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NEW SURGE OF SOVIET ORDERS
FOR FREE WORLD CAPITAL EQUIPMENT



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NEW SURGE OF SOVIET ORDERS
FOR FREE WORLD CAPITAL EQUIPMENT

A recent surge of Soviet orders for Free World machinery and equipment, reminiscent of the large volume of orders placed in late 1960 and early 1961, suggests that Soviet planners once again are attempting to overcome certain problems in the expansion of the output of capital equipment by means of large-scale selective purchases of equipment and technology in the Free World. Soviet purchases of capital goods from the Free World tapered off in 1962, but in the last 6 months new Soviet orders have amounted to approximately \$200 million and are concentrated in chemical equipment and various types of ships. The need to increase Soviet production of food has led to an unusually large volume of orders for fish-processing ships and to extensive Soviet negotiations for equipment for the manufacture of chemical fertilizer. The advanced state of present negotiations between Soviet trading officials and Free World suppliers of equipment and the continued presence of Soviet purchasing teams in Western Europe suggest that the current Soviet buying surge has not yet spent itself.

1. Composition of Orders

Chemical equipment and fish-processing ships together constitute at least two-thirds of the recent flood of Soviet orders for capital equipment from the Free World. Soviet statements to Western businessmen, confirmed contracts, and shopping lists submitted to Western firms indicate that the current Soviet interest in Western chemical equipment has been on a large scale but nevertheless selective. The USSR has shown primary interest in acquiring chemical equipment for producing agricultural chemicals and chemicals used in plastics. Soviet desire for equipment for the agricultural chemical sector has been indicated by Khrushchev's reported personal order in March 1963 for the purchase abroad of four additional urea plants as well as by Soviet negotiations with West German and Italian firms for plants to produce chemical weed killers and fertilizer components. Continuing Soviet interest in acquiring substantial quantities of Western chemical, plastic, and synthetic

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fiber equipment has been reported since December 1962 from business sources in several Western countries. Firm contracts worth \$76 million for chemical equipment for production of polyethylene and its raw material, ethylene, have already been placed in the UK, and in Japan the USSR is presently negotiating for a synthetic fiber plant.

The USSR also is interested in purchasing a number of fish-processing ships. Orders for 14 of these vessels have amounted to some \$74 million and constitute approximately one-third of all recent Soviet orders for machinery and equipment in the Free World. Negotiations are now underway in West Germany for a further contract to convert existing Soviet cargo ships into refrigerator vessels in order to handle more fish. These recent orders for fish-processing ships follow a \$100-million Soviet order placed in Japan in August 1962 for tankers, dry cargo ships, and crane ships. The USSR in recent months also has placed orders with Finnish shipyards for 8 dry cargo ships and has purchased at least 11 liberty ships in Western Europe.

The recent revival of Soviet interest in purchases of machinery and equipment from the Free World indicates that Soviet officials now have a clearer perspective of their needs for such goods than in mid-1961, when there was an abrupt and sharp decline in the placement of new orders. Recent orders also are less diverse than those preceding the 1961 drop -- the previous spate of orders covering not only chemical equipment and ships but also substantial quantities of equipment for the wood-processing, textile, and food-processing industries. Ships, particularly fish-processing ships, make up a larger share of the new orders than of the earlier contracts.

2. Domestic Impact

The benefits that the Soviet economy will derive from the equipment recently ordered will be those that are traditional in Soviet trade with the Free World -- that is, the acquisition of equipment and technology that will maximize rates of growth and increase production in fields where shortages are anticipated. Under the pressure of requirements to support the military and space programs, Soviet machine building

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has been unable to support the desired expansion of output of capital equipment. These strains have had greatest impact on the programs to expand the output of agricultural products and consumer goods. To some extent, however, these strains may be alleviated through the import from the Free World of types of equipment not subject to Western trade controls. In recent orders the USSR also has continued its efforts to obtain Western equipment embodying advanced technology, but in terms of volume such equipment forms only a small part of recent orders. Particularly the recently purchased chemical equipment will mitigate shortages of capital equipment for production of plastics and high-concentration fertilizers. It is likely that part of these Soviet orders will fill requirements that were originally planned to be met by domestic production. The new fish-processing ships also are intended to offset expected shortfalls in Soviet production. Expanded fishing activity, facilitated by the rapid acquisition of fish-processing ships from underemployed Western yards, may offer a short-run method for increasing rapidly the availability of protein-rich food. The new tankers and dry cargo ships will help relieve Soviet dependence on Western shipping facilities in the USSR's growing trade with Cuba and underdeveloped countries.

3. Finance

To finance the new orders, the USSR has relied primarily on medium-term credits and has publicly stressed that the size and placement of new orders depend on the availability of credit in the Free World. Soviet buyers have taken advantage of intense competition among Western exporters for new capital equipment contracts and of the idle capacity in certain segments of Western and Japanese industry, such as shipbuilding. Most of the credit in recent months has come from Japan -- 6-year credits for the \$100 million ship order and 5-year credits for chemical equipment. Very recently, Japanese businessmen have successfully pressured their government into meeting the Soviet demands for a 6-year credit for a pending \$135 million ship order. Where credit has not been forthcoming, Soviet officials have tried to minimize the foreign exchange cost through shrewd bargaining and barter deals. The USSR has been able to finance about one-fourth of

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its ship contracts by bartering Soviet oil. Where other methods of payment are not feasible, as was the case in the negotiations for an Austrian steel mill, the USSR has agreed to pay cash in convertible currency in order to get the desired equipment.

4. Prospects

Short-run prospects seem to be good for a continued high level of Soviet orders in the Free World, at least for the next few months. Negotiations for the following important equipment purchases are still actively underway: Japanese fishing ships, \$135 million; a British oil refinery, estimated at a minimum cost of \$20 million; American potash mining equipment, \$15 million; and more chemical equipment. Soviet purchasing agents also continue to be seen in the industrial centers of Europe. In view of Soviet demands for rapid delivery of the recently ordered ships and equipment and current reappraisal by the USSR of its production targets and economic priorities, the recent surge of capital equipment ordered in the Free World evidently is intended to meet relatively immediate requirements. Given the present shortcomings of Soviet machine building, however, and on the assumption that the high priorities of industries such as the chemical industry remain, substantial orders for imported equipment may well continue beyond the end of the Seven Year Plan in 1965.

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Analyst:

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