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TO : Chief,
 THRU : Acting
 FROM : Acting Chief

DATE: 25 September 1956

SUBJECT: Project No. "Sino-Soviet Bloc Capabilities to Provide
 Economic Assistance to Egypt Under Conditions of Western Sanctions"

1. The above self-initiated project was received in on 14 September 1956 and considered complete as of 20 September 1956. The project was used as the basis for an IAC Watch Committee briefing; was used as the basis of a cable was published as an article in the CIWR of 20 September. In addition, one copy was sent to the Air Force, and one copy was sent to of ONE.
3. The project was classified ~~SECRET~~. The attached copy is for your files.

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CIA HISTORICAL REVIEW PROGRAM
 RELEASE AS SANITIZED
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**SINO-SOVIET BLOC CAPABILITIES TO PROVIDE ECONOMIC ASSISTANCE
TO EGYPT UNDER CONDITIONS OF WESTERN SANCTIONS**

To fully test the capability of the Sino-Soviet Bloc to provide assistance required by Egypt under conditions of Western economic sanctions, it is assumed that supplies from free world countries could be effectively cut off but that a blockade would not be imposed.

Under these conditions Egypt may be expected to turn increasingly to the Sino-Soviet Bloc for certain essential imports—principally petroleum products and food—and for shipping. It is concluded that, if the Bloc so desires, it can supply these imports with little strain on its own economy. In addition, Egypt's present balance of gold and other non-blocked convertible currency is sufficient to make up her anticipated foreign exchange deficit for at least two years, without earning any foreign exchange from the Suez Canal.

Foreign Exchange

The freezing of Egypt's foreign exchange holdings in the UK, France and the US has made two-thirds of Egypt's foreign balances unavailable for commercial use. However, a \$100 million balance, mostly gold, is still available to Cairo. Egypt may also be able to obtain additional foreign exchange from other Arab states.

Since World War II Egypt has consistently run a deficit in its commodity trade. Although partially offset by Suez Canal payments, these deficits have caused a fairly steady drain on foreign exchange reserves. A year ago the Egyptian government attempted to restrict imports, two-thirds of which were from Eastern Europe and the US, in order to stop the deterioration of its foreign exchange position. Imports in the first 3 months of 1956, however, were 50 percent greater than those for the same period in 1955. Since the seizure of the canal and in part resulting from the freezing of Egypt's foreign exchange holdings, Egypt has barred the import of such items as cotton textiles, chemical fertilizers, soap, paper, automobiles and household appliances.

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Without the imposition of economic sanctions, Egypt's 1958 deficit was expected to exceed its 1955 deficit of \$60 million. Even in the event of a Western boycott of the Canal, which would cut Canal foreign exchange earnings sharply, the depleted foreign reserves would last probably for two years. In the absence of such a boycott, the addition of up to \$100 million annually in foreign exchange gross receipts from the Canal would further bolster Egypt's position.

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Proceeds from the export of cotton, Egypt's largest and most important cash crop, were over \$200 million in 1955, or about 40 percent of her foreign exchange earnings from exports. Exports from the 1956 crop are estimated at 240,000 tons, half of which is already committed to the Bloc on a contract with one-third last year. The Bloc will receive about 120,000 tons of the 1956 exportable surplus which represents 50 percent of total Bloc production. If the Bloc chose not to buy all the Egyptian cotton it could recall the balance in other markets, possibly at discount prices--as was reported to have been done in early 1956.

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Three-quarters of Egypt's exports consist of essential consumer goods, fuel and capital goods. The two most essential commodities are wheat and petroleum.

The Egyptian wheat crop for 1956 is expected to be about 2,000,000 tons. Import requirements for the 1956-57 season are the year total 450,000 tons of which the Bloc was agreed to supply 200,000 tons. The remaining 250,000 tons could also be supplied by the Bloc.

Egypt produced 1,200,000 tons of petroleum in 1955, less than half of its requirements. Imports from the Bloc, primarily from the USSR and Romania, provided about 50 percent of Egypt's needs. Egypt's share was less than 10 percent of the Bloc's total export of oil to the Near East.

Egypt's total supply in 1956 is estimated to be 4,000,000 tons of which 2,000,000 tons will come from domestic production. The Bloc will probably provide around 1,200,000 tons, about half of the deficit--more than twice that provided in 1955.

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If all Western sources of petroleum to Egypt were cut off, which seems unlikely, the Bloc could make available the total quantity of oil necessary to meet Egypt's deficit, which is but 2 percent of total Bloc production.

On 31 May 1955 stocks of petroleum products in Egypt represented about 20 days of normal supply. No later information is available but on the basis of the imports subsequent to 31 May it is believed that current inventories remain at about the same level.

Shipping

Egypt's foreign trade volume in 1954 is estimated at 2.7 billion tons of which 2.4 billion tons were imports, including 2.3 billion tons of petroleum.

Dry cargo shipping requirements to handle all of Egypt's 1954 foreign trade are estimated to be at least 150,000 tons of lift capacity. Egypt's 34 dry cargo vessels could carry a substantial amount of this trade. Total Bloc shipping available consists of about 2.2 million tons of dry cargo lift capacity. The exclusive use of Soviet Bloc vessels to handle Egypt's foreign trade would mean an allocation of about 3 percent of the Bloc's available dry cargo fleet.

In addition, about 100,000 tons of tanker lift capacity, or about 15 percent of the Bloc's available tanker fleet would be required. The diversion of this tanker tonnage by the USSR could be difficult unless they were willing to charter non-Bloc tankers for service on the run inside Bloc waters. Because COMSEC regulations forbid the use of COMSEC country tankers in the carrying of Bloc POL to the Far East, the USSR would be unable to replace more than two or three of the Bloc tankers now carrying Bloc POL on routes outside of Bloc waters with chartered non-Bloc tankers. In addition to the use of chartered non-Bloc tankers on certain routes in Bloc waters, the USSR could transport more POL to the Far East on the Trans-Siberian railroad. Bloc production of LIXBUC class tankers of 10,000 ton capacity will probably continue at the present rate of about 2 per year and when delivered could be used on the Egyptian run.

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TABLE III
EGYPT'S PRINCIPAL TRADE EXPORTS
(Percent of Total Value)

Exports to	1955	1953	1954	1956
USA	0.3	11.6	15.1	0.4
France	19.6	18.0	11.4	11.0
Germany	11.4	6.2	2.3	1.5
USSR	5.0	2.4	2.2	1.4
Italy	2.1	2.2	2.0	1.5
Japan	4.2	0.7	2.0	1.4
Canada	2.0	0.6	0.8	1.4
Spain	1.4	10.0	20.8	17.7
India	10.7	7.2	7.2	11.1
China	0.8	2.4	1.4	1.1
USSR (incl. Eastern Europe)	2.2	0.6	2.0	1.0
Other	1.4	1.8	1.0	1.8
Total	100.0	100.0	100.0	100.0
Exports from				
USA	15.6	4.8	11.8	10.0
France	14.0	14.0	11.0	12.0
Germany	6.3	10.5	11.1	10.0
USSR	2.2	2.0	2.0	1.5
Italy	2.2	1.1	1.8	1.5
Japan	1.0	2.1	0.8	1.5
Canada	1.5	2.0	0.8	1.5
Spain	1.0	2.1	1.1	1.5
India	1.0	2.1	0.8	1.5
China	1.0	2.1	0.8	1.5
USSR (incl. Eastern Europe)	1.0	2.1	0.8	1.5
Other	0.7	0.7	1.4	1.5

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TABLE IV

MAJOR COMMODITIES IN EGYPT'S FOREIGN TRADE, 1952-1956
(In \$ million)

<u>Imports</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
Raw Cotton	263.0	224.0	224.5	203.5
Wool	2.3	-	7.5	21.0
Cotton Yarn	0.0	0.7	12.8	13.0
Alloys	4.0	11.0	0.0	7.5
Phosphates	3.5	3.2	2.4	2.4
Lubricating Oils	4.0	2.2	2.2	2.0
Cotton Seed Cake	0.0	0.7	-	1.1
<u>Exports</u>				
Iron, Iron	18.7	23.1	23.2	23.2
Cement	23.1	21.7	21.8	27.0
Wool	15.2	15.4	20.4	24.1
Motor Vehicles	17.2	7.2	10.2	20.7
Lubricating Oils	13.5	11.0	15.7	17.0
Electric Machinery	6.0	4.0	7.2	15.7
Pharmaceuticals	12.2	14.4	14.2	15.4
Wool	14.1	12.3	12.0	12.5
Aluminum	10.0	20.1	22.1	22.5
Agriculture Ma-				10.0
chinery				
Electric Machinery	27.0	23.2	22.2	2.0
Other Iron & Steel				22.2
Products				
Auto Seats	0.0	0.0	0.2	0.0
Wool	0.0	0.0	0.0	0.0
Iron Pipes & Tubes	0.0	0.0	0.2	7.2
Wool	0.0	0.0	0.2	0.0
Wool	0.0	0.0	0.2	0.0
Wool	1.7	2.2	0.2	0.0
Wool & Flour	114.0	72.0	0.0	1.0
				0.0

* Does not include grain sent to Egypt under PL 480 paid for in local currency. Actual wheat imports were:

<u>Consumption Year</u>	<u>Wheat Imports</u> <u>(Metric Tons)</u>
1954-1955	57,000
1955-1956	545,000
1956-1957 (prelim.)	420,000

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TABLE 7

ESTIMATED PRODUCTION SUPPLY

	1956		1959 (Estimated)	
	Production (Tons)	Supply (Tons)	Production (Tons)	Supply (Tons)
Domestic Production	1,000	40	2,000	60
Imports				
Alcoa	400	11	1,000	24
Primo World				43
British Aluminia	200	20	200	22
Others	1,000	49	1,000	23
Total Imports	2,000	69	2,000	87
TOTAL SUPPLY	3,000	109	4,000	147

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TABLE VI
TRANSPORTATION OF BLOC DEPOSITORS TO EGYPT

	1933		January to August 1933	
	Tonnage	Percent of Total	Tonnage	Percent of Total
Algeria	74,000	13	270,000	33
France	60,000	11	220,000	27
Italy	151,000	27	15,000	2
Spain	10,000	2	20,000	2
U.S.	51,000	9	0	0
Germany	25,000	5	0	0
Sweden	0	0	0,100	0
Other	0	0	25,000	3
Belgium	0	0	20,000	2
Denmark	0	0	50,000	6
Other	0	0	50,000	6
TOTAL	561,000	100	710,000	88

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TABLE VII

SELECTED MERCHANT FLEET INVENTORIES

	Number of Vessels			Gross Tonnage*		
	Tankers	Dry Cargo	Total	Tankers	Dry Cargo	Total
Yugoslavia	0	2	2	0	12,000	12,000
Czechoslovakia	0	2	2	0	17,000	17,000
Poland	0	2	2	0	3,000	3,000
USSR	2	65	67	21,000	248,000	269,000
China	6	2	8	0	32,000	32,000
Total (bloc)	8	73	81	21,000	1,521,000	1,542,000
Yugoslavia	2	24	26	16,000	102,000	118,000
Total	25	640	715	427,000	1,605,000	2,032,000

*A rough indication of the carrying capacity of these vessels can be derived by multiplying the gross tonnage by 1.5.

TABLE VIII

POSSIBLE NUMBER OF VOYAGES AND TONNAGE PER YEAR FOR VESSELS IN EGYPT'S FOREIGN TRADE

Distance Port to Port and	Distance (Nautical Miles)	Approx. Turnaround (Days)*		Approx. No. of Voyages per Year		Approx. Cargo per Year per Vessel in ea. Direction	
		Tankers	Dry Cargo	Tankers	Dry Cargo	Tankers	Dry Cargo
Aden	1,140	10	24	23	18	220,000	70,000
Yenice	2,900	28	60	10	7	100,000	35,000
Colombo	1,260	16	24	22	15	250,000	78,000
Penang	2,040	22	40	11	8	110,000	45,000
Singapore	4,760	40	80	0	7	80,000	35,000
Sumatra	7,230	60	120	0	5	60,000	25,000

*Assumes speed of 10 knots per hour and 6 days port time for tankers and 4 days port time for dry cargo vessels.
**Assumes average cargo of 10,000 tons for tankers and 3,500 tons for dry cargo vessels.

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Of course, if Western vessels were available for charter to the Bloc in moving goods to or from Egypt, the Bloc could be able to move this trade without changing the employment of its own vessels.

United States
October 1954

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