

Page Denied

Next 1 Page(s) In Document Denied



Directorate of Intelligence

~~TOP SECRET~~

MASTER FILE COPY
DO NOT WRITE ON
OR MARK ON



25X1

USSR: Gold Production and Sales Potential



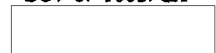
25X1

A Research Paper

PROJECT NUMBER JT-0124-87 (N)
 I W M J K
 PAGE NUMBERS 23
 TOTAL NUMBER OF COPIES 480
 DISSEM DATE 870526
 EXTRA COPIES 371-401
 RECORD CENTER 402-457
 JOB NUMBER 425-673-87

~~Top Secret~~

SOV 87-1002CX



May 1987

Copy 370

25X1

Page Denied



**Directorate of
Intelligence**

Top Secret
[Redacted]

25X1

USSR: Gold Production and Sales Potential

[Redacted]

25X1

A Research Paper

This paper was prepared by [Redacted]
of the Office of Soviet Analysis [Redacted]

[Redacted]

25X1

25X1

25X1

Comments and queries are welcome and may be
directed to the Chief, Economic Performance
Division, SOVA. [Redacted]

25X1

[Redacted]

Reverse Blank

Top Secret
SOV 87-10027CX

[Redacted]

May 1987

25X1

25X1

Top Secret



25X1

USSR: Gold Production and Sales Potential



25X1

Summary

Information available as of 1 February 1987 was used in this report.

We expect Soviet gold production—currently one-fifth of the world's annual output—to continue to grow slowly through the early 1990s, enabling Moscow to increase gold sales for hard currency without substantially reducing its gold reserve. Rising gold sales, however, probably will not offset the effect of continued low world oil prices on Moscow's hard currency earning capacity.



25X1

Soviet gold production grew less than 2 percent annually during 1981-85, after decades of growth exceeding 3 percent per year. The main reason for the slowdown was the sharp decline in the gold content of mined ore in many key areas, particularly in the Northeast Region, which accounts for nearly 40 percent of Soviet production.



25X1

We project that by 1990 annual production will reach roughly 330 to 360 metric tons, an increase of 2.5 to 12.8 percent over the 1985 level of roughly 320 tons, mainly as a result of gains in the utilization of existing capacity. We believe the Soviets can do little to boost production much above these levels, largely because most plants and mines will be operating close to capacity. Moscow has been making an effort to expand capacity for several years, but most construction is still at an early stage, and hard currency constraints may prevent purchases of the Western earthmoving equipment and spare parts needed to expand operations.



25X1

We believe that slow output growth will continue during the early 1990s. The grade of mineable ore in the Northeast Region will probably deteriorate further, and the amount of new capacity under construction indicates the Soviets probably are not making the preparations necessary for a large surge in output in the next decade.



25X1

Beginning in late 1985, Moscow dramatically increased gold sales as one of several steps to help offset the decline in hard currency earnings from energy sales. (Other steps included borrowing more on international markets, increasing exports, and cutting back on imports.) During 1986, Moscow was able to hold total hard currency revenues near the 1985 level by selling roughly 350 tons of gold for about \$4 billion. Sales in 1985 were about 190 tons. In comparison, oil sales earned \$7-8 billion in hard currency in 1986.

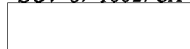


25X1



Top Secret

SOV 87-10027CX




May 1987

25X1


25X1

Top Secret


25X1

Although we expect a high level of sales to continue during the remainder of the decade to help offset continued lower revenues from energy exports, the Soviets may be concerned about the state of their gold reserve. Its value has been hit by a "double whammy" in recent years. First, the falling content of gold in mined ore in key regions led to a decline in the rate of output growth and increased the cost of production. Second, despite a buildup of stocks in the early 1980s, the drop in the world gold price devalued the Soviet reserve by \$9 billion during 1981-85. Price increases last year helped recoup some of this "loss." 

25X1

Moscow's flexibility to sell gold during 1987-90 will be limited only by market capacity. Market experts indicate that annual sales will probably be limited to roughly 300 tons—although they could be as high as 450 tons in perhaps one or two years—if selling is done judiciously to avoid disrupting the market and causing a major, sustained price decline. At yearend 1986, the USSR had an estimated stockpiled reserve of 2,290 tons, and we project that 270 to 310 tons of surplus production (in excess of domestic use) could be sold annually during 1987-90 without drawing down this reserve. Assuming an average price of \$400 per ounce, Moscow could earn as much as \$4-6 billion annually from sales of 300 to 450 tons. Revenue from gold sales at these amounts, however, would cover only part of Moscow's expected hard currency shortfalls through 1990. 

25X1

Moscow could realize an annual earnings windfall of several billion dollars above our projections if South Africa's gold sales were substantially curtailed for an extended period—for example, in the highly unlikely event of intense nationwide strife bordering on civil war. In this scenario, prices would probably rise sharply, and the Soviet share of world sales could jump from roughly 15 percent in 1985 to 50 percent or more. 

25X1

Top Secret

iv

25X1
25X1

~~Top Secret~~
[Redacted]

Contents

25X1

	<i>Page</i>
Summary	iii
Role of Gold Sales in Foreign Trade	1
Recent Production Trends	1
Declining Gold Content	2
Low Utilization of Capacity	4
Rapid Buildup of the Stockpiled Reserve	7
Slow Growth in Output Projected To Continue	7
Continued Sales Flexibility	9

[Redacted]

25X1

[Redacted]

[Redacted]

Top Secret



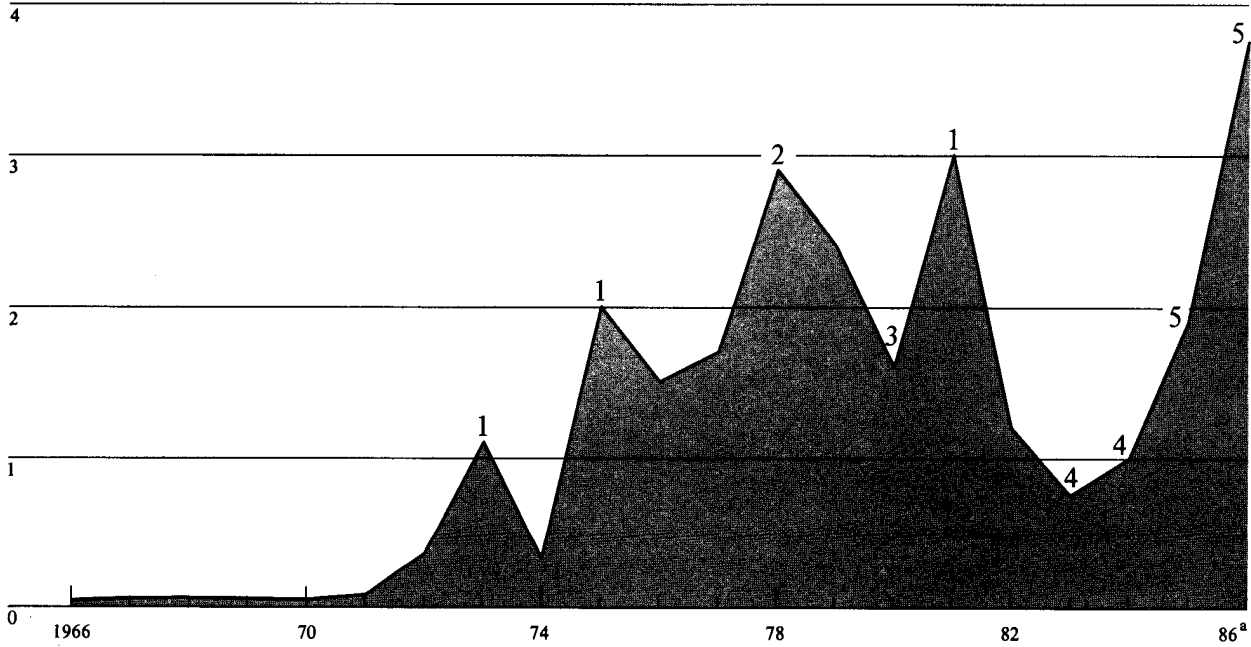
25X1

Figure 1
USSR: Estimated Gold Sales, 1966-86

Legend

- | | | |
|--|---------------------------|--------------------|
| 1 Large grain imports | 3 Jump in world oil price | 5 Low oil earnings |
| 2 Large rise in machinery and pipe imports | 4 Record oil earnings | |

Billion US dollars



^a Estimated earnings.



312749 5-87

25X1

Top Secret



25X1
25X1

Top Secret



USSR: Gold Production and Sales Potential



25X1

Role of Gold Sales in Foreign Trade

Analysis of the trends in the Soviet hard currency balance of payments indicates that Moscow uses gold sales primarily as a financing mechanism rather than a trade commodity like oil. The Soviets generally sell more gold when they need a rapid infusion of cash, and less—even when prices are high—when they are in a good cash-flow position. During the mid-1970s, when Moscow needed to finance large purchases of grain and equipment, for example, gold sales were high (see figure 1). Hard currency crises in 1981 and 1982 forced considerable sales, even though a falling gold price cut into earnings. Gold sales were relatively small in 1983 and 1984 as record oil revenues from the West obviated the need for extra cash.

The sharp decline in hard currency export earnings beginning in 1985 has again sparked substantial gold sales. Oil production problems in 1985 cut annual Soviet oil revenues by nearly \$4 billion, which Moscow partially offset by selling approximately 190 tons of gold worth just under \$2 billion. Even though oil exports recovered somewhat in 1986, the steep drop in world oil prices resulted in another decline of \$3-4 billion in hard currency sales. Estimated oil revenues of \$7-8 billion last year were just half the peak earnings of \$15.6 billion recorded in 1983. Moscow again responded with higher gold sales, selling an estimated 250 tons in July and August 1986. We believe that total gold sales in 1986 may have reached 350 tons, earning \$4 billion.

Recent Production Trends

Because of the importance of gold sales as a source of financing, Moscow has assigned a high priority to maintaining a large domestic production base. In 1985, we estimate the USSR produced roughly 320 tons of gold, one-fifth of the global output, and second only to South Africa in national output (see table 1

Table 1
Major Gold Producers

Metric tons

	1970	1975	1980	1985
South Africa	1,000	714	674	619
USSR	211	251	294	321
Canada	75	51	51	86
United States	54	33	30	77
Brazil	5	5	40	62
Australia	19	16	17	57

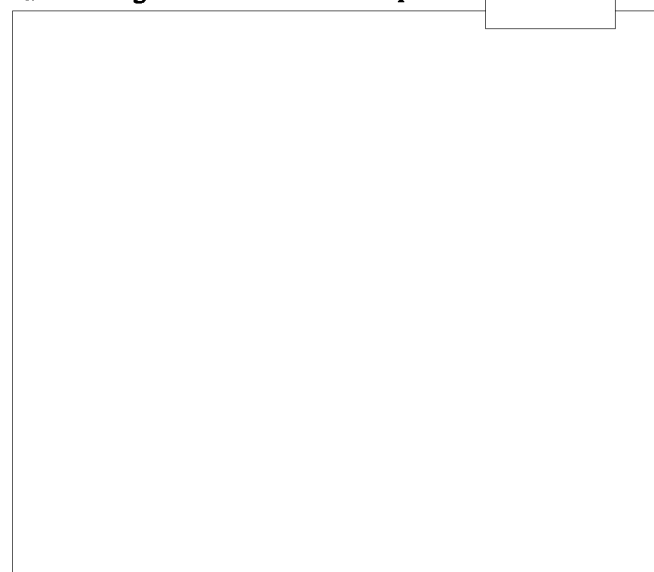


25X1

25X1

and figure 2).¹ Production has been growing slowly in recent years, however, after decades of moderate to high growth. During 1961-70, we estimate output grew at an average annual rate of roughly 6 percent and during 1971-80 at about 3.5 percent.

25X1



25X1

25X1



Top Secret



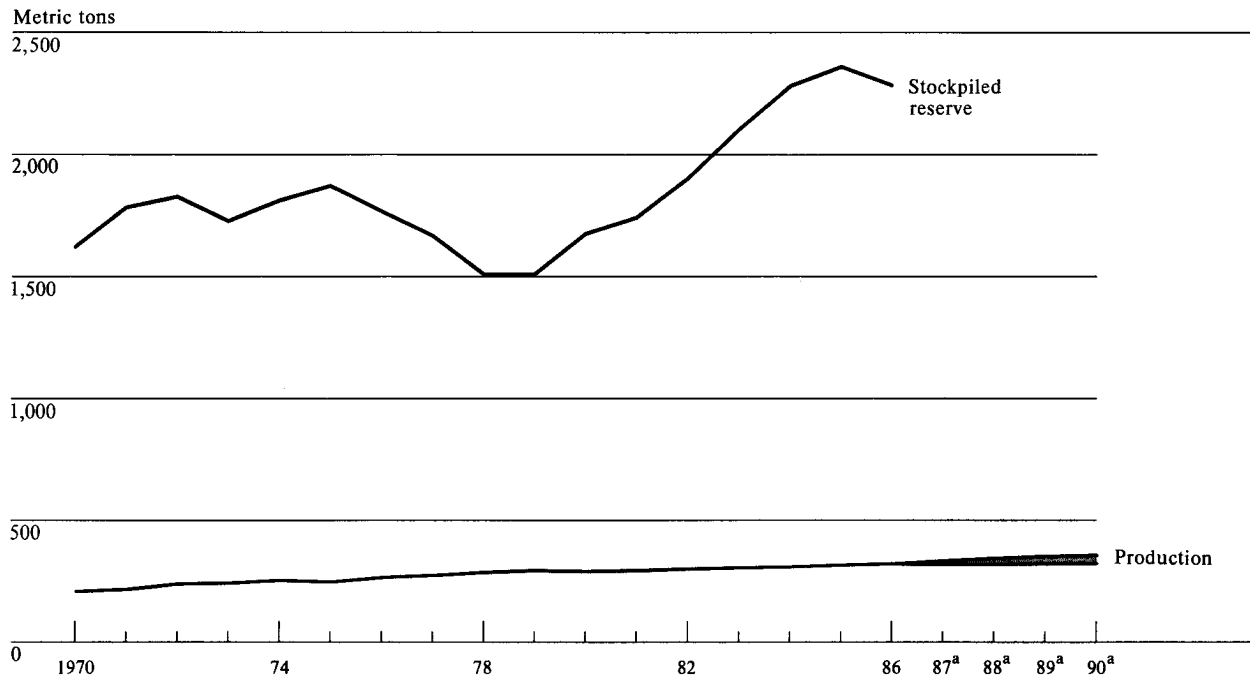
25X1

25X1

Top Secret
[Redacted]

25X1

Figure 2
USSR: Estimated Gold Supply, 1970-90



^a Projected.

[Redacted]

312750 5-87

25X1

Declining Gold Content

The major cause of the slower growth in output in recent years was the sharp decline in the gold content of mined ores, particularly in the Northeast Region, the main source of the Soviet gold supply for the last 50 years (see [Redacted] inset on page 4).⁴ The region's annual output peaked at an estimated 133 tons in 1977, but then fell to about 120 tons in 1980 and leveled off. In 1970, the Soviet press reported that it was necessary to process 28 percent more ore per

25X1

25X1

25X1

⁴ For the purposes of this paper, the Northeast Region includes the Yakut ASSR and Magadan Oblast. [Redacted]

25X1

25X1

[Redacted] Articles in the Soviet press indicate construction was delayed as a result of difficulties in getting materials to the site because road construction had fallen far behind schedule. [Redacted]

Top Secret

[Redacted]

25X1

Top Secret

[Redacted]

25X1

25X1



unit of gold production than in 1965. By 1975, another 50-percent increase in ore processing was required. A Soviet broadcast reported in late 1984 that it would be necessary in the future to process several times as much ore just to maintain the current production level. [Redacted]

[Redacted]

Substantial declines in the content of ores mined throughout East Siberia and the Urals were also a factor in the slow growth of national output. Most of

the mines are placers that are in a state of decline after having been worked for several years.⁵ [Redacted]

[Redacted]

⁵ A placer deposit is an alluvial or glacial formation of sand or gravel that has been eroded from bedrock and has concentrated in low-lying areas such as stream valleys. In contrast, a lode deposit is a collection of gold ore veins. [Redacted]

[Redacted]

25X1

25X1

25X1

25X1

25X1

25X1

Top Secret

[Redacted]

25X1

Top Secret

25X1

25X1

roughly 9 tons, or 50 percent of capacity

25X1

25X1

25X1

25X1

• Soviet technical literature has not reported on the advantages of the RIP process since the 1970s, when the Soviets claimed this technology would increase output and cut production costs by 20 percent compared with conventional gold extraction techniques—claims discounted by US engineers.

• Articles in the Soviet press during the 1960s and 1970s indicated that at least five gold-ore-processing plants would be converted to the RIP process, but

25X1
25X1

only the Muruntau and Zod-Ararat plants use this process.

25X1

We also cannot overlook the possibility that underutilization of these plants is the result of bureaucratic bungling. Soviet ministries are notorious for their lack of coordination when given responsibility for different parts of the same project. As a result, large new facilities often operate below capacity because of chronic problems in getting raw materials or critical components.

25X1

Low Utilization of Capacity

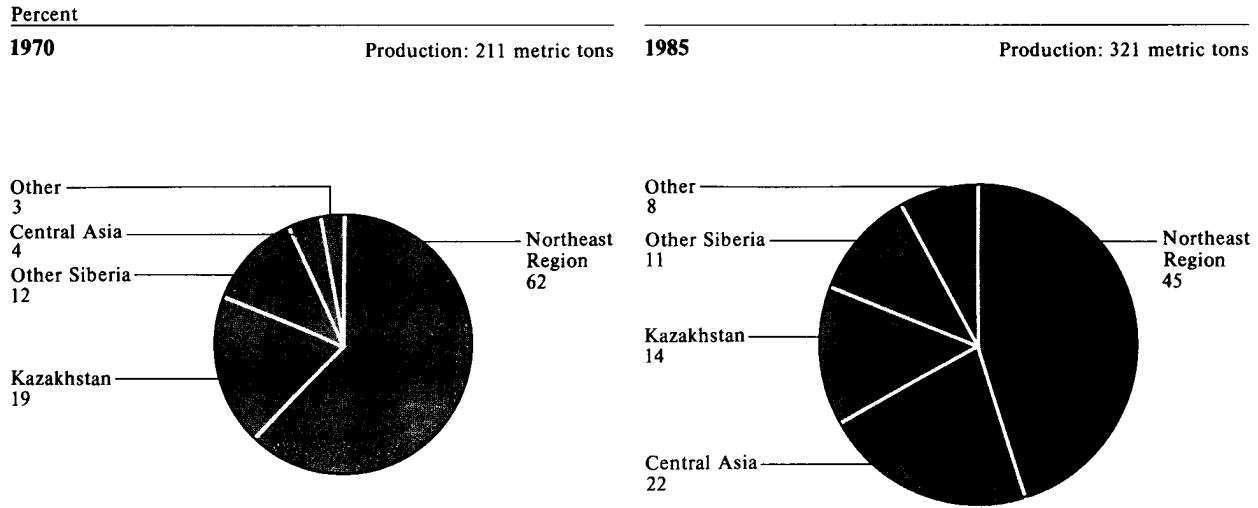
Muruntau and Zod-Ararat, two of the largest Soviet gold plants, have been operating below capacity since they began production in 1969 and 1976, respectively. Muruntau's output in 1985 was approximately 50 tons of refined gold, only two-thirds of its estimated capacity of about 75 tons. Zod-Ararat's output was

Top Secret

25X1



Figure 4
USSR: Geographical Distribution of Gold Output, 1970 and 1985^a



^a Excluding gold produced as a byproduct from the production of other metals, 36 metric tons in 1970 and 56 metric tons in 1985.



312751 5-87

25X1

25X1

seven smaller ore-processing plants shows an inadequate number of dump trucks to deliver ore from nearby mines, a possible indication of gold production problems. We estimate the total annual capacity of these plants in 1985 was roughly 28 tons, but production could have been as low as 14 tons.

mined and processed.⁶ However, since the late 1970s, increasing numbers of imported earthmoving machines have incurred high failure rates because of inadequate maintenance, harsh operating conditions, and the long leadtimes required to obtain spare parts:

25X1

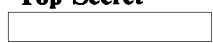
25X1

Several placer mines—including at least one in the Northeast Region—may have operated below capacity because of an inadequate supply of working equipment to remove and transport overburden and ores. imports of earthmoving equipment have increased sharply since the early 1970s to help increase the volume of ore

⁶ The domestic machine-building industry does not produce enough bulldozers, dump trucks, and other types of earthmoving equipment, and other extractive industries compete for this equipment. Failure rates for domestically produced earthmoving equipment are reportedly even higher because of poor design and quality. The USSR has continued to import large numbers of earthmoving equipment, but we cannot determine the amount earmarked for the gold industry.

25X1

25X1



Top Secret

[Redacted]

25X1

[Large Redacted Area]

25X1

[Redacted]

25X1

- [Redacted] in 1984, officials of the Ministry of Nonferrous Metallurgy notified an international heavy equipment company that 41 of 150 bulldozers purchased from the company were inoperable because of cracks in the engine bearings.⁷

[Redacted]

25X1

25X1

[Redacted]

- [Redacted] one-half of the Lena Gold Association's 50 US-made bulldozers were broken down in 1980. He claimed US-made bulldozers accounted for 80 percent of the work at the association's gold mines.⁸

[Redacted]

⁸ The Lena Gold Association produced an estimated 7 tons of gold in 1985, approximately 2 percent of national production. [Redacted]

25X1

25X1

25X1

25X1

Top Secret

[Redacted]

25X1

Top Secret

25X1

25X1

Table 2
USSR: Estimated
Gold Production and Reserve

Metric tons
(except where noted)

	Production	Net Sales	Domestic Consumption ^a	Yearend Reserve	Market Value of Reserve (billion US \$)
1970	211	3	39	1,624	1.9
1971	220	19	39	1,786	2.4
1972	242	158	40	1,830	3.4
1973	246	304	41	1,731	5.4
1974	257	131	42	1,815	9.3
1975	251	147	43	1,876	9.7
1976	269	328	45	1,772	7.1
1977	278	332	46	1,672	8.0
1978	290	401	47	1,514	9.4
1979	298	250	48	1,514	14.8
1980	294	80	48	1,680	33.1
1981	298	183	49	1,746	25.8
1982	304	91	50	1,909	23.0
1983	309	55	51	2,112	28.8
1984	314	86	52	2,288	26.5
1985	321	190	52	2,367	24.1
1986	326	350	53	2,290	27.1

^a Mostly gold used in jewelry, electronics, and dentistry.

Rapid Buildup of the Stockpiled Reserve

Despite slow production growth, we estimate that Moscow's stockpiled gold reserve grew from 1,680 tons at the end of 1980 to 2,290 tons at the end of 1986 (see table 2 and figure 2). Even though the reserve increased, the potential market value actually declined by one-fourth during 1981-85 because of the nearly 50-percent fall in world gold prices. In 1980, the reserve had a value of about \$33 billion; in 1985, the larger stockpile was worth approximately \$24 billion. Price increases last year, however, helped recoup some of this "loss."

This decline in value, coupled with slow production growth, may have caused Moscow to place increasingly tight restrictions on domestic use, which has traditionally accounted for approximately one-sixth of annual production.

[redacted] in response to a priority directive to reduce the amount of gold used in the manufacture of electronic equipment, the Ministry of Electronics Industry agreed, in 1985, to purchase a US-manufactured spot-plating machine that would use 90 percent less gold than the equipment then being used. [redacted] this \$600,000 machine—used in making integrated circuits—could save as much as 3.5 tons of gold annually and that the Soviets indicated they would probably purchase four more such machines over the next few years.

These restrictions followed other long-established measures to keep domestic consumption low. Industrial allocations of valuable materials are generally limited to high-priority uses for which there are no suitable substitutes. Since the 1960s, Moscow has attempted to reduce the amount of gold used in making jewelry.⁹ Soviet citizens are also prohibited from holding gold for savings or investment purposes. Gold used in electronics, jewelry, and dentistry probably accounts for the bulk of consumption.¹⁰

Slow Growth in Output Projected To Continue

Although Moscow is apparently making a concerted effort to expand capacity, most of the construction we have identified is at an early stage. Therefore, increases in production during 1986-90 will be mainly from gains in utilizing existing capacity. We project

¹⁰ Electronics may be the fastest growing domestic use in the USSR. Gold is used in advanced electronics applications where its relatively high electrical conductivity, temperature stability, corrosion resistance, and nonmagnetic properties compared with most other metals are important for increasing reliability. In the West, in 1985, the use of gold in jewelry accounted for approximately 60 percent of consumption. Dental and electronics applications accounted for about 15 percent; coinage, investment, and other industrial uses accounted for the remainder.

Top Secret

25X1

Top Secret

[Redacted]

25X1

Soviet gold output will grow at an average annual rate of 0.5 to 2.5 percent during the period, reaching 330 to 360 tons in 1990:

- Output from the Northeast Region will probably decline further, despite efforts to expand capacity, because of continued deterioration in the grade of mineable ore. Although stepped-up geological exploration over the past decade has located some new placer deposits that are now in various stages of development, their combined output will be too small to offset declines elsewhere in the region. In addition, we project no output from a new gold plant probably planned to be built in Magadan Oblast.¹¹

[Redacted] very little construction progress, and at least five more years would typically be required to begin initial gold production.

- Annual production at the Muruntau and Zodararat plants will probably continue to increase as gains are made in solving the likely technical problems at both plants.
- We project about 3 tons of annual output during 1987-90 from a new plant at Plast in the Urals that appeared externally complete [Redacted]. We project no output, however, from the new plant under construction near Kazarman in the Kirghiz SSR, another under construction at Auezov (Bakyrchik) in Kazakhstan, and a new facility planned for the Tajik SSR because they will probably not be completed until the early 1990s.¹²
- Outside the Northeast Region, a small increase will come from several small, scattered placer mines reportedly in various stages of development.
- Gold produced as a byproduct from other metals—mainly copper and to a lesser extent lead and zinc—will probably increase slowly and supply about one-sixth of annual production. We project slow output

[Redacted]

¹² The planned construction of the Tajik plant was announced in the Soviet press in late 1985. [Redacted]

[Redacted]

growth for the other metals and a continuing absence of incentives to motivate plant managers to boost byproduct production.¹³ [Redacted]

25X1

Shortages of hard currency could exacerbate the slow growth we project through 1990 by preventing or delaying the purchase of Western earthmoving equipment and spare parts needed for expanded operations. Output could be particularly affected in areas where the gold content of mined ore is declining and the Soviets need to increase the volume of ore processed. [Redacted] hard currency shortages temporarily delayed purchases of several million dollars worth of spare parts during 1986. [Redacted]

25X1

25X1
25X1

We believe there is little the Soviets can do to boost production much above the levels that we project through 1990. We project most existing plants and placer mines will be operating close to capacity. Roughly 10 tons of additional annual output could be realized by bringing production of the seven small plants up to full capacity. New placer deposits would probably not yield much additional gold even if developed on a priority basis because this type of deposit is generally small and typically located in remote areas of the eastern USSR where lack of infrastructure delays startup by several years. In addition, earthmoving equipment required for stepped-up mining operations would probably have to be imported for hard currency. [Redacted]

25X1

25X1

Moscow could realize a small boost in its salable supply by implementing additional limits on domestic use, but such consumption is already at or near minimum levels. The Soviets could try to increase gold output by using heap leaching, a recovery method recently implemented in the West that can be set

¹³ Although the Soviets recognize that there is a large potential to increase the production of nonferrous metals as a byproduct and have called for an increase in such production in 1986-90, the open press reported little progress in 1986. The performance of nonferrous metals plants is gauged primarily by the fulfillment of production quotas for the primary metal; little credit is generally given for the small amount of gold produced. [Redacted]

25X1
25X1

25X1
25X1

Top Secret

[Redacted]

25X1

Top Secret

25X1

Table 3
USSR: Projected Gold Supply

Metric tons

	Production	Domestic Consumption	Excess Production	Reserves Remaining If	
				Annual Sales are 300 Tons	Annual Sales are 450 Tons
1987	324 to 338	52 to 56	268 to 286	2,258 to 2,276	2,108 to 2,126
1988	325 to 349	53 to 57	268 to 296	2,226 to 2,272	1,926 to 1,972
1989	326 to 357	52 to 58	268 to 305	2,194 to 2,277	1,744 to 1,827
1990	329 to 362	52 to 60	269 to 310	2,163 to 2,287	1,563 to 1,687

25X1

up quickly, requires a much smaller capital investment, and is less expensive to operate than traditional gold recovery methods.¹⁴ But we have seen no evidence that this technology is being used in the USSR. [redacted]

After 1990, we expect output to continue to grow slowly for several years. The grade of minable ore in the Northeast Region will probably deteriorate further. [redacted]

sales are spread over the year and among all the geographic markets. The Soviets may even be able to push sales to as much as 450 tons for one or perhaps two years without causing a price decline, but [redacted] the USSR would turn to the futures markets to sell quantities in excess of 300 tons (see inset on page 10).¹⁵ Sales at these levels could be met mostly from current production, requiring only a small to moderate reduction in the stockpiled reserve (see table 3). At the estimated 1986 sales level of 350 tons, for example, Moscow would have had to dip into its reserve for only about 75 tons.¹⁶ [redacted]

25X11
25X125X1
25X1

Continued Sales Flexibility

Even with slow production growth well into the 1990s, Moscow's flexibility to sell gold will be limited only by market "capacity." Market capacity projections are somewhat speculative. But information from gold market experts indicates that, during 1987-90, Moscow could sell as much as 300 tons of gold annually on the open or "physicals" market and through direct bilateral sales without much effect on the price—if

Sales averaging 300 tons would earn nearly \$4 billion annually, assuming a price of \$400 per troy ounce.¹⁷ Revenue from gold sales at these amounts, however,

25X1

¹⁵ These projections are based on the assumption that world gold market conditions do not substantially change. A stronger gold market and a higher price could moderately increase the market limit on Soviet sales. [redacted]

25X1

¹⁶ Although today's market is substantially different, there is historical precedent for a large drawdown of the Soviet gold reserve. Moscow drew down its reserve to about 900 tons in 1965, the lowest level in the last 30 years. [redacted]

25X1
25X1

¹⁷ One metric ton is equal to 32,151 troy ounces. [redacted]

¹⁴ Heap leaching can be used to recover gold from both placer and lode deposits and is often used to process low-grade ores. It involves distributing a weak cyanide solution over the top of an open mound or leveled heap of gold ore placed on an impermeable pad and collecting the gold-enriched solutions from the base of the heap. Depending on ore permeability, 67 to 95 percent of the gold can usually be extracted. [redacted]

25X1

Top Secret

25X1

Top Secret

[Redacted]

25X1

Soviet Gold Sales Practices

On the open market, Moscow directs both the buying and selling of gold using accounts that are maintained with Deutsche Bank's London branch and the Swiss Banking Corporation in Zurich. Thus the USSR can buy and sell gold without having to arrange physical deliveries for each transaction. A stock of gold is maintained in the banks, and the USSR, along with other traders, holds a paper claim to its share of the gold; the physical gold is actually unallocated. Sales can be handled on an accounting basis, and only sales to final buyers are actually delivered. [Redacted]

The USSR, like many other traders, buys and sells large volumes frequently and on several gold exchanges simultaneously, taking advantage of arbitrage opportunities. For example, on the same day Vneshtorgbank (VTB), the Soviet foreign trade bank, may sell 10,000 ounces in New York and purchase 10,000 ounces in Hong Kong, debiting and crediting its gold account in London. Or VTB might direct Deutsche Bank to sell gold from an unallocated account on the London market and credit VTB's foreign exchange account. Alternatively, VTB may have Deutsche Bank credit the gold account of some Western firm from which the USSR has made a hard currency purchase. In 1985, Moscow sold at least 287.3 tons and purchased at least 131.3 tons on the exchanges alone. [Redacted]

Moscow also "swaps" gold with trading partners to receive a hard currency premium. For example, gold refined in the USSR is 99.99-percent pure, whereas

South African gold is 99.95-percent pure. Moscow ships its gold to bonded warehouses, usually in Zurich, for delivery to the swap partner, and orders the hard currency premium credited to VTB's account in a Western bank. We estimate the Soviets earned \$2.3 million from swap premiums in 1985 and probably earned more in 1986. VTB swapped 49 tons—for a premium of about \$650,000—in January 1986, the largest quantity observed in one month in recent years. [Redacted]

Direct bilateral sales take place at a mutually acceptable price and usually without any immediate impact on the market. Although these sales normally show up in the partner country's annual foreign trade data (the Soviets do not report gold sales), the market would not be aware of the trade in a timely fashion.

[Redacted]

The gold futures market is used to buy or sell gold at a fixed price at a specified future date. Moscow uses this market to speculate, but—like most players in this market—does not physically transfer the commodity. To increase its sales without disrupting the market, the USSR could commit to a sale in the futures market and then—although it would be unusual in that market—actually deliver the gold and take the money. [Redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Top Secret

[Redacted]

25X1

Top Secret
[Redacted]

25X1

A Soviet-South African Gold Cartel?

The Soviets could seek to boost earnings by forming a gold cartel with South Africa. A successful cartel for rough diamond sales between Moscow and Pretoria has existed for several years. Collusion would probably involve attempts to manipulate the world supply to try to boost the price. We believe, however, that such a cartel is unlikely in the near future. [Redacted]

[Redacted] *Soviet representatives and South African gold producers have discussed the possibility of such an arrangement, but Moscow showed little followup interest. In early 1980, discussions were held concerning the possibility of formulating a joint marketing and pricing strategy whereby the two sides would agree to avoid simultaneous, large sales of gold. The discussions were abandoned later that year.* [Redacted]

[Redacted]

Moscow probably is not interested in the formation of a cartel because it would require too radical a change in its gold marketing strategy. Unlike South Africa, which relies heavily on gold sales as a major and regular source of foreign exchange, the USSR varies its gold sales with its need to finance its fluctuating hard currency trade deficit. In addition, Moscow is probably reluctant to increase its economic ties to Pretoria in light of growing world opinion against apartheid. [Redacted]

would only partly ease Moscow's expected hard currency shortfalls.¹⁸ Even if oil prices continue to rise, the volume of hard currency oil exports is projected to decline as oil production tapers off toward the end of the decade. With prospects poor for much growth in nonenergy exports, Moscow's annual hard currency export earnings are likely to run some \$7-10 billion below the peak of \$32 billion in 1982-84. [Redacted]

25X1

Moscow could realize an annual earnings windfall of several billion dollars if the supply of South African gold sold on world markets was substantially cut back or curtailed for an extended period (see inset). A prolonged halt in South African exports caused by intense nationwide strife bordering on civil war—an event we view as highly unlikely—could make the USSR the world's leading supplier. In such a scenario, prices would probably rise sharply and the Soviet share of world sales could jump from roughly 15 percent in 1985 to 50 percent or more.¹⁹ [Redacted]

25X1

25X1

25X1

25X1

25X1

¹⁹ The increase in the Soviet share of world sales would depend on how far Moscow would be willing to draw down its reserve to take advantage of a halt in South African sales, which were about 640 tons in 1986. [Redacted]

25X1

25X1

25X1

25X1

Top Secret
[Redacted]

25X1

Page Denied

Next 8 Page(s) In Document Denied

Top Secret

25X1

Top Secret