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CENTRAL INTELLIGENCE AGENCY  
WASHINGTON, D.C. 20505

[REDACTED]  
9 March 1979

MEMORANDUM FOR: Mr. Robert P. Gallagher  
Acting Director  
Office of Intelligence Liaison  
Department of Commerce

SUBJECT : Competing for Soviet Contracts

1. Attached is an advance copy of our analysis of the US competitive position in general and US-French commercial competition.

2. If you have any questions regarding the attached please call [REDACTED] I plan to be in the office most of Saturday morning.

[REDACTED]  
Office of Economic Research

Attachment  
As Stated

ER M 79-10158

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Competing for Soviet Contracts

Overview

In choosing among competing Western equipment suppliers, Soviet buyers are guided by two major factors. First of all Gosplan allocations of hard currency for purchases from the West are often contingent on the availability of long-term credits at favorable rates; major deals may also require Western acceptance of Soviet goods produced by this imported equipment. Next, Soviet buyers (along with their counterparts in the industrial ministries) seek to minimize the risks associated with importing Western equipment and technology. The Soviets prefer suppliers that have previously been successful in selling equipment to the USSR. By dealing with familiar suppliers, the foreign trade bureaucracy minimizes its risks, negotiations are made easier by mutual recognition of each other's business practices, the technical capabilities of the company in question has been demonstrated, and the means of obtaining acceptable financing has been established. [REDACTED]

Many US firms compete at a disadvantage in this environment, especially because US companies cannot offer the long-term low-interest credits made available elsewhere in the West. By and large, US companies have also suffered from

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their late entry into the Soviet market. The Soviet preference for dealing with known suppliers and the relative disinterest of US companies in penetrating the Soviet market is particularly true for smaller deals. Distance is also a factor, making negotiations more costly and time consuming and reducing the attractiveness of counterpurchase arrangements to US companies. [redacted]

In some cases, US companies have offsetting advantages, however. This is particularly true in big projects where US design technology and productive capacity may be uniquely suited to Soviet requirements. It is also true where US firms hold a monopoly in the technology needed by the USSR. Even in such cases, however, the lack of US credit facilities has forced US companies to source as much of the requisite equipment as possible with foreign firms located in countries -- Japan, France, Canada, UK, Germany -- that can take advantage of government-supported credits. [redacted]

The 28 projects listed in the Verity proposal to the USSR should be viewed in this light. In most cases several Western firms have been contacted by the USSR for the projects in question. US firms have no particular competitive edge in terms of product quality or price. With the exception of a few instances in which the US company holds a distinct technological advantage, the lack of government-supported

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credits therefore puts the American companies at a competitive disadvantage.

A look at the prospects raised by Soviet energy projects illustrates the proposition advanced above. US firms do not monopolize the production of the general run of petroleum equipment and thus cannot effectively control Soviet acquisition of advanced oil and gas technology. A unique US position has been achieved in only a few items of equipment that the USSR needs: electric centrifugal submersible pumps, high pressure blowout preventers, subsea blowout preventer control systems, and well completion equipment and drill bits. The USSR has already purchased the submersible pumps it needs through 1983. Although the big four drill bit producers (Hughes, Smith, Reed, and Dresser) supply the bulk of Free World output of 250,000 bits annually, Dresser has already sold state-of-the-art drill bit technology to the USSR. Since 1976 the USSR and Eastern Europe have, however, purchased all their oil and gas well completion units from US petroleum equipment firms and probably will do so for the time being at least.

But US domination of the world market for petroleum industry equipment and technology will not necessarily last. There are no permanent barriers to new foreign competition. US patent positions are weak and unenforceable. Moreover,

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control over sales to the USSR of petroleum equipment by foreign subsidiaries and licensees of US firms is weak. [redacted]

The French Initiative

In late January Soviet Deputy Foreign Trade Minister Vladimir Sushokov reportedly warned [redacted] that the French were pushing the USSR very hard on trade issues and that French President Giscard D'Estaing would seek Soviet acceptance of several French commercial proposals involving projects on which US firms had bid. Paris, which has made available a large credit line to the USSR, has been disappointed with the low level of Soviet equipment orders in 1978. The Soviets, for their part, have promised to take greater advantage of French credits and have cited unfinished construction at home as the reason for their delay. Some of the contracts likely to be discussed at the 21 March Franco-Soviet summit are examined below. [redacted]

Telephone Switching Equipment. The Soviet Union is seeking Western assistance in obtaining equipment, materials, and technology required for the domestic manufacture of central office telephone switching equipment. In October 1978, Western Electric of the US delivered a \$1 billion initial proposal. Early this month, however, France's Thompson CSF announced the signing of a \$110-million deal with the USSR for the project. The details of the reported contract are

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vague; presumably the French will license the technology and provide equipment for the production of telephone switching equipment. The switching system offered by the French is more advanced than that offered by the US firm; the difference between the US cost estimates and the reported contract value signed with the French suggests that Thompson CSF offered far less technology and manufacturing equipment than Western Electric. [redacted]

The Tass Computer. Last summer the US government denied [redacted] an export license to supply the USSR with a computer system for Tass. The US firm has recently re-applied for a license to sell a similar system. [redacted] has indicated that France's CII-Honeywell-Bull is also bidding for the contract and was meeting with the Soviets this week. Honeywell-Bull is able to offer the USSR equivalent hardware and, in all likelihood, can provide the Soviets with a competitive software package. [redacted]

Novolipetsk Dynamo Steel Facility. The USSR is interested in technology and equipment for a facility to make special steel for the laminations of electric motors and generators.

[redacted] the US is involved in the bidding in partnership with Nippon Steel Co. Indeed, most of the equipment is expected to be supplied from Japan to take advantage of Japanese government supported credits.

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French firms have apparently been bidding on this project since Moscow first requested proposals in April 1976. To our knowledge, France's Creusot-Loire can meet all the requirements of the Soviet proposal, including equipment, technology, and engineering. They stand a good chance of winning the \$400 million contract on economic grounds alone. High level political support will only enhance Creusot-Loire's position. [redacted]

Sayansk Aluminum Smelter. The Soviets have been talking with US and foreign companies for eight years concerning plans to build a new 500,000 metric ton/year aluminum smelter in Siberia. [redacted] acting jointly with West Germany's Kloeckner/INA, and the French firm Pechiney-Ugine-Kuhlmann appear to be finalists in the bidding. The USSR has stated a preference for the US technology, but the French firm, the first to submit a proposal, is receiving strong political support. In September 1978 the French government reportedly approached the Soviet Ministry of Foreign Affairs regarding the project, and a direct approach at the supra-ministerial level in the upcoming Soviet-French economic meetings seems almost certain. For its part, [redacted] West German partner reports that Bonn has told the Soviets of its interest in the fate of the [redacted] Kloeckner bid. [redacted]

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Cooperation in Automobile Production. The USSR has approached almost all of the major Western automobile manufactures regarding assistance in developing a replacement for the old Moskvich car. The Soviets want to have a Western firm design a car, assist in equipping existing Soviet plants to produce it, and accept enough Soviet-produced cars -- which would incorporate some Western components -- to cover the Soviet hard currency costs associated with importing the requisite technology and equipment. [redacted]

[redacted] is offering the Soviets help in building its "world car," essentially a 1982 model Opel. The project would be handled by Opel in Germany, with only a fraction of the expected hard currency cost returning to the US. France's Renault should be competitive [redacted]. As the second largest automobile manufacturer in Europe, Renault has the capability to design a car according to Soviet requirements and to serve as a general contractor for the project. In fact, Renault may hold an advantage in addition to its access to French credits. The firm assisted the USSR in more than doubling output of Moskvich cars from the Moscow plant in 1967-1972 and established a 150,000-200,000 unit production facility to produce Moskviches at Izhevsk. Renault has also been a major supplier to the Kama truck production complex. [redacted]

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