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Note: Numbers in parentheses indicate the maximum number of characters and blanks to be inserted in a line—i.e., (16) means no more than 16 spaces.

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CENTRAL INTELLIGENCE AGENCY
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National Foreign Assessment Center

14 August 1980

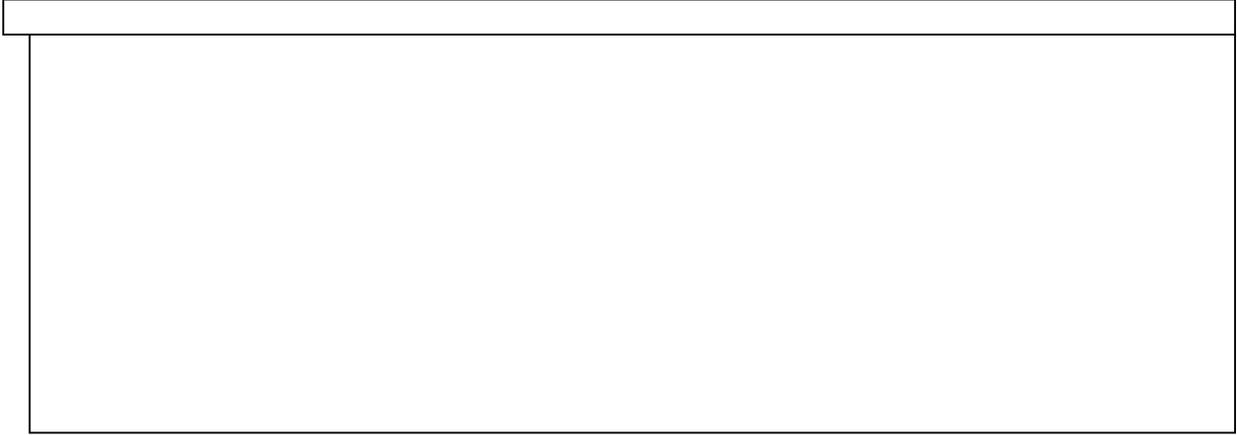
MEMORANDUM FOR: Hazel Denton,
National Security Council

SUBJECT : Status of Technology Sanctions
Against the USSR

Attached is the unclassified background material on the status of technology sanctions against the USSR which you requested for use by Ambassador Owens in testimony for Senator Proxmire. If you desire further assistance on this matter, please contact

Attachment:
as stated

Distribution: ER M 80-10465



Status of Technology Sanctions Against the USSR

In the months since economic sanctions were imposed against the USSR, Western sales of industrial plant and machinery have dropped markedly. New contracts signed during January-June totaled \$364 million, only about one-quarter of the rate for the past two years. While this slowdown may reflect in part the traditional drop in orders at the end of a five-year plan period, tacit Western support for US economic denial measures has been a more important factor. Major Western governments have slowed commercial discussions on new industrial projects, mainly by delaying the extension of new credit lines and official credit guarantees. The cooperation appears aimed at least as much at accommodating US demarches as at punishing Moscow for Afghanistan. (U)

The willingness and ability of major Western governments to continue their support of the sanctions is uncertain. The business communities in Europe and Japan are anxious to resume sales to the Soviets. The governments in turn also are concerned that key economic interests could be affected by a long-term deterioration in relations with the USSR. (U)

Status of Major Projects

Since sanctions were imposed in January, the Soviet Union has signed only one major contract with a Western firm -- a \$120 million deal with the French for an offshore oil rig fabrication yard at Baku-Astrakhan. Discussions have proceeded on other projects, but to date few deals have been concluded. In some cases, the denial of US technology and equipment has set back Soviet timetables or reduced the level of technology for key projects. The two most notable examples involve the contract awarded jointly to Armco and Japan's Nippon Steel to construct a \$350 million steel mill at Novolipetsk and an Alcoa-West German bid on a \$450 million aluminum smelter at Sayansk. In each case, US withdrawal has meant that the USSR has had to redesign the project and accept less sophisticated technology. Discussions on projects not involving US firms also have been delayed by decisions of most major Western governments to withhold new officially-backed credits. (U)

Sanctions apparently have had a less impact to date on projects already underway. For the Kama River Truck Plant, US equipment needed to complete the first phase of the facility was already in operation or on site when the sanctions were imposed. As a result, operations at the plant do not appear to have been materially affected by the embargo. The denial measures have not put a crimp in Western sales of large-diameter

pipe to the Soviet Union. Since the first of the year, the Soviets have ordered a record 2 million tons of such pipe needed for its ongoing pipeline construction program. West German and Japanese firms -- traditionally the USSR's main suppliers -- contracted to sell three-quarters of the total tonnage. (U)

Status of Credit Negotiations

At the beginning of 1980, all major allies were in the process of negotiating new credit extensions to the Soviets. To date, only France and Japan have granted new officially-backed financing for exports to the USSR.

- Paris reached agreement with the Soviets on the terms of government-backed credits for exports in 1980-85, but did not specify an amount of credit to be provided.
- Following several months delay, Tokyo approved a Japanese Eximbank loan for the sale of large-diameter pipe, but only after obtaining Washington's approval. The Japanese have not reopened talks -- cancelled in January -- on officially-backed financing for Siberian development projects.

The West German government has asserted that it will not curtail credit guarantees for the USSR, but to date Bonn has announced no new guarantee approvals. Italy has postponed negotiations with the Soviets on establishing terms for a new credit line, although the minister of foreign trade recently announced plans to submit a proposal to the Italian government for the reopening of credit discussions with the Soviets. Both the United Kingdom and Canada allowed their credit lines to the USSR to expire and have stated that future official financing will be considered only on a case-by-case basis. (U)

Mounting Counterpressures

Although the West European countries and Japan have on balance supported the US on the denial measures, they have also kept the door to the Soviet market ajar. Unwilling to directly oppose the US on sanctions, these governments are all feeling strong pressures from their own firms interested in selling to the Soviets. Moscow has whetted the appetite of these firms by offering up the prospect of large contracts over the next several years contingent upon the availability of government-backed financing. Japanese firms, for example, recently agreed in principle to sell the USSR 5 million tons of large-diameter pipe during 1981-85. They are hopeful of concluding a contract for 1981 deliveries soon. Italian firms have reached similar framework agreements to supply large-diameter pipe and chemical plants over the next several years. (U)

Western Europe's interest in continued trade with the USSR extends beyond developing export markets. For example, the eagerness of the West Europeans to begin negotiations on a massive natural gas pipeline from the USSR to Western Europe reflects their desire to diversify future energy supplies as well as the \$4-5 billion in sales of pipe and equipment the project would generate. (U)