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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*USSR: Recent Developments in Plant  
and Equipment Purchases in the West*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
March 1969

INTELLIGENCE MEMORANDUM

USSR: Recent Developments  
in Plant and Equipment Purchases in the West

Summary

Soviet orders for plant and equipment from the developed West\* have continued the high level reached in 1966, when the large Fiat deal was concluded. Orders placed in the three-year period 1966-68 exceeded \$2 billion, roughly equal to the total of the seven previous years. Deliveries of machinery and equipment also reflected this rise, reaching \$700 million in 1967 and an estimated \$800 million in 1968. These imports from the West are expected to continue if the Soviet payments position permits, but the USSR may increase imports of technical data at the expense of equipment.

Soviet orders over the years have been concentrated in a few major categories of goods, and the largest amounts have been supplied by a relatively small number of Western countries. In 1966-68 the major recipients of contracts, by value, have been Italy, France, and the United Kingdom. The major categories have been automotive production equipment, chemical and petrochemical equipment, ships, and timber and wood processing equipment. These last three years, however, have also seen a rise in imports of plant and equipment for consumer industries.

\* Including those countries of the developed West from which the USSR has ordered plant and equipment during 1966-68 -- Austria, Belgium, Denmark, France, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, the United States, and West Germany. Finland, which is on a barter basis, has been excluded.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research.

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### The Recent Increase

1. Soviet orders of whole plants and equipment from the developed West totaled almost \$700 million in 1968,\* a continuation of the high levels reached in 1966 when the large Fiat contract was signed. Soviet orders from the West had been reduced drastically in 1964-65, when a series of poor crops had forced the Soviet Union to import large quantities of wheat from hard currency countries. During this period, orders of plants from the West declined from about \$555 million in 1963 to \$265 million in 1965. The high level of orders in 1967 and 1968 coincided with a period of declining Soviet imports of grain. Taken as a whole, the \$2.1 billion in orders placed in the three-year period 1966-68 was roughly equal to the total volume of orders placed in the previous seven years.

2. The decline in Soviet orders in 1964 and 1965 in response to the worsening Soviet payments position brought a subsequent decline in imports of machinery and equipment from the West. This decline in imports lagged behind the drop in orders by a year or more, reflecting the normal time lag between order and delivery. As a result, deliveries, which had been averaging about \$600 million for 1962-64, fell to roughly \$500 million in 1965-66. With the improvement in the Soviet payments position and the resurgence in orders in 1966, the predictable rise in imports occurred in 1967, reaching about \$700 million. The continued high level of orders in 1967-68 and the continued deliveries from the exceptionally large orders in 1966 are expected to bring deliveries to about the \$800 million level for at least 1968 and 1969.

### Contracts and Countries

3. Soviet orders for plant and equipment in 1966-68 followed the pattern of previous years, with concentration in a few major categories. The

\* Some contracts for which no value figures are available are reported each year. Normally the value of orders reported will be less than actual deliveries.

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volume of chemical and petrochemical equipment contracted for has been consistently high since the beginnings of the Soviet purchasing program in 1959 and has remained so in the last three years. These contracts generally have stressed equipment for the manufacture of plastics and synthetics, fertilizer, and agricultural chemicals. The largest single category of orders in 1966-68, however, was for passenger car production facilities totaling \$583 million.

4. Ships and marine equipment have accounted for a substantial share of orders for a number of years -- in some years representing about half of the total. The types of ships ordered have included tankers, general cargo ships, and special-purpose vessels. Well over half the value of contracts signed for ships in 1966-68 covered 18 refrigerated ships and their special equipment, most of which are for the Soviet fishing fleet.

5. Of contracts in the timber and wood processing category in 1966-68, the single contract signed with Japan in 1968 for equipment to exploit Siberian timber resources overshadows the others. Its value is placed at \$133 million. This contract features equipment for logging and developing logging facilities, but earlier contracts in this category were largely for the processing of wood into paper and other products.

6. Plant and equipment for consumer industries have accounted for a larger share of orders in 1966-68 than previously. Contracts for food-processing and textile-manufacturing plants and equipment alone were valued at about \$300 million, and there have been a series of contracts in this period for plants to produce such consumer-oriented items as footwear, home refrigerators, ballpoint pens, and a plant to produce color television picture tubes. The increase in consumer-oriented industries is in keeping with the expanding imports of consumer products from the West in the last three years. Table 1 gives details of the various categories of orders for 1966-68.

7. The countries most favored with Soviet contracts in 1966-68 have been Italy, France, and the United Kingdom, in that order. Italy has provided

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Table 1

USSR: Value of Orders for Plant and Equipment  
from the Developed West, by Category a/  
1966-68

	Million US \$			
	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total</u> <u>1966-68</u>
Total	904	563	668	2,135
Automotive vehicle manufacturing	462	47	74 b/	583
Chemical and petrochemical	123	94	86	303
Ships and marine equipment	24	75	139	239
Timber and wood processing	69	6	143	218
Textile manufac- turing	59	104	9	172
Food processing	52	41	30	123
Metalworking and metallurgy	17	22	33	72
Oil refining and pipeline equip- ment	19	12	35	66
Electronics	10	20	9	39
Other c/	68	142	110	320

a. Excluding Finland, which is on a barter basis. Because of rounding, components may not add to the totals shown.

b. Including a plant valued at \$54 million, to manufacture rubber products. The plant could also be subsumed under the category, "Chemical and Petrochemical."

c. Including a wide variety of plants and equipment with consumer orientation -- for example, for production of footwear, home refrigerators, and ballpoint pens. The category also includes printing equipment, telephone equipment, medical equipment, and special trucks.

the largest total -- more than \$650 million -- the Fiat deal, alone, accounting for more than two-thirds

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of the value. In 1967 and 1968, however, Italy ranked only third among Western suppliers to the USSR. France has been a major supplier of capital goods to the USSR in recent years, and has been second overall in 1966-68, with roughly \$500 million. Most French sales in 1966 and 1967 were for automotive production facilities and textile-manufacturing plants. In 1968, however, France obtained the major share of Soviet orders for ships, securing contracts for 12 refrigerator ships valued at \$93 million. France also secured substantial Soviet orders for chemical plants in 1968. Contracts signed with the United Kingdom fell off sharply in 1968, dropping from nearly \$170 million in 1967 to about \$60 million in 1968. Contracts signed with the United Kingdom have been more varied and have included a large volume of machine tools as well as metallurgical equipment and textile plants.

8. Other major Free World suppliers have been Japan, Sweden, and West Germany. Before 1968, Japan was favored with relatively few equipment orders, but in 1968 the USSR signed a \$133 million contract with Japan for the supply of equipment to develop and exploit Siberian timberlands. Sweden has been a steady, though relatively small, supplier of plant and equipment to the USSR in recent years. In 1968 it secured more than \$37 million worth of contracts for ships, large contracts for automatic telephone equipment, and other contracts, thereby nearly doubling the level of 1967. West Germany has not received as large a share of Soviet contracts in recent years as in the early 1960's. West German contracts in 1966-68 constituted a mixed bag of plants and equipment. Table 2 shows Soviet purchases from the West, by country, for 1966-68.

#### Prospects

9. The resurgence in orders from the West beginning in 1966 has come about largely because of the improvement in the Soviet hard currency payments position. Substantial deficits had brought about a sharp decline in orders of Western plant and equipment from 1963 through 1965. The high level of orders placed since the end of 1965 clearly indicates that the current Soviet regime is pursuing the same path as Khrushchev in importing Western capital goods to help modernize the

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Soviet economy. The present leadership has demonstrated, however, that it will not deplete its gold reserves -- as did Khrushchev -- to buy from the West. Indeed, in the past three years the USSR has succeeded in adding an estimated \$400 million to its gold reserves after a decade-long drain which had reduced the Soviet reserves by two-thirds.

10. The level of Soviet imports from the West will continue to depend on the Soviet payments position. Barring a major crop disaster entailing large imports of wheat from the West, the USSR will continue to import Western technology and equipment to upgrade Soviet industry. It is uncertain, however, whether the high level of orders will be maintained. The USSR has indicated a desire to increase imports of technical data, and this may result in a decline in imports of equipment.

Table 2

USSR: Value of Orders for Plant and Equipment  
from the Developed West, by Country a/  
1966-68

	Million US \$			
	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total</u> <u>1966-68</u>
<i>Total</i>	904	563	668	2,135
Italy	484	111	72	667
France	180	132	167	479
United Kingdom	69	167	63	299
Japan	29	44	186	259
Sweden	45	33	62	140
West Germany	35	25	45	105
Other <u>b/</u>	61	54	70	185

*a. Excluding Finland, which is on a barter basis. Because of rounding, components may not add to the totals shown.*

*b. Including contracts with Austria, Belgium, Denmark, the Netherlands, Norway, Switzerland, and the United States and, for 1966, a \$20 million contract shared among Belgium, France, and Italy.*

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