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# Politics and Rivalries in the Soviet Foreign Trade Bureaucracy—Impact on US Trade

A Reference Aid

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## Politics and Rivalries in the Soviet Foreign Trade Bureaucracy—Impact on US Trade

### Summary

*Information available as of 3 October 1984 was used in this report.*

The most powerful institution in the Soviet foreign trade bureaucracy is the Ministry of Foreign Trade because it controls the authority to sign contracts for the bulk of foreign trade and is in the strongest position to advise the Kremlin on foreign trade policy. It controls most of the foreign trade organizations (FTOs)—semiautonomous entities that negotiate and sign contracts with foreign suppliers—and has guarded its power against encroachment by other organizations.

A significant flaw in the Ministry's operations and a major reason for some attempts to circumvent its control is the Ministry's practice of rewarding FTOs for negotiating cost-saving contracts. In many instances this practice is counterproductive:

- By trying to buy the cheapest possible products, the FTOs end up purchasing goods of a lower quality than that wanted by their Soviet customers.
- The FTOs prolong negotiations to reduce costs when timely delivery is the issue.

The State Committee for Science and Technology (GKNT), which approves all purchases of advanced industrial technology from the West, is a powerful rival of the Ministry of Foreign Trade. This rivalry has at times complicated US trade relations. The GKNT also has its own FTO, which, although empowered to sign contracts for samples of equipment embodying "pure" technology, is supposed to leave all commercial details to the Ministry of Foreign Trade. At times, however, the GKNT interferes in the Ministry's negotiations in order to gain access to foreign contact.

In addition, the leaders of the more than 50 industrial ministries that must depend on the Ministry of Foreign Trade to satisfy most of their import needs may independently sign cooperative agreements on volume, delivery date, and technical requirements. These agreements are not legally binding but usually form the basis of the final contracts signed by the Ministry's FTOs. Frustrated by the lengthy FTO negotiating process, however, some ministers representing critical sectors of the economy have become quite influential in trade negotiations. If their influence were to continue to grow, it would erode the Foreign Trade Ministry's clout and cause infighting that could be resolved only at higher levels.

Another major rival of the Ministry of Foreign Trade is Gosplan, the powerful central planning organization that assembles the various Soviet

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foreign trade plans and then defines the overall patterns and levels of trade. During the mid-1970s Gosplan led the debate in favor of reorganizing foreign trade organizations in ways that would weaken the Ministry's authority. This effort, for the most part, failed, but continued inefficiencies in the Ministry's operations could spark another debate, which again could be led by Gosplan.

These bureaucratic rivalries and the concomitant waste and inefficiencies impede US-Soviet commercial relations during the best of times. In the past several years, following US and Western trade sanctions imposed in response to the Soviet invasion of Afghanistan and martial law in Poland, Soviet foreign trade officials have had to face more serious political impediments from the Soviet leadership. Although Soviet leaders recognize that Western technology is essential for economic growth, most also recognize that such trade leaves the USSR vulnerable to Western-- especially American--political and economic leverage. Soviet trade officials have responded to US sanctions by diversifying their Western suppliers. They have instituted such discriminatory measures as utilizing US firms only as a supplier of last resort and seeking US guarantees against future trade sanctions. Soviet economic leaders expect the United States to take the initiative to improve the situation by becoming a more reliable supplier. In any case, however, it will take a long time to rebuild Soviet confidence and eliminate the discriminatory measures that the Soviets have worked into their planning process.

This reference aid explains the roles, interrelationships, and rivalries of the most important organizations in the Soviet foreign trade bureaucracy, as well as their impact on the US-Soviet trade relationship {

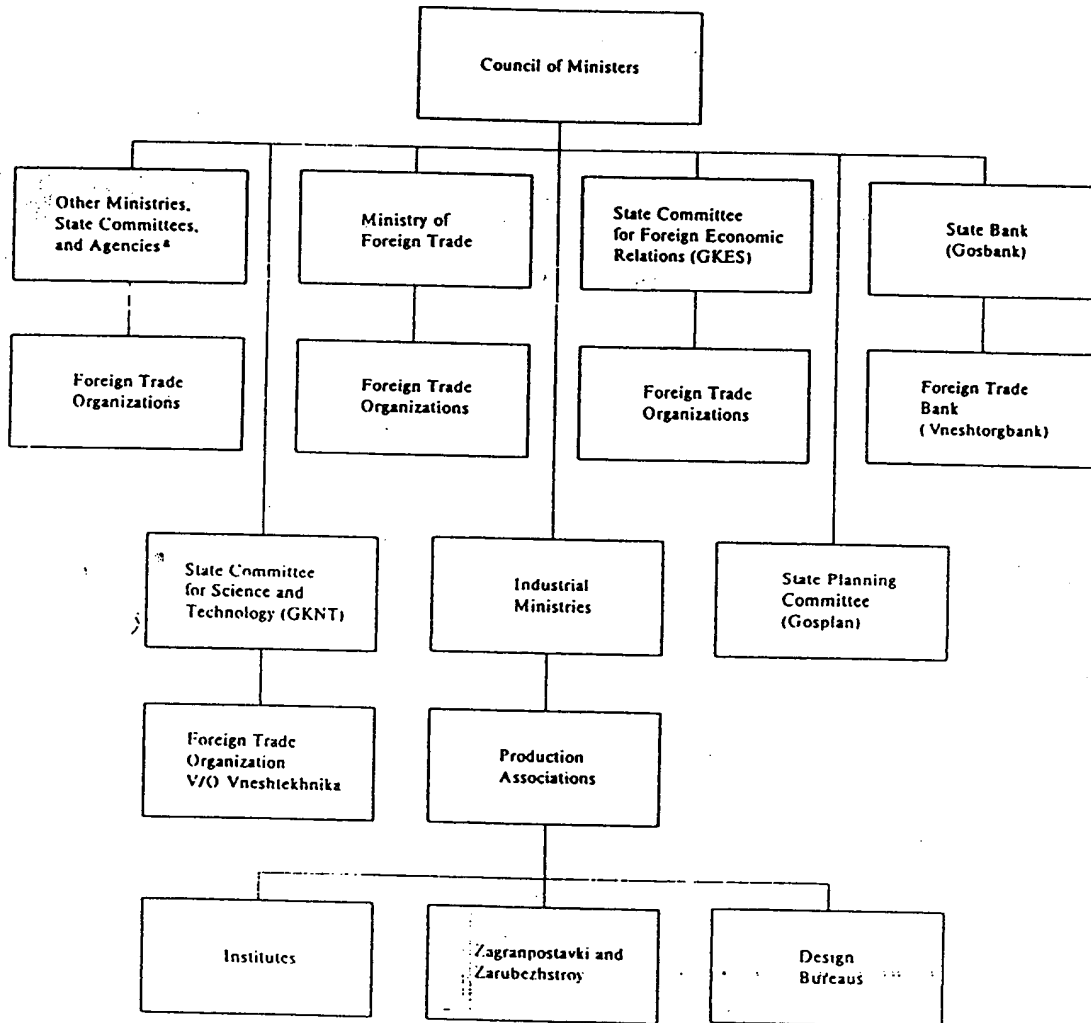
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**Figure 1**  
**Major USSR Government Organizations Involved in Foreign Trade**



\* Central Union of Consumers' Cooperatives  
Committee for Physical Culture and Sports  
Ministry of the Fish Industry  
Ministry of the Maritime Fleet  
Ministry of the Meat and Dairy Industry

State Committee for Cinematography  
State Committee for Publishing, Printing  
Plants, and the Book Trade  
USSR Chamber of Commerce and Industry

## Politics and Rivalries in the Soviet Foreign Trade Bureaucracy—Impact on US Trade

### Setting the Scene

Management of the sizable Soviet foreign trade monopoly (in 1983 total trade turnover exceeded 127.4 billion rubles, or approximately US\$161 billion) falls to various government institutions; the Communist Party of the Soviet Union (CPSU) oversees the management of that monopoly. This paper focuses on the roles and interrelationships of those government institutions that play a major part in the formulation of foreign trade policy and its implementation:

- The Ministry of Foreign Trade, which directs, regulates, and controls most of the USSR's foreign trade and thus influences foreign trade policy.
- The State Committee for Science and Technology (GKNT), which formulates a unified state policy on the acquisition of technology.
- Industrial ministries, which levy import requirements through the foreign trade planning cycle.
- The State Planning Committee (Gosplan), which compiles the annual, five-year, and long-term foreign trade plans.
- Financial organizations (the State Bank, the Foreign Trade Bank, and the Ministry of Finance), which supervise international financial and credit accounts to balance the USSR's foreign currency plan.<sup>1</sup>

The interplay among these key foreign trade agencies is a complex process that is inextricably connected to the domestic planning mechanism. The CPSU Politburo—the political leadership—sets overall economic

<sup>1</sup> We have omitted the State Committee for Foreign Economic Relations (which provides economic and military aid to socialist and developing countries), the State Committee for Material and Technical Supply (which exchanges products with socialist countries and distributes excess import goods to domestic industry), and the State Committee on Prices (which sets wholesale prices for export goods) because their trade relationship with the West is nonexistent or peripheral.

priorities through resource allocation and investment. However, the actual levels of foreign trade activity, **C** are formulated in the give and take between various ministries that vie for a piece of the import pie and Gosplan and the Ministry of Foreign Trade, which apportion the pie.

As part of the annual domestic planning process, Soviet academic sources indicate that the ministries submit their import needs to Gosplan, following coordination with the GKNT to ensure that only imports—not domestic technology—can satisfy the ministries' requirements. Gosplan and financial institutions establish priorities and combine these requirements into the overall plan. Once the plan is approved by the Politburo and passed into law, the Ministry of Foreign Trade and the GKNT, according to Soviet academic and trade sources, begin the arduous task of identifying sources of supply and negotiating favorable terms and delivery dates that meet the needs of their customers—the ministries—while also meeting their own plan goals. All this must be accomplished within political or foreign policy constraints established by the Politburo.

While this process appears straightforward, this reference aid will show that in reality the various entities involved invariably differ on the best method of accomplishing their tasks and often have competing and overlapping responsibilities, thus encouraging rivalries and undermining their effectiveness.

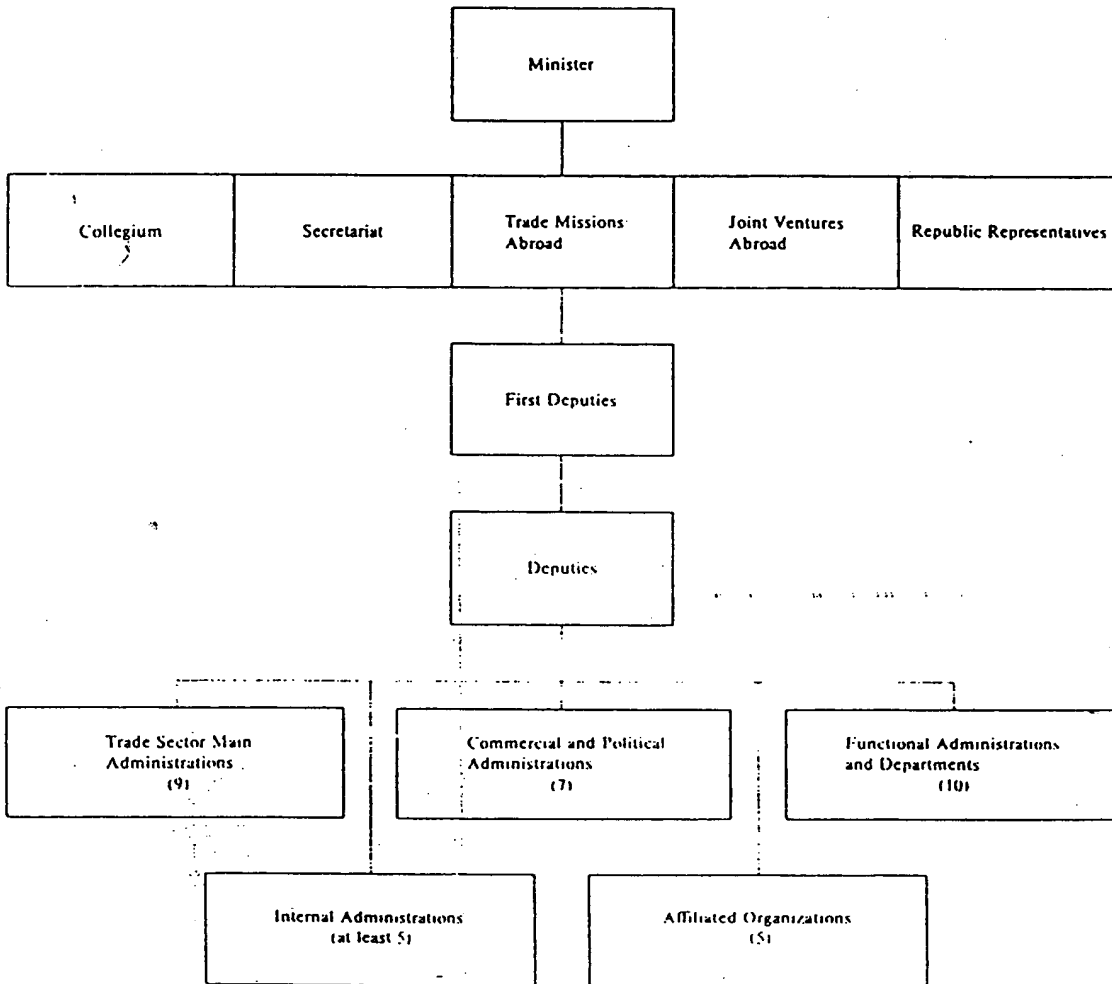
### Major Government Players

**Ministry of Foreign Trade.** The Foreign Trade Ministry, with its power to negotiate on behalf of industrial ministries through its 47 subordinate foreign trade organizations (FTOs), has long held the most powerful



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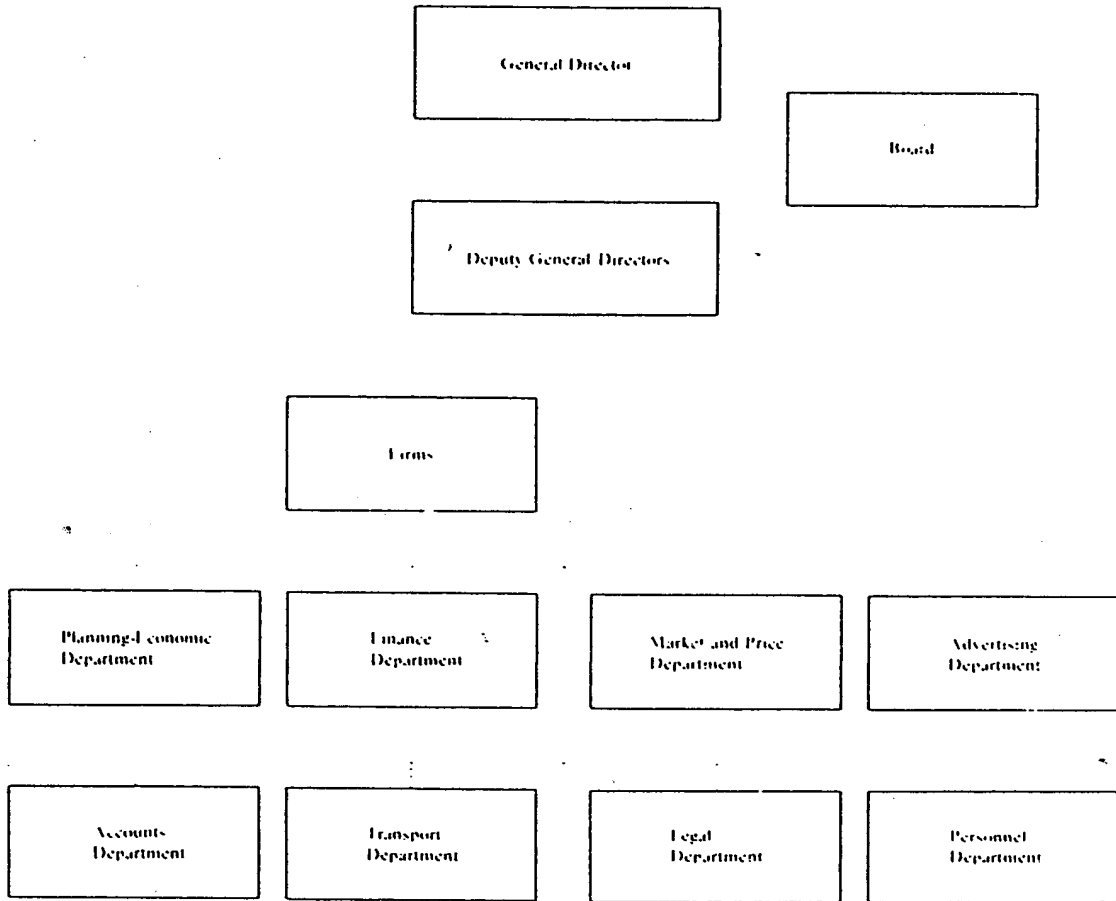
**Figure 2**  
**Ministry of Foreign Trade\***



\* There are 47 foreign trade organizations subordinate to the Ministry of Foreign Trade

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**Figure 3**  
**Structure of a Foreign Trade Organization**



position in the foreign trade bureaucracy. The Ministry also coordinates closely with more than 26 FTOs subordinate to other organizations. By virtue of these longstanding roles, the Ministry has the most expertise to advise the Kremlin on foreign trade policy and has jealously guarded its power—usually successfully—against attempts to circumvent its control by the GKNT, Gosplan, and the industrial ministries

Soviet Foreign Trade Ministry spokesmen have claimed publicly that FTOs are independent organizations with the authority to make final purchase decisions. On the basis of our understanding of Soviet organizations, we believe that this "independent" status is solely a legal maneuver to protect the Soviet Government from law suits resulting from FTO actions. However, because FTOs make the initial selection of bidders as part of their established work procedures, we think that they do have substantial decisionmaking latitude early in the process. Final authority to approve the terms of a contract with a particular foreign company rests with the Minister of Foreign Trade (or his delegated deputies); the Council of Ministers; and, in sensitive cases, the Politburo. For example

in a 1978 incident in which then Deputy Minister of Foreign Trade N. D. Komarov unexpectedly rejected a contract that one FTO had been negotiating for over five years

We know from that a foreign trade commission of the Council of Ministers reviews large or complex foreign trade contracts and criticizes provisions on contract guarantees, credits, and financing. In a 1979 incident in which a US negotiator in one such incident that the Council of Ministers was pressuring

& C

\* For information on FTO negotiating strategy, see NFAC Research Paper October 1978, *Soviet Strategy and Tactics in Economic and Commercial Negotiations with the United States*; for a review of the legal status of FTOs, see *The Law of the Union of Soviet Socialist Republics*, published as part of *The Digest of Commercial Laws of the World*, Oceana Publications, 1980

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*Statutory Responsibilities of the Foreign Trade Ministry*

- Defines general policies on foreign trade.
  - Compiles draft export-import and currency trade plans and monitors their fulfillment.
  - Drafts trade treaties and agreements in commercial, transportation, payment, and other areas.
  - Conducts foreign commercial negotiations and implements foreign trade contracts.
  - Oversees FTOs, trade representatives in the USSR republics, trade missions abroad, and Soviet-owned or mixed companies abroad.
  - Supervises customs work by examining items for import and export and certifying the quality of export products.
  - Researches foreign markets and trade trends
- 

the Ministry to extract more favorable price concessions from suppliers

One inherent weakness of the Ministry of Foreign Trade is that it and its FTOs operate according to a different criterion of success than that of their Soviet customers. The Ministry, according to

awards bonuses to FTOs that negotiate contracts on a cost-saving basis. For an FTO, the overriding principle is to sell for profit in order to have funds to buy equipment; when funds are unavailable, the FTO probably cuts back on imports to reduce foreign exchange costs. By doing so, FTOs have little incentive to purchase the best quality equipment if they can buy inferior equipment at less cost. The has noted that during a Soviet audit campaign in early 1984 "control authorities" were beginning to investigate the low quality of goods

*Politics in Soviet Negotiating Strategies*

*US Embassy officials say that they frequently cannot tell whether commercial concerns—credit terms, interest rates, and reliable delivery—or political factors have more influence on the awarding of contracts. We agree with [ ] that commercial terms are probably at the heart of Soviet negotiating strategy. Nevertheless, Soviet trade experts inject politics into negotiations both as a ploy to obtain better terms by wearing down negotiators with superfluous demands and as a political message for other governments. The [ ] has noted that in the case of a single import commodity, the Soviets—to obtain better terms—may tell a Japanese exporter that his government supports the United States too much, a German exporter that he should object to the Pershing II, and a Canadian that his country's trade surplus with the USSR is too big. Since the early 1970s Ministry of Foreign Trade leaders have repeatedly argued with US diplomats and businessmen that credit restrictions, US trade legislation, and other US Government actions and policies are barriers to expanded US-Soviet trade.*

*[ ] have noted that officials of FTOs have become more discriminating in selecting foreign firms since economic sanctions were imposed after the Soviet invasion of Afghanistan in 1979; those sanctions resulted in delayed deliveries of equipment and long, fruitless negotiations. According to one Western business journal, a European company with a longstanding relationship with purchasing officials might win a contract even if another competitor, particularly a US firm, offered cheaper terms, reasonable financing, or a better product because the Soviets trusted that European company to make every effort to deliver on time*

*We note, however, that Soviet trade officials sometimes follow these strategies inconsistently. Some deputy foreign trade ministers, FTO officials, and industrial leaders at times lobby with their superiors for favored US firms with whom they have done considerable business in the past. [ ]*

*[ ] At other times, under pressure from the Kremlin, they refuse to deal with those same firms.*

purchased by the Ministry of Foreign Trade. Moreover, we see from [ ] reporting [ ] that FTO officials may negotiate for several years in order to get the best price for equipment that industry critically needs on a timely basis. We believe that the bonus system has had a profoundly counterproductive effect on the economy.

*State Committee for Science and Technology.* As the coordinating agency under Soviet law for all Soviet civilian science and technology matters, the GKNT approves purchases of advanced Western industrial technology. The GKNT can participate in both inter-agency coordination and direct management of foreign trade. As such, the GKNT has become the Foreign Trade Ministry's most powerful rival.

The GKNT initially becomes involved in foreign trade. [ ] when an industrial ministry needs a certain technology that cannot be domestically developed for technical or economic reasons. The GKNT then investigates foreign suppliers (as the Ministry of Foreign Trade does), negotiates scientific agreements, and signs protocols or letters of intent with foreign firms on behalf of Soviet industry. Although those documents are not legally binding, [ ] the Foreign Trade Ministry usually but not always gives preferential treatment to firms that have signed protocols with the GKNT. Normally, Ministry of Foreign Trade officials must sign all subsequent contracts, which detail prices, quantity, and delivery times.<sup>4</sup>

While the Ministry of Foreign Trade usually handles the acquisition of large amounts of equipment or licenses of proven technology, the GKNT, through its foreign trade association, V/O<sup>5</sup> Vneshtekhnika, has

<sup>4</sup> Under the aegis of the 1972 US-USSR Joint Agreement for Cooperation in Science and Technology, the GKNT was permitted to negotiate directly with US companies. The Agreement was renewed in 1977 but lapsed in 1982.

<sup>5</sup> V/O is a Russian acronym for *vsesoyuznoye obyedineniye* (all-union association—responsible for all activities entrusted to it throughout the entire territory of the USSR)

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the authority to conclude contracts for "pure" technology items on its own. According to its charter, V/O Vneshtekhnika is responsible for:

- Design, development, research, and experimental work.
- Cooperation with foreign partners to develop new products.
- Trade in unpatented licenses, engineering work, and technical documentation.
- Testing of machinery, industrial equipment, and raw and other materials.
- Trade in small samples of scientific equipment, instruments, products, and materials. (

the GKNT determines the best technology or data to satisfy the requirements of Soviet defense and civilian industry, which are listed in the GKNT's "Red Book." (The Red Book is a shopping list of advanced Western research programs and technology items, in priority order, to be obtained through legal or, if necessary, illegal means.) Any request coming directly to the Ministry of Foreign Trade for such items must also go through the GKNT. If the GKNT decides that the Ministry of Foreign Trade can procure this technology, the GKNT then tasks the Ministry's Main Engineering and Technical Administration (GITU), which supervises FTOs that handle technology acquisition. If the Ministry is unable to fulfill this task, the KGB takes its turn. Those Foreign Trade Ministry officials who have been co-opted by the KGB to acquire S&T items will buy the information or equipment and send it directly to GITU or the GKNT. We presume that the GKNT or GITU funds this activity from special accounts.

Ministry of Foreign Trade officials have been sensitive about GKNT interference in their projects since at least 1968. [ ] reported at that time that GKNT Deputy Chairman D. M. Gvishiani intended to establish a new FTO that would usurp the

Ministry of Foreign Trade's commercial rights in a deal with the Italian company Fiat. The Ministry made sure that the GKNT's FTO never materialized. In another case, Ministry officials instructed one US businessman in 1982 to cease all contact with the GKNT, probably because the GKNT had overstepped its bounds by negotiating commercial terms. The rivalry has continued to date. The previously cited [ ] who had been involved in the process, said in May 1984 that V/O Vneshtekhnika representatives created any excuse to sit in on commercial discussions to gain access to foreign suppliers. Vneshtekhnika officials, he said, sometimes complicated negotiations by buying technology from these foreign contacts—regardless of cost—to ensure a continuing relationship outside the control of the Ministry of Foreign Trade.

The GKNT frequently uses its right to import samples of equipment as a loophole to circumvent the Foreign Trade Ministry, thus creating additional friction between the two organizations. We suspect that this ability of the GKNT to act quickly and flexibly was a partial motivation for the Ministry to establish in 1983 a new FTO firm devoted to purchasing items exhibited at trade fairs.

The overlapping responsibilities in license trade and compensation agreements<sup>6</sup> of the Ministry of Foreign Trade and the GKNT have been another longtime bone of contention.

[ ] the GKNT's V/O Vneshtekhnika and the Ministry's V/O Litsenzintorg have often competed with each other for purchases of licenses because it was difficult to separate "pure" licensing technology from "commercial" licensing projects. During a discussion on compensation agreements [ ] in Moscow in 1975, [ ] that the Ministry of Foreign Trade was incompetent and could not

<sup>6</sup> Compensation agreements are long-term deals (three to 20 years) of large value (hundreds of millions of dollars) that provide the USSR with foreign equipment in exchange for repayment in resultant products.

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negotiate complex deals as well as the GKNT could. Many US businessmen, citing the Ministry's inflexible procedures, have agreed with that assessment.

Personal infighting between Ministry of Foreign Trade and GKNT representatives has at times complicated US relations with those organizations. In one intriguing incident in 1976, a senior-level US negotiator who was visiting Moscow asked his GKNT host to call the Ministry to say he would be late for his appointment with Deputy Foreign Trade Minister V. N. Sushkov. According to the US official, the GKNT officer made the call but said that the visitor was late because he had so enjoyed his talk with GKNT Deputy Chairman Gvishiani that he had forgotten all about his other appointment. When the US negotiator arrived at the Ministry of Foreign Trade, Sushkov received him coldly. Another time the same US negotiator warned Gvishiani that the Ministry's strategy of selling Lada cars in the United States during a slump in the US economy would probably result in a dumping charge. Gvishiani, twisting the knife, relayed that criticism to the Ministry; and, according to a GKNT official, Foreign Trade Ministry leaders were so miffed that the US negotiator's reputation with the Ministry suffered.

This rivalry sometimes causes Westerners to receive misleading or conflicting information. As early as 1969 GKNT officials told a US executive that the GKNT—not the Ministry of Foreign Trade—was the final arbiter of all licensing trade. GKNT Deputy Chairman Gvishiani complained in 1977 that the Ministry was making too many independent decisions. Compounding the confusion, a US Embassy official said in 1982 that he understood the GKNT could veto all foreign trade contracts negotiated by the Ministry. On the basis of our analysis of past US-Soviet foreign trade transactions, we believe that the Foreign Trade Ministry controls almost all the licensing trade through V/O Litsenzintorg but that the GKNT may informally influence the final selection of suppliers.

**Industrial Ministries.** According to Soviet foreign trade journals, more than 50 industrial ministries depend on the Ministry of Foreign Trade's FTOs to

import commercial items such as machinery or turn-key plants. Only three industrial ministries—Meat and Dairy, Fish Industry, and Maritime Fleet—control their own FTOs; they do so because of their extensive overseas trade and operations. [

] state, however, that even those FTOs follow the Foreign Trade Ministry's guidelines to prevent duplication of effort. While the Ministry of Foreign Trade and industrial ministries have worked closely together on foreign trade requirements, this relationship has not always been harmonious. [

] Since at least 1967 industrial ministries and production associations (groups of enterprises, including factories, research institutes, and design bureaus, that are centrally managed to produce a product line or several related product lines) have been represented on the boards of the Ministry of Foreign Trade's FTOs. Soviet trade journals report that industry officials provide up-to-date export lists for the FTOs to use during trade negotiations with the West. Some skillful industrial representatives use their FTO board membership and their limited foreign exchange funds to influence the contract approval process. [ ]

Moreover, certain officials of the more significant ministries and industrial production associations are legally empowered to conduct economic, scientific, and technical discussions with foreign firms, and all ministers may sign intergovernmental cooperative agreements on volume, delivery date, and technical requirements. Specifically under Soviet law:

- Representatives from scientific research institutes, enterprises, and ministries may act as technical experts during commercial negotiations.
- Heads of industrial production associations may sign agreements on research and design work and on the exchange of technical documents or services.

Although such technical documents have less legal binding power on foreign companies than contracts, these agreements [ ]

become part of the USSR's long-term plan and are the basis for the final commercial contracts signed by the FTO, and the suppliers. [

] the Ministry of Foreign Trade usually has the final authority to resolve disputes between technical and trade personnel on negotiating teams.]

Many industrial ministries are authorized by Soviet law to sign preliminary contracts through their subordinate export associations (*zaganpostavki* and *zarubezhstroy*) that sell specialized machinery, equipment, or services abroad. Those associations control some of their export earnings, which they can then utilize to purchase foreign equipment and supplies for their own use. Under Soviet law the export associations cannot conduct large-scale import operations, which is the sole prerogative of the FTOs.

We agree with [ ] over the past decade that industrial ministries have attempted to use their export associations to increase their power to buy items abroad and meet with foreign officials. We believe, moreover, that these export associations have been backdoor channels for ministries to acquire goods not approved by the Ministry of Foreign Trade. During the confusion surrounding the debate on foreign trade reform that took place in the 1970s, the efforts of these associations were largely successful. For example, the [ ] noted in 1975 that employees of *zaganpostavki* associations appeared to play a major role in negotiating imports of equipment, particularly high technology goods. In addition, one official of the Ministry of the Communications Industry said in 1975 that *zaganpostavki* associations used their hard currency accounts to purchase foreign goods without the prior approval of the Ministry of Foreign Trade. When the debate ended in 1978, the Ministry probably began restricting those activities. In 1983 the [ ] that one *zaganpostavka* association had proved to be completely ineffective in convincing the Ministry of Foreign Trade to buy certain Western equipment:

For further information on the role of industrial ministries during technical discussions and on the Ministry of Foreign Trade's impact on the economy, see DI Research Paper SOV 84-10082CX, SC 00484/84 (Top Secret, [ ]), June 1984. *Longer Leadtimes. A Symptom of Soviet Problems in Using Western Technology* [ ]

although the association had not had sufficient funds to purchase the equipment itself, the industrial ministry had finally acquired the equipment through the GKNT.

In some cases we believe that certain industrial ministers in critical sectors of the economy are quite influential in foreign trade decision making. For example, according to Western press reports, the Minister of the Gas Industry—not Foreign Trade Ministry leaders—summoned West European representatives in 1982 to warn them that they would face stiff penalties if they reneged on their contract commitments because the United States had embargoed sales of US gas pipeline equipment to the USSR. The [ ] has reported that the Minister of the Petroleum Industry told [ ] diplomats in 1983 that the Ministry of Foreign Trade would not have the final decision in awarding major contracts for the Tenghiz sour gas and oil project. The Minister said he would decide because he had to ensure that the gas system functioned safely [ ]

] that the Ministry of Foreign Trade would decide the commercial aspects of that sale but that the Ministry of the Petroleum Industry would have a strong voice if Foreign Trade Ministry officials departed from the industry's technical specifications

If this trend to erode the policymaking authority of the Ministry of Foreign Trade continues, we would expect to see renewed infighting between Foreign Trade Ministry officials and industrial ministers that could be resolved only at higher levels—perhaps by the Council of Ministers. Such infighting against the Ministry's dominance, led by Gosplan, was prevalent during the debate on foreign trade reform

When technical specifications are not the primary topic, however, we believe that industrial ministers may find it difficult even to meet with foreign officials. For example, a senior US Government official experienced in US-Soviet trade said in 1977 that the Ministry of Agriculture had often taken a position secondary to the Ministry of Foreign Trade in agricultural negotiations [ ]

the Minister of Agriculture was barely able to overcome Foreign Trade Ministry objections to his visit with US Agriculture Secretary John Block when Block arrived in Moscow in 1983 to sign a long-term grain agreement.

**State Planning Committee.** Another major actor in the Soviet foreign trade bureaucracy is Gosplan—the central planning agency within the Soviet Government responsible for assembling the various Soviet foreign trade plans (annual five-year, and long-term). According to

and Soviet open source literature, each plan actually encompasses three separate foreign trade plans: an export-import plan; a plan for deliveries of equipment requiring Soviet technical assistance; and a balance-of-payments plan, which is prepared in conjunction with the Ministry of Finance.<sup>1</sup>

Gosplan Deputy Chairman N. N. Inozemtsev told in 1975 that Gosplan defined the overall patterns and levels of trade, whereas officials of the Ministry of Foreign Trade and its FTOs decided what and where to buy to fulfill the plan. Because Gosplan also determined the types and quantities of goods to be exchanged with countries that had long-term bilateral agreements with the USSR, Inozemtsev said, Gosplan representatives participated in commercial discussions with Western firms when large projects were under consideration.

As previously mentioned, throughout the 1970s Gosplan was in the forefront of the debate on foreign trade reform. Deputy Chairman Inozemtsev no doubt earned the enmity of Ministry of Foreign Trade officials in 1973, when he told US newsmen that the USSR should reorganize foreign trade organizations, develop closer relations among Soviet industry and trade groups, and promote increased contacts between Westerners and Soviet industry—all actions designed to weaken the Foreign Trade Ministry's control. Ministry leaders responded with a stinging article in

<sup>1</sup> The plan for deliveries of equipment is coordinated with the State Committee for Foreign Economic Relations and is not addressed in this paper. The balance-of-payments plan is described in the next section.

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### *Development of the Foreign Trade Plan*

reporting, specialized divisions of Gosplan's Foreign Trade Department forecast foreign trade in several stages:

- Experts compile the draft plans of the Ministry of Foreign Trade and industrial ministries into a matrix of export capabilities and import requirements by commodity ("product-country tables").
- They break down these projections by country-groups ("country-product tables"). Such groups include socialist countries, developed capitalist countries, and developing countries. Important trade partners are detailed individually.
- They incorporate the figures into a balance-of-trade plan. Generally, if the statistics show a deficit, they plan more imports, and if a surplus is indicated, then more exports.
- Researchers perform cost-benefit calculations by subjecting the trade plan to an "optimization model."

<sup>2</sup> In addition to the Foreign Trade Department, other Gosplan departments (Economic Cooperation With Foreign Countries Department and Economic Cooperation With Socialist Countries Department) assist in compiling the matrix. The Long-Term Planning Department compares the economic potential of the USSR with that of foreign countries.

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their official journal accusing certain Soviet "imperialist circles" of a campaign to undermine foreign trade. Until 1978 Gosplan leaders complained to US diplomats that Foreign Trade Ministry officials thought that the Soviet foreign trade monopoly meant a Ministry of Foreign Trade monopoly and that Gosplan did most of the work while the Ministry of Foreign Trade took all the credit for signing five-year agreements. Because the 1978 decree that reorga-



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nized foreign trade organizations\* did not significantly alter the Ministry's domination of foreign trade, we believe that bureaucratic rivalry between Gosplan and the Ministry of Foreign Trade still exists

If the Ministry's trading practices continue to have a negative effect on the economy, we believe that Gosplan may again take the lead in proposing reform of the foreign trade system and would certainly be backed by the GKNT and industrial ministries. Minister of Foreign Trade Patolichev—who successfully countered the last attempt to weaken the Ministry's control—may be too ill to survive another campaign.

**Financial Organizations.** During the planning cycle Gosplan and the Ministry of Finance compile the balance-of-payments plan on the basis of projected figures from the Ministry of Foreign Trade. This plan, according to Soviet and US academics, examines financial transactions for goods, services, non-trade invisibles (such as freight charges and insurance), and foreign aid. The Ministry of Finance, the State Bank (Gosbank), and the Foreign Trade Bank (Vneshtorgbank) prepare an annual balance sheet of the USSR's assets, liabilities, credit situation, and capital investments

Because of Soviet sensitivity to extensive indebtedness to Western creditors and the serious debt problems that East European countries incurred in the late 1970s, the Council of Ministers and the Politburo carefully examine credit obligations assumed by the USSR, according to a Soviet banking official. Once financial plans are approved, according to Soviet open source information, Gosbank provides credits to Soviet industrial, trade, and agricultural organizations that have permission to import equipment. Gosbank also sets the official exchange rate of the ruble and manages international financial transactions through Vneshtorgbank and several Soviet-owned banks abroad.<sup>1</sup>

\* The decree reorganized export-import associations into economic cost-accounting (*khozraschet*) foreign trade associations. The main change was a superficial, administrative renaming of offices and title.

<sup>1</sup> These banks are the Banque Commerciale Pour l'Europe du Nord (Eurobank) in Paris, Donau Bank in Vienna, East-West United Bank in Luxembourg, Ost-West Handelsbank in Frankfurt, Wozchod Handelsbank in Zurich, Moscow Narodny Bank in London and Moscow Narodny Bank branches in Beirut and Singapore.

Both Soviet foreign trade journals and reporting confirm that Vneshtorgbank and Gosbank officials supervise the fulfillment of the balance-of-payments plan by inspecting the status of foreign currency holdings of FTOs on a regular basis. Vneshtorgbank issues credits to FTOs for exporting Soviet goods and importing foreign goods until the FTOs receive reimbursements from their domestic and foreign customers. FTO managers use the hard currency allocated to them to buy goods on the market according to their own selection criteria as opposed to that of their customers, the industrial ministries. If a hard currency allocation is insufficient, an FTO can seek additional funds through Ministry of Foreign Trade and Vneshtorgbank channels

**The Soviet Foreign Trade Dilemma: the US Case** Soviet trade policy toward the United States over the past several years has added an increased political dimension to an already complex process. On this issue, Soviet political and economic leaders face a dilemma they have yet to resolve. They publicly acknowledge the need to import Western technology to stimulate productivity and economic growth, but most believe such trade leaves the USSR vulnerable to Western—especially American—political and economic leverage. Examples are the US economic sanctions imposed following the Soviet invasion of Afghanistan in late 1979 and the US gas pipeline embargo imposed after the declaration of martial law in Poland in late 1981. Our examination of public statements by Soviet leaders on trade and economic sanctions reveals a continuing debate on what trade strategy toward the United States should be. In the absence of an official agreement on trade policy, economic leaders have tended to act in a negative way toward US trade partners, although there have been recent signs of a thaw

**Inconsistent Policy Guidance.** In a survey of leadership speeches to domestic audiences from 1980 until late 1983, we found that most CPSU Politburo members issued icy condemnations of Western—mainly US—trade sanctions. The most extreme position was held by Ukrainian Communist Party First Secretary Vladimir Shcherbitskiy, who advocated autarky because the West "frequently exploited dependence." Only three of 12 Politburo members, albeit important

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ones (Konstantin Chernenko, Mikhail Gorbachev, and Nikolay Tikhonov), moderated this hardline position to support trade with capitalist countries on a "mutually beneficial basis." We believe that such inconsistent guidance from the top has left midlevel officials without clear choices or strategies; the actual result has been a steady decline in trade with the United States.

**The Practical Consequences.** Without precise guidance from the Politburo and under pressure from industrial ministers and managers to obtain guaranteed deliveries of goods from Western suppliers, Foreign Trade Minister Patolichev took the safest course of action politically and economically in 1980. At that time [redacted] that he had ordered the Ministry to divert trade normally conducted with the United States toward Western Europe and Japan.

In addition, Deputy Foreign Trade Minister Sushkov—a longtime proponent of trade with the United States—informed US businessmen and Soviet colleagues on several occasions from 1981 until early 1984 that the Ministry had taken certain actions to limit trade with this country because of the US-imposed sanctions:

- The Ministry removed the United States from its list of significant trade partners for long-term planning purposes.
- Of the 28 major US-Soviet joint projects under negotiation in 1979, almost all were subsequently awarded to non-US suppliers.
- Beginning in 1981 the Ministry instructed its FTOs to consider importing from the United States as a measure of last resort.
- To procure oil and gas equipment from countries other than the United States, the USSR in early 1984 established an organization in Moscow of foreign trade officials, petroleum engineers, and GKNT scientists from that critical energy sector.<sup>11</sup>

<sup>11</sup> US intelligence analysts who are experts in the field of Soviet energy believe, however, that the United States remains the sole supplier of some oil and gas equipment, such as submersible pumps.

In 1980 Gosplan officials revised the five-year plan for 1981-85 to "take care of uncertainties" in US-Soviet trade, according to V. V. Sulagin, a department chief of Gosplan's Economic Scientific Research Institute. Sulagin then noted that, until the Afghan-induced sanctions, Gosplan's 15-year plan had assumed that bilateral trade with the United States would be good, meaning "no cold war."

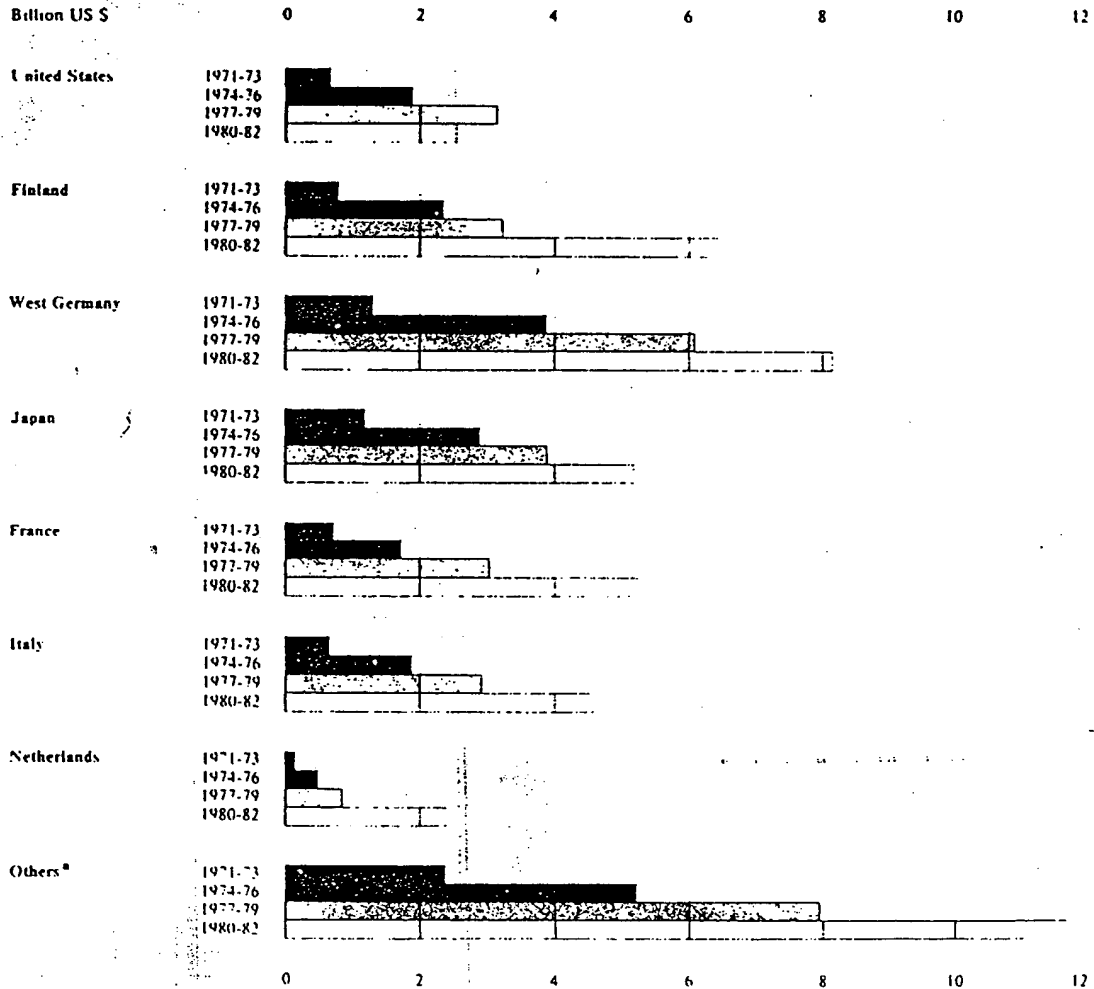
Since 1980, however, Gosplan experts may have amended their long-term plan to reflect continuing problems in US-Soviet relations, removing the United States from their list of important trading partners and making it more difficult for this country to compete with Western Europe and Japan for Soviet business (see Figure 4 for decline in US-Soviet trade). For example, [redacted]

[redacted] the USSR had no policy against the purchase of US oilfield equipment, but "practical considerations" (that is, past US embargoes) made it unlikely that the USSR would purchase much of that equipment in the future. Moreover, the US Embassy in Moscow believes that the Soviets almost certainly will not allow a US firm to head a consortium for large-scale programs, such as those for Astrakhan gas, Tenghiz sour gas and oil, and Kansk-Achinsk coal conversion, because they believe that possible sanctions will hinder the completion of the projects.

**Reappraisal.** Nonetheless, some industrial ministers—even those in sectors of the economy particularly hurt by US trade sanctions—are beginning to reappraise their misgivings about US trade. For example, the [redacted] in early 1984 that [redacted] and the [redacted] had suggested to a [redacted] that the USSR had gone too far in recent years in diverting purchases from the United States to other Western countries. The new [redacted] in

February 1984 that his Ministry was willing to purchase US agribusiness products. He also pointed out, however, that a debate among senior Soviet agricultural and foreign trade officials was under way over how much to trust a US company to provide technical

**Figure 4**  
**USSR-OECD: Trade Turnover Triennial Averages, 1971-82**



<sup>a</sup> Australia, Austria, Belgium, Luxembourg, Canada, Denmark, Greece, Ireland, Norway, Spain, Sweden, Switzerland, and United Kingdom

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and managerial assistance. According to a GKNT official, Ministry of Foreign Trade and GKNT leaders are also divided on this issue

We believe the Soviets are unlikely to take the initiative to improve bilateral trade relations. In their view, the onus is on the United States. For that reason, Soviet economic leaders welcome such US actions as the signing of the long-term grain agreement in 1983, official US participation in the meeting of the US-USSR Trade and Economic Council (USTEC)<sup>11</sup> in May 1984, and the US proposal, made in June, to ease strained relations by renewing the long-term agreement on economic, industrial, and technical cooperation.

<sup>11</sup> The USTEC is a nonprofit organization of US businessmen and Soviet officials of foreign trade and industrial ministries, which was established in 1973 and is headquartered in New York and Moscow. Its leadership is shared by Soviet and American chairmen

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