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TO: Chief, Economic Research Area

SUBJECT: The Current Gold Position of the USSR

REFERENCE: Paper Entitled, "The Soviet Union's Gold Policy and Gold Sale"

A review of the paper "The Soviet Union's Gold Policy and Gold Sale" reveals some differences between their estimates of gold production, sales, and reserves, and ours. The chief difference centers on the magnitude of Soviet gold reserves. As a result, their concept of Soviet gold policy is somewhat at variance with ours.

Attached is a summary of our views on the Soviet gold position from 1920 to the present.

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THE CURRENT GOLD POSITION OF THE USSR

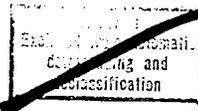
I. Production of Gold in the USSR

A. Lode and Placer Deposits

The principal deposits of gold in the USSR are found in the Kolyma River basin in Magadanskaya Oblast, in the Indigirka and Aldan River basins in Yakutskaya ASSR, in the Lena River basin in Krasnoyarskiy Kray, in the Transbaikal region, and in the Urals. Although many other deposits have been exploited at different times, the above areas have been the principal resource base for the Soviet gold industry. Intensive prospecting during the period has been successful mainly in extending the boundaries of known gold-bearing areas; few deposits of any long-term significance have been discovered, and the USSR continues to the present time to rely for most of its production of gold on the major deposits that have been producing gold for the last 60 years.

In 1929 an intensive program was launched to raise production of gold from the million-ounce-per-year level of the 1920's. Under the stimulus of large investments, production of gold was increased rapidly in the following years to almost 6 million ounces in 1936, and goals for succeeding years indicated that production was expected to increase well beyond this level. Its failure to do so probably

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resulted in part from the purges of 1937 that removed A. P. Serebrovskiy, Director of the Chief Directorate of the Gold and Platinum Industries (Glavnoye Upravleniye Zoloto-Platinovoy Promyshlennosti -- Glavzoloto), as well as many of the best engineers and administrators, and in part from the failure of efforts to expand production in the Chief Directorate for Construction of the Far North (Glavnoye Upravleniye Stroitel'stva Dal'neyshego Severa -- Dal'stroy*) to a level approximating that of Glavzoloto's output.

Soviet production of gold is believed to have declined substantially during World War II, when men and equipment were transferred to war industries. Although no specific information is available on the extent of the decline, a decrease of about 40 percent may be inferred from information on output in the Kolyma basin, on byproduct output from the copper industry, and on performance in industries closely associated with Glavzoloto.

Production of gold in the USSR since World War II has not equaled prewar output, the reason probably being a combination of factors. First, resources were limited immediately after the war, particularly resources of manpower and of capital, and those that

* Dal'stroy was organized in 1932 by the OGPU for the purpose of exploiting the Kolyma gold fields by the use of forced labor. Geographically, Dal'stroy included Magadanskaya Oblast; Koryakskiy Okrug; and the territory of Yakutskaya ASSR encompassed by the Yana and the Indigirka Mining Directorates.

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were available were needed to rebuild the basic industries. Later in the postwar period, when more manpower and capital were available, there was little incentive to produce gold on the prewar scale. Production costs in the Soviet gold industry* were mounting while the price of gold in the Free World remained fixed.** Moreover, commodity prices in the Free World were rising, thus decreasing the buying power of gold. Faced with these conditions, the Soviet planners apparently decided that large investments in the gold industry were not warranted. Consequently, production immediately after the war increased very little, and lode and placer output declined in later years as the result of the closing down of some very high-cost enterprises.

During the prewar period, 70 to 80 percent of the Soviet output of gold was produced by Glavzoloto. Glavzoloto exploited all of the major gold deposits in the USSR except for those in the territory controlled by Dal'stroy.*** Approximately half of the gold mined by Glavzoloto was obtained from lode or reef deposits and half from placer deposits.

* Rising costs were due primarily to the depletion of deposits. This situation is not surprising in view of the large quantities of gold that have been recovered during many years from the same gold-producing areas.

** Since January 1934 the world price of gold has remained close to the US price of \$35 an ounce.

*** As pointed out above, Dal'stroy included Magadanskaya Oblast and the eastern part of Yakutskaya ASSR. Two gold-producing areas in the western part of Yakutskaya ASSR -- the Dzugdzhur and the Yakutsk (Aldan) -- were not under the jurisdiction of Dal'stroy but were subordinate to Glavzoloto.

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Unlike Glavzoloto, Dal'stroy exploited placer deposits almost exclusively under extremely difficult conditions. Most of the deposits were in remote northern areas where the climate was unusually severe, where the working season was relatively short, and where living conditions were harsh. Since these factors made it difficult to attract labor to the area, resort was made to forced labor, and during the 1930's great numbers of political prisoners were settled in labor camps in the gold mining areas. Although many of the deposits were reported to be extremely rich in gold, the shortness of the working season and the primitive mining methods employed combined to limit production. It is doubtful that the annual output ever exceeded 1.25 million ounces even in the most productive years of the major deposits under the control of Dal'stroy.* Mineral reserves, moreover, did not prove to be so great as had been anticipated, and even before World War II, costs began to climb sharply as the more accessible bodies of ore were depleted. In postwar years, high costs became a major factor in curtailing production.

In mid-1957 during the nationwide industrial reorganization, Dal'stroy and Glavzoloto were abolished, and the administrative control of the gold-producing areas was transferred to the sovmarkhozes.

* Dal'stroy is believed to have reached its maximum prewar output in 1940, when a total estimated at 1,250,000 ounces was produced.

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All but two of the former gold directorates of Dal'stroy were transferred to the Magadan sovnarkhoz. The remaining two, the Indigirka and the Yana Directorates, were transferred to the Yakutsk sovnarkhoz. Of the gold-producing trusts formerly subordinate to Glavzoloto, administrative control of the two that were located in Yakutskaya ASSR -- the Dzhugdzhur and the Yakutsk (Aldan) -- was assumed by the Yakutsk sovnarkhoz. Administrative control of the rest, which are widely scattered throughout the USSR, has been taken over by the appropriate local administrations.

B. Byproduct Recovery

Copper, lead, and polymetallic ores in the USSR contain unusually large quantities of gold compared with similar ores in the US. Because there is an affinity between gold and copper, most of the gold present in polymetallic ore remains with the copper and is recovered from the slimes produced by the electrolytic copper refineries. While small quantities of gold sometimes occur as free gold and are recovered during the processing of the ores and some gold is recovered at lead smelters, the quantities are relatively insignificant and add little to Soviet production.

Byproduct recovery was a relatively unimportant source of gold before World War II because of the small output of the copper and lead industries in those years. Since World War II, however,

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output of copper has risen steadily, doubling in 1951 the level of 1946 and tripling that level in 1960. The amount of byproduct gold recovered is believed to have increased proportionately.

Copper ores probably will become an increasingly important source of Soviet gold in the future. By 1965, according to the Seven Year Plan, output of copper will be nearly twice that of 1958, and the amount of gold recovered from byproduct sources may be well over 1 million ounces.

II. Domestic Consumption

Prior to 1950, net consumption of gold by industry and the arts in the USSR is believed to have been negligible for several reasons. First, the requirement of Soviet industry for gold during these years probably was relatively small because of concentration on the development of heavy industry and on production of relatively unsophisticated industrial equipment. Second, the Stalin regime was preoccupied with accumulating a large gold hoard, thus mitigating against the release of large quantities of gold to the arts. Third, returns from industry and the arts were large. Gold had been accumulated by institutions, particularly the Russian church, and by the population over centuries of time, and these were a fruitful source of gold during this period. For these

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reasons, it is believed that before 1951 the level of consumption was relatively low and probably did not exceed, by a significant amount, returns from industry, institutions, and the population.

After 1950, net consumption of gold in the USSR probably attained a considerable magnitude. Reasons for believing so are as follows: (1) domestic sources of gold including industry, institutions, and the population were exhausted during the 1930's and World War II, and returns from these sources during the 1950's probably dwindled to negligible quantities; (2) the demand for gold by the industrial sector of the economy probably kept pace with or exceeded the rapid expansion of industry during this period, mainly because of the growing importance of the industries producing chemical and electrical equipment; (3) the strength of the Soviet economy relative to the Free World steadily increased; and (4) the internal political climate after Stalin's death in 1953 changed noticeably. The last two developments produced some change in the Stalinist position that large gold reserves were necessary as a buffer against the capitalist world.

The annual net consumption of gold by the USSR during the decade of the 1950's and in 1960 and 1961 is estimated at 1,240,000 ounces, and the total consumption for these 11 years at 13,640,000 ounces.

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III. Sales, 1920-61

Information on Soviet sales of gold is very fragmentary. The USSR has never reported sales of gold, and many of the nations of the Free World have been reluctant to release information on purchases of gold from the Sino-Soviet Bloc. Most of the figures, therefore, are estimates based on partial data.

During the 1920's, sales of gold by the USSR are estimated to have totaled about 23 million ounces, some 18 million ounces in excess of production. In the 1930's, sales decreased several million ounces from the preceding decade in spite of a very great increase in output of gold. Sales during and immediately following World War II were relatively small, amounting to about 7.6 million ounces. Beginning in 1951, however, the USSR began selling large quantities of gold. Total sales in the 1950's amounted to about 40 million ounces and exceeded production during this period by over 4 million ounces. Sales in 1960 and in 1961 continued at a high level totaling more than 11 million ounces in two years and exceeding production by almost 3.5 million ounces.

IV. Reserves

A. Pre-World War II, 1920-41

The USSR in 1920 had about 25 million ounces of gold that it inherited from the Tsarist government. In the prewar period,

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almost 54 million ounces were produced domestically, and about 30 million ounces were collected from the population, acquired from Spain and the Baltic countries, or came from unknown sources. Total sales during this period amounted to about 46 million ounces, leaving about 37 million ounces as an indicated addition to reserves. Thus Soviet gold reserves are estimated to have increased from a little less than 25 million ounces in 1920 to almost 62 million ounces by the end of 1941.

During the 1920's the USSR drew on its reserves to settle trade deficits, with the result that reserves were reduced to less than 6 million ounces by 1928. Reserves did not regain the level of 1920 until 1935 and then only because an amount estimated at 12.46 million ounces was collected from the population and added to reserves. Rising production during the 1930's and the acquisition of about 16.3 million ounces of Spanish gold increased Soviet holdings to about 62 million ounces by the outbreak of World War II.

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	<u>Troy Ounces</u>	<u>Million US \$ *</u>
Inherited from Tsarist government	24,900,000	872
Collected from the population	12,460,000	436
Acquired from Spain**	16,300,000	570
Acquired from Baltic countries	860,000	30
Domestic production	53,820,000	1,884
Total available gold	<u>108,340,000</u>	<u>3,792</u>
Sales	46,430,000	1,625
Reserve balance at the end of 1941	<u>61,910,000</u>	<u>2,167</u>

B. World War II and Post-World War II, 1942-61

The USSR presumably added to its gold reserves each year from 1942 to 1952 since sales of gold did not exceed annual production until 1953, when 4.29 million ounces were sold. In the following years, in spite of imports of Chinese Communist and North Korean gold, total sales and consumption exceeded production and imports by more than 21 million ounces. As a result, gold reserves were reduced from an estimated 86.6 million ounces (US \$3 billion) in 1953 to an estimated 65.6 million ounces (US \$2.3 billion) at the

* The current price of US \$35 an ounce, set by the US in January 1934, is used for all years for purposes of comparison.

** The fate of the Spanish gold has never been firmly established, although presumptive evidence is very strong that about US \$570 million of the total US \$700 million held by the Spanish government at the outbreak of the civil war was shipped to the USSR.

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end of 1961. The following tabulation summarizes the acquisitions and dispositions of gold in the USSR during 1942-61 and shows the reserve balance at the end of 1961:

	<u>Troy Ounces*</u>	<u>Million US \$</u>
Reserves as of 1 January 1942	61,910,000	2,167
Domestic production	70,000,000	2,450
Receipts from Communist China and North Korea	3,910,000	137
Total available gold	<u>135,820,000</u>	<u>4,754</u>
Sales	55,950,000	1,958
Consumption	13,640,000	478
Loans to Hungary and Poland	680,000	24
Reserve balance at the end of 1961	<u>65,550,000</u>	<u>2,294</u>

* Rounded to the nearest ten thousand.

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