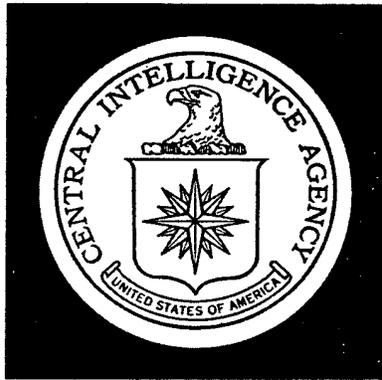


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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

*Soviet Hard Currency Expenditures
on Foreign Ship Chartering*

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Foreword

This report provides an estimate of Soviet expenditures of hard currency for the charter of foreign ships. The estimate is the result of an analysis of the movement of Soviet seaborne foreign trade, by direction, commodity, and volume. Soviet expenditures in 1965 are emphasized because it is the latest year for which a Soviet foreign trade handbook is available. The trend of expenditures in 1966 and the outlook for 1967 are also discussed.

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

INTELLIGENCE REPORT

Soviet Hard Currency Expenditures
for Foreign Ship Chartering

Summary

During 1965 and 1966 the USSR made net hard currency expenditures of about \$44 million and \$47 million, respectively, for the charter of foreign ships. Recent abundant Soviet wheat harvests should make possible a sharp decrease in these expenditures -- to about \$17 million in 1967.

The \$44 million in net hard currency expenditures during 1965 included \$28.7 million to carry imports, \$13.5 million to carry exports, and \$2.1 million to carry cargoes between foreign ports on Soviet account. Soviet imports of grain from Canada, Australia, and Argentina accounted for most of the expenditures on imports. Petroleum accounted for two-thirds of the chartering expenditures for export cargoes. Most of the funds spent to move cargoes between foreign ports were used to divert Soviet purchases of Canadian grain and flour to Cuba and Australian grain to Egypt. All expenditures above the \$44 million were, in effect, reimbursed in hard currency by the foreign purchasers of c.i.f. exports.

Note: This report was produced by CIA. It was prepared by the Office of Economic Research; the estimates and conclusions represent the best judgment of the Directorate of Intelligence as of November 1967.

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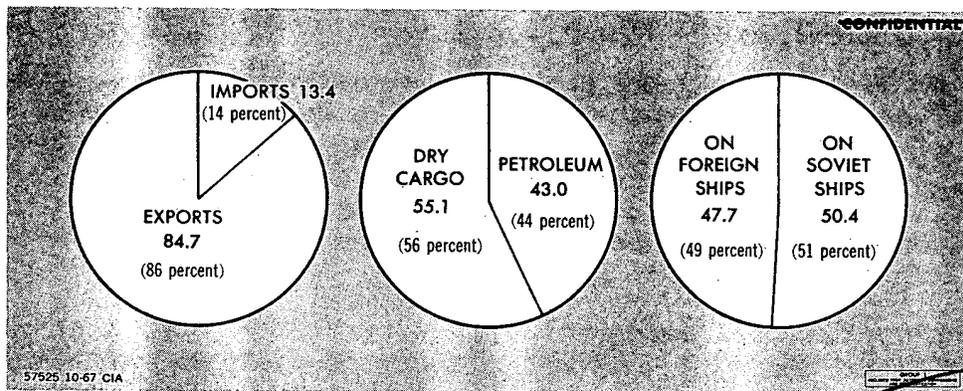
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In 1966, Soviet direct and indirect hard currency expenditures for ship chartering probably increased to about \$47 million because of a continuing need to move part of Soviet grain imports on chartered ships. The outlook in 1967 is for a decrease in nonreimbursed expenditures of hard currency to \$17 million due largely to a substantial decrease in chartering for grain imports. There is little likelihood of increased Soviet expenditures for the charter of tankers resulting from the increase in charter rates since the closure of the Suez Canal.

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Introduction

1. In 1965 the seaborne foreign trade of the USSR reached a volume of 98.1 million tons,* 6 percent of the world total. The predominance of exports in this trade, the distribution of this trade between dry cargo and petroleum, and the approximately equal shares of this trade carried by Soviet and foreign ships are shown in millions of tons and by percentage distribution in the following chart:



2. More than half of the 47.7 million tons of Soviet foreign trade cargoes carried by foreign ships in 1965 moved on ships chartered by the Soviet ship chartering agency *Sovfracht*. Most of these cargoes consisted of c.i.f. exports to Great Britain, Italy, Japan, and other industrially

* Under the accounting system employed by the Soviet Ministry of the Maritime Fleet, all Soviet foreign trade cargoes that move on the Danube River are included in the seaborne foreign trade of the USSR. Because of the difficulty of extracting purely river cargo from data provided by the Ministry of the Maritime Fleet, the statistics on Soviet seaborne foreign trade used in this report include Soviet foreign trade on the Danube. The 98.1 million tons includes only imports delivered to the USSR and exports shipped from the USSR -- excluding cargoes shipped between foreign ports on Soviet account. All tonnages are in metric tons.

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developed countries of the Free World.* Soviet expenditures of hard currency to charter ships for exports to these countries are reimbursed in hard currency. Thus the only Soviet expenditures of hard currency for the charter of foreign ships which are not reimbursed in hard currency are those involving (1) Soviet imports from all countries, (2) Soviet c.i.f. exports to countries whose trade with the USSR is entirely or partly in clearing** rather than hard currency, and (3) certain shipments between foreign ports on Soviet account.

Imports

3. The overwhelming predominance of exports in Soviet seaborne trade means that Soviet ships frequently are available to carry import cargoes on their return voyages. Soviet trade officials, therefore, buy most imports f.o.b. In 1965, approximately two-thirds of Soviet seaborne imports moved on Soviet ships.

4. Soviet hard currency expenditures for chartered foreign shipping to carry the remaining

* When exports are sold on a c.i.f. basis, the exporter is responsible for their transportation to the port of the importer, and the price paid by the importer covers the cost of the merchandise plus charges for insurance and freight. When exports are sold on an f.o.b. basis, the importer is responsible for the cost of transportation and insurance.

** The trade of the USSR with all Communist countries, most of the less developed countries, and certain countries in the developed Free World is conducted in accordance with payments or "trade and payments" agreements which stipulate that payments for goods traded between the signatory countries will be handled through clearing accounts. This means that as long as trade between the two countries remains more or less in balance, no currency, hard or soft, has to change hands. On the other hand, trade transactions between the USSR and countries with which it does not have payments agreements that stipulate payment in clearing require payment in hard currency, usually US dollars or British pounds.

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imports totaled at least \$28.7 million in 1965.* Most of these funds were spent to transport the massive grain imports that followed the poor wheat harvest in the USSR (see Table 1). The remainder was spent to supplement the Soviet tonnage used in moving routine imports of sugar from Cuba.

Table 1

Soviet Imports Carried on Chartered Foreign Ships
Requiring Net Hard Currency Expenditures
1965

Commodity	Country of Origin	Volume of Imports (Thousand Metric Tons)		Soviet Hard Currency Expenditures (Thousand US \$)
		Total ^{a/}	On Foreign Ships Chartered for Hard Currency	
Wheat	Canada	3,000	1,600 ^{b/}	12,800
Wheat	Australia	1,100	260 ^{b/}	2,200
Wheat	Argentina	860	860 ^{c/}	12,000
Sugar	Cuba	2,000	160 ^{b/}	1,700
Total		<u>6,960</u>	<u>2,880</u>	<u>28,700</u>

a. Including only those movements of imports in which chartered foreign ships participated. Soviet ships also participated in all of these movements except that of wheat from Argentina. There were additional movements of imports during 1965 in which only Soviet ships participated.

b. Carried on Soviet-chartered ships.

c. Imports of wheat from Argentina were carried on Free World ships chartered by the seller who was reimbursed, in turn, by the USSR.

* *Because of difficulties in estimating time chartering costs and, under some circumstances, in determining whether a given voyage was performed under a voyage or a time charter, chartering costs throughout this report have been estimated on the basis of voyage charter rates. When current rates for specific cargoes moving on specific routes were not available, rates were estimated using adjusted data for other routes or time periods.*

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5. Although Soviet purchases of grain from both Canada and Australia were f.o.b. so that the USSR chartered the foreign ships directly, grain purchases from Argentina were c.i.f. In this case, the Argentine sellers paid the chartering fees and passed the cost on to the USSR as part of the c.i.f. price. All of the 860,000 tons of Argentine grain went to the USSR in chartered Free World tonnage. The indirect transportation cost to the USSR was about \$12 million.

Exports

6. During 1965, 85 million tons of Soviet exports moved by sea. More than half of these exports went to the 37 countries (see Appendix A) that are believed to transact their trade with the USSR primarily in hard currencies. Therefore, any hard currency paid by the USSR to charter foreign ships for the movement of c.i.f. exports to these countries was reimbursed in hard currency as part of the total cost of the goods. However, Soviet seaborne trade with 35 other countries (see Appendix B) -- including most of the European Communist countries, Finland, Iceland, the Netherlands, and many of the less developed countries -- was in clearing, which means that Soviet chartering expenditures for the movement of exports to those countries were not reimbursed in hard currency. Soviet exports to 16 of these countries moved entirely on Soviet ships or on foreign ships for which the USSR had to disburse no hard currencies (see Appendix B).* Deliveries to each of the remaining 19 countries included some cargoes that moved on ships chartered by the USSR for hard currency. This chartering cost the USSR \$13.5 million -- \$8.9 million for petroleum cargoes and \$4.6 million for dry cargoes. Nearly 84 percent of the cost was for the movement of exports to less developed countries and Cuba (see Table 2).

* Ships in the latter category would normally include both ships chartered by the USSR with payment in clearing (mostly Communist flag) and ships chartered by trading partners of the USSR to carry Soviet exports sold on an f.o.b. basis.

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Table 2

Soviet Exports Carried on Soviet-Chartered Foreign Ships
Requiring Net Hard Currency Expenditures, by Country a/
1965

Recipient Country	Volume (Thousand Metric Tons)			Hard Currency Expenditures (Thousand US \$)		
	Dry Cargo	Petroleum	Total	Dry Cargo	Petroleum	Total
<u>Less developed</u>	<u>330</u>	<u>1,946</u>	<u>2,276</u>	<u>2,799</u>	<u>7,120</u>	<u>9,919</u>
Brazil		338	338		1,112	1,112
Cambodia	15		15	100		100
Ceylon	22	267	289	200	1,199	1,399
Cyprus	5		5	48		48
Egypt	63		63	945		945
Ghana	97	578	675	735	2,121	2,856
Greece	10		10	80		80
Guinea	17	10	27	119	30	149
India		488	488		2,147	2,147
Morocco	11	103	114	108	281	389
Pakistan	20		20	180		180
Syria	5	55	60	60	99	159
Tunisia	9		9	60		60
Turkey	56	107	163	164	131	295
<u>Developed</u>	<u>145</u>	<u>218</u>	<u>363</u>	<u>1,076</u>	<u>900</u>	<u>1,976</u>
Finland		60	60		241	241
Iceland	3	158	161	15	659	674
Netherlands	142		142	1,061		1,061
<u>Communist</u>	<u>65</u>	<u>158</u>	<u>223</u>	<u>744</u>	<u>850</u>	<u>1,594</u>
Cuba	50	158	208	519	850	1,369
Yugoslavia	15		15	225		225
<u>Total</u>	<u>540</u>	<u>2,322</u>	<u>2,862</u>	<u>4,619</u>	<u>8,870</u>	<u>13,489</u>

a. Including only exports to countries whose trade with the USSR in 1965 was in clearing.

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7. In 1965, less than 44 percent of the volume of Soviet seaborne foreign trade consisted of crude oil and petroleum products. Most of the 43 million tons of petroleum cargoes were exports, as shown in the following tabulation:

	<u>Million Tons</u>		
	<u>On Soviet Ships</u>	<u>On Foreign Ships</u>	<u>Total</u>
Exports	22	20	42
Imports	1	0	1
Total	<u>23</u>	<u>20</u>	<u>43</u>

8. Foreign tankers carried 20 million tons of Soviet petroleum exports in 1965. However, only 2.3 million tons of this amount required Soviet charter expenditures of hard currency that were not reimbursed in hard currency (see Table 2). The remaining cargoes consisted of the categories given in the following tabulation:

	<u>Million Tons</u>
Exports for which the USSR was paid in hard currency	10.6
Exports for which the USSR was paid in clearing	
Carried on tankers chartered with payment in clearing	0.8
Carried on tankers chartered by the purchaser (f.o.b. exports)	6.3
Total	<u>17.7</u>

9. The chartering costs to the USSR in hard currency for the movement of the 2.3 million tons were \$8.9 million. The heaviest charter expenditures were for petroleum exports to India, Ghana, Ceylon, Brazil, and Cuba.

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10. In 1965, dry cargo exports totaled 43 million tons -- 78 percent of the total dry cargo that moved in Soviet seaborne foreign trade in 1965 and 51 percent of total exports. Only 540,000 tons of these exports required Soviet outlays of hard currency that were not reimbursed in hard currency. The cost in hard currency of transporting them was \$4.6 million. The heaviest expenditures were for the movements of dry cargo to the Netherlands, Egypt, Ghana, and Cuba. The major dry cargoes that moved on ships chartered by the USSR for hard currency were wood, cement, sugar, and metals, as shown in Table 3.

Table 3

Soviet Exports of Dry Cargo
Carried on Soviet-Chartered Foreign Ships
Requiring Net Hard Currency Expenditures,
by Commodity. a/
1965

Commodity	Volume (Thousand Metric Tons)	Soviet Hard Currency Expenditures (Thousand US \$)
Wood	197	2,525
Cement	127	810
Sugar	38	348
Metals	56	277
Coal	50	196
Machinery and equipment	20	180
Fertilizer	32	163
Foodstuffs	5	33
Paper and cellulose	5	16
Chemicals	2	10
Miscellaneous	8	61
Total	<u>540</u>	<u>4,619</u>

a. Including only exports to countries whose trade with the USSR in 1965 was in clearing.

Shipments Between Non-Soviet Ports

11. Although Soviet-chartered ships are used primarily to carry exports from or imports to the USSR, they sometimes carry shipments between non-Soviet ports. These shipments usually consist of goods purchased by the USSR but delivered to a third country. During 1965 the most important of these cargoes were wheat and flour purchased from Canada and Australia (see Table 4). The USSR delivered 663,000 tons of its purchases of Canadian wheat and flour to Cuba -- 493,000 tons in Soviet ships and 170,000 tons in Soviet-chartered ships. The hard currency cost of chartering these ships was \$1.1 million. Similarly, 240,000 tons of Australian wheat were diverted to Egypt -- 185,000 tons in Soviet ships and 55,000 tons in Soviet-chartered foreign ships. The hard currency cost was \$580,000. Some 27,000 tons of the sugar imported from Cuba were diverted to Ceylon on Soviet-chartered foreign ships -- at a hard currency cost of \$340,000. The total expenditure of hard currency for the movement of these cargoes between non-Soviet ports in 1965 was \$2.1 million.

Trends in Net Hard Currency Expenditures in 1965-67

12. Soviet expenditures of hard currency for the chartering of foreign ships during 1965, excluding those that were reimbursed in hard currency, totaled more than \$44 million. These expenditures were distributed as shown in the following tabulation:

	<u>Million US \$</u>
For movement of imports	28.7
For movement of exports	13.5
For movement of cargoes between non-Soviet ports on Soviet account	2.1
Total	<u>44.3</u>

This total is equivalent to 15 percent of the estimated \$305 million Soviet deficit on current account with hard currency countries in 1965.

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Table 4

Cargoes Carried on Soviet-Chartered Foreign Ships
Between Non-Soviet Ports
Requiring Soviet Net Hard Currency Expenditures

Commodity	Country of Origin	Country of Destination	Volume (Thousand Metric Tons)		Soviet Hard Currency Expenditures (Thousand US \$)
			Total ^{a/}	On Foreign Ships Chartered for Hard Currency	
Wheat and flour	Canada	Cuba	663	170	1,091
Wheat	France	East Germany	600	125	125
Wheat	Australia	Egypt	240	55	580
Sugar	Cuba	Ceylon	27	27	340
Total			<u>1,530</u>	<u>377</u>	<u>2,136</u>

a. Including only those movements of cargo carried between non-Soviet ports in which Soviet-chartered foreign ships participated. Soviet ships also participated in all of these movements of cargo. There were additional movements of cargo on Soviet account during 1965 in which only Soviet ships participated.

13. The volume of Soviet cargoes carried by foreign ships in 1966 was 6 percent greater than in 1965. Since there were no major changes in the pattern of trade and shipping and only minor changes in freight rates, it is likely that the increase in nonreimbursed Soviet expenditures of hard currency for ship chartering during 1966 was of comparable magnitude, and that these expenditures increased from \$44 million in 1965 to approximately \$47 million in 1966. This is equivalent to 13 percent of the estimated \$370 million Soviet deficit on current account with hard currency countries in 1966.

14. These expenditures should decrease substantially in 1967. The record-breaking wheat harvest in the 1966/67 crop year and an above-average harvest in the first half of the 1967/68 crop year make it unlikely that the USSR will have to use chartered foreign ships to carry some of its grain imports and grain diversions in 1967 as it did in 1965 and 1966. This factor alone could reduce Soviet expenditures of hard currency in 1967 by \$30 million. Moreover, Soviet hard currency expenditures for the charter of foreign

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tankers are unlikely to be increased significantly by the high-voyage charter rates generated by the closure of the Suez Canal. The USSR has more tankers available this year and also has reduced petroleum exports to many countries that previously received part of their imports of Soviet petroleum in Soviet-chartered foreign tankers. Thus the level of Soviet expenditures of non-reimbursed hard currency for ship chartering could drop from approximately \$47 million in 1966 to approximately \$17 million in 1967.

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Appendix A

Countries That Traded with the USSR
Entirely or in Part by Sea
and That Transacted Their Business
with the USSR in Hard Currency During 1965

Argentina	Nepal (trade by sea via India)
Australia	New Zealand
Belgium	Nigeria
Canada	Norway
Denmark	Saudi Arabia
Ethiopia	Senegal
France	Spain
Great Britain	Sudan
Indonesia	Sweden
Iraq	Switzerland (trade largely by sea via Italy and the Nether- lands)
Italy	
Ivory Coast	Tanganyika
Japan	Thailand
Jordan	Togo
Kenya	Uganda
Kuwait	Uruguay
Lebanon	United States
Libya	West Germany
Malaysia	Yemen

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Appendix B

Countries That Traded with the USSR
Entirely or in Part by Sea
and That Transacted Their Business
with the USSR in Clearing Accounts During 1965

Algeria*	Iceland
Brazil	India
Bulgaria*	Iran*
Burma*	Mali*
Cambodia	Morocco
Cameroon*	North Korea*
Ceylon	North Vietnam*
Communist China*	Netherlands
Congo (Brazzaville)*	Pakistan
Cuba	Poland*
Cyprus	Rumania*
Dahomey*	Sierra Leone*
East Germany*	Somalia*
Egypt	Syria
Finland	Tunisia
Ghana	Turkey
Greece	Yugoslavia
Guinea	

* Soviet exports to these countries moved either entirely on Soviet ships or on Soviet ships and foreign ships for which the USSR did not have to disburse any hard currency.

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