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USSR Review



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February 1988

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The *USSR Review* is published by the Office of Soviet Analysis. Comments and queries regarding the articles are welcome. They may be directed to the authors, [Redacted]

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**Gorbachev and the Nordics: Increasing Activism
on Regional Security Issues** [Redacted]

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In a speech in Murmansk in early October 1987, Soviet General Secretary Gorbachev made a bid to fold the Nordic region into an evolving Soviet approach to security that seeks to increase Soviet influence in various world regions and to establish "zones of peace" that disrupt existing Western security arrangements with regional members. The Soviets seek to divert Nordic attention from Soviet military forces in the region and to display sensitivity to Nordic concerns—ultimately, to reduce NATO military activity and influence in northern Europe. From a broader foreign policy perspective, Moscow is trying to demonstrate that it is an arctic-European-global partner to be trusted in regional affairs as well as in larger security matters.

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**Modernizing the Food-Processing Industry: An Essential
Step in Improving Food Supplies** [Redacted]

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General Secretary Gorbachev is under increasing pressure to show results from his economic restructuring effort and believes that the food problem is one that can and must be solved quickly. He recognizes that success in this area will require modernizing the entire farm-to-market chain and has launched an ambitious new program to modernize and expand the food-processing industry. It is unlikely, however, that the regime can achieve all that the program sets out to do in the time allotted, given the many competing demands for scarce resources and the persistence of problems in synchronizing the activities of farms, procurement organizations, transportation, and food-processing enterprises.

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Wholesale Trade Reform: A Modest Start [Redacted] 19 25X1

The reform measures approved at the June 1987 plenum call for a gradual transfer from an economic system based on centralized supply allocation to a system based largely on wholesale trade. Judging by past efforts to implement wholesale trade and the problems encountered in 1987 during the first phase of this reform, the transition will be difficult. Moreover, the fact that the transfer is not scheduled for completion until 1992 will complicate progress in other key reform areas. Gorbachev and reform economists have admitted, for example, that self-financing, in particular, will not work unless wholesale trade is in place.

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Conference Report: "Trends in Gorbachev's Policy in the Third World" [Redacted] 25 25X1

At an all-day conference sponsored by the Office of Soviet Analysis, Regional Policy Division, several academics and the Deputy Assistant Secretary of State for Intelligence and Research spoke on Soviet political, economic, and military policies toward the Third World and their implications for the United States. The speakers discussed whether there is anything new in Gorbachev's "New Thinking." They focused on how growing Soviet sophistication in diplomatic and economic exchanges affects Soviet-Third World relations, how the Soviets handle regional crises, and whether US-Soviet relations play a role in Soviet activities in the Third World.

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Articles

Possible Reorganization of the Soviet Ground Forces



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Since the early 1980s there have been increasing indications that the Soviets are searching for ways to improve the organization of their ground forces for combat. The pressures for change have been both military (such as the increased probability of prolonged conventional warfare and its requirement for effective combined-arms warfare) and nonmilitary (such as economic and demographic constraints). At the same time, the Soviets have advanced conventional arms control proposals that could influence the future shape of their army.

[redacted] we believe the Soviets are considering an alternative organization for their ground forces. This article is a preliminary effort to outline a possible path of Soviet development.

Soviet Organizational Developments

The first indication of significant Soviet organizational developments was the formation of two new army corps in 1982. The Soviets formed each of these units by expanding a single division with additional equipment and manpower. Composed of four maneuver brigades—with infantry and tanks integrated at the battalion level—and an air assault regiment, these corps offered a balanced combined-arms force capable of more demanding missions than a standard division. These units are well suited to act as front-level operational maneuver groups designed to exploit breakthroughs of NATO defensive lines—one of the missions for which they are designed.

The Soviets may be having second thoughts about the new army corps, however. The cost of forming the new army corps, because of the considerable amount of additional combat and service support equipment required, may have inhibited the Soviets from considering the creation of additional units and may even cause them to disestablish the existing ones.

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[redacted] the new army corps in the Transbaikal Military District (MD) is being reorganized, but we are uncertain what its ultimate structure will be. The other new army corps in the Belorussian MD is apparently unchanged.

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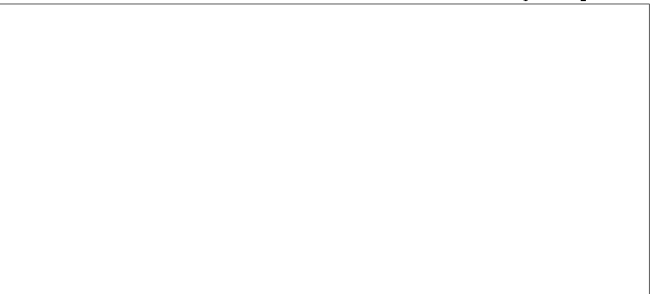
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There is some evidence that conversion of units to a corps/brigade structure similar, but not identical, to the new army corps may become more widespread (see table 1). [redacted] a battalion in the Group of Soviet Forces in Germany (GSFG) has been reorganized and is now similar to the combined-arms battalion in the new army corps.

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Table 1
Soviet Combined-Arms Battalion
Structure

	Tank Battalion	Motorized Rifle Battalion
Motorized rifle companies	2	4
Tank companies	3	2

[redacted] Finally, a [redacted] [redacted], drawing on East European contacts, and a Polish general officer speaking to an attache source, have said that the Soviets are planning to convert most of their ground forces to a corps/brigade structure. [redacted]

Another sign of Soviet interest in organizational change is the possible formation of a uniquely organized airborne unit in the Kiev MD. [redacted]

[redacted] The makeup of the unit suggests that the Soviets may be considering the formation of a brigade-sized airborne unit that would be better suited for independent missions than would a detached airborne regiment from an airborne division. [redacted]

Non-Soviet Warsaw Pact Formations

The entire Hungarian Army has already been converted to a corps/brigade structure, and other Pact countries may be considering similar reorganizations. The Hungarian Army's one tank division and five motorized rifle divisions have been converted into three corps (see table 2). By mid-1987, elements from two corps had participated in field exercises with Soviet troops that were reviewed by Marshal Kulikov, Commander in Chief of the Combined Armed Forces of the Warsaw Pact. On 20 November the Hungarian General Staff briefed the foreign attache community in Budapest (including Warsaw Pact attaches) on the broad outline and purpose of the reorganization. [redacted]

In their unprecedented briefing, the Hungarians claimed the reorganization had two chief motivations—to reduce headquarters personnel and to save resources. Our independent evaluation, [redacted]

[redacted] indicates that their primary interest was in *reducing requirements for the skilled officer cadre*. Recent Hungarian press articles have highlighted Hungary's serious problems in attracting and retaining officers. The reorganization of six divisions into three corps resulted in a reduction of three division headquarters, nine regimental, and 12 battalion headquarters—a total of approximately 450 officers. Most of these officer positions will be eliminated, although some probably will be transferred to expanded brigade or corps headquarters. [redacted]

The reorganization also could *improve combined-arms capability*. The Hungarians' two motorized rifle and one tank corps are balanced combined-arms formations with an almost equal mixture of tank and infantry battalions. Although titled differently, the tank and motorized rifle corps have essentially identical structures, only differing in one of 25 battalions.¹

[redacted] Training problems would also be eased because brigade commanders would be able to train more regularly with their own assigned mixtures of infantry, tanks, and artillery, instead of relying on temporary attachments during large field exercises. [redacted]

[redacted] and Bulgarian ground forces are also considering adopting the corps/brigade structure. A Polish general officer stated that the Polish army is testing the changes under way in Hungary and the Soviet Union, and that, if the tests are successful, restructuring would occur over the next 10 to 15 years. The US

¹ The motorized rifle corps has 13 motorized battalions and 12 tank battalions, and the tank corps has 13 tank battalions and 12 motorized rifle battalions. [redacted]

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Table 2
Comparison of Division and Corps Organizations

	Motorized Rifle Division	Hungarian Army Corps (Motorized Rifle)	Soviet New Army Corps (Modified ^a)
Men (wartime)	14,000	17,000	20,000
Tanks	220	380	394
Infantry vehicles	433	430	726
Artillery	126	204	168
120-mm mortars	72	78	80
Multiple rocket launchers	18	30	96
Surface-to-air missiles	36	50	88

^a These figures represent a Soviet new army corps without the air assault regiment.

[redacted]

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[redacted] that the Bulgarians are also considering adopting the Hungarian model in an effort to reduce the economic and demographic demands of the Bulgarian Army. [redacted]

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[redacted] the Hungarians probably have undertaken their reorganization with the approval of the Soviet General Staff. The Soviets have always controlled the uniform military doctrine and organization of the Warsaw Pact forces, except for those of Romania. The Hungarian organization is similar to the Soviet new army corps, and the changes occurred when the Soviets may have just completed their own experiments. The Hungarian corps is essentially a Soviet new army corps without the air assault regiment (approximately 2,000 men and 54 BMDs). It also lacks some equipment, such as the SA-11 surface-to-air missile brigade that the Hungarian army does not have. An air assault regiment, with its large number of expensive attack and transport helicopters, could be attached as necessary or deferred as a long-term development goal. [redacted]

levels, if the combined-arms battalion structure is adopted, without new investment in equipment. The Soviets recognize the benefits of such a balance but their experiments with larger new army corps have required significant amounts of new equipment. The Hungarian corps, without expensive units such as the air assault regiment, may represent a compromise between cost and capability. [redacted]

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Like the Hungarians, the Soviets would also benefit from a reduction in the size of their officer corps.

[redacted] this is an important component of General Secretary Gorbachev's *perestroyka* (restructuring) plans for the military. Gorbachev reportedly believes that the Soviet army has too many general officers in relation to its size and has implied that cuts must be made to improve efficiency. Reorganizing the Soviet army into a corps/brigade structure would allow Gorbachev to reduce the size of the officer corps without necessarily sacrificing military capability. The changes would increase demands on officers (from majors to one-star generals) who would be required to command larger, more complex combined-arms units. Soviet officer schools and academies would have to improve officer training to prepare officers, but the decreased size of the

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Soviet Motivations

Converting their army to a corps/brigade structure could offer the Soviets a number of potential benefits. Combined-arms capability and training could be improved both at the corps/brigade and the battalion

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officer corps could allow the Soviets to concentrate on training fewer but more skilled officers. The reduced military requirement for officers would also increase the pool of skilled personnel available to other sectors of the Soviet economy—another important Gorbachev objective. [redacted]

A conversion to a corps/brigade structure, if it were achieved by combining, rather than expanding, divisions, would also raise peacetime manning levels without increasing the number of active-duty soldiers and thereby would increase the overall readiness of the Soviet army. For example, the Hungarian reorganization reduced wartime personnel slots by converting two motorized rifle divisions (MRDs) (28,000 men) into one corps (17,000 men). Alternatively, such a Soviet conversion could permit some outright reductions in peacetime enlisted strengths. [redacted]

[redacted] will keep the same peacetime manpower but concentrate available long-service manpower in two corps with a higher ratio of peacetime to wartime manning than in the old divisions, leaving the remaining corps as a low-strength training unit. [redacted]

Converting to a corps structure would also permit the Soviets to reduce equipment requirements, allowing faster modernization of the force. Smaller equipment requirements would allow the Soviets to cut back on the production of expensive items such as tanks. Such a move would also permit the Soviets to pursue more rapidly goals such as converting their entire force to tracked infantry fighting vehicles, thereby dispensing with lighter armed, wheeled armored personnel carriers. [redacted]

The Soviets would have to consider that reorganizing a large part of their army could, in the short term, seriously disrupt training and readiness. [redacted]

[redacted] Hungarian unease over the disruption in training caused them to accelerate their reorganization. Even if the Soviets reorganized their units in a short period of time, the sheer size of the Soviet army probably would entail disruptions lasting for perhaps several years. While maximizing short-term disruptions, such a simultaneous conversion would avoid having a heterogeneous force for an

extended period. The Soviets might attempt to minimize disruptions by first slowly reorganizing at the battalion level and then merely reforming the battalions into brigades and corps. The creation of air defense battalions and a combined-arms battalion in the GSGF and Soviet forces in Mongolia suggests the Soviets may have already initiated such a plan. [redacted]

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Precedent suggests that the Soviets would prefer a gradual reorganization schedule and that forces in Eastern Europe and the western Soviet Union would be the first to be reorganized. Gradual reorganization, however, would prolong the disruption and extend the changes for a period of up to a decade. [redacted]

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Outlook

At the cost of probably severe training disruptions in the short-to-medium term, the reorganization of the Soviet army to a corps/brigade structure would offer potential benefits of improved combat capability, smaller manpower requirements, improved readiness, and cheaper force modernization. During the period of reorganization, Soviet army readiness levels would be depressed and overall combat capability would be considerably lower than normal. The Soviets would more readily consider reorganization if they perceived a stable international environment, perhaps after, or as part of, phased conventional arms control reductions in Central Europe. [redacted]

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The prospect of such a reorganization of the Soviet ground forces may affect Soviet approaches to new conventional arms control negotiations. The Soviets may calculate that they can absorb substantial reductions, resulting in a more modern, capable, and flexible force for operations against NATO. Such a force, although smaller, would be able to use its remaining equipment more efficiently than if no reorganization had taken place. The Soviets may therefore be willing to accept, or even unilaterally conduct, asymmetrical reductions in conventional forces. [redacted]

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**Gorbachev and the Nordics:
Increasing Activism on Regional
Security Issues** [redacted]

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In a speech in Murmansk in October 1987, Soviet General Secretary Gorbachev made a bid to fold the Nordic region into an evolving Soviet approach to security that seeks to increase Soviet influence in various world regions and to establish "zones of peace" that disrupt existing Western security arrangements with regional members. The Soviets seek to divert Nordic attention from Soviet military forces in the region and to display sensitivity to Nordic concerns—ultimately, to reduce NATO military activity and influence in northern Europe. From a broader foreign policy perspective, Moscow is trying to demonstrate that it is an arctic-European-global partner to be trusted in regional affairs as well as in larger security matters. [redacted]

Courting the Nordic Countries

The USSR under Gorbachev has pursued a more activist economic policy in the Nordic region than in the past. The Soviets have looked to the Nordic countries, starting with Finland, as a testing ground for a revamped approach to foreign trade that seeks Western technology, management, and maintenance know-how to assist in revitalizing the Soviet economy. The "need for new forms of trade," in Soviet Prime Minister Ryzhkov's words, has led the Soviets to emphasize joint ventures with Nordic (and other Western) governments. [redacted]

The Soviet Union similarly has raised its diplomatic profile in the Nordic region on security issues. The Soviets' longstanding, largely passive support for a Finnish proposal for a Nordic nuclear-weapons-free zone has been converted to an active agenda for regional security. The Soviet goal—a neutral region with diminished NATO influence and activity—has stayed the same, but the Soviet approach to attaining it has become more sophisticated. [redacted]

Several high-level Soviet visits to Nordic countries during the past year, as well as increased working-level exchanges, have focused attention on Gorbachev's security and economic interests in the Nordic

***Soviet Military Actions Cited as Progress
in Nordic Security***

Proposed Withdrawal of Submarines From the Baltic Sea. The offer to withdraw ballistic missile submarines from the Baltic Sea, first made by Colonel General Chervov of the Soviet General Staff as early as 1984, refers to six obsolescent G-II-class submarines with a total of 18 single-warhead SS-N-5 submarine-launched ballistic missiles. Soviet General Batenin recently confirmed to the press that the Soviets will soon dismantle these submarines. [redacted]

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Dismantlement and Relocation of Missiles and Launchers. Gorbachev at Murmansk cited the dismantlement and relocation of nuclear missiles and launchers as proof of Soviet good intentions in the Nordic region. His reference concerns the deactivation of the two SS-5 intermediate-range ballistic missile (IRBM) sites on the Kola Peninsula in early 1984 and a reduction (as of the date of these remarks) to 72 ballistic missile launchers in the Baltic and Leningrad Military Districts. These missiles were replaced, however, by newer, more accurate, longer range SS-20 IRBMs based farther south, in the western USSR. An SS-12 Mod 2 short-range ballistic missile brigade was moved from the Baltic Military District to Eastern Europe in early 1984 in response to the arrival of US Pershing-II and ground-launched cruise missiles in Western Europe. [redacted]

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region. Soviet "Second Secretary" Ligachev's December 1986 visit to Helsinki featured a high-profile announcement of Soviet actions taken in the spirit of a nuclear-free north (see inset). The following month Premier Ryzhkov traveled to Helsinki to promote expanded Fenno-Soviet trade cooperation in the form of joint ventures. [redacted]

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In the months that have followed Gorbachev's October 1987 speech, the Soviets have sent several emissaries to Nordic capitals to reinforce the Murmansk themes of regional economic, environmental, and security cooperation. The most significant of these visits was Premier Ryzhkov's January 1988 trip to Sweden and Norway, during which Ryzhkov sought to demonstrate the new spirit of cooperation and flexibility in Soviet Nordic policy. [redacted]

Regional Objectives of Gorbachev's Nordic Policy

During the past few years the Soviets have sought to project an image of sensitivity to Nordic concerns and to bolster public confidence in peaceful Soviet intentions. Moscow seeks to present cooperation with the USSR as a positive alternative to what the Soviets describe as the dangerous state of affairs in northern Europe caused by increased military activity, and to convince regional governments that the future lies in a recognition of "the common security interests" of the Nordic countries and the USSR. Gorbachev's Murmansk speech, for example, conceptualizes the shared history and interests of the arctic nations as an arctic extension of the "common-European-home" theme that he has enunciated on numerous occasions. Although he expressly cited the USSR and Canada as members of this family of northern nations, Gorbachev has not mentioned a room for the United States (despite Alaska) in the arctic wing of the European home. [redacted]

Moscow has several specific nonsecurity interests in the Nordic region (see inset). The Soviets want to increase the number of joint ventures and generally improve their trade position with regional governments. They also hope to use economic and environmental proposals to open up discussions about security. For example, Gorbachev's statement at Murmansk that the Soviets might be willing to halt nuclear testing on the arctic island of Novaya Zemlya—if a nuclear testing agreement can be reached with the United States—is couched in terms that address Nordic environmental concerns. The offer shows the paucity of lures available to the Soviets to attract Nordic cooperation: other than some sharing of arctic resource exploitation, an improvement in the Soviets'

Soviet-Nordic Nonsecurity Cooperation Under Gorbachev

Finland. Three Fenno-Soviet joint ventures are in progress, with several more being negotiated; the two countries also recently renewed and slightly increased the volume of their barter trade agreement and signed accords dealing with space and notification of nuclear accidents. 25X1

Sweden. The USSR and Sweden continue to discuss joint ventures, although progress is slow. A compromise over the longstanding Baltic Sea maritime boundary dispute was reached in January 1988 during Soviet Premier Ryzhkov's visit to Stockholm.

Norway. The Soviets and Norwegians are discussing joint projects in oil exploration, fishing, and mining; a bilateral agreement on early warning of nuclear accidents is scheduled to be initialed during Ryzhkov's January visit.

Denmark. The Soviets have approached the Danes about several joint research and production projects; bilateral negotiations are currently under way for the joint production of soft drinks.

Iceland. The Soviet-Icelandic trade relationship centers around an exchange of Icelandic wool, fish, and lamb for Soviet fuel products. 25X1

Canada. In addition to a five-year grain purchasing agreement, the Soviets and Canadians have a joint commission on agricultural cooperation. Joint ventures in several industrial sectors have been discussed at working levels, and negotiations are under way for the joint production of a cross-country vehicle. [redacted] 25X1

environmental record is one of Moscow's best regional offerings. The Soviets also want to receive regional (and global) credit for taking the lead in efforts to limit nuclear testing. [redacted] 25X1

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Gorbachev's security proposals seek to undermine support for any NATO force modernization or for increases in regional defense spending by speaking of comprehensive, peaceful Soviet goals—"a radical reduction in the level of military confrontation in the region," as he put it at Murmansk. The Soviets present their ideas as the reactions of a concerned regional member to what they characterize as provocative NATO developments. Examples of aggressive NATO developments Gorbachev cited at Murmansk include an allegedly illegal "new" US radar station in Thule, Greenland, US cruise-missile testing in northern Canada, increased NATO military presence in Norway and Denmark, and the possibility of a new post-INF threat posed by NATO sea- and air-launched cruise missiles in the northern Atlantic.

[redacted]

Murmansk and Moscow's Broader European Security Agenda

The Murmansk speech reflects a number of broader Soviet security initiatives in Western Europe. Gorbachev's remarks are particularly calculated to support Soviet arms control interests:

- His call for NATO-Warsaw Pact consultations on "reducing military activity and limiting the scope of activity of naval and air forces" specifically in northern waters is a new twist on longstanding Soviet efforts to include NATO air and naval forces in arms control negotiations.¹
- His support for notification and official observation of major military exercises in the northern region reflects Moscow's interest in using confidence-building measures to isolate and eventually limit NATO military operations in the region. Gorbachev did not indicate, however, which forces might be included or the venue for probable future Warsaw Pact proposals.² [redacted]

¹ Moscow, for example, attempted, unsuccessfully, to place constraints on naval and air operations in the 35-nation Conference on Confidence- and Security-Building Measures and Disarmament in Europe (CDE), which concluded in 1986. [redacted]

² According to reports from the US Embassy in Moscow, Soviet European Security and Cooperation Department Chief Deryabin in November 1987 stated in discussions with Nordic officials that a follow-on to the Stockholm Conference on Disarmament in Europe is a possible forum for Soviet proposals. [redacted]

Beyond the pursuit of arms control interests, Gorbachev at Murmansk sought to strengthen his image as peacemaker for a broader West European audience. Thus, in restating Soviet support for a Nordic nuclear-weapons-free zone, he emphasized the Soviet role in such a zone, hinting at the possible inclusion of Soviet territory. Whether the Soviets would offer any significant part of the Kola Peninsula is open to question; without such an inclusion, however, it is unlikely that Nordic governments will support the development of such a zone. [redacted]

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Broader Soviet Foreign Policy Interests

Nordic regional initiatives are part of an emerging pattern of a Soviet regional approach to security. Both Gorbachev's Murmansk and Vladivostok (July 1986) speeches are broad, high-profile pitches seeking to promote regional discussions of security issues. The Soviets have either proposed or taken on board proposals for nuclear-free zones and other "zones of peace" in several regions of the world; for example:

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- Support for a joint West German Social Democratic Party-East German Communist Party proposal for a nuclear- and chemical-weapons-free corridor in Central Europe.
- Increased interest in a Romanian proposal for a Balkan nuclear- and chemical-weapons-free zone. (NATO members Greece and Turkey are the only Balkan countries that currently have nuclear weapons on their territory.)
- Support for nuclear-free or peace zones in the northern seas, the Indian Ocean, and the Mediterranean—all regions with a significant US or NATO naval presence.
- Increased support for the development of a Southeast Asian nuclear-weapons-free zone and a "South Atlantic zone of peace." The Soviet Union is a signatory to a protocol of the 1986 South Pacific Nuclear-Free Zone—the only nuclear power apart from the People's Republic of China to have done so. [redacted]

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The Soviets are emphasizing this regional approach to security in hopes of making inroads, often at the expense of the United States, to areas of the world in which they have not previously played an active role and to strengthen their position in regions with which they already interact. The establishment of a nuclear-weapons-free zone in the South Atlantic, for example, would greatly complicate US bilateral military cooperation with regional governments.³ Moreover, Moscow probably hopes that support for such a zone will also project a positive Soviet image and thereby facilitate greater Soviet access to the region. [redacted]

- Continue to flatter Nordic governments with praise about the historical importance of Helsinki, Stockholm, and Reykjavik in East-West detente and may emphasize the unique standard that Nordic governments can set for future cooperation and development in the European home.
- Keep pressing for joint development projects with Nordic businesses. Soviet officials are likely to pursue cooperative arctic development most enthusiastically with Canadian and Norwegian oil and gas developers to gain their financial and technological support.

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Outlook

In the coming months, the Soviets will attempt to use the achievements of Premier Ryzhkov's January visits to Stockholm and Oslo both as proof of the dawning of a new era in Soviet-Nordic relations and as an incentive to regional governments to take additional steps toward this cooperation in nonsecurity and security matters.⁴ We believe that the Soviets are likely to use several approaches to advance Gorbachev's proposals for the Nordic region. They will:

- Probably seek to expand support by Pacific states such as Japan for schemes to open up an arctic shipping route between Europe and the Far East. [redacted]

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The Soviets probably will use these various avenues to attempt to draw Nordic governments into a regional security dialogue that may foreshadow Soviet initiatives toward the broader European region. Moscow would want to use any progress in Soviet-Nordic cooperation as an example to advance its policy efforts elsewhere in Europe. Gorbachev is likely to cite economic or security cooperation in the Nordic wing of the European home, for example, to further engage West Germany in those areas. Should Gorbachev make a long-expected trip to Italy or Greece (or both) in 1988, he might use the opportunity to confirm Soviet support for regional peace zones and, specifically, for a Mediterranean peace zone. [redacted]

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- Increasingly attempt to calm Nordic, and broader West European, uncertainty about Soviet conventional military capabilities and intentions in Europe. Moscow is likely to highlight shared regional security interests in an expansion of the European-home theme, while decrying the alleged threat to European security posed by NATO in the post-INF period.
- Probably broaden efforts to convince NATO members Norway and Denmark that the future lies more in Nordic-Soviet cooperation and less with their present alliance affiliations. The Soviets probably will continue and perhaps intensify initiatives toward Greenland—stressing scientific, cultural, and economic cooperation with the local population, while criticizing the Thule radar installation as a US provocation.

[redacted]

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³ US Navy port visits and joint naval exercises with Brazil might be more difficult if a South Atlantic nuclear-weapons-free zone existed, for example, given the US policy of neither confirming nor denying the presence of nuclear weapons on US ships. [redacted]

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⁴ The USSR and Sweden reached a compromise agreement over the long-disputed Baltic Sea boundary zone during Ryzhkov's visit. In addition, Ryzhkov signed several bilateral accords on environmental protection, economic cooperation, and arctic research during the Stockholm-Oslo trip. [redacted]

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Modernizing the Food-Processing Industry: An Essential Step in Improving Food Supplies [redacted]

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Even more than his recent predecessors, General Secretary Gorbachev places high priority on alleviating the Soviet Union's chronic food problem, and he recognizes that success in this area will require modernizing the entire farm-to-market chain rather than concentrating primarily on increasing agricultural production. Efforts supposedly under way since the late Brezhnev period to achieve balanced development of the agroindustrial sector have met with little success, but the recent announcement of a major plan for improving food processing suggests growing leadership commitment to remedial measures.¹ Judging from the problems encountered during previous efforts to improve food processing, however, significant progress is by no means ensured. [redacted]

- Inadequate transportation and storage contribute to the large losses of farm produce—20 to 30 percent—that occur on the way to and through the food-processing sector. [redacted]

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Gorbachev, under increasing pressure to show results from his economic restructuring effort, believes that the food problem is one that can and must be solved quickly. He is aware that food supply problems are a major source of consumer dissatisfaction and detract from his effort to build public morale and mobilize popular support for his economic reform initiatives. He has called the problem more urgent than problems in the machine-building sector, another area he has targeted for greater attention. [redacted]

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An Old Problem and a New Program

The food-processing and distribution system is still primitive by Western standards:

- Retail outlets still receive only 20 to 30 percent of food products in prepackaged form. The shares of meat, vegetable oil, milk, and eggs sold in prepackaged form did not change between 1980 and 1986.²
- Self-service markets accounted for only 42 percent of 1986 sales in state retail food stores, up from 38 percent in 1980.
- The Soviets produce only small quantities of convenience products such as frozen foods, boxed mixes, and heat-and-serve items. According to one Soviet official, only 25 percent of the 1986 plan for production of frozen foods was fulfilled. Most food items undergo only simple processing such as concentration, canning, or mixing.

Gorbachev is aware that large improvements in the quality and variety of food products cannot be achieved at reasonable cost unless major improvements are made in the handling and processing of agricultural products. He is fond of repeating that the cost of eliminating losses through mishandling and spoilage would be one-half to one-third of the cost of obtaining the same supply through increased production and has said that "it is nonsense to build up the production of foodstuffs, incur huge expenses, and not worry how the product is to be delivered to the consumer's table." But, despite Gorbachev's emphasis since the early 1980s on achieving a more balanced development of the agroindustrial sector and the introduction of some organizational changes, the gap between the growth of agricultural output and the facilities to handle and process it has widened. [redacted]

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The leadership now appears determined to rectify this situation. A Central Committee conference in October 1987, at which both Gorbachev and Premier

¹ In Soviet usage, the food-production sector or "agroindustrial complex" includes agriculture; organizations supplying goods and services to agriculture such as fertilizer, machinery, repair, and other services; procurement agencies; food-processing organizations; and trade organizations. [redacted]

² A large share of food is delivered to stores in bulk to be packaged by trade workers. [redacted]

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Ryzhkov spoke, unveiled an ambitious long-term program to improve food storage, handling, and processing, which is to involve a particularly large role for defense-related industries. The leadership is seeking to ensure priority for the program by nailing down the necessary investment resources for the 13th Five-Year Plan now, ahead of other civilian claimants—a tactic used successfully by Brezhnev to gain priority for the agricultural sector in the past. [redacted]

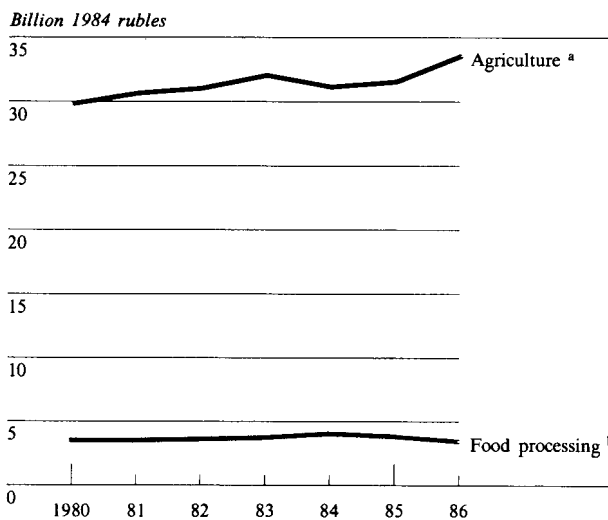
Failure of Earlier Efforts To Reorder Priorities

The major goal of Brezhnev's 1982 Food Program was to improve the efficiency of food production through closer organizational integration of all branches of the agroindustrial complex and the priority development of food processing. Gorbachev, who was the party secretary responsible for agriculture at the time, was the driving force behind the program's investment strategy—concentrating resources where they were likely to improve efficiency and reduce waste. [redacted]

After he was named General Secretary, Gorbachev continued to emphasize the need to shift resources from agricultural production to the handling and processing sectors. In one of his earliest speeches, Gorbachev charged that work in modernizing the food-processing industry was lagging badly. He subsequently pushed through an upward revision of the 1986-90 plan for investment in this sector. At the same time, Gorbachev sought to bolster his investment strategy through organizational means by merging many of the agriculture and food-processing ministries into one superministry, Gosagroprom. The merger was intended to facilitate the redistribution of resources within the agroindustrial sector and achieve an integrated approach to the solution of the food problem called for by the 1982 Food Program. [redacted]

Two years into the 12th Five-Year Plan, however, Gosagroprom is being criticized as a reorganization in name only. Gorbachev's investment strategy has not been implemented, and priority continues to go to the agricultural sector (figure). [redacted]

USSR: Investment in Agriculture and Food Processing, 1980-86



^a Includes machinery and nonresidential structures used in farm production.

^b Includes industrial food processing; excludes investment in on-farm food-processing facilities.

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Recent improvements in farm production have increased the availability of raw materials for food processing and have increasingly burdened the inadequate system for handling and processing farm products.³ The failure of food handling and processing to catch up with agriculture has meant that:

- Consumers have not realized full benefits from recent improvements in farm production.
- Losses of farm products between the farm and retail outlets may have increased. Soviet leaders admit only that losses are still high.

³ In a November speech in Bryansk oblast, for example, party secretary Nikonov complained that growth in state procurements of grain, sugarbeets, potatoes, and meat over the last 10 years in that region was at least one-third faster than growth in processing capacity. [redacted]

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- The proportion of farm products undergoing processing, already low by Western standards, may have fallen.
- Little or no progress has been made in reducing the economic burden of the agroindustrial sector. Subsidies to cover the difference between low retail food prices and the cost of producing food products are scheduled to rise in 1988. [redacted]

The October 1987 Conference: Taking a Hard Look at the Problem

At the October conference, Premier Ryzhkov presented a scathing assessment of the current state of affairs in the handling, storage, and processing of farm products. [redacted]

Misdirected Investment. Ryzhkov noted that the commissioning of new food-processing capacity fell sharply during the 11th Five-Year Plan and that the situation was not improving in the current Five-Year Plan. He also revealed that investment in the food-processing sector in 1986 was less than in 1985 despite the fact that the 12th Five-Year Plan called for a large increase in investment—50 percent for food processing as opposed to a 22-percent increase for the entire agroindustrial sector.⁴ Gosagroprom, which was given control over all investment funds for agroindustry, came under heavy fire for failing to rectify “distortions in investment policy.” Gosagroprom was, among other things, accused of “flagrant disorganization” in solving the storage problem and for squandering scarce hard currency on expensive foreign food-processing equipment only to let it sit and rust because no coordinated plan for its installation had been made. [redacted]

Negligence of Regional Officials. Ryzhkov was particularly critical of officials at the regional level. As a result of their negligence, he charged, “the two-year program for the construction of processing enterprises has been a failure.” Ryzhkov charged that officials in many areas had failed to make any provisions for handling and processing of projected increases in farm production. In Kazakhstan, for example, no new meat

⁴ These increases measure growth in total investment during 1986-90 over total investment during 1981-85. [redacted]

processing capacity was commissioned during 1981-85 despite the fact that purchases of meat by the state were up by 10 percent over the previous five-year period. [redacted]

Inadequate Support From Machine-Building Industries. Ryzhkov charged that the Ministry of Machinery for Light and Food Industry and Household Appliances (Minlegpishchemash) is not adequately supporting the food-processing industry. This ministry now produces only one-fourth of the broad range of equipment needed for modern food processing. Moreover, almost two-thirds of the machinery it delivers to the food-processing industry does not meet modern standards for productivity, reliability, or degree of automation. Many machine-building enterprises were built before the revolution and, according to Ryzhkov, are “decrepit.” [redacted]

Reasons for the Dismal Showing. As Ryzhkov stressed, the main reason for the lack of progress is the “entrenched” view, which continues to dominate the thinking of policymakers and managers alike, of the handling and processing sector as a “secondary sphere” of the economy—one to be funded by the “left-over” method. The food-processing sector has gotten short shrift in the allocation of resources compared with both agriculture and the rest of industry partly because the farm bureaucracy that grew so large and powerful during the Brezhnev era has successfully protected its hard-won priority and resisted any effort to redistribute its resources in favor of other sectors of the agroindustrial complex. Another reason that the flow of resources continues to favor the farm sector is that, despite the attempt to increase the priority of the food-processing sector, the regime continues to emphasize fulfillment of gross agricultural output targets as the primary success indicator. It is therefore not surprising that local officials, in particular, have continued to concentrate resources on increasing farm production. [redacted]

An Ambitious Program for 1988-95

The October conference laid out ambitious plans to modernize and expand the food-processing industry. By 1995 capacity for processing livestock products, vegetable oil, and canned fruits and vegetables is to be

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expanded by 30 to 50 percent. By applying new technology, the Soviets expect to obtain 40 percent more processed food from the farm products now going into the processing industry. Some 70 to 90 percent of food products are to be packaged by the food-processing industry by 1990. Handling of farm produce is to be further improved by more investment in transportation and storage. [redacted]

Reorganizing Machinery Production: A Statewide Task. Ryzhkov laid out formidable tasks for producers of food-processing machinery. More than 3,000 items of new equipment must be manufactured each year during 1988-90, compared with 130 to 160 items at present. The effort to improve production of food-processing machinery is to involve all sectors of the economy, with an increased contribution from defense industries. Apparently the Military Industrial Commission (VPK), together with the Bureau for Machine-Building and Gosagroprom, has been given responsibility for coordinating and controlling the program. [redacted]

the Ministry for Machine-Building for Food and Light Industry and Household Appliances has been disbanded and its enterprises shifted to the defense industry sector. [redacted]

This sector has been called upon to support consumer programs in the past and was assigned a particularly large role in carrying out the 1982 Food Program, but this would appear to be the first time that the defense industry sector has been drawn into the actual planning and monitoring of a consumer program. The regime evidently hopes that the management expertise concentrated in the defense-industrial sector and the priority it commands over resources can be used to achieve a more rapid development of the food-processing sector than if the job is left entirely to the civilian sector. [redacted]

Stepping Up Investment in Food Processing. Ryzhkov gave specific details for investment in the food-processing industry during the 1988-95 period. Investment during 1988-90 is to be 26 billion rubles (8.7

⁵ Ryzhkov did not mention the VPK by name. He referred only to "The State Commission of the USSR Council of Ministers." We assume that this is the VPK because it is never publicly identified by name and because Yuriy Maslyukov, head of the VPK, was included in the list of conference participants. [redacted]

billion rubles per year), rather than the original 12th Five-Year Plan goal for 1986-90 of 39 billion rubles (7.8 billion rubles per year). Accelerated investment for the balance of the 1986-90 period suggests that shortfalls of 1986-87 are being made up or that the original 12th Five-Year Plan goal has been revised upward. Investment in food processing is to be 51 billion rubles (10.2 billion rubles per year) during 1991-95.⁶ Between 1987 and 1995, deliveries of equipment to food-processing plants are to nearly triple and are to amount to 37 billion rubles during that period. Ryzhkov noted that some 38,000 enterprises and shops are due for modernization and that 29,000 new production units must be built. [redacted]

Importing Food-Processing Equipment. Soviet trade statistics show that the USSR has stepped up imports of food-processing equipment in recent years. Moscow probably views imports as an important component of the modernization drive and not as a substitute for improving domestic machine building. The Soviets may also be looking to Eastern Europe to supply more food-processing and packaging equipment. Current agreements call for Eastern Europe to focus its efforts on developing equipment for processing meat, dairy products, fruits, and vegetables. [redacted]

The Soviets are apt to maintain or even expand imports of food-processing equipment from the West, which now supplies 20 percent of imports of food-processing machinery. Imports of food-processing equipment are only a small share of total equipment imports and, given the current priority of this sector, are not likely to be cut severely despite the decline in hard currency earnings. Western equipment, which now comes mainly from Western Europe, is valued for its relatively advanced technology, high processing capacity, and wide variety of specialized processing lines. [redacted]

⁶ Investment figures are difficult to interpret because in Soviet usage "food processing" is not precisely defined. Discussions of the agroindustrial complex often appear to use a broad definition of food processing including on-farm food-processing facilities and subsectors of industry producing (1) meat and dairy products, (2) fish, (3) flour and mixed feed, (4) canned goods and other processed foods, and (5) natural fiber products. On the other hand, industrial investment data in the Soviet statistical handbook exclude on-farm food processing and industrial processing of natural fiber. [redacted]

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The Soviets are trying to reduce the need for hard currency purchases by using joint ventures with Western firms to acquire advanced equipment. A 1987 agreement with an Italian firm provides for the joint production of refrigerated-storage equipment. [redacted]

Improving Transportation and Storage. Ryzhkov called for a "fundamentally new standard" and "radical transformation" in storage and transportation. Substantial progress in these areas would reduce losses between farms and food-processing enterprises and increase the supply of fresh produce—such as fruits and vegetables—in retail outlets. [redacted]

The October conference called for the shortage of storage facilities to be completely eradicated within the next two to three years. Soviet writers estimate that present storage capacity is one-third of that needed for potatoes and other vegetables and about half of that needed for fruit. Refrigerated storage capacity for perishables is in especially short supply. [redacted]

The ambitious goal for increasing storage capacity is probably out of reach but recent statistics on commissionings suggest that some progress is being made. Party secretary V. Nikonov noted that in 1986 the annual plan to commission new storage facilities for potatoes, vegetables, and fruit was fulfilled for the first time in several years, even though these commissionings amounted to less than 20 percent of those called for in the 12th Five-Year Plan.⁷ Furthermore, the January-September plan fulfillment report implies that commissionings in 1987 will be at least 10 percent above those of 1986. If commissionings grow at this rate during 1988-90, 12th Five-Year Plan targets for commissionings of potato, vegetable, and fruit storage will be met.⁸ [redacted]

Ryzhkov's discussion of transportation focused on containerization and technical progress in transportation equipment but ignored the inadequacy of the rural road network—an important source of losses.

⁷ Newly available statistics show that in 1986, nearly 1 million tons of potato, fruit, and vegetable storage were commissioned—implying a 12th Five-Year Plan target of 6.2 million tons. [redacted]

⁸ No data are available to assess the progress in constructing storage capacity for other products or for refrigerated storage. [redacted]

Newly available statistics on commissionings of paved on-farm roads suggest slow progress. Soviet plans called for over 90,000 kilometers of these roads to be constructed during 1986-90. New statistics show that in 1986 only 8,000 km of paved on-farm roads were commissioned, less than half the annual total needed to meet 1986-90 targets.⁹ [redacted]

Promoting Local Responsibility. The Gorbachev regime is pursuing a policy that is intended to shift responsibility for managing local food supplies onto the shoulders of local officials and relieve Moscow of those tasks that are best done at the local level. Gorbachev hopes that this will force local officials to focus on the end goal of getting more and better quality food on the consumer's table in a timely and efficient manner rather than focusing exclusively on intermediate targets such as gross agricultural output. Under measures introduced in 1986, regional officials have been given broader authority to plan food production, distribute the necessary resources, and adjust prices. Within limits, local officials are being told that it is now up to them to solve the food problem in their area. Overall results thus far have been extremely disappointing, but in a few regions the new system has begun to take hold and better coordination of the farm-to-market chain at the local level has been achieved.¹⁰ [redacted]

Potential Problems

To substantially increase quantities and broaden the assortment of quality foods in state retail stores would require successful implementation of the new program. A number of problems, however, threaten to slow the pace of implementation:

- The especially poor performance of the civilian machine-building industry in 1987 is likely to cause shortages of investment goods over the next year or two, thus slowing all facets of Gorbachev's modernization program. In addition, energy production,

⁹ No data are available to assess the status of plans to construct farm-to-market roads—the other component of the rural road network. [redacted]

¹⁰ At an obkom plenum in Belgorod, for example, speakers pointed out that in 1987 for the first time "some of the above-plan agricultural output was used to satisfy the oblast market in accordance with the (March 1987) government decision." Speakers noted that, as a result, food supplies were better than those of most RSFSR oblast centers, including Moscow and Leningrad. [redacted]

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which becomes more costly every year, is likely to compete with food processing for available investment resources.

- Soviet central authorities will find it more difficult to ensure and monitor investment in food-processing machine building now that funds are to be allocated through ministries whose main responsibility is production of other products.
- New food-processing equipment, particularly imported equipment, will not be productive if agriculture continues to deliver raw materials that contain excessive dirt, field trash, and material that has deteriorated in transit.
- Industry must supply vastly increased quantities of packaging materials and food preservatives. Both are now in very short supply.
- Additional investment will be needed for modernizing retail food outlets if they are to handle increased quantities of new products, such as frozen foods, successfully. [redacted]

some new wrinkles that could make it more viable than previous ones—such as greater assistance from the defense industry for food processing. It is unlikely, however, that the regime can achieve all that the program sets out to do in the time allotted. Even substantial progress is in doubt, given the many competing demands for scarce resources and the persistence of problems in synchronizing the activities of farms, procurement organizations, transportation, and processing enterprises. To raise the priority of this sector enough to secure resources will require great political will on the part of the leadership. The earmarking of investment funds for handling of farm products, storage, and processing ahead of other civilian claimants—including agriculture—underscores the leadership's determination to give priority to development of this sector. The test will come, however, when detailed annual investment plans are being drawn up and intentions must be backed up with necessary resources. [redacted]

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Prospects

The regime's present attention to the food-processing sector is a promising sign. Singling out this sector in a separate program could bring more progress than earlier efforts did, and Gorbachev's program contains

Wholesale Trade Reform: A Modest Start []

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The economic reforms approved at the June 1987 plenum and laid out in subsequent decrees¹ call for a gradual transfer from an economic system based on centralized allocation of supplies to a system based largely on wholesale trade. Although the Soviets have flirted with the idea for decades, a true wholesale trade market has not existed since the 1920s.² Implementation is to take place over the next four to five years—making it, along with price reform,³ one of the last reforms to be fully in place (see table 1). []

[] this delay is a result of an ideological controversy over the legitimacy of wholesale trade under socialism and concern that a major reform in the supply system could cause widespread disruptions in the economy. []

The concern of a number of Soviets, however, is that the slow pace of wholesale trade implementation will have a negative impact on other reforms. One economist has already complained pointedly that the current supply system has become a deterrent to *perestroika*. Pressure for a more rapid transfer to wholesale trade may build over the next few years when firms that are operating under new management conditions, particularly self-financing, become frustrated in obtaining the necessary materials and equipment. On the other hand, the lack of price reform—to begin only in 1990—will make it difficult for the enterprises to make rational supply decisions.

¹ The Soviets have given the term "wholesale trade" various meanings over the years. Some officials have used it to include all trade carried out by the State Committee for Material and Technical Supply (Gossnab), while others include only sales in the network of stores operated by Gossnab. Wholesale trade is defined in this article as a system in which enterprises, without need of authorization, freely purchase items, including producer goods, from another enterprise, manufacturer's outlet, or territorial supply organizations. []

The Old System

During the five-year and annual planning cycles, central authorities have dictated not only what to produce and who produces it, but who supplies whom. Thousands of products are centrally allocated through the State Planning Committee (Gosplan) and the State Committee for Material and Technical Supply (Gossnab). Gossnab departments, which are organized by major products, together with subordinate territorial offices, work out the details of distributing supplies. The territorial offices also manage the Gossnab supply depots and warehouses located throughout the country, which are directly responsible for obtaining material and equipment allocated to enterprises in their region. []

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At present, the Gossnab system accounts for 70 to 80 percent of total trade turnover, and the rest is organized by the ministries and local government organizations. A 1965 decree on government reorganization formally removed the supply function from ministerial control, but it explicitly allowed some ministries to retain this function (see table 2).⁴ Other ministries also succeeded in retaining their supply departments and informally retained as much authority over supplies as they could manage. All ministries have been responsible for determining resource requirements for subordinate enterprises, dividing up ministerial allocations, monitoring the fulfillment of enterprise plans for supply and deliveries, and carrying out measures for economizing on supplies. The ministry has been given the responsibility for allocating products that circulate primarily within its own organization. []

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Enterprises submit their annual requests for supplies, which are based on both the previous year's requirement and additional materials and equipment needed for any production changes stipulated in the five-year plan. []

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⁴ Included are those ministries concerned with railways, air transport, river and maritime fleet, communications, agriculture, electric power, transport, construction and gas, as well as the executive committees of local government organizations. []

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Table 1
Soviet Economic Reforms

Reforms	1988 Goals	Final Objective
Self-financing	60 percent of all industrial production; 40 percent of all enterprises; an estimated 60 percent of agricultural production; 50 percent of scientific organizations; 100 percent of transportation.	Whole economy by end of 1989.
Wages	60 to 70 percent of work force.	All industrial sectors by end of 1990.
Planning	All enterprises and associations. In 1988, however, state orders make up 80 percent of industrial production, including 90 percent in the fuel ministries and 60 percent in the nine civilian machine-building ministries.	State orders to be reduced to 30 to 40 percent of total output and allocated by competition, by 1991.
Supply (wholesale trade)	Less than 4 percent of total industrial production; 15 to 20 percent of sales through state supply networks.	Wholesale trade reform to cover 75 to 80 percent of sales through state supply networks and two-thirds of total sales by 1992.
Banking	All banks. A reorganization is being undertaken, but decentralization of bank lending policies will be limited and gradual.	No date given.
Wholesale prices	None; to begin in 1990.	Industry, transportation, and communications by 1 January 1990; construction and agriculture, by 1 January 1991.
Retail prices	None; to begin only after full public discussion.	Whole economy, presumably including retail, by 1991.
Foreign trade	26 percent of all imports; 14 percent of all exports.	No date given.
Quality control	732 more enterprises; for first time includes food processing and construction sectors. Roughly 80 percent of machine-building output and more than 30 percent of all industrial production will be covered.	No further expansion announced.
Organizational changes	All central ministries, republic central committees, and republic Council of Ministers.	By end of 1988.

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plan. To give Gosplan and Gossnab time to work out the details of allocation plans, enterprises are obligated to report their requirements six to eight months before the beginning of the year. After Gosplan or Gossnab "balance" the requests with production capabilities, Gossnab issues allocation certificates to enterprises that stipulate suppliers and amounts of products that can be purchased. Enterprises present these to suppliers to purchase almost all items. Details are spelled out in contracts.

This system often malfunctioned: unexpected shortages, new demands, and changing circumstances resulted in last minute demands on enterprises by ministries. Constantly increasing output targets and minimal accountability for expenditures on inputs worked together to create the chronic shortages typical of the Soviet economy. Because the formal system worked poorly, Soviet enterprises resorted to informal

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Table 2
Past Efforts To Move to Wholesale Trade

	Content	Result
1965 reform	Recreated Gosnab and ministerial system; transferred supply function to Gosnab; called for establishment of direct ties between producer enterprises and their suppliers; called for gradual transition to wholesale trade in producer goods to support greater enterprise autonomy.	Gosnab recreated; little progress on move to wholesale trade; expansion of small-scale industrial wholesale stores owned by territorial supply organizations.
1979 reform	Increased number of products Gosplan and Gosnab allocated in an attempt to reduce ministry duplication of supply function; expanded use of long-term contracts; called for buildup of Gosnab reserve stocks; expanded wholesale stores.	Increased centralization; increased reserves held by Gosnab and plants; slowed down turnover rate; long-term contracts expanded; more wholesale stores created.
March 1986 decree	Limited move to wholesale trade <i>through</i> territorial supply organizations. Focused on nonproduction ministries and one production ministry; expanded long-term contracts; called for reduction in plant reserves.	Criticized for not going far enough; progress slow; few successes.

[redacted]

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methods to get the job done that included overstating requirements, hoarding, employing expeditors to locate supplies, purchasing supplies illegally, bribing, and storming.⁵ [redacted]

- A number of ministries in the service sector, including the Ministry of Health and the Ministry of Culture. [redacted]

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Reform: Stage One

The first stage of the present reform effort began when Gorbachev called for reforming wholesale trade along with expanding direct enterprise-to-enterprise ties at the Party Congress in February 1986. The next month the Politburo issued instructions to work out plans to expand wholesale trade in industrial goods starting in 1987, and the Council of Ministers issued a decree that began this process at some 10,000 organizations, including:

- One production ministry—the Ministry of Construction, Road, and Municipal Machine Building.
- Scientific-research institutes.
- Various construction organizations (including those in Armenia and Estonia).
- Several agroindustrial complexes.

The reform made Gosnab's territorial supply organizations the key contact points for enterprises in obtaining and disposing of supplies, which relieves the enterprises—at least in theory—of having to deal with central Gosplan and Gosnab in Moscow and their own ministries. According to Gosnab Chairman Lev Voronin, the enterprise could order items from the territorial branch on the basis of needs evidenced by orders from customers. Enterprises, however, could not deal directly with other enterprises in acquiring or disposing of supplies. [redacted]

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⁵ Storming is the common Soviet practice of working quickly or overtime at the end of an accounting period to produce most of the period's output plan. It often occurs because critical supplies are received late. [redacted]

The decree met with severe criticism by several Soviet economists who described it in the press as timid and an "old product in a new wrapper." Reacting to a suggestion that real wholesale trade be introduced, one Gosnab official replied, "No one will let us breed (such) anarchy in the country." The territorial approach appears to have been a middle ground between continued tight central control and true wholesale trade. [redacted]

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The Soviet press has claimed some success in this first stage of implementing wholesale trade reform. In July 1987 the secretary of the Estonian SSR Gossnab Party Committee reported that, since 25 enterprises had switched to wholesale trade, stockpiles have been reduced by almost one-third. In October 1987, Leonid Abalkin, the director of the Institute of Economics of the Academy of Sciences, described the success of an agroindustrial complex in the Kuban:

Everyone expected that people in the Kuban would start hoarding, laying in vast reserves of oil products, seeds, feeds, roofing materials, and slate since they were able to do so. However, when people in the Kuban saw that supplies remained stable, that they could buy what they needed, they realized that it was not necessary to lay in reserves, that it was uneconomical. When you have to pay for everything and pay more for above-norm reserves, then you cut back your orders yourself. [redacted]

A number of articles indicate, however, that operating procedures have not changed appreciably and that enterprises continue to overstate requirements and hoard extra materials and equipment. A September 1987 *Pravda* article noted that:

- The Saransk Excavator Plant ordered enough high-grade steel for one quarter to fulfill a six-month program.
- A Lithuanian enterprise ordered 21 tons of structural steel in excess of its needs and six times more sheet steel than it required.
- An enterprise director of one RSFSR production association said that his association was operating under the old system, although it supposedly made the transition to wholesale trade as early as 1 January 1987. [redacted]

Moreover, Gosplan and Gossnab appear unwilling to change their way of operating. For example:

- A new department was created in Gossnab to collect the requirements for wholesale trade from the territorial organs and present them to Gosplan for

approval. This organization was not able to obtain enough supplies because Gosplan refused to validate the orders without additional paperwork.

- The Gossnab journal reported in July 1987 that territorial organs now require enterprises to prove that they have a genuine need for materials ordered. As a result, enterprises must spend time gathering supporting data and filling out paperwork.
- Gossnab has refused to handle orders in quantities smaller than freight-car or container loads although it specifically was given responsibility for small shipments in an earlier decree. [redacted]

Soviet enterprise managers appear unconvinced that this reform, which depends on territorial supply organs, will work for them. In a survey of managers employed by the Ministry of Electrical Equipment Industry, 72 percent spoke in favor of reforming wholesale trade, but only 29 percent believed that the territorial organs could organize it properly, and 49 percent were not prepared to rely on them at all. [redacted]

Reform: Stage Two

The second phase of the wholesale trade reform was approved at the party plenum in June 1987; one of the 10 reform decrees published the following month was "On Restructuring Material and Technical Supply and the Activity of Gossnab in the New Economic Management Conditions." Unlike the 1986 decree that channeled orders through territorial supply organs and only after the completion of elaborate paperwork, the new decree allows the "free" purchase and sale of goods under direct contracts between enterprises or with state wholesale organizations and with manufacturers' direct outlets. Only "particularly scarce" goods will continue to be rationed,⁶ but the list also includes inputs that are required to fulfill mandatory state orders. The process is to start with "groups of goods of greatest importance for consumer goods

⁶ Wholesale trade will not include electricity, crude oil, gas, metal ores, rolled metal, various kinds of specialized equipment, products supplied for export, defense, and "market stocks" (presumably grain). [redacted]

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production, agriculture, construction, machinery production, needs of cooperatives, and private producers." According to Soviet officials, the timetable is:

- In 1988, 15 to 20 percent of Gosnab sales will be transferred to wholesale trade—less than 4 percent of total industrial output. (Only 5 percent of Gosnab sales consisted of genuine wholesale trade in 1987.)
- Gosnab has been instructed to bring the share of wholesale trade in its total supply to 60 percent by 1990.
- The transition will be complete in 1992, when wholesale trade will make up 75 to 80 percent of Gosnab sales and two-thirds of total sales. [redacted]

The territorial Gosnab organs will become economically accountable enterprises. They will have responsibility for making minor adjustments to products they handle—such as cutting metals, timber, or cable to size; organizing a recycling program for secondary materials; managing commission stores, providing information services on alternate suppliers and new materials, and renting machinery and equipment held at their warehouses. [redacted]

The decree also calls for:

- A reorganization of Gosnab on the basis of major intersectoral complexes and a reduction in the layers of management.
- Abolition of ministerial supply organizations that duplicate Gosnab functions.
- Wholesale trade for enterprises under the jurisdiction of the State Agroindustrial Committee.
- Strengthening the system of direct ties for goods not under wholesale trade. [redacted]

Prospects

The reluctance of Gosnab and many enterprise managers to let go of the old system of wholesale trade will make the transition slow and difficult. Gosnab, an entrenched bureaucracy with a tradition of conservatism, has been placed in charge of this reform's implementation. The head of Gosnab, Lev Voronin, was appointed under Gorbachev, but recently came under fire when Gorbachev, at the June plenum,

Soviet Perception of the Need for Wholesale Trade

The necessity for wholesale trade under conditions of self-financing has often been argued by V. Belkin, professor at Moscow State University and longtime advocate of wholesale trade. In his words,

The basis of the new economic mechanism is complete cost accountability for enterprises. The collective is required to earn money for all its needs. Let us assume that an enterprise has earned that money. What does it do now? Where is it supposed to use that money? There are no machines, raw materials, or construction materials offered freely for sale. It is necessary to wait until someone allocates them. Maybe they will, maybe they won't. Money, even if it has been earned, is nothing if the only way you can barter with it is with an authorization. What kind of self-financing is this?

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criticized Gosnab and Gosplan for contributing to poor economic performance in 1986. There is already evidence that Gosnab officials will narrowly interpret the reform decree. [redacted] the major focus of the reform is not free exchange of goods among plants but territorial reorganization of the supply system. Other major goals appear to be a reduction in paperwork and in the stocks that plants hold. Although admirable objectives, these are symptoms, not causes of past problems with the wholesale trade system. [redacted]

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Enterprise managers appear interested in the general concept of wholesale trade but are reluctant to give up guaranteed sales and supplies. As a result, they are clamoring to obtain state orders—mandatory orders by Gosplan for which supplies and sales are guaranteed. This type of response seriously inhibits the growth of competition among enterprises that the reform is intended to foster. [redacted]

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Finally, the slow pace of implementation of this reform will seriously inhibit reforms in other areas. Without free trade in supplies, enterprise managers will be greatly limited in their ability to spend the profits that they are allowed to keep under "self-financing" (see inset, page 23). On the other hand, wholesale trade before price reform makes little sense, and price reforms are not scheduled for full implementation until 1991. Enterprise managers need rational prices to guide their supply decisions. Pressure for a more rapid implementation of wholesale trade and price reform may build as other reforms run up against these barriers.

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Conference Report: "Trends in Gorbachev's Policy in the Third World" [redacted]

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Guest Speakers:

[redacted]

Curtis Kamman, Deputy Assistant Secretary of State for Intelligence and Research [redacted]

agreement about the importance of the developing world. [redacted] under Gorbachev, policy-makers are now voicing support for ideas previously discussed only among Soviet academics. [redacted]

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[redacted] the substance of New Thinking is not new to Soviet academics, who have been discussing this over the past eight to 10 years, and that what is new is that the basic tenets are being adopted by the government. The new pragmatic thinking espoused by Gorbachev started under Andropov, [redacted]

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An all-day conference sponsored by the Office of Soviet Analysis, Regional Policy Division, was held on 3 December 1987 to offer CIA managers and analysts an opportunity to explore with the guest speakers Soviet Third World policy under General Secretary Gorbachev. The morning session covered political and economic aspects of Gorbachev's "New Thinking"; the afternoon session covered Soviet strategies in the Third World and their implications for the United States. Each guest speaker made a short presentation on the key issues of whether there is anything "new" in New Thinking. The speakers discussed how growing Soviet sophistication in diplomatic and economic exchanges affects Soviet-Third World relations, how the Soviets handle regional crises, and whether US-Soviet relations play a role in Soviet activities in the Third World. [redacted]

[redacted] there is no significant change in Gorbachev's Third World policy: the Soviets are neither reducing nor increasing the size of their commitments to their Third World clients. As evidence that there is no retrenchment in Soviet policy, [redacted] the Soviets have pushed for military offensives in Angola and Afghanistan.

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[redacted] evidence of real change would be a withdrawal from Afghanistan, an announcement that support for Nicaragua cannot continue, a quest for other than a military solution in Angola, establishment of diplomatic relations with Israel, or changed patterns of arms transfer—all of which he thinks are unlikely. [redacted]

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New Thinking or Not?

The participants addressed the issue of whether there really is New Thinking on the Soviets' part and a substantive change in Soviet foreign policy toward the Third World or merely a change of style, process, and rhetoric. In addition, the speakers focused on whether there has been or will be a retrenchment in the Soviet position in the Third World. The speakers did not reach a consensus on the question of whether there has been change in Gorbachev's Third World policy. [redacted]

Deputy Assistant Secretary Kamman stated that he sees a continuity in interests and methods of pursuit of Soviet policy, but also noted that Soviet clients are more troublesome than the Soviets expected and that a new leadership and new generation in the USSR are having an effect on Soviet policy. He added that New Thinking reflects a new attitude, although the old compulsions toward expansionism still exist and the Soviets still primarily react to events rather than try to make them happen. He sees no Soviet retrenchment anywhere and pointed out that the Soviets continue assistance to Cuba and to their Third World clients

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[redacted] Soviet perceptions of and policy toward the Third World are in flux under Gorbachev. He said that there is debate among the Soviet leadership about Third World issues but also

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that are economic "basket cases." The Soviets are trying to cut costs but have not backed away from existing military commitments, although they have not started any new ones. The Soviets have discovered a multipolar world and have found themselves overextended; it is possible that overextension will eventually lead to a retrenchment. [redacted]

Political Aspects. [redacted]

[redacted] the political dimension of Soviet policy in terms of three major new themes of Soviet-Third World policy:

- Interdependence and the global nature of international problems.
- The political and diplomatic dimension, rather than only the military, of global affairs.
- The existence of alternative paths of development other than capitalism and socialism. [redacted]

Moscow has been stressing interdependency in discussing Third World issues, [redacted] The concept of "globalism" provides a theme under which the USSR can work toward a number of foreign policy goals. [redacted] sees renewed support, at least in Soviet rhetoric, for bilateral and multilateral consultation through forums such as a Middle East peace conference, an Asian collective security conference, the Nonaligned Movement, the Organization of African Unity, and the United Nations. He pointed out that Gorbachev at the 27th Party Congress acknowledged the importance of such global issues as the scientific-technological revolution, media communication, ecology, Third World social problems, and nuclear weapons. [redacted]

[redacted] the Soviets are initiating diplomatic offensives and emphasizing political security, although not at the expense of military security. He noted that more frequent visits by senior officials, such as those of Foreign Minister Shevardnadze to Latin America and South Asia, as well as rumors of a Gorbachev visit to Latin America, exhibit Soviet interest in expanding contacts in long-ignored areas. [redacted]

[redacted] agree that the Soviets have a new outlook on paths of development. [redacted] pointed out that "globalism" gives the Soviets the opportunity to explore relations with states at differing stages of

development without straining relations with socialist-oriented states. [redacted] the Soviets probably never were convinced that revolutionary "vanguard" parties would succeed in moving to socialism or Communism and probably are now less convinced of the inevitability of this process. But under Gorbachev, Soviet support in the form of military aid continues to those on the socialist path. [redacted] the Soviets recognize that "backsliding" occurs and that the Third World is differentiated and more complex than they had previously characterized it. [redacted]

[redacted] the Soviets recognize that differentiation exists in the Third World. The Soviets have admitted that socialist-oriented Third World countries have undergone bankruptcy and famine while capitalist Third World countries have prospered. [redacted] there has been an open stocktaking and a substantive discussion of past misconceptions and failures. She stated that the Soviets recognize that in the Third World not all countries are victims left helpless by colonial exploitation, that capitalists have helped to bring about advances in the Third World, and that multinational corporations have fostered economic progress, although they are not the answer to the problem. [redacted]

Economic Aspects. [redacted]

under Gorbachev departures from the old policy and thinking have already occurred. There is a new Soviet interest in multilateral economic relations with the Third World, together with a shift in trading partners from the OPEC petrodollar economies to Third World countries with developed technological industries, particularly newly industrialized countries in Latin America and Asia. While not abandoning them, Moscow is pressing its Third World clients to charge lower prices, diversify trading partners, and balance their trade, in an effort to reduce the economic burden of its assistance. Moscow is also undertaking less expensive projects, particularly agricultural and light industry rather than the heavy industry projects that take years to complete. [redacted]

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The Soviets are openly interested in expanding ties to the private sector and in coproduction schemes with the Third World. [redacted] the Soviets are now discussing trilateral ventures in the Third World (while in Latin America in late September 1987, Shevardnadze discussed with Brazil establishing joint ventures in Peru, Algeria, and Zimbabwe) and are allowing capitalist and Third World countries to undertake joint ventures in the USSR. [redacted] Soviet interest in participating in international economic organizations such as the World Bank and GATT. [redacted]

[redacted] Soviet economic activity in the Third World has increased. [redacted] during the early 1980s the Soviets undertook no new major economic commitments (with the possible exception of aid for Nicaragua) and did not notably increase Third World aid. He stated that "globalism," in fact, might be a way for the Soviets to decrease their aid to Third World clients, by arguing that countries of the developed world, especially capitalist countries in the West, have a responsibility to provide economic aid to their former colonies. [redacted]

[redacted] the pattern under Gorbachev has been for the Soviets to tell their Marxist allies to improve relations with and acquire economic aid from the West while the Soviet Union will continue to provide security assistance to maintain pro-Soviet regimes in power. [redacted] sees this as a refinement of longstanding Soviet policy—the Soviets have always been reluctant to provide economic assistance to "basket cases"—which has been getting more emphasis and attention now because of the environment of reform in the USSR. He claims that the courtship of Third World moderates under Gorbachev is not new and that they were not given the degree of attention in the 1970s that they get today. He pointed out that the Persian Gulf is a new military commitment but not an economic one. [redacted]

Soviet Reaction to Third World Opportunities

The speakers agreed that Moscow is not as opportunistic under Gorbachev, but they also pointed out the relative absence of opportunities of the sort the Soviets took advantage of in the past. [redacted]

[redacted] the activism of Soviet policy in the late 1970s, which included establishing close ties to Nicaragua and Vietnam, has changed. He claimed that Grenada and Syria are examples of opportunities during the pre-Gorbachev 1980s that the Soviets did not seize. He argued that this change in policy occurred for several reasons: the heightened military costs associated with an active Third World policy and the US, Chinese, and West European reaction to such a policy; the constraints of the Soviet domestic economy; and political inertia after the triple succession in the Soviet Union. Deputy Assistant Secretary Kamman also saw a reluctance on Moscow's part to take on new commitments but noted that there have been few opportunities. [redacted]

[redacted] the Soviets have taken on no new commitments in the Third World because no attractive opportunities have presented themselves: there have been no new revolutions nor any calls for Soviet help to build new "vanguard" parties. He claimed, however, that, should an opportunity present itself, the Soviets would be willing to take advantage of it to expand their influence, as in the case of the Persian Gulf. He cited the Soviet response to the crisis in South Yemen in 1986 as one example of the continuity in Gorbachev's Third World policy: the Soviets kept their distance until the outcome was clear, then moved in and consolidated ties to the new leadership. [redacted] sees this as a typical Soviet reaction dating back well before Gorbachev. Kamman agreed that Gorbachev's reaction to the crisis in South Yemen was not unusual in the Soviet context. [redacted]

About Afghanistan, [redacted] Gorbachev has not made up his mind on a pullout because of some major concerns: hardliners in the leadership might attack Gorbachev as "soft on imperialism"; the military would view a withdrawal as an embarrassing defeat that might lead the officer corps to turn against Gorbachev's reform program; and a nationality problem might surface in Soviet Central Asia at the spectacle of a defeat of the Great Russians in Afghanistan. Finally, [redacted]

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[redacted] the Soviets are not prepared to give up territory in South Asia and the chance to become a South Asian power. [redacted]

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Deputy Assistant Secretary Kamman noted the political costs to the Soviets of their involvement in Afghanistan, citing as an example the increase in the UN vote against the USSR on the Afghanistan resolution. He said that Gorbachev wants to withdraw Soviet troops but also wants to avoid the perception that the Red Army failed. Cambodia, Angola, and Nicaragua are areas of commitment from which he does not see the Soviets disengaging. He sees the Soviets as willing, however, to accept a coalition government, a united front, or a process leading to an internationally acceptable solution to these conflicts. [redacted]

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Strategic Implications

[redacted] Gorbachev inherited a Third World policy that others achieved by trial and error and that this policy is part of a strategy to compete with the United States and weaken US influence in areas of little interest to the USSR.

[redacted] Soviet interest is opportunistic: to counter US efforts to contain Soviet expansionism. It is a political rather than an economic or ideological strategy. He stated that, in the Soviet view, the United States remains an adversary but that does not preclude cooperation. He pointed out that Kuwait and Iran are new commitments undertaken so that the United States would not come out on top. The Soviets have never been willing to give in on regional issues to improve US-Soviet relations. The "Rules of Conduct," in the Soviet view, mean prevention of confrontation, not an end to rivalry, [redacted]

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Deputy Assistant Secretary Kamman stated that Soviet foreign policy stresses the strategic: Gorbachev's speech at the 27th Party Congress emphasized East-West relations and gave only lipservice to the Third World. The implications for the United States, according to Kamman, are that there could be greater interaction of US and Soviet interests and policies. He noted that President Reagan's proposal of national reconciliation as a means of settling regional conflicts, in his September 1987 speech to the UN General Assembly, was adopted by the Soviets because they see the national reconciliation theme as a way to improve their "peacemaker" image. [redacted]

Kamman thought the perception that the USSR is expansionist and plays a zero-sum game must be challenged. The Soviets are groping toward accepting the idea that Third World conflicts have an impact on US-Soviet relations and US popular opinion. The Soviets have begun to take into consideration the US Government's reaction to their actions in the Third World, the effect of Afghanistan on US-Soviet relations, and the fact that Congress votes on the INF treaty. [redacted] the Soviets now recognize that Third World instability can lead to superpower confrontation and has global implications, because both the United States and USSR are regional players. [redacted] noted that the Soviets are not as confrontational as before. [redacted]

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Soviet Coal Industry: High-Stakes Debate

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Plans for the coal industry during the 12th Five-Year Plan (1986-90) reveal that, after years of debate, priority for development apparently was shifted from the Donets basin in the Ukraine to the Kuznetsk basin in Siberia. Moscow, moreover, is considering accelerating the shift in resources in favor of the Kuznetsk basin. Although no time period was specified, Moscow reportedly has made a preliminary decision to invest an additional 6 billion rubles in the Kuznetsk basin—3 billion rubles were invested here during the period 1981-85—while decreasing investment in the Donets basin by 2 billion rubles. A recent study by the USSR Academy of Sciences concluding that new development in the Donets basin is no longer commercially viable apparently prompted this decision.

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The stakes in this competition for resources are high. Moscow must weigh the economic advantages that would accrue from accelerated development of the Kuznetsk basin against the social costs of a still more rapid decline of the coal industry in the Ukraine. On the one hand, increased output from the Kuznetsk coal basin—which is scheduled to become the USSR's largest producer by 2000—is a key link in Moscow's Long-Term Energy Program. That program calls for coal and nuclear power to provide nearly all of the incremental growth in energy production after the mid-1990s. On the other hand, with about 350,000 miners employed by the coal industry in the Ukraine (most of whom would be less than enthusiastic about moving to Siberia), Moscow must also consider the hardships these miners would incur as a result of shifting resources to the Kuznetsk basin. Some miners have written to the Soviet press and appear noticeably upset about the prospect of losing their relatively high-paying jobs. One miner, who noted that the Donets basin is one of the most densely populated regions in the country, characterized the social aspect of the study by the Academy of Sciences as "antihuman."

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We believe that the Donets coal basin is likely to continue to lose out in the competition for investment resources. The most easily accessible coal reserves have been depleted, and the remaining reserves require substantial investment in improved extraction technology geared to thin and sloping seams at depths of 1,000 to 2,000 meters. Despite the increased use of specialized equipment to cope with these

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deteriorating mining conditions, productivity in the Donets basin—which has been falling since the mid-1970s—is about one-third the productivity achieved in the Kuznetsk basin, and the cost of producing Donets coal is about twice that of Kuznetsk coal. In addition, the lobby for Kuznetsk coal holds a few wild cards:

- Mikhail Shchadov—the USSR coal minister since 1985—has spent most of his career working in the Siberian coalfields and has close ties to the Kuznetsk basin.
- Also, the Donets recently lost a major organizational entity that had represented its views: the Ukraine's coal ministry was recently abolished as part of the general effort to streamline management and give production-level units greater autonomy.

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The pace at which investment funds for the Donets basin are cut, however, is likely to be gradual. The closer proximity of the Donets basin to markets in the European USSR and bottlenecks plaguing westward movement of coal by rail from Siberia will create continuing substantial demand for Donets coal. Moreover, labor shortages, inadequate social infrastructure, and slow progress in new mine development and refurbishing old mines in the Kuznets region will hamper Moscow's efforts to assimilate increased investment there.

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Self-Financing in Soviet Light Industry:

A Harbinger of Things To Come?

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Light industry has been under self-financing since January 1987, but, according to several press reports, progress has been rocky. Although enterprise managers express enthusiasm for the idea of gaining greater control over their earnings, many have had problems in earning adequate funds and in using those funds to improve enterprise operations. They blame many of their troubles on interference by the Ministry of Light Industry.

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Self-financing is intended to give enterprises the incentive to improve their performance in order to earn greater profits to reward their workers and finance retooling and reconstruction. Many enterprises, however, have found that they lack real control over their financial situation. One problem lies in controlling costs. In the *Rospromtekhnokan'* industrial association, for example, enterprises have had difficulty in obtaining medium-length, inexpensive cotton used in the production of industrial fabrics. Instead, suppliers often delivered the wrong cotton, or pressured the association into ordering the more expensive fine-fiber cotton, which raised the association's costs last year by 1 million rubles. Deadbeat customers have also put enterprises in financial straits. The Novokuybyshev knitwear factory currently owes the Reutovo production association 12 million rubles. Nonetheless, the Reutovo association must continue to supply Novokuybyshev, with or without payment, or face penalties for nonfulfillment of contracts.

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Even when enterprises earn profits under the new measures, ministry interference often reduces them to a pittance. At the Novosibirsk artistic haberdashery factory, for example, the ministry increased payments to the central budget from an already confiscatory 85 percent to 87 percent of enterprise profits. In a similar case, the State Planning Commission and the Ministry of Finance pressured several enterprises in the *Rospromtekhnokan'* association to sell 2,000 tons of yarn to Western countries. This required a complete revamping of yarn packaging to meet buyers' specifications. In the end, central authorities changed the method of calculating compensation for export sales, so the enterprises' earnings did not even cover the cost of the new packaging system.

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Enterprises have found it difficult to use the funds they have earned to good effect. In light industry, the amounts earned are often too small to be of use. The Novosibirsk sewn-goods association managed to net 10,000 rubles for its production development and social-cultural funds. The association has been unable, however, to find suppliers or construction organizations willing to do anything for such piddling sums. The Moscow *Parizhskaya Kommuna* footwear factory has had the opposite problem. The 2 million rubles in its social-cultural fund was too large to use for desperately needed housing construction without an order from the Moscow city executive committee.

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When an enterprise does allocate its funds to purchase equipment, it may find the results disappointing, because the ministry still controls equipment allocations. One Novosibirsk sewn-goods association ordered new flow lines, hoping to improve its productivity and product quality. Instead, it received equipment of an outmoded design, worse than that it was already using. At another sewn-goods association, management ordered 245,000 rubles worth of new equipment but received only 96,000 rubles worth. To add insult to injury, the equipment turned out to be the same model already in use. An enterprise may find it risky not to spend its funds, however. The Ivanteyevka textile factory, for example, decided to hold on to its funds from the amortization of equipment until machine builders improved the design of the equipment it wanted. The ministry promptly confiscated the unused 3.2 million rubles.

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Self-financing—implemented throughout much of industry on 1 January 1988—offers enterprises the promise of autonomy, but the promise may be difficult to translate into reality. Although its provisions bar the ministries from changing norms or confiscating unused funds, experience in light industry has shown that ministries may do so with impunity. Enterprises lack any real power to use against central authorities when they violate the provisions of self-financing. The new management system is unlikely to provide the incentive for enterprises to improve their performance unless a better balance of power is established between enterprises and higher authorities.

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Prospects for Soviet Nickel Sales in 1988 [redacted]

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After a year of shrinking Soviet nickel exports to the West, there are several indications that the USSR could boost nickel exports in 1988:

- Open press reports indicate that a new automated cutting line at the USSR's Severonikel combine in Monchegorsk is now operating at full capacity. Officials at *Raznoimport*—the Soviet foreign trade organization responsible for nonferrous metals trade—have indicated some of the material will be for export to the West.
- The Soviets appear very interested in the Japanese market, where nickel demand has reached record levels. Moreover, Japan's nickel supplies are likely to become even tighter following news that the Chinese Government is imposing a 20-percent export duty on shipments of nickel to Japan.¹
- A team of Soviet technicians is currently working at Cuba's Punta Gorda nickel complex to resolve production problems that slowed exports to the USSR in 1987. [redacted]

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As the world stainless steel industry expands, demand for cut nickel is expected to rise, particularly among the growing number of small, Western, stainless steel producers.² Uncut nickel from the USSR—the major world supplier—has generally been cut at either Rotterdam or Antwerp before it is placed for sale on the London Metals Exchange. Most of the material then passes to major consumers (such as Krupp and Thyssen), who have sufficiently large furnaces to cope with uncut materials. By adding value to the nickel through using their own cutting mills, the Soviets hope to garner a larger profit from the material and expand their potential end market, currently confined to the large stainless steel producers. [redacted]

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Increased imports of Cuban material may give the Soviets the ability to concentrate efforts on further increasing cut nickel production—without sacrificing supplies to domestic industry—and bring in more hard currency. Western observers believe the Soviets are finding it easier to justify and cope with the high costs of bringing new cutting mills on line since the price difference between cut and uncut nickel is widening, making the cost of the new mills a wise investment. Although the price difference may eventually narrow as the gap between supply of and demand for the material shrinks, the Soviets may still benefit from a stronger hand in trading with the West European market if they are able to place more cut nickel on the London Metals Exchange. [redacted]

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¹ Although the Chinese export only a small amount of nickel to Japan, the current tight supply situation could help the Soviets fetch a higher price for their own nickel exports. [redacted]

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² New stainless steel alloys and applications reportedly have made the material more attractive to a variety of buyers who are purchasing record amounts of stainless steel for architectural applications, chemical processing, and aerospace manufacturing. [redacted]

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According to open press reports, the resumption of Soviet nickel sales to the United States is still held up "by Soviet consternation over a proposed amendment attached to the Customs Service authorization bill." This amendment would prohibit imports of several Soviet materials, including nickel, because some of the materials have been found by the US Government to be at least partially produced with forced labor. [redacted]

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Soviets' Shifting Policy Toward Psychiatry [redacted]

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A new law to regulate psychiatric care approved in January 1988 is intended primarily to protect the rights of ordinary citizens, particularly whistleblowers. The changes could also scale back the practice of confining dissidents in mental hospitals to silence them, but there are signs that progress in implementing the legislation may be slow. [redacted]

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Judging from Soviet press accounts of the still unpublished law, a key provision is to hold psychiatrists criminally liable for hospitalizing people they know to be healthy—with punishment of up to two years' imprisonment or corrective labor. Patients or their relatives, with the assistance of lawyers, can present lawsuits—presumably in local courts—against unfavorable diagnoses. The new law also calls for enforcement and monitoring of doctors' actions by the USSR Procuracy, local government bodies, and psychiatric review panels. [redacted]

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Press exposes of abuses suggest that the law is meant primarily to prevent corrupt local officials and managers from using psychiatric incarceration against individuals who draw attention to illegalities or incompetence on the part of their bosses. Several articles have attacked officials who have punished ordinary citizens for such things as protesting unfair firings or complaining about inadequate service from local health and law enforcement officials. [redacted]

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Authorities probably also hope the new law will help erase the USSR's image as a pariah in the field of international psychiatry and pave the way for Moscow's reentry into the World Psychiatric Association. Although the Soviets have not explicitly criticized the abuse of psychiatry against dissidents, they have attacked both the broad definition of schizophrenia under which dissidents have been confined and the Serbskiy Institute, the infamous hospital in which dissidents are incarcerated. [redacted]

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Some change in the behavior of medical officials already appears to have occurred. The US Embassy recently reported a Soviet psychiatrist's refusal to commit a man who was arrested while demonstrating at the CPSU Central Committee offices, and the Soviet Foreign Ministry is receptive to talks with the United States on international standards for psychiatric commitments. [redacted]

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In 1987 the regime released nearly 50 political prisoners from psychiatric hospitals as part of Gorbachev's effort to improve the USSR's human rights image. Of the releasees we have identified, five were Hare Krishnas, four were associated with

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the free labor movement SMOT, two were Helsinki human rights monitors, and two were members of the Group To Establish Trust. On the eve of the Gorbachev-Reagan summit, former SMOT activist Vladimir Gershuni was reportedly released from a Moscow psychiatric hospital, as was underground trade unionist Vladimir Lyubovich. [redacted]

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Despite these releases, there are still pervasive abuses. Vladimir Titov, a former KGB official released from an asylum in 1987, noted that many people were in asylums solely for their religious beliefs. He estimated that 90 percent of those in so-called Special Psychiatric Hospitals and 30 percent in ordinary hospitals were mentally healthy. We have identified about 80 dissidents still in psychiatric hospitals, but the actual number is probably much larger. Titov believes that, under Gorbachev, conditions have grown worse. Many young pacifists, in particular, have been incarcerated since 1985. Even as the new law was being announced, authorities recommitted a dissident who had already spent 15 years in an asylum to a hospital in Chelyabinsk. [redacted]

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In August, Soviet officials announced a decision to shift psychiatric hospitals from police control to the Health Ministry. But a Soviet official admitted during the Reagan-Gorbachev summit that the change in subordination had only just begun and would not be complete until the spring of 1988. In two recent articles, psychiatrists defended their profession against charges of abuse, and Health Minister Chazov has sounded a defensive note about early releases of psychiatric patients. [redacted]

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Even under the new law, safeguarding patients' rights will be divided among several bodies, none of which has a creditable record of protecting citizens. Since the local courts are still captives of party bosses in their regions, who often instigate the psychiatric abuse of dissidents, the law will not prevent the fox from guarding the henhouse without a major shift toward an independent judiciary. Thus, the law's success will hinge on efforts to root out corrupt leaders and on high-level backing for the legal reform promised for later this year. [redacted]

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