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The Impact of Hard Currency Shortages on Soviet Civilian Industry

Summary

Faced with shortfalls in hard currency revenues because of continued weakness in world energy markets, Moscow must rethink its shopping list for Western goods. Options to offset the decline in energy earnings are limited, and the Soviets are likely to reduce purchases of Western equipment and industrial materials. Cutbacks, however, will not be made evenly across the board. Although all sectors of the economy will feel the pinch, Moscow will probably shelter as much as possible future purchases of machinery--the backbone of Gorbachev's industrial modernization campaign--giving special attention to metallurgical, chemical, and oil and gas equipment. Because of their importance throughout the economy, imports of steel products--notably large-diameter pipe--and chemicals will probably be spared from deep cuts. Despite the lipservice paid to improving the living standards of Soviet citizens, the leadership is likely to view purchases of Western consumer goods as the best candidates for the axe. [Redacted]

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Besides trimming imports from the West, we expect the Soviets to pursue a combination of other trade strategies to deal with reduced hard currency earnings. Among Moscow's options are: 1) pushing for more buyback and barter arrangements in contracts with Western firms, 2) scaling down expensive turnkey projects by increasing domestic content, and 3) turning more to East European suppliers. The Soviets already have served notice on their CEMA partners to increase deliveries of a wide variety of equipment. East European countries, however, will be hard-pressed to offer the scale of support Moscow is seeking because of hard currency constraints of their own and domestic production bottlenecks. [Redacted]

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This memorandum was prepared by the Industrial Analysis Branch, National Issues Group, Office of Soviet Analysis, with contributions from the Resource Management Branch and Economic Potential Branch, SOVA. Comments and questions are welcome and can be directed to Chief, Economic Performance Division [Redacted]

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Introduction

The recent decline in Soviet hard currency revenues--principally a result of low energy prices and the depreciating dollar--will force Moscow to rethink its purchases from the West for the rest of the decade. Although it is difficult to predict the exact magnitude of future hard currency shortfalls, the Soviets face an almost certain and substantial reduction in their capacity to buy Western machinery, agricultural goods, and industrial materials. [REDACTED]

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The USSR gets a wide variety of machinery and products from the West that the domestic economy either cannot produce at all or cannot provide in sufficient quantity or quality on a timely basis. Imports have in the past helped Moscow to overcome crucial hurdles in technological development and to attempt to satisfy consumer demand. Excluding crude oil (for reexport) and grain and other agricultural raw materials, hard currency purchases in 1985 were concentrated on machinery and equipment (\$4.9 billion), largely for the metallurgical, chemical, petroleum, and paper industries; steel products--including pipe--and other ferrous metals (\$3.6 billion); chemicals (\$2.2 billion); and soft goods and processed foods (\$2.3 billion) (see table). A small portion of this trade, however, involves compensation agreements and would not be affected by an import cutback. Although the reliance of industrial branches on Western goods and technology varies widely, the potential necessity to cut back hard currency imports by perhaps as much as one-third could have a substantial long-term impact on the pace of industrial modernization. [REDACTED]

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In the following paragraphs, we attempt to assess the dependence of individual civilian industries on Western goods and equipment, the impact on industry and the economy in general of a reduction in imports, and the steps the Soviet leadership might take to deal with the situation, including increased pressure on East European countries to take up the slack. Moscow set the wheels in motion to increase and upgrade purchases of industrial machinery and technology from its East European allies at the CEMA Summit in June 1984. [REDACTED]

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[REDACTED] in mid-1984, Moscow identified specific areas where it expects East European equipment to substitute for previously planned purchases from the West. These include mining, chemical, oil, and electrical equipment; large-capacity trucks and excavating equipment; pipelayers and bulldozers; materials handling equipment; and computer numerically controlled machine tools. East Germany, with its relatively healthy economy and a long tradition in machine building, is the most likely source for many potential new Soviet purchases. Yet hard currency constraints and worsening domestic production bottlenecks in the region will place sharp limits on what Eastern Europe can provide. [REDACTED]

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USSR: Composition of Hard Currency Imports, 1985

	Million US\$
Total	25,767
05 Repair work	43
08 Technical training	10
1X Machinery and equipment, unspecified	1,044
10 Metal processing equipment	640
11 Electrical equipment	214
12 Mining, metallurgical, and petroleum equipment	719
13 Materials handling equipment	139
14 Food-processing and light industry equipment	361
15 Chemical, paper, construction, and other industrial equipment	1,169
16 Buildings and engineering installations	1
17 Instruments, laboratory and medical equipment, bearings, and abrasive equipment	315
18 Tractors and agricultural machinery	32
19 Transport facilities and equipment	234
2X Fuels and metals, unspecified	2,573
24 Metal ores and concentrates	137
25 Nonmetallic minerals	83
26 Ferrous metals	3,635
27 Nonferrous metals	2*
30 Chemicals	1,383
31 Dyes, lacquers, and tanning materials	122
33 Photographic materials	2
34 Fertilizers and pesticides	520
35 Rubber and asbestos goods	157
40 Construction materials	173
50 Lumber and paper goods	134
51 Textile raw materials and semifinished products	840
53 Raw hides and leather	127
55 Seeds	3
56 Volatile oils and gums	7
57 Industrial fats and oils	157
58 Fodder	82
59 Other raw materials	62
60 Live animals	6
70 Grain	5,236
72 Oilseeds, fruit, tobacco, other agricultural raw materials	725
80 Meat and dairy products, animal fats, eggs	289
81 Fish and fish products	113
82 Flour and legumes	70
83 Vegetables, fruits, berries	218
84 Sugar, vegetable oil, other food goods	474
85 Beverages and tobacco goods	57

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USSR: Composition of Hard Currency Imports, 1985 (continued)

	Million US\$
90 Cotton, woolen, and other fabrics	199
91 Clothing and linens	579
92 Haberdashery goods	19
93 Leather, rubber, and other shoes	311
96 Medicines and drugs	58
97 Household goods	29
98 Other consumer goods	2
99 Not specified	2,262

*The Soviets treat most data on production of and trade in nonferrous metals as state secrets. We estimate annual hard currency purchases at roughly \$100 to \$150 million, an amount likely included in the "not specified" category in official trade statistics.

Source: Vneshnyaya trgovlya SSSR v 1985 g.

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Oil

Although Western imports are not critical for most Soviet oilfield operations, major dependencies exist for development of sour oil and gas condensate fields and for exploration and development of Arctic offshore areas. Imports of Western drill rigs, wellhead equipment, pipe for gathering lines, and processing equipment for corrosive and high-temperature and high-pressure environments will be mandatory for development of the deep sour oil and gas condensate potential of the Pre-Caspian Basin. [REDACTED]

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A sizable cut in hard currency imports of specialized equipment would slow development in the Pre-Caspian area. Soviet plans call for about 450,000 barrels per day of capacity to be in place by 1990. Some delays would also arise in exploration of the Barents Sea, setting back the start of any substantial production if commercial discoveries are made. Moscow may stretch out equipment deliveries for these projects despite the negative impact on domestic oil production. [REDACTED]

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Few palatable domestic options exist that could compensate for reductions in purchases of corrosion-resistant and Arctic-capable production and processing equipment. Moscow could attempt to use domestically produced pipe and processing equipment, but there is a good chance that some such equipment would fail. Without purchases of Western turnkey manufacturing plants, Soviet industry would probably need at least five years to establish the capability to produce the necessary steels and fabricate them into high-quality equipment. Large increases in investment would be needed, and the Soviets would still not be guaranteed servicable equipment. East European countries have little to offer because their capacity to produce corrosion-resistant and Arctic-grade steels is about on a par with that of the Soviets. [REDACTED]

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Moscow could agree to joint development of fields in the Pre-Caspian Basin and/or joint exploration of the Barents Sea, with Western firms receiving a share of production as payment for equipment provided. Not only would such arrangements require a major shift in existing Soviet economic policy, but, given the current depressed state of the oil market, Western firms may have more promising and less complex areas earmarked for development. The Soviet military would probably oppose giving Western companies access to both these areas because of the many key strategic installations located around the Caspian and Barents Seas. [REDACTED]

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Natural gas

Although imports of Western equipment would facilitate development of the Soviets' northern gasfields, Moscow has no special dependency on the West for natural gas production that could be affected by reduced imports. However, construction of major gas trunklines from producing areas to regional pipeline distribution systems depends heavily on Western imports. Imports of large-diameter (1,420-millimeters) pipe (LDP), heavy steel plate for manufacturing LDP, and heavy-duty pipelayers [REDACTED]

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are required to maintain the current pace of gas pipeline construction. A cutback in hard currency purchases would result in a concomitant reduction in the pipeline building program. West Siberian gas development --particularly the development of the Yamburg gasfield--would slow, retarding growth of national gas output and interfering with large-scale substitution of gas for oil. [redacted] 25X1

To compensate for a reduction in the supply of LDP and plate, Moscow could use its own, smaller (1,020- and 1,220-mm) linepipe. Such a decision would require a sharp increase in pipe production--possibly leading to shortages of steel in other sectors of the economy--as well as other adjustments such as the need for different-sized compressors and other ancillary equipment. Because of the lower throughput of the smaller diameter pipelines, more pipe would be needed. Even with a large increase in investment and labor resources, it is doubtful that the Soviets could lay enough pipe to compensate fully for a reduction in imports. Moscow's CEMA partners would be of little assistance because they also purchase most of their LDP and heavy-duty pipelayers from the West. [redacted] 25X1

Coal

Currently, the Soviet coal industry has no major dependency on the West, although Moscow has imported a few hundred haulage trucks and some excavation equipment for hard currency in recent years. If Moscow proceeds with plans to build long-distance, high-capacity coal slurry pipelines, however, Western technology would be mandatory. Without this know-how, the Soviets would probably experience shortfalls in eastern coal development--a major component of the USSR's Long-Term Energy Program--that could lead to energy constraints beginning sometime in the 1990s. [redacted] 25X1

Electric power

The Soviet electric power industry is largely self-sufficient in equipment and technology. Moreover, the USSR is considered a world-class supplier of hydroelectric equipment and expertise; Soviet hydro turbines have been imported by less-developed and industrialized countries alike--including the United States and Canada. Soviet power plants that burn oil, natural gas, and coal are designed, built, and operated with few inputs from either other CEMA countries or the West. The Soviet nuclear power program has benefitted from some key Western imports--primarily machine tools and welding components used in the manufacture of reactor components --but the Soviets currently rely mostly on Eastern Europe rather than the West for help in making equipment for nuclear power plants. [redacted] 25X1

A major cutback in hard currency purchases would leave most current power industry operations unaffected. But because the Soviets are counting on rapid expansion of their nuclear power industry--despite Chernobyl--to meet most of the growth in electricity demand in the remainder of the 1980s, cutting Western imports could have a noticeable impact. For example, the Western firm Kroll supplies construction sites with specialized cranes that enable Soviet crews to preassemble major components and to complete multi-reactor power plants several years faster than could be done with domestic equipment, which cannot handle the [redacted] 25X1

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massive assemblies. The major impact of a cutback would be a lengthening of construction times for many nuclear power plants, disrupting plans for electricity production and eventually hitting industrial consumers with more frequent brownouts and blackouts. [REDACTED]

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The Soviets have been trying to organize the nuclear industry within CEMA for nearly a decade, making slow but steady progress on a joint program. It is unlikely that this activity could be stepped up to offset cuts in imports of Western equipment. The Soviets are probably already trying to "reverse-engineer" equipment now being imported, and speeding this copying process would be expensive. If a major construction slowdown resulted in large electricity supply disruptions, the power industry would probably receive the go-ahead to selectively allocate power. Although forced rationing carries with it the risks of major disruptions, it has been used during some past supply crunches. [REDACTED]

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Ferrous metals

Since 1975, the USSR has ordered more than \$4 billion worth of Western steelmaking equipment, mostly to fill gaps in technology. Western rolling mills, for example, are superior to Soviet models, especially in the area of advanced automation and computer control systems. In other cases, Moscow relies on Western equipment to get new plants operating more quickly than they could with domestically produced equipment. Imports of ferrous metals products accounted for 14 percent of total hard currency imports in 1985, third only to grain and total machinery. Although imports from the West--largely steel sheet, plate, tube, and pipe--represent less than 25 percent of domestic consumption of these broad product categories, the Soviets are dependent on hard currency imports for roughly 80 percent of their requirements for LDP. They also import ores and ferroalloys of higher quality than those available from domestic or East European sources. [REDACTED]

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All the new steel projects earmarked for 1986-90, with the exception of a plant at Orlovskiy, have already been negotiated for and are under construction. Renovation projects, on the other hand, appear to be more vulnerable to cancellation. Soviet officials have reported, for example, that modernization of the Zaporozh'ye steel plant had been canceled [REDACTED]

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Further cutbacks of imported Western equipment probably would slow the pace of the steel modernization effort. The Soviets could divert additional resources from other areas of machine building to metallurgical machine building, but many sectors of the economy will be competing for increased machinery output. Most likely, Moscow will turn up the heat on its CEMA allies, especially East Germany and Czechoslovakia, to supply additional high-quality metallurgical machinery. The Soviets have been importing East European metallurgical equipment for years, particularly for rolling mills, and East Germany is already slated to renovate nine light-section rolling mills in the USSR during 1986-87. However, we are not sure how much additional equipment Eastern Europe would be able to provide. [REDACTED]

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Because some steel products--notably LDP--are considered a priority, imports will likely be maintained. To compensate for the loss of other steel products, the Soviets could reduce exports to or increase imports from Eastern Europe, but East European steel output is relatively small and most exported steel products are not of high quality. Steel consumers could practice increased conservation and use substitute materials such as plastics and composites--as called for by the leadership--but availability could be just as serious a problem with substitutes as it is with some steel products. [redacted]

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Nonferrous metals

Soviet dependence on the West for nonferrous metals is small. Except for tin--Moscow imports about 30 percent of total consumption--imports generally provide less than 15 percent of domestic supplies. Estimated annual hard currency outlays for nonferrous metals are about \$100 to \$150 million, some for repayment of Soviet aid to less-developed countries. Indeed, the Soviets earn valuable hard currency from exports of many nonferrous metals, including gold, platinum group metals, aluminum, nickel, copper, and titanium. We have very little information on Soviet imports of technology and equipment for the industry. According to the Western press, the Soviets signed an agreement in early 1986 with an Italian firm for the construction of a \$60-million electrolytic zinc plant in West Siberia--which reportedly will be the world's largest and most automated. [redacted]

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But we believe the Soviets would need to spend additional hard currency in the next few years to modernize aging nonferrous metals plants and to upgrade the mining sector. The industry is also slated to boost the output and variety of semifinished metal products (angles, rods, and bars, for example) to meet increased demand from machine-building enterprises; achieving this goal will probably require imports of Western metalworking equipment. Doing without such imports could jeopardize the output of alloy steels, chemical equipment, metal-cutting machinery, electrical and electronic equipment, and potentially some military hardware. [redacted]

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To compensate for fewer imports, the USSR might re-allocate metal supplies among consuming industries. The Soviets maintain national stockpiles of many nonferrous metals and minerals and could curtail stockpiling or draw down supplies. Some of the potential metals shortages could also be alleviated by increased domestic mining and processing. Increased by-product recovery and the exploitation of available low-grade deposits could also boost supplies. But new mines and refineries can take 10 or more years to build, and processing low-grade ore would raise costs. [redacted]

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The Soviets could also ease potential shortages at relatively low cost through increased recycling, although some Western equipment may be needed. Articles in the Soviet press claim that at least 30 percent of total output of many nonferrous metals could be provided at a fraction of the cost of producing them from ore. Moscow might step up its pressure on Third World countries--suppliers of most imported nonferrous metals--to accept more countertrade. But a recent attempt to strike such a deal with Bolivia--one of Moscow's largest tin suppliers--was a failure. Except for [redacted]

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alumina and bauxite, East European countries are not in a position to offer the Soviets much help because of their limited raw material base and capacity for producing nonferrous industry equipment. Although hard trade statistics are unavailable, we believe the USSR exports substantial quantities of nonferrous metals and minerals to Eastern Europe, and, in a shortage situation, Moscow could trim these exports, either for domestic use or for sale to hard currency countries. [REDACTED]

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Chemicals

The Soviets are highly dependent on imports of Western chemical equipment and technology for the production of fertilizers, plastics, and synthetic fibers. In 1985, roughly 60 percent of Soviet imports of chemicals and 40 percent of chemical equipment came from hard currency countries. Although Moscow plans to boost supplies of chemicals and chemical equipment from domestic and East European sources, it will have to continue to rely on the West for certain types of advanced technology. The Soviets also will continue to need spare parts and catalysts for chemical plants they already have imported. [REDACTED]

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The USSR has been negotiating recently with Western firms for turnkey plants to produce plastics, synthetic fibers, pesticides, and other industrial chemicals. But the fall in oil prices has forced Moscow to pare its shopping list by cancelling a \$1-billion polyvinyl chloride complex, a \$1-billion olefins project, and a \$60-million herbicide plant. In recent months, the Soviets also postponed construction of a \$1-billion nylon fiber and resin complex and delayed the second phase of a large pesticide plant. [REDACTED]

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[REDACTED] These cutbacks will have an adverse impact on the availability of synthetic fibers and plastics for consumer and industrial goods and will force the Soviets to increase agrochemical imports and/or rely on less-effective domestic products. [REDACTED]

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Although exports of chemicals for hard currency have grown in recent years, the USSR remains a net importer. Moscow is dependent on the West for nearly all its superphosphoric acid--most from the United States under an exchange agreement for Soviet ammonia--and more than 80 percent of imported man-made fibers and 70 percent of rubber chemicals. In 1985, Western countries provided roughly two-thirds of Soviet imports of plastics, pesticides, and dye intermediates and more than one-half of the imported caustic soda. In addition to slowing the pace of modernization, a cutback in hard currency purchases would lower production effectiveness in practically all sectors of the economy. Lack of new Western technological processes could hamper the development of new materials for machine building, construction, and the automotive industry. Inadequate supplies of phosphate fertilizers and pesticides could result in lower agricultural yields. At the same time, Gorbachev's efforts to raise consumer welfare could be hampered by shortages and lower quality synthetic fibers and plastics. [REDACTED]

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Moscow will undoubtedly increase pressure on its CEMA allies to raise deliveries of chemicals and chemical equipment. Eastern Europe already provides one-fourth of Soviet chemical imports and more than one-half of the [REDACTED]

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USSR's imported chemical equipment. Despite growing capabilities to provide high-quality chemical equipment, however, Eastern Europe is simply not in a position to offer the scale of support needed under a scenario of a large reduction in hard currency purchases. East European countries could boost deliveries of chemicals to the USSR, but only at the expense of diverting materials now sold to the West. [redacted] 25X1

Construction materials

Gorbachev's modernization program is challenging the Soviet construction materials industry to supply more and better quality building products for renovating industrial plants at a time when Moscow has been largely unable to expand production capacities, conserve materials, and increase automation. As a result, the Soviets have had to increasingly rely on imports. Hard currency purchases of construction materials totalled \$175 million in 1985, mostly insulation materials. Although Moscow bought only \$5.5 million worth of refractories from the West last year, it has been importing sizable quantities of magnesite powder from North Korea, highlighting continued problems in the cement and steel industries. Two contracts are currently being negotiated to help alleviate these problems: a package of three West German refractories plants--valued at \$300 million--that would double Soviet refractory output and transfer of US dry-process technology that could be used to reduce energy consumption and expand output at Soviet cement plants. [redacted] 25X1

These two contracts would likely be protected from any cutback in hard currency expenditures. The refractory plants are essential to both the ferrous metals and cement industries. Moreover, the Soviets view the direct purchase of cement technology as the most efficient way to convert the cement industry to the dry process--a Soviet goal for more than 15 years. In the longer term, Moscow may view this approach as cheaper than buying equipment or importing high-quality cement. East European countries can offer the USSR only a small portion of the construction materials technology or products that Moscow now buys in the West. [redacted] 25X1

Pulp and paper

The Soviet pulp and paper industry relies on imports of Western equipment and technology for three-fourths of its papermaking machines, 60 percent of its cardboard machines, and all of its continuous pulp digestors. In addition, the USSR imports roughly \$100 million worth of pulp and paper products annually from hard currency countries. Moscow is moving, however, to reduce its dependence on the West for pulp and paper products and machinery by directly purchasing Western process technology--rather than complete plants--for domestic application and pressing Eastern Europe to replace the West as primary suppliers of pulp and papermaking machinery. Soviet measures to improve efficiency and performance in the industry may also help. The Soviets have taken steps to reduce paper weight, expand the use of waste materials, and increase the use of hardwoods. These efforts will continue--regardless of the hard currency situation--and could result in a smaller volume of pulp and paper imports in the future. [redacted] 25X1

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[redacted]

The Soviets are currently negotiating contracts for two large pulp and paper facilities--one at Arda worth \$700 million and the other at Yeniseisk worth \$500 million. A large reduction in hard currency expenditures would put these projects in jeopardy. Given the more advanced status of the Arda project, however, the Soviets probably will fully fund it and postpone Yeniseisk, perhaps until the mid-1990s. On the product side, the Soviets would likely either absorb a cut without any action or attempt to turn to Finland--a soft currency trading partner--to make up some of the difference, but trade with Finland is also likely to be affected because of low oil prices. CEMA countries have the capability to supply a wide variety of pulp and papermaking machines to the USSR. Poland, for example, imported \$12 million worth of modern machinery from the United States in the mid-1970s, technology that could be readily transferred to the Soviet Union and used to ease the transition from Western suppliers to domestic producers. [redacted]

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Soft goods

The Soviet Union imports little Western raw material or equipment used by light industry--the branch of industry that produces textiles, clothing, and shoes. The subsector most dependent on imports from the West is the woolen industry; Moscow spent \$225 million in 1985 for 15 percent of its wool fiber needs, mainly from Australia. The Soviets also imported 7 percent of their requirements for chemical fibers from hard currency countries last year at a cost of \$300 million. Light industry gets the bulk of its manufacturing equipment from domestic machine-building enterprises and Eastern Europe. Imports from the West have risen, however, to \$150 million last year, making up 14 percent of total imports of light industrial equipment. [redacted]

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If imports from hard currency countries were cut, Soviet light industry would probably experience little direct effect. Output of wool textiles would drop noticeably, but it is one of the smallest subsectors of the textile industry. Production of fine woolen suits would suffer the most. The footwear sector could also be affected by a decline in supplies of leather and leather-working equipment. The Soviets are planning to build a number of new footwear factories using imported--mostly Italian--machinery. Agreements for some of these plants have already been signed. The industry could substitute for the loss of chemical fibers by increasing the percentage of cotton in its cotton blend fabrics. More cotton could be imported cheaply from China. Overall, the loss of Western equipment might deprive the industry of a few showcase plants, but it would have little real impact on performance of the industry. [redacted]

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The share of soft goods imports in state retail trade probably runs only 4 to 5 percent. But because these goods tend to be of higher quality than domestically produced items, any cutback in imports probably would be noticed by Soviet consumers, especially in urban areas. Reductions might have a relatively higher impact on sales in the chain of special shops serving the elite, which probably receive a larger share of imported soft goods than ordinary stores. Moscow could ease the pinch by attempting to squeeze more from Eastern Europe. CEMA countries will be hard-pressed, however, to meet greater Soviet demands in this area given the weak state of their economies and the political risks of further shortchanging East European consumers. [redacted]

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Although General Secretary Gorbachev has announced ambitious plans for improving the output and quality of soft goods, he intends to concentrate on improved management and labor productivity rather than imports from the West, using domestic resources and imports from Eastern Europe. Hard currency shortages will have little impact on light industry as long as agriculture and the chemical industry continue to provide raw materials at current levels. [REDACTED]

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Food-processing

The food-processing industry relies on domestic agriculture for the bulk of its raw materials. But the Soviet food-processing industry lacks the capacity to process domestic agricultural output in a timely and efficient manner, and Moscow has already imported substantial amounts of machinery and equipment to help solve this problem. The bulk of equipment purchases, however, have come from Eastern Europe. Only about 20 percent --roughly \$200 million--of total food-processing machinery imports in 1985 came from hard currency countries. [REDACTED]

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A large cutback in imports of Western food-processing machinery would impair Soviet plans to improve the food supply, but the slowdown would likely not be felt for several years as the Soviets continue to attempt to assimilate equipment purchased earlier. In addition, actual processed-food output would not decline as long as agricultural production remains at current levels. The sector of the industry most likely to be affected would be the wine and spirit industry, a large portion of which is to be converted to non-alcoholic food and beverage production by 1990. Accomplishing this goal will require rapid retooling, some of it with Western equipment. [REDACTED]

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Most Soviet processed-food imports come from Eastern Europe or other soft currency countries. Moscow did import 14 percent of its vegetable oil supplies in 1985, however, from hard currency countries at a cost of \$460 million. The domestic vegetable oil sector has suffered from declining sunflower seed output in recent years, and the Soviets could ill afford to cut back these imports. They could maintain imports by arranging countertrade agreements with less-developed countries with a market for Soviet goods. Over the past few years, the USSR has met roughly one-fifth of its sugar needs with imports from the West. Problems with the domestic sugar beet crop mean a continued need for these purchases. Food makes up a large share of the Soviet consumer's budget, and imports improve the quality and assortment of available food. The Soviet leadership is unlikely to risk antagonizing the public by cutting back imports. [REDACTED]

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- 64 - Stephen R. Sestanovich, National Security Council
(376A EOB)

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