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U.S.S.R.

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20 October 1977

MEMORANDUM FOR THE RECORD

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SUBJECT: Soviet Deception in the Economic Area

The attached memorandum was forwarded to

NFAC Liaison to DDS&T, for inclusion in an inter-Agency study, "A Survey of Warsaw Pact Deception and Intelligence Denial Activity".

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17 October 1977

MEMORANDUM FOR: NFAC Liaison to the DDS&T
SUBJECT : Soviet Deception in the Economic Area

1. The Soviets rarely falsify economic data. Instead, they omit, reclassify, redefine and conceal data that they believe would violate their national security or prove embarrassing. Some data are unavailable because (1) they are not collected in the USSR, (2) they are not published in channels accessible to foreigners, or (3) they are buried in categories useful only in Soviet economic analysis. For the purpose of this memo, Soviet deception is assumed only if an obvious reason can be discerned for concealing the data from foreigners. This is not an exhaustive list, but it includes the most obvious examples that create serious obstacles to an accurate assessment of the Soviet economy.

2. Foreign Trade -- The USSR does not publish data on its external financial position, e.g., the data required to join an international organization such as the IMF. This would encompass statistics on gold reserves and sales, net services and transfers (including data on interest payments on the hard currency debt, tourism and transportation services and hard currency transfers) and capital flows.

3. Soviet foreign trade data is published in annual handbooks which are fairly complete and consistent. Occasionally, however, some categories are combined or eliminated that illustrate Soviet sensitivities in certain areas.

- a. Grain - The entire grain category was excluded from the 1972 handbook, the year of the massive grain purchases from the West.
- b. Petroleum - Since 1967, a breakdown of oil trade into crude and petroleum products by country has not been revealed although total trade for these categories has been given. In the 1976 edition, individual petroleum products were combined into one category.

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- c. Chemicals - In the 1976 handbook, some major commodities such as phosphate rock, sulfur and rubber are no longer given as individual line items by quantity and value.
- d. Ferrous metals - The 1976 handbook no longer breaks down the two major categories, rolled steel and steel pipe. The latter contains two particularly important items from the intelligence standpoint, large diameter pipe and oilfield pipe.
- e. Nonferrous metals - Many individual items were dropped from the 1976 handbook, including copper, lead, zinc and aluminum.

3. Aggregate economic statistics

- a. Industrial production indexes appear to be computed using a methodology that deliberately overstates the real growth rate.
- b. Much budget data is considered sensitive and is believed to be concealed in residual categories or distributed among other budget items. This includes,
 - the location, amount and scope of the appropriations for expansion and maintenance of state material reserves.
 - investment in defense industries.
 - the distinction between civilian and military outlays in ostensibly civilian economic expenditure categories.
 - the science budget by end-use.
 - the defense budget by end-use.
 - expenditures on intelligence and internal security operations.
 - location and amount of budget funding for nuclear energy, foreign economic and military aid, and civil defense.
 - numerous budget revenues such as receipts from gold sales in the West, income from foreign trade, repayments for credits extended to foreign countries.

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- c. Demography - Apparently because of rising infant mortality rates, the 1975 Nar. khoz. did not include the rate for 1975. In the 1976 Nar. khoz., the entire infant mortality column was eliminated.

4. Industrial materials

- a. Petroleum - No statistics are available on oil reserves, capacity of oil refineries, output of petroleum products, consumption of petroleum products, or storage of crude oil and petroleum products. In the 1976 Narodnoye khozyaystvo all data on regional production of oil and gas and statistics on drilling have been eliminated.
- b. Nonferrous metals and gold - Production data on these items are guarded as state secrets.
- c. Chemicals - No production data is published on synthetic rubber, pharmaceuticals, chlorine, nitric and phosphoric acid, and phosphate rock, probably because they are considered to be strategic. Information on the share of Soviet chemical output produced in the Eastern regions was discontinued after the publication of the 1973 Nar. khoz. Perhaps embarrassed by the slow rate of construction, the Soviets have stopped publishing in the annual plan fulfillment reports information on the locations of chemical plants that have commissioned new facilities. In one case, the Soviet press reported a plant reaching rated capacity a year ahead of schedule which a Western contractor that supplied the facility proved was not true.

5. Agriculture

With the notable exception of meat output in 1976, an unsupportably large number, the agricultural data published in the Soviet yearbooks does not seem to be deliberately deceptive. However, this does not mean that the information can be taken at face value. Grain output, for example, is given in bunker weight, that is, the weight of harvested grain is estimated as it comes from the combine, not on a cleaned and dried basis. This practice tends to overstate the size of the grain harvest but is more likely a function of the crude state of the statistical reporting system than an attempt to deceive outsiders.

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Forward estimates of agricultural production, consumption, demand and trade are another matter. The Soviets have been extremely reluctant to reveal this type of information even after promising to do so in an agricultural exchange agreement signed with the US in 1973. In 1974 they claimed that the inclusion of this provision had been a mistake and that plan data should be adequate. Moreover, US field inspection teams which the Soviets agreed could visit the USSR twice during each crop season have been constantly harassed. Visits to 'vital grain areas have been denied, causing one US team to depart after several days in Moscow.

6. Machinery

The Soviets have successfully acquired electronic (semiconductor) production machinery from the US through illegal channels since at least 1973. US suppliers have been both witting and unwitting. Despite trade controls, this is possible because the machinery typically travels to two or more countries before reaching Moscow.

The Soviets frequently publicize in catalogs and brochures, as available for sale, machinery that is still in development. This is done, at least in part, to encourage the relaxation of US trade controls policy.


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