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PROSPECTS IMPROVE FOR INCREASE
IN SOVIET PURCHASES
OF WESTERN CHEMICAL PLANTS AND EQUIPMENT



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PROSPECTS IMPROVE FOR INCREASE
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Several signs point to an impending acceleration in the purchase of chemical plants and equipment by the USSR from the Free World. First, a repetition of last year's extraordinary Soviet expenditures for imports of grain now seems unlikely in view of prospects for a good grain crop in 1964. Second, the USSR has been successful in obtaining assurance of some credits beyond the previous limit of 5 years. Finally, the magnitude of negotiations during the first 8 months of this year (involving some 70 plants valued in excess of \$700 million) portends a larger volume of contracts than has been evidenced to date. Thus far in 1964, contracts have been concluded for only 10 plants with an estimated value of \$140 million. The USSR must begin placing more orders soon if it is even to approach the 1970 goals set for the chemical industry.

1. Background

On 9 December 1963, Khrushchev stated:

We shall willingly give orders to the firms of [the capitalist] countries for a whole set of chemical enterprises ... and shall pay them whatever is required by commercial agreements. However, those who hope to obtain fabulous profits on these deals, allegedly exploiting an "advantageous economic situation," and who assume that the Soviet Union will be forced to accept any kind of agreement because it allegedly has "no other choice," will be bitterly disappointed. I repeat, those who want to make an honest profit will be given orders by us, provided credit is available ...

Following Premier Khrushchev's revelation of plans for the vast new chemical program at the Party Plenum last December, there was a multiplication of the already extensive negotiations for the purchase of chemical plants from the Free World. Representatives of major chemical companies throughout the world have made pilgrimages to Moscow in the hope of obtaining a share of the prospective trade, and itinerant Soviet delegations have brandished shopping lists in Tokyo, London, New York, Paris, and other centers of commerce. Soviet

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negotiators often were members of the Kremlin hierarchy. First Deputy Premier Mikoyan, who headed a trade delegation to Tokyo in May 1964, expressed interest in purchasing from Japan a number of plants (predominantly chemical plants) totaling in value some \$350 million, although he indicated that these purchases were contingent on the availability of favorable credit terms. In March, First Deputy Premier Kosygin visited Italian chemical equipment factories, and Premier Khrushchev himself discussed with Danish Prime Minister Krag the possibility of Soviet purchases of fertilizer plants. 1/

The stakes involved are not small. It has been estimated that chemical plants and equipment valued at approximately \$2 billion will be required from the Free World during 1964-69 to implement the Soviet chemical plan for 1970. 2/ Soviet trade officials allegedly have stated that they were prepared to buy chemical equipment from the West valued at \$350 million annually for the next 7 years. 3/ (In the 7-year period 1957-63 the USSR concluded contracts with the Free World for chemical plants with an estimated value in excess of \$900 million.) Most of the new contracts will involve plants incorporating the latest technological advances for production of chemical fibers, fertilizers and other agricultural chemicals, and plastics. Many of these plants will be very large by world standards.

2. Developments Since the Plenum

Although previous negotiations for the sale of chemical plants and equipment to the USSR have often been protracted, the publicity surrounding the new program suggested that extensive Soviet purchases were imminent. To date, however, there has been much smoke and little fire. By early September, firm contracts had been signed for only 10 chemical plants with a total value of approximately \$140 million (see the table). Six of these plants are for production of agricultural chemicals or of raw materials for production of chemicals, including a urea plant that is expected to be one of the largest of its type in the world.

Overshadowing the completed transactions have been the volume and scope of the negotiations. Based on an analysis of shopping lists and negotiations for specific plants, the total value of the approximately 70 plants under discussion since the Plenum is estimated to be in excess of \$700 million. Two contracts having a total value of some \$180 million reportedly are very close to completion -- one with a UK consortium for

a giant dacron fiber complex valued at \$140 million, the other with Japan involving a large plant for production of an intermediate for nylon fiber. Actually, one contract covering part of the dacron complex, with a value of \$84 million, was signed in early September, with separate contracts for the remainder apparently to be concluded in the near future.

The delay in actual commitments probably is attributable to a variety of reasons. Prominent among these have been (a) an apparent reluctance of the USSR to commit scarce foreign exchange before the harvest prospects for 1964 could be assessed and (b) hard bargaining on the part of Soviet negotiators in order to gain the best possible financial terms. Other factors in the delay probably include the size and complexity of the contracts being negotiated, indecision as to the exact requirements of the new program, Soviet bureaucratic delays, and resistance by entrenched interests to the reallocation of resources necessitated by the program. As an example of the delays, the contract mentioned above for the dacron complex was reported to be near approval in February 1964, but a contract covering only part of the transaction was not signed until September.

3. Prospects

Several factors, however, point to an acceleration in the placement of orders. As of mid-August the grain crop in the USSR promised to be the best since the estimated record crop of 1958, presumably eliminating any further large drain on hard currency resources for imports of grain and permitting attention to be focused on purchases of plants and equipment for the high-priority chemical program. Of course the possibility exists that an improvement in the agricultural situation would reduce the pressure for imports of fertilizer plants, although such a reaction seems unlikely on the basis of a single good harvest.

The USSR evidently will be able to obtain financing for some industrial purchases with a longer repayment period than the 5-year credits previously extended. A recent contract concluded with Japan for a urea plant reportedly has credit terms of 8 years. ^{4/} The British government has agreed to guarantee up to \$280 million in long-term credits with a repayment period as long as 15 years, and the French government appears to be favoring more flexibility on credit terms in preparation for future discussions on a trade agreement. Finally, after 6 months of negotiations, the USSR may conclude that firm orders must be placed soon if the goals set for 1970 are to be approached. Certainly the volume of negotiations alone gives reason to expect an increased number of signed contracts in the near future.

Table

Contracts for the Purchase of Chemical Plants
by the USSR from the Free World
January-September 1964

Type of Plant	Annual Production Capacity (Metric Tons)	Price (Million Current US \$)	Country	Exporter Firm
Urea <u>a/</u>	360,000	9	Japan	Toyo Engineering
Dacron <u>b/</u>	N.A.	4.2	West Germany	Krupp
Herbicides <u>c/</u>	6,000	5	West Germany	Krupp
Dacron <u>d/</u>	50,000	84	UK	Polyspinners Ltd.
Complex fertilizer <u>e/</u>	500,000 <u>f/</u>	N.A.	France	Potasses et Engrais Chimiques
Poultry feed <u>g/</u>	2,400	N.A.	France	Alimentation Equilibree
Fertilizer <u>h/</u>	N.A.	15	France	Union Chimique
Phosphoric acid <u>i/</u>	50,000 to 60,000	2	Belgium	N.A.
Plastics processing equipment <u>j/</u>	36,000	1.5 to 3.0	Austria	Wilhelm Anger
Polyvinyl chloride floor tile (two plants)	50,000	12.5	Austria	Wilhelm Anger

a. 5/
b. 6/
c. 7/
d. 8/
e. 9/
f. The capacity is tentative. Other reports show a much higher figure.

g. 10/
h. 11/
i. 12/
j. 13/
k. 14/

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