2,800	7,000	280	700	23,800	32,000	19,800	30,000	32,100	37,000
1948	14,400	25,000	3,700		53,300	80,000	41,700	67,000	42,100	55,000
1949	29,000	30,000	12,000	10,000	82,600		65,100		59,700	
1950	46,100	60,000	23,000		121,400	110,000	120,300	83,300	99,800	82,300
1951	53,000)		29,000		139,600		138,300		116,800*	
1952	41,000)	100,000	21,000		139,600*		138,300*		116,800*	

* TRUD, 23 January 1953 published figures only for combines. In the absence of other information, it is estimated that 1952 production of plows, seed drills, and cultivators remained at the 1951 level.

	Percent of Plan				
1946	68				
1947	40	40	74	66	87
1948	58		67	62	77
1949	97	120			
1950	77		110	144	121
1951)					
1952)	94				

5. Probably the most important factors in increasing production in the period 1945-1949 were the reconstruction of war damaged plants and the construction of a number of new plants. The "reconstruction" period is reported to have ended in 1949. That a lot of work had been done in the agricultural machinery industry, in spite of the slow rate of reconstruction, may be seen from the table for question 4 in comparing 1947 production with 1951 production. Combines increased 18.9 times, self-propelled combines, 10.4 times, tractor moldboard plows, 5.9 times, tractor seed drills, 7 times, and tractor cultivators, 3.6 times. Since 1950, increases in production have been due more to improvements in technology, though much is yet to be done in this respect (see question 7 below). Foundry techniques have been improved and conveyors for transporting raw materials and finished machines have been installed as have improved models of machine tools. Production increases in the postwar period might have been even greater had not certain plants devoted a part of productive capacity to munitions instead of agricultural machinery.

6. There is insufficient information available on the agricultural machinery industry to make a comment on annual increases in productivity and labor force in the industry since 1945.

7. The specific difficulties which have prevented plan fulfillment since 1945 may be found in the January 1953 issue of Sel'khozmashina (The Agricultural Machine). The difficulties therein outlined are not specifically stated as those carrying over the eight year period, but numerous press reports of the period testify that such is the case. The difficulties are: a) Unfulfillment of the Plan for labor and production costs because of shortcomings in the organization and setting of norms; b) failure to institute shot blast cleaning of castings, manufacture of machinery parts from high-strength iron, and highspeed cutting in certain plants as planned; c) failure to exercise sufficient control over the observance of technological discipline in production in many plants; d) violation of terms of acceptance of completed machines by divisions of control of a number of plants; e) unsatisfactory degree of mechanization of loading and unloading operations in rail transport; f) a high rejection rate in production, particularly for gray iron castings; g) over-consumption of materials and a lowering of the overall quality of materials; and g) failure to develop and put into production new types of agricultural machines at the planned rate. Though not mentioned in the above article, an inadequate production of spare parts throughout the postwar period has prompted almost constant criticism of the industry. The industry also criticizes other industries at times for not supplying at the proper time or in the proper amounts and quality the materials and components which have been ordered. Each of these difficulties has received more emphasis at one time than another or has shared the limelight with other of the difficulties. As mentioned in question 5 above, certain plants have been faced

25X1

with the problem of achieving planned goals for agricultural machinery while devoting a portion of their facilities to producing munitions.

8. No information on goals for the agricultural machinery industry were published in the fifth Five Year Plan.

9. There are two factors which probably will operate most effectively to slow future industrial growth. The first in the slow rate at which technological advancements seem to be adopted in agricultural machinery plants as outlined in question 7 above, and the second is the production of munitions in such plants. Both of these factors are operating at the present time. Technology is bound to improve with each year and thus increase the production potential, but the production of munitions is more likely to increase each year also. If war should break out, the campaign to improve technology will probably take a back seat to munitions production. The large scale conversion to munitions in the industry in 1938 was immediately reflected in the considerable drop in the production of agricultural machinery.

SECRET

[redacted] 25X1

[redacted] 25X1

25X1 [redacted] CONTRIBUTION TO OFFICE PROJECT O.12

SHIPBUILDING FROM THE END OF WORLD WAR II TO DATE

10 JULY 1953

SECRET

Approved For Release 2003/04/24 : CIA-RDP79T01049A000800140001-7

SECRET

25X1

[redacted] Contribution To Office Project 0.12
Shipbuilding From The End Of World War II To Date

Introductory remarks -

1. Consideration of the shipbuilding industry must include building for the Maritime (ocean going) fleet, the River fleet, the Caspian fleet, the Fishing fleet and the Navy. Since the ship repair industry is so closely integrated into the shipbuilding industry this endeavor should also be considered.

2. Since World War II Russia has largely confined the use of her maritime fleet to trade between native seaports, relying almost entirely upon an expanding Polish merchant marine for foreign commerce; thus the relatively small amount of shipbuilding effort devoted to the native merchant marine. Those large coastal shipyards which are capable of building ocean going vessels have been, since their rehabilitation during the post-war Five-Year Plan period, engaged almost exclusively in the building and in the maintenance and repair of naval vessels. Even some of the larger inland yards have devoted their effort to the building of small combat and auxiliary naval vessels.

3. Increased activity in shipbuilding and ship repair for the river fleet was required by the Fourth Five-Year Plan. There are continuing reports of failure to meet planned goals in ship repair for the river fleet. Indications are that native building, aided by Satellite building, reparations, and trade agreement vessels may have met planned goals for the increase in the size of the river fleet. Exact, over-all, goals for the construction of

inland vessels are not set forth in the Fifth Five-Year Plan. However, the requirements of this Plan, insofar as they pertain to cargo and passenger haulage, indicate a continuing increase in construction which, with the aid of trade agreement vessels and reparations may possibly be met.

4. To date only a general over-all study of the shipbuilding industry of the USSR has been made by this Branch. 1/ A detailed study of shipbuilding for the River fleet is now in process. No production figures or conclusions have been determined as of the present.

5. The following comments are, therefore, based on individual, untested, reports or on impressions gained from many reports, rather than on detailed studies. These comments are subject to revision as detailed studies are made.

1/ ORR Project 35-51(WP), 20 Feb 1953

A. 1. At the end of World War II many of the principal shipbuilding facilities were heavily damaged. This was particularly true of the larger coastal yards in Western Russia. One of the goals of the Fourth Five-Year Plan (1946-50), was the rebuilding and/or rehabilitation of the damaged and previously evacuated yards. In general the rebuilding may be considered to have been accomplished by 1949 or 1950 depending upon the extent of damage, although according to our most recent information, some rebuilding is still in process. In general, the plan was to rebuild the facilities as they had previously existed, in many cases actually building on the old foundations. A few new shipyards were planned. Those known to have been constructed were minor building yards or repair yards.

Construction of merchant vessels during this period was largely confined to various types of vessels for the inland fleet. This construction has increased at a steady rate and there is no indication of any radical or unexpected changes in productions schedules, although considerable emphasis has been placed on certain types of building and conversion work for the Volga Don Canal.

In 1946 the Navy lost its independent status and became a part of the Ministry of Armed Forces. Shortly after this unification Ad. Yumashev, who advocated the modernization of existing large war ships and the building of only small defensive units, was appointed head of the Navy. His known policies were largely followed until 1949 when the first of the Sverdlov class cruisers was laid down. During the period of Yumashev's leadership, however, there was undertaken the large submarine building program

which has carried through to the present. This cruiser building program appears to have inaugurated a new policy in the building of larger combatant vessels. There are other events which appear to confirm an over-all change in policy at this time even though their actual dates were not coincident. In February 1950 an independent Naval Ministry was established. Although it was not until July 1951 that Vice Admiral Nikolay Kuznetsov was appointed Naval Minister it was rumored that he had been the guiding light in naval affairs since 1950. Kuzetsov is known as an advocate of building a large offensive navy. In 1950 Viacheslov A. Malyshev was appointed head of the Shipbuilding Ministry which is changed with the actual construction of naval vessels. The recent appointment of Malyshev, in March 1953, as Minister of Transport, combining shipbuilding, transport machine building, heavy machine building and construction and road machine building into one ministry, points out his estimated capabilities and further strengthens the probability that a definite change of plans for naval construction was put into effect about 1949.

2. The major Russian coastal shipyards have been engaged almost entirely in the building and repairing of naval vessels, making it necessary for the USSR to rely largely on purchase of merchant vessels from abroad as well as for contracted repairs to the over age sea-going fleet in foreign shipyards.

Little is known of any major problems encountered by the Soviets in the building of naval vessels. The way time of 13-14 months for the Sverdlov

class cruisers is considered good and indicates that there have been no major problems in connection with this major construction program. For the past several years the Soviets have had a research and design program under way to develop a submarine utilizing the Walther cycle as developed by the Germans. The employment of many German specialists on this program may or may not indicate a lack of Russian technological ability.

In January 1948, the river shipbuilding industry was faced with certain very definite problems. Listing of some of these problems include:

a. Completion of restoration work inaugurated at the conclusion of World War II, while at the same time carrying on current tasks;

b. Diversion of some capacity to the building of vessels for the maritime fleet (a presumption based on past practice: i.e., during the First Five-Year Plan approximately 127,000-hp in five vessels as well as 16 barges with a carrying capacity of 57,000 metric tons; during the Second Five-Year Plan period 10 vessels of 20,040-hp and a comparable number of barges.

c. The development of plans for the construction of new vessels, as well as new equipments required in the construction of such projects as the Volga-Don canal, the Main Turkman Canal, etc.

d. The rebuilding of cadres of manpower.

e. The obtaining of materials from plants previously geared solely to war production and in process of conversion to certain items of peactime use.

When it is established that the magnitude of transport services required by the economy of the USSR is second only to that of the United States (Soviet Economic Growth, p. 157), and that, within the framework of such service, the inland waterways of the USSR are credited with handling from 6-12% of the total carriage of all cargo and passenger traffic, it is apparent that the obtaining of bottoms in which to haul this traffic is of prime importance. Virtually every water basin in the nation has been faced with the task of increasing its individual haulage, with increases ranging from a relatively modest 10% on certain of the small rivers, to as much as 80% on the vast complexes in the populous west. As a corrolary, the building of new vessels and the repair of those vessels which had survived the war and, which had, in the course of the war, been virtually worn out, was an equally important task for the industry.

Obviously there was created the problem of designating certain river shipyards to engage primarily in repair work. In addition there arose the problem of obtaining sufficient sites for such work as more vessels were added to the river fleet. Hence, from 1948 until the present time there are, in the Soviet press, continuing references to the work of repair yards, in contradistinction of the work of building yards, information concerning which is more circumspect.

The net result of such circumspection has been an increasing amount of information from the Soviet press and periodicals dealing with water transportation on the subject of ship-repairing. When the Soviet practise of subjecting their vessels to what translates as "capital overhaul," is studied it is found to mean the laying up of vessels so assigned for periods

ranging up to as long as five years and more. The facilities tied up by such procedures are, of course, not available for new construction and, obviously, one cannot help but wonder how much additional work is required to overcome the ravages of deterioration as the vessel waits for repairs.

3. We have only limited information as to norms, and no specific information as to change in norms. It is doubtful that actual norms can be established for the over-all shipbuilding and ship repair industry since the production per worker must vary considerable depending upon the type of vessel under construction or the type of repair being performed and the type of/and facilities of the shipyard.

4. (A) Estimated 1/ Production of Merchant Vessels (Including all types & sizes):

Year	1,000 GRT
1945	307
1946	326
1947	337
1948	347
1949	356
1950	362
1951	370
1952	379
1953	388

(B) Estimated Production of Naval Vessels:

Year	1,000 Std. Naval Displacement Tons
1945	NA
1946	NA *
1947	NA *
1948	NA *
1949	NA *
1950	NA *
1951	NA *
1952	203,000 2/
1953	203,000 2/

25X1

[redacted]

5. The tonnage of ocean going merchant vessels contained in the foregoing table, 4A, is practically negligible, the great prepondorance being in vessels for the River fleet.

Certain factors within the Soviet economy have reflected upon the activities of the shipbuilders for the rivers. Among such factors are an increase in the expanse of navigable water ways, increased length of hauls due to the completion of such projects as the Volga-Don Canal, as well as the postwar rehabilitation and deepening of other canals and rivers. As such developments took place additional fields of grain or stands of timber, for example, have become available for marketing and hence there has evolved a need for vessels. Coupled with this need for service has been an increased emphasis on the training of personnel for work in the shipbuilding industry. For example, the Gorkiy Institute of Engineers for Water Transport anticipates graduating 289 specialists in 1953. (RT, 1 Jan 1953). In turn the Moscow River Technicum has, in the twenty-one years of its existence graduated approximately 2,000 specialists. This year the Technicum anticipates the graduation of what is approximately an annual quota, 98 specialists. (VT, 14 May 1953). While not all these graduates go into the shipbuilding industry, the industry is augmented by a steady influx of trained personnel, the net result of which is an inevitable increase in productivity. While the following figures are as of 1941, and hence may not be valid today, they will indicate the extent to which training was stressed in that year. In what was then the People's Commissariat of the River Fleet, and hence the

administrative control of virtually all shipyards building for the river fleets, a total of 7,000 persons were engaged in formal training courses, while 20,000 others were in technical schools, undergoing Stakhanovite training and enrolled in courses given by Masters of Socialist Labor. ("1941 State Plan," FDD Trans. No. 291). In that same year, 1941, it was anticipated that annual recruitment for the River fleet would amount to 9,000 persons. (Ibid).

The repair and rehabilitation of the larger shipyards from World War II to about 1950 made an increasing amount of shipbuilding facilities available. This coupled with the emphasis on the importance of the Navy, in 1950, principally accounts for the increases in naval shipbuilding although there are many secondary influences which have entered into increased production. Among these secondary causes may be included increased training of engineers, technicians and skilled workers, improved machinery and methods.

6. The estimated labor force in the total shipbuilding and ship repair industry for 1952 is 312,000. Estimates for other years have not been made. So far as productivity of that labor is concerned it is estimated that the productivity within the shipbuilding industry has kept pace with that of industry as a whole. Accordingly, in the period between 1946-1950, productivity increase has been calculated as:

Year	Annual Productivity* 1/ 2/ Increase in %
1946	----
1947	13.0
1948	15.0
1949	13.0
1950	12.0
1951	10.0
1952	10.0
1953	8.0

25X1

To some extent this increased productivity is due to a rising incidence of skill on the part of the workers. Too, improved methods of production, such as the introduction of assembly line methods of production in the building of 190-ho passenger vessels, as well as some degree of standardization as to types have aided production.

7. Neither the 1946-1950 Plan nor the 1951-1955 Plan are specific enough to arrive at over-all construction goals. The 1946-1950 goal for increase in size of the River fleet is estimated to have been fulfilled. Much of this increase is attributable to acquisitions from abroad. It is possible that such acquisition was a part of the Plan.

The Fourth Five-Year Plan required that "In 1950 the tonnage of ships built shall be double the 1940 figure." Considering the construction of merchant vessels only, this Plan goal was not met. If, however, the increased naval building is superimposed on the original Plan, it appears that the total shipbuilding Plan was met tonnagewise by diverting production of merchant tonnage to production of naval tonnage. This reduced merchant tonnage was almost entirely at the expense of the large ocean going vessels, production of which is estimated at only between 0 and 20,000 GRT by 1952. The difficulty encountered insofar as the building of large merchant vessels is concerned is primarily lack of shipbuilding facilities.

So far as the river shipbuilding industry is concerned no specific difficulties have been apparent in the attainment of Plan goals. Repair, however, is another matter. Without attempting to tabulate the available material reported in the Soviet press, mention can be made, for

example, of affairs in the Butakov Ship Repair Yard in January 1953, at which time repair of the self-propelled vessels assigned to the yard was 5.5% behind schedule, while in the Ship Repair Yard imeni Molotov the lag was 6.5%. (RT, 16 Jan 1953). However, the Chardzhou Ship Repair Yard was reported as having failed to complete its 1952 plan for winter repair of the fleet assigned to it, as well as its 1952 plan for capital and restoration repair and shipbuilding. (RT, 9 Jan 1953). This lagging behind schedule was rather general during the past winter and has been attributed to unsatisfactory organization, not only within the yards themselves, but up to and including certain of the Main Administrations of the Ministry. Waste and delays still plague the shipbuilders and ship repairers. (RT, 24 Feb 1953).

8. The published Plan for 1950-1955 gives production goals for only specific types of vessels and does not give an over-all goal. Construction for the River fleet, which in 1950 accounted for the great majority of merchant shipbuilding, is mentioned only as follows:

> "To increase the launching of river passenger boats by 2.6 times as compared with 1950.
>
> To insure the building of river passenger and freight vessels."

In view of the fragmentary nature of this Plan, as published, for merchant shipbuilding, per se, we do not believe that it can be called unrealistic.

Another part of the Plan, that pertainsnto the construction of new shipyards and specifically the portion of the Plan requiring the

increased capacity of ship repair yards for sea-going vessels by 100% appears to be questionable as to its probable fulfillment. This cannot be evaluated, however, without knowing whether the Plan base includes those facilities now engaged in naval work or only those minor yards or portions of major yards available for merchant vessel repairs.

9. In general the growth of shipbuilding and of the shipbuilding industry has continued at a moderate, methodical pace since the end of World War II. There are a few exceptions, viz., the attempted speed-up of repairs for vessels of the River fleets, the construction and reconversion of vessels for the new Volga-Don. As far as can be learned by actual observation, however, the major shipyards are still working on a one shift basis. Research, the training of shipbuilders and the expansion of facilities appear to be progressing at such a rate that the growth of the industry will continue. There are no known factors which will limit this growth in the foreseeable future.