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# International Economic & Energy Weekly

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23 December 1983

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23 December 1983

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**International  
Economic & Energy  
Weekly**

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*Comments and queries regarding this publication are welcome. They may be directed to  Directorate of Intelligence,*

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Note: The *International Economic and Energy Weekly* will not be published next week. The next issue will be on 6 January 1984.

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**International  
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**Synopsis**

**1 Perspective—The Debt Crisis**

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The adequacy of the present prescription for treating debt-troubled countries—new lending and rescheduling in conjunction with an IMF program—is being questioned by a growing number of observers. The growing doubts over the current short-term, case-by-case approach to the debt crisis have renewed calls for a longer term, more comprehensive solution.

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**13 Prospects for Soviet Commercial Exploitation of Space Systems and Related Services**

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Moscow has indicated that it intends to compete for a share of the growing international market for space systems and related services and is increasing its capability to do so. It is concentrating its marketing efforts on the launching of satellites and the sale of communications services, where its goals are to supplement its hard currency earnings, gain access to customer-supplied technology, open up markets for other products, and increase Soviet prestige.

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**19 Pakistan: Strong Economy Dampens Unrest**

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The relative prosperity of Pakistan's economy has made it difficult for antigovernment forces to carry their cause throughout the country and gain broader popular support. Longer term economic prospects, however, are likely to be affected by a shaken confidence among private foreign and domestic investors in Pakistan's domestic stability.

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**25 Suriname: Dutch Aid Cutoff Initiates Economic Tailspin**

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Despite cooler relations with Havana, Suriname has failed to secure new Western aid to replace that suspended by the Dutch in December 1982 and faces a financial crunch next year.

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**29      The High-Frequency World Administrative Radio Conference** 

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The International Telecommunication Union (ITU) on 10 January will resume—after a 25-year hiatus—discussion in Geneva on the use of the high-frequency broadcasting spectrum. Although agreement is possible, we believe the Conference is more likely to refer several alternative planning methods to a working group, which will report to a second session of the High-Frequency World Administrative Radio Conference (HF-WARC), scheduled to convene in October 1986.

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**31      Africa and France: An Enduring Relationship** 

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President Mitterrand is keenly aware of the need to preserve extensive French economic interests in Africa, especially in its former colonies. Continued problems in the French economy, however, could force Paris to cut back on its financial and military assistance.

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**37      Eastern Europe: 1983 Grain Crop and Implications** 

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We estimate Eastern Europe will harvest a 97-million-metric-ton grain crop this year, the region's second-largest crop, but down from last year's record 102 million tons. Near record production in the grain importing northern countries of Eastern Europe will do little to improve food supplies because imports will remain below the levels of the recent past. In most of the southern countries production shortfalls will lower grain exports at a time when these financially hard-pressed regimes are attempting to boost sales to obtain hard currency.

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**Perspective*****The Debt Crisis***

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After nearly a year and a half of the debt crisis, financial analysts have not yet developed a consensus as to when or how the problem can be resolved. For every banker who believes we are progressing from the crisis to the adjustment stage, there is another who believes we are still in the eye of the storm. Major differences of opinion exist regarding the measures needed to address the debt problem and the responsibilities of the debtor countries, commercial banks, creditor governments, and the IMF.

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The adequacy of the present prescription for treating debt-troubled countries—new lending and rescheduling in conjunction with an IMF program—is being questioned by a growing number of observers. This approach worked well when only a few debtors were experiencing problems at the same time. The present situation, however, involves roughly 40 countries, including nearly all of Latin America. Faced with sluggish growth in exports to the developed countries, many Third World officials complain that the IMF's program for increased exports and reduced imports is nearly impossible to fulfill. Moreover, banks may not be able to provide large amounts of new financing because of tighter regulatory supervision and the need to improve their balance sheets.

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An additional concern about the present commercial bank/IMF financial packages is the time frame. Most programs cover only a year, with economic targets monitored quarterly. This is too short a period to produce the desired turnaround, and the result—as best evidenced by Brazil—is that programs must be continually reworked. Each revision risks losing the cooperation of the various parties.

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Another problem voiced by LDCs is their perception that shortsighted IMF programs do not address their social and political realities. Although most LDCs have made harsh domestic adjustments, a key question is whether they can continue to do so over the next several years. Financial analysts are increasingly concerned about the potential for domestic unrest and political upheaval resulting from prolonged austerity.

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The growing doubts over the current short-term, case-by-case approach to the debt crisis have renewed calls for a longer term, more comprehensive solution. Yet most financial experts agree that a global solution covering all debtor countries is far less feasible than the case-by-case method because there are broad differences between individual debtors. The task of reaching agreement on a universal plan appears insurmountable.

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Opinion is divided about the responsibilities of creditors and debtors. Commercial bankers believe that more official assistance in the form of loan guarantees is needed. Creditor governments are pushing for a private-sector solution involving greater equity investment and cofinancing arrangements between banks and multilateral institutions. Debtor countries stress the need for favorable debt terms and more lending. All parties agree, however, that greater cooperation and coordination is essential.

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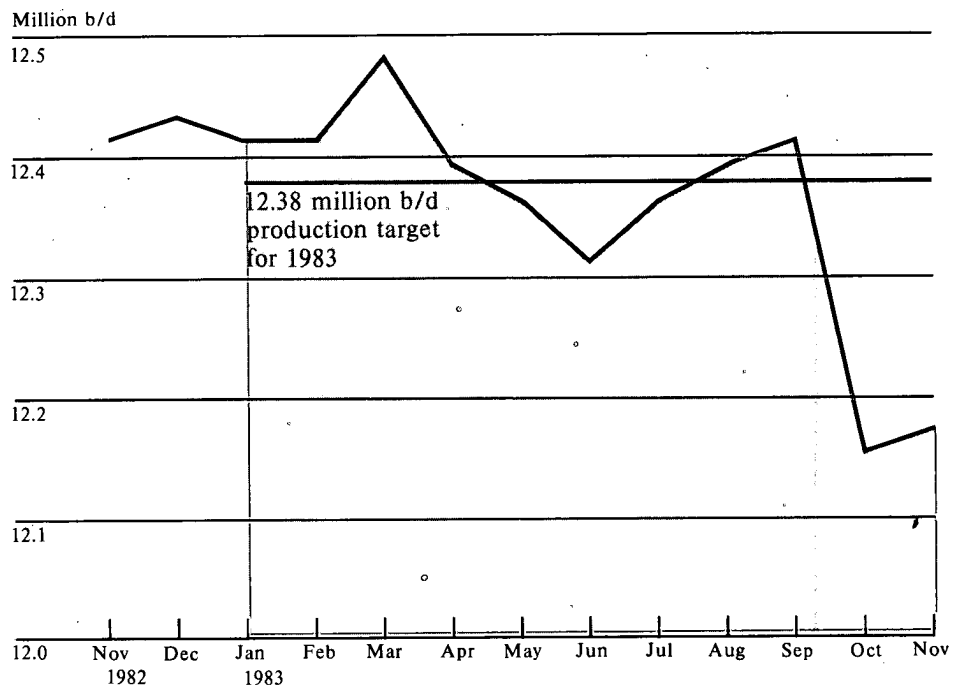
## Briefs

## Energy

✓ *Soviet Oil Production  
Sluggish*

Oil production in the USSR dropped substantially during October and November, primarily because of problems in the West Siberian oilfields. Soviet statistics indicate that production during the two months dropped to an average of 12.16 million barrels per day, as compared with an average of 12.36 million barrels per day or more in eight of the first nine months of the year. The production rate also was below the average annual rates for 1981 and 1982. Nonetheless, the higher output levels earlier this year will enable Moscow to come close to its production target of 12.38 million barrels per day for 1983. To reach their goal, the Soviets would need to attain a record

## Soviet Oil Production



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production level of 12.72 million barrels per day in December—a nearly impossible task.

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Even if production again rises to the level of early 1983, many of the problems plaguing operations in West Siberia are likely to intensify. With production declining in the older oil-producing regions, sizable increases in West Siberia are necessary to maintain total output. It will become increasingly important for the Soviets to exploit the region's smaller deposits. This effort will call for a substantial increase in investment for drilling, pump installation, and well maintenance.

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### *Spot Oil Market Trends*

Overproduction by several OPEC members combined with the absence of any strong recovery in oil consumption in most industrialized countries caused spot crude oil prices to slide further in mid-December. Arab Light and Bonny Light crudes are selling at \$28.20 per barrel and \$28.75 per barrel, respectively, or about \$1 below their official prices. Spot oil prices have been running below official prices for most of the fourth quarter. As a result, the Soviet Union announced price cuts in late November and early December for its crude oil sold in Western Europe. More recently two US refiners reduced posted prices by \$1.50 per barrel.  an additional reduction in nominal oil prices could be necessary in early 1984 unless OPEC members practice more stringent production discipline or oil consumption rebounds.

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### *Cameroon Oil Marketing Problems*

Cameroon's state oil company has been unable to market its share of crude oil production since late November, forcing total output to decline from 140,000 b/d to 22,000 b/d.  the government opted to shut in production rather than discount its oil below the official selling price of \$29.85 in the hope that market prices would firm following the 7 December OPEC meeting. Earlier this month, a foreign company operating in Cameroon sold a cargo of crude at \$28.30 per barrel, and  the price will slide even further before the end of the year. Persistent market weakness coupled with the threat of losing both market share and crude oil export revenues could compel Yaounde to reconsider its position. Widespread price discounting by non-OPEC oil producers would make it increasingly difficult for OPEC to maintain its current price structure.

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### *Algerian LNG Contract Suspended*

The US company Panhandle/Trunkline decided last week to temporarily suspend its purchases of Algerian LNG. Algerian officials previously have indicated that such an action would have serious implications on US-Algerian economic relations. The firm had purchased 20 percent of Algeria's LNG exports valued at \$380 million this year. The decision comes despite an agreement last July that allowed postponement until December 1984 of 40 percent of the annual contract commitments of 4.5 billion cubic meters of natural gas. The US company cited the high cost of Algerian gas and surplus

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supplies as the primary reasons for the suspension. Panhandle/Trunkline and Algerian energy officials are planning to meet on 28 December to address the status of the US company's take-or-pay obligations during the suspension.

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### *Sweden Reduces Oil Stockpile Goal*

Based on forecasts of lower consumption requirements, a government commission has recommended a reduction in Sweden's oil stockpile goal. With future demand estimates reduced from 465,000 b/d to 300,000 b/d, the commission has proposed that the oil stockpile goal be reduced to 96 million barrels in 1987 rather than the present goal of 140 million barrels. The commission also proposed that government-owned stocks be held at current levels of 32 million barrels rather than increased to a planned 41 million barrels. The government is expected to propose a bill based on the commission's recommendation next spring. Although oil stocks at the new level would still cover about 320 days of Sweden's projected consumption needs, the government is among a growing list of consuming countries who have reduced stockpile goals in the wake of continued weak consumption.

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### *Soviets Begin Supplying Fuel to Nicaragua*

The Soviet Union is scheduled to deliver about \$8 million worth of crude oil, jet fuel, and aviation gas to Nicaragua by early January—the first known Soviet fuel deliveries to the Sandinistas. Mexico, which currently supplies nearly all of Nicaragua's oil on long-term credit, is scheduled to cut back its deliveries by one-fourth at the end of January. These Soviet shipments may presage regular Soviet fuel deliveries to compensate as Mexican supplies decline.

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### *Lebanese Electrical Problems*

Technical problems in high-voltage lines and at a key substation are causing electrical shortages in Beirut. As a result, the utility company, Electricite Du Liban, is providing power to war-ravaged West Beirut between midnight and 6 am and at staggered six-hour intervals the rest of the day. Earlier plans to provide power to most parts of the city for at least 18 hours per day proved too ambitious; we expect that meeting the current targets will prove difficult.

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### *Hydro-Quebec Cuts Forecasts and Capital Spending*

Reduced electricity demand, competition from natural gas, and new hydro-electric capacity combined to produce a surplus of electricity in Quebec this past year. As a result Hydro-Quebec, the provincially owned electric power utility, has reduced its forecast of long-term electricity demand growth to 2.9 percent compared with the 3.7 percent projected in 1982. These lower demand forecasts recently caused the utility to slash its planned capital expenditures over the next 10 years by 45 percent to \$14.5 billion. We believe Hydro-Quebec will move aggressively to sell its surplus electricity to neighboring provinces, New York State, and New England. Hydro-Quebec already is offering discounts to large industrial consumers of electricity who agree to build plants in Quebec.

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**Secret****International Finance***Syria's Foreign  
Exchange Crunch*

Syria's chronic shortage of foreign exchange appears to have intensified in the past two months. According to the US Embassy, Syrian businessmen are becoming increasingly frustrated with delays in government approvals of letters of credit for needed imports. Time lags between applications and approvals—a reliable indicator of the severity of Syria's financial squeeze—have stretched to more than 11 months for private-sector importers. These delays are upsetting manufacturing and have begun to affect Syrian exports; even Soviet customers are becoming less tolerant of missed deadlines and high prices. [redacted]

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The plight of private importers has been further complicated by fluctuations in the free market exchange rate caused by economic and political uncertainty. In November, the rate shifted from 6.25 to 6.85 Syrian pounds per dollar then back to the lower rate by month's end. As a result, importers are now paying 15- to 20-percent premiums to middlemen, including members of the Syrian military, as compensation for the risk of accepting Syrian pounds and acquiring foreign exchange to bring in foreign goods. The shortage of foreign exchange can partially be traced to falloffs in Arab aid this year—well under last year's \$2.0 billion level—and the expense of the Lebanese occupation. The high demand for foreign exchange reflects, in part, the movement of some assets out of Syria in the wake of the tense regional situation. [redacted]

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*Iraq Draws Down  
Foreign Assets*

Iraq reportedly withdrew the remainder of its foreign exchange reserves in four British banks earlier this month. In addition, Baghdad in recent months has sold gold to help cover its foreign exchange obligations. [redacted]

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[redacted] We estimate Iraq's foreign exchange assets have dropped to less than \$5 billion as compared with a prewar level of about \$31 billion. The depletion of foreign exchange reserves, the gold sales, and large cuts in imports underscore the severity of Iraq's financial situation. Foreign assistance, including aid from Arab states in the Persian Gulf and deferred payments arranged with Western creditors, have not been enough to offset the serious decline in oil income caused by the war. Incomplete trade data for 1983 suggest imports probably will fall to between \$10 billion and \$12 billion, a decline from \$19 billion in 1982. With foreign exchange reserves nearly exhausted and no prospects for a major increase in oil exports in the near term, Baghdad faces unpopular import restrictions in 1984. [redacted]

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*World Bank Approves  
Loan to Mauritius*

The World Bank recently approved a \$40 million structural adjustment loan to Mauritius, primarily to cover burgeoning debt servicing requirements. As a result of drought-induced reductions in sugar production—the country's principal crop—and the government's heavy deficit spending, Mauritian external debt has more than doubled since 1980 and now exceeds \$500 million. Meanwhile, an IMF team will visit Mauritius next month to review compliance with terms of a pending standby agreement, the country's fourth. Port Louis has already announced reduced subsidies, higher taxes, and a freeze on

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public-sector hiring to buoy its prospects for continued IMF assistance. Domestic opposition to the austerity measures, however, has caused the government to look to Western nations for additional credits. [ ]

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### Global and Regional Developments

#### *Possible Halt in USSR Nickel Sales to the United States*

The Soviets seem prepared to forgo hard currency earnings rather than accede to Washington's demand for certifying that the nickel they sell in the United States is of non-Cuban origin. The US ban on Soviet nickel imports became effective this week and only Soviet nickel certified to be of non-Cuban origin will be allowed into the United States. Although certification talks may still continue, [ ]

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[ ] the USSR will not agree to an intergovernmental certification agreement with the United States. [ ] the Soviets would view such an agreement as an attempt to drive a wedge between the USSR and Cuba. [ ] the Soviets might agree to certify that their exports do not include Cuban nickel if an agreement could be concluded through strictly commercial channels. [ ]

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The loss of US nickel sales—roughly \$20 million annually—would not be burdensome to Moscow. Japan, however, has already restricted trade in nickel with Cuba, and it may consider curtailing such trade with the USSR. If Japan, West Germany, and other major Western importers take action against purchases of Soviet nickel, Soviet hard currency losses could rise to \$100 million a year. [ ]

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#### *Pakistan-USSR Economic Agreements*

Pakistan's Finance Minister, who returned on 20 December from a visit to the USSR, announced that agreement has been reached with the Soviets on a number of proposals for economic cooperation. The accords reportedly include concessionary financing by the USSR for the construction of a power station and the sale of two drilling rigs in exchange for Pakistani goods. The Pakistanis indicate that the value of the new agreements may reach \$400 million. [ ]

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Both countries apparently have concluded that economic agreements are a noncontentious means of maintaining lines of communication. Islamabad can use the economic aid, and probably hopes improved ties will reduce the opportunity for Moscow to justify a more aggressive policy toward Pakistan. With the Soviet-financed steel mill nearing completion, the USSR has been looking for a new means of maintaining an economic role in Pakistan. Although the Soviets probably hope that a continuing dialogue might encourage Islamabad to soften its stand on Afghanistan and offset US influence in Pakistan, President Zia will remain unwilling to compromise his foreign policy positions. [ ]

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**Secret***EC Signs Accord With  
Andean Pact*

The European Community on 17 December signed a five-year economic cooperation agreement with the Andean Pact nations that promotes EC investment in and trade with these South American countries. EC imports from Andean Pact members in 1982 topped \$4.5 billion—Venezuelan oil accounted for one-half—while exports reached \$4.3 billion. The five Andean countries—Bolivia, Colombia, Ecuador, Peru, and Venezuela—will receive a total of \$450,000 next year for trade promotion in the Community, and both blocs will extend most-favored-nation status to the other's exports. The agreement calls for increased joint ventures between EC and Andean enterprises.

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The EC Commission is likely to tout the agreement as proof that two years of strained relations with Latin American countries has ended. The negotiations with the Andean Pact, which started in 1979, were suspended in 1982 following EC actions in support of the United Kingdom during the Falklands crisis. The agreement with the Andean Pact probably will serve as a model for future EC accords with Central American states.

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**National Developments***Developed Countries**Israeli Wage Update*

The Manufacturers' Association has agreed to pay the large advance on the 1 February cost-of-living adjustment demanded by the Histadrut, the large union organization. According to the US Embassy, December salaries of all workers will be increased by 17.9 percent. The Manufacturers' Association—whose members have been hurt by rising wage costs and the overvalued shekel—originally had refused to pay an advance, but threats of labor unrest probably caused them to capitulate.

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Prices rose 15.2 percent in November—after a record 21.1-percent increase in October—bringing inflation during the first 11 months of the year to an annual rate of 184 percent. Israeli officials have already increased prices on government-controlled commodities by 12 to 30 percent this month. We believe prices could increase enough in December to push the inflation rate for the year to 200 percent.

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*Controversial French  
Labor Cutback*

The decision by the government to permit Peugeot to lay off 2,000 workers has provoked a strike that could weaken the government's resolve to pursue austerity. The government and the company agreed that the firm can lay off the workers as part of Peugeot's plan for an eventual reduction of 7,500. Peugeot agreed to pay a \$2,500 retraining allowance for each worker laid off. The Communist-led General Confederation of Labor initially accepted the agreement but reversed itself when spontaneous demonstrations broke out. Workers at the affected plant now have been on strike for two weeks. Their

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Socialist-leaning union and the Confederation have attacked the government's decision and vow to continue the strike while threatening to extend it to other Peugeot plants.

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This is the first test of the government's willingness to accept the large reductions in employment that are required to restructure industry and accommodate technical change. Similar decisions will soon be required in other industries, including coal, steel, textiles, shipbuilding, and heavy chemicals. Backing off from the Peugeot decision in the face of labor opposition would endanger future adjustments throughout industry.

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#### *West German Wage Negotiations*

The spring 1984 wage negotiations have begun with labor leaders and management further apart than usual. The first round of talks focused on reductions in the 40-hour workweek rather than on wage increases. The powerful Metalworkers Union, by far the country's largest with 2.6 million members, is seeking a 35-hour week and pay increases to maintain real incomes. Most unions usually follow the metalworkers; the West German Trade Union Federation, which represents more than one-third of West German workers, including the Metalworkers and 16 other unions, has adopted the 35-hour week as a collective bargaining goal.

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We believe that the metalworkers will back off at least for this year from the 35-hour week in the face of firm employer resistance. The union does not have overwhelming support on this issue from its membership, and record unemployment—expected to reach 2.35 million this winter—has weakened labor's bargaining position. Employers assert that current profits will not support the added cost of a shorter week, that it would weaken West German international competitiveness, and that with vacations, holidays, and other breaks, West German workers already have the shortest working hours in the industrialized countries. Employers are willing, however, to negotiate flexible working hours and early retirement benefits.

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#### *Turkey's New Prime Minister Announces Program*

Turkish Prime Minister Turgut Ozal presented his government's program to the Grand National Assembly on 19 December. Ozal's goals include:

- Controlling inflation—Ozal's top priority because he believes economic growth and achieving a more equitable distribution of income are impossible unless inflation is curtailed.
- Increasing exports to help generate long-term development.
- Limiting state involvement in industry and trade—a far cry from the large role now played by Turkey's State Economic Enterprises.

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In support of Ozal's program, the Central Bank moved quickly to raise interest rates on one-year time deposits and reduce taxes on bank loans—from 15 percent to 3 percent.

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An ardent monetarist, Ozal plans to keep a tight leash on the growth of the money supply and has criticized the IMF for not being tough enough on Ankara in the past. He has blamed the spurt in Turkey's inflation—currently

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35 percent—on attempts by the military government to bail out failing businesses. To implement his policies, Ozal has reorganized the Turkish bureaucracy, reducing the number of ministries from 20 to 14. The effect is to place economic policy under the direction of his close advisers and bypass the Ministry of Finance, regarded by Ozal as a stronghold of traditional, state-directed economic policies. [ ]

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Turkey remains a poor country by OECD standards, with deep-seated economic problems, but we are optimistic about its future. We believe Ozal is the best possible person for the job and that his policies will keep the economic recovery on track. Although Turkey will continue to be plagued by high unemployment and need foreign assistance, we see little chance of a return to the economic crisis of the late 1970s while Ozal is in charge. [ ]

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### *Less Developed Countries*

#### *Libyan Concern Over US Sanctions*

Libya, fearing that the United States is about to impose more stringent trade sanctions against it, is searching for other suppliers for a multibillion-dollar water relocation project—a showpiece of its current development plan. The project is designed to move 2 million cubic meters of water daily over 1,900 kilometers from southern water wells to urban areas along the coast. The government expects the pipeline to provide badly needed water for agriculture, industry, and human consumption by 1989. [ ]

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Libyan leader Qadhafi originally may have wanted to secure the participation of US businesses in the multibillion-dollar project, hoping to encourage the United States to ease trade sanctions against Libya. Concern that the United States may now tighten some or all of the sanctions probably has prompted the Libyans to take the precaution of finding alternative suppliers in case they are needed. The search would also serve to threaten US companies involved with possible loss of the highly profitable contracts. Failure to use US goods—for whatever reason—would cause delays in the project, despite the terms of the contract [ ] While such delays probably would be a blow to Qadhafi, who has promoted the project with much fanfare, they are unlikely to be a major obstacle to the project's completion or to cause a reaction among the Libyan public. [ ]

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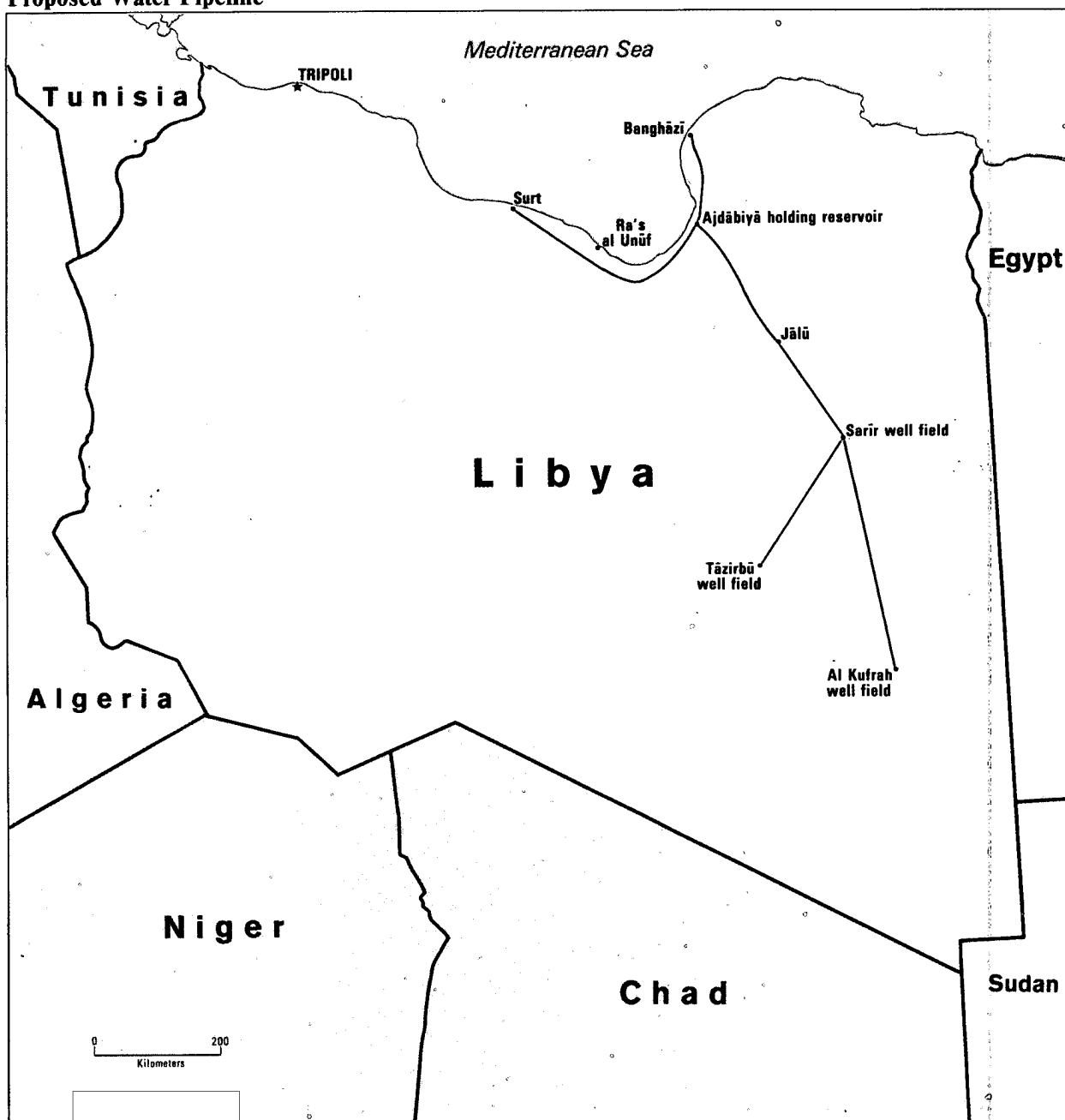
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**Proposed Water Pipeline**



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*Insurgent Damage to  
Salvadoran Economy  
in 1983*

Direct costs of insurgent activity to the Salvadoran economy in 1983 rose to about \$230 million, 8 percent of annual output, according to US Embassy estimates. This total is about 50 percent higher than the average of the preceding four years and includes lost agricultural production (\$90 million), damage to public works (\$22 million), and greatly increased defense spending (\$102 million). We believe indirect costs such as capital flight, loss of foreign investment and credits, and unemployment add heavily to the insurgency's direct costs to the economy. US military and economic aid to Salvador in US FY 1983 was slightly more than \$350 million.

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*Jamaica Pursues  
Barter Bauxite Deals*

Slow recovery of world aluminum demand and Kingston's uncompetitive price structure are forcing Jamaica to seek barter trade deals. Kingston recently signed an agreement to provide the US strategic stockpile with 400,000 tons of bauxite for \$13.6 million worth of dairy products. It also agreed to barter an additional 600,000 tons of bauxite later. Other barter efforts include:

- Negotiations with Yugoslavia for 200,000 tons of bauxite and 170,000 tons of alumina annually for five years, partly in exchange for prefabricated houses.
- Preliminary contacts with a Japanese trading company to exchange about 200,000 tons of alumina for Japanese agricultural commodities and equipment.
- Proposals to the Arab world to swap alumina and bauxite for oil.

Even if these deals are completed, we believe Jamaica will need to take additional action. Negotiations are under way between the Jamaican Government and aluminum companies to replace the production levy that expires 31 December. Although the levy provides crucial revenues for the government, we believe Kingston will have to reduce the levy to make Jamaican bauxite prices competitive.

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*Record Thai Trade  
Deficit*

Thailand's 1983 trade deficit will reach \$3.1 billion—nearly double last year's \$1.6 billion—according to Bangkok Bank, the largest commercial bank in Southeast Asia. Export earnings have suffered because of continued low prices for rice, sugar, and tin; exports of manufactures are down substantially because of reduced demand in industrial countries. A nearly 15-percent increase in imports, stimulated by a domestic investment boom, compounds the payments problems. Although Bangkok so far has had little trouble financing the ballooning trade deficit, the Bank of Thailand—the Central Bank—is concerned about another poor trade performance in 1984. Import financing has been tightened and if exports do not pick up early next year, we expect the Central Bank to raise interest rates and recommend that the government impose import controls. Although Bank of Thailand Governor Nukun denies it, a devaluation—which would be politically controversial—is also under consideration, according to the financial press.

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## Prospects for Soviet Commercial Exploitation of Space Systems and Related Services

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Moscow has indicated that it intends to compete for a share of the growing international market for space systems and related services and is increasing its capability to do so. It is concentrating its marketing efforts on the launching of satellites and the sale of communications services, where its goals are to supplement its hard currency earnings, gain access to customer-supplied technology, open up markets for other products, and increase Soviet prestige.

Moscow has strong incentives to make commercial use of its space capabilities. Although there is great uncertainty about the eventual size of the market for space-related services and products, Western space and industry analysts estimate that the manufacturing and launching of communications satellites alone will yield billions of dollars of revenues a year by the late 1980s. Capturing a share of this market would provide the USSR with an important supplement to its hard currency earnings. Moscow would view participation in the market for supplying launch services for Western communications satellites as an opportunity to acquire advanced technology and would probably perceive activity in this high-technology export trade as a foot in the door for other Soviet products. In addition, the Soviets would view commercial exploitation of space as a means of increasing their national prestige.

Entry into the market, however, will require changes in Soviet operating procedures. Customers will need to know satellite capabilities and launch vehicle reliability and will require access to satellite assembly and checkout facilities, launchsites, and support facilities. Even when involved in joint space ventures, the Soviets have often refused to provide information requested by the other participating country. They have never released data on the reliability of their launch vehicles or their command and control systems and have generally not

## Soviet Publicity for Satellite Launch Service

# LICENSINTORG Panorama

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No. 5 • 1982

A quarterly publication  
of V/O LICENSINTORG, Moscow, USSR.

Appears in English, Russian, Finnish, French, German and Spanish.

All articles and illustrations in this issue may be freely reproduced. The Editors would appreciate a copy.



**Cover Picture:**  
The achievements of Soviet scientists and designers in space research are universally known. Licenstransmash is ready to assist foreign firms in launching their artificial earth satellites by Soviet carrier rockets.

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*From a Soviet foreign trade magazine disseminated in Western Europe and the United States.*

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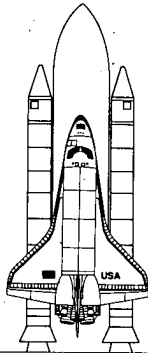
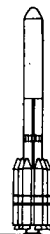

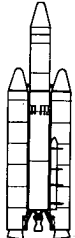
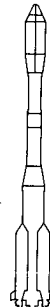


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### Payload Capabilities of Selected US, French, and Soviet Launch Vehicles

	United States				France	USSR	
							
Vehicle	Space Transportation System	Delta 2914	Atlas/Centaur	Titan III C	Ariane	(SL-12) Proton	(SL-13) Proton
Payload (kg) (Low Earth orbit)	29,500	2,000	5,135	12,275	4,700	Not used	19,000
Payload (kg) (Geostationary orbit)	—	335	955	1,455	950	2,700	Not used
Height (m)	56	35	43	38	47	58	58

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maintained separate civilian and military space facilities or allowed foreign access to military space complexes.

#### Soviet Intentions and Capabilities

The Soviets have indicated they intend to market space-based services and are increasing their capabilities to do so. Moscow's marketing efforts and its prospects for success vary greatly with the type of space-related service or product.

**Launch Services.** The US Government virtually monopolizes the current commercial satellite launch market, using the Atlas-Centaur and the Delta expendable launch vehicles and the reusable shuttle system. The Atlas-Centaur and Delta systems, however, are to be phased out by the US Government by 1985, and US space analysts estimate that the increasing demand for commercial and government launch services will exceed what the shuttle can provide during the period 1986-94.

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In 1983 the US Government decided to allow private US firms to continue producing current expendable launchers and to rent US launchpads. These firms, however, will need to prove their capability to launch and position satellites before many customers will be willing to book launches with them. [ ]

The shuttle's main Western competitor is the French Ariane booster sponsored by the European Space Agency (ESA). Two of the seven Arianes launched thus far, however, have failed to reach orbit. Only in June 1983 did the Ariane deliver its first commercial satellite into geosynchronous orbit, and the first fully successful commercial launch did not occur until October 1983. [ ]

The Soviets have said they will enter the launch service market with the SL-12/13 Proton, a booster that has maintained about a 90-percent reliability rate over the past 10 years and that has a payload capacity about 65 percent as large as that of the US shuttle. [ ]

The Soviets have tripled the production capability of the Proton manufacturing plant in Moscow, doubled the number of Proton launchsites from two to four, and tripled the assembly and checkout capability at the launch center. This increase in SL-12/13 production and launch capability exceeds what we estimate the Soviets will need for their own military and scientific purposes. We believe they will have a sufficient number of Proton boosters—between four and six annually—to use for commercial launches and could probably maintain a reliable launch schedule. [ ]

According to Western press reports, Moscow has already succeeded in having the Proton included on a list of candidate launch vehicles for the International Maritime Satellite Organization (INMARSAT) and is seeking to underprice Western competitors. The Soviets offered to supply launch vehicles for INMARSAT satellites during the period 1988-89 for \$24 million per launch, and are offering to commit themselves to a replacement mission at one-half that fee if a satellite is lost

because of launch failure. They apparently have prepared a handbook of specifications for potential users of the Proton. [ ]

The Soviets are developing a heavy-lift launch vehicle and a shuttle orbiter that will greatly enhance their ability to compete with the United States, the ESA, and Japan. We believe this system will become fully operational during the period 1990-91. Successful development of a Soviet space tug with capabilities to retrieve satellites for repair and refurbishing would increase the attractiveness of a Soviet contract. [ ]

#### *Leasing and Sale of Communications Satellites.*

The Soviet-sponsored INTERSPUTNIK organization has attempted to compete with the US-sponsored International Telecommunications Organization (INTELSAT) in marketing international communications services in the Third World since the late 1970s. INTERSPUTNIK, which has primarily served the needs of Soviet Bloc members, remains a much smaller organization than INTELSAT, which currently provides services to more than 120 countries. INTERSPUTNIK has, however, succeeded in attracting new users among pro-Soviet Third World countries, including Algeria, Angola, Iraq, Libya, and Nicaragua and has been willing to offer financial and other incentives to attract new customers for its international services. We believe its fees for domestic services are below those charged by INTELSAT for similar services. [ ]

Soviet requests to the International Frequency Registration Board (IFRB) for satellite positions and radiofrequencies, plus other open-source data, suggest that Moscow is planning to have space platforms in geostationary positions with several communications systems on board using different frequency ranges. Some of these systems will be dedicated solely to military subscribers and others to civil uses. These systems will enhance the Soviets' ability to provide commercial services to a variety of non-Soviet civil users if they choose to do so. [ ]

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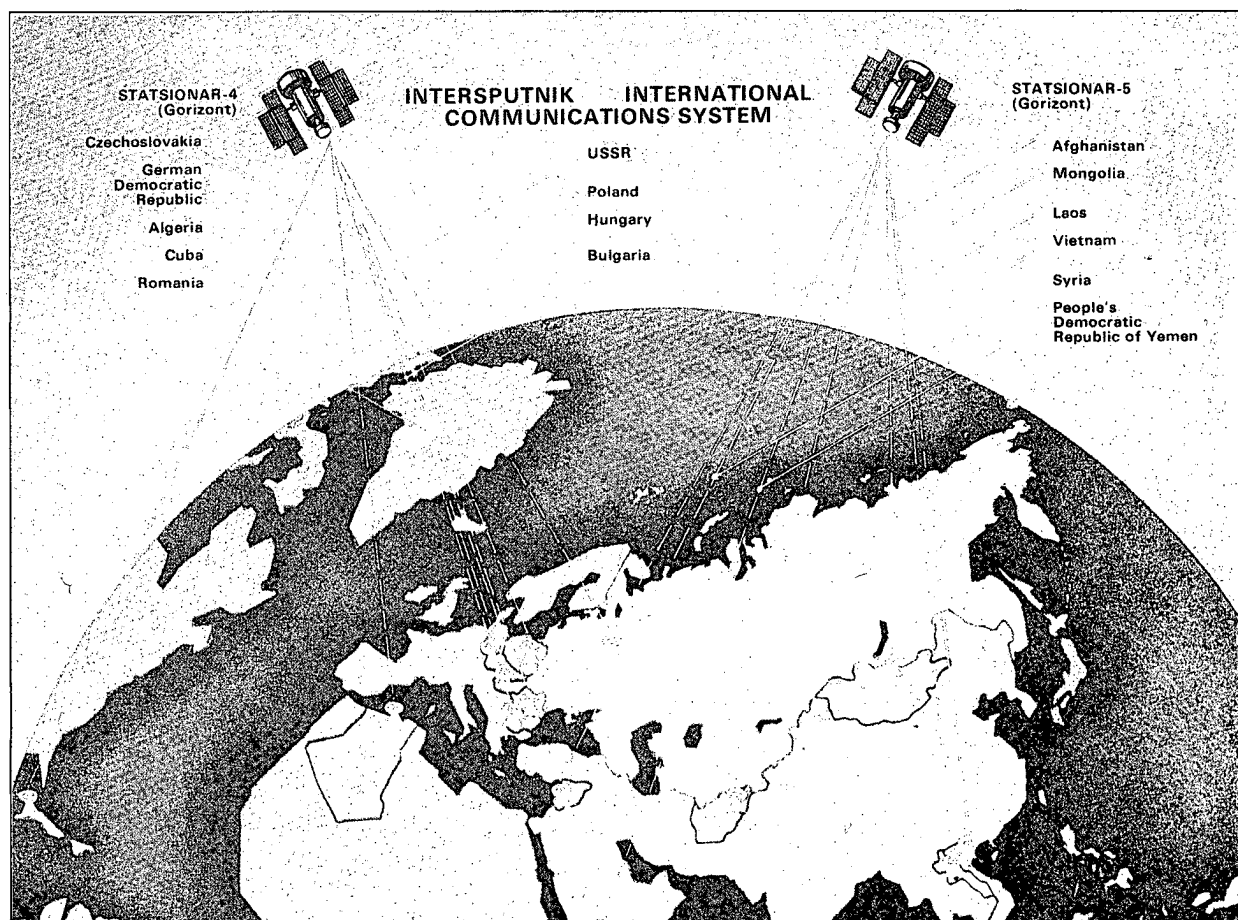
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**Secret****INTERSPUTNIK Members**

This 1983 Novosti Press Agency map shows the 14 INTERSPUTNIK members, some of which do not have operating ground stations, and one nonmember user, Algeria. In addition, other Third World nations are planning to use the system in the future; some have ground stations under construction.

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Although there is no evidence of Soviet intentions to manufacture communications satellites for foreign countries or firms, the USSR is capable of doing so. To succeed in such an effort, however, the Soviets would have to either increase the service life of their satellites or price them low enough to offset the increased replacement costs that the customer would incur; current Soviet communications satellites have a shorter lifespan than Western equipment. We believe the Soviets now have programs under way to produce communications satellites with longer service lives. [ ]

**Remote Sensing.** Both industrial and developing countries are looking to data collected by remote-sensing satellites to locate mineral and energy resources, to identify potential problems in such areas as agriculture and forestry management, for land-use studies, and for cartographic work. The export of remote-sensing data or associated equipment and services is currently not a financially profitable business. Although the market for the data is potentially huge and is growing because of an international awareness of the need to better manage resources, the only profitable market may be for computer-processed data, an area in which the Soviet Union is not expected to become competitive because of insufficient software and processing facilities [ ]

Thus far the US Landsat program has provided all of the remote-sensing data to non-Communist customers. The US commitment to provide the data to both domestic and foreign users, however, does not extend beyond the mid-1980s. Moreover, competition is expected in the later 1980s from the French Spot program, a Japanese system, and possibly from new US commercial systems. [ ]

In 1977 the Soviet Union publicly offered to provide photographic services and remote-sensing data from outer space to other countries. Although the Soviets have given no subsequent public indication that they intend to develop a market for such data, Moscow may be waiting until the end of this decade, when we expect it will have an operational multispectral scanning system competitive with a US and projected French system. The Soviet policy

of requiring prior consent from the target country before disseminating data with potential military or economic significance to third parties will probably aid in marketing remote-sensing data to Third World countries. [ ]

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**Materials Processing.** Experiments show that the zero gravity of the space environment facilitates the manufacture of products that are difficult or impossible to produce on Earth. The products most likely to be produced in space are pharmaceuticals, electronic devices, optical equipment, and metal alloys. Until permanent manufacturing facilities are established in space that can produce materials of sufficient quantity, the potential market cannot be estimated with confidence. [ ]

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The USSR has conducted the most extensive experiments in space manufacturing on board the Salyut 6 and 7 space stations, and the Soviet press has claimed that such experiments will lead to the creation of space-based manufacturing facilities to produce pharmaceuticals, semiconductors, alloys, and special glasses. Officials associated with the Soviet space program have indicated that Cosmos 1443, which docked to Salyut 7 in early 1983, is a prototype module of a future multimodular space station that will be used for a variety of missions, including materials processing. Although most of the materials that the Soviets are experimenting with have military applications, the Soviets evidently plan to produce for their civilian economy and could produce for export as well. [ ]

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#### **Soviet Prospects and Implications for US Interests**

The Soviets probably will enjoy their greatest success during the next 10 years in the launch services market. Although unlikely to lure scheduled customers away from the US shuttle in the 1980s, the Soviets, by virtue of their long experience with expendable launch vehicles, are in a good position to compete with ESA and private US firms for a portion of the international launch services market that the US shuttle cannot accommodate.

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Success in the expendable launcher field could pave the way for broader Soviet efforts to make commercial use of space in the 1990s, when the USSR's own space shuttle and its other space programs with extensive economic applications mature. [redacted]

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We also expect the Soviets to step up efforts to lease communications services both through the INTERSPUTNIK organization and to individual nonmember countries. Moscow has communications circuits available now for lease and apparently plans such use for some of its future communications satellites. Largely because Soviet satellites currently have shorter service lives and use less advanced technology than Western equipment, Moscow is unlikely to try to compete with the West in selling communications satellites or high-technology satellite communications applications. [redacted]

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At present, the Soviet Union is not competitive in supplying civil remote-sensing data, and we do not expect it to be so in the near term. Moscow, however, may view its remote-sensing data as a political tool or a means of enhancing the attractiveness of other Soviet products and supply remote-sensing data to nations in the Third World where it has political, strategic, or economic interests. Similarly, the Soviets might be willing to provide at least some materials processed in space to their clients in "package deals" that would be contingent upon the purchase of other Soviet equipment. [redacted]

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## **Pakistan: Strong Economy Dampens Unrest**

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The relative prosperity of Pakistan's economy has made it difficult for antigovernment forces to gain broader popular support. Civil disturbances since August have had only a small impact on Pakistan's economic activity and have been confined primarily to Sind Province. Longer term economic prospects, however, are likely to be affected by a shaken confidence among private and foreign investors in Pakistan's domestic stability. [ ]

### **Economic Performance Under Zia**

The Pakistani economy recorded its sixth consecutive year of rapid growth in FY 1983—1 July 1982 to 30 June 1983—increasing by almost 6 percent, according to Pakistani statistics and US Embassy estimates. Agriculture, which remains the cornerstone of the economy, continued to benefit from favorable weather and increases in government procurement prices. Pakistan now is self-sufficient in all major food categories except edible oil. [ ]

Industrial production last year grew by about 8 percent, according to government statistics, in large part because of new public-sector capacity in the fertilizer and steel sectors. President Zia's active encouragement of private-sector investment combined with government incentives such as custom duty exemptions, export rebates, and improved availability of financing also contributed to the growth of small-scale manufacturing firms. Although industrial output still represents less than 20 percent of GNP, the sector is important in providing new jobs for a rapidly growing population and in expanding exports of nontraditional manufactured goods. [ ]

In our view, Pakistan's most impressive economic achievement over the past year has been the improvement in its foreign payments. The current

account deficit declined to the lowest level since Zia came to power, falling from \$1.6 billion in FY 1982 to \$430 million last year. The improvement resulted mainly from the continuing growth of worker remittances, which reached \$2.9 billion. Lower oil prices and import substitution resulting from increased domestic production reduced the import bill. A 25-percent depreciation of the rupee since early 1982 has enabled Pakistan to expand exports of nontraditional manufactured goods, especially synthetic textiles, garments, and tents and tarpaulins. Pakistan ended the fiscal year with almost \$2 billion in foreign exchange reserves, the equivalent of about four months of imports. [ ]

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### **Consequences of Civil Disturbances**

The antigovernment campaign that began in August thus far has been confined primarily to Sind Province and has had only a small impact on the economy. The economic damage from the civil disobedience campaign has been confined to rural areas and directed primarily toward symbols of government authority—police stations, banks, and railway stations—rather than directly toward economic facilities. [ ]

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Nonetheless, the transportation system and trading community have been affected adversely, according to reporting from the Consulate General in Karachi. Much of the economic damage that has occurred has been to railway rolling stock and facilities; press reports suggest that this damage could exceed \$20 million. Consulate reporting indicates that disruptions of road and rail transportation have led to spot shortages and higher prices, particularly for food, throughout Sind Province. Imported goods at the port of Karachi have piled up and fuel shipments to rural areas have been

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Pakistan: Current Account <sup>a</sup>

Million US \$

	1978	1979	1980	1981	1982	1983
<b>Current account balance</b>	<b>-630</b>	<b>-1,126</b>	<b>-1,145</b>	<b>-991</b>	<b>-1,610</b>	<b>-433</b>
Trade balance	-1,464	-2,170	-2,516	-2,765	-3,450	-2,904
Exports (f.o.b.)	1,287	1,646	2,341	2,798	2,319	2,628
Imports (f.o.b.)	2,751	3,816	4,857	5,563	5,769	5,532
Services	-392	-452	-524	-459	-548	-592
Receipts	399	510	678	945	935	962
Payments	791	962	1,202	1,404	1,483	1,554
Interest on debt	212	276	290	357	416	424
Transfers (net)	1,226	1,496	1,895	2,233	2,388	3,063
Worker remittances	1,166	1,395	1,748	2,095	2,224	2,886

<sup>a</sup> Data for fiscal years ending 30 June.

hampered by the transportation problems. [ ] movement of goods within Sind Province declined by as much as 30 percent during the peak of the disturbances. [ ]

Political turmoil also has affected the agricultural sector in Sind, according to the Consulate General. Sind Province normally accounts for about 20 percent of Pakistan's agricultural output. The absence of workers and particularly of landlords who traditionally are responsible for the marketing of crops delayed the cotton harvest. Disruptions in transportation have delayed the movement of crops to market as well as distribution of fertilizer to farmers. The flooding of fields caused by intentional breaching of irrigation canals has damaged some crops. [ ]

Although the dissidents have threatened broader economic disruptions, thus far such attempts have been scattered and not serious. In one instance, the US Consulate reported that radical students tried unsuccessfully to cut the natural gas pipeline running from the Sui gasfields in eastern Baluchistan

to Karachi and Hyderabad. Early in the disturbances, several trucks carrying crude oil from a small oilfield at Badin to the refinery in Karachi were destroyed. [ ]

**Economic Gains Inhibit Discontent**

We believe the civil disobedience campaign has not solicited broader popular support and not spread from the Sind in large part because the bulk of the population has enjoyed the benefits of economic prosperity. Zia's opposition cannot guarantee either that stability and relative prosperity would continue or that economic welfare would be improved under its leadership. Although inflation has been a concern voiced by some protesters and many Pakistanis dislike the increases in fuel prices and reduced subsidies for food and fertilizers, the inflation issue has failed to generate more widespread discontent. The government has kept the rise in the consumer price index to an average of less than 9 percent annually for the past six years. [ ]

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## Civil Disobedience



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The negative political impact of higher prices for the most part has been offset by improvements in income brought about by domestic economic growth, remittances, foreign aid, and good luck:

- Farmers have enjoyed rising incomes because of good weather and higher government procurement prices for their crops.
- We estimate about 1.5 million Pakistani workers have found relatively high paying jobs in the Middle East, which provide direct income for more than 10 percent of all Pakistani households.
- Laborers remaining in Pakistan have benefited from the reduced competition caused by the outflow of workers from the domestic market as well as the new jobs created by the growing economy.
- Bazaar merchants, traders, and owners of cottage industries and service establishments, who are key supporters of Zia's regime, have seen their fortunes improved by the growing purchasing power of Pakistani families.

#### Optimistic Short-Term Outlook

Several signs point to a strong economic performance for the current fiscal year ending next June:

- The government is predicting about 6-percent growth in rice production and another good wheat crop following a record harvest last spring.
- We believe there will be continuing growth in the steel, fertilizer, and nontraditional manufacturing industries.
- Preliminary reports from the Embassy show that worker remittances are still growing. Some Western economists and energy experts believe the economic slump in the Middle East, which could retard the growth of remittances, has bottomed out or will do so by the end of 1984.

- We expect the government will reach its export growth target of about 12 percent. First-quarter exports were up by more than 30 percent because of an increase in exports of rice and manufactured goods. A drawdown in cotton stocks and higher world prices will partially offset a poor crop this year.

- US Embassy reporting indicates import growth will again be sluggish because of the soft world oil market and continued domestic substitution of previously imported goods such as wheat and fertilizer.

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As a result of these favorable trends, we believe:

- The economy will grow by 5 to 6 percent.
- The current account deficit will be only slightly higher than last year's.
- Foreign exchange reserves will reach \$2.5 billion by the end of the fiscal year.

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#### Gathering Clouds

Despite Pakistan's generally bright outlook, a number of economic factors could impinge on future economic performance and pose some problems for the Zia government. Inflationary pressures are likely to be of most serious concern. According to the government consumer price index, prices rose at an annual rate of 14.4 percent during the first quarter of FY 1984. While Finance Ministry officials have told US Embassy officials that they hope to hold price increases below 10 percent for the fiscal year, we are skeptical that they will succeed:

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- The US Consulate General in Karachi reports that food prices have been increasing, especially in the Sind, because of hoarding and distribution problems associated with the civil disobedience and a government increase in the price of cooking oil, a basic staple in the diet.
- Monetary expansion resulting from higher domestic borrowing by the government for budget

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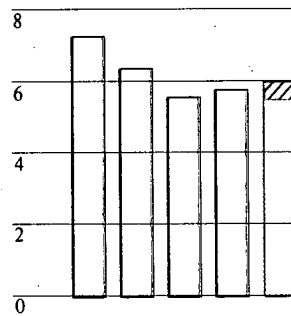
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**Pakistan: Economic Indicators<sup>a</sup>**

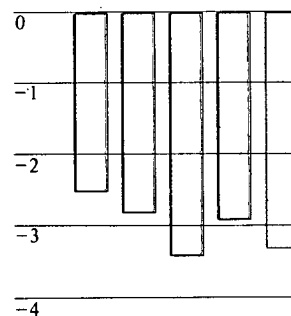
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**Real GDP Growth**

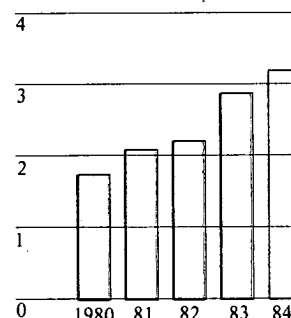
Percent

**Trade Balance**

Billion US \$

**Worker Remittances**

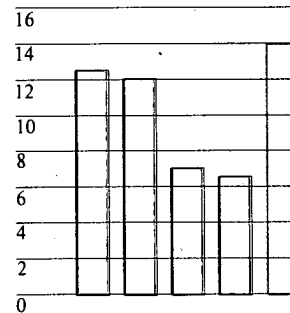
Billion US \$

<sup>a</sup>Projection based on first quarter reporting and government plans.<sup>b</sup>Data for fiscal year ending 30 June.

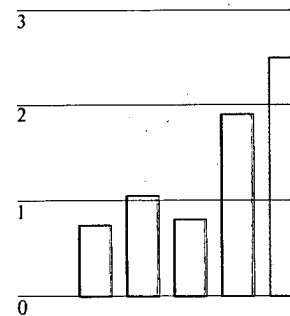
Shaded portions indicate range

**Consumer Price Growth**

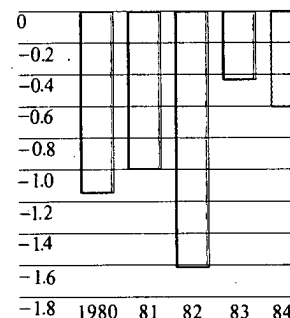
Percent

**Foreign Exchange Reserves**

Billion US \$

**Current Account Balances**

Billion US \$



support and commodity subsidies will add to the inflationary pressures. [ ]

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Although agricultural output will increase this year, this will occur despite a reduced cotton crop. Officials in the industry believe the cotton harvest will be 30 to 40 percent less than last year's record crop because of late rains and pest infestation. The flooding of some agricultural plots and disruptions in fertilizer distribution could also reduce yields in some areas over the next year. [ ]

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Labor is becoming increasingly restive over the issue of rising prices and the poor cotton crop could exacerbate the problem. Textile mill operators have already warned the government that, if they are forced to close mills, there will be increased unemployment that will have a multiplier effect on the rest of the economy. According to the Consulate in Karachi, the cotton industry accounts for 20 percent of Pakistan's industrial output and an equal percentage of the industrial work force. [ ]

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**Over the Horizon**

While the civil disobedience program has not had a major short-term impact on the economy, future economic growth is likely to suffer. The current five-year plan assumes that a revival in the private sector will contribute a larger share of investment for industrial development. We believe that fresh doubts about Pakistan's long-term stability are inhibiting both foreign and domestic investment in private industry. Without growth in private investment, Pakistan will have to look for additional foreign aid donations and labor migration to meet its development plans and provide jobs for a rapidly growing work force. [ ]

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Of more immediate concern would be a renewed outbreak of violence in Sind. A new round of antigovernment activity would lead to more interruptions on the vital road and rail links between Karachi and the Punjab and more sabotage directed toward economic targets. We believe sustained

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economic disruptions would cause politically significant shortages of consumer goods and materials for industries. Such economic warfare would seriously undercut Zia's image as a leader capable of maintaining order and undermine the military's confidence in his ability to lead Pakistan.

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## Suriname: Dutch Aid Cutoff Initiates Economic Tailspin

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Despite cooler relations with Havana, Suriname has failed to secure new Western aid to replace that suspended by the Dutch in December 1982. To compensate for the sizable foreign exchange loss, the military regime of Army Commander Desire Bouterse has steadily drained the country's once ample reserves to cushion the import decline. Facing a prolonged aid embargo, however, Paramaribo probably is considering the imposition of austerity measures for early next year. Despite some hopes for increased bauxite-related exports next year, further cuts in imports will be necessary to avoid depleting Suriname's foreign exchange holdings, thereby dimming the economic outlook at least through 1984.

### Coping With an Empty Till

Since the suspension in December 1982 of critical Western aid—almost all Dutch—in response to the execution of 15 prominent opposition leaders, Paramaribo has launched an unsuccessful search for replacement aid.

**Cuba** and Suriname concluded several agreements encompassing economic cooperation, technical assistance, and military training, but these involved little, if any, financial support. Paramaribo apparently pulled back from the accords to placate neighboring Brazil and because of the high local costs and loss of administrative control involved in implementing the Cuban programs.

**Brazil** told the Bouterse regime in April 1983 to reduce the Cuban influence or risk possible Brazilian military reaction. Brasilia was unwilling to offer significant cash aid but did conclude a \$15 million aid agreement for military equipment

### Suriname: Balance of Payments

Million US \$

	1979	1980	1981	1982	1983 <sup>a</sup>
Current account	44	16	-25	-57	-140
Trade balance	74	61	-38	-36	-30
Exports (f.o.b.)	444	515	474	429	370
Imports (f.o.b.)	370	454	512	465	400
Net services, private and official transfers	-30	-45	13	-21	-110
Grants <sup>b</sup>	81	74	96	90	0
Capital account	-6	3	43	26	20
Change in reserves	38	19	18	-31	-120

<sup>a</sup> Estimated.<sup>b</sup> The majority of grants are from the Netherlands.

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International financial institutions including the **IMF, World Bank, and Inter-American Development Bank** have been approached by Suriname—with Brazilian guidance—but new aid has not materialized. Other responses have been equally disappointing:

- A small US aid program remains suspended.
- **International bankers**, put off by Suriname's lack of financial expertise and inability or unwillingness to supply necessary financial data, have been unresponsive.
- A **Libyan** \$80 million loan offer apparently never panned out.

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Although Havana appears to have backed Paramaribo's cultivation of Western donors for the hard currency support Cuba could not provide, Bouterse was concerned that Havana might try to destabilize

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his regime in favor of a more pro-Cuban government. We believe the power struggle within the regime in Grenada, resulting in the assassination of Prime Minister Bishop, increased Bouterse's apprehension over the consequence of close ties to Cuba and sparked Suriname's move in October to reduce its relations with Havana. Bouterse ordered Havana to recall its Ambassador and cut the size of its Embassy staff, suspended all bilateral aid agreements, and summoned all Surinamese students to return from Cuba; Havana responded by withdrawing all of its diplomatic personnel. [ ]

Meanwhile, political infighting between Suriname's radical pro-Cuban party and the more moderate socialist party has precluded the formulation of comprehensive economic policies. The regime has taken stopgap measures to reduce imports and stem capital flight that include the slowed processing of import licenses, a loosely enforced ban on consumer imports, and restrictions on currency convertibility. These measures, however, failed to stem the fall in reserves. According to data provided to the IMF, nongold foreign exchange reserves dwindled to \$75 million by October, about two months' import cover, down from \$176 million at the end of 1982. [ ]

Paramaribo tried to keep on track the development projects previously funded by the Dutch despite the loss of some \$90 million in Dutch aid originally anticipated for 1983. The government has financed the budget deficit, expected to reach 17.5 percent of GDP this year, by borrowing from the central bank, pressuring domestic banks for concessional loans and businesses for contributions, as well as by drawing down foreign reserves. [ ]

Despite the government's attempt to maintain development projects, the domestic economy remains depressed and tax revenues have dwindled. Private investment has declined because of political uncertainty, growing and haphazard government regulation of imports, prices, and profits, and the regime's heavyhanded requests for financial contributions. Bankruptcies have risen in recent months in response to the depressed local market, import curbs,

and new laws that prevent worker layoffs. Production of bauxite, alumina, and aluminum—which together contribute almost 20 percent of GDP—has nosedived, mainly because of soft world market conditions. Output in the import-dependent agricultural and manufacturing sectors has stagnated. Even with protective employment laws, rising unemployment—probably now exceeding 20 percent—has prompted Suriname to expel at least 2,000 Guyanese workers this year. [ ]

#### Bleak Outlook for 1984

We believe mounting foreign financial pressure will force the regime to take further action soon. At the current rate of spending, foreign exchange reserves will be depleted early next year. The IMF and other international lenders are likely to keep their distance until the regime demonstrates its resolve to undertake and maintain tight austerity measures. Paramaribo may temporize, however, in hopes of a renewal of Dutch funding—over half of the \$1.5 billion “golden handshake” that accompanied Suriname's independence in 1975 remains to be drawn. The regime has yet to make any headway, however, in meeting Dutch demands for an impartial investigation into the events surrounding the December 1982 massacre, increased protection of human rights, and the restoration of constitutional order and democracy. Moreover, the regime's attacks on Dutch “colonialism” are likely to increase opposition within the Dutch Government on aid to Suriname, especially given the Netherlands' domestic budgetary problems. [ ]

We believe the Surinamese economy is unlikely to recover in 1984, even with the expected improvement in bauxite-sector output stemming from the world economic recovery and local production incentives contained in a new bauxite levy agreement. Faced with dim prospects for renewed aid, the regime appears to be considering the imposition of austerity measures that could further dampen economic activity. Paramaribo has appointed a commission to consider new import controls and the

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government-controlled press is calling for economic sacrifices. The uneven application of import and currency controls—as in the past—could force producers to bear the brunt of possible import shortages. Paramaribo already has increased income and sales taxes effective in January and is likely to toy with additional tax measures and government spending cuts. [REDACTED]

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Domestic frustration over economic uncertainty, government harassment, and rising unemployment probably could be vented in part by another tide of emigration. Criticism to Bouterse's repressive rule, however, would intensify should the economy deteriorate rapidly. [REDACTED]

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## The High-Frequency World Administrative Radio Conference

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The International Telecommunication Union (ITU) on 10 January will convene—after a 25-year hiatus—a planning conference in Geneva on the use of the high-frequency broadcasting spectrum. We believe the Conference is likely to refer several alternative planning methods to a working group, which will report to a second session of the High Frequency World Administrative Radio Conference (HF-WARC), scheduled to convene in October 1986. Almost all of the issues to be addressed could result in North-South or East-West disagreements.

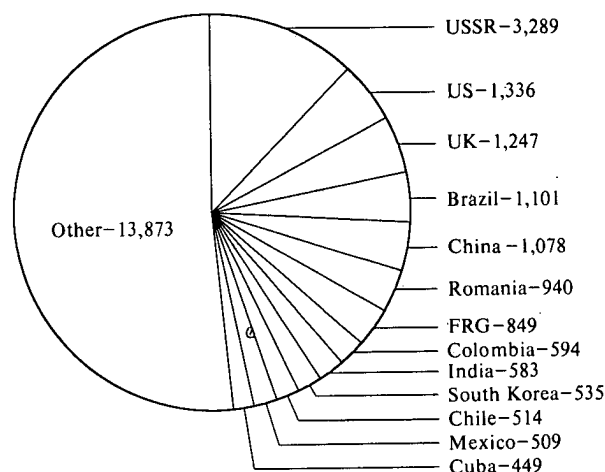
### US Interests

The United States with the Voice of America, Radio Free Europe, and Radio Liberty is the second-largest user—after the USSR—of the HF-broadcasting spectrum. If the Conference adopted a rigid planning method or if limits were placed on transmitter power or access to broadcasting frequencies, US broadcasting interests would suffer and US ability to counter Soviet jamming would be impaired. Although the United States could refuse to accede to Conference results, if countries serving as hosts for US relay transmitters accepted the results US broadcasting would be affected because of its dependence on host nations for international broadcasting. This dependency is not shared by the Soviet Union, which broadcasts from its own territory.

### The Conference

According to an agreement reached at the 1979 WARC, the main purpose of the January meeting is to establish a planning method to assign HF-broadcasting frequencies to countries. In addition, the meeting will seek to establish principles

### Major HF-Broadcasters Hours of Transmissions<sup>a</sup>



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<sup>a</sup> Includes transmissions through host country facilities.

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governing the use of the bands and the technical parameters for planning spectrum use. The session scheduled for 1986 is to carry out the actual planning of the bands according to the method and principles established in 1984.

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The success of the meeting in January will largely depend on:

- Identification of a planning method that meets both the minimum requirements of major broadcasters—the United States, the Soviet Union, West Germany, and the United Kingdom—as well as LDC demands for improved quality of service for their own broadcasts. The problem is that demands exceed presently available broadcast hours in the HF spectrum by almost 50 percent. The industrial nations want to maintain the current flexible system under which countries notify the ITU of proposed broadcast schedules for each season and cooperate voluntarily in resolving potential interference. The developing nations want a fixed system under which the assignment of frequencies and broadcasting hours would be in effect for one or more years at a time.
- The availability from 1989 to 1994 of new bands reallocated from fixed services<sup>1</sup> to general broadcasting. The one-third increase in the spectrum provided by the new bands would improve the quality of service for many broadcasters, but it does not include new bands at the lower end of the spectrum, which is the most crowded. Moreover, this increase will be at least partly offset by a continued expansion of country demands.
- The possibility of a prolonged East-West ideological debate over the principles governing the use of the broadcasting bands. The principle most likely to affect the Conference concerns the free flow of information. Resolutions against jamming have already been submitted by Canada and the United Kingdom. The Soviets almost certainly would oppose any type of antijamming resolution. Most developing countries favor setting aside the East-West ideological debate and proceeding with the technical issues that more directly concern their interest.

<sup>1</sup> Fixed services include point-to-point transmissions used for domestic or military communications.

### Alternatives

If, as we expect, the Conference cannot reach agreement on the substantive matters:

- The Conference could call for an intersessional group to examine a number of possible planning methods. The ITU could then arrange the agenda of the second session to allow examination of the intersessional results. We believe this alternative will be the most likely result of the Conference.
- The LDC majority in the ITU—if they can agree among themselves—could adopt a planning method unacceptable to the industrial nation minority. We believe major broadcasters, including the Soviet Union, probably would go along with an LDC plan where it coincided with their interests and broadcast as they please where it did not. This result would be tantamount to broadcast chaos; the industrialized nations would use their technical expertise to overcome interference, while the LDCs' broadcasting would continue to suffer significant interference.
- The Conference could admit failure, which would probably result in a continuation of the present planning method.

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## Africa and France: An Enduring Relationship

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President Mitterrand's decision last August to counter the Libyan intervention in Chad reflects France's intention to maintain its traditional role as the most important Western power in Africa. Mitterrand is keenly aware of the need to preserve extensive French economic interests in Africa, especially in its former colonies. Of particular concern are French participation in much of the commercial activity in West Africa and access to strategic minerals in such places as Niger, Nigeria, Zaire, and South Africa. Continued problems in the French economy, however, could force Paris to cut back on its financial and military assistance. This will be particularly worrisome for Francophone West African governments that depend on French budgetary support and technical assistance. We believe that Paris, as well as moderate African leaders, will be looking to the United States to make up for shortfalls in French assistance. All parties probably will emphasize the importance to the United States of helping the region and minimizing opportunities for Libyan or Soviet Bloc adventurism.

### An Economic Lifeline

The French derive substantial benefits from their complex economic ties with the French-speaking African states. Commercial distribution channels, sources of financing, product standards, and long-established personal ties impel economic and commercial relationships along a well-defined track. Frenchmen in senior positions in many Francophone governments use their influence to assist

<sup>1</sup> In this article the term "Francophone Africa" includes the former colonies of Benin, Cameroon, Central African Republic, Chad, Congo, Djibouti, Gabon, Guinea, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Senegal, Togo, and Upper Volta. Zaire, Rwanda, and Burundi, though French speaking because of Belgian colonization, are considered separately from the French community.

French firms in obtaining contracts. French companies frequently have as partners senior African government officials to ensure that their interests are protected. French import-export firms, shipping companies, and financial institutions all work together. French investors receive substantial support from Paris in the form of government guarantees by the French Insurance Company for Foreign Trade (COFACE) and access to substantial amounts of concessional money. About one-half of all official French aid goes to African subsidiaries of French firms.<sup>2</sup>

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French economic influence is most fully realized in the institutions of the franc zone—one of the few relatively successful experiments in international monetary and economic integration and a primary factor behind the favorable economic performance of Francophone states relative to their neighbors. The zone provides a common monetary system for its members overseen by French personnel and guided by French expertise through direct links with the French Central Bank and treasury. Members of the franc zone can borrow from the French Central Bank at favorable rates and may draw on a generous line of credit at a token 1.0-percent interest. The convertibility of the franc zone currency facilitates international trade and foreign private investment.

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Nevertheless, the attraction of the zone for both France and some of the African members is beginning to fade. The foreign exchange accounts with the French treasury have been a substantial

<sup>2</sup> The principal institutions disbursing French assistance are the Central Fund for Economic Cooperation (CCE) and the Aid and Cooperation Fund (FAC). The CCE offers subsidized loans with interest rates as low as 1.8 percent and repayment periods of 30 years after a 10-year grace period. The FAC is the instrument for extending grant aid.

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### *The French Stake in Sub-Saharan Africa*

*The French stake in Sub-Saharan Africa is substantial and wide ranging:*

- *France relies on Africa as an important supplier of strategic minerals—petroleum, uranium, manganese, copper, and cobalt.*
  - *The French have interests in over three-fourths of all commercial firms in Francophone Africa; the largest of them, the West Africa Company (CFAO), has more than 60 subsidiaries in Africa, employs about 16,000 people, and had a turnover in 1981—the latest year for which data are available—of more than \$1.5 billion.*
  - *To protect these economic interests, Paris has military bases in eight countries and about 13,000 troops in Africa as a whole. It also provides military equipment and training on which a number of pro-French African governments depend to maintain internal security.*
  - *France provides African countries with more than \$1 billion annually in economic and military aid, an amount that constitutes nearly 60 percent of all French assistance worldwide.*
  - *The African franc zone organization, while committing Paris to underwriting a stable, convertible currency in Francophone Africa, controls a part of member countries' foreign reserves, and has used these funds on occasion to support the French currency.*
  - *Paris underwrites the salaries of more than 10,000 expatriate teachers, technicians, and advisers in Sub-Saharan Africa, many of whom hold key positions in Francophone African governments.*
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financial drain for Paris because of heavy borrowing by African members to cover their foreign payments needs. At the same time the Africans complain that they have to suffer for France's economic ills, because their currencies are tied to the weak French franc, yet they have no influence on either French economic decision making or on the devaluation process. The 35-percent decline in the French franc relative to the dollar in the past two years has increased foreign payments strains on African franc zone governments saddled with debt service payments and oil bills denominated in dollars. [ ]

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Another area of concern for franc zone members is the prevailing high interest rates in France and the freedom to transfer capital reserves within the zone. The Africans claim they have lost sizable amounts of funds to French banks that otherwise could have been available for local investment. This is particularly worrisome in the larger African economies, such as Ivory Coast, where companies borrow considerable amounts locally and invest it in French money markets. The Senegalese press reported African resentment over what they perceive as support for the faltering French economy at a time when their own economies are deteriorating. [ ]

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The worsening economic positions of franc zone countries prompted a major reassessment of membership by all parties during 1983. According to US Embassy reporting, the Africans want to shift some of the burden of regional development from Francophone community institutions to other Western and Arab countries. Togo, Ivory Coast, and Senegal already rely on the IMF for the sort of balance-of-payments support that France previously provided. French press reports indicate that Paris also would like to shift some of the financial cost of supporting the franc zone to the IMF and other multilateral organizations such as the EC and the

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**Oil and Politics**

In 1982 over 80 percent of the production of Elf Aquitaine, the French state oil group, was in Africa, and the company is the leading oil prospector in the region. Four countries account for most of this activity—Nigeria, Congo, Gabon, and Cameroon. [ ] Elf's holdings in Angola within the next 10 years will rank second only to those it has in Nigeria and will be capable of producing as much as 200,000 b/d. [ ]

Mitterrand regards the government-controlled company as both an instrument of French foreign policy and a major revenue producer. These two goals sometimes conflict. During a recent visit to Brazzaville, Mitterrand told President Sassou-Nguesso that, although France supported better economic terms for Third World countries, Paris would not pressure Elf to moderate its demands for a higher profit margin. [ ]

Elf's policies closely affect local politics in those francophone African countries where the company dominates the oil industry—Gabon, Congo, and Cameroon. For example, when Elf instituted a production slowdown in the mid-1970s in reaction to Congo's demand for higher profits, the move disrupted the Congolese economy and spurred political unrest that resulted in the assassination of President Ngouabi. [ ]

A similar embroglio has broken out between Elf-Gabon and Gabon's President Bongo. The Gabonese Government wants to raise its 25-percent share in the company to 40 percent by the end of the year. Elf has been both holding back on production and making little effort to find and develop new resources. These policies have led to a serious depletion of Gabon's known reserves and a shortfall in oil revenues. Gabonese economic planners were forced to extend the 1980-82 interim economic plan for a year and a half and hold off on the new five-year development plan until 1984. [ ]

Elf's managers are worried by the increasing competition from Western oil groups in developing oil potential in various Francophone African countries. In Ivory Coast, for example, US companies have made significant discoveries in areas that Elf had earlier abandoned as containing noncommercial deposits. In Cameroon, Elf lost its position as the sole oil producer when the government invited US companies to share in the growing Cameroonian oil sector. Even Gabonese President Bongo, previously a supporter of Elf, is using the company's investment slowdown as a pretext for inviting non-French firms to develop some of Gabon's oilfields. A US firm has already made one major find offshore. [ ]

World Bank. [ ]

communities, particularly in the economic sector, probably has an even greater influence on African government policies than do exchanges between African and French officials at the highest levels. [ ]

**The Role of French Expatriates**

More than 200,000 French citizens—one-fifth of all those living abroad—live in Sub-Saharan Africa, with the largest concentrations in Ivory Coast (40,000) and Gabon (27,000). In our judgment the cumulative day-to-day influence of the French

Elf-Aquitaine, the largest French oil producer in Africa, is deeply involved in Francophone African politics and is an important instrument of the French policy to keep out US and other foreign commercial competitors. A major factor behind the company's aggressive posture is its reliance on

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black Africa for over 80 percent of its total production of 485,000 barrels per day. The company maintains close links with Francophone African leaders, particularly with Presidents Bongo of Gabon and Sassou-Nguesso of Congo, according to press reports. In turn, company officials provide a useful channel by which African leaders can convey their problems directly to Mitterrand. [ ]

In addition to the businessmen, there are some 10,000 French technical advisers in Africa, many of them holding positions that give them access to information and the means to exert influence on behalf of French interests. In Ivory Coast, for example, US Embassy sources report that French advisers are placed in nearly every Ivorian ministry. They occupy several senior positions and are frequently involved directly in the decisionmaking process. In Gabon, French advisers are using their government positions to screen non-French contracts. [ ]

#### Changing Relations Between Non-Francophone Africa and France

The Mitterrand regime is building on previous French efforts to develop financially profitable relations with areas outside the French community. France is an attractive trade and investment partner because of Paris's willingness to extend credit on lenient terms to African business partners, as well as its long experience in African markets. Within the last decade, Nigeria and South Africa have become France's most important trade partners in Sub-Saharan Africa, thanks to Nigeria's oil and South Africa's strategic minerals, particularly manganese, titanium, uranium, and chrome. French firms also are active in Zimbabwe, Kenya, Mozambique, and Angola and are partners with Paris in expanding French access to the mineral wealth of Zaire [ ]

**Nigeria.** Nigeria provides an outstanding example of Paris's ability to woo non-Francophone Africans. The French pushed their way into the Nigerian market in the late 1970s at the peak of Lagos's

unhappiness with the United Kingdom's handling of the transition to majority rule in Rhodesia. Nigeria is now the principal site of new French investment in black Africa, and in 1980 and 1981, according to press sources, Lagos awarded French companies over \$3.7 billion in new contracts. The French have been doing well in the construction sector and are active in transport, retailing, and manufacturing. Peugeot, for example, has the largest automobile assembly plant in Nigeria, producing nearly 60,000 vehicles for the local market last year. [ ]

**South Africa.** The continuity of French policy toward South Africa has been particularly striking. Despite shrill criticism by French officials of South African racial policies, Paris has carefully sought to insulate substantial French-South African commercial ties from the political fallout. The Mitterrand government, for example, has defended the participation of French companies in the controversial Koeberg nuclear reactor construction project, agreed to fabricate nuclear fuel rods necessary for its eventual operation, and approved large purchases of South African coal and uranium by state-owned companies to meet French energy needs. Moreover, according to the US Embassy in Pretoria, French officials have privately acknowledged that, despite their government's compliance with the UN arms embargo, the South African defense force has been able to obtain spare parts for its Mirage fighters and French-built helicopters on the international market. [ ]

**Zaire.** France's financial support has enabled Mobutu to reduce his economic dependence on Belgium—the former colonial power—and Paris's military support has been an important factor in maintaining the stability of his regime. Although the warming of French-Zairian relations was built on a close working relationship between Mobutu and former French President Giscard, Mitterrand has increased French military assistance and retained France's position as one of Zaire's major foreign creditors. [ ]

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## Outlook

The Francophone states will continue to look to Paris for the bulk of their economic support:

- For the poorer Francophone countries such as Niger, the Central African Republic, Upper Volta, and Djibouti, French financial aid is a vital prop. French funds provide food and other essential goods for politically sensitive urban areas. French personnel, needed to keep many of the African economies and governments working, are largely funded by Paris. There is no other Western donor at present willing to step in and assume France's role in what are some of the world's poorest countries.
- For wealthier Francophone states, such as Ivory Coast, Cameroon, and Gabon, we believe the need for a substantial French military and economic presence will remain strong. Ruling elites, still heavily influenced by French education and military training, are concerned over the Libyan threat to the region. They feel particularly vulnerable to efforts by Qadhafi to exploit popular unhappiness with the economic situation and declining urban living standards within their countries. We anticipate that they will resist any efforts by Paris to reduce the presence of French troops whom the Africans view as an important deterrent to local unrest. [ ]

Nevertheless, there are a number of trends developing that could, over the long term, jeopardize these ties:

- The Africans will be looking to France to be more supportive of their positions on issues the Africans deem vital. West African governments, for example, have been resentful of Paris's reluctance to cut off dealings with Qadhafi. Another contentious issue is French participation in South Africa's nuclear program. If French business interests build another nuclear plant in South Africa, it will almost certainly prompt a storm of criticism from the Africans. The Nigerian press already is sounding warnings on this subject, and public

pressure could force Lagos to take some retaliatory measures against French firms operating in Nigeria.

- Africa's unease over its dependence on France is certain to increase as the present generation of leaders committed to a French role in Africa is replaced by a more nationalistic elite.
- The French will find it difficult to maintain their financial assistance—covering budgetary and external deficits and paying salaries of essential French technicians—given France's own economic slowdown. Paris also will have to back away from funding costly prestige development projects, such as the Kribi liquefied natural gas project in Cameroon and the Konkoure hydroelectric project in Guinea because of uncertainty over their long-term economic payoff. [ ]

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## Implications for the United States

If Paris decided to ease its own economic straits by cutting back on its financial and military commitments in black Africa, this would prompt an intensive campaign by Francophone leaders to find substitute partners. High on their list would be Washington. We would anticipate requests for a substantial increase in US economic aid, but also for a stepped-up military role in the region—as indicated by urgent appeals last summer by Houphouet and others for US military intervention in Chad. The Africans probably would try to enlist US help in persuading the IMF and the World Bank to increase their financial programs and soften their terms. [ ]

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African leaders will view Washington's reaction to their requests as a sign of the importance to the United States of its African relationships. A favorable response would be well publicized by the Africans, who might become more supportive of the United States on international issues. [ ]

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Failure to satisfy African expectations, however, could provoke criticism of US policy, create a more difficult climate for US businesses, and prompt threats to turn to the Soviets, the Libyans, or even the Iranians for help. Such conditions also could prompt the Libyans and the Soviets to take the initiative. Moscow has long viewed France as a competitor for influence in Africa, particularly in the area of military assistance to Francophone countries. Soviet efforts probably would continue to concentrate on extending long-term credits for the purchase of weapons and military training, rather than trying to match the level of economic aid now given by France. But Moscow would use the opportunity to blame African economic hardships on the failure of both Washington and Paris to step in with financial aid.

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## Eastern Europe: 1983 Grain Crop and Implications

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We estimate Eastern Europe will harvest a 97-million-metric-ton grain crop this year, the region's second-largest crop, but down from last year's record 102 million tons. Near record production in the grain-importing northern countries of Eastern Europe will do little to improve food supplies because imports will remain below the levels of the recent past. In most of the southern countries, production shortfalls will lower grain exports at a time when these financially hard-pressed regimes are attempting to boost sales to obtain hard currency. We believe retail food prices are likely to rise in most East European countries; the food situation will be worse in Poland and Romania where already depressed meat supplies are expected to worsen. With the US share of the grain market down sharply in recent years—largely because of a reluctance of US Government and private sources to provide financing for grain purchases—other countries have increased their market share. Canada, however, is the only major grain exporter to use government-backed trade credits aggressively to expand sales. Despite threats to boycott the US market, most grain traders contend that Eastern Europe would quickly return to the US market should credit become available on favorable terms.

### Grain Production

Based on analysis of satellite imagery, weather data, and press and attache reporting, we expect 1983 grain production in Eastern Europe to reach some 97.4 million tons, the second-highest crop ever, but short of the 110-million-ton target for 1983 and below last year's record harvest of 102 million tons. All of the reduction is expected to

occur in the southern countries,<sup>1</sup> which were hit hard by drought in May and July. In contrast, overall favorable weather and a large sown area helped the chronically grain-deficient northern countries, where production is expected to reach near-record levels.

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**Southern Countries—A Falloff in Production.** We expect the southern countries of Eastern Europe to produce about 55 million tons of grain this year. The crop, about average for the region but some 5.5 million tons below last year's record output, was hurt by a drought in May that reduced winter grain yields:

- Severe damage to Romania's winter grain crop in May is expected to result in a below-average total grain output of 17.6 million tons.
- Because of the drought, Bulgaria will harvest a below-average grain crop of 7.5 million tons.
- Losses from droughts in May and July will keep Hungary's output to about 12.9 million tons, a decline from last year's record of 14.8 million tons.
- Excellent conditions in Yugoslavia since late May have made an above-average harvest of 17 million tons likely, although it will probably fall short of the estimated 1983 plan of 17.7 million tons.

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<sup>1</sup> The southern countries are Romania, Bulgaria, Hungary, and Yugoslavia. The northern countries are Poland, Czechoslovakia, and East Germany. We discuss the two groups separately because they differ in climatic conditions, crops, and degree of self-sufficiency in grain production.

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# Areas in Eastern Europe Affected by Drought, Spring 1983



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**Eastern Europe: Grain Production <sup>a</sup>***Million metric tons*

	1977-81 Average	1977	1978	1979	1980	1981	1982	1983 <sup>b</sup>
<b>Eastern Europe</b>	<b>93.8</b>	<b>93.7</b>	<b>96.2</b>	<b>90.8</b>	<b>96.0</b>	<b>92.1</b>	<b>102.0</b>	<b>97.4</b>
<b>Southern countries</b>	<b>55.2</b>	<b>55.3</b>	<b>53.9</b>	<b>55.4</b>	<b>57.4</b>	<b>54.0</b>	<b>60.5</b>	<b>55.0</b>
Romania	18.9	18.6	19.0	19.3	20.2	17.5	19.7 <sup>b</sup>	17.6
Bulgaria	8.1	7.8	7.7	8.5	7.8	8.7	8.6 <sup>b</sup>	7.5
Hungary	12.8	12.3	13.3	12.0	13.8	12.6	14.8	12.9
Yugoslavia	15.4	16.6	13.9	15.6	15.6	15.2	17.4	17.0
<b>Northern countries</b>	<b>38.6</b>	<b>38.4</b>	<b>42.3</b>	<b>35.4</b>	<b>38.6</b>	<b>38.1</b>	<b>41.5</b>	<b>42.4</b>
Poland	19.3	19.4	21.5	17.3	18.3	19.8	21.2	21.6
Czechoslovakia	10.1	10.3	11.0	9.2	10.7	9.4	10.3	10.8
East Germany	9.2	8.7	9.8	8.9	9.6	8.9	10.0	10.0

<sup>a</sup> Grains include wheat, rye, barley, oats, corn, mixed grains; in the southern countries rice is also included; in Bulgaria, legumes.

<sup>b</sup> Estimated.

**Northern Countries—Near-Record Grain Output.**

The northern countries of Eastern Europe have experienced generally favorable weather during this crop season, and they are headed toward a near-record grain harvest of over 42 million tons, the best outcome since 1974. Winter grains, which make up 60 percent of production, benefited from mild temperatures and ample soil moisture. Some of the region's spring grains on poorer sandy soils were hurt by drought in July, but [redacted] damage was significantly lighter than had been portrayed earlier in local press accounts:

- We expect 1983 grain production in Poland to slightly surpass its 21.2-million-ton plan.
- Czechoslovakia will produce 10.8 million tons of grain in 1983, 5 percent better than last year.
- President Honecker announced in October that East Germany had harvested 10 million tons of grain and called this the largest grain harvest in the country's history although production fell short of the 1983 plan target of 10.3 million tons.

**Grain Trade**

We estimate that during marketing year (MY) 1983/84 (1 July–30 June) Eastern Europe will import between 8 million and 9 million tons of grain, at most 1 million tons more than last year but well below the 17-million-ton average of the early 1980s.<sup>2</sup> Our estimate is based on USDA projections, on our assessment of each country's ability to finance imports, as well as on its estimated grain requirements. We expect the region's grain exports to total 3-4 million tons, down from 5 million tons last year. Despite the increase in imports and cutback in exports, we estimate total

<sup>2</sup> The northern countries—Czechoslovakia, East Germany, and Poland—are traditionally net grain importers. In contrast the southern countries as a whole are net grain exporters. Hungary is the region's only consistent net grain exporter; Bulgaria is usually a marginal exporter, and Yugoslavia a net importer. Romania, a net exporter, is sometimes referred to as Eastern Europe's "grain broker," often exporting and importing large quantities of grain in the same year in order to take advantage of changing world prices.

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grain supplies will be roughly 3.4 million tons lower in MY 1983/84 than last year due to this year's reduced harvest. [REDACTED]

**The South.** While the southern region will remain a net grain exporter, the expected decline in net exports this year will adversely affect economically hard-pressed regimes that are trying to boost exports for hard currency:

- Romania's net grain exports are expected to fall in MY 1983/84, but domestic shortages will persist. Grain exports will decline to 1.0-1.2 million tons, while imports could rise to 0.9 million tons.
- Bulgaria, in a turnaround from last year, is expected to become a net grain importer in MY 1983/84.
- Hungary, although suffering a large decline in grain export earnings, will remain a net grain exporter, partly because of large carryover stocks from last year's record harvest. Hungarian officials have already predicted that the shortfall in this year's grain production could cost as much as \$300 million in lost export earnings.
- Yugoslavia's good corn harvest should enable the country to increase grain exports. A large share of these exports is expected to be handled through countertrade arrangements, whereby Western firms will provide Yugoslavia with soybeans and meal products in exchange for corn. [REDACTED]

**The North.** We expect that this year's near-record harvest in the north will be augmented by imports of approximately 6.0 million to 6.9 million tons. This level is about the same as last year, but substantially below the 11.4-million-ton average of MY 1980-82. Total grain supplies are expected to rise only marginally—300,000 tons—above last year's level and will remain below the average of the late 1970s:

- Poland's imports in MY 1983/84 will probably be about 700,000 tons less than last year and well short of the amount needed to rebuild the live-stock herds reduced by distress slaughtering in

1982. To help replace imports from the West, the USSR is expected to deliver about 650,000 tons, some 140,000 tons more than it provided last year.

- Czechoslovakia is expected in MY 1983/84 to import about 100,000 tons less than last year. Because of reduced harvests in Romania and Hungary, Prague will probably be forced to purchase a larger share of its corn from sources requiring hard currency.
- East Germany's grain imports are estimated between 2.5 million and 3.0 million tons, roughly 500,000 tons above the level of MY 1982/83. [REDACTED]

#### The Search for Western Financing

Since the early 1970s, Eastern Europe has relied on Western credits to finance grain imports. The situation changed in 1982 when East-West political frictions, economic crises, and debt problems in Poland and Romania cast doubt on the creditworthiness of all of Eastern Europe. While East European access to Western credits generally has tightened, the availability of credit to purchase grain has been less severely affected. [REDACTED]

A number of Western governments have been willing to play down the issue of Eastern Europe's creditworthiness for political reasons and to find outlets for surplus grain:

- Canada has been particularly aggressive in expanding its sales to Eastern Europe through the use of government-backed commercial credits. Officially backed loans paved the way for the 1-million-ton sale to East Germany in January, East Berlin's first major purchase from Canada since the mid-1970s. More recently, the two countries signed a long-term agreement calling for East German purchases of 1 million tons per year in 1984-86 financed by officially guaranteed credits. Press reports indicate that Canada is also pursuing talks with Romania on a two-year agreement.

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**Eastern Europe: Grain Imports <sup>a</sup>***Million metric tons*

	1979/80	1980/81	1981/82	1982/83	1983/84 <sup>b</sup>
<b>Eastern Europe</b>	<b>17.50</b>	<b>15.66</b>	<b>12.36</b>	<b>7.80</b>	<b>7.7-9.0</b>
Southern countries	3.86	3.82	3.53	0.95	1.7-2.1
Romania	1.63	2.15	1.18	0.32	0.8-0.9
Bulgaria	0.82	0.85	0.72	0.33	0.4-0.5
Hungary	0.14	0.15	0.18	0.12	0.1-0.2
Yugoslavia	1.27	0.67	1.45	0.18	0.4-0.5
Northern countries	13.64	11.84	8.83	6.85	6.0-6.9
Poland	7.75	8.16	4.71	4.00	3.0-3.3
Czechoslovakia	1.87	0.67	1.37	0.65	0.5-0.6
East Germany	4.02	3.01	2.75	2.20	2.5-3.0

<sup>a</sup> Marketing year 1 July to 30 June. Import data for all marketing years, except 1983/84, are from the Foreign Agricultural Service, USDA.

<sup>b</sup> Estimates are based upon our projection of the countries' needs and ability to finance grain purchases.

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**Eastern Europe: Grain Exports <sup>a</sup>***Million metric tons*

	1979/80	1980/81	1981/82	1982/83	1983/84 <sup>b</sup>
<b>Eastern Europe</b>	<b>2.93</b>	<b>4.58</b>	<b>4.22</b>	<b>5.43</b>	<b>3.14-3.90</b>
Southern countries	2.54	4.11	3.82	5.03	2.85-3.50
Romania	1.25	1.75	1.70	1.75	1.00-1.20
Bulgaria	10.60	0.40	0.79	1.10	0.05-0.10
Hungary	0.49	1.55	1.05	1.18	0.80-0.90
Yugoslavia	0.20	0.41	0.28	1.00	1.00-1.30
Northern countries	0.39	0.47	0.40	0.40	0.29-0.40
Poland	0	0.06	0.02	0.03	0-0.05
Czechoslovakia	0.01	0.04	0.05	0.05	0.04-0.05
East Germany	0.38	0.37	0.33	0.32	0.25-0.30

<sup>a</sup> Marketing year 1 July to 30 June. Export data for all marketing years, except 1983/84, are from the Foreign Agricultural Service, USDA.

<sup>b</sup> Estimated.

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**Eastern Europe: Estimated Grain Production,  
Imports, and Availability, MY 1983/84***Million metric tons*

	Production 1983	Imports 1983/84 <sup>a</sup>	Availability 1983/84 <sup>b</sup>	Availability 1982/83	Change in Availability 1983/84 to 1982/83
<b>Eastern Europe</b>	<b>97.4</b>	<b>8.35</b>	<b>106.4</b>	<b>109.8</b>	<b>-3.4</b>
Southern countries	55.0	1.90	57.5	61.4	-3.7
Romania	17.6	0.85	18.4	20.0	-1.5
Bulgaria	7.5	0.45	8.0	8.9	-0.9
Hungary	12.9	0.15	13.6	14.9	-1.3
Yugoslavia	17.0	0.45	17.6	17.6	0
Northern countries	42.4	6.45	48.8	48.4	0.3
Poland	21.6	3.15	24.8	25.2	-0.5
Czechoslovakia	10.8	0.55	11.4	11.0	0.3
East Germany	10.0	2.75	12.8	12.2	0.5

<sup>a</sup> Figures are based on midpoint of our estimated range of imports given in table on grain imports.

<sup>b</sup> Available for domestic consumption or export. Availability equals production plus imports and beginning stocks in Hungary (500,000 tons) and Yugoslavia (100,000 tons). Because the bulk of the East

European grain harvests occurs between 1 July and 31 December, annual production falls within the trade year 1 July and 30 June. The two may be added to give an approximation of grain availability for a common period—MY 1 July to 30 June.

- Although only a small supplier, Austria has used government-backed credits to ring up sales to Poland, East Germany, Czechoslovakia, and Yugoslavia during the last two years.

- Despite France's failure to renew its long-term agreement with Poland, Paris has continued to provide Warsaw with short-term government guarantees promised before the imposition of martial law. Although concerned about East Germany's creditworthiness, France reportedly has continued to extend guarantees for grain shipments but at a lower level than in previous years.

- [ ] West Germany has been encouraging domestic commodity traders to provide credit lines to East Germany, even if government subsidies are necessary. [ ]

In contrast to their West European and Canadian counterparts, US banks and grain traders generally remain reluctant to extend credits for grain purchases. Further, the restrictions on Commodity

Credit Corporation (CCC) credits to Poland, imposed after martial law was declared in December 1981, will continue to sharply limit sales of US grain. Prior to the credit cutoff, the United States supplied about half of Poland's grain imports. We estimate that US grain sales to Eastern Europe in MY 1983/84 will total only about 1.7-2.0 million tons. Most of these sales will be to East Germany, Poland (on a cash and limited credit basis), and Yugoslavia (CCC credits). As a result, the US share of the East European grain market this year is expected to range from 20 to 25 percent, near last year's level but well below the 55-percent share in the late 1970s. [ ]

**Outlook for Food Supplies**

East European consumers can expect little improvement in food supplies this year. Further cutbacks in supplies and increases in retail food prices are likely as agricultural imports remain depressed

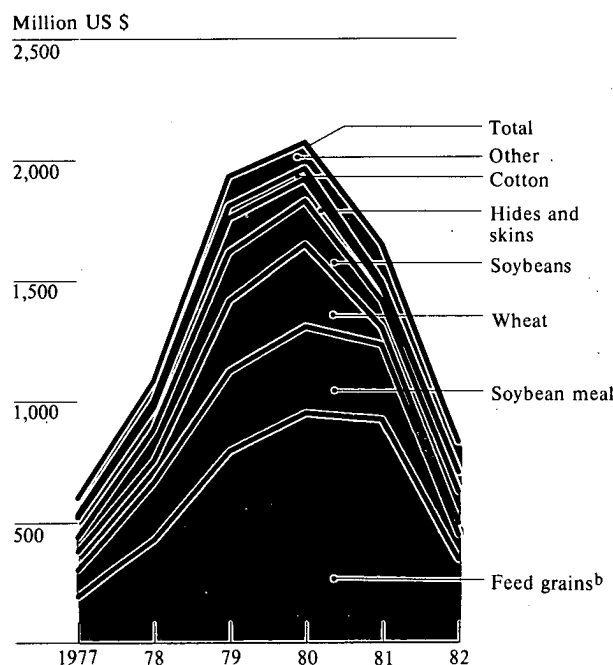
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### Eastern Europe: Declining Imports of U.S. Agricultural Commodities<sup>a</sup>



<sup>a</sup> Does not include transshipments.

<sup>b</sup> Includes corn, barley, and grain sorghums.

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and exports of food continue. Shortfalls in food supplies will be most severe in Poland and Romania, where meat is already in short supply. [ ]

In Poland, although food supplies have improved somewhat since the first of the year, prospects for the coming months indicate continuing shortages. Rationing is expected to continue in the foreseeable future for such items as meat, animal fats, butter, sugar, flour products, chocolate, and coffee. Warsaw has already announced that food prices will rise, possibly 10 to 20 percent, as of the first of the year. With livestock herds down sharply and feed supplies curtailed, no improvement in meat supplies is expected in 1984. [ ]

Among the southern countries, Romania is in the worst condition. Over the past year and a half,

### US Commodity Credit Financing

Poland has been the region's primary recipient of US CCC export financing programs, receiving roughly \$2.6 billion in credit guarantees and direct credits—more than 80 percent of CCC-financed sales to Eastern Europe—during fiscal years (FY) 1970-82. Since East Germany, Czechoslovakia, and Bulgaria do not have most-favored-nation status, they are not eligible for CCC financing. Romania did not receive any financing in FY 1983 because of its debt servicing problems. Although Bucharest has made informal inquiries into credit availabilities for FY 1984, no formal request has been made. Hungary and Yugoslavia received \$42 million and \$240 million, respectively, in CCC financing in FY 1983. Hungary has requested \$76.5 million and Yugoslavia has requested \$341 million in CCC financing for FY 1984. [ ]

consumers have faced sharp price increases, long queues, rationing, and shortages of meat, cheese, and butter. In its attempt to gain tighter control over the supply and distribution of food, the regime has restricted the sale and transport of privately produced food. This has reduced supplies, however, and worsened shortages. [ ]

In East Germany, Czechoslovakia, Bulgaria, and Yugoslavia, local shortages of meat, dairy products, vegetable oils, citrus, coffee, and chocolate will continue, and prospects for additional increases in food prices will make life uncomfortable. In Hungary, food supplies are expected to be near normal but more costly. Budapest, blaming this year's drought, recently ordered an immediate increase of 16 to 23 percent in the retail prices of bread, sugar, cooking oil, and other basic foodstuffs. [ ]

The political fallout from tight food supplies has remained muffled so far. On the surface, at least, it appears that East European consumers are getting accustomed to long lines, selective food rationing, and price hikes. We believe that the East European

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governments would move quickly to shift food supplies from surplus regions or state reserves to specific areas if popular rumbling appeared threatening. The Romanians and the Poles have done this successfully in the past. Sudden sharp price increases and new or tighter rationing requirements are the most serious potential flashpoints. Polish authorities were recently stung by public criticism when butter rationing was reinstituted. Nonetheless, Warsaw remains committed to food price hikes next year, and other regimes are likely to continue raising prices to restrain domestic demand. [ ]

Food supplies in the region will not improve much if at all in the coming years unless Eastern Europe imports more grain. Although most East European governments have pledged to sharply increase domestic grain production, numerous constraints stand in the way. In addition to large-scale investments, the East Europeans would have to initiate institutional reforms designed to overcome management problems, inadequate incentives, and low productivity. In our view, the necessary measures are unlikely any time soon. [ ]

Sustained improvements in food supplies in the next few years, therefore, will depend largely on Eastern Europe's ability to boost grain imports. Financing will remain the critical factor. Because of their financial weakness, most East European countries will buy from those suppliers willing to extend credit or to accept countertrade arrangements [ ]

### Role of Western Grain Suppliers

Although the reduced US presence has given other countries the opportunity to increase grain sales to Eastern Europe, we expect Canada will remain the only major grain exporter to use government-backed trade credits aggressively to expand its market share. Other large grain exporters—Australia and Argentina—seem reluctant to jump in, either because of concerns over Eastern Europe's creditworthiness or because of their own inability to extend loans. France will probably continue to extend some credit on a selective basis, but Paris appears cautious about financing a major expansion of grain sales to Eastern Europe. As a net grain importer, West Germany is unlikely to stake out a long-term share of East Germany's grain market and would probably reduce its role if other financing becomes available. [ ]

We believe that US exporters could quickly recoup much of their lost market share if US commercial and official lenders eased their restrictions on new loans to Eastern Europe. Some East European countries have threatened to boycott purchases of US grain over what they perceive as "discriminatory financing practices." Most traders, however, contend that Eastern Europe would quickly return to the US market should credit become available on favorable terms. [ ]

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