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*Communist Aid and Trade Activities
in Less Developed Countries, September 1974*

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Foreword

Beginning with this issue, the monthly report on *Communist Aid and Trade Activities in Less Developed Countries* formerly issued by the Subcommittee of International Trade and Aid of the Economic Intelligence Committee will be prepared and issued by the Office of Economic Research, CIA. The Subcommittee was abolished effective 1 October 1974.

In these monthly publications, the aid and trade activities of the following Communist countries are emphasized: (1) the USSR, (2) the East European countries (Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania), and (3) the Peoples Republic of China. The aid and trade activities of other Communist countries – Albania, Cuba, Mongolia, North Korea, and North Vietnam – are also covered for certain limited purposes. However, from time to time activities that deal with the aid of Communist countries to Cuba and Yugoslavia will be included.

The term *less developed countries* includes the following: (1) all countries in Africa except the Republic of South Africa, (2) Portugal and Spain in Europe, (3) all countries in the Far East except Japan, (4) all countries in Latin America except Cuba, and (5) all countries in the Near East and in South Asia.

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July-September 1974 1

Soviet and East European activities related to oil developments continued during the third quarter with major economic aid recipients such as Iraq, India, and Afghanistan, while support to Nigeria, Syria, and Bangladesh accelerated. Total Communist oil procurement from Middle Eastern and North African suppliers continued at a lower level than in 1973.

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COMMUNIST AID AND TRADE ACTIVITIES
IN LESS DEVELOPED COUNTRIES
SEPTEMBER 1974

General

*Third Quarterly Report on Communist-LDC Oil Activities,
July-September 1974¹*

In the third quarter, the USSR and the East European countries continued their involvement in oil developments of major aid clients such as Iraq, India, and Afghanistan. In a new development on the Indian scene, New Delhi signed a protocol with Romania in September for joint oil exploration in third countries. Communist support to Nigeria, Syria, and Bangladesh accelerated. In Nigeria, progress was made on the Petroleum Training Institute in Warri, and Moscow began organizing and staffing the facility. Chinese teams began surveys in Nigeria during September, and Czechoslovakia has been negotiating an oil concession from Lagos, the first known Communist initiative in this Western-type arrangement.

Other Communist oil activities focused largely on the restoration and expansion of refinery capacity. The USSR agreed to modernize Bangladesh's only oil refinery at Chittagong, probably under existing credits. Prague signed an agreement with Syria in August to provide US \$35 million of machinery and equipment to restore and expand the Czechoslovak-built refinery at Homs - from a capacity of 54,000 b/d to 88,000 b/d by the end of 1976.² Damaged during the October war, this facility is Syria's only refinery. A Romanian-Syrian agreement signed in September calls for construction of a 120,000 b/d refinery at the port of Banias. The refinery may serve as a nucleus for the Syrian petrochemical industry.

In August, after almost a year of bargaining, Moscow agreed to pay Iran 57 cents per 1,000 cubic feet for imported natural gas, about an 85% price increase. In July the USSR had agreed to pay 34 cents per 1,000 cubic feet for gas from

1. For a second quarter assessment, see the *Monthly Report* dated July 1974. The classification of this article is Secret No Foreign Dissem.

2. Data on oil consumption, production, and imports are expressed in barrels per day for purposes of comparability with Western data.

Note: The substance of this publication has been coordinated with the Bureau of Intelligence and Research, Department of State and the Defense Intelligence Agency. Comments and queries regarding this publication are welcomed

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Afghanistan, almost 80% higher than the old price. Soviet gas imports in 1974 are to increase about 10% to 430 billion cubic feet. Its cost will double to more than \$220 million.

Moscow agreed to buy only about 15,000 b/d of crude oil from the Arab states during the third quarter. Because of continuing high prices, none of this oil was for East European account. The USSR apparently intends to meet more than 60% of Eastern Europe's total estimated 1974 crude oil needs of 1.7 million b/d out of domestic production. So far this year, East European countries have bought about 235,000 b/d of oil from Middle East suppliers, about the same as in 1973.

Soviet petroleum sales in 1974 also reflect higher world market prices. The volume contracted for delivery in 1974 is slightly above the 1973 level. Sales to some 13 LDC clients are approaching 90,000 b/d. Brazil and India, the largest purchasers, are taking more than one-half of the total. During the quarter, Brazil's state-owned petroleum company signed agreements worth \$84 million for the purchase of 20,000 b/d of Soviet crude during 1974-75, probably the largest Soviet export deal ever concluded with Brazil. Brazil also has expressed interest in buying Chinese oil under a triangular arrangement with Japan and Nigeria.

Although refusing to lower its oil prices, Moscow agreed in July to provide \$10 million worth of commodities for sale in Somalia to subsidize Mogadiscio's domestic oil sales. This is the first such Soviet aid to an oil client.

Africa

New Chinese Projects in Mauritania

The Mauritanian president announced on his return from Peking that China will construct a deep water port at Nouakchott and assist in the completion of a 600-mile highway under credits totaling \$55.5 million. Only about \$35 million is believed to represent new aid. The new agreement probably includes \$20 million in outstanding credits dating from 1971.

East Asia

Chinese-Philippine Trade Developments

China and the Philippines have exchanged notes formalizing trade discussions held during the visit of First Lady Imelda Marcos to Peking in late September.

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Communist Oil Purchase Agreements Signed with North Africa and the Middle East
January-September 1974

Supplier	Buyer	Month Signed	Duration of Agreement	F.O.B. Price per Barrel (US \$)	B/D ¹ in 1974	Payment Terms
Total					260,865	
Abu Dhabi	Romania	Feb	1974	13.95	20,000	Spot purchase for cash. Oil possibly originated in Iraq and purchased through an Abu Dhabi middleman.
Algeria					16,000	
	Bulgaria	Jul	1974-77	N.A.	4,000	N.A.
	China	Apr	1974	N.A.	1,000	N.A.
	Czechoslovakia	Apr	1974	N.A.	1,000	N.A.
	Poland	Feb	1974	14.00	6,000	Barter.
	Romania	Jul	1974-77	13.00	4,000	N.A.
Egypt					2,600	
	Bulgaria	May	1974-75	10.10	1,600	N.A.
	Hungary	Mar	1974	10.83	1,000	N.A.
Iran	Romania	Jul/Sep	1974	11.00 (est.)	12,110	N.A.
Iraq					95,980	
	Bulgaria	Mar	1974	13.00	2,000	N.A.
		Sep	1974	10.88	1,400	N.A.
	China	Apr	1974	11.17	2,000	N.A.
	Czechoslovakia	Mar	1974	13.50	1,000	N.A.
		Aug	1974	11.50	3,000	500 b/d was the first installment and repayment for Czechoslovak-built Basra refinery.
	East Germany	Mar	1974	10.86-13.50	15,000	N.A.
		Apr	1974-76	10.90-13.60	40,000	N.A.
	Hungary	Mar	1974	11.50	10,000	Hard currency.
		May	1975-79	N.A.	Barter 26 million barrels of oil for equipment and goods under 5-year trade agreement.
	USSR (for East Germany)	Mar	1974	N.A.	6,580	N.A.
	(for Ghana)	Jul	1974	N.A.	12,000	N.A.
	(for Spain)	Jul	1974	12.20	3,000	N.A.
Libya					100,000	
	Bulgaria	Jan	1974	16.60 ²	10,000	Barter.
	Czechoslovakia	Feb	1974-78	16.00 ²	N.A.	Barter for equipment and goods under 5-year trade agreement.
	Hungary	Jan	1974	16.00 ²	10,000	Barter for equipment and services for oil development.
		Feb	1976-80	N.A.	30 million barrels to be delivered during the period.
	Poland	Feb	1974-80	16.00 ²	20,000	Barter for equipment and services for oil development.
	Romania	Feb	1974-77	16.00 ²	60,000	Barter for oil refinery and technical services for Libya's oil sector, cement, housing, and agricultural projects.
Saudi Arabia					7,775	
	Romania	Apr	1974	N.A.	6,825	N.A.
	USSR (for Liberia)	Early 1974	1974	N.A.	950	N.A.
Syria					6,400	
	Bulgaria	Jan	1974	13.75	4,000	Barter for machinery and equipment.
	East Germany	May	1974	11.61	2,400	N.A.

1. Data on volume are expressed in barrels per day for comparability with Western data.

2. Asking price in effect at the time of signing. Prices and quantities of petroleum to be delivered under long-term agreements are to be negotiated annually.

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China has agreed in principle to supply sizable amounts of crude oil to the Philippines beginning in 1975. Although the quantities involved were not specified, Manila's initial request will be for 15,000 b/d in 1975. Shipments would increase by about 10,000 b/d a year during 1976-79, reaching a maximum of 50,000 b/d in 1979. China also will export rice and will continue to purchase Philippine timber, agricultural products, and copper. Further discussions on prices and other details will be taken up by a Philippine trade mission scheduled to visit Peking in the near future.

Manila probably will move quickly to conclude a formal agreement with China in order to reduce gradually its almost total dependence on Arab petroleum suppliers. In 1973, more than 95% of Manila's 185,000 b/d in crude oil imports came from the Middle East.

At current Chinese petroleum export prices, the value of Philippine crude oil imports from China in 1975 would top \$70 million, compared with a total trade turnover between the two countries in 1973 of about \$30 million. Almost 90% of this trade consisted of Philippine imports of rice and other commodities.

Afghanistan Receives Additional Soviet Military Equipment

Seven Soviet medium tanks arrived in Kabul in mid-September. Ten more were expected later in the month. About 100 additional medium tanks reportedly will be delivered before the end of the year. The recent delivery brings to 135 the number of Soviet tanks Afghanistan has received this year. About 100 arrived in 1973.

Spurred by the deteriorating situation on the Pakistani border, Kabul is seeking to match its armor buildup with increased training. A recent exchange of military delegations with Moscow probably was related primarily to training.

Communist Relief and Development Aid for Bangladesh

Five Communist countries have responded to Bangladesh's call for emergency relief for victims of the August floods. The USSR offered to expedite commodity aid under a \$6 million 1972 credit, including early shipment of petroleum products, pig iron, rolled steel, and food. Moscow also is channeling medicines and other supplies through the Red Crescent Society. East Germany and Hungary together have pledged at least \$2 million in commodities and Romania and Poland have promised foodgrains as relief assistance.

The USSR and Romania also concluded agreements for projects to be constructed during Bangladesh's first five-year plan (1973-78). Bangladesh has about \$100 million in previous Soviet assistance which has not been allocated. In addition to delivering \$1.6 million of machinery and equipment this year for ongoing Soviet projects, the USSR has agreed to expand the Chittagong steel mill, to modify the refinery at Chittagong to process Iranian crude oil, and to build a textile mill. A joint venture with India to construct a fertilizer plant in Bangladesh under Soviet credits also is under consideration. Romania agreed to begin work on a petrochemical complex and two textile mills during the plan period. Although these undertakings would require additional Romanian assistance, no new credits were announced.

USSR Resumes Military Shipments to Egypt

The USSR resumed arms deliveries to Egypt in late summer after a four-month interruption. The shipments probably included badly needed aircraft spare parts. These deliveries probably reflect not only an attempt to improve relations with Cairo (recent statements from Cairo have been favorable to the USSR) but also Soviet concern about Egypt's efforts to find alternative sources of arms. Deliveries to Soviet economic projects in Egypt apparently were not affected by the decision to cease military shipments in April.

The Second Session of the Soviet-Indian Intergovernmental Commission

The second session of the Soviet-Indian Intergovernmental Commission ended on 19 September with Soviet assurances of continued support for India's heavy industrial development. The USSR, however, apparently turned aside Indian proposals that unallocated project credits be diverted to nonproject use, notably for imports of industrial raw materials and components. Moscow also withheld decision on India's urgent requests to increase shipments of petroleum products, fertilizers, and grain above the levels stipulated in the 1974 trade protocol.

Mostly because of increased prices of fertilizer and kerosene, India's 1974 trade surplus with the USSR probably will drop to well below the 1973 level. During 1971-73, India's trade surplus roughly equaled its scheduled debt service to the USSR, which ranged from \$150 million in 1971 to \$185 million in 1973. New Delhi's debt servicing obligations to Moscow are expected to rise to about \$235 million in 1974, triple the expected trade surplus. Although India pressed for relief from this heavy debt burden, there is no evidence of Soviet agreement.

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The USSR probably did agree to expedite Soviet assistance for projects under way or being expanded. Moscow also may have agreed to help utilize surplus capacity in Soviet-built plants by increasing purchases from these plants and by arranging to use this output in Soviet-aided projects in third countries.

Most of the items taken up at this meeting had already been discussed during Brezhnev's visit to India last November. New Delhi undoubtedly is disappointed at the joint commission's inability to forge new links in the Indian-Soviet economic relationship. Demands for increased commodity shipments and more concessionary repayment terms probably will be reiterated during trade talks scheduled for late October.

New Polish Projects for Pakistan

Poland will construct two sugar plants and two sawmills in Pakistan during the next two years. Financing will be under some \$8.5 million in outstanding Polish credits. Warsaw's aid program in Pakistan has been inactive since 1970, when a sugar mill in Hyderabad was completed.

New Syrian Economic Agreements with Romania

During his visit to Bucharest early in September, Syria's President Asad concluded several economic accords to continue Romanian assistance to Syria's oil industry. Romania agreed to construct a new refinery, to undertake studies of the use of Syrian natural gas, and to expand assistance in oil exploration. Bucharest also agreed to provide assistance to eight industrial projects, including a 450,000-metric-ton-capacity superphosphate plant and a carbon black plant with an initial capacity of 200,000 tons.

Financial arrangements were not disclosed. However, about \$110 million of outstanding Romanian credits probably will be applied toward the new projects.

USSR to Expand Port Facilities at Latakia

The USSR will begin expanding the Syrian port of Latakia by the end of the year under an economic agreement signed during President Asad's April visit to Moscow. The project will double the number of berths to 12 and will expand cargo-handling capacity to accommodate the increasing flow of goods over the nearly completed 420-mile rail line connecting Latakia with northeastern Syria. The port's construction will take three years to complete.

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