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*(For Secretary of
Commerce Stans
visit to the USSR)*

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SECRETARY OF COMMERCE MISSION TO U.S.S.R.
NOVEMBER 1971

Background Paper

USSR TRADE AGREEMENTS WITH OTHER WESTERN COUNTRIES

I. ISSUE OR PROBLEM

A general discussion of Soviet trade agreements with Western countries.

II. BACKGROUND

The USSR has concluded long-term trade and payments agreements with most Western countries. The major exceptions are West Germany (the last one expired in 1963) and the United States.

A typical agreement is that concluded between the USSR and Sweden in 1970 for the period 1971-75 (Attachment A). Both governments agree to encourage trade in certain types of machinery and equipment and in consumer goods. The agreements with the United Kingdom and Italy are generally similar to that with Sweden. The UK agreement is less specific with respect to the types of goods to be traded but includes an article calling for exchanges of technical data. The intent of the Western governments to reduce quantitative restrictions is expressed in the text of the Swedish and UK agreements and in a separate letter in the Italian agreement.

Most Soviet long-term agreements are variations of those concluded with Sweden, the United Kingdom, and Italy. The agreement with Austria (Attachment B), however, includes a more detailed list of goods to be traded during the period of the agreement, and the Soviet-French agreement concluded in 1969 includes both trade and economic cooperation (Attachment C). It is unclear why it was necessary to include economic cooperation in this agreement in view of the comprehensive scientific, technical, and economic cooperation agreement concluded in 1966. Aside from the cooperation clause, the 1969 agreement calls for a doubling of trade over the five-year period and for the granting of the "easiest credit terms."

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Soviet exports to the West increased during the period 1961-70 at a rate of 9.1%, but the rate of increase is expected to drop in the next five years. Soviet exports in 1970 were valued at more than \$2.3 billion, and estimates for 1975 range from \$3.1 billion to \$3.3 billion, implying an average annual increase of 6% to 7%. In 1970, exports increased only 5%, and the rate of increase in 1971 appears to be roughly the same. Soviet awareness of the need to expand exports can be seen in several recent contracts and in other negotiations in which the USSR has sought to tie repayment for Western equipment to deliveries of the products from the installation built with Western credit. These include gas-for-pipe deals with Austria, West Germany, France, and Italy; a Soviet-Japanese wood-for-equipment contract; proposed oil and gas-for-pipe deals with Japan; and proposed Western exploitation of Soviet copper at Udokan. Most of these arrangements would ultimately improve earnings, but aside from the gas-for-pipe arrangements with Western Europe and the wood-for-equipment contract concluded with Japan, export earnings would not be affected in a significant way until after 1975.

An important factor which probably would affect the Soviet decision on what limits to set on debt to the West is the portion of export earnings that would be committed to repayments on the debt. Debt service charges are rising rapidly and were equivalent to about 17% of export earnings in 1970. If, as seems likely, the growth of Soviet exports slows markedly, the ratio of debt service to exports will soon surpass 20% and could exceed 25% before long. Two possible projections of Soviet indebtedness to the West under two assumptions as to the level of overall Soviet drawings on Western credits are given below (see Table 2). Either of them could be well off the mark, but current trends indicate that total drawings will be at least maintained for the next few years and could decline. The following tabulation shows the debt service (repayments plus

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interest) implicit in the two projections, together with projections of exports through 1975 at 7% (the upper limit of estimated export growth).

<u>Year</u>	<u>Exports (Million US \$)</u>	<u>Projec- tion A (Million US \$)</u>	<u>Ratio (Per- cent)</u>	<u>Projec- tion B (Million US \$)</u>	<u>Ratio (Per- cent)</u>
1970	2,345	405	17	405	17
1971	2,509	509	20	509	20
1972	2,685	599	22	610	23
1973	2,873	722	25	766	27
1974	3,074	784	26	850	28
1975	3,289	826	25	924	28

Soviet credit in the West is good, and Soviet control over the economy and over the use of foreign exchange resources insures that debt obligations can be met. However, the Soviet government probably wishes to avoid the reduction in flexibility which a high debt service ratio would produce. For the USSR a ratio much larger than 20% probably would seem excessive.

If exports increase at a rate much less than 7%, the USSR would have to make difficult adjustments. To hold debt service payments within reasonable bounds, the USSR would have to stop increasing drawings on new credits. Repayments would then soon exceed drawings, and the net flow on credit account would shift from a large surplus to a deficit. This shift on credit account would mean that purchasing power over imports -- import capacity -- would increase less than exports. These projections depend on many assumptions, any of which could be wrong. Even if the overall projections are correct, those for individual years could be far off the mark. But unless export prospects are grossly underestimated, Soviet import capacity apparently will increase much more slowly in the next five years than it has since the mid-1960s.

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The Soviet-Japanese agreement recently concluded is unusual in that the USSR insisted on a listing of quantities and values of goods to be exchanged.

The Soviet-Japanese agreement is thus a throw-back to the 1950s and early 1960s when most Soviet trade agreements with Western countries specified quantities (or value) of goods which the USSR agreed to provide for export and a list of imports for which the trading partner agreed to issue export licenses. Such lists proved to be of little value because the Western governments could only guarantee to issue the necessary licenses but could not ensure that the transactions would be concluded.

Trade agreements between the USSR and Western countries normally are concluded on Soviet initiative. The USSR apparently likes the publicity that accompanies the signing of agreements, and they evidently cater to Soviet legalistic tendencies.

There is no evidence that such agreements have provided any impetus to trade. Soviet trade with France, for example, has stagnated for the past two years in spite of the fact that the two countries have concluded a long-term trade agreement, a government-to-government scientific, technical, and economic cooperation agreement, and a number of other cooperation agreements. Nor is the absence of a trade agreement a hindrance to expanded trade: Soviet trade with West Germany has increased substantially and West Germany is the USSR's third most important trade partner in the West, but these two countries have been trading without an agreement since 1963. On the other hand, there is no evidence that trade agreements with the USSR have created any significant problems for the Western partner.

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Long-Term Trade Agreement Between the U.S.S.R. and Sweden

The Government of the Union of Soviet Socialist Republics and the Government of Sweden, proceeding from the Trade Agreement Between the U.S.S.R. and Sweden dated 15th March 1924,

noting with satisfaction a considerable expansion of trade between the two countries, attained on the basis of the Agreement on Trade and Payments Between the U.S.S.R. and Sweden of 7th September, 1940 and, particularly, the Protocol on Trade Between the U.S.S.R. and Sweden during 1965-1970,

having in view the possibilities provided by the Agreement on Economic, Scientific and Technological Co-operation between the U.S.S.R. and Sweden dated 12th January, 1970,

being confident that favourable conditions exist for further development of trade to the mutual benefit of both countries, and

desiring to contribute to the maximum use of these possibilities,

have agreed on the following:

Article 1

The Government of the U.S.S.R. and the Government of Sweden have as their aim the further increase, during the currency of this Agreement, in trade between the two countries, both in goods which are traditional in this trade, and in new goods.

For this purpose the two Governments shall, subject to laws and regulations in force in either country, promote trade and the exchange of services between the two countries on a mutually beneficial basis.

Article 2

The Government of Sweden wishes to continue its policy with regard to liberalisation of trade and hopes that during the currency of this Agreement it will be able to reduce the number of items subject to import licensing, and in general, widen the scope for the import of those goods to Sweden from the U.S.S.R. which are still subject to licensing.

The Government of the U.S.S.R. and the Government of Sweden shall appoint their plenipotentiaries in order to agree, in the spirit of mutual understanding, an appropriate basis for the import of those goods to Sweden from the U.S.S.R. which cannot now be imported freely.

Article 3

The Government of the U.S.S.R. expects that the Soviet foreign trade organisations shall continue to place substantial orders in Sweden for machinery and

equipment and other Swedish goods, such as the products of the pulp and paper industry, the iron and steel industry, chemical goods, etc.

Both Governments consider that an increase of imports of machinery and equipment from the U.S.S.R. to Sweden is of great importance for the development of trade between the two countries.

Both Governments consider it desirable to increase trade in consumer goods between the two countries.

Article 4

Both Governments shall encourage and facilitate the conclusion, on normal commercial terms, of contracts, including long-term contracts, between the Soviet foreign trade organisations, on the one hand, and enterprises and associations in Sweden, on the other.

Article 5

Plenipotentiaries of both Governments shall, unless otherwise agreed, meet annually, alternately in the U.S.S.R. and Sweden, to review the progress under this Agreement and the further development of trade relations between the two countries.

Article 6

This Agreement shall come into force on 1st January, 1971, following the exchange of notes, which is to take place in Moscow, confirming that it had been approved in accordance with the constitutional procedure current in each country.

This Agreement shall be valid till 31st December 1975. Thereafter this Agreement shall be automatically extended annually for one year, unless it is denounced by either Party in writing, not later than three months prior to its termination.

On the date this Agreement comes into force, the Agreement on Trade and Payments Between the U.S.S.R. and Sweden dated 7th September 1940 shall terminate, except only the provisions of Article 14 with its Annex, and Article 15 which shall apply to disputes on transactions concluded during the currency of this Agreement.

On the same date the Protocol of 7th October 1946, as well as the Protocol of 5th February 1965, related to the Agreement of 7th September 1940, shall terminate, except only its first paragraph regarding payments in freely convertible currencies between the two countries, which will continue to be valid.

Done in Stockholm on 8th July 1970 in two copies, each in the Russian and Swedish languages, both texts being equally authentic.

For the Government of the
Union of Soviet Socialist
Republics
N. PATOLICHEV

For the Government of
Sweden
G. LANGE

The Agreement came into force on 1st January 1971, following the exchange of notes approving of the said Agreement on 23rd December 1970.

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LONG-TERM AGREEMENT ATTACHMENT B

on Trade and Payments Between the Union of Soviet Socialist Republics and the Republic of Austria

The Government of the Union of Soviet Socialist Republics and the Austrian Federal Government, in accordance with the provisions of the Treaty on Trade and Navigation between the Union of Soviet Socialist Republics and the Republic of Austria of October 17, 1955,

noting with satisfaction the considerable expansion of trade between the two countries, achieved on the basis of the long-term agreements between the Union of Soviet Socialist Republics and the Republic of Austria of the exchange of goods,

taking into account the aims defined in the Soviet-Austrian Agreement on Economic, Scientific and Technical Co-operation of May 24, 1968,

desirous of promoting trade relations between the two countries on the basis of equality and mutual advantage,

have agreed on the following:

Article 1

The Government of the Union of Soviet Socialist Republics and the Austrian Federal Government shall strive to promote trade between the two countries substantially, both in goods which are traditional in this trade, and new goods.

Article 2

To achieve this aim both Governments shall, as far as each one of them is concerned, take appropriate measures for the further expansion of the volume of Soviet and Austrian imports, particularly the import of goods entered on Schedules I and II attached to the present Agreement.

Article 3

Trade between the Union of Soviet Socialist Republics and the Republic of Austria shall be carried out in accordance with the import and export laws and regulations in force in each country.

Article 4

Goods deliveries under the present Agreement shall be effected on the basis of contracts to be signed between Soviet foreign trade organisations, on the one hand, and Austrian natural and juridical persons, on the other.

Article 5

From the date the present Agreement becomes effective the Austrian Federal Government shall give

Soviet imports into Austria the same treatment as it applies to similar imports from any third country.

Article 6

Both Governments agree that prices on goods to be supplied under the present Agreement shall be fixed on the basis of world prices, i.e., the prices of the basic markets for relevant goods.

Article 7

All payments between the Union of Soviet Socialist Republics and the Republic of Austria shall, beginning with January 1, 1971, be made in freely convertible currency in accordance with the foreign exchange legislation in force in each country.

Article 8

Representatives from both Contracting Parties shall, at the request of either, meet in rotation in Moscow or Vienna as frequently as possible, but not less than once a year, to check the fulfilment of the present Agreement or to consider problems which may arise in connection with its fulfilment, including questions relating to the delivery of particular goods.

They shall work out recommendations on a development of economic relations between the two countries which would satisfy both Contracting Parties. On the basis of these recommendations the two Contracting Parties shall take any measures necessary.

Article 9

The present Agreement shall come into effect on January 1, 1971, and shall continue in force till December 31, 1975. It shall remain effective for another year unless either Contracting Party gives notice to the other of its intention to terminate it, three months before the expiration of the Agreement. The same procedure shall operate for subsequent annual periods.

With the coming into force of the present Agreement the Trade Agreement and also the Payments Agreement between the Union of Soviet Socialist Republics and the Republic of Austria of October 17, 1955, shall cease to have effect, provided only that all remaining payments under this Payments Agreement shall be settled in accordance with its Article 7.

Done at Vienna, in duplicate, this fifth day of August, 1970, in the Russian and German languages, both texts being equally authentic.

By authority of the
Government
of the Union of
Soviet Socialist Republics
N. PATOLICHEV

By authority of the
Austrian
Federal Government
J. STARIBACHER

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Annex to the Long-Term Trade and Payments
Agreement of August 5, 1970

Schedule I
Goods for Export from the U.S.S.R. to Austria in 1971-1975

Machines and equipment, instruments and spare parts including: machine tools and tools forge and press equipment hoisting gear mining and rolling equipment equipment for the construction, food, light, and printing industries bearings motor vehicles ships and marine equipment planes and helicopters Coal, including anthracite Coke Crude oil Oil products	Natural gas Iron ore Asbestos Ferroalloys Pig-iron Non-ferrous and noble metals, including copper and nickel Chemicals Fertilisers, including potassium salts and apatite concentrate Pulpwood Cotton Furs Consumer goods, including watches, cameras, radio and TV receivers; refrigerators Agricultural goods
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Annex to the Long-Term Trade and Payments
Agreement of August 5, 1970

Schedule II
Goods for Export from Austria to the U.S.S.R. in 1971-1975

Machines and equipment, instruments and spare parts including: fittings ships railway waggons electrical goods Rolled ferrous metals and metal structures Thin-walled pipes Steel cable and wire Chains Cable and cable goods	Enamelled conductor Abrasive materials Paper, including cigarette paper Staple fibres Chemical goods, including varnishes and dyes Technical cloth and cord fabrics Artificial silk and synthetic fibre yarn Woollen yarn Consumer goods, including woollen and artificial silk fabrics, knitted and sewing goods, leather footwear Agricultural goods
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AGREEMENT

ATTACHMENT C

Between the U.S.S.R. and France
on Trade and Economic Co-operation
for the Period 1970-1974

The Government of the U.S.S.R. and the Government of the French Republic, noting with satisfaction the considerable expansion of trade between their two countries achieved on the basis of the Soviet-French Agreement on the Exchange of Goods for 1965-1969,

desiring to continue co-operation on the basis of mutual advantage, in particular, in the commercial and economic field, and developing the exchange of goods between the two countries in accordance with the provisions of the Soviet-French Declaration signed in Moscow on June 30, 1966, by the two Heads of State,

considering the tasks defined in the Soviet-French Agreement on Scientific, Technical and Economic Co-operation signed on September 30, 1966,

basing themselves on the Agreement on Trade Interrelations and the Status of the U.S.S.R. Trade Mission in France,

considering the need to sign for this purpose a new long-term agreement between the U.S.S.R. and France,

have agreed on the following:

Article 1

Both Governments, considering the recommendations of the 3rd Session of the Permanent Mixed Soviet-French Commission on questions of trade and economic exchanges, will strive during the period of the present Agreement to double trade between the two countries.

Article 2

To attain this aim the two Governments shall, in that which concerns each one of them, make every effort:

(a) to achieve, beginning with the first year of the present Agreement, a considerable increase in the total volume of Soviet imports to France, in particular, the import of raw materials, semi-

finished products, machinery, equipment and other finished articles, on normal commercial terms;

(b) to place, on normal commercial terms, considerable Soviet orders in France for a wide range of machinery and equipment and also for ordinary manufactures and raw materials, including consumer goods and raw materials for their production;

(c) to continue the development of economic co-operation between the two countries, particularly by building some industrial complexes in the interest of the two countries' economies, provided part of the product turned out by these complexes is imported by interested organisations and firms in the other country to the full value of the supplied equipment and rendered services. Payments for these operations shall be made in accordance with the Payment Agreement signed between the Soviet Union and France on April 2, 1960;

(d) to grant the easiest credit terms for furthering the development of goods exchange envisaged by the present Agreement in accordance with the arrangements now in force between the two countries.

Article 3

Both Governments shall make every effort to ensure that the prices of goods supplied under the present Agreement are fixed on the basis of world prices, i.e., the prices on the basic markets for the relevant goods.

Article 4

The Government of the U.S.S.R. and the Government of the French Republic shall appoint their representatives who annually may meet alternately in Paris and Moscow to verify the course of fulfilment of the present Agreement and to work out measures for ensuring this ful-

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filment, particularly for fixing the volume of exports to France of Soviet goods on which there are still quantitative restrictions.

Article 5

The provisions of the Agreement between the Government of the U.S.S.R. and the Government of the French Republic on trade interrelations and the Status of the U.S.S.R. Trade Mission in France signed on September 3, 1951, as amended by the Protocol of November 14, 1958, which have been prolonged by the Contracting Parties, shall remain in force until December 31, 1974.

The said Agreement shall be extended from

year to year unless one of the Contracting Parties gives to the other a three-month notice of its intention to terminate it. The same procedure shall also be applied in future.

Article 6

The present Agreement shall come into effect on January 1, 1970, and terminate on December 31, 1974.

The Contracting Parties shall reserve the right to hold possible consultations arising from their international commitments, provided these consultations do not jeopardise the basic objectives of the present Agreement.

Done at Moscow on May 26, 1969, in duplicate, each in the Russian and French languages, both texts being equally authentic.

By authority
of the Government of the
Union of Soviet Socialist Re-
publics

N. PATOLICHEV

By authority
of the Government of the
French Republic
J. de LIPKOWSKI

Moscow, May 26, 1969

Moscow, May 26, 1969

Mr. Chairman,

In the course of the negotiations which have ended with the signature of the Agreement on trade and economic co-operation between our countries for 1970-1974, you have drawn my attention to the existing quantitative restrictions on the export of some Soviet goods to France.

I have the honour to inform you that the French Government intends to continue its policy of liberalising trade in these goods so as to lift these quantitative restrictions during the period of validity of the present Agreement.

Accept, Mr. Chairman, the assurance of my high esteem.

J. de LIPKOWSKI

Chairman of the French
Delegation

To Mr. Chairman
of the Soviet Delegation
Moscow

Mr. Chairman,

In your letter of the 26 inst. you have informed me of the following:

"In the course of the negotiations which have ended with the signature of the Agreement on trade and economic co-operation between our countries for 1970-1974, you have drawn my attention to the existing quantitative restrictions of the export of some Soviet goods to France.

"I have the honour to inform you that the French Government intends to continue its policy of liberalising trade in these goods so as to lift these quantitative restrictions during the period of validity of the present Agreement".

I have the honour to confirm receipt of this communication.

Accept, Mr. Chairman, this
assurance of my high esteem.
N. PATOLICHEV

To the Chairman of the French
Delegation
Moscow

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SECRETARY OF COMMERCE MISSION TO U.S.S.R.
NOVEMBER 1971

Background Paper

POTENTIAL FOR SOVIET EXPORTS
OF RAW MATERIALS TO THE UNITED STATES

I. ISSUE OR PROBLEM

An assessment of the possibilities for Soviet exports of selected raw materials to the United States as recently proposed by Kosygin.

II. BACKGROUND

(a) Summary

Prospects appear good for an increase in trade between the United States and the USSR in only two of the areas mentioned by Kosygin -- crude oil and natural gas. US willingness to license exports of petroleum equipment and technology to the USSR would probably be a condition for such trade. In all the other areas, prospects are not so good, at least for the immediate future. For the longer term, a substantial trade in copper, received in payment for US mining equipment, could develop. Specific raw materials are discussed below.

(b) Detailed Background

The Kosygin Proposals

The USSR has recently shown high-level interest in an expansion of Soviet-US trade and in obtaining assistance from the United States for the development of Soviet mineral resources. Premier A.I. Kosygin, speaking to a group of prominent US citizens who had attended the Sixth "Dartmouth Conference"* in Kiev in July 1971, urged the removal of US restrictions on trade with the USSR and called for the development of other forms of economic co-operation. In particular, he encouraged exchanges

* A conference of leading US and Soviet citizens that meets occasionally to discuss informally matters of mutual interest.

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of technology and licensing and mentioned the possibility of joint efforts in the exploration of the continental shelf and in the development of Soviet raw materials such as copper, timber, phosphates, natural gas, diamonds, titanium, and manganese. He suggested that US companies participate in the planning of production, supply equipment and services, and be repaid in the product of the venture. As precedent, Kosygin noted the current Japanese participation in the timber resources in the Soviet Far East in exchange for timber and the exchange of Soviet natural gas for steel pipe produced in West Germany. He also observed that the USSR is studying the possibility of some similar arrangement for supplying oil to Western countries.

Need for Foreign Assistance

The USSR needs foreign technical assistance to develop its resources, because of a technological lag and capacity limitations in particular areas of the machinery industry. It favors barter-type trading arrangements because of a scarcity of foreign exchange.

The USSR wants to develop its mineral resources to provide for the long-range needs of the Soviet economy; to meet its export commitments to the Communist countries of Eastern Europe, which are heavily dependent on the USSR for many raw materials; and to provide saleable items to the West to earn foreign exchange.

Prospects for Trade in Selected Raw Materials

Crude Oil and Natural Gas

The prospects for cooperation in the development of crude oil and natural gas are good because the USSR urgently needs modern petroleum equipment and technology and has expressed interest in many kinds of US exploration, drilling, production, and pipeline equipment. Moreover, oil and natural gas can be taken in payment by US suppliers for sale in the United States or elsewhere if the international oil companies can be persuaded to transport and process such oil. The USSR may be willing to pay cash for small amounts of equipment or technology, but for large transactions, direct barter of oil

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and gas for US products would probably be required. Potential sales are large and could amount to several hundred million dollars.

Petroleum equipment currently in use in the USSR for the extraction of oil and gas is cumbersome and inefficient compared with US equipment. Production techniques are also backward. Soviet oil experts have acknowledged that the USSR must acquire modern technology and equipment if the Siberian areas are to become, as planned, the major source of petroleum in the USSR by 1980.

Generally, the United States has an advantage over competitors in Japan and Western Europe because US petroleum technology and equipment is the best and most advanced in the world. However, in some areas such as the production of large-diameter pipe, non-US competitors are already abreast of the United States. In other areas of oilfield equipment manufacture also, non-US producers are becoming increasingly proficient technologically and often charge lower prices for the simpler equipment.

The USSR has expressed interest in a joint venture in the construction of undersea oil and gas pipelines from the Soviet Far East to Japan and in Soviet offshore drilling and production operations. The Soviets have little experience in offshore deep water drilling. The USSR has also shown an interest in having the United States assist in the construction of facilities for its natural gas industry in exchange for delivery to the United States of liquefied natural gas. The attractiveness of a joint venture to potential US participants would probably depend on the terms that could be negotiated.

Copper

Prospects for a joint venture in the case of copper are uncertain. Although the United States is the world's largest producer of copper, it imports nearly one-sixth of its consumption of primary copper. Because some uncertainty exists about the ability of the United States to maintain its present degree of self-sufficiency, the USSR, with its large resources of copper, must be considered as a potential US supplier. The USSR has been negotiating with the United Kingdom, France, and Japan for joint

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development of its large Udokan deposit in East Siberia and more recently has shown an interest in having the US participate. US firms may be willing to explore possibilities even though for various reasons the near-term prospects for US participation are unpromising. US firms are increasing investment in domestic operations and are exploring other potential foreign sources of supply. The negotiation of satisfactory arrangements with Soviet officials, and possibly with other foreign firms on a consortium basis, would present serious difficulties. The heavy investment and long lead times for a payoff from the remote Udokan deposit would also be deterrents.

Diamonds

It is unlikely that US firms will undertake any large-scale joint venture with the USSR in the mining of diamonds under the terms proposed by Rosygin. US firms probably would not wish to disrupt their relationship with the deBeers cartel and to jeopardize the firm price structure for retail diamonds. A more plausible alternative is the sale to the USSR of US equipment and technology financed by long-term credits. Repayment in diamonds might be acceptable, but only on a small scale.

Iron Ore

US firms have invested in the development of iron ore resources in Canada and Venezuela and are investigating the possibility of helping to develop iron ore resources in Brazil. Future supplies from these sources will be adequate to meet US import demand.

Manganese

US interest in a manganese ore venture would depend on the Soviets offering attractive terms. US companies already have invested heavily in Brazil and Gabon to produce manganese ore. Supplies of manganese will be adequate to meet US needs for the foreseeable future.

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Titanium

World demand for titanium is presently at a low level. US demand for titanium sponge has fallen off sharply as a result of the cessation of the US supersonic transport program, and US production has been cut back. World capacity for the production of titanium is likely to be more than adequate to meet future demand.

Nickel

The world nickel market has been very weak for about a year and may continue to be weak for some time. Sizable increases in world supplies are projected over the next five years because of major expansion programs in Canada, New Caledonia, and Guatemala.

Although market conditions make it unlikely that US firms will enter into a joint venture with the USSR, some sales of US mining equipment may be possible. The USSR has already expressed an interest in purchasing \$11 million worth of heavy off-highway dump trucks for nickel mining. The USSR has been negotiating with the United Kingdom, France, and Japan to develop the Burukhtal nickel deposits near Orsk, in the Southern Urals. The value of the needed investment has been estimated at \$70-\$100 million.

Phosphates

The United States would have little interest in developing Soviet phosphate deposits. The world phosphate market is characterized by excess capacity, intense competition, and low prices. The United States is the world's largest producer of phosphates. Assistance to the USSR would be counter productive as Soviet exports of phosphates have already cost the United States some markets in Scandinavia and probably in West Germany as well.

Timber

An agreement for the joint exploitation of Soviet forests is already in force between the USSR and Japan.

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SECRETARY OF COMMERCE MISSION TO U.S.S.R.
NOVEMBER 1971

Background Paper

SOVIET SCIENTIFIC, TECHNICAL, AND ECONOMIC
COOPERATION AGREEMENTS WITH WESTERN COUNTRIES

I. ISSUE OR PROBLEM

A general discussion of scientific, technical, and economic cooperation agreements concluded between the USSR and Western countries.

II. BACKGROUND

During the early and mid-1960s the USSR entered into a number of technical cooperation agreements with individual firms -- e.g., Olivetti and trade associations (Confederation of British Industries). These agreements covered such fields as numerically-controlled machine tools, computers, petroleum refining, synthetic fibers, and automation equipment. In general, these agreements appear to have resulted in little more than minor exchanges of information and delegations.

In its efforts to obtain Western technical data and know-how other than through outright purchases of equipment or licensing arrangements, the USSR evidently decided that it would be useful to conclude umbrella agreements on a government-to-government basis. By this means the USSR hopes to facilitate contacts with scientific institutions and industrial establishments within the countries with whom the agreements are concluded. Such agreements have been signed with France, Italy, the United Kingdom, Finland, Australia, Belgium, Sweden, Denmark, and Canada. The agreements indicate possible spheres of cooperation, including exchanges of scientists and specialists, scientific and technical information, and so forth. They generally call for the establishment of mixed or joint commissions to implement the agreements.

The most comprehensive of the agreements concluded by the USSR is the cooperation agreement with France signed in 1956 following DeGaulle's visit to the USSR. Although the basic agreement

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is quite bland and uninformative (see the Attachment), the institutional structure created as a result of the agreement is quite elaborate. The structure is topped by a Grande Commission, a policy-level group which meets once or twice yearly to provide guidance to operational groups. The so-called Petite Commission was created to supervise industrial cooperation agreements, and there are 13 "sectoral" working groups under the Petite Commission -- e.g., groups dealing with metallurgy, metal working, wood processing, gas and oil, and others. There are also three working groups dealing with space matters. Other commissions include the Joint Commission on Commercial Agreements and the Joint Commission for Color Television. Joint commissions and working groups also have been set up within the framework of agreements concluded with other countries, but they are small in number and the bureaucratic structures are relatively simple. Under an agreement concluded with Canada, for example, there are half a dozen working groups, and roughly the same number has been formed under the agreement with the United Kingdom.

Just what these cooperation agreements have accomplished is difficult to determine. The Soviet-French agreement seems to have yielded some benefits -- at least to the Soviets. French scientists working at Serpukhov believe that the flow of information is basically one way -- to the USSR. Similarly, a French-Soviet agreement on oceanography has given the Soviets access to the work and designs of Cousteau's Center for Advanced Marine Study. As a result of the space cooperation agreement, the Soviets have obtained access to French microelectronic components and instruments. The USSR has supplied the rocket boosters but has gained from using French satellite technology.

If Western countries enter into such agreements hoping to generate additional trade, the French-Soviet agreement provides no encouragement. Following the 1966 agreement, Soviet-French trade rose substantially, but since 1968 France has not fared as well as West Germany and Japan. Neither of these two countries, at least up until now, has concluded government-to-government scientific, technical, and economic cooperation agreements with the USSR.

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[TRANSLATION — TRADUCTION]

No. 8538. AGREEMENT¹ ON SCIENTIFIC, TECHNICAL AND ECONOMIC CO-OPERATION BETWEEN THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS AND THE GOVERNMENT OF THE FRENCH REPUBLIC. SIGNED AT MOSCOW, ON 30 JUNE 1966

The Government of the Union of Soviet Socialist Republics and the Government of the French Republic,

Conscious of the advantages for both countries offered by the development of their scientific, technical and economic relations,

Desiring to strengthen co-operation between the two countries, especially in the scientific and technical fields,

Expressing their satisfaction at the establishment and growing development of contacts between interested organizations and enterprises of the two countries,

Considering that such co-operation will strengthen the friendly relations that are traditional between the Soviet Union and France,

Have agreed as follows:

Article 1

The Contracting Parties undertake to promote the development of scientific, technical and economic co-operation between the two countries in the scientific and technical fields. They shall determine by mutual agreement the different sectors in which such co-operation is desirable, taking into account the experience acquired by their scientists and technicians and the opportunities existing in each area, especially in those which are closely related to the development of economic exchanges.

Article 2

The co-operation envisaged in this Agreement may, in particular, take the following forms:

1. Exchanges of scientific and technical delegations, exchange of individual scientists, research workers, specialists, experts, trainees and lecturers, exchange of technical documentation and information;

¹ Came into force on 25 August 1966, the date on which the Contracting Parties notified each other that the legal procedures required for giving effect to the Agreement had been fulfilled, in accordance with article 6.

2. Holding of bilateral scientific and technical symposia on problems of interest to the two Parties ;
3. Joint research work on problems of theoretical and applied science whose results might later have industrial applications ;
4. Joint elaboration of certain technological processes, such as those employed in the modernization of enterprises ;
5. Joint study of the techniques of productivity and the organization of enterprises.

Article 3

On the basis of this Agreement, the Contracting Parties shall promote co-operation between interested organizations or enterprises of the two countries, in particular for the purpose of concluding appropriate arrangements or contracts.

Arrangements or contracts governing co-operation between organizations or enterprises of the two countries shall be concluded in conformity with the legislation in force in the two countries. In particular, such arrangements or contracts shall, where necessary, make provision for :

- (a) Forms of compensation for knowledge, such as the sale of patents or licensing ;
- (b) The exchange or joint registration of patents and the conditions for granting licences ;
- (c) The manufacture and marketing of products.

Article 4

In order to ensure the implementation of this Agreement, the Contracting Parties shall establish a Franco-Soviet Joint Commission. The Commission shall meet alternately at Moscow and Paris at least once a year.

The Commission shall be responsible for keeping the execution of the Agreement under review and studying the specific fields in which co-operation may be expanded.

Article 5

Any deliveries of industrial goods of the two countries effected under this Agreement shall be made in accordance with the trade agreement in force.

Article 6

Each of the Contracting Parties shall notify the other of the completion of the legal procedure required for the entry into force of this Agreement. It shall take effect from the date of the second notification.

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1967

Article 7

This Agreement shall remain in force until such time as it is denounced by one of the Parties. In that case, it shall cease to be effective one year after notice of denunciation is given.

IN WITNESS WHEREOF the representatives of the two Governments have signed this Agreement and affixed their seals thereto.

DONE at Moscow, on 30 June 1966, in duplicate, in the Russian and French languages, both texts being equally authentic.

For the Government
of the Union of Soviet Socialist
Republics:

A. GRONYKO

For the Government
of the French Republic:

M. COUVE DE MURVILLE

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SECRETARY OF COMMERCE MISSION TO U.S.S.R.
NOVEMBER 1971

Background Paper

CREDITS FROM OTHER WESTERN COUNTRIES

I. ISSUE OR PROBLEM

Soviet imports of Western machinery and equipment on credit have led to a rapid rise in Soviet debt to the West. Unless the USSR is able to expand rapidly its exports to the West, it may be forced to curtail the growth of imports in the future.

II. BACKGROUND

(a) Summary

Soviet outstanding indebtedness to the West rose to more than \$1.7 billion in 1970 and probably will exceed \$2 billion in 1971. If, as seems likely, Soviet export growth slows markedly in the 1970s, the Soviet debt service ratio -- the ratio of debt service to exports -- would rise to the point where the Soviet government might consider the loss of financial flexibility unacceptable. It is now about 17%, and a level much above 20% would probably cause the USSR to ration imports more strictly. Sales of gold, however, would enable the USSR to increase imports at a rate faster than exports.

(b) Detailed Background

In recent years the USSR has increasingly borrowed on long term to finance imports of Western machinery and equipment. As a result, Soviet outstanding indebtedness to the developed West has risen to more than \$1.7 billion and probably will exceed \$2 billion by the end of 1971 (see Table 1). Throughout most of the 1960s the USSR bought more than it sold in trade with hard currency countries. The difference was financed in part by selling gold, but mainly by borrowing and by buying on credit. Soviet trade statistics indicate that during the period 1961-70 the Soviet hard currency trade deficit averaged \$250 million annually. It reached the \$500 million mark in 1964 and 1970.

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Table 1

Estimated Soviet Drawings and Scheduled Repayments
on Western Medium-Term and Long-Term Credits a/

Million US \$

<u>Year</u>	<u>Esti- mated Drawings</u>	<u>Sched- uled Repay- ments</u>	<u>Interest</u>	<u>Net Credits</u>	<u>Out- standing Debt at End of Year</u>
1959	59	12	0	48	48
1960	125	37	2	86	136
1961	165	70	6	89	231
1962	180	106	10	64	305
1963	140	130	14	-4	315
1964	170	147	15	8	338
1965	190	149	17	24	379
1966	275	149	20	106	505
1967	305	152	29	124	658
1968	510	215	38	257	953
1969	630	270	57	303	1,313
1970	755	326	79	360	1,742

a. Drawing estimates are based largely on data derived from contracts indicating delivery and credit terms and on Soviet imports of machinery and equipment. In general, early contracts (1959-64) involved 80%-85% credit and 5% interest. A large number of contracts since 1965 have involved 85% credit and 6% interest. Repayment periods for the earlier credits were usually three to five years following downpayment. Typical terms since 1965 have been eight years, following delivery of equipment.

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Table 2
Projections of Soviet Indebtedness
to Western Creditors a/

Million US \$

<u>Year</u>	<u>Draw-ings b/</u>	<u>Sched-uled Repay-ments b/</u>	<u>Interest</u>	<u>Net Credits</u>	<u>Out-standing Debt at End of Year</u>
<u>Projection A</u>					
1970	755	326	79	350	1,742
1971	835	410	99	326	2,167
1972	750	484	115	151	2,433
1973	670	585	137	-51	2,519
1974	670	633	151	-114	2,556
1975	630	673	153	-196	2,513
<u>Projection B</u>					
1970	755	326	79	350	1,742
1971	835	410	99	326	2,167
1972	835	495	115	225	2,507
1973	835	616	150	69	2,726
1974	835	686	164	-15	2,875
1975	835	751	173	-89	2,959

a. Because of rounding, components may not add to the totals shown. Projection A assumes a continuation of the 1969 level of drawings plus scheduled pipe deliveries on credit and a fall back to the 1969 level after the pipe shipments are completed. Projection B assumes other exports on credit will replace pipe.

b. Credits are assumed to be for an average of eight years at 6% interest.

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If merchandise exports do not grow substantially faster than suggested above, the USSR will have to finance imports by other means or ration its imports more strictly. The USSR has added considerably to its gold reserve since 1965 and now produces more than \$200 million in gold annually. If the Soviet leadership feels that it can now part with at least some of its annual production of gold to pay for imports, this would enable the USSR to continue to import more than it exports. Increased net hard currency earnings from tourism -- possibly averaging \$100 million annually by the mid-1970s -- will also boost Soviet import capacity, as will increased net earnings from the Soviet merchant fleet, which may rise to about \$100 million by 1975. If the USSR chooses to ration its imports more strictly, imports of highly prized Western equipment and technology will be maintained to the extent possible, but there probably will be greater substitution of technology for equipment. The leading candidate for pruning is manufactured consumer goods, which the USSR has been importing from the West at a rate of about \$250 million annually since 1966. The leadership, however, probably feels it has less room for maneuver in this area than it did five years ago; it probably will have even less five years hence. Should the leveling off or decline in import capacity coincide with poor grain harvests and the Soviets have to import even larger quantities of grain from the West and should imports of meat continue at the level of the past two years (about \$50 million a year), capital goods imports would also be curtailed, as they were in 1963-65.

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SECRETARY OF COMMERCE MISSION TO U.S.S.R.
NOVEMBER 1971

Background Paper

PROBLEMS CONFRONTING THE US BUSINESSMAN
IN U.S.S.R.

I. ISSUE OR PROBLEM

Western businessmen face three major types of problems when trading with the Soviet Union. They include institutional problems related to the state monopoly of foreign trade as practiced in the USSR; bureaucratic delays in negotiating a contract; and a communications problem, which often prevents a "meeting of the minds" of the two sides.

II. BACKGROUND

The USSR subscribes to one of the most orthodox interpretations of the state monopoly of foreign trade. Its foreign trade activities are completely separate from production activities and are carried out by a completely different set of enterprises, the foreign trade organizations (FTOs). Each FTO is an independent legal entity, chartered to carry out narrowly defined trading activities, which are further specialized according to type of commodity or geographic area. Thus, in addition to there being no competition among the Soviet buyers and sellers, the result of such an arrangement makes it difficult, if not impossible, for a Western businessman to contact directly the Soviet firm with which he wants to do business. Other rigidities stemming from the separation of trade and production would include the difficulty or impossibility of modifying orders on short notice, or even at all, and other types of time-consuming delays.

The negotiation of a contract is seldom short, ranging anywhere from one week to as much as a year or more, depending on the complexity of the items to be traded. This is true even if the Soviets are very interested in the particular transaction. There have been cases of Western businessmen, who after investing months or even years in preliminary talks, come up empty-handed and soured by their experience. In part, this is attributed to inefficiencies within

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the foreign trade organizations, which are usually understaffed and lack personnel to deal with all transactions. The concern of Soviet officials not to overextend their limited authority at times requires the introduction of representatives of new parts of the bureaucracy -- who might not be readily available -- into the negotiations. It appears, however, that this penchant for long, drawn out talks is also a bargaining tactic often employed by the Soviet negotiator, who seems bent on wearing out his Western counterpart in order to obtain the price and terms according to his instructions. In other cases, these long, drawn out negotiations are merely information seeking ventures by the Soviets, who may have no serious intention of buying the Western product. Soviet negotiators may request detailed blueprints and specifications and then use this information to bargain with competitors.

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SECRETARY OF COMMERCE MISSION TO U.S.S.R.
NOVEMBER 1971

Background Paper

SOVIET REACTION TO NEW US ECONOMIC POLICIES

I. ISSUE OR PROBLEM

A discussion of Soviet reactions to recent economic policies instituted by the President.

II. BACKGROUND

Within hours of the President's announcement of his economic stabilization program in August, the USSR saturated its news media -- both domestic and foreign -- with critical analysis of the profound problems plaguing the US economy and what it terms the ineffective measures adopted by the Administration to deal with these problems. Three weeks later the Soviet media was keeping up a high volume of reports and commentaries, although with reduced frequency. Present coverage of the topic remains critical in tone but is now becoming more sparse, having been overtaken by more newsworthy events such as the President's decision to visit Moscow, the recent visits of Kosygin to Canada and Brezhnev to France, and the decision at the United Nations to admit Communist China.

The general content of the Soviet coverage has been consistent with its past analysis of the ailing US economy and the disruptive effect of the US dollar on the international monetary scene. The theme of unemployment in the United States was cited in the coverage of the Secretary of Treasury's TV interview in mid-October, and was repeated in the coverage of the President's Veteran's Day speech: "Nixon also admitted that the participants in the Vietnam war meet many problems when they return home, the most acute of them being unemployment." Now, however, the USSR is able to pick and choose from a wide variety of world press comment. Often, the Soviet media has merely repeated -- without commentary -- excerpts from the Western media, which have been full of caustic comments by various Western governmental officials.

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The main thrust of the Soviet commentary is that a chronic disequilibrium in the US economy results from spending by the military in support of US imperialist policy. In this connection, the arms race, the war in Vietnam, support to Israel, and the United States as the world's policeman have been singled out as causes of the drain on the economy. An effective economic policy by the United States, therefore, would have to be preceded by a fundamental change in US foreign policy whereby the United States would assume a smaller role in world affairs, rather than try to be dominant. Unless these fundamental changes in US policy are made, the economic stabilization program adopted by the President will be ineffective: the wage-price freeze will be at the expense of the American working class; the surtax on imports will be an attempt to shift the burden of adjustment to the trading partners of the United States and will not help the US balance of payments; and the 10% reduction in foreign aid, coupled with the 10% surtax on imports, will be an unfair burden placed on the less developed countries. The Soviets conclude that since the stabilization methods adopted by the administration are the wrong remedies, they are apt to be counterproductive.

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SECRETARY OF COMMERCE MISSION TO U.S.S.R.
NOVEMBER 1971

Background Paper

USSR: Selected Economic Indicators

Gross National Product in the US and the USSR
(Confidential)

US and USSR: Average Annual Rates of Growth
in Gross National Product, Selected Years
(Unclassified)

Per Capita Gross National Product in Selected
Countries, 1970 (Confidential)

Relative Size of Gross National Product, by End
Use, in the US and the USSR, 1970 (Confidential)

Indexes of Industrial and Agricultural Production
in the US and the USSR (Confidential)

US and USSR: Annual Rates of Growth in Industrial
and Agricultural Production, 1961-70 (Unclassified)

US and USSR: Production of Important Industrial
Items, 1970 (Unclassified)

US and USSR: Production of Important Minerals and
Metals, 1970 (Confidential)

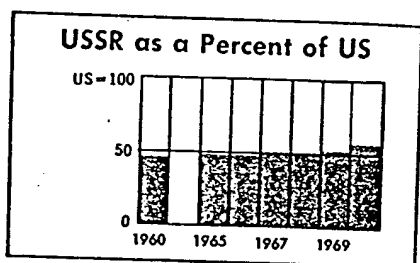
US and USSR: Production of Important Agricultural
Products, 1970 (Unclassified)

US and USSR: Population and Labor Force, 1970
(Unclassified)

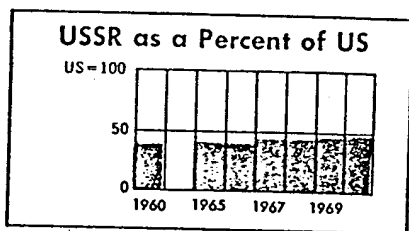
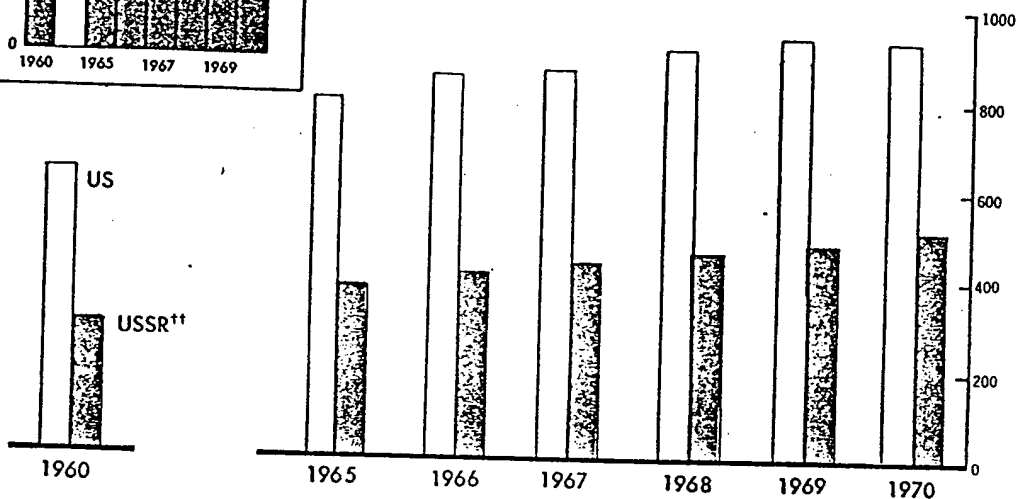
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GROSS NATIONAL PRODUCT[†] IN THE US AND THE USSR

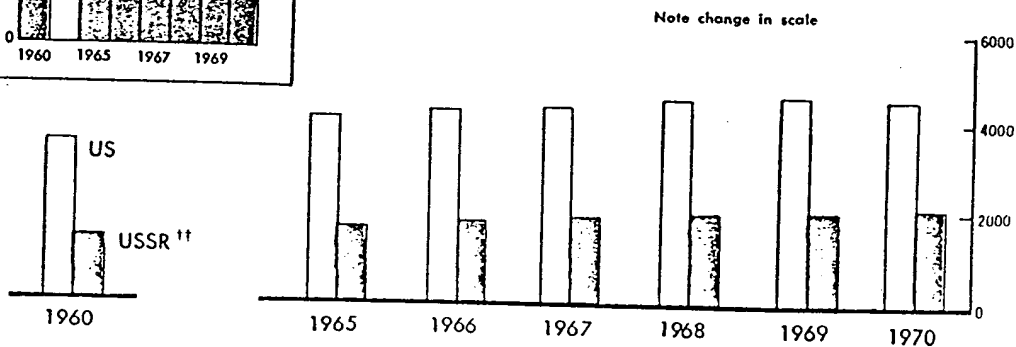
	1960	1965	1966	1967	1968	1969	1970
GNP (Billion 1969 US \$)							
US	624.7	791.1	843.4	864.8	906.2	931.4	927.5
USSR ^{††}	287.7	379.6	404.2	429.2	454.6	473.2	508.0
Difference	337.0	411.5	439.2	435.6	451.6	458.2	419.5
GNP (USSR as a Percent of US)	46	48	48	50	50	51	55
GNP Per Capita (1969 US \$)							
US	3,460	4,070	4,290	4,350	4,520	4,600	4,530
USSR ^{††}	1,340	1,640	1,730	1,820	1,910	1,970	2,090
GNP Per Capita (USSR as a Percent of US)	39	40	40	42	42	43	46



GROSS NATIONAL PRODUCT[†]
Billion 1969 US \$



GROSS NATIONAL PRODUCT[†]
PER CAPITA
1969 US \$



[†] At market prices.
^{††} Converted at US purchasing power equivalents.

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US and USSR: Average Annual Rates of Growth
in Gross National Product, Selected Years

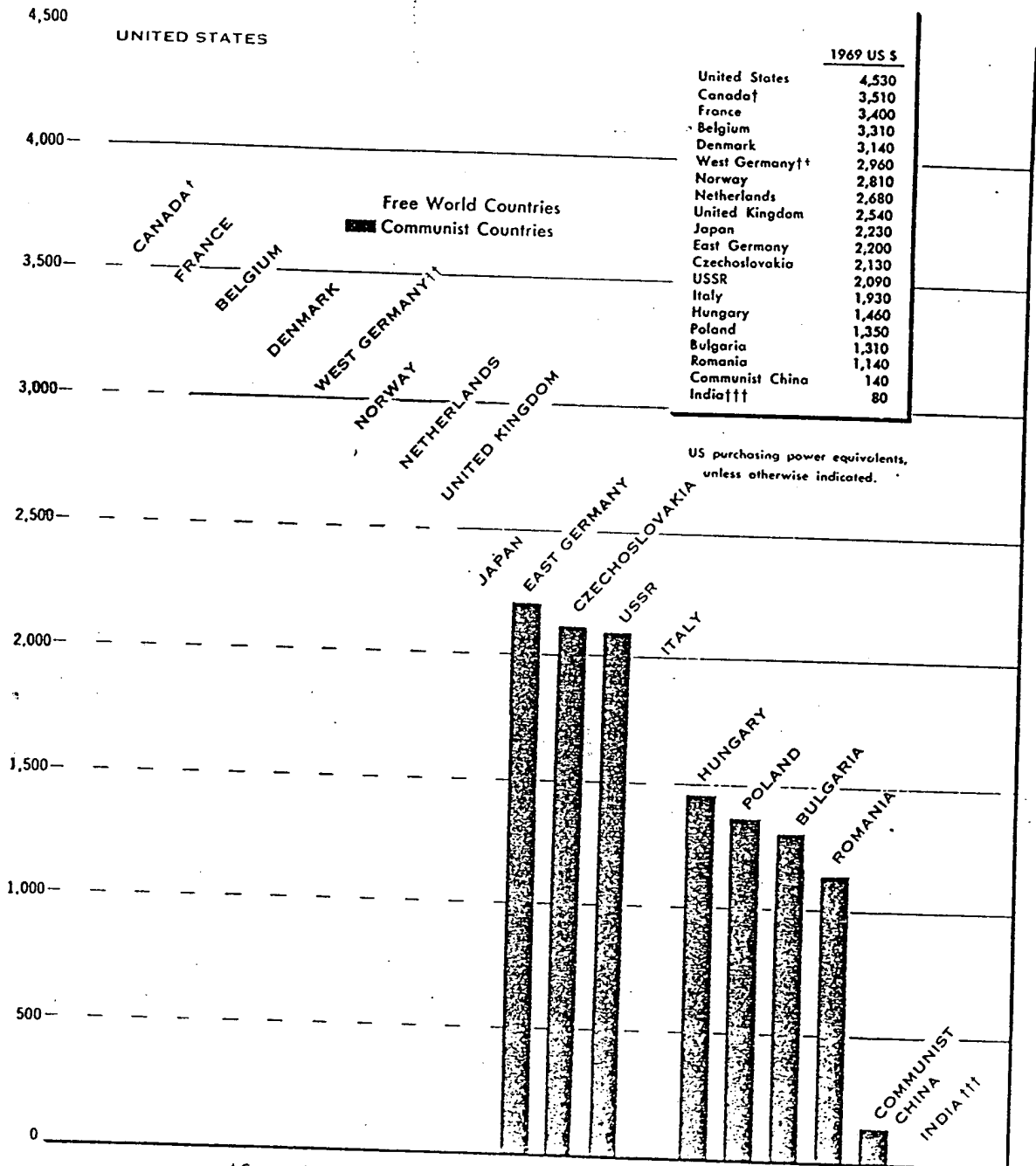
	Percent	
<u>Year</u>	<u>US</u>	<u>USSR</u>
1951-60	3.4	6.0
1961-65	4.8	5.7
1966-70	3.2	6.0
1966	6.6	6.5
1967	2.5	6.2
1968	4.8	5.9
1969	2.8	4.1
1970	-0.4	7.4

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PER CAPITA GROSS NATIONAL PRODUCT IN SELECTED COUNTRIES, 1970

1969 US \$



† Gross national product per capita converted at the par value exchange rate of 1.081 Canadian dollars to US \$1.
 †† Including West Berlin.
 ††† Gross national product per capita converted at the par value exchange rate of 7.5 rupees to US \$1.

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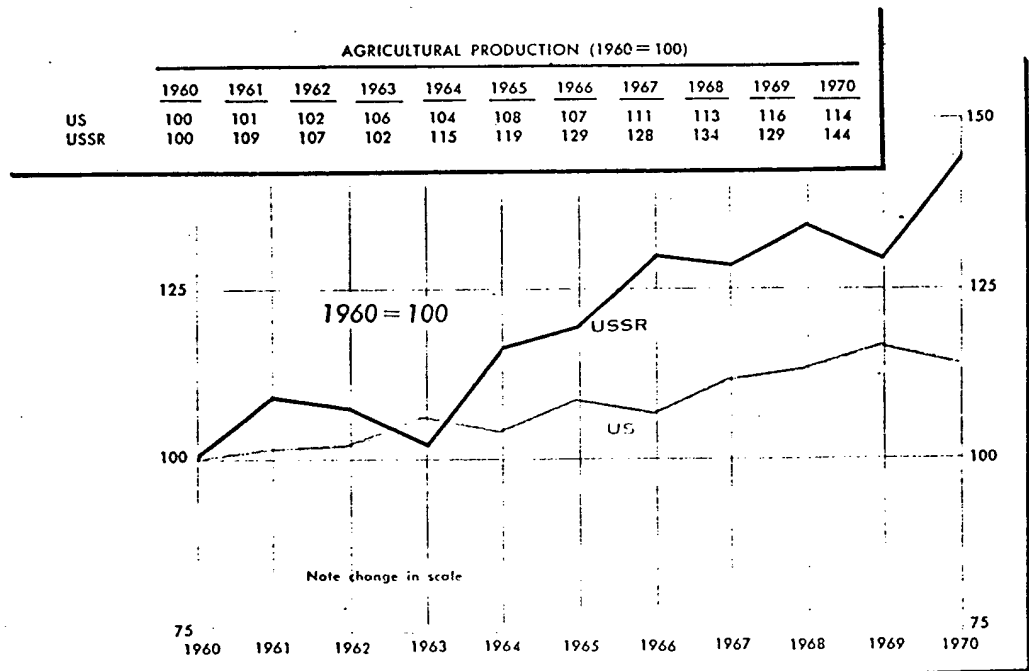
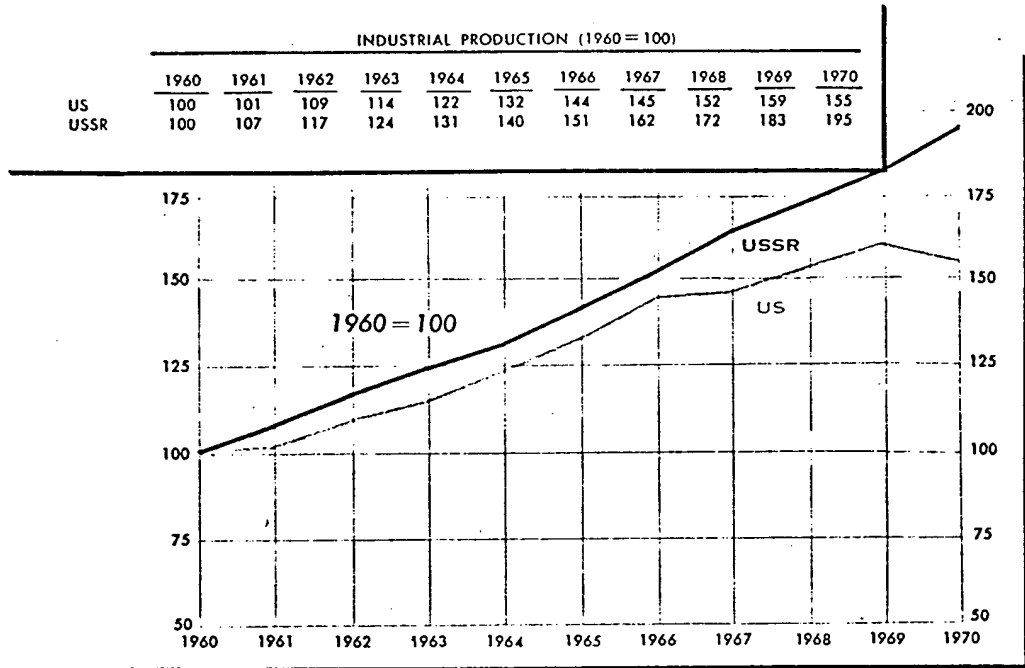
Relative Size of Gross National Product,
By End Use, in the US and the USSR
1970

	USSR as a Percent of US
Consumption	41
New fixed investment . .	99
Defense	97
Other	102
GNP	54

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INDEXES OF INDUSTRIAL AND AGRICULTURAL PRODUCTION IN THE US AND THE USSR



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US and USSR: Annual Rates of Growth
in Industrial and Agricultural Production
1961-70

<u>Year</u>	<u>Percent</u>			
	<u>Industrial Production</u>		<u>Agricultural Production</u>	
	<u>US</u>	<u>USSR</u>	<u>US</u>	<u>USSR</u>
1961	1.0	7.0	1.0	9.0
1962	7.9	9.3	1.0	-1.8
1963	4.6	6.0	3.9	-4.7
1964	7.0	5.6	-1.9	12.7
1965	8.2	6.9	3.8	3.5
1966	9.1	7.9	-0.9	8.4
1967	0.7	7.3	3.7	-0.8
1968	4.8	6.2	1.8	4.7
1969	4.6	6.4	2.7	-3.7
1970	-2.5	6.6	-1.7	11.6

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US and USSR:
Production of Important Industrial Items
1970

	Million Metric Tons ^{a/}	
	US	USSR
Crude steel	119	116
Rolled steel (finished)	85 ^{b/}	81
Coal	544	578 ^{c/}
Gas (million cubic meters)	620,340	198,300
Crude oil	475	353
Electric power (billion kilowatt hours)	1,765	740
Mineral fertilizers	71	55
Synthetic fibers	2	1
Cement	68	95
Timber (million cubic meters)	340	380

- a. Unless otherwise noted.
b. Shipments.
c. Estimate.

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US and USSR:
Production of Important Minerals and Metals
1970

	<u>Thousand Metric Tons</u>	
	<u>US</u>	<u>USSR</u>
Iron ore	92,300	195,500
Manganese ore	4	6,100
Refined nickel	N.A. ^{a/}	140
Chromite	Negl.	1,400
Molybdenum	50	10
Cobalt	Negl.	5
Tungsten ore	10	14
Refined copper	2,065	1,100
Primary aluminum	3,612	1,700
Lead	600	597
Refined zinc	871	800
Primary tin	6	21
Primary magnesium	100	90
Titanium sponge	16	18

a. 14,167 metric tons in 1969.

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US and USSR:
Production of Important Agricultural Products
1970

	<u>Million Metric Tons</u>	
	<u>US</u>	<u>USSR</u>
Grain	186	150
Potatoes	14.7	96.6
Meat	16.4	10.4
Milk	53.3	77.9
Cotton (ginned)	2.2	2.3
Wool	85.0	414.8

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US and USSR:
Population and Labor Force
1970

Million Persons at Midyear

	<u>US</u>	<u>USSR</u>
Population	204.8	242.8
Labor force	85.9 <u>a/</u>	124.2
Civilian labor force	79.7 <u>b/</u>	120.9
Nonagricultural labor force	75.2	83.4
Agricultural labor force	4.5	37.5

a. Includes the armed forces and the un-employed.

b. Civilian employment. The data for nonagricultural labor force are annual averages of monthly data that exclude the armed forces. Data for agricultural labor force are for farm employment.

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