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WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE

Withdrawer

KDB 8/24/2015

File Folder SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION
UPDATES (4/1/82) (1)

FOIA

F03-002/5

Box Number 19

SKINNER

103

ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
168756 MEMO	N. BAILEY TO W. CLARK: SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION: UPDATE #16 PAR 10/11/2010 CREST NLR-748-19-16-1/8	3	4/1/1982	B1
168757 CABLE	RE SOVIET UNION	2	3/27/1982	B1
168758 CABLE	RE SOVIET UNION	3	3/27/1982	B1
168759 CABLE	RE SOVIET UNION	2	3/26/1982	B1
168760 CABLE	RE SOVIET UNION	3	3/27/1982	B1
168761 CABLE	271254Z MAR 82	1	3/27/1982	B1

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ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
168762 CABLE	RE USSR	3	3/25/1982	B1
168763 REPORT	RE USSR (PAGES 27-29 ONLY)	3	3/26/1982	B1
	R 1/13/2012 CREST NLR-748-19-26-8-1			
168764 CABLE	241635Z MAR 82	1	3/24/1982	B1
168765 CABLE	251320Z MAR 82	1	3/25/1982	B1
168766 REPORT	RE USSR (PAGE 5 ONLY)	1	1/13/2012	B1
	PAR 1/13/2012 CREST NLR-748-19-26-11-7			
168767 CABLE		2	3/29/1982	B1
168768 CABLE	291940Z MAR 82	1	3/29/1982	B1

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FLO:

The President has seen - 4/12/82.

jh

(logged) 4/12

~~SECRET~~

2 HW

MEMORANDUM

2206

NATIONAL SECURITY COUNCIL

April 1, 1982

4/15/82
RR
168756~~SECRET/SPOKE~~INFORMATION

DIA review complete

DECLASSIFIED IN PART

NLRR Crest

MEMORANDUM FOR WILLIAM P. CLARK

BY GS NARA DATE 1/13/12FROM: NORMAN A. BAILEY MBSUBJECT: Soviet Bloc Economic and Financial Situation:
Update #16Soviet Union

-- A Soviet medical delegation to France has complained that due to hard currency shortages they are unable to import medical equipment (Tab A). (S)

25X1

-- A senior Czech official is quoted as saying that the Siberian gas pipeline is a "... tremendous political opportunity for the future to weaken the U.S. economically and limit overall U.S. influence in Europe. (Tab D). (S)

-- All Soviet Western banks are in trouble because of unrelenting Soviet pressure to send funds to the USSR (Tab E). (S)

-- Bulk carrier charters should cost the USSR \$350-400 million in 1982 (Tab F). (C)

-- A computer specialist has stated that U.S. sanctions "... will significantly reduce the efficiency of the pipeline project when completed" (Tab G). (C)

-- For the first two months of 1982, Soviet output dropped in every major sector except electric power and natural gas over the same period a year ago (Tab H). (S)

~~SECRET/SPOKE~~

Review March 23, 2012

Derivative Classification by DIA

PRESIDENTIAL LIBRARY REVIEW OF NSC EQUITY IS
REQUIRED~~SECRET~~

3

~~SECRET/SPOKE~~

2

-- There are persistent reports of massive Soviet gold sales (perhaps 500 tons or more) on a long-term, fixed-price basis and/or loans collateralized with gold physically located in the West (Tab I). (C)

-- West European demand for Soviet oil is slackening (Tab J). (C)

-- The Soviets are reported to have ordered massive diversions from the other projects in order to complete the Siberian pipeline on time (Tab K). (C)

Poland

-- Polish coal shipments to West Europe have resumed (Tab L). (C)

-- Declining productivity in Polish coal mines is reported (Tab M). (C)



25X

-- A Polish official is reported to have stated that ". . . the only possible hope is that Western governments provide economic support to Poland" (Tab O). (S)

-- The Poles have started to threaten the official (Paris Club) creditors if they don't start talks on rescheduling of the 1982 debt (Tab P). (U)

Other Eastern Europe

-- West German banks continue to lend to East Germany "relying on prayer" (Tab Q).. (C)



25X

-- Rescheduling of the Romanian private debt is still in serious trouble (Tab S). (C)

-- Hungary is in the market for a syndicated \$250 million loan. Reaction is highly negative (Tab T). (C)

-- East Germany is cutting down drastically on its "foreign aid" (Tab U). (S)

-- There were Czech export shortfalls in 1981 in almost all areas (Tab V). (S)

~~SECRET/SPOKE~~

4

~~SECRET~~/SPOKE

3

DIA

25X

-- Popular dissatisfaction with the government is increasing markedly in Romania (Tab X). (S)

Miscellaneous

-- North Korea has been in default for years on its \$2 billion foreign debt. It is now reported that economic conditions are getting worse (Tab Y). (S)

25X1

cc: Tom Reed
Don Gregg
Gus Weiss
Henry Nau

~~SECRET~~/SPOKE

105
5

National Security Council The White House

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Package # 2206

02 APR 1 5:17

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Bud McFarlane	<u>2</u>	<u>[Signature]</u>	
Jacque Hill	<u>3</u>	<u>[Signature]</u>	
Judge Clark	<u>4</u>	<u>[Signature]</u>	<u>I</u>
John Poindexter			
Staff Secretary			
Sit Room			

☒ I-Information
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COMMENTS

Memo taken
 to President
 4/12/82.

4/16

0930
~~Wednesday~~

6

A

7

B

**National Security Council
The White House**

Package # 1896

02 MAR 27 A 9:23

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	<u>1</u>	<u>[initials]</u>	
Bud McFarlane	<u>2</u>	<u>[initials]</u>	
Jacque Hill	<u>3</u>	<u>[initials]</u>	
Judge Clark	<u>4</u>	<u>[initials]</u>	<u>I</u>
John Poindexter			
Staff Secretary			
Sit Room			

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CY To Meese		Show CC	
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COMMENTS

Hi
Send of RR at 0930 -
Bria,
Orig of cover going
to Pres. Watch up
when it comes back.

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UPDATES (4/1/82) (1)

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168757	CABLE RE SOVIET UNION	2	3/27/1982	B1

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168758	CABLE RE SOVIET UNION	3	3/27/1982	B1

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168759	CABLE	2	3/26/1982	B1
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168760	CABLE RE SOVIET UNION	3	3/27/1982	B1

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168761 CABLE

1 3/27/1982 B1

271254Z MAR 82

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168762 CABLE

3 3/25/1982 B1

RE USSR

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NLRR ~~CAST~~ ~~ULR-748-19-26-8-1~~
 BY C.V. NARA DATE 1/13/12

~~Secret~~

28

168763

USSR:
Economic Woes Continue (U)

Following three consecutive years of GNP growth at less than 2 percent, the Soviet economy got off to an even worse start this year. In January and February civilian industrial production dropped below the same two-month period last year. Output fell in almost every major industrial sector except electric power and natural gas. The only previous decline from year-earlier levels occurred in January and February 1979 and was due to exceptionally harsh weather. (C)

Although much of this year's slump stems from oil and coal shortages and transportation bottlenecks, the drop also reflects the increasingly taut state of the economy. Breakdowns in production and distribution in one sector reverberate throughout the entire system, idling capacity and disrupting production schedules. Industry's exceptionally dismal performance in January and February—coming on the heels of three successive years of record low growth rates—gives Soviet leaders cause for alarm. Another poor showing this year would further jeopardize the 11th Five-Year Plan (1981-85) and dash Moscow's hopes of rejuvenating industrial production in the short-to-medium term. (C)

1981 Results

The Economy. GNP grew at an estimated 1.8 percent in 1981, with all sectors performing in disappointing fashion. Farm output barely surpassed the depressed level of 1980, falling some 10 percent below the peak level achieved in 1978. The most striking negative development, however, was the decline in the growth of industrial production from 2.9 percent in 1980 to 2 percent in 1981—the smallest rise in the post-Stalin era. (S)

USSR: *Average Annual Percent*
Industrial Production Growth

	1971-75	1976-80	1980	1981
Total	5.9	3.4	2.9	2.0
Industrial materials	5.4	2.6	2.5	1.6
Electric power	7.0	4.5	4.5	2.3
Fuels	5.0	3.3	2.3	0.9
Nonferrous metals	5.9	2.6	0.8	0.3
Ferrous metals	4.0	1.1	-0.3	0.2
Wood, pulp, and paper	2.6	-0.1	2.8	2.2
Construction materials	5.4	1.8	1.0	1.2
Chemicals	8.6	3.8	5.2	3.5
Total machinery	7.9	5.4	4.4	2.6
Civilian machinery	9.0	5.8	3.8	1.8
Military machinery	4.5	3.4	6.6	5.7
Consumer nondurables	3.4	1.6	0.1	2.1
Light industry	2.7	2.6	2.0	2.5
Processed food	3.9	0.7	-1.4	1.7

~~Secret~~

Industry. The lackluster performance of Soviet industry—particularly the coal, steel, and machinery sectors—is a particularly bad omen for the Soviet economy. Falling coal production, for example, is undercutting Soviet plans to increase the use of coal in the generation of electricity and is a major constraint limiting the production of steel. The slow growth of construction materials, stagnant output of ferrous metals, and the lagging performance of civilian machine building imply that even the historically low rate of investment growth planned for 1981-85 (1.6 percent per year) may be unattainable. (U)

The low growth of civilian machinery output must be particularly alarming to Soviet officials. New, more technologically advanced products are badly needed to renovate and modernize the aging capital stock in the USSR, to stimulate energy development and conservation, and to substitute for increasingly scarce labor resources. (U)

Energy. The growth in major fuels (oil, natural gas, and coal) production plunged to about 1 percent in 1981. Oil production increased 1 percent last year; an even smaller increment to output is targeted for 1982. Even though drilling activity increased by a record amount, delays in bringing crucial gas-lift oil recovery projects on stream and the lagging development of rail networks, all-weather roads, and electric power facilities have constrained production activity. (U)

Coal is probably the USSR's most pressing energy problem. Last year output of raw coal fell for the third year in a row—to 704 million tons, some 12 million tons less than the previous year and 34 million tons short of plan. Three major factors continue to hamper coal production: (1) deteriorating conditions—notably increasing depths and narrowing seam thickness at the larger, established mines; (2) insufficient investment resulting in delays in bringing new capacity, particularly open-pit mines, on stream in time to offset output declines at older basins; and (3) increasing labor intensity of operations coupled with difficulty attracting new laborers into the mining profession. (U)

In contrast to oil and coal, Soviet natural gas production increased almost 7 percent, with practically the entire increase coming from West Siberian fields. The USSR possesses a huge natural gas reserve base—almost 40 percent of proven world reserves. (U)

Agriculture. Serious harvest shortfalls were widespread last year. Grain production is estimated to have been no more than 170 million tons—19 million tons below 1980 and about 65 million tons

below the plan target for 1981. The sugar beet crop dropped almost 25 percent to the lowest level since 1963, and potato production was up only slightly from the previous year's severely depressed level. A near record cotton harvest was the single exception to an otherwise dismal agricultural year. (C NF)

In the livestock sector, overall herd numbers increased slightly after stagnating in 1980 as increases in cattle and sheep offset a small decline in hog inventories. Figures on private herds, however, were not published in the annual plan-fulfillment report. We suspect that private livestock holdings may have fallen for the fourth consecutive year. Despite the regime's promise of increased support for private agriculture, feed supplies have become increasingly tight, and private farmers may be slaughtering their holdings or selling them to socialized farms. (U)

To compensate for the shortfalls in domestic production, large quantities of agricultural commodities again had to be imported in 1981. Hard currency imports—largely grain, other feedstuffs, meat, sugar, and vegetable oil—reached \$12 billion, up sharply from \$8.8 billion the previous year. Agricultural imports accounted for two-fifths of Moscow's total hard currency merchandise imports in 1981, compared with one-third in 1980. (C)

Capital Formation. The increase in commissionings of new plant and equipment slumped to 2 percent last year, reflecting both the low rates of growth of new fixed investment during the previous two years and the continuing inability of Soviet planners to significantly reduce the level of unfinished construction. Even though the level of unfinished construction fell in 1980 for the first time, the reduction was small—slightly over a billion rubles compared with a total value of unfinished construction of over 105 billion rubles. Preliminary information suggests that it may have increased again in 1981. (U)

Consumer Welfare. Soviet living standards as measured by per capita consumption increased approximately 1.5 percent last year, about the same as in the previous year but less than the annual gains attained during the 1970s. Food supplies in state retail outlets continued to dwindle as increasing amounts were diverted to factories for distribution. The leadership clearly regards the food shortages as serious. At the November plenum, Brezhnev cited them as the most critical economic and political issue of the 11th Five-Year Plan. Meanwhile, the authorities invoked a system of purchase norms last summer in some areas—a type of informal rationing whereby purchases of both quality foods and bread and other cereal products are strictly limited. Formal rationing was instituted in several cities. (C)

Large food imports are playing a major role in keeping food supplies at tolerable levels. Imports of meat last year, for instance, totaled an estimated record 925,000 tons. Per capita meat availability increased fractionally due to the growth in meat imports and a slight increase in domestic production, but still remained at about the 1975 level. (C)

Leadership Response

Moscow still has not formulated a policy to deal with the economic slowdown. Nor have any new solutions for revitalizing effectiveness in planning and management been put forth. The essence of the Kremlin's program has been to stress the need for more innovation and technological change in industry; material savings and the conservation of fuel and other natural resources are also being emphasized. These programs are a replay of measures tried in the past with little success. The obstacles to innovation and technological change that have plagued the Soviets in the past—a cumbersome organizational structure, inflexible prices, and a perverse incentive system—remain unaltered. (U)

It is difficult to be sanguine about Soviet plans for material and energy savings. The conservation targets set forth in the 11th Five-Year Plan and the strict standards for resource use established in a party-government decree last July are more an expression of what would have to happen to achieve balance than a reasoned estimate of what is possible. (U)

There still are no indications that Moscow is any more willing now than in the past to make basic structural changes to the existing economic mechanism. Recent attempts at reform have been implemented sluggishly and with little enthusiasm. The comprehensive decree of July 1979, rather than resulting in significant reform, has spawned more centralized, rigid, and detailed planning than before. Also the high-level interdepartmental council established last year to evaluate economic reform measures adopted in Eastern Europe still has not come forth with any proposals for the Soviet economy that deviate from established practices. (U)

The Soviet leadership's basic message to the man in the street is only to "remind" him that harder times are here, that the United States and corruption in Soviet society are largely to blame, that belts are going to have to be tightened, and that people are going to have to stop grumbling and work harder. (C)

This article is Secret Noform.

31

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WSJ 3/29
3/25/82

32

Soviets Use Gold As Collateral To Back Loans

Bankers Say Moscow Needs
Cash, but Wants to Avoid
Lowering Price With Sales

Special to THE WALL STREET JOURNAL

ZURICH—The Soviet Union has put up large amounts of gold as collateral against Western credits, Swiss bankers disclosed.

They said as much as 6.4 million to 9.6 million ounces of gold could be involved. At current prices, that much gold is worth \$2.1 billion to \$3.2 billion.

The bankers, declining to be named, said Moscow needs hard currency for grain purchases and to help East European countries meet debt payments to the West.

But recent large Soviet gold sales played a major part in depressing gold prices, and further sales would push down the price even further, the bankers said. Moscow thus switched to using gold as collateral.

"There also have been reports that the Soviet Union is having some difficulty in making gold deliveries," one gold dealer said.

So far, according to the sources, Soviet gold-as-collateral dealings have been with Swiss commercial banks and with the Bank for International Settlements in Basel.

BIS spokesmen were unable to either confirm or deny the report. They said they don't know of any such arrangement but "would be unable to make any comment in any case" because of the confidential nature of the BIS, which acts as a central bank for central bankers.

Theoretically, however, the institution could grant credit to the Soviet central bank even though it doesn't belong to the BIS, officials agreed. The BIS does provide credit against collateral to several member central banks and regulations also permit such arrangements with nonmember central banks.

There had been rumors in New York that Moscow has put up as much as 32 million ounces of gold as collateral for BIS credit. Swiss bankers said this was "totally exaggerated" and, in any case, Swiss commercial banks as well as the BIS are involved. The amount probably is around 6.4 million ounces and certainly no more than 9.6 million ounces, they said.

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168766

USSR - WESTERN EUROPE: Weak Demand for Soviet Oil

Slackening West European demand for Soviet oil has reduced the USSR's hard currency earnings and would substantially damage Moscow's hard currency position if it were to continue much longer. (C)

[redacted]
[redacted] Lisbon has refused to renew its agreement signed last year to purchase oil from the USSR because of the high prices asked. Portugal may continue to purchase Soviet oil but will do so on the spot market, where prices have fallen \$5-6 per barrel since mid-January. (C)

Comment: Other Soviet customers probably are also requesting price reductions. If prices continue at the current level throughout this year, Soviet oil earnings would be reduced by about \$2 billion. In addition, there would be a further loss in hard currency if the volume of Soviet oil exports also fell. (e)

The weak demand for oil already has caused problems for Moscow. It comes at a time when shortfalls in the harvest have led to large outlays of hard currency for grain, meat, and sugar imports. (C)

MORI/CDF per C05184976.

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29 March 1982

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168768	CABLE	1	3/29/1982	B1
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