

25X1

Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140033-1

Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140033-1

**Secret**



# Economic Intelligence Weekly

**Secret**

CIA No. 7805/73  
27 September 1973

RECEIVED  
PLEASE  
AGENCY AND

Copy No.

255

25X1

Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140033-1

Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140033-1

## CONTENTS

	<u>Page</u>
<b>Notes</b>	
Soviet Turbines for US Hydro Powerplant	1
US Representation at the Fall Canton Fair	1
Peru and Cerro Corporation Reach an Impasse	1
Progress on a Siberian Truck Plant	2
<b>Articles</b>	
<b>Worldwide Food Developments</b>	3
<b>Chile: The Junta's Economic Policy Begins to Take Shape</b> <i>Austerity for the people and reversal of some of Allende's socialization measures are in prospect.</i>	5
<b>Pakistan: Floods Cause Economic Setback</b> <i>Damage will slow government development expenditures and hurt the trade balance.</i>	6
<b>International Monetary Developments</b> <i>Intervention by the European central banks plus tightened French and Belgian controls helped stem another large-scale speculative attack on the European joint float.</i>	7
<b>Uranium Enrichment Developments</b> <i>The Soviet Union signed its second enrichment contract with the West; meanwhile, the initial price of enrichment from the tripartite's plants was publicized.</i>	9
<b>New Round of Canadian Manufacturing Expansion</b> <i>Booming investment should stimulate US-Canadian trade.</i>	10
<b>Comparative Indicators</b>	
Recent Data Concerning Domestic and External Economic Activity	Inside Back Cover

Note: Comments and queries on the contents of this publication are welcomed. They may be directed to

25X1

## **ECONOMIC INTELLIGENCE WEEKLY**

### **Notes**

#### **Soviet Turbines for US Hydro Powerplant**

The USSR, after persistent efforts, has an excellent chance to win a contract to supply generating equipment for a US hydroelectric powerplant. Energomasheksport teamed up with Westinghouse to submit the low bid for eight 53-megawatt generating units for the Rock Island Dam on the Columbia River. The team made three proposals, with bids ranging from \$36.4 million to \$39.9 million, compared with a \$47.4 million bid by Allis Chalmers, their closest competitor. Westinghouse would manufacture the generators, and the Leningrad Metal Works the turbines.

25X1

#### **US Representation at the Fall Canton Fair**

A record number of US businessmen are scheduled to attend the Canton Fair that begins on 15 October. The Chinese plan to invite most old customers and increase the number of newcomers to broaden contacts with US firms and increase the number of products traded. Peking increased US representation from 40 Americans at the spring fair of 1972 to about 160 last spring.

25X1

#### **Peru and Cerro Corporation Reach an Impasse**

Cerro Corporation has broken off negotiations for sale of its Peruvian mining properties, following Lima's refusal to grant export permits for zinc concentrates already sold and at the pier. Cerro and Peru have been negotiating the sellout since 1971, the company asking \$175 million and Lima offering only \$12 million. The company's move could result in immediate nationalization of the properties, but such a step would be costly to Peru. Even Peruvian officials doubt that the mines and smelter could be operated without company technicians. Moreover, Peru is still attempting to find \$200 million to \$300 million in external financing to complete development of the Cuajone copper mine. Expropriation of Cerro would frighten investors and probably make financing of this and other projects more difficult to obtain.

25X1

SECRET

### Progress on a Siberian Truck Plant

Reports out of Moscow have focused attention on Soviet-GM negotiations involving technical assistance for a new Siberian heavy truck plant to be built near Krasnoyarsk by the early 1980s. The truck plant, contrary to press reports, will be smaller than the Kama plant. It will manufacture about 70,000 diesel transport trucks (14 to 20 ton capacity) per year, compared with 150,000 trucks (8-11 tons) planned for Kama. An end to the negotiations is not in sight. Meetings on a GM proposal have continued for several months, and the Soviets are also quietly negotiating with Ford.

25X1

SECRET

September 1973

SECRET

Articles

Worldwide Food Developments

World Wheat Situation

The International Wheat Council now projects a world wheat deficit of 6 million tons in FY 1974 instead of the 9 million tons forecast earlier. Recent developments in several countries could further reduce the deficit:

- Canada will increase exports by drawing down stock by 2 million tons rather than the 1 million tons reported earlier.
- Because of improved harvests of wheat and coarse grain, EC countries are expected to export more than the previously announced 4.5 million tons.
- A bumper wheat harvest will cut Eastern Europe's deficit below earlier forecasts.

An expectation of a shortage, nevertheless, is keeping prices high, making it hard for some developing countries to finance imports. Recognizing this problem, the Director General of the UN Food and Agriculture Organization has asked the developed countries to curb wheat imports voluntarily.

Most experts feel that a wheat crisis can be prevented in FY 1974. A crisis could develop the following year if world import demand remains high. Stocks used to help meet export demand this year will be largely depleted by next July in the United States and Canada, the major wheat exporters, so exports in FY 1975 must be met out of 1974 production.

[Redacted]

25X1

Chile's Wheat Needs

Chile needs about 400,000 tons of wheat before the December harvest and 1.3 million tons next year. Rupture of relations with the USSR will probably deny Chile 30,000 tons of Australian wheat, scheduled to be delivered in October under a Soviet credit, and 50,000 tons of Bulgarian wheat, scheduled to arrive in November. Allende had contracted for 250,000 tons of US grain for fall delivery,

[Redacted]

25X1

[Redacted]

25X1

SECRET

27 September 1973

~~SECRET~~

### **Soviets See No Soybean Purchases This Year**

Soviet trade officials say that the USSR does not intend to purchase soybeans from the United States in FY 1974. Delivery of the 1.2 million tons bought in July 1972 will be completed in November. Output of sunflower seeds, cotton, and soybeans -- the major sources of vegetable oil -- promises to recover from last year's sharp decline, meeting domestic needs and permitting normal exports of sunflower oil. [REDACTED]

25X1

### **Thailand to Increase Rice Exports**

Easing controls on rice exports, the Thai Ministry of Commerce this week granted traders permission to sell 52,000 tons -- some of it high grade -- to Hong Kong, Singapore, and the Middle East. Since early June only small volumes of low-quality rice have been exported. Tight domestic supplies were eased slightly by the minor crop in August, and prospects look good for the major harvest, which begins in December. Officials apparently expect that high prices and these favorable crop prospects will encourage private brokers to release stocks. [REDACTED]

25X1

~~SECRET~~

27 September 1973



**Chile: The Junta's Economic Policy Begins to Take Shape**

The military government has announced several steps to bring Chile's economic mess under control. It has frozen the money supply and begun to adjust prices to spur production. The public sector deficit - which exceeded 20% of GNP under Allende - is to be narrowed by reducing expenditures, boosting taxes, and putting public enterprises on a self financing basis. The junta expects to increase dramatically the prices charged by government-controlled industries while holding down wage increases.

25X1

[REDACTED] Once the source of nearly 20% of government revenue, the mines have paid no taxes since 1971 but still have incurred large losses.

The junta is also planning moves to boost farm output. Individual land titles will be granted peasants on farms legally expropriated, and farms taken over illegally will be returned to their former owners. At the same time, price controls on agricultural products may be lifted to offer further incentives.

All of these moves indicate that Chile's consumption spree has ended and that workers' real wages will fall, notwithstanding the regime's repeated pledge that the workers' gains will be preserved. The regime plans to announce a fiscal policy soon stressing the need for austerity.

25X1

[REDACTED] There are indications that the regime will use repression if necessary to control worker's wage demands.

Santiago has increased efforts to resolve its international financial problems. Special emissaries have been sent to the monetary talks in Nairobi, where they are to address a meeting of international agencies to explain Chile's financial situation.

25X1

25X1

**Pakistan: Floods Cause Economic Setback**

Floods that ravaged Pakistan in August have drastically increased grain import requirements, dimmed export prospects, and diverted government funds from development projects to refugee relief and reconstruction.

Agricultural losses, according to official estimates that may be inflated, include:

- 700,000- 1 million tons of private wheat stocks
- 50,000-100,000 tons of the current coarse grain crop
- 350,000-500,000 tons of the current rice crop
- 150,000 tons of the current cotton crop.

Some independent observers place the wheat losses at less than 500,000 tons and cotton losses at 75,000 tons.

If the assessments are correct, this fiscal year's planned foodgrain imports will nearly double to about 2 million tons. Government food stocks should sustain the population for the next few months, but imports will be needed before next spring's harvest. That harvest could be small and late if the government fails to replace farmers' seed and fertilizer stocks by the October-December planting season. In addition, damaged irrigation systems must be restored.

Destruction of up to 20% of the cotton and rice crops could reduce exports by \$150 million to \$200 million, nearly one-fourth of last year's earnings. Contracting for raw cotton and coarse rice exports has been suspended, but existing contracts will be honored and exports of the high-quality rice from the new crop will continue.

Relief and reconstruction costs will strain the Pakistani budget severely. The floods seriously affected some 10 million people, of whom about one-third are homeless. Most of the 50 countries responding to Islamabad's plea for assistance have made only token donations. The United States is the major donor, providing 100,000 tons of wheat and other aid valued at about \$25 million.

25X1

**SECRET**

### **International Monetary Developments**

Intervention by the European central banks plus tightened French and Belgian controls helped stem another large-scale speculative attack on the European joint float, following the 5% revaluation of the Dutch guilder on 15 September. Speculators, sensing another realignment, bought marks and Belgian francs, the prime candidates for revaluation, and sold French francs, the weakest European currency for several weeks.

Pressures on the joint float have been strongest when the mark and the French franc were at the band extremes. Speculative pressures against the French currency increased the spread between the commercial franc -- supported by the central banks -- and the financial franc. Last Thursday the financial franc sold at a 5% discount relative to the commercial franc; normally the spread in either direction has been about 1%-2%. The Belgian franc was also under heavy upward pressure, forcing Brussels to buy the French currency.

Total intervention in the week beginning 17 September amounted to about \$1.6 billion. The Bundesbank and Bank of France together probably accounted for more than 90% of the total, with the Bundesbank buying French francs and the Bank of France selling marks and Belgian francs. This intervention was by far the largest since June, when speculators forced Bonn to revalue the mark.

Paris and Brussels took several actions to increase the cost and reduce the funds available for speculation:

- The Bank of France raised the discount rate from 9.5% to 11.5%, the highest since World War II, and now closer to other European rates;
- The French government told banks not to lend francs to foreigners;
- Brussels reimposed a negative interest rate on Belgian franc deposits held by foreigners.

Short-term interest rates for Eurofranc deposits skyrocketed while the Euromark rate dropped, sharply increasing the cost to speculators of converting externally borrowed French francs into mark deposits. The spread between the commercial and financial rates for the French franc also narrowed to 3% by Monday, and the franc moved well off the band floor. Finally, speculators probably backtracked when they saw that no more immediate exchange rate changes were forthcoming.

**SECRET**

The European float will remain subject to recurrent speculative pressures, and more exchange rate changes are likely if the float is to survive. Speculators will continue to seek profits by attacking the Europeans' fixed exchange rate system, particularly when the exchange rates are -- or at least appear to be -- out of line with existing economic conditions. The surprise guilder revaluation and the continuing absence of the pound sterling and the lira from the European band further dim the already dubious prospects for European monetary union. The maintenance of the joint float is indispensable if union is to be achieved.

25X1

SECRET

### Uranium Enrichment Developments

Foreign competition will begin to cut into the US monopoly of uranium enrichment during the next decade. The United States earned \$375 million in the first seven months of 1973 for these services. The USSR has entered the market, and a West German - British - Dutch consortium is preparing to do so.

The Soviet Union was the first to challenge the US position when it negotiated a small contract with France in 1971. It recently concluded another agreement -- a \$90 million contract with the Italian firm Agip Nucleare. Soviet prices for enrichment work, recently revealed in a quotation to a West German firm, are pegged to the US price. The quoted price of \$34.20 per separative work unit is 5% less than the current US charge. In 1980 the Soviet price will be 4% below the scheduled US price of about \$41.

Soviet enrichment costs probably are below those of the United States, primarily as a result of cheaper electric power. The USSR apparently is pricing its enrichment services to capture some Western business, yet maximize foreign exchange earnings. An agreement with a German utility, RWE, is believed imminent, and talks have also been held recently with Sweden, Japan, Switzerland, and General Electric.

URENCO, the operating arm of the tripartite group, has proposed an initial charge of 120 DM (\$48.60) per SWU. URENCO, which expects to find a market in the European Community, plans two small demonstration plants in the United Kingdom and the Netherlands by 1976. Its first contract, with a West German utility, is anticipated later this year, but delivery is not likely before 1980.

Although the United States is losing its monopoly, Free World demand should exceed enrichment capacity in the West beginning in the early 1980s and provide enough business for everyone in a market probably worth more than \$2 billion annually by 1985.

25X1

SECRET

27 September 1973

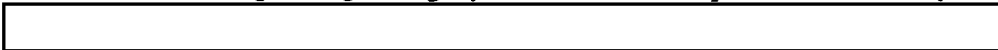
### **New Round of Canadian Manufacturing Expansion**

Ottawa's midyear survey reveals that manufacturing industries intend to accelerate investment outlays in 1973 following two years of decline. Investment is expected to increase by 19% to US \$3.5 billion and probably will rise further in 1974. The increase should assure a high level of US machinery and equipment exports to Canada but eventually will mean more competition with US goods in other markets.

Nearly all industries are planning higher investment outlays, with particularly large increases being scheduled in textiles, petroleum refining, and chemicals. A major exception is the pulp and paper industry, which is relying on more efficient use of existing equipment to raise production.

The economy's rapid advance since late 1972 has left many industries operating close to full capacity. Investment also has been encouraged by Parliament's approval in July of corporate tax cuts and accelerated depreciation for capital equipment. Climbing interest rates probably will not dampen investment plans, because most companies are flush with cash. The tax cuts will allow many industries to finance expansion internally without major borrowing.

The planned expansion suggests that manufacturers are optimistic about future exports. Ottawa is striving to reduce dependence on the United States by seeking broader access to other foreign markets. Japan, already a major customer for Canadian raw materials, is being urged to import more Canadian manufactured goods. Expanded manufacturing capacity, combined with effective devaluation of the Canadian currency through its link to the US dollar, will place Canadian industry in a good position to capitalize on a successful outcome of the new round of GATT negotiations. Ottawa is pushing for further tariff reductions on manufactured goods, which have been the fastest growing category of Canadian exports in recent years.



25X1

UNCLASSIFIED

## DOMESTIC ECONOMIC INDICATORS

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since			Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since			
			1970	1 Year Earlier	3 Months Earlier			1970	1 Year Earlier	3 Months Earlier	
<b>GNP*</b>					<b>WHOLESALE PRICES</b>						
(Constant Market Prices)	Quarter				Previous Quarter	(Industrial)					
United States	73 II	0.6	5.1	6.4	2.5	United States	Aug 73	0.4	4.8	7.5	5.2
Japan	73 II	1.4	9.1	13.0	5.9	Japan	Aug 73	2.1	5.2	17.4	23.4
West Germany	73 II	-1.1	3.9	7.2	-4.2	West Germany	Aug 73	0.4	4.9	7.5	7.4
France	73 I	3.3	6.1	5.1	13.8	France	Jul 73	1.5	6.7	14.9	13.9
United Kingdom	73 II	0.7	4.6	9.5	2.7	United Kingdom	Aug 73	1.0	7.1	7.1	13.3
Italy	73 I	0.8	3.1	5.2	3.4	Italy	Jun 73	2.3	-7.5	16.2	23.2
Canada	73 II	0.9	6.1	6.8	3.7	Canada	Jun 73	1.8	7.5	16.1	15.8

### INDUSTRIAL PRODUCTION\*

### CONSUMER PRICES

United States	Aug 73	0.4	6.0	10.6	10.5	United States	Aug 73	1.8	4.9	7.5	11.4
Japan	Jul 73	-0.4	8.7	19.2	9.9	Japan	Jul 73	0.7	7.3	11.9	11.0
West Germany	Jun 73	-2.8	3.7	6.7	0	West Germany	Aug 73	-0.1	5.8	7.2	2.5
France	Jun 73	-1.5	7.1	8.9	0	France	Jul 73	0.8	6.2	7.4	10.6
United Kingdom	Jun 73	0.4	3.9	10.4	-1.4	United Kingdom	Jul 73	0.4	8.5	9.4	7.0
Italy	Jun 73	-1.4	2.9	10.2	31.7	Italy	Jul 73	0.6	7.2	11.8	12.6
Canada	Jul 73	0.1	6.9	10.7	4.4	Canada	Aug 73	1.3	5.4	8.3	13.0

### RETAIL SALES\*

### MONEY SUPPLY\*

		(Current Prices)									
United States	Aug 73	0.3	11.8	12.4	11.4	United States	Aug 73	0.4	7.7	6.8	8.2
Japan	May 73	0.5	11.9	21.3	15.0	Japan	Jun 73	0.6	18.7	29.9	16.1
West Germany	Jul 73	-1.8	8.4	8.4	-7.0	West Germany	Jul 73	-3.4	9.0	3.1	-21.5
France	May 73	6.7	5.3	13.4	9.5	France	Apr 73	2.6	13.3	14.1	14.4
United Kingdom	May 73	0.8	9.8	11.1	-14.0	United Kingdom	Jul 73	2.3	17.7	13.0	12.9
Italy	Feb 73	9.0	11.5	18.8	24.1	Italy	Mar 73	1.0	10.9	18.3	-3.7
Canada	Jun 73	0.5	10.4	10.4	-0.3	Canada	Jul 73	1.4	13.8	15.9	15.5

### MONEY-MARKET RATES

		Percent Rate of Interest				
Representative Rates		Latest	12 Months Earlier	3 Months Earlier	1 Month Earlier	
United States	Prime finance paper	Sep 21	9.00	5.00	7.63	9.00
Japan	Call money	Sep 14	8.75	4.25	6.83	7.50
West Germany	Interbank loans (3 months)	Sep 14	14.00	5.25	13.50	13.75
France	Call money	Sep 21	10.75	4.00	8.50	9.38
United Kingdom	Local authority deposits	Sep 21	13.13	4.60	6.32	14.25
Canada	Finance paper	Sep 21	8.75	5.25	7.00	8.25
Euro-Dollars	Three-month deposits	Sep 21	11.08	6.12	8.84	11.50

\*Seasonally Adjusted

27 Sep 73

UNCLASSIFIED

UNCLASSIFIED

## EXTERNAL ECONOMIC INDICATORS

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier*	3 Months Earlier
<b>EXPORT PRICES</b> (US \$)					
United States	Jul 73	2.2	7.3	18.8	31.5
Japan	Jun 73	1.1	11.5	19.9	32.9
West Germany	Jun 73	4.7	13.2	22.7	42.8
France	May 73	0.1	11.8	16.8	27.1
United Kingdom	Jul 73	-0.9	10.8	15.1	20.3
Italy	Apr 73	0.9	8.2	9.8	24.7
Canada	May 73	0.7	5.8	10.2	21.8

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier*	3 Months Earlier
<b>EXPORT PRICES</b> (National Currency)					
United States	Jul 73	2.2	7.3	18.8	31.5
Japan	Jun 73	1.2	0.9	4.3	26.7
West Germany	Jun 73	-2.2	0.6	-0.2	-3.7
France	May 73	-2.3	3.7	3.5	-4.5
United Kingdom	Jul 73	1.1	8.7	11.4	12.2
Italy	Apr 73	2.6	5.7	10.4	28.0
Canada	May 73	0.5	4.4	11.4	21.4

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier*	3 Months Earlier
<b>IMPORT PRICES</b> (National Currency)					
United States	Jul 73	1.7	10.1	19.2	15.1
Japan	Jun 73	0.7	0	4.9	18.7
West Germany	Jun 73	-1.6	0.1	3.3	3.2
France	May 73	2.2	4.0	7.7	28.3
United Kingdom	Jul 73	3.3	12.2	31.7	38.7
Italy	Apr 73	3.3	8.5	16.7	48.2
Canada	May 73	1.4	4.7	8.9	26.6

	Latest Period	Billion US \$			
		End of	Jun 1970	1 Year Earlier	3 Months Earlier
<b>OFFICIAL RESERVES</b>					
United States	Jul 73	14.0	16.3	13.1	14.0
Japan	Aug 73	15.1	4.1	16.4	15.9
West Germany	Aug 73	37.9	8.8	24.8	32.2
France	Aug 73	10.3	4.4	10.0	11.9
United Kingdom	Aug 73	6.5	2.8	6.1	6.7
Italy	Jun 73	6.0	4.7	6.4	6.3
Canada	Aug 73	5.8	4.3	6.2	6.1

	Latest Period	Million US \$	Cumulative (Million US \$)		
			1973	1972	
<b>EXPORTS*</b> (f.o.b.)					
United States	Jul 73	5,869	Jan-Jul	38,158	27,492
Japan	Aug 73	2,880	Jan-Aug	22,832	17,700
West Germany	Aug 73	6,684	Jan-Aug	42,602	30,166
France	Aug 73	3,208	Jan-Aug	23,501	16,908
United Kingdom	Aug 73	2,522	Jan-Aug	18,639	14,742
Italy	Jun 73	1,937	Jan-Jun	9,479	8,868
Canada	Jul 73	2,071	Jan-Jul	14,054	11,252

	Latest Period	Million US \$	Cumulative (Million US \$)		
			1973	1972	
<b>IMPORTS*</b> (f.o.b.)					
United States	Jul 73	5,762	Jan-Jul	38,861	31,348
Japan	Aug 73	2,922	Jan-Aug	19,429	11,818
West Germany	Aug 73	4,784	Jan-Aug	32,810	24,626
France	Aug 73	3,193	Jan-Aug	22,688	16,300
United Kingdom	Aug 73	3,010	Jan-Aug	21,417	15,621
Italy	Jun 73	2,212	Jan-Jun	10,720	8,092
Canada	Jul 73	1,946	Jan-Jul	13,055	10,616

	Latest Period	Million US \$	Cumulative (Million US \$)		
			1973	1972	
<b>TRADE BALANCE*</b> (f.o.b./f.o.b.)					
United States	Jul 73	107	Jan-Jul	-703	-3,856
Japan	Aug 73	-42	Jan-Aug	3,202	5,882
West Germany	Aug 73	1,890	Jan-Aug	9,782	5,540
France	Aug 73	12	Jan-Aug	812	608
United Kingdom	Aug 73	-488	Jan-Aug	-2,778	-879
Italy	Jun 73	-275	Jan-Jun	-1,241	776
Canada	Jul 73	125	Jan-Jul	999	635

	As of 21 Sep 73	US \$ Per Unit	Percent Change from			
			Dec 66	18 Dec 71	19 Mar 73	14 Sep 73
<b>EXCHANGE RATES (Spot Rate)</b>						
Japan (Yen)	0.0038	36.53	16.01	-0.95	0.05	
West Germany (Deutsche Mark)	0.4148	64.92	33.81	17.09	1.12	
France (Franc)	0.2358	16.79	19.76	6.99	1.07	
United Kingdom (Pound Sterling)	2.4205	-13.28	-7.10	-1.65	0.40	
Italy (Lira)	0.0018	10.87	3.20	0.28	0.45	
Canada (Dollar)	0.9919	7.53	-0.59	-0.58	0.12	

	As of 21 Sep 73	Percent Change from			
		Dec 66	18 Dec 71	19 Mar 73	14 Sep 73
<b>TRADE-WEIGHTED EXCHANGE RATES</b>					
United States		-18.15	-9.57	-2.79	-0.54
Japan		22.92	8.90	-3.16	-0.18
West Germany		32.05	14.97	9.92	-0.32
France		-12.02	1.22	-1.21	-0.23
United Kingdom		-36.06	-21.76	-7.31	-0.44
Italy		-16.34	-15.15	-8.31	-0.66
Canada		3.56	-2.98	-1.32	-0.04

\*Seasonally Adjusted

27 Sep 73

UNCLASSIFIED