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Soviet Diamond Production and Foreign Exchange Earnings from
Sale of Precious Metals and Gems

1. The following analysis is presented in response to questions forwarded by [redacted] on 16 February 1968.
2. We estimate that Soviet foreign exchange earnings from the sale of diamonds in 1966 was \$55 million. [redacted] estimate of \$48 million apparently makes no accounting for the Soviet exports to the US of more than \$7 million. In addition, we have tabulated earnings of the USSR of \$9 million from sales of silver, \$71 million from sales of platinum group metals, and \$65 million from the sale of gold. Thus, our estimate of total Soviet earnings from the sale of precious metals and diamonds is \$200 million. The \$50 million estimated in IR-67-22 understated total earnings, largely because diamonds were excluded and because platinum group exports were not fully accounted for. Data on Soviet gold sales which became available after completion of IR-67-22, also increased the estimate of total Soviet earnings.
3. According to data published by the Bureau of Mines, the Soviet Union received an average of \$90 and \$124 per carat of the "cut but unset" diamonds which they exported to the United States in 1964 and 1965 respectively. Preliminary data indicate the average 1966 price was about \$125. The Soviet price for diamonds rose considerably during 1967, to approximately \$155 per carat in the US. The price obtained by the USSR for the sale to DeBeers of uncut gem diamonds is not known.
4. The following paragraphs contain our analysis of the statements of Victor S. Tikhonov in his interview with Freie Welt.
 - a. "As of January 1967, only the Congo produced more diamonds than we".

Our previous estimate had given the Soviet Union a much higher production than implied by this statement, but the absence of an airtight methodology limited our confidence in the estimate. Based on an exchange of views among analysts

we provisionally reduced our estimate of Soviet output but have not revised it formally. The recent statement by Tikhonov implying an output somewhat in excess of 6 million carats in 1967 is very much within the range of the provisional estimate and we are inclined to accept it.

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b. "If the present pace of production were maintained, the Soviet Union would put the entire diamond production of the West in the shade by 1972".

Our data indicates that Soviet plans are to increase production to 2.75 times the 1965 output during the 1966-70 period or about 22.4 percent annually. Should this trend continue to 1972, the USSR may be able to produce 27-28 million carats, which would probably be quite close to the total Free World output. Thus, this statement tends to confirm, in very general terms, the level of output implied for 1967 in paragraph a.

c. "Thirty to thirty-five percent of Soviet diamond production consists of gems, the greater part of which is exported to the West".

If this statement is true, in 1966 the Soviet Union, assuming an average value of \$125 per carat and an output of about 6 million carats, would have earned a minimum of \$220 million. None of the data presently available to us suggests that the USSR is earning this volume of foreign exchange from diamonds and it is unlikely that sales of this magnitude could be overlooked or covered up. Thus, the statement is difficult to accept.

Moreover, previous information indicated that the share of gem stones in Soviet production was between 10 percent and 20 percent, a significant part of which was reported to be of inferior quality. With an estimated output of 6 million carats, and assuming that only 15 percent are gem quality, Soviet foreign exchange earnings in 1966 can be computed at about \$110 million. However, because the average quoted price of \$125 per carat is for cut stones and the USSR sells most of its diamonds uncut, the Soviets probably do not receive more than \$100 per carat. Hence, if all diamonds were of top quality, total earnings would amount to about \$80-90 million. Since the Soviet diamonds are not all top quality and since not all diamonds are exported, earnings are probably within the range of the estimates.

It seems clear that either the USSR's output of gem stones is only half what Tikhonov's claims or that the total output of diamonds is only half that stated in paragraph a. We feel that the output of 6 million carats is close to the actual Soviet production but that the gem quality production makes up only 10 percent to 20 percent of the total.

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d. "Everything we have built here has paid for itself".

Our data indicates that the Soviet diamond industry is one of the most profitable Soviet industries. "Izvestia", #295, 13 December 1964, stated, "Not one branch of industry gives such high effectiveness as diamonds. All capital investments have completely paid for themselves". More recent trends in investment indicate that the diamond industry continues to be highly profitable and has high priority.