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3 August 1956  
CIA-459241

TO : EIC Secretariat  
THRU : Chief, Economic Research Area, ORR  
FROM : Chairman, Subcommittee on Industrial Machinery and Equipment  
of the EIC  
SUBJECT: Annual Review of Activities and Accomplishments.

A. The following comments refer to the activities of this Subcommittee during Fiscal Year 1956.

1. Review of Intelligence Product in the Subcommittee's Field of Competence.

During the past year the Subcommittee has given attention principally to two activities:

a. Continuation of its program, initiated in Fiscal Year 1955, of reviewing substantive research in its field produced by member agencies of the IAC. Substantially all substantive research publications of the member agencies of current general interest have now been reviewed. Two studies published in recent months by CIA remain to be discussed and will be considered in the near future. Owing to a changed procedure of Air Force Intelligence with respect to the Subcommittee's field, discussed more fully in paragraph B, it appears probable that the principal near future IAC producers of substantive research on industrial machinery and equipment will be CIA and, with respect to trucks and military tractors, Army, G-2. It is proposed to continue the practice of substantive review undertaking, where practicable, discussion of draft reports prior to publication, to afford opportunity for exchange of views and submission of suggestions by representatives of participating agencies.

b. Determination of priority research gaps. Areas of research deficiency within the Subcommittee's purview have been determined and a report is being compiled for early submission to the Secretariat. Having determined the priority areas of deficiency, the Subcommittee plans to proceed toward review and possible amendment of its priority requirements for collection.

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As a by-product of its review of substantive intelligence the Subcommittee is impressed with the need for a standardization in the intelligence community of the definitions of terms commonly used as, for example, the word "capacity" as applied to plant and industry operations and output. As a result of discussions within the Subcommittee valuable knowledge of the concepts and methodologies employed in this respect by the various participating agencies has been exchanged. It is hoped that further work along this line will permit later submission of the Subcommittee's observations and recommendations on this subject.

2. Research and Collection Deficiencies

a. Within its field the Subcommittee has established the following priority research gaps. Work scheduled to be undertaken in Fiscal Year 1957 toward resolution of the deficiencies is tabulated also. Relative priority for commodity subjects is indicated by use of the figures (1), (2), and (3), in descending order of priority.

Area - USSR

Commodities

- (1) Chemical Equipment  
(CIA/ORR Project No. 34.1558, Production of Chemical Equipment in the USSR).
- (1) Precision Rotary Electrical Machines and Control  
(CIA/ORR Project No. 36.1557, The Precision Electrical Machinery and Controls Industry of the USSR).
- (2) Petroleum Refinery Equipment.
- (2) Selected Construction Equipment.
- (2) Railroad Rolling Stock.  
(CIA/ORR Project No. 32.883, Production and Distribution of RR Equipment in the USSR).
- (2) Mining Machinery.
- (2) Batteries (Electrical)  
(CIA/ORR Project No. 36.1555, The Battery Industry of the Sino-Soviet Bloc).
- (3) Electric Power Machinery.
- (3) Metallurgical Equipment.

- (3) Metalworking Equipment.  
 (CIA/ORR Project No. 34.501, Production of Metalforming Equipment in the USSR).  
 (CIA/ORR Project No. 32.884, Postwar Developments in the Heavy Machine Building Industry in the USSR).
- (3) Motor Vehicle Production  
 (CIA/ORR Project No. 32.620, The Motor Vehicle Industry of the USSR).

Selected Aspects of Capital Formation

- Price Practices and Policy  
 (CIA/ORR Project No. 14.844, Soviet Price and Costing Procedures).  
 (CIA/ORR Project No. 34.894, Pricing of Capital Goods in the USSR).  
 (CIA/ORR Project No. 32.885, Pricing Systems for Producers' Goods in the USSR).  
 (CIA/ORR Project No. 40.1532, A Study of Bloc Foreign Trade Commodity Prices).
- Soviet Equipment Replacement Policy
- Technological Advances in the Machine Building Industries  
 (CIA/ORR Project No. 32.884, Postwar Developments in the Heavy Machine Building Industries in the USSR).
- Automation  
 (CIA/ORR Project No. 30.1089, Trends in Automation and Mechanization of Industry in the USSR).
- Indexes of Production of Producers' Equipment
- Evidences of Integration in the Machine Building Industries of the Bloc
- Economic Determinants of Soviet Bloc Export Policy

Area - EUROPEAN SATELLITES

Commodities

- (1) Metalworking Equipment.
- (1) Metallurgical Equipment Industry.
- (1) Precision Rotary Electrical Machines and Control.
- (2) Railroad Rolling Stock.
- (2) Tractors.
- (2) Motor Vehicles.
- (3) Agricultural Machinery.

Selected Aspects of Capital Formation

- Indexes of Production of Producers' Equipment  
 (Study of this subject has been initiated in CIA/ORR).

Price Practices and Policy  
(CIA/ORR Project No. 40.1532, A Study of Bloc Foreign  
Trade Commodity Prices).

Area - CHINA

Commodities

- (1) Electric Power Equipment.
- (1) Metalworking Equipment.
- (1) Railroad Locomotives and Rolling Stock.

Selected Aspects of Capital Formation

Capital Formation in Communist China  
(CIA/ORR Project No. 30.1535, Industrial Capital Investment  
in Communist China).

Additionally, planning is in progress in CIA/ORR toward the establishment of external research projects in Fiscal Year 1957 for study of the productivity of labor in the producers' goods industries of the USSR.

b. The Subcommittee has deferred review of its requirements for collection of information pending determination of the areas of priority research deficiency in its field of interest. It is planned to undertake this work in the near future.

3. Review of Substantive Papers

a. Continuing its practice of the preceding year, the Subcommittee reviewed carefully 3 published studies. Copies of summaries of the group discussions are attached. In addition, the Subcommittee met with the authors of CIA/ORR Project No. 34.1033, to read and discuss a draft of the report before publication. The discussion elicited suggestions for clarification of the subject matter which were welcomed by the authors.

Two studies of recent publication will be reviewed at an early date, as follows:

CIA/RR FR-130, The Optical Instruments Industry of  
East Germany

CIA/RR PR-144, Some Economic Factors Affecting  
Production of Capital Equipment in Communist  
China.

b. The following papers were reviewed in Fiscal  
Year 1956:

The Abrasive Industry in the USSR (CIA/RR PR-103).  
Postwar Investments in Industry in the USSR (CIA/RR-54)  
Air Target Study of Soviet Bloc Industrial Resources,  
Heavy Electrical Equipment (AIS 3-11)  
CIA/ORR Project No. 34.1033, Implications of the  
Planned Expansion in the Soviet Machine Tool and  
Metalforming Machinery Industries (in draft form)

4. Review of Proposals for External Research

In accordance with DCID 15/1, the Subcommittee  
reviewed Air Force External Economic Research Project "Planning  
Study of the Soviet Heavy Machine Building Industries (Phase I),  
which was currently in progress at the University of North  
Carolina. It was concluded the project has a commendable  
objective and is not duplicative of other work in process or  
planned. It is proposed to review the substantive results of  
the work on Phase I in the near future in preparation for  
consideration of Phase II when appropriate.

5. Maintenance of Agreed Basic Statistics

In view of the scope of previous work in this subject,  
discussed in detail in its preceding annual report, the  
Subcommittee did not press work on agreed estimates during  
the past year.

In view of procedural changes currently in effect in  
Air Force with respect to the commodity categories under the  
purview of the Subcommittee, it appears likely that Air Force  
may tend to make more use of CIA estimates than has been its  
previous practice.

6. Projects Undertaken at the Request of the EIC or  
Proposed to the EIC

Shortly before the close of the year the Subcommittee  
commenced consideration of a request of the IAC Standing

Committee on Exchanges for comment and recommendations on a Soviet proposal for an exchange of visiting delegations in the forging press industry. The Subcommittee will shortly submit its recommendation for the inauguration of such exchange visits to producing facilities, with suggestions regarding procedure and itineraries.

7. Intelligence Research Techniques -- None
8. Special Coordination Functions of the Subcommittee -- None
9. Evaluation of the Role of the Subcommittee

a. It is felt that the Subcommittee has effectively realized its potential during the past year. In this respect its effectiveness has been enhanced by the active participation of the Department of Defense member, as well as the continued interest and cooperation of representatives of other participating agencies.

It is felt that necessity for the Subcommittee's efforts declined during the year owing principally to a re-alignment of Air Force activities in this area.

b. The principal impediment to the Subcommittee's activities during the year resulted from changes in its membership which prevented continuity of consideration of problems under discussion. The Subcommittee is pleased to welcome the new State Department member, and also the recently appointed Air Force member.

B. Future Program of the Subcommittee

In preceding paragraphs there have been enumerated items of work which the Subcommittee was not able to complete during the fiscal year. It is the Subcommittee's plan to bring these items to appropriate conclusions as soon as practicable.

While the Air Force still maintains interest in the field of industrial machinery and equipment, it does not presently anticipate the production of substantive material on the scale previously employed. It is apparent that the future activities of the Subcommittee will reflect this procedural change on the part of Air Force.

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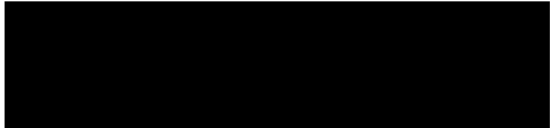
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It is probable that future production of substantive intelligence will be confined largely to CIA and, with respect to trucks and military tractors, Army, G-2. The need for continued functioning of the Subcommittee as it has operated during the past 2 years has undoubtedly diminished.

Considerable progress has been made in establishing contacts between the participating agencies at the commodity working level. Continued growth of this practice may tend to supplant some of the Subcommittee's former activities.

With the elimination of its backlog, and with a re-alignment of Air Force activity in its field, the Subcommittee will probably find less frequent need for formal meeting than has been its practice in the last 2 years.

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