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CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED
1999

CIA No.

8 March 1968

Mr. Malcolm Toon
Country Director, Soviet Union
Bureau of European Affairs
Department of State

Dear Mac: -kd

Responsive to your request of this morning, I am forwarding a brief analysis of the recently opened up gold fields in the USSR. As is frequently the case with such operations, the newspaper publicity has tended to exaggerate the probable significance of these fields.

Sincerely,

Director
Economic Research

Enclosure:
As stated

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USSR: Estimated Effects of New Gold Fields
on Future Production

In recent years, the USSR has discovered and is now opening up two new gold fields. The older more important of these, by a wide margin, is located in Uzbek and the smaller one in Armenia. The production of these new fields will make a noticeable impact on Soviet gold output after 1970. However, even in combination they are not expected to add as much as 10 percent to national output when their production potential is reached in the late 1970's. Up to 1970, their contribution will be negligible.

The Uzbek field is the most important gold discovery of the 1960's. An extraction plant is now under construction in Uzbek, and should be in operation within two years. Meanwhile, limited quantities of ore from this field are being processed at other gold extraction plants. The present estimate of gold production capacity by the mid-1970's is about 20 tons annually, or \$22.5 million at \$35 an ounce.

The new gold field in Armenia is believed to have a production potential of about three tons a year, or \$3.4 millions. This is achievable after 1970; today a pilot plant exists and technical difficulties are delaying construction of production facilities.

Whether or not the output of the new fields will be sold in the West depends very heavily on the Soviet's future success in agriculture. The inadequate harvests of the early 1960's (plus Khrushchev's heavy purchases of plant and equipment in Western Europe) drew down Soviet gold reserves close to the \$1 billion level by 1965. Since that time, agricultural output has improved materially in the face of heavy investment programs. Moreover, the Soviets have shown a recent inclination to finance equipment imports through medium-term credits as well as by promoting the sales of commodities such as petroleum, diamonds, the platinum group metals, etc. The following table shows USSR production and sales of gold, and net credits drawn from the West (in millions of dollars):

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	<u>Gold Production</u>	<u>Gold Sales</u>	<u>Net Credits</u> ^{1/}
1960	124	149	88
1961	133	310	95
1962	143	239	74
1963	153	523	10
1964	164	520	23
1965	176	490	50
1966	188	60	116
1967	200	5	188
1970	240-250	-	-

^{1/} Net drawings less repayments and interest.

OSR/CIA
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