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COMMERCIAL-FINANCIAL DEALINGS BETWEEN THE USSR AND MARKET-TYPE ECONOMIES WITH SPECIAL REFERENCE TO SOVIET BANKING, MARITIME AND TRADING OPERATIONS IN THE WEST

by

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A Thesis Submitted for the Degree of Doctor
of Philosophy in the Faculty of Social
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PREFACE

During the last decade there has been a marked expansion of Soviet commercial-financial dealings with market-type economies. The differences between East and West were so striking in the early 1960s that few analysts predicted that Soviet trade with the West would reach such proportions by the mid-1970s. Since the early 1970s, numerous technical co-operation agreements have been signed between the USSR and industrialised market-type economies. Prior to 1963, the USSR only owned a handful of companies and banks in the West. By the mid-1970s, nine Soviet banks and about eighty Soviet trading companies were operating in market-type economies. Before the mid-1960s, Soviet merchant vessels were a rarity in the ports of industrialised Western nations. Nowadays Soviet merchant vessels are rather commonplace in some major Western ports.

The main purpose of this thesis is to explain how the USSR conducts its commercial-financial business with the West. Most of the material in the thesis is connected with the contemporary period. However, this researcher also felt that it was important to trace the development of Russian-Soviet foreign economic policy so the reader can compare contemporary policies with those of the past. In dealing with contemporary Soviet foreign trade operations, this researcher decided that special emphasis should be placed on those operations which take place in market-type economies. This involved the study of a wide range of Soviet organisations which are based in the West. Such organisations fall within three broad categories: (1) trading companies, (2) banks, and (3) commercial organisations which have been set up on the basis of intergovernmental agreements. Since Soviet maritime operations in the West have increased markedly it was necessary to include a chapter on the Soviet merchant fleet. In addition to the growth of Soviet commercial operations in the West, there has also been an increase in the amount of Western participation in industrial projects on Soviet soil. In the light of the fact that such projects could eventually play an important role in Soviet foreign trade, an attempt was made to cover some of the key points connected with the use of foreign capital for the development of Soviet industries.

This researcher would have been unable to complete his work on the topic under consideration without the assistance of organisations and individuals in the United Kingdom, the United States and Western Europe. My greatest debt is owed to my mentors at the University of Glasgow, Professor Alec Nove and D. J. I. Matko. During the past three years both men have provided advice and encouragement for this researcher that went well beyond his best expectations. This researcher wishes to impart a special word of thanks to his 'self-appointed supervisors' at the University of Glasgow, Rene Beerman, Roger Clarke and W. H. Balekjian. These men were also a constant source of advice and encouragement. My language tutors, Tanya Ticktin and N. Yakovleva-Birkett, also deserve a special word of thanks for helping me gain a reading knowledge of Russian. This researcher is also indebted to the University of Glasgow, the U.S. Veterans Administration and Cass and Kathrine Harrison for their financial support. Other individuals who helped this researcher over the last three years include Leo Dobes, Vladimir Kusin, Evan Mawdsley, W. L. Newman, L. Sirc, J. G. Zielinski and especially my colleague Ronnie Kowalski. This researcher also acknowledges the assistance provided by government and private organisations which have been mentioned in the thesis. All errors, omissions and oversights are the responsibility of this researcher.

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LIST OF ABBREVIATIONS

AB	Limited company (Finland, Sweden)
AG	Limited company (FRG)
AS	Limited company (Norway)
BIS	Bank for International Settlements
BV	Limited company (the Netherlands)
CIA	Central Intelligence Agency (U.S.)
C.i.f.	Cost, insurance and freight
CMEA	Council for Mutual Economic Assistance
EEC	European Economic Community
EFTA	European Free Trade Association
F.o.b.	Free on board
FRG	Federal Republic of Germany (Western Germany)
FTOs	Foreign trade organisations (USSR)
GATT	General Agreement on Tariffs and Trade
GmbH	Limited company (FRG)
IBEC	International Bank for Economic Co-operation
IIB	International Investment Bank
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
IMTEs	Industrialised market-type economies
Inc.	Limited company (U.S.)
LDCs	Less-developed (market-type) countries
Ltd.	Limited company (Canada and the U.K.)
MNB	Moscow Narodny Bank Ltd.
MTEs	Market-type economies (IMTEs and LDCs)
NATO	North Atlantic Treaty Organisation
NEP	New Economic Policy (Soviet Russia)
NV	Limited company (Belgium)
OECD	Organisation for Economic Co-operation and Development
Oy	Limited company (Finland)
SA	Limited company (France and Spain)
SFTCs	Soviet foreign-based trading companies
SFBBs	Soviet foreign-based banks
SMF	Soviet merchant fleet
SpA	Limited company (Italy)
U.K.	United Kingdom (Britain)
U.N.	United Nations
U.S.	United States
USSR	Union of Soviet Socialist Republics (Soviet Union)

SUMMARY

The main purpose of this thesis is to explain how the USSR conducts its commercial-financial business with market-type economies. Special emphasis was placed on Soviet commercial-financial operations which take place in the West. Chapter I is primarily an overview of Soviet economic dealings with the West since the October Revolution. A brief summation of Russian foreign economic policy is included in CHAPTER I to give the reader an opportunity to compare developments in the post-revolutionary period with developments in the pre-revolutionary period.

CHAPTER II is concerned with Soviet organisations and personnel in the West. Most of the chapter is devoted to the study of Western-based joint-stock (trading) companies which are either wholly or partially owned by the USSR. Official Soviet trade representations, joint intergovernmental commissions and Soviet foreign trade missions are also covered in some detail.

Western participation in USSR-based industrial projects is covered in CHAPTER III. Three types of industrial projects are discussed: compensatory projects, barter projects and non-compensatory projects. A fair amount of time was spent on compensatory projects as they appear to be one solution to the USSR's rising hard currency indebtedness.

CHAPTER IV deals with the financing of Soviet trade with industrialised market-type economies and less-developed (market-type) countries. A large portion of this chapter is devoted to the operations of the Foreign Trade Bank of the USSR. Other topics falling within CHAPTER IV include Soviet invisible trade, gold sales and indebtedness.

The operations of Soviet foreign-based banks are discussed in CHAPTER V. The chapter begins with an historical account of the USSR's activities in Eurocurrency markets. After this introduction, the operations of individual Soviet foreign-based banks are covered in some detail. Such operations are not always connected with Soviet foreign trade.

CHAPTER VI is concerned with the development and operations of the Soviet merchant fleet. Prior to 1965, the Soviet merchant fleet was regarded as underdeveloped. At this time Soviet ships are capable of competing with the most up-to-date Western merchant vessels. Soviet maritime activities in the West have increased to such an extent that Western governments are now considering ways of curbing the operations of Soviet merchant vessels.

The restraints on Soviet economic operations in the West are covered in CHAPTER VII. Generally speaking, Soviet organisations are permitted to carry out their operations in the West in a free fashion. However, this situation could change if Soviet organisations become a real threat to Western entrepreneurs. CHAPTER VII also covers the problems which would arise if the USSR decides to join selected Western-dominated international economic organisations. Since currency convertibility is a pre-condition for joining some international economic organisations, the prospects for ruble convertibility were discussed at the end of this chapter.

The idea of Russian cultural isolation is a myth in the field of economics. No other country so peculiarly re-created economic ideas and attempted to adjust them immediately to its own conditions.

--J. F. Normano

However different their ideology and internal institutions, STEs [Soviet-type economies] still trade like capitalists.

--P. J. D. Wiles

It is impossible for us to enter the world market in a strait-jacket of our internal customs and traditional planning, production, and transportation, relying solely on the laws of the internal market. It is necessary to be on the level of the demands of the world market. Being on this level will not damage our planned economy or our laws of socialist production, nor most of all will it destroy our communist ideology. On the other hand, a principle like that will teach us much and make us more powerful in the competitive struggle with capitalism.

--N. Smelyakov

CHAPTER I

AN OVERVIEW OF RUSSIAN-SOVIET FOREIGN ECONOMIC POLICY

Pre-revolutionary Commercial Operations

The level of Russia's commercial-financial penetration into foreign economies was never as impressive as the level of Soviet commercial-financial penetration into foreign economic systems. With few exceptions, Tsarist Russia enjoyed little commercial success outside its immediate sphere of influence. To a large extent this shortcoming can be attributed to the marked territorial growth of the country which took place between the fifteenth and nineteenth centuries. This growth was primarily the result of Russia's successful wars against the Tartars, Poles, Lithuanians, Swedes and Turks, and the eastward colonisation of Russians who witnessed various types of opposition from the Asiatic peoples of Siberia.[1] It is therefore not surprising that Tsarist Russia failed to extend its commercial operations to all corners of the earth while the country's leaders were struggling to maintain their authority over a vast number of culturally different peoples at various stages of economic development.

These conquests by no means weakened Russia's economic position. Indeed, this territorial expansion was responsible for bringing additional markets and vast stores of natural resources under the control of the Russian state.[2] Furthermore, the territorial gains meant that Russia's sphere of influence eventually reached the Pacific, Baltic, Caspian and Black Sea coasts, and deep into Eastern Europe, providing better access to markets in Europe, Asia, and the Middle East.

As early as the eighteenth century Russia began showing some interest in markets far beyond its borderlands. For example, Russia sought possession of the Dardanelles which would have given Russian traders ready access to the Mediterranean Sea.[3] Interest in this region was based upon a need to establish an outlet for the wheat, coal, pig iron and petroleum produced in the southern part of Russia and the manufactured goods produced in the Moscow area.

In the early 1700s Russia was successful in extending its influence into North America. The expedition of the Kamchatka Cossacks from 1711-1715, and the commercial expeditions of the merchants Serebryannikov, Trapeznikov and others between 1730 and 1740, resulted in the occupation of the Aleutian and Kurile islands.[4] Following the occupation of the two islands the Russian merchant and explorer Shelekhov led a private trade expedition along the coast of Alaska. His expeditionary force established a number of settlements and commercial outlets in Alaska. In 1797, the United American Company (later called the Russo-American Trading Company) was set up to exploit Russia's new colony. The operations of the United American Company extended Russia's influence to many parts of Alaska. In 1812, the company founded several Russian colonies in California.[5]

From the middle of the nineteenth century to the October Revolution in 1917, Russia made numerous attempts to penetrate foreign markets. Turkey was one of the first countries to experience the Russian commercial offensive during this period. Turkey's proximity made it an ideal market for Russian consumer goods. A number of these products were reportedly inexpensive which gave Russian traders an opportunity to establish a firm foothold in the market.[6] In some areas--primarily in Constantinople, along the Black Sea coast of Asia Minor, and along the Mediterranean Sea coast--Russian commodities often dominated local markets. For example, in Constantinople, Russian textiles, tableware and sugar had virtually no competition until the end of the nineteenth century.

In the mid-1890s Russia began to lose some of its influence in Turkish markets as a result of stiff competition from rapidly expanding German industries. This commercial onslaught was doubly damaging for the Russians since Germany entered the region with both its popular products from light industries and financial resources. Within a short period of time Germany acquired a position of leadership in the industrial and banking circles of Turkey. Only Russian goods which did not compete with the output of German industries (e.g., flour and sugar) maintained their strong position in Constantinople.[7]

Russia's commercial penetration into Iran (Persia) was comparatively more successful. For some time, however, British commodities and capital (i.e., financial resources) hampered Russian trading operations in this region. In an attempt to end this competitive struggle, Britain and Russia signed an agreement in 1907 which established spheres of influence in Iran for both countries. Britain agreed to operate within the southern region of the country which contained petroleum resources and important sea ports. The northern part of Iran, which was more developed and had better markets, fell within Russia's sphere of influence.[8]

Russian commercial influence in Iran was quite impressive. In the latter half of the 1890s the amount of commodities sold to Iran by all West European countries combined was less than Russia's exports to Iran.[9] Moreover, Russian economic penetration into Iran did not merely involve the sale of commodities. During the 1890s, Russia established the Persian Loan Bank which attracted a fair amount of Russian capital into the Iranian economy. A sizeable amount of this capital was utilised for building railways, mining coal and extracting petroleum. Between 1900 and 1902, Russia granted Iran two loans totalling 32.5 million rubles[10] (approximately £3.6 million or $17.1 million at that time).

Russian commercial penetration into the Far East took place before the seventeenth century. Following the conquest of Siberia, Russia established commercial relations with China and Mongolia. The Siberian Railroad facilitated the importation of Mongolian wool and animal skins for the Russian textile and leather industries as well as the exportation of Russian industrial output to Mongolia. China proved to be an excellent market for goods from Moscow's light industries in addition to being a major supplier of tea for Russian consumers.

Manchuria and Korea were also vital sources of raw materials as well as important markets for goods produced in Russian industries.

In addition, both regions represented promising markets for Russian capital. The construction of the 375 million-ruble Chinese Eastern Railroad in Manchuria during the latter half of the nineteenth century and Russian participation in timber and other concessions in the Far East were, according to Lyashchenko, 'forms of "capital export" quite new (and rather "adventurous" in character) for Russian capitalism'.[11]

Russia's Operations in World Financial Markets

Tsarist Russia was never regarded as a major exporter of capital. Russia's capital exports were usually limited to a few underdeveloped countries (e.g., China and Iran). In world markets Russian capital played a subordinate role vis-à-vis West European capital. But this is not the entire story. As we shall learn, during the two decades immediately preceding World War I the Russian government and Russian businessmen borrowed large amounts of foreign capital in order to maintain their operations. Consequently, the Russian financial system became quite dependent on foreign loans. Lyashchenko states:

> . . . in the general world system of finance capital the expansion of Russian capital in other countries was not especially noticeable; only in the Eastern policy of Russian imperialism was such financial expansion evident. In its relations with Western capitalist systems the Russian financial-capitalist system was itself the object of exploitation by Western financial systems.[12]

It is interesting to note that Russia's first 'regular state loans' were contracted in foreign markets.[13] The first foreign loan for the Russian government was arranged in Amsterdam in 1769. Russia's initial creditors were private banking houses in the Netherlands and Italy. Prior to 1892, the Russian government's foreign indebtedness did not exceed 1.5 billion rubles, and the growth of the debt was regulated rather closely.[14] (For the sake of comparison, Russia's ordinary budgetary revenue in 1890 amounted to 943.7 million rubles.[15])

However, after 1892, Russia's foreign indebtedness increased markedly. In fact, it grew to such proportions that just before the outbreak of World War I, Russia's foreign debt was the largest in the world. Even as early as 1906, a German writer made the following remark concerning Russia's precarious financial situation: 'Never in the history of this earth has any nation contracted so huge a foreign indebtedness as Russia'.[16]

Over half of Russia's foreign debt was contracted during the two decades immediately preceding World War I. Foreign loans obtained by the Russian government during this twenty-year period were primarily used for economic purposes (e.g., the construction of railroads), whereas many of the loans contracted before 1892 were reportedly used for political reasons. According to Moulton and Pasvolsky:

> Before 1892, the industrial development of Russia had not begun; hence there was little foreign borrowing for development purposes in Russia. Most of the existing debt had been incurred for political rather than commercial purposes.[17]

Indeed, the wars which involved Russia from the 1760s to the latter half of the nineteenth century--sporadic wars with Turkey, Sweden, Poland and Iran; the Napoleonic wars under Alexander I; and the Crimean War--had a devastating impact on the Russian economy. Some of the financial consequences of Russia's foreign policy during the period under consideration are provided by Olga Crisp:

> Ever since Russia had attained the status of a great power in the eighteenth century the military requirements for the maintenance of that position imposed on the Russian treasury a task of a magnitude disproportionate to the largely natural economy of the country and the poverty of its people. This imbalance led to chronic budgetary deficits, despite increased taxation, and recourse to the printing press and foreign loans.[18]

In the final analysis Russia's foreign policy not only placed a huge financial burden on the country but also perpetuated the backwardness of the Russian economic system by demanding the use of potential investment capital for military and other unproductive purposes.[19]

A number of Russia's financial problems stemmed from the country's unstable and inconvertible paper currency. (The reader should note that under the gold standard, currencies were classified as inconvertible if they could not be converted into gold. Although the ruble was classified as inconvertible until 1897, it could be exchanged for foreign currencies during the period of inconvertibility.) The depreciating ruble often discouraged long-term foreign investment in Russia. Even short-term foreign credits were apt to be influenced by Russia's economic (and political) problems rather than the projected profitability of the business arrangement. Perhaps the most serious argument against commercial agreements with Russia was based on the assumption that the ruble's instability made Russian tariff concessions illusory.[20] Furthermore, government financial organs were placed in difficult positions since foreign loans to Russia often called for payments in gold or silver (or metal-based currencies) while state revenue was usually collected in the form of inconvertible paper currency.

During the 1880s and 1890s paper rubles and Russian securities came under heavy pressure in foreign markets. A press campaign in Germany against Russia's creditworthiness caused a panic amongst German holders of Russian bonds. It was fortunate that France was seeking to strengthen its economic relations with Russia at that time. As a result, French investors were happy to purchase discarded Russian securities from the Berlin bourse. But the paper ruble did not fare so well. After serving as a means of promoting commercial operations between Germany and Russia for over a decade the paper ruble became an object of speculation in the Berlin foreign currency market during the early 1890s. It is interesting to note that Germans were not the only speculators. Russian banks, trading companies, and even Russia's Finance Minister, I. A. Vyshnegradsky, participated in these speculative activities.[21]

Vyshnegradsky's successor, S. Y. Witte, recognised at least one inherent shortcoming of the Russian economy. The economic backwardness of the country stemmed, to a large extent, from the fact that Russia's very existence depended upon a successful harvest. Witte decided that a policy of rapid industrialisation would correct this lopsided characteristic of the economy. He made no effort to conceal the fact that foreign capital would play a vital role in this scheme.

Since foreign capital would act as an important agent of Russian economic growth Witte took steps to improve Russia's credit position with industrialised countries in the West. In the mid-1890s he made speculative ruble transactions, within Russia, illegal, and placed Russian money markets under strict control. By waging a campaign of counter-speculation against the Berlin money market Witte was successful in bringing about a diminution of foreign ruble speculation.[22] At that time all leading industrialised nations had adopted the gold standard and Witte realised Russia would have to follow suit in order to strengthen its external financial position. In 1897, the Russian ruble became convertible. For a brief period Witte's policies were successful beyond most expectations. Indeed, foreign investment in Russia grew so rapidly during the late 1890s that it exceeded the amount of foreign investment channelled into the Russian economy during the preceding two or three decades.

On Russia's Foreign Indebtedness

Before analysing any data on Russia's foreign indebtedness it might be worthwhile to study some of the distinctions between the external commercial operations of Russia and those of other industrialised nations.

For the sake of brevity Russia will only be compared with Germany. At the end of the nineteenth century Germany was an industrialised nation which relied on imported foodstuffs and raw materials. Exports of manufactured products from German industries paid for a sizeable portion of these imports. But it is significant to note that Germany had other means of financing its imports--shipping, insurance, banking services, and the proceeds from foreign investments.[23] In the decades immediately preceding World War I these sources of income not only paid for the country's imports but also provided Germany with capital which could be invested abroad. On the other hand Russia was considered a backward industrialised nation which imported some foodstuffs and many manufactured commodities, and exported sizeable amounts of agricultural products and raw materials. Moreover, Russia, unlike Germany, provided very few services for foreigners. As a result, Russia's visible exports were responsible for covering virtually all foreign debts. In other words, such exports were required to pay for imported goods (including precious metals) and technical assistance (e.g., foreign technicians employed in Russian industries); insurance and banking and transport services; expenditures of Russian tourists and official representatives abroad; interest on state-contracted loans, municipal bonds and government-guaranteed railroad bonds held abroad; and interest and dividends on private industrial securities (i.e., stocks and bonds) held by foreigners.[24]

We should now turn our attention to TABLE 1.1. Except for a deficit in 1899, Russia maintained a favourable balance of (visible) trade during the period 1894-1913. (The overall deficits recorded from 1896-1899 were most likely the result of Witte's policy of importing gold to establish/maintain the convertible ruble.) Some of the (visible) trade surpluses achieved between 1894 and 1913 were

TABLE 1.1

RUSSIA'S FOREIGN TRADE, 1894-1916
(in millions of gold rubles)

Year	Trade balance			Bullion and specie balance			Net trade and bullion-specie balance
	Exports	Imports	Net	Exports	Imports	Net	
1894	672	562	110	42	131	-89	21
1895	698	545	153	1	38	-37	116
1896	689	590	99	2	118	-116	-17
1897	727	560	167	13	209	-196	-29
1898	733	617	116	5	132	-127	-11
1899	627	650	-23	51	82	-31	-54
1900	716	626	90	134	34	100	190
1901	762	594	168	72	18	54	222
1902	860	599	261	7	14	-7	254
1903	1,001	682	319	5	28	-23	296
1904	1,006	651	355	39	26	13	368
1905	1,077	635	442	47	64	-17	425
1906	1,095	801	294	18	38	-20	274
1907	1,053	847	206	13	11	2	208
1908	998	913	85	19	28	-9	76
1909	1,428	906	522	27	46	-19	503
1910[a]	1,449	1,084	365				
1911[a]	1,591	1,162	429				
1912[a]	1,519	1,172	347				
1913[a]	1,520	1,374	146				
1914[a]	956	1,098	-142				
1915[a]	402	1,139	-737				
1916[a]	476	1,717	-1,241				

[a]Data on bullion and specie movements after 1909 are not given in official Russian reports.

Source: Harold G. Moulton and Leo Pasvolsky, Russian Debts and Russian Reconstruction (New York: McGraw-Hill, 1924), p. 16.

rather large (e.g., 442 million rubles in 1905; 522 million in 1909; and 429 million in 1911). But in spite of Russia's favourable balance of (visible) trade Moulton and Pasvolsky have shown that the country's foreign indebtedness increased by about 2.5 billion rubles (roughly £264 million) during the two decades immediately preceding World War I.[25] A large portion of this debt stemmed from the fact that Russia's export surpluses during the period 1894-1913 were usually inadequate to cover interest charges on foreign loans and obligations connected with foreign technical services.[26] Russia's pre-war financial plight is summed up by Alexander Baykov:

> Of the fifty-three years from 1860-1913, Russia had only twelve years with a negative balance of trade, and over this period taken as a whole, her exports were 6.5 billion (6,593,843,000) rubles higher than her imports, and all this export surplus was swallowed by the service on loans and payments for other invisible imports.[27]

In 1914, Russia suffered its first trade deficit since 1899. This led to a sharp increase in Russian borrowing operations. But the worst was yet to come. During the initial stages of World War I Russia's foreign trade position steadily deteriorated to the point where imports were three and one-half times the level of exports at the end of 1916. Moreover, war loans totalling 7,681 million rubles (roughly £812 million) doubled Russia's foreign indebtedness. In the period immediately preceding the October Revolution Russia's foreign debt amounted to approximately 13,823 million rubles (roughly £1,461 million). TABLE 1.2 gives a breakdown of Russia's pre-revolutionary foreign debt. It might be interesting to note that Russia's entire annual national income for the period 1915/1916 would have been required to cover all of the country's outstanding foreign debts just prior to the October Revolution.[28]

On Some of the Shortcomings of Russia's Foreign Economic Policy

By the latter half of the nineteenth century it was clear that foreign trade would play a key role in the development of the Russian economy. As a result, Russia's export potential had to be continually upgraded in order to meet the rising level of visible and invisible imports. But despite the demands placed upon it, Russia's export sector failed

TABLE 1.2

RUSSIA'S PRE-REVOLUTIONARY FOREIGN DEBT
(in millions of gold rubles)

Pre-war state debt	3,850
Government-guaranteed loans[a]	870
Municipal loans	422
Industrial investment	2,000
War loans[b]	6,681
Total	13,823

[a]In most cases, loans obtained by selling bonds of privately owned railroads which carried a guarantee of the Imperial government.

[b]Moulton and Pasvolsky accepted the sum of 7,681 million rubles as the nominal value of foreign war loans to Russia. However, when making their calculations they reduced this figure by 1,000 million rubles in order to allow for the Russian gold shipped abroad during the war (640 million rubles to the Allied nations and 120 million to Germany under the treaty of Brest-Litovsk which fell into the hands of the Allied nations after the Armistice) plus Russian bank accounts and property in creditor nations.

Source: Moulton and Pasvolsky, Russian Debts . . ., p. 21.

to evolve satisfactorily. To a certain extent this grave shortcoming stemmed from the fact that Russians seldom regarded their country's foreign trade sector as a significant part of the national economy.

Russia's failure to build a merchant fleet tailored to its import and export operations might have been a costly oversight. When Russia began to step up its foreign trade in the 1900s such activity was highly dependent on maritime transport.[29] But at the turn of the century the Russian merchant fleet was a rather insignificant part of the country's foreign trade sector.[30] A decade later the Russian merchant fleet was still in an underdeveloped condition and only accounted for just over 5 percent of the country's maritime transport.

> The years passed, yet Russia, as before, lagged behind other countries in the number of ships and the overall tonnage of the merchant fleet. In 1910, the entire Russian merchant fleet consisted of 925 steamships and 2,494 sailing vessels with a combined carrying capacity of 720,437 registered tons. Not more than 13 percent of the ships had a displacement of 1,000-4,000

> tons.
>
> The carrying capacity of the Russian merchant fleet was 23 times less than the British, 5 times less than the German, and just a little over 2 times less than the merchant fleet of such a small country as Norway. The old age of Russian ships, their slowness and uneconomical engines, made the operational costs of the merchant fleet very high; so it is not surprising that in 1910, it [i.e., the Russian merchant fleet] only provided 5.3 percent of Russia's maritime transport.[31]

In 1912, over 90 percent of the shipping charges for Russian seaborne exports were paid to non-Russian carriers.[32] In the final analysis Russia not only paid enormous sums for transport services to and from its ports but also deprived itself of earnings from the world cargo market.

Russia's underdeveloped merchant fleet was not solely responsible for the failure of Russia's foreign trade sector to keep in step with its foreign counterparts. Other reasons for Russia's weak foreign economic policy include the country's feudalistic background, underdeveloped banking system and unstable currency. It has also been suggested that the Russian government was responsible for subordinating foreign commerce to the country's fiscal policy at a time when the governments of other industrialised nations shied away from the rigid control of external trade.[33] But perhaps Russia's foreign economic operations were hindered most of all by the lack of competitive zeal in Russian traders. According to Olga Crisp, 'Russia's trade remained essentially passive, in the sense that the trading initiative usually came from foreigners, that Russians rarely ventured to the West to seek out trading opportunities'.[34]

Crisp's argument is supported by M. Zhirmunski who maintained that Russian industries producing commodities for export seldom had direct contact with foreign markets as the exportation of Russian goods was almost completely managed by foreign firms both in Russia and abroad. Since most Russian companies showed little concern for the competitiveness of their output destined for export Zhirmunski concluded that only 'inferior' Russian commodities were familiar to foreign consumers.

> The foreign firms exported goods from Russia in an almost primitive form and unsorted. They deliberately created a bad reputation for Russian goods, in order to be able to pay abnormally low prices. After export, these 'inferior' goods were subjected to a certain degree of cleaning, sorting and preparation, and were then sold at considerably higher prices, but no longer as Russian goods.[35]

Now a few Russian businessmen ventured into foreign markets. For example, in 1911, the Anglo-Russian Bank was established in London by a group of British and Russian businessmen. However, one report claims that the primary objective of the Anglo-Russian Bank was to gain control of the Russian Commercial and Industrial Bank in St. Petersburg.[36] From this information one could assume that the Anglo-Russian Bank was initially more interested in (domestic) banking operations in Russia rather than foreign commerce. During World War I the Moscow Narodny Bank set up offices in London and New York to help finance the foreign trade of Russian co-operative organisations. In 1917, the All-Russian Central Union of Consumers' Societies (Tsentrosoyuz) established a London office to promote the foreign trade of its co-operative organisations. But as we shall learn a little later, these offices did not begin any meaningful commercial/financial operations until the early 1920s.

The view is widely held that Russia lacked capital, technology and entrepreneurship at a time when rapid industrialisation was taking place in other industrialised countries. In the 1890s foreign businessmen equipped with unique skills and ideas were responsible for considerably increasing Russia's industrial capabilities. According to J. P. McKay, these businessmen 'helped infuse a missing dynamism and growth outlook into Russia'.[37] By the late 1890s a sizeable number of Russian businessmen were successfully competing with foreign investors. After 1908, Russian banks played a key role in the country's investment process by providing Russian industries with capital from local and foreign financial markets. During the same period the more mature Russian-owned industries were quite successful in selling their securities in Western Europe. In brief, the inculcation of foreign business techniques was so successful in stimulating Russian ingenuity that some foreign entrepreneurs were concerned they would lose control of their business operations in Russia.[38] Although S. S. Katzenellenbaum criticised Russia for lagging 'behind other countries in all that is characteristic of economic progress' he acknowledged that a number of favourable economic changes had taken place in Russia a few years prior to World War I.[39]

So, Tsarist Russia might have emerged as a sagacious international commercial-financial operator after World War I if the Bolsheviks had procrastinated. It is a most interesting problem which deserves additional research. However, the topic lies beyond the scope of this undertaking. As we learned previously, Russia's export potential fell sharply during the war while the country's imports increased significantly. This led to a marked increase in Russia's foreign indebtedness. By 1916, it was obvious that Russia would have to undergo an economic transformation in order to meet the demands of its creditors. But the October Revolution in 1917 eliminated the possibility of this transformation taking place under Russian rule.

On Russia's Role in the World Economy

In spite of its commercial-financial woes Russia was regarded as an integral part of the world economy during the twenty years immediately preceding World War I. In 1896, Russia occupied sixth place in the world in terms of foreign trade turnover.[40] According to estimates, exports comprised over 10 percent of Russia's gross national product in 1913;[41] a respectable figure for a country endowed with such a diverse natural resource base. These exports (especially grain, timber, petroleum, manganese, and flax) were vital to a number of countries including Britain, France and Germany. It is also important to remember that Russia was a huge market for the manufactured commodities of countries in Western Europe and North America. Alexander Gerschenkron provides an insight into the problems connected with Russia's departure from world markets.

> It is well to recall how great was the damage inflicted upon the world and especially the European economy by Russia's withdrawal from the world market after the First World War. It was not solely, and not even primarily, the disappearance of Russian grain exports. Yet their stoppage caused, temporarily, a serious deficiency in the supply of cereals and necessitated a considerable readjustment of production. Similarly, the discontinuation of exports of Russian aspen created, for some years, considerable difficulties in the English match industry. In some cases the damage proved almost irreparable. The hog-raising regions in northwestern Germany were largely based on supplies of Russian barley. This was a true case of international specialization. When Russian exports ceased, other sources had to be used but a really satisfactory substitute was never found. More important was the fact that central Europe found herself deprived of an important market for her merchandise exports, and western Europe lost a large and traditional market for her capital exports.[42]

Early Soviet Foreign Economic Policy

Even when the smoke had cleared from the October Revolution and civil war Lenin was confronted with a number of pressing problems. The economy was in a chaotic condition and the political position of Soviet Russia in the international arena was far from desirable. Moreover, Soviet Russia's creditworthiness had been all but destroyed following the revolutionary government's decision to renounce the debts of Tsarist Russia.

While the Bolsheviks were revolting in Russia Lenin had many reasons to suspect a similar revolution would take place in Germany. This was only the beginning. After Germany was tucked away in the socialist camp the revolutionary movement was bound to spread like wildfire. With socialism prevailing in many parts of the world the Soviet state would not be faced with the painful task of establishing commercial relations with hostile countries. But of course, the revolution in Germany did not materialise and Soviet Russia was forced to go it alone. As a result, Lenin was faced with a dilemma. On the one hand it would be dangerous to isolate the Soviet state from the rest of the world at the height of economic despair. By forcing the citizenry to bear additional hardships Lenin might have brought about his own downfall. But how far would the Bolsheviks have to stoop in order to trade with market-type economies (MTEs)? (At this point it should be mentioned that MTEs represent both industrialised and developing market-type economies in the West.)

Lenin's desire to trade with MTEs was widely known outside Soviet Russia. When asked about the prospects for economic relations with America Lenin replied: 'We are resolutely for an economic understanding with America--with all countries but especially with America'.[43] (It is interesting to note that Lenin's statement was published in the Chicago Daily News on 27 October 1919, but was not officially published in Russian until 1942.) Now the real problems connected with East-West trade during the early stages of Soviet rule were most likely political and not economic. An economic justification for trade could be found without too much trouble but how to establish commercial relations with MTEs was entirely another matter.

Lenin often used the works of Karl Marx to support his own inclinations. It is not surprising Lenin obtained so much of his revolutionary fervour from the philosopher-economist since Marx left no doubt (at least in Lenin's mind) that economics is subordinate to politics.[44] Indeed, for well over a century Marxist (economic) theory has sought to expose the evils of capitalist exploitation. Those who follow the writings of Marx per se favour the absolute elimination of capitalist society and the subsequent building of a communist (utopian) state.

There is little doubt that Lenin was interested in setting up a Marxist-type economy. This was not going to be an easy task as Marx himself failed to paint a lucid picture of the socialist economic system.[45] Lenin's scheme to establish 'communist production and distribution' (i.e., the exchange of goods and services on the basis of commodity payments as opposed to commodity transfers on the basis of money) in Soviet Russia immediately following the revolution might have been an attempt to put Marxist theory into practice. However, the plan was unsuccessful and Lenin was forced to take a more moderate approach to solving the country's economic problems.[46]

Lenin undoubtedly experienced problems if he attempted to formulate Soviet foreign economic policy on the basis of Marxist (economic) theory. According to Gottfried Haberler, Marx had nothing to say about the foreign trade problems of the socialist state.[47] However, Lenin could have considered using Marx's discussions on the labour theory of value for the purpose of establishing prices for Soviet exports (i.e., the value of Soviet exports could have been based on the amount of labour required to produce these commodities). But such a scheme was useless since world market prices are not established according to the labour theory of value. Quite simply, in the world market commodities are exchanged (and prices are determined) on the basis of supply and demand. As commodities become more scarce their prices tend to increase. On the other hand, as commodities become more abundant their prices tend to fall. In the world market, prices must satisfy both buyers and producers/sellers (i.e., under most conditions producers/sellers must offer commodities at prices which will cover production and marketing costs as well as satisfy the demands of buyers). Moreover, international commercial operations are often conducted on the basis of the theory of comparative advantage (or theory of comparative costs). In a nutshell the theory shows that most countries are capable of producing some commodities more efficiently than other nations. (For example, Brazil is undoubtedly capable of producing bananas more efficiently than Scotland.) In addition, the theory of comparative advantage points out that even if a given country cannot produce any commodities more efficiently than other nations it can still minimise losses by concentrating on those commodities which promise the highest rate of return. Therefore it stands to reason that under most conditions a country will try to export those commodities which offer the highest rate of return and import those commodities which it cannot produce efficiently. Of course, Marx had little to say about the theory of comparative advantage. By supporting the theory Marx would have been required to admit that some countries should remain exporters of fruits and vegetables while other nations should remain exporters of machinery and equipment. In the light of the fact that a number of Western analysts have already discussed the incompatibility of Marxist (economic) theory with conditions in world markets it is unnecessary for us to devote any more time to the subject.[48]

Lenin started writing about the foreign commercial operations of MTEs long before the twentieth century. Of course, his writings had a familiar Marxist ring: 'A foreign market is necessary because it is inherent in capitalist production to strive for unlimited expansion'.[49] Indeed, the production capabilities of industrialised market-type economies (IMTEs) may have impressed Lenin but it did not obfuscate his perception of the impact of capitalist expansion on the world economy.

> . . . the law of capitalist production is the constant transformation of the methods of production and the unrestricted growth of the scale of production . . . . the capitalist enterprise inevitably outgrows the limits of the community, the local market, the region, and then the state. And since the isolation and seclusion of the states have been thwarted already by commodity circulation, the natural yearning of every capitalist industry leads it to the necessity 'to search for a foreign market'.
> This necessity demonstrates the progressive historical work of capitalism which destroys the age-old isolation and seclusion of economic systems . . . which links all countries of the world into a single economic system.[50]

Now Lenin might have been wary of capitalist expansion but it did not deter him from inviting capitalists to participate in the development of the Soviet economy during the New Economic Policy (NEP).[51] Indeed, Lenin thought the 'mixed company system' (i.e., companies run by capitalists and socialists together) was one of the most effective means of improving the operations of the Commissariat of Foreign Trade.[52] It is interesting to note that Lenin even encouraged the Soviet citizenry to adopt those capitalistic techniques which would be beneficial for the country.

> Get down to business all of you! You will have capitalists beside you, including foreign capitalists, concessionaires and leaseholders; they will squeeze enormous profits out of you; they will grow rich alongside you. Let them grow rich; but you will learn from them the business of running the economy, and only when you do that will you be able to build a communist republic.[53]

Economic realities compelled Lenin to state: 'We must trade with capitalist countries as long as they exist'.[54] In order to carry out such trade on a meaningful scale he realised that both the level and quality of industrial and agricultural output would have to be improved. Lenin was also concerned about the ability of Soviet traders to deal sagaciously with foreign businessmen. As we learned previously, Russia was not recognised as a nation of skillful foreign traders. Of course, the situation was no different immediately after the October

Revolution. Lenin knew that inept traders would be responsible for Soviet setbacks in the sphere of foreign commerce. Nevertheless he expected a gradual diminution of such losses as Soviet traders became more accustomed to capitalist business techniques.[55]

Economic recovery in Soviet Russia depended on the reconstruction of the country's industrial sector. Lenin thought that foreign capital should be employed to develop Soviet Russia's industrial sector. But the country's creditworthiness had been severely damaged by the revolutionary government's decision to renounce the public and private debts of Tsarist Russia. Lenin hoped his country's creditworthiness could be restored at the International Economic Conference in Genoa (April-May 1922). Soviet delegates attending the conference stressed the need for peaceful co-existence between nations with different political and economic systems. However, both Western and Soviet delegates were unwilling to bend on the issue of Tsarist Russia's debts and the conference ended without a solution to the economic rift between the two groups.

We can be sure that Lenin had more than the annulment of debts, trade and foreign capital on his mind when he informed the West of his desire to attend the Genoa Conference. Now the economic issues were important. In fact, Lenin wanted his delegates to be familiar with both Soviet economic problems and problems which were plaguing the Western world. With regard to the latter, Lenin demanded that 'All members of the [Soviet] delegation must be <u>perfectly familiar</u> with Keynes' book ("The Economic Consequences of the Peace") and with similar bourgeois and bourgeois-pacifist books'.[56] However, Lenin also saw the conference as a means of addressing the entire capitalist world. His delegates were instructed to give concise communist views on international relations and economics whatever the outcome of the conference.[57] In addition, the Soviet delegation was responsible for indoctrinating any capitalist delegates who were sympathetic toward Soviet proposals.

> One of our main, if not principal, political tasks in Genoa is to single out this wing of the bourgeois camp from the rest of the camp, endeavour to flatter that wing and make it known that we consider possible and desirable not only a trade but also a political agreement with them (as one of the few chances of capitalism's peaceful evolution towards a new order, which we, as communists, do not especially believe in, but which we agree and consider our duty to help try out as representatives of one power in the face of a hostile majority of other powers).[58]

Although it would be difficult to argue that Lenin was not a revolutionary in the true sense of the word there is enough evidence to indicate that he was a practical man when considering the advantages of foreign trade. Indeed, there is little doubt that Lenin was willing to make concessions in the interest of promoting trade with the West.[59] At one point Lenin demanded that Soviet foreign trade delegates refrain from using such jargon as the 'inevitable violent revolution' and the 'inevitability of new world wars' in their official speeches and statements.[60] As we learned before, Lenin even advised Soviet citizens to pay close attention to foreign capitalists operating in Soviet Russia in order to gain enough expertise to compete successfully with traders in the world market. These and related facts make one wonder if Soviet foreign economic policy from the mid-1920s onward would have been conducted differently had Lenin lived beyond 1924.

The Early Structure of the Soviet Foreign Trade System

On 22 April 1918, the foreign trade sector in Soviet Russia was decreed a monopoly of the state. Article I of the decree states:

> All foreign trade is nationalised. Commercial operations involving the purchase and sale of all kinds of products (of the extract-

> ing and processing industries, agriculture and others) with foreign states and individual trading concerns abroad are to be carried out on behalf of the Russian Republic by specially authorised organs. All import and export operations outside [the control of] these organs are prohibited.[61]

Since the civil war (1918-1921) brought Soviet foreign commerce to a standstill one could say that the monopoly of foreign trade was virtually inoperative for a few years. When Soviet Russia began trading with Estonia and Britain in 1920, the People's Commissariat of Foreign Trade (it might be wise to mention at this point that the People's Commissariat of Foreign trade was transformed into the Ministry of Foreign Trade in 1946) was directly responsible for authorising the export of Soviet goods and the import of foreign commodities according to government quota regulations as well as granting permission to carry out export operations outside the quota system. Most organisations participating in Soviet foreign trade operations were considered organs of the Commissariat of Foreign Trade. Until the introduction of NEP the monopoly of foreign trade functioned as a state monopoly of foreign trade operations. (In other words, the People's Commissariat of Foreign Trade, via its own organs, conducted Soviet foreign trade.)

The monopoly of foreign trade underwent a fundamental change during NEP. Prior to 1922, the Commissariat of Foreign Trade was responsible for both controlling and conducting Soviet foreign trade. However, by May 1922, the situation had changed. At that time various Soviet trading organisations (e.g., co-operatives, trusts, and syndicates) were conducting their own trading operations under the control of the Commissariat of Foreign Trade. (In other words, by the middle of 1922, the Commissariat of Foreign Trade was responsible for controlling [as opposed to conducting] Soviet foreign trade operations.)

> Up to May 1922, both the People's Commissariat for Trade and its local home and foreign organisations were fulfilling both the functions of regulating as well as those of conducting commercial trans-

> actions. Since that date the People's Commissariat for Trade has been considerably reorganised, and at present the Commissariat is a purely administrative body, which fulfils the function of the general direction and regulation of foreign trade on the principles of the State monopoly of foreign trade.[62]

As we learned, in pre-revolutionary Russia the exportation of commodities was almost completely managed by foreign companies both in Russia and abroad. This situation supposedly led to the export of so-called 'inferior' Russian commodities as the reputation of Russian goods in world markets was not the major concern of these companies. But under Soviet rule conditions changed. After 22 April 1918, organisations belonging to the monopoly of foreign trade were solely responsible for managing the exportation of Soviet commodities. As a result, Soviet traders had to assume responsibility for any 'inferior' Soviet goods exported to world markets.

The Establishment of Official Soviet Trade Representations

Soviet Russia's plans to penetrate foreign markets included the establishment of official Soviet trade representations abroad. Such trade representations were set up on the basis of intergovernmental commercial agreements. It is interesting to note that these commercial agreements were often negotiated under different conditions. For example, Germany and Soviet Russia negotiated a trade agreement in May 1921, but diplomatic relations between the two countries were not established until April 1922.[63] Likewise, a trade agreement was concluded between Britain and Soviet Russia on 16 March 1921, but the two countries did not establish diplomatic relations until 1924.[64] A trade agreement between Italy and Soviet Russia was negotiated at the same time the two countries established diplomatic relations (February 1924).[65] Norway and Soviet Russia established diplomatic relations in January 1924, but a trade agreement between the two countries was not negotiated until December 1925.[66]

Since members of Soviet trade representations functioned as representatives of the monopoly of foreign trade (i.e., the Soviet government) Soviet officials argued that such members should enjoy diplomatic immunity. In the light of the fact that there was a profound distinction between business operations and state politics in MTEs during the early 1920s Western businessmen opposed such a scheme on the grounds it would give Soviet traders a privileged position in international markets. However, the Soviet government persistently demanded that foreign governments recognise the monopoly of foreign trade and grant diplomatic privileges to representatives of this monopoly. Germany was the first country to recognise the monopoly of foreign trade. The trade agreement which was negotiated between Germany and Soviet Russia in May 1921 contained provisions for the establishment of Soviet and German trade representations. Members of both trade representations were granted diplomatic immunity.[67] Following this move other countries started granting diplomatic immunity to members of Soviet trade representations. By the mid-1920s Soviet Russia had established trade representations in the following countries: Austria, Britain, Canada, China, Czechoslovakia, Denmark, Estonia, Finland, France, Germany, Greece, Iran (Persia). Italy, Latvia, Lithuania, Mexico, Mongolia, Norway, Poland, Sweden, and Turkey.[68]

Official trade representations played an important role in Soviet foreign trade until the early 1930s. The operations of the trade representations were, in most cases, controlled by the Commissariat of Foreign Trade. Members of the Soviet trade representations often represented individual republics and Soviet economic organisations. Such members were empowered to utilise the services of the foreign trade representations to facilitate the import/export operations of their republics and organisations. The foreign trade representations functioned in both a commercial and regulatory capacity. The commercial responsibilities were handled by import/export offices within the trade representations. These offices were subdivided into units which specialised in those commodities which were exchanged between Soviet Russia and the host country. The commercial sections of Soviet foreign trade representations also contained specialised offices for transport, finance, legal matters, and accounting. Some of the commercial duties of official trade representations included the negotiation of trade deals between Soviet and foreign organisations and the writing of reports concerning conditions in local markets. The regulatory functions included controlling the operations of foreign-based Soviet companies and offices (e.g., the issuance of licences for the importation/exportation of commodities) and supervising the execution of trade agreements between Soviet Russia and foreign firms.

The Establishment of Foreign-Based Soviet Companies

In the 1920s Soviet Russia expanded its foreign commercial operations significantly by establishing numerous foreign-based trading companies. Of course, such companies gave Soviet traders better access to foreign markets. It would appear as though Soviet officials considered these companies as one of the best means of conducting Soviet foreign trade. But this might not have been the case. According to A. V. Engibarov, Soviet Russia set up joint-stock companies in Britain and the United States during the 1920s because both countries refused to trade with its so-called 'state' organisations.[69] (In other words Britain and the United States were reluctant to trade directly with economic organisations in Soviet Russia.)

As a rule, Soviet officials have always preferred to set up joint-stock companies (as opposed to other types of organisations such as branches and agencies) in foreign economic systems. There are at least two reasons for this preference. Firstly, in most MTEs a foreign-owned joint-stock company is classified as a local company with foreign share capital while other types of organisations owned by foreign interests are classified as foreign institutions. In some cases, companies which are classified as foreign institutions are subject to less favourable tax rates than the so-called local companies with foreign capital.[70] Secondly, joint-stock companies enjoy limited liability (i.e., no shareholder of a company is required to pay more than the nominal value of his share capital if the company is liquidated for failing to meet its financial obligations). Of course, without limited liability the shareholders of a company can be forced to meet all of the company's outstanding financial obligations.

Soviet Co-operative Societies

Co-operative societies were set up in Russia long before the October Revolution. Most of the large Russian co-operative societies established companies/agencies abroad for the purpose of selling and buying on behalf of the co-operatives. In 1916, a Siberian co-operative established one of the first Russian co-operative agencies in London. This agency was responsible for selling dairy produce as well as purchasing churning equipment, tea, textiles, agricultural machinery and other commodities which were needed by the members of the Siberian co-operative.[71]

The most noteworthy co-operative in the sphere of Soviet foreign trade was the All-Russian Union of Consumers' Societies (Tsentrosoyuz). The co-operative was established in Russia in 1898. During World War I the foreign trade operations of Tsentrosoyuz expanded so rapidly that it was necessary to set up a London agency of the co-operative in July 1917.

In an attempt to wipe out private trading operations the Soviet government abolished the separate existence of co-operative societies in January 1920. Following this move all co-operatives were merged with Tsentrosoyuz. However, in 1921 (i.e., after the introduction of NEP), co-operatives were again permitted to exist independently. From 1919-1920, Tsentrosoyuz established a number of companies and agencies in foreign countries. In 1919 alone, agencies were set up in Berlin, Paris, Marseilles (a sub-agency under the direction of the Paris agency), New York, Shanghai, Kobe and Yokohama.[72] In addition to its business in France, the Paris agency was responsible for commercial operations in the Belgian market. From December 1919-July 1921, the Berlin agency of Tsentrosoyuz maintained a commercial agent in Vienna. In 1920, the Tsentrosoyuz agencies in Berlin, New York, and Paris were transformed into joint-stock companies. The Tsentrosoyuz agency in London became a joint-stock company in November 1921 (Centrosoyus Ltd.).[73]

From 1918-1921, the operations of the foreign-based agencies and companies owned by Tsentrosoyuz were hampered by a number of factors. Firstly, Soviet Russia was politically isolated from the rest of the world. Secondly, the economic blockade of Soviet Russia from 1919 to the early 1920s severed many of the agencies' commercial links with co-operatives in Soviet Russia. And finally, there were differences of opinion between the directors of Tsentrosoyuz who had been appointed prior to the October Revolution and those who assumed their duties at a later date.[74] But some of the agencies managed to keep up their operations despite these problems. According to N. Barou, after losing their connections with Soviet co-operatives the foreign-based agencies of Tsentrosoyuz started trading on an independent basis.[75] Most of this independent trade was conducted with China, Japan and the United States.

Soon after being admitted to the International Congress of Co-operatives in 1921, Soviet co-operative societies started to step up their operations in foreign markets. The primary aim of Tsentrosoyuz at that time was re-establishing firm control over its foreign-based organisations. Toward the end of 1922, Tsentrosoyuz had regained complete control over these organisations. In that same year a new board of directors was appointed for Tsentrosoyuz. Following this move, new directors were appointed for the foreign-based organisations owned by Tsentrosoyuz.

The All-Russian Union of Agricultural Co-operative Societies (Selskosoyuz) and the All-Russian Central Co-operative Union of Flax and Hemp Growers became rather important traders in the early 1920s. In London, Selosoyus Ltd. represented both Selskosoyuz and the All-Russian Union of Dairy Produce Co-operative Societies. Selosoyus Ltd. was responsible for selling Soviet butter, cheese, eggs, fur and horsehair; and purchasing such commodities as agricultural machinery and implements. In addition to its company in London, Selskosoyuz had companies/agencies in Berlin, Paris, Riga and New York. In 1925, eight different Soviet co-operative societies were engaged in foreign commerce.

During the period 1922-1928, the foreign trade of Soviet co-operatives grew markedly (see TABLE 1.3). When the co-operatives began active trading in foreign markets in 1922, their operations differed somewhat from those in the pre-war period. Before the war co-operatives rarely imported large amounts of commodities (agricultural machinery, binder twine, and herring were exceptions).[76] In the post-war period Soviet co-operatives began importing sizeable amounts of commodities. The foreign-based companies/agencies of these co-operatives were required to locate hundreds of new commodities in world markets as well as make sure such goods would be suitable for use in the Soviet economy. The foreign-based companies/agencies were also responsible for promoting the sale of Soviet commodities which had all but disappeared from world markets since the October Revolution. Some of these goods had been handled almost exclusively by foreign firms (as we learned previously) which meant the companies/agencies were required to locate both old and new customers. In order to improve the competitiveness of Soviet exports the companies/agencies were responsible for sending periodic reports to Soviet co-operatives citing defects in exported commodities and methods of improving future consignments.

TABLE 1.3

DEVELOPMENT OF SOVIET CO-OPERATIVE
FOREIGN TRADE, 1922-1928
(in pounds sterling)

Year	Exports	Imports	Turnover
1922	904,229	493,465	1,397,694
1923	3,771,729	592,350	4,364,079
1924	4,643,643	1,884,291	6,527,934
1925	8,467,045	5,740,154	14,207,199
1926	7,666,211	3,606,717	11,272,928
1927	9,075,305	5,778,054	14,853,359
1928	11,074,385	7,317,615	18,392,000

Source: N. Barou, Russian Co-operation Abroad (London: P. S. King, 1930), p. 21.

Soviet co-operatives were divided into two groups. The first group was required to secure permission from the People's Commissariat of Foreign Trade before negotiating any deals with foreign traders. Such authorisation could be obtained from the offices of the People's Commissariat of Foreign Trade both in Soviet Russia and abroad. The second group held a more privileged position. Co-operative societies in this group--Tsentrosoyuz, Selskosoyuz, the Ukrainian Co-operative Society and the All-Ukrainian Co-operative Wholesale Society (Vukospilka)--were authorised to carry out their foreign trade operations on the same basis as Soviet economic enterprises (see next paragraph) and hence able to deal with foreign companies in a more independent fashion.[77]

Soviet Economic Enterprises

In addition to the co-operative societies, Soviet economic enterprises played an important role in Soviet foreign trade. These enterprises were authorised to export their manufactured commodities and raw materials and to import goods which were used in the enterprises' production processes. They could also import commodities needed by their workers. Generally speaking, Soviet economic enterprises could carry out their foreign trade operations somewhat independently as long as such operations were within the guidelines laid down by the Commissariat of Foreign Trade. The enterprises were not permitted to re-export commodities. As a rule, a Soviet economic enterprise was not authorised to export goods which it did not produce.[78] Some of the Soviet enterprises operating in 1926 included various timber trusts, the Oil Syndicate (Neftesindikat), the Textile Syndicate, the Donets Basin Industry Board, the Tea Administration Board, the Leather Syndicate (Kozhsindikat), the Rubber Trust (Rezinotrest), Azneft, Grozneft, the State Copper Trade Agency (Gosmedtorg), and GUM (State Universal Stores).[79]

In almost all cases Soviet economic enterprises were authorised to carry out their trading operations only on the basis of certificates and licences issued by the Commissariat of Foreign Trade and official Soviet foreign trade representations. Certificates were issued to organisations which were authorised to carry out 'direct' (or quasi-independent) foreign trade operations.[80] The certificates normally covered a wide range of commodities that organisations were authorised to handle under the general foreign trade scheme of the country. Licences were issued for all other types of foreign trading. Organisations applying for foreign trade licences were required to give precise information regarding 'the quantity and nature of the merchandise, terms of purchase or sale, and price'.[81]

Before negotiating with foreign companies Soviet economic enterprises were required to inform either the Commissariat of Foreign Trade or official Soviet trade representations of proposed deals. If the Commissariat of Foreign Trade or trade representations did not object to proposed deals within forty-eight hours Soviet economic enterprises could start negotiating with their trading partners. When the bargaining process was completed a Soviet economic enterprise was required to inform the Commissariat of Foreign Trade or the foreign trade representation (in the country where the deal took place) of the terms of the commercial agreement. Both the Commissariat of Foreign Trade and official trade representations were empowered to cancel agreements made by Soviet economic enterprises. Such cancellations could be made on the basis of the 'unsuitability of the proposed transaction to the general state economic plan, for political considerations, or as a result of the commercial disadvantage of the proposed transaction'.[82] If an agreement was cancelled for being commercially disadvantageous the Commissariat of Foreign Trade (or a given trade representation) was required to assist the enterprise in negotiating a more favourable deal with another firm.

Like Soviet co-operative societies, Soviet economic enterprises were authorised to establish foreign-based organisations. Authorisation for the establishment of these organisations was granted by the Commissariat of Foreign Trade. Foreign-based agencies and joint-stock companies belonging to Soviet economic enterprises were directly managed by the Soviet enterprises and indirectly controlled by the Commissariat of Foreign Trade and official Soviet trade representations. Between 1923 and 1924, the Textile Syndicate established three branches in Iran.[83] The syndicate also opened an agency in New York in the early 1920s.

Soviet economic enterprises, like Soviet co-operatives, operated as juridical (or legal) persons. Under such conditions the Soviet government was not legally required to meet any of their obligations.[84] As a rule, the obligations of Soviet economic enterprises were limited to the amount of disposable property held by these enterprises.

The external financial operations of Soviet economic enterprises were carefully regulated. All financial resources of the enterprises' foreign-based organisations were held either by Soviet trade representations or Soviet foreign-based financial institutions. The enterprises' foreign-based organisations were forbidden to negotiate any concession agreements with foreign firms and could not attract foreign capital into Soviet Russia without special permission from the Head Concession Committee of the Council of People's Commissars.[85]

Soviet Export/Import Organisations

In addition to co-operatives and Soviet economic enterprises a number of specialised export/import organisations were established within Soviet Russia. These organisations were set up as joint-stock companies and their shareholders included Soviet governmental organs (e.g., the Commissariat of Foreign Trade) and Soviet producers. The export/import organisations were responsible for exporting certain types of commodities on behalf of Soviet producers and importing certain types of commodities on behalf of Soviet buyers. Soviet export/import organisations were not set up to produce commodities. The following export/import organisations were operating in the late 1920s: Eksportles (timber and related commodities), Promeksport (industrial goods), Eksportkhleb (grain), Metallimport (metals), Elektroimport (electrical commodities), Khimimport (chemicals), Kozhimport (leather goods), Tekstilimport (textiles), and Selkhozimport (agricultural machinery and equipment).[86]

Joint Chambers of Commerce

In 1929, the USSR participated in four joint chambers of commerce. These chambers of commerce were located in London, New York, Prague and Reval. The joint chambers of commerce operated primarily as information centres for both Soviet and foreign trading organisations.

Wholly Soviet-Owned Trading Companies in Britain

Arcos Ltd. was established in London in 1920. All of the company's share capital was owned by Soviet organisations. Arcos Ltd. functioned as a universal trading company and hence handled a wide range of commodities. It imported (from Soviet Russia) such goods as timber, flax, furs, ores, metals, crude drugs and petroleum. Its exports (to Soviet

Russia) included agricultural machinery, motors, tools, scientific apparatuses, drugs and clothing. Arcos Ltd. comprised eight commodity offices and three supporting offices. As their operations grew these offices were transformed into subsidiary companies.[87] From 1923-1925, the shipping office became Arcos Steamship Company Ltd., the book department became Kniga Ltd., the finance office was transformed into the Arcos Bank Ltd., and the insurance section became the Black Sea and Baltic Insurance Company Ltd.

On 23 August 1924, Russian Oil Products Ltd. (ROP) was founded in Britain. One-half of ROP's share capital was owned by Arcos Ltd. and the other half belonged to Neftesindikat. ROP was authorised to sell its own petroleum and petroleum products (i.e., the output of Neftesindikat) as well as market the petroleum and petroleum products of other producers on a commission basis.[88] TABLE 1.4 shows the wholly Soviet-owned joint-stock companies established in Britain from 1919-1924. (Soviet banks have been excluded from TABLE 1.4.)

TABLE 1.4

SOVIET JOINT-STOCK COMPANIES ESTABLISHED IN BRITAIN, 1919-1924

Name	Date of formation	Capital (in pounds sterling)
Centrosoyus Ltd.	1919	250,000
Arcos Ltd.	1920	1,000,000
Selosoyus Ltd.	1920	50,000
Ukrainian Flaxgrowers Co. Ltd.	1920	10,000
Kniga Ltd.	1923	2,000
Arcos Steamship Co. Ltd.	1923	1,000
Anglo-Russian Dobroflot Ltd.	1923	50,000
Russian Oil Products Ltd.	1924	100,000

Source: Soviet Union Review, Vol. VI, No. 4 (24 January 1925), p. 74.

Other Wholly Soviet-Owned Joint-Stock Companies in the West

During the early 1920s a sizeable amount of American-Soviet trade was handled by Arcos-America Inc. (formerly a branch of Arcos Ltd.) and the Products Exchange Company (Prodexo). In May 1924, the Amtorg Trading Company was established in New York as a result of a merger between Arcos-America and Prodexo. In addition to its role as a general export-import company, Amtorg functioned as an unofficial trade representation (an official Soviet trade representation was not permitted in the United States until diplomatic relations were established between the two countries in the mid-1930s). In 1925, Amtorg established a branch office in Buenos Aires. In October 1927, this branch was transformed into the South American Trading Company (Yuzhamtorg). In 1931, Yuzhamtorg ceased its operations in Argentina and was re-incorporated in Uruguay.[89]

Mixed Joint-Stock Companies

Soviet Russia also participated in a number of mixed (i.e., Soviet-foreign) joint-stock companies in the West. One of the first Soviet-foreign companies was established in Berlin on 16 November 1922, under the name Rusgertorg.[90] Half of Rusgertorg's share capital was held by Soviet interests and the other half by a German company. Rusgertorg's operations included the export of metal goods (to Soviet Russia) and the import of raw materials (from Soviet Russia).

Soviet Russia participated in quite a few mixed companies in Britain. In October 1923, a Soviet timber trust--Dvinoles--and a group of foreign businessmen established a company in London under the name Dvinoles Export. The company was responsible for financing and selling the timber products of Dvinoles.[91] The remaining Soviet-foreign companies which were established in Britain are included in TABLE 1.5.

TABLE 1.5

SOVIET-FOREIGN JOINT-STOCK COMPANIES
ESTABLISHED IN BRITAIN IN 1923

Name	Soviet capital (in pounds sterling unless stated otherwise)	Foreign capital (in pounds sterling unless stated otherwise)	Total
Russian Wood Agency	70,000	30,000	100,000
Russhollandles	76,000	74,000	150,000
Russangloles	76,000	74,000	150,000
Russnorvegoles	160,000	140,000	300,000
Dvinoles Export	51,000	49,000	100,000
Russian Bristles Co.	2,000	1,000	3,000
Russo-British Grain Export Co.	50,000	50,000	100,000
Russo-Norwegian Navigation Co.	5,000	5,000	10,000
Norwego-Russian Navigation Co.	600 kroner	900 kr.	1,500 kr

Source: Russian Information and Review, Vol. VI, No. 4, (24 January 1925), p. 74.

A few Soviet-foreign companies were set up in less-developed countries (e.g., Iran and Turkey). Although these mixed companies were seemingly set up to conduct Soviet foreign trade operations Glen Smith suggests they might also have been established for political purposes. Smith states: 'The pattern of the creation of such companies in Iran, Turkey, Bukhara, and Mongolia clearly indicates that these mixed companies were used as a means for gaining economic control over these countries'.[92]

On Some of the Activities of Soviet Foreign Traders

To a certain extent Smith's argument is supported by Violet Conolly who maintained that 'From the earliest days of the Revolution it was clear that the East would be a predominating factor in Bolshevik policy and politico-economic doctrine'.[93] In an attempt to strengthen its economic relations with the Middle East the USSR began exporting 'cheap' commodities into this region. However, such a policy wreaked havoc on infant industries in Turkey and Iran and induced local manufacturers to seek government protection against some Soviet commodities.[94] In 1931, Iran established a monopoly of foreign trade. According to an Iranian press report one of the main reasons for this move was the ruthless competition of Soviet organisations trading under diplomatic immunity.[95] 'Cheap' Soviet matches were allegedly responsible for the collapse of the Iranian match factory in Tabriz. As soon as local competition had been eliminated the price of the matches was increased.[96] Soviet traders also employed tactics widely used in the West in order to achieve the highest profit margins. Conolly has mentioned that Soviet trading companies in the northern part of Iran sometimes held their goods until supplies were diminishing and prices rising. After local merchants had placed orders for additional supplies Soviet traders would sell their hoarded commodities. Such a scheme often resulted in high profits for Soviet trading companies while local competitors were faced with the prospect of falling demand for their future supplies.[97]

Ever since Soviet traders started operating in world markets Western governments were not convinced that these traders would confine their activities to commercial business. This suspicion was well founded. The political activities of Soviet trade officials were responsible for the German police raid on Soviet commercial organisations in 1923, the British raid on Arcos Ltd. in 1927, and the expulsion of Soviet trade officials from Vienna (1927) and Argentina (1931).

According to Smith, the political activities of the Yuzhamtorg company (which were just as important as its commercial operations) led Uruguay to sever diplomatic relations with the USSR in 1935.[98]

The British government's reaction to Soviet political activities in and around London led to a number of changes in the USSR's commercial operations in Britain. In May 1927, the trade agreement between Britain and the USSR was cancelled and the Soviet trade representation returned to the USSR. At about the same time a number of Soviet trading organisations operating in Britain were liquidated. In addition, a number of Soviet orders for British commodities were transferred to other countries. These facts might well lead one to conclude that Anglo-Soviet trade fell sharply during the late 1920s. However, despite the strained political relations between Britain and the USSR it is interesting to note that Anglo-Soviet trade (turnover) only declined from £37,057,000 in 1926, to £30,572,000 in 1928. But of course this is only one side of the story. It is also important for us to be aware of the fact that Soviet exports to Britain actually increased from £23,617,000 in 1926, to £24,198,000 in 1928, while Soviet imports from Britain dropped sharply from £13,440,000 in 1926, to £6,374,000 in 1928.[99] Indeed, it does appear as though the USSR retaliated against the British government's action by cutting purchases from British exporters.

Soviet Banks Operating in the Sphere of Foreign Trade During the 1920s

During NEP a number of Soviet banks were involved in foreign trade operations. The State Bank (Gosbank) was established in October 1921. Within a short period of time Gosbank was supposed to acquire a monopoly over credit operations in Soviet Russia. However, such control was not given to the bank until after the credit reform of 1930. In the sphere of foreign-trade financing, Gosbank assumed an important role from the very outset. A foreign department was added to Gosbank in the early 1920s to handle the increasing level of trade financing business. In 1924, Gosbank financed about 50 percent of Soviet exports and participated in the financing of approximately 55 percent of Soviet imports.[100]

The All-Ukrainian Co-operative Bank (Ukrainbank) was established before the October Revolution but its activities were quite limited until 1922. Although Ukrainbank was set up to handle the financial transactions of co-operative societies it was also authorised to deal with Soviet economic enterprises, foreign firms and individual traders.[101] According to its statutes Ukrainbank could open branch offices both in Soviet Russia and abroad.

On 4 December 1922, the All-Russian Co-operative Bank (Vsekobank) was established. The bank's primary function was financing the foreign and domestic operations of Soviet co-operatives. According to Barou, Vsekobank carried out most of its foreign banking business through Moscow Narodny Bank Ltd. (London) and the Co-operative Transit Bank in Riga.[102] Vsekobank held a major portion of the share capital of both banks for some time.

The Foreign Trade Bank of the USSR (Vneshtorgbank) was established in March 1924. The primary objective of the bank was to promote Soviet foreign trade by assisting internal organisations involved in export/import operations. Smith points out that Vneshtorgbank was not initially intended to have a monopoly over all foreign-trade financing in the USSR.[103] According to a treatise published in 1935, Vneshtorgbank was 'simply an agent carrying out instructions' , and 'may best be regarded as the executive side of the Gosbank's foreign department'.[104] Indeed, until the early 1960s Gosbank handled most of the USSR's foreign financial business.

By the mid-1920s Vneshtorgbank was quite active in financing Soviet petroleum and flax exports. Moreover, Vneshtorgbank financed the imports of the Soviet Medical Supply Agency and played a leading role in financing Soviet wool imports. In addition to its trade financing operations Vneshtorgbank bought and sold foreign currencies and precious metals. Like other banks in the USSR, Vneshtorgbank was authorised to handle the financial transactions of both state-owned and private organisations.

During NEP Vneshtorgbank became an active participant in world financial markets. In the latter part of 1924, Vneshtorgbank's director travelled to the United States to establish closer relations with American banks. At about the same time an American bank granted a Soviet trading organisation a $1 million credit which was guaranteed by Vneshtorgbank.[105] Soviet interest in the American money market led to rumours that Vneshtorgbank would open a branch in New York during the mid-1920s.

Between 1 April 1924 and 1 October 1924, Vneshtorgbank's total assets doubled (i.e., from 29.9 million rubles to 60 million). Before the end of 1924, Vneshtorgbank had established a branch office in Baku and was planning to open another branch office in Constantinople. The marked expansion of Vneshtorgbank's operations prompted some Soviet authorities to assert that the bank would soon control the financing of the country's foreign trade: 'With its developing network of branches Vneshtorgbank should, in a short time, supported as it is by the various organs of the Commissariat for Foreign Trade, achieve its object of becoming the main instrument of finance for the whole of the Foreign Trade of the USSR'.[106]

The Soviet Industrial Bank (Prombank) was chiefly concerned with the redistribution of funds within the country's industrial sector. Its credit-granting mechanism relied heavily on the deposits of Soviet trusts and syndicates. In 1925, representatives of Prombank travelled to Western Europe for the purpose of establishing correspondent relations with banks in Britain, France and Germany. During the same year Prombank (with the assistance of Vneshtorgbank) was planning to set up a Soviet bank in Paris.[107]

The Far Eastern Bank (Dalbank) was established in April 1922 by the government of the Far Eastern Republic. The primary functions of Dalbank were to assist the development of agriculture, industry and trade in Siberia; finance Soviet export and import operations in the Far East; and finance the Soviet gold industry.[108] Dalbank was especially active in China and maintained branches in Harbin and Shanghai.

Soviet Foreign-Based Banks

The first Soviet foreign-based bank--Moscow Narodny Bank Ltd.--was established in London in 1919. (Moscow Narodny Bank Ltd. should not be confused with the Moscow Narodny Bank which existed in Soviet Russia [Moscow] during the 1920s.) Moscow Narodny Bank Ltd. was registered as a joint-stock company and a major portion of its share capital was held by Vsekobank and the larger Soviet co-operative societies.[109] At the outset Moscow Narodny's primary function was financing the foreign trade of co-operatives. The marked expansion of co-operative trade in the mid-1920s brought Moscow Narodny Bank into contact with a number of banks in Britain, Western Europe, the United States, Canada, and the Baltic states. Moscow Narodny Bank's total assets increased from £2,391,629 on 31 December 1924, to £5,429,509 on 31 December 1925.

In September 1925, Moscow Narodny Bank Ltd. opened a branch office in Paris. In addition to its business with French banks the Paris branch had dealings with banks in Belgium and Switzerland. Moscow Narodny also established agencies in Berlin and New York. In 1928, the Berlin agency became a branch of Moscow Narodny Bank Ltd.[110]

The Co-operative Transit Bank Ltd. was set up in Riga in 1923. The Soviet authorities had originally planned to open a branch of Moscow Narodny Bank Ltd. or Vsekobank in Riga but found that it was difficult to establish branch offices of foreign banks under Latvian law.[111] As a result the Co-operative Transit Bank was set up as a joint-stock company. The shareholders of the bank were Moscow Narodny Bank Ltd., Vsekobank, Tsentrosoyuz, Selskosoyuz and other co-operative societies. The Co-operative Transit Bank was ideally located as a high proportion of Soviet exports and imports passed through the Baltic states.

As we learned previously, Arcos Bank Ltd. was an outgrowth of the Soviet trading company Arcos Ltd. The bank was set up in London in 1923. The functions of Arcos Bank Ltd. included the financing of Soviet exports and imports, the buying and selling of foreign currencies, and the issuance of chervonets travellers cheques to foreigners going to Soviet Russia.[112] In 1926, Arcos Bank Ltd. was transformed into the Bank for Russian Trade Ltd. For about seven years Moscow Narodny Bank Ltd. and the Bank for Russian Trade handled a large portion of the financial resources of Soviet foreign-based organisations. Following the increase of specialised Soviet foreign trade organisations in 1930 (which will be covered at a later point), and the credit reform of the same year, the Bank for Russian Trade lost much of its importance. In 1932, the Bank for Russian Trade was liquidated and its share capital was transferred to Moscow Narodny Bank Ltd.[113]

Two other Soviet foreign-based financial institutions--Banque Commerciale pour l' Europe du Nord and the Russian-Iranian Banking Office of the Russian Asiatic Company--were operating in the 1920s. Banque Commerciale was established in Paris in 1921, by White Russian emigres.[114] The bank's operations were rather unsuccessful at the outset which put the shareholders in a mood to sell. At about the same time the USSR was in a mood to buy and ironically became the owner of Banque Commerciale in 1925.[115] The Russian-Iranian Banking Office of the Russian Asiatic Company was set up in Teheran in 1923, to finance trade between Iran and Soviet Russia. In 1932, the Russian-Iranian Banking Office was transformed into the Bank Russo-Iran.[116]

On Soviet Co-operative Trade and Plans for an International Co-operative Bank

Soviet co-operatives became quite active in Britain, Western Europe, Scandinavia and North America during the mid-1920s. Of course, the USSR was not the only country experiencing high growth rates in its co-operative trade. Indeed, Western co-operatives were developing alongside of their Soviet counterparts. This situation raised Soviet hopes that the international co-operative movement would become an integral part of the world market and hence provide the USSR with a potent vehicle for realising its foreign economic objectives.

Now there were a few obstacles hindering the development of the international co-operative movement. In the first place the international co-operative banking system was underdeveloped and lacked a unified (centralised) sense of direction. Secondly, a significant portion of international co-operative trade was financed by banks outside of the co-operative movement. In the early 1930s a director of Moscow Narodny Bank Ltd. pointed out these deficiencies and proposed a scheme to strengthen international co-operative banking through the establishment of an international co-operative bank.

> The lack of a central operating institution is greatly hindering the development of relations between the co-operative banks. Great perseverance and initiative are demanded in all countries in order to develop a self-contained international co-operative banking system throughout the world—a system which shall be independent of the strong and convenient machinery of the capitalist banks.
>
> Only by establishing an International Co-operative Bank, even on a small scale, will it be possible to develop to the full extent mutual relations between the various co-operative banks and prepare the way for the development of a really strong International Co-operative Bank.[117]

According to Barou, the 'foremost aim of the supporters of the organisation of an International Co-operative Bank . . . [was] to strengthen the National Co-operative Banks and to establish firm and close business relations between them and the Co-operative Wholesale Societies'.[118] It was decided that the bank should be set up in London. Such a location was important for at least three reasons. Firstly, London was a major banking centre. Secondly, the bank's capital would be in sterling and its operations carried out on a sterling basis. (By stressing the fact that the international co-operative bank would carry out its financing operations through the London sterling market proponents of the bank were hoping to dispel the argument that the bank should not be established because of the instability of European currencies.) And finally, any apprehensions in London could be mitigated by citing the success of Moscow Narodny Bank both in the London banking community and abroad. However, plans for the international co-operative bank were scrapped when the Soviet co-operative movement lost much of its significance in the early 1930s.

Early Development of the Soviet Merchant Fleet

Soviet Russia was keenly aware of its weakness in maritime transport when trading operations were stepped up in the 1920s. Indeed, in 1923, at least 90 percent of Soviet exports and imports were transported in ships.[119] Since Soviet Russia was not recognised as a reputable trading partner when it first ventured into Western markets the Commissariat of Foreign Trade found that its payments for chartering foreign merchant vessels were sometimes 50 percent above standard rates.[120] In 1925, chartering rates for the USSR were significantly reduced but the Soviet authorities had already decided that it was imperative to develop their merchant fleet so that it would meet the needs of the foreign trade sector.

> . . . it is necessary . . . to build new ships which would be in all respects modern ships suitable to the various trades. This is by far the best method of keeping freights at a normal level, and to retain inside the country an important item in the foreign trade budget. The USSR aims at bringing its goods to foreign markets and selling them there independently and without intermediaries.[121]

Throughout the 1930s the USSR strove to build up its merchant fleet. Some of the ships added to the Soviet merchant fleet during those years were purchased abroad. By 1935, the USSR was able to transport most of its imports in Soviet ships. However, the USSR still had to rely on foreign ships to transport 70-75 percent of its exports since the tonnage requirements for the transport of bulky Soviet raw materials (e.g., petroleum, timber, ores and grain) greatly exceeded the capabilities of the Soviet fleet. (Remember, most of the USSR's imports [by value] comprised machinery and equipment while exports were primarily raw materials and half-finished products.) In 1938, the size of the Soviet merchant fleet amounted to 1.2 million gross registered tons (the figure in 1914 was 1 million tons).[122]

On Soviet Currency and Pricing Policy

The Bolshevik leaders, like their Russian counterparts, were forced to print rubles in order to cover budgetary deficits. Needless to say, this policy resulted in the marked depreciation of the (paper) ruble.[123] However, at the time of the revolution Soviet leaders were not concerned about establishing a stable currency. Indeed, ardent Bolsheviks believed that the depreciating ruble would eventually bring about the abolition of money in the Soviet (communist) state. This notion was derived from Marxist (economic) theory which favours the substitution of a labour unit of value for money. For two and one-half months the Commissariat of Finance attempted to formulate a workable labour unit of value.[124] Such a scheme was never put into practice and the Bolshevik leaders went back to the drawing board.

In an attempt to curb inflation (as well as improve the country's foreign trade financing mechanism) the Soviet government, on 11 October 1922, gave the State Bank the right to issue bank notes in a new monetary unit called the chervonets. One chervonets was equal to ten (pre-war) gold rubles. The chervonets bank notes were issued in denominations of 1, 2, 3, 5, 10, 25, and 50 chervontsy. Although chervontsy were inconvertible (into gold) Soviet authorities announced that they would eventually become convertible. It was stipulated that 25 percent of the chervonets notes should be covered by precious metals or stable foreign currencies and the remaining 75 percent by bills of exchange, short-term securities, and 'easily realisable commodities'.[125] According to one Soviet source the value of the chervonets was maintained 'in the same way as any other currency', i.e., 'through the trade requirements for money, [and] through the positive balance of the USSR in its transactions with other countries'.[126] The rate of exchange for the chervonets remained fairly stable throughout the period when chervontsy were bought and sold in world financial markets.

The issuance of chervontsy did not solve all Soviet financial problems. The rapidly depreciating paper rubles (sovznaki) still remained in circulation when chervontsy were first issued. However, in February 1924, the issuance of sovznaki was stopped and the Soviet Treasury was given the right to issue treasury notes backed by (but not convertible into) gold. Sovznaki could be exchanged for these treasury notes at a fixed rate. In addition, the new treasury notes could be exchanged for chervontsy at the rate of ten (gold) rubles (i.e., a ten-ruble treasury note) for one chervonets.[127] As in the case of chervontsy, the rate of exchange for Soviet treasury notes remained relatively stable in world markets.

On 1 August 1926, the exportation of all forms of Soviet money (treasury notes, bank notes, metal coins, and drafts and money orders made out in rubles) was prohibited. At the same time the importation of all forms of Soviet money into the USSR (unless such money was exported before 1 August 1926) was prohibited. However, the importation of foreign currency into the USSR was still permitted.[128] After July 1926, the exchange rate for Soviet currency (hereafter the terms 'rubles' and 'the ruble' will be used in place of Soviet currency) was arbitrarily determined by Gosbank.

It is important to remember that up until August 1926, the exchange rate for the ruble was largely determined on the basis of the volume of rubles in world financial markets and the demand for such rubles. Moreover, the ruble exchange rate was more or less in line with purchasing-power parity.[129] Under such conditions the external and internal values of the ruble were closely related. But the arbitrarily determined exchange rates altered this situation. According to Huntington and Lawton, 'The official exchange rates quoted by the Gosbank, . . ., became completely unreal, and soon bore no relationship to purchasing power parity'.[130] In other words by isolating the ruble from world financial markets Soviet leaders succeeded in creating a price system which operates on far different principles than its counterparts in MTEs.

After the ruble was isolated from world financial markets there was little reason for the USSR to achieve a favourable balance of trade in order to maintain the official exchange rate of the ruble. (Indeed, the official exchange rate merely functioned as a means of estimating the ruble value of exports and imports.) In addition, it was no longer necessary for most Soviet exporters to conduct profitable operations. As we shall learn, Soviet leaders were willing to export commodities at almost any price in order to obtain enough foreign currency to pay for imports.

Westerners have often been quite critical of Soviet export policy. Much of this criticism has stemmed from the fact that Soviet exports, in most cases, are priced much differently than exports from MTEs. Generally speaking, Western traders must conduct profitable export operations while Soviet traders are not necessarily forced to operate on the same basis. A commodity which costs the USSR 100 rubles to produce can be exported for, say, 50-rubles worth of foreign currency. In order to balance the account the Soviet government simply transfers fifty rubles from the state budget to the seller. It has often been pointed out that when ruble (wholesale) prices for Soviet commodities are converted into foreign currency on the basis of official rates of exchange they do not necessarily resemble world market prices for the same commodities (or substitutes). So what happens when Soviet prices are not in line with world market prices? According to Goldman, Soviet officials have resigned themselves to the fact that 'there are two separate markets and two separate currencies'.[131] The USSR must import Western commodities (at world market prices in most cases) which are called for in the Five-Year Plan. This, of course, means that the

USSR is required to sell commodities in world markets. If it is necessary to sell goods at a loss in order to obtain the means to pay for imports the Soviet government will usually not hesitate to do so. For the most part Soviet exporters have attempted to sell their commodities at world market prices but if such goods have not sold under these conditions the prices have been reduced in order to attract buyers. Goldman states:

> When Russians want dollars, . . ., they are usually willing to sell whatever they can for as low a price as it takes to find a customer. If necessary, that may be below the world price and even the domestic Russian ruble price at the stated [official] rate of exchange. But that does not matter. While they would like to charge high prices, all that seems to matter to them is that they earn as much foreign currency as possible.[132]

On numerous occasions the USSR has been accused of carrying out dumping operations.[133] However, during the 1920s and 1930s Western nations were clearly involved in the same type of activity. According to Gerschenkron, the USSR was especially susceptible to dumping charges despite the fact that some Soviet dumping could be justified.

> There is little doubt that the price level in Russia, if computed by the official rate of exchange, was much higher than the price level abroad. This was particularly true in the early 'thirties. In other words the official rate of exchange was over-valued. As long as this is the case then, <u>any and every transaction</u> between Russia and foreign countries may on a superficial examination be considered as dumping. Let us assume that the rate of exchange between the ruble and the dollar . . . is 5 rubles for $1.00. A bushel of wheat costs, . . ., $1.00 in the United States, and 50 rubles in Russia. According to the rate of exchange the price of wheat in Russia should be $10.00, or ten times as much as in the United States. If the foreign trade monopoly buys in the domestic market 1000 bushels of wheat for 50,000 rubles and sells them in the United States, . . ., for $1000 it seemingly has been engaged in a dumping operation. For the official equivalent of the $1000 is just 5000 rubles which means a loss of 45,000 rubles for the monopoly. But if the monopoly uses the $1000 received for the purchase of a piece of machinery, to produce domestically it would have had to shift from the production of wheat to the production of machinery more labor and capital than was needed to produce the 1000 bushels of wheat, the situation is different. If prices express correctly the cost relationships the monopoly would be able to sell foreign machinery at home for more than 50,000, say for 55,000 rubles.
>
> If the transaction's two phases are considered together, as

they properly should be, then it did not involve any differential cost calculus, nor any price discrimination against the domestic consumer; nor, finally was there any financial loss involved. Quite on the contrary, the monopoly ended its operation with a gain of 5000 rubles. This gain is nothing else but the gain basic to all international exchanges of goods. What on the face of it looked like a case of dumping reveals itself on a closer scrutiny as a normal application of the principles of international specialization.[134]

On the Effectiveness of Soviet Foreign Trade Before World War II

It is generally accepted that by the late 1920s criteria for determining the effectiveness of Soviet foreign trade were not widely used. For example, the USSR did not necessarily concentrate on those commodities which were more profitable to produce for export (i.e., little emphasis was placed on the production of goods which would result in more foreign currency per ruble invested). Soviet exports were often considered as those commodities which were not absolutely vital for the Soviet economy.[135] When Soviet production had satisfied domestic needs any surplus could be exported to pay for vital imports called for in the Five-Year Plan.

Structural Changes in the Soviet Foreign Trade Sector During the 1930s

Following the introduction of the First Five-Year Plan in the late 1920s the Soviet foreign trade sector underwent a complete transformation. The so-called independent trading which took place during NEP was abolished. By the early 1930s specialised export/import organisations (commonly referred to as foreign trade organisations) were responsible for handling virtually all Soviet exports and imports. Zhirmunski provides an explanation for the changes in the USSR's foreign trade sector:

> The general accentuation of competition in the world markets, and, in particular, the intensification of the struggle of the capitalist world against Soviet exports, demanded in this new stage that the monopoly of foreign trade should be organisationally so constructed as to increase its capacity for manoeuvring in foreign markets in the conditions of the world economic crisis.[136]

Soviet foreign trade organisations (FTOs) operated as juridical persons. They were authorised to conclude all types of contracts with foreign companies and individuals both within the USSR and abroad. In addition, FTOs were permitted to set up organisations (e.g., joint-stock companies) abroad and to assign officials to these organisations.[137]

As a result of the policy changes in the early 1930s FTOs were required to carry out virtually all of their operations through Soviet foreign trade representations. This led to the establishment of departments within the trade representations which were responsible for dealing with certain types of commodities. The emphasis placed on Soviet trade representations led to the gradual elimination of Soviet foreign-based trading companies and offices. Some of the trading companies which continued to operate throughout the 1930s were Arcos Ltd., Russian Oil Products Ltd., the Arcos Steamship Company, the Black Sea and Baltic Insurance Company, and the Amtorg Corporation.

In 1935, Soviet foreign trade policy was altered once again. Instead of carrying out their operations through the foreign trade representations Soviet FTOs were required to conclude a majority of their contracts in the USSR. In cases where it was necessary to conclude trade deals abroad FTOs could employ the services of Soviet trade representations and Soviet foreign-based companies. The impact of the policy changes which took place in the 1930s is summed up by Gerschenkron: 'If throughout the period of the NEP the government often merely regulated foreign trade, and did so infrequently in a rather loose and liberal fashion, throughout the 'thirties it was the government that conducted foreign trade'.[138]

The policy of concluding foreign trade contracts in the USSR was especially advantageous for FTOs involved in the exportation of commodities. When marketing operations were carried out abroad the USSR was required to maintain large stocks of goods in foreign countries. This method of trading not only involved high transport costs but also the costs connected with the storage of Soviet exports abroad. Many of these services required foreign currency payments. Such payments sometimes reduced the USSR's profit margin.

Soviet Foreign Economic Policy Under Stalin

To Stalin the successful proletarian revolution in Russia marked the beginning of a worldwide struggle against capitalism.

> After the land of the Soviets appeared in the world, after the old Russia was transformed into the Soviet Union, an all-embracing world capitalism ceased to exist. The world split into two camps: the camp of imperialism and the camp for the struggle against imperialism.[139]

The economic and political problems which plagued MTEs after World War I heightened the possibility of a successful worldwide communist revolution. However, by the mid-1920s the economic crisis was about over and the political situation had stabilised. As a result Stalin was forced to concede in 1925, that the struggle would be a long one.[140] But this struggle by no means prevented him from negotiating commercial deals with his adversaries. Indeed, in 1925, Stalin also announced that: 'this year is the first year since the establishment of the period of "co-existence" with capitalist states when we are entering into rich and broad commercial relations with the capitalist world on a wide scale'.[141]

TABLE 1.6 provides an account of Soviet foreign trade from

TABLE 1.6

VALUE AND VOLUME OF SOVIET FOREIGN TRADE, 1913-1940
(in millions of 1961 rubles)

Year	Exports current prices	1913 prices index[a]	1929 prices index[b]	Composite index	Imports current prices	1913 prices index[c]	1929 prices index[d]	Composite index
1913	1,192	100.0		100.0	1,078	100.0		100.0
1917	82	6.9		6.9	1,901	176.3		176.3
1918	6	0.5		0.5	83	7.7		7.7
1919	0	0.0		0.0	3	0.2		0.2
1920	1	0.1		0.1	23	2.1		2.1
1921	16	1.3		1.3	165	15.3		15.3
1922	64	5.4		5.4	212	19.6		19.6
1923	171	14.3		14.3	112	10.4		10.4
1924	264	22.2		22.2	204	18.9		18.9
1925	477	25.1		25.1	648	37.8		37.8
1926	569	32.2		32.2	540	33.8		33.8
1927	585	34.7		34.7	594	38.9		38.9
1928	630	37.7		37.7	747	49.4		49.4
1929	724	44.4	100.0	44.4	691	48.3	100.0	48.3
1930	813	56.6	135.7	57.0	830	65.7	141.3	72.1
1931	636	54.3	146.1	61.4	867	85.3	161.5	82.4
1932	451	52.2	127.8	53.7	552	71.2	115.8	59.1
1933	389	48.8	118.5	49.8	273	37.9	62.5	31.9
1934	328	42.9	102.9	43.2	182	26.3	47.1	24.0
1935	288		90.5	38.0	189		51.5	26.3
1936	243		68.2	28.6	242		59.4	30.3
1937	295		71.5	30.0	229		54.5	27.8
1938	230		62.4	26.2	245		63.4	32.3
1939	104			10.6[e]	167			20.4[f]
1940	240			21.8[e]	245			27.7[f]

[a]The value of exports in a given year as a percentage of the (weighted) value of exports in 1913.

[b]The value of exports in a given year as a percentage of the (weighted) value of exports in 1929.

[c]The value of imports in a given year as a percentage of the (weighted) value of imports in 1913.

[d]The value of imports in a given year as a percentage of the (weighted) value of imports in 1929.

[e]Calculated on the basis of the 1960 exports index.

[f]Calculated on the basis of the 1960 imports index.

Source: Michael Kaser, 'A Volume Index of Soviet Foreign Trade', <u>Soviet Studies</u>, Vol. XX, No. 4 (April 1969), p. 524.

1913-1940. It is immediately obvious that the value of Soviet foreign trade from 1917 to the mid-1930s failed to reach the level achieved in 1913. In 1930, the value of Soviet exports only reached 56.6 percent and imports 65.7 percent of the corresponding figures in 1913. During the late 1920s and early 1930s (i.e., during the First Five-Year Plan) Soviet foreign trade grew significantly. It is well worth noting that the volume (as opposed to the value) of trade might have been considerably greater than the figures suggest as world market prices declined sharply during the Great Depression. Indeed, from 1929-1932, world trade declined 25.5 percent in volume and 60.9 percent in value.[142]

The marked expansion in Soviet foreign trade from 1929-1931 was clearly the result of a scheme to speed up Soviet industrialisation. This policy stemmed from the Stalinist belief that Soviet industrial expansion was a 'question of life or death'.[143] Franklyn Holzman contends that the USSR would probably have been willing to import additional commodities on the basis of long term credits/loans at low interest rates if the political situation had been different and Soviet exports could have been increased commensurately with imports.[144]

By the early 1930s the Soviet economy was developing rapidly. Since most of the pressing needs for machinery and equipment had been satisfied the Soviet government most likely decided that the costs (in terms of exports) of importing commodities which were not urgently needed had risen too high.[145] Moreover, the international terms of trade turned against the USSR in the early 1930s.[146] Furthermore, by the end of 1931, the USSR's foreign indebtedness had become such a burden that the authorities decided to reduce this debt as soon as possible.[147] In the light of these facts both the decline in Soviet foreign trade after 1932, and the Soviet trade surpluses (see TABLE 1.6) from 1933-1937, are quite understandable.

Early Concern Over Soviet Indebtedness

Long before the early 1930s Stalin was aware of the dangers of Soviet foreign indebtedness. The directive from the Thirteenth Party Congress in 1924, advising Soviet organisations to achieve a favourable balance of trade at all costs obviously reflected Stalin's concern. At the Fourteenth Party Congress Stalin stated that a favourable balance of trade : 'is absolutely necessary for a country like ours where there is little capital, where the import of capital from abroad does not take place, or takes place only to a minimal degree, and where the equilibrium of the balance of payments must be maintained by the balance of trade so that our chervonets remains stable and in order . . . to preserve the possibility of further development of our industry and agriculture'.[148] But as we learned, when rubles could no longer be legally exported there was little reason for the USSR to achieve a favourable payments position for the sake of maintaining the stability of its currency.

The successful implementation of the First Five-Year Plan was so important that Stalin was willing to make concessions in order to secure credits for the importation of industrial commodities.[149] Nevertheless, Western creditors still remained skeptical of the USSR's creditworthiness.[150] Throughout the late 1920s and early 1930s Soviet demand for Western commercial credit[151] was high and the discounting facilities for bills of exchange and promissory notes guaranteed by the Soviet government were quite limited. As a result commercial credit for the USSR was extremely costly.[152]

When Soviet foreign indebtedness had risen to 1.4 billion rubles (about $722 million) in 1931, the country's borrowing operations abroad were sharply reduced. By the end of 1933, Soviet foreign credit obligations amounted to just over 450 million rubles (about $232 million).[153] The payments on this sum could have been partially covered by the sale of the USSR's annual gold output which totalled approximately 100 million rubles (about $52 million).[154] By the mid-1930s Soviet foreign indebtedness had fallen to a rather safe level. On 1 November 1935, Soviet foreign indebtedness stood at $115 million, and by 1 July 1936, had dwindled to $75 million. According to the People's Commissar for Foreign Trade, A. P. Rosengoltz, Soviet foreign indebtedness was no longer a topic of concern: 'With such figures there is no occasion to speak of reducing foreign indebtedness, and whether it will or will not be further reduced is of no essential importance'.[155]

The marked decline in Soviet foreign indebtedness failed to bring about any appreciable change in Soviet international trade policy.

> Even now that there has been a radical improvement in our exchange position we must continue the same rigid policy which we formerly pursued, for two reasons: first, because we must accumulate exchange reserves; and second, because the experience of past years has shown that a rigid policy with regard to imports is the best instrument for bringing out the internal resources of our industry, the best instrument for developing our industry and attaining independence of the outside world.[156]

However, the decrease in Soviet foreign indebtedness enabled the USSR to demand more favourable terms for credit. As soon as the USSR began to achieve favourable balances of trade it initiated a policy of reducing the cost of foreign credit. At six-month intervals Soviet FTOs were instructed not to accept foreign credit above a fixed rate. In the early 1930s this interest ceiling fell from 8 percent to 6½ percent. In 1935, the maximum rate of interest on credit which was acceptable to Soviet authorities was 6 percent. One year later the USSR not only fixed the maximum rate of interest below 6 percent but also demanded that foreign credit be extended for more than five years in most cases.[157] At the same time the USSR no longer found it necessary to issue government-guaranteed bonds abroad for the purpose of raising foreign capital.[158]

It is significant to note that the USSR never failed to meet its foreign obligations. To Stalin, the USSR's creditworthiness was vital and he relied heavily upon the country's natural resources to meet the demands of Western creditors. This policy eventually put the USSR in good stead with a few key lending nations. In 1935, the USSR received a 'cash credit' of 200 million marks from a consortium of German banks to finance imports of German industrial commodities. The credit was granted for five years and the rate of interest was placed at 2 percent above the discount rate of the Reichsbank. This was the first time the USSR received a foreign 'cash credit' (as opposed to commercial credits granted by Western exporters). Since the USSR was in a position to pay cash for its imports, German manufacturers were more willing to quote cheaper prices for their commodities.[159]

Western Reaction to Soviet Foreign Trade Policy

The foreign trade policy adopted by the USSR in the 1930s might have solved some of the Soviet Union's problems but it had an adverse impact on a few countries in the West. In spite of its efforts to scale down imports, the USSR found that it was necessary to keep importing commodities (especially machinery and equipment) from a small number of industrialised market-type economies (e.g., the United States and Germany). When the USSR urgently needed such imports it was not in a good position to demand balanced trade with supplier nations. Of course, in order to cover its deficits with selected industrialised market-type economies (IMTEs) the USSR was required to achieve hard (or convertible) currency trade surpluses with other countries in the West.

In the early 1930s British authorities were complaining about the country's trade deficit with the USSR. Now one might think that Britain could have provided the USSR with enough services (e.g., shipping, banking, and insurance) to balance the trade account between the two countries. But according to one source this was not possible:

> The Soviet Government does not permit private travelling . . . The Soviet Government has repudiated Russia's debts to this country [Britain] and has paid no interest on them for the last fifteen years. And arising out of this there are few financial services which this country could render to the Soviet Government and charge for them. It is thus clear that the surpluses obtained by Soviet Russia in this country were of necessity paid in gold or gold credits, . . .[160]

Gold payments to the USSR for the cancellation of trade deficits were disturbing to both British traders and the government for at least two reasons. Firstly, such payments reduced the country's monetary reserves. Secondly, these payments were used primarily to cancel Soviet deficits with non-British traders.[161] A special committee was set up in Britain to study the problems in Anglo-Soviet trade. The committee concluded that:

> Great Britain cannot any longer tolerate the present unequal trade, especially when it is only too evident that the money obtained by Russia for her imports into England is used almost entirely for the purpose of purchasing machinery and tools from England's competitors. We require an arrangement with Russia to trade on a reciprocal basis, our trade with Russia being regulated to an amount approximately equal to the amount Russia buys from us, plus the value of our invisible exports to Russia.[162]

The Soviet Union and World Trade

The Soviet share of world trade during the 1920s and 1930s is given in TABLE 1.7. As far as world exports are concerned the largest annual Soviet share (recorded in the years 1931-1933) only amounted to 52 percent of Russia's share in 1913. The share of Soviet imports in world trade came a little closer to the pre-revolutionary figure. In 1931, the share of Soviet imports amounted to 75 percent of the Russian portion recorded in 1913. In comparison with other industrialised countries the USSR's export operations were quite unimpressive. In 1937, Soviet exports were approximately ten times smaller than American exports, eight times smaller than British exports, and six times smaller than German exports.[163]

TABLE 1.7

THE SOVIET SHARE OF WORLD EXPORTS
AND IMPORTS, 1913-1936
(in millions of U.S. gold dollars)

Exports	1913	1925	1929	1930	1931	1932	1933	1934	1935	1936
world total	18,356	30,708	33,040	26,492	18,908	12,902	11,694	11,364	11,554	12,492
USSR exports	775	326	482	533	417	290	261	216	189	160
USSR share %	4.2	1.1	1.5	2.0	2.2	2.2	2.2	1.9	1.6	1.3
Imports										
world total	19,509	32,164	35,601	29,083	20,818	13,996	12,485	12,011	12,227	13,051
USSR imports	700	424	453	545	569	360	182	120	124	159
USSR share %	3.6	1.3	1.3	1.9	2.7	2.6	1.5	1.0	1.0	1.2

Source: D. D. Mishustin, ed., Vneshnyaya torgovlya Sovetskogo Soyuza (Moscow: Mezhdunarodnaya kniga, 1938), p. 105.

For some time Western analysts argued that the USSR adopted an autarkic policy solely for the purpose of eventually alienating itself from the Western world: 'The policy of autarky stems from the prior objective of securing and maintaining military and economic independence from the capitalist world'.[164] Of course, the writings of Soviet economists only helped to confirm the suspicions of Western critics.[165]

Moreover, the country's history of commercial relations with the West was enough to make even the most ardent proponents of East-West trade a little skeptical.[166] Now it should be remembered that the increase in Soviet foreign trade which began in the late 1920s resulted in some rather encouraging developments. Indeed, between the late 1920s and early 1930s hundreds of Soviet technicians travelled abroad in order to learn Western industrial techniques, and Western technicians were operating equipment (which had been imported from the West) and training personnel in the USSR. But this form of co-operation was short-lived. By the mid-1930s the level of interaction between Soviet and Western industrial personnel had fallen sharply. In addition, virtually every sector of the Soviet economy had achieved a significant level of independence from external markets.

As we have learned, the scope of Soviet foreign trade was rather limited by the mid-1930s. On the other hand the Western approach to external trade at that time was hardly a worthy example to follow. In fact, the discriminatory trade measures which were used against the USSR--embargoes, currency restrictions (i.e., unfavourable terms for credits), high tariffs, and anti-Soviet campaigns[167]--at a time when the Soviet Union was attempting to step up its trade operations only exacerbated the situation. Now the Soviet Union was not the only victim of discriminatory trading practices. During the Great Depression all countries traded within a jungle of protective legislation. Moreover, the USSR was hardly an innocent victim of the cutthroat competition which took place during this period. According to Stalin, the Soviet petroleum industry and other organisations producing commodities for export were capable of carrying out successful operations despite stiff foreign competition.

. . . certain petroleum firms of capitalist countries are trying

> to strangle the Soviet petroleum industry so the Soviet petroleum industry has to defend itself in order to exist and develop further.
>
> ....
>
> How does the Soviet petroleum industry defend itself? It defends itself . . ., above all, by lowering the price of petroleum, by selling cheap petroleum in the market, cheaper than the petroleum of capitalist firms. . . . the Soviet petroleum industry is not a capitalist industry and, therefore, does not need huge profits, . . . And precisely because the Soviet petroleum industry does not need huge profits it can sell its products cheaper than capitalist firms.[168]

It might be interesting to note that during the late 1920s and early 1930s world petroleum production increased markedly while demand remained stagnant. Western petroleum companies blamed falling prices (and profits) on the Soviet export offensive which was aimed at selling the largest possible volume of petroleum at any price that buyers were willing to pay.[169] In an attempt to curb Soviet exports and halt the sharp decline in world petroleum prices, international oil companies literally offered to buy the Soviets out in the early 1930s. At a world petroleum conference held in New York between May and June 1932, British and American oil companies offered to accept all Soviet petroleum exports for ten years at the 1931-level of about 5.2 million metric tons.[170] According to the terms of the proposal the USSR would have been required to sell its distributing facilities in foreign countries. Needless to say, the USSR did not accept the proposal.[171]

Soviet Foreign Aid

The increasing economic and technological capabilities of the USSR led to the introduction of Soviet foreign aid programmes. Prior to World War II such aid was limited to neighbouring countries. In 1927, the USSR provided Afghanistan with a radio station and cotton mill under the Soviet foreign aid programme.[172] A few years later the USSR constructed a textile mill in Turkey. All of the equipment for this mill was produced in the USSR and Soviet technicians were responsible for installing the machinery and organising production.[173] In 1933, the USSR was asked to construct and equip rice-polishing mills, cotton mills and wool-washing plants in Iran. Two years later the USSR agreed to design and construct a second textile mill in Turkey. Once again all equipment was provided by the USSR and Soviet technicians were responsible for installing it.[174]

On Soviet Autarky

It is generally assumed that Stalinist-type planners seek absolute control over the economic variables which are responsible for achieving the objectives of the central economic plan. If this is true, Soviet planners in the 1930s most likely had a general feeling of antipathy toward foreign trade since such control over the economic variables in this sector of the economy would be partially eroded by the uncertainties of the world market. But planner sovereignty and all the other ideological factors which have been mentioned heretofore fail to explain satisfactorily the USSR's decision to adopt an autarkic policy. For this reason very few Western analysts continue to rely solely on the ideological issues when dealing with the problem of Soviet autarky. Indeed, Adam Zwass may maintain (as many critics do) that the formation of the Stalinist-type economy was, to a large extent, ideologically motivated, but he wisely modified his criticism by adding that during the 1930s the 'economically shattered Western nations' were in no position to offer an attractive alternative.[175] Gerschenkron reached the same conclusion way back in 1945: 'Even if one deplores this development [i.e., economic development on the basis of autarky_7, a good case can be made for the view that the economic world of the unhappy 'thirties being what it was, autarkic policies were inevitable from the point of view of the self-preservation of the country and no responsible Russian government would have pursued essentially different policies'.[176]

The extensive capabilities of the Soviet economy gave the country's leaders one of the best reasons for adopting an autarkic policy. This assumption is supported by Herbert Levine who points out that the USSR's large and diverse resource base might have been responsible for the country's low level of foreign trade during the period of rapid industrialisation.[177] Of course, this situation was not just a peculiarity of the USSR. In the United States, for example, the ratio of exports to national income decreased from 7.5 percent in 1913, to 4 percent in 1958, despite attempts by the government to stimulate trade during this period.[178]

In a belated response to the findings of Western analysts, a Soviet writer has confirmed that the USSR's resource base proved to be a significant reason for Soviet autarky. According to N. Shmelev, the industrialisation of the USSR was brought about mainly by 'domestic productive, financial and scientific-technical potential'.[179] By the late 1930s the Soviet economy was developing on the basis of indigenous resources and deliveries of foreign equipment were, for the most part, unnecessary.[180] Shmelev defends the USSR's autarkic policy in spite of the fact that it led to the establishment of some inferior industries.

> The policy of maximum self-sufficiency in the development of key branches of industry was the only correct policy in this historical period /i.e., the 1930s_7. . . . with its natural and human resources and its high scientific potential the Soviet Union had the necessary actual conditions for creating a complete industrialised nation, including all basic branches of industry, although some of them were undoubtedly less effective than analogous bran-

ches in other countries. The very problem of the Soviet economy effectively participating in the worldwide division of labour and organising economically advantageous and truly equal relations with other countries could not have been resolved without the country attaining technical-economic independence beforehand . . . Naturally, the wide expansion of the industrialisation process and the utilisation of productive resources to the utmost in order to satisfy the country's current and future needs initially restricted the export potential of the Soviet Union. This, in turn, limited its import potential.[181]

Soviet Foreign Economic Policy During the 1940s and 1950s

The demands placed on the Soviet economy during World War II were great enough to warrant a change in Soviet policy. After becoming the recipient of massive infusions of wartime commodities under the Lend-Lease agreement the Soviet economy was no longer developing along autarkic lines. Moreover, in the light of the USSR's decreased export potential and its dependence on imports, planned surpluses were not a primary objective of Soviet foreign trade policy throughout most of the war (see TABLE 1.8).

TABLE 1.8

FOREIGN TRADE OF THE USSR, 1941-1945
(in millions of 1961 rubles)

Year	Exports	Imports	Balance
1941	178.5	277.7	- 99.2
1942	65.7	181.8	-116.1
1943	66.8	173.1	-106.3
1944	114.9	198.8	- 83.9
1945	301.8	259.7	42.1
Total			-363.4

Source: Vneshnyaya torgovlya SSSR statisticheskii sbornik 1918-1966 (Moscow: Mezhdunarodnye otnosheniya, 1967).

There were a number of reasons to indicate the USSR would become an integral part of the world economy after the war. Firstly, the USSR and its allies, despite their ideological differences, had joined together in the fight against world fascism. Secondly, the Soviet economy could no longer be considered autarkic. Thirdly, at the U.N. Monetary and Financial Conference in Bretton Woods in 1944, the USSR participated in discussions (with over forty other nations) on the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development. And finally, and perhaps most important, the vast economic capabilities of the USSR were greatly needed during the period of reconstruction.

By 1946, the USSR had become the key participant in the world socialist movement and was no longer considered a meaningful part of the Western economic system. Although Soviet commercial operations with other socialist countries lie outside the confines of this undertaking it is important to remember that present-day members of the East European socialist community were regarded as MTEs both before and immediately after the war. Therefore, we should briefly cover the steps taken by the USSR which helped to transform these former MTEs into centrally planned economies (CPEs).

Soviet Economic Operations in Eastern Europe

Soviet relations with the economies of Eastern Europe involved much more than the exchange of commodities, and reparations from the USSR's former enemies (Bulgaria, Hungary, and Rumania). Margaret Dewar states:

> Soviet economic policy toward these states was contradictory. Particularly in the immediate post-war period, the USSR sought to extract from Eastern Europe as much capital equipment and goods as possible. At the same time, Russia, in her own interest, was greatly concerned in helping these countries to rehabilitate their econ-

omy and to mould it according to the Soviet pattern.[182] There were at least three forms of Soviet economic penetration into Eastern Europe during the immediate post-war period. Firstly, the Soviet Union gained control over German and Italian assets in Eastern Europe.[183] A significant portion of this property (i.e., machinery and equipment) was subsequently transferred to the USSR. Secondly, Soviet foreign trade representations and missions (i.e., groups of Soviet officials sent to foreign countries on a temporary basis) in Eastern Europe were used as a means of strengthening the USSR's economic influence in this region. And finally, through the establishment of Soviet-East European joint-stock companies (and wholly Soviet-owned companies) the USSR played a key role in various sectors of the East European economies.

The USSR's intention to establish a foothold in East European economic systems via joint-stock companies was especially evident in Hungary. When the five-year economic co-operation agreement between the USSR and Hungary was being negotiated in August 1945, it reportedly contained provisions for the establishment of Hungarian-Soviet companies which would be concerned with petroleum exploration, refining and marketing; coal mining; electrical power plants; agriculture; machinery and equipment; and air, sea and land transport.[184] The proposed agreement was strongly opposed by the Hungarian business community. The British and American governments also protested against the agreement.[185] But on 21 December 1945, the Hungarian Supreme National Council finally ratified a 'modified' agreement which contained provisions for Soviet participation in the Hungarian economy. Until the mid-1950s the USSR participated in over ten joint-stock companies in Hungary including the bank which was set up to facilitate trade between the two countries.

Mixed joint-stock companies were also established in Rumania, Bulgaria, and East Germany. Between 1945 and 1946, five Rumanian-Soviet companies were set up: Sovromtransport, the Soviet-Rumanian Civil Aviation Company (Tars), the Soviet-Rumanian Lumber Company (Sovromlemn), Sovrombank, and Sovrompetrol.[186] In 1948, the USSR's influence in the Rumanian banking community was strengthened when all of the important banks in Rumania were merged with Sovrombank. Between 1948 and 1949, six additional Rumanian-Soviet companies were established: Sovromtractor, Sovromchemicals, Sovromgas, Sovrommetal, Sovromcoal, and Sovromconstruction.[187] In Bulgaria the USSR participated in companies which were concerned with mining, shipbuilding, construction material, and civil aviation. Only one East German-Soviet joint-stock company was set up in the immediate post-war period. However, the establishment of such companies at that time was quite unnecessary as the USSR had already seized a large segment of East Germany's industrial sector. It is interesting to note that the Foreign Trade Bank of the USSR (Vneshtorgbank) exercised control over the bank which was later transformed into the national bank of the German Democratic Republic.[188]

Soviet participation in joint-stock companies in Eastern Europe differed little from country to country. In most cases the USSR held 50 percent of each company's share capital. The USSR's contributions to these companies often came from reparations or confiscated German/Italian property. The boards of directors of East European-Soviet companies were usually balanced (i.e., each board had an equal number of Soviet and local directors). The management staff of such companies included both Soviet and local personnel. In the USSR the Main Administration for Soviet Property Abroad was responsible for guiding the operations of the joint companies.[189]

By the mid-1950s, the USSR had relinquished its assets in the East European countries. There were a number of obvious reasons for this move. At that time the pains of war had abated and the omnipresence of the USSR in East European economic systems was no longer necessary. Moreover, mixed joint-stock companies in Eastern Europe were often given preferential treatment.[190] This was bound to create problems as conditions stabilised in Eastern Europe. In all likelihood the USSR did not regard the loss of the companies as an economic setback. If we take a close look at the reasons behind the USSR's desire to establish the aforementioned companies it is immediately apparent (in the light of the present-day situation) that such a policy was successful beyond most expectations.

> The participation of the Soviet Union in joint-stock companies, . . ., represents in itself a new and profitable form of co-operation for the countries of the people's democracies. Production of the joint-stock companies is used for the needs of the internal market and the exports of the people's republics. At the same time these countries receive necessary industrial equipment and means of transport from the USSR. The joint companies serve as an example for other enterprises in the countries of the people's democracies in the pursuit of socialist organisation of labour, the rational use of equipment, and the introduction of new production methods.[191]

Soviet Joint-Stock Companies in the West Immediately After World War II

During World War II the activities of Soviet joint-stock companies in the United States and Britain were reduced considerably. Throughout this period the official Soviet trade representation in Britain and the Buying Commission of the USSR in the United States played a key role in the external commercial operations of the Soviet Union.[192] In 1946, the United States requested the liquidation of the USSR's Buying Commission. Within a short period of time the responsibilities of the Buying Commission were shifted to the Amtorg Corporation.

With only a few exceptions, the Soviet joint-stock companies which existed in the United States and Britain in 1940 resumed active commercial operations in the post-war period. The Amtorg Corporation, which was virtually inactive during the war, became a fundamental participant in American-Soviet trade. In Britain the Moscow Narodny Bank, the Black Sea and Baltic Insurance Company and the Anglo-Soviet Shipping Company continued to function throughout World War II and the cold war, and, like Amtorg, still operate today. Russian Oil Products was one of the few exceptions. It was liquidated in 1948.

Soviet International Financial Relations from the Mid-1940s to the Early 1950s

The rift which developed between the USSR and IMTEs at the end of 1945 sharply reduced the flow of credits from the West to the Soviet Union. From 1946-1953, only one IMTE--Sweden--granted the USSR new credits.[193] (The USSR received a few credits from IMTEs in the immediate post-war period on the basis of agreements negotiated during the war.) Now one might think that the USSR could have obtained hard currency loans quite easily from its banks in the U.K. and France. However, such banks only had limited access to world financial markets until the late 1950s.

It is interesting to note that the USSR was transformed into a major creditor nation a few years after the war. According to A. M. Smirnov, 'The change in the USSR's role in international credit relations after the war was brought about first of all by the formation of the world socialist system as a result of the departure of the Chinese People's Republic and other peoples' democracies in Europe and Asia from the capitalist system'.[194] Indeed, by the early 1950s the USSR had granted a significant amount of credit to Albania, Bulgaria, China, Czechoslovakia, East Germany, Hungary, Poland and Rumania. Then in the latter part of the 1950s the USSR extended credits to a few less-developed (market-type) countries (LDCs). Most of these credits to LDCs were earmarked for purchases of Soviet machinery, equipment, and technical services. (For the purpose of this undertaking LDCs only refer to countries in the West.)

Soviet Trade with the West Since the Mid-1950s

At this point it is only necessary for us to take a brief look at some of the most important developments in the Soviet foreign trade sector which have taken place over the last two decades. More detailed analyses will be provided in following chapters. One of the most noteworthy developments in Soviet foreign economic policy is the growing emphasis on the expansion of the export sector coupled with the production of more competitive commodities for export.[195] This desire to increase exports went pari passu with the USSR's endeavours to obtain more Western technology (on credit) for the purpose of promoting Soviet economic growth. Another important development is the widespread use of calculations for determining the effectiveness of Soviet export-import operations. Yet another significant development is the marked increase in both the size and number of Soviet trading companies and banks in MTEs. Before 1960, only a few of these organisations existed. At this time Soviet foreign-based trading companies and banks are operating in almost all of the major world markets. The Soviet merchant fleet has grown significantly since 1965, and now actively operates in most Western shipping markets. And finally, Soviet officials have been promoting East-West technical co-operation by negotiating numerous agreements with foreign governments and private companies.

Recent Developments in Soviet Export Strategy

Throughout the 1960s various changes took place within the Ministry of Foreign Trade (remember that the Commissariat of Foreign Trade was transformed into the Ministry of Foreign trade in 1946) which were aimed at increasing the exportation of Soviet manufactured commodities to MTEs. In 1962, there were only two main export administrations--one for raw materials and the other for machinery and equipment. However, by 1969, the main export administration for machinery and equipment had been split into four main export administrations: (1) industrial equipment, (2) transportation equipment, (3) road-building and agricultural machinery, and (4) consumer goods.[196]

During the 1960s a number of FTOs were either established or reorganised in order to increase the level of specialisation in the export sector and boost sales of Soviet manufactured products in the West. In 1964, the FTO Vneshtorgreklama was established to handle the advertising requirements of exporting FTOs. One year later the FTO Zapchast'eksport was set up to handle the export of spare parts. This was an important development as Soviet manufactured products were often shunned by Western consumers because spare parts for these commodities were difficult (and sometimes virtually impossible) to obtain. In 1966, Mashinoeksport was reorganised into three FTOs--Mashinoeksport, Tekhmasheksport, and Energomasheksport. This move was part of a scheme to limit the operations of individual FTOs to more specific commodity groups. Soviet interest in penetrating markets for technologically advanced commodities became quite obvious in the early 1970s. For example, the FTO Elektronorgtekhnika was established in 1971 to sell Soviet computers in world markets.

In 1973, N. N. Smelyakov, Deputy Minister of Foreign Trade of the USSR, stressed the importance of producing Soviet commodities which are capable of competing with goods in world markets: 'if a machine is not suitable for export, if it is not purchased in the world market, it is not, as a rule, needed in our national economy'.[197] Although Smelyakov maintained that the competitiveness of Soviet commodities in world markets depends to a large degree on the quality of such goods, he also pointed out the fact that Soviet commodities of the highest quality (especially products from the machine-building industry) often create little or no interest amongst Western buyers. When the output of Soviet manufacturing industries began to satisfy domestic (Soviet) needs exporters and producers in the USSR should have started paying closer attention to the demands of buyers in world markets. However, the USSR had little experience in meeting the demands of the world market for manufactured commodities. (Most of the USSR's exports to the West are raw materials and half-finished products.) As a result Soviet exporters of machinery and equipment thought that their goods could be marketed in much the same fashion as raw materials. Needless to say this policy was not too successful. In the words of Smelyakov, 'We [i.e., Soviet sellers] put ourselves in a difficult position by starting to sell machinery and equipment by applying the same methods used to sell, say, timber'.[198] Smelyakov's call for greater Soviet awareness of demands in world markets is supported by at least two other analysts in the USSR. While agreeing that the competitiveness of Soviet exports depends a great deal on the quality of such products, P. Zav'yalov and I. Kretov also maintain that the competitiveness of Soviet commodities depends on whether or not these goods meet current and future demands of the world market.[199]

Although it would not be right to say that Soviet manufactured products are now capturing Western markets there is enough evidence to indicate that within a reasonable amount of time such commodities might establish a firm foothold in the West. At the present time Soviet automobiles, cameras and watches appear to be selling quite well. In the U.K., Sekonda watches now hold second place in terms of sales.[200] (Approximately one out of every eleven watches sold in the U.K. is a Sekonda.) Soviet refrigerators, colour televisions, camping equipment and pianos are now being exported to the West.[201] In addition, Soviet heavy machinery and equipment seem to be generating some interest. During the mid-1970s the USSR won contracts to supply Canada with two 444-megawatt turbines, four 178-megawatt turbines, and two 110-megawatt turbines.[202]

Since the mid-1970s a number of Western organisations have been helping Soviet traders improve their management and marketing techniques. In the early part of 1974, the Chase World Information Corporation, a subsidiary of the Chase Manhattan Bank, signed an agreement with Gosbank for the exchange of information which would promote Soviet trade with the West.[203] The USSR agreed to supply Chase World Information with data on Soviet markets and Chase agreed to assist Soviet exporters in their attempts to penetrate Western markets. During 1974, one of the largest accounting firms in the United States, Arthur Andersen and Company, started negotiating with Soviet authorities on the establishment of an Arthur Andersen office in Moscow.[204] The idea for such an office stemmed from an agreement on auditing, international taxation and management services signed by the USSR and the Arthur Andersen company in 1973. At the present time the Arthur Andersen office in Moscow is responsible for teaching Western management and marketing techniques to Soviet foreign trade personnel. In 1975, an American public relations firm, Black-Russell-Morris, conducted a seminar in Moscow on methods of advertising and marketing industrial equipment in the United States. The seminar was conducted on the basis of a contract signed by Black-Russell-Morris and Vneshtorgreklama. In the latter part of 1976, another Moscow seminar was conducted by Black-Russell-Morris for 100 representatives of Soviet FTOs.[205]

On Determining the Effectiveness of Soviet Foreign Trade

We learned previously that during the 1930s officials in the Soviet foreign trade sector seemed to pay little attention to the effectiveness of the country's export-import operations. Imports were looked upon as a vital means of achieving rapid industrial growth in the USSR while exports merely functioned as a means of paying for such necessary imports. However, by the late 1950s this attitude started to change. At the present time Soviet planners in the export sector seem to be interested in finding out which domestically produced commodities will earn the largest amount of foreign exchange per ruble spent. On the other hand Soviet planners in the import sector appear to be interested in determining which imports will save the largest amount of domestic (Soviet) resources per unit of foreign exchange spent. Of course, this does not mean that economic rationality is now used to guide Soviet foreign trade operations. Indeed, calculating the effectiveness of foreign trade and actually using the result to shape export/import operations are two different things. A number of formulae are currently being used in the USSR to calculate the effectiveness of foreign trade.[206] An example of a simple formula for calculating the effectiveness of export operations is as follows:

$$\text{Eex.} = \frac{\text{Pde} - \text{V}}{\text{Pfe} - \text{C}}$$

where

Eex. represents the effectiveness of a given export;

Pde represents the domestic price (or cost) of the export;

V represents the domestic value of imported goods embodied in the export (i.e., the ruble value of commodities needed to pay for imports which will be used to produce the export);

Pfe represents the selling price of the export, in foreign exchange;

C represents the cost of the import content of the export, in foreign exchange.

Let's assume that for commodity 'W': Pde = 100 rubles, V = 15 rubles, Pfe = $175.00, and C = $25.00. Under such conditions Eex. = 0.6, which means that one-ruble's worth of commodity 'W' earns 1.66 units of foreign exchange. For the sake of comparison let's assume that Eex. = 0.5 in the case of commodity 'X'. This would mean that one-ruble's worth of commodity 'X' earns 2.0 units of foreign exchange. If no other factors have to be taken into consideration it would be more advantageous for the USSR to export commodity 'X'.

An example of a simple formula for calculating the effectiveness of import operations is as follows:

$$\text{Eim.} = \frac{\text{Pdi}}{\text{Pfi}}$$

where

Eim. represents the effectiveness of a given import;

Pdi represents the domestic price (or cost) of the imported commodity (i.e., the cost of producing the commodity in the USSR);

Pfi represents the foreign price of the import.

Let's assume that for commodity 'Y': Pdi = 120 rubles, and Pfi = $80.00; and for commodity 'Z': Pdi = 160 rubles, and Pfi = $90.00. Under these conditions Eim. = 1.5 for commodity 'Y', and 1.8 for commodity 'Z'.

If no other factors have to be taken into consideration it would be more advantageous for the USSR to import commodity 'Z' as this import saves the country more rubles per unit of foreign exchange spent. (For more discussions on the effectiveness of imports see pp. 199-204.)

On the Current Soviet Attitude Toward the Theory of Comparative Advantage

For over a half century Soviet officials have openly rejected the theory of comparative advantage. According to V. Buglai, 'Soviet economic science has described this theory as an ideological justification of the dependent and subordinate status of some countries vis-à-vis other countries in the international market'.[207] In spite of this attitude, Adam Zwass has pointed out that some Soviet economists have acknowledged the usefulness of the 'rational core' of the theory of comparative advantage.[208] But this is no indication that Soviet foreign trade will eventually be conducted on the basis of this theory. Indeed, as long as serious differences exist between East and West, Soviet leaders (as well as their Western counterparts) will most likely discourage any foreign trade policy which would lead to severe economic problems in the event of a complete breakdown of relations between the two camps. Much more could be said about the theory of comparative advantage but such discussions lie outside the confines of this undertaking. Therefore, it is only necessary to mention that official Soviet reports indicate that Soviet gains from foreign trade will be realised from the international division of labour (and not from comparative advantage). L. I. Brezhnev states:

> One of the peculiarities of our time is the growing use of the international division of labour for the development of every country irrespective of its wealth and economic level. We, like other countries, are striving to use the advantages which are provided to us by foreign economic relations for the mobilisation of additional possibilities for the successful solution of economic problems and, by gaining time, to increase the effectiveness of production and the acceleration of progress of science and technology.[209]

Soviet Trading Companies and Banks in the West

One of the most striking developments in Soviet foreign economic policy is the marked increase in Soviet trading companies and banks in MTEs. According to the CIA, there were twenty-eight Soviet companies (including banks) operating in the West in 1970. At the end of 1976, over eighty such companies were in operation.[210] We learned previously from A. V. Engibarov that some Soviet companies were set up in the West because selected IMTEs were unwilling to conduct commercial operations with organisations in Soviet Russia. But the situation changed after World War II. According to Engibarov, the establishment of post-war Soviet foreign-based trading companies was necessary in order to bring about more favourable conditions for the sale of Soviet commodities in highly competitive markets.[211] A sizeable number of Soviet foreign-based companies are concerned with the marketing and servicing of machinery and equipment while a slightly smaller group promotes Soviet maritime operations (shipping and fishing) in the West. Some Soviet foreign-based companies were set up to operate within a certain market while others were established in major trade centres for the purpose of conducting business with firms throughout the world.

It is interesting to note that before the early 1970s Soviet foreign-based companies, as a rule, were set up to market Soviet goods and services. However, over the past few years a number of mixed companies have been established in the West for the purpose of marketing commodities from both Soviet and foreign sources. Soviet foreign trade personnel have found that they can gain valuable technical information and marketing skill via mixed companies in IMTEs.

It should also be mentioned that the USSR could start purchasing share capital of wholly Western-owned companies on a fairly large scale. This might not be far off since one CMEA member (Hungary) has already set up a company in Luxemburg--Globinvest--to raise funds for the purchase of share capital in (small and medium-sized) Western companies.[212] Even if the USSR purchases share capital in companies which do not function as marketing outlets for Soviet commodities the Soviet Union would still benefit from annual dividend payments and better access to Western technology.

On Ruble Exchange Rates and Soviet Prices

Since 1961, the official value of the ruble has appreciated vis-à-vis the dollar: in June 1961, 1 ruble = $1.11; and in June 1978, 1 ruble = $1.43. Is it possible that the ruble has become more than just an accounting unit over the last two decades and is now a worthy measure of value? According to Alec Nove, 'The evidence suggests that the official rate [of the ruble] is not far off purchasing-power parity, in terms at least of wholesale prices'.[213] There is little doubt that prices in the USSR have increased much slower than in the West. Of course, a number of commodities in the USSR are still grossly expensive when their ruble values are converted into foreign currency at the official rate (in other words purchasing-power parity and the rate of exchange are out of line). On the other hand some Soviet commodities appear relatively inexpensive. Such conditions, of course, are not just found in the USSR. As Nove rightly points out, 'Purchasing-power parities and exchange rates are seldom in line for any group of countries, East or West'.[214]

At this point one might wonder if prices for Soviet exports are starting to move in line with official exchange rates. Obviously one could find examples of Soviet commodities being sold in the West for prices in line with official ruble rates. For example, if a tourist in the USSR during June 1978 looked far and near for a specific type of vodka which he paid $7.15 per bottle for in New York he might have found the same vodka in Moscow (in a store which accepts only Soviet currency) selling for 5 rubles (remember, in June 1978, 1 ruble = $1.43). On the other hand Goldman has pointed out that the USSR was selling automobiles in the West for roughly $2,400 while the same cars were being sold in the USSR for the equivalent of $7,300.[215] In addition, we should keep in mind the fact that a number of Soviet manufactured goods which are exported to the West are seldom available to a wide range of Soviet consumers at any ruble price. Indeed, in some respects Soviet export policy has changed very little since the 1930s. But it would hardly be fair to criticise Soviet traders for selling goods in the West at prices below those charged in the USSR without mentioning the fact that Western governments also provide subsidies to enable their traders to offer goods at competitive prices. In 1974, the EEC paid out almost £50 million in subsidies to bridge the gap between higher EEC prices for beef and lower prices prevailing in world markets. It might be interesting to note that most of this beef was sold to the USSR.[216]

Economic Co-operation Between the USSR and Foreign Governments and Private Companies

Since the early 1970s numerous agreements have been negotiated on economic, scientific and technical co-operation between the USSR and Western nations. Initial agreements on economic, scientific and technical co-operation are usually negotiated by top-level governmental organs on both sides. These agreements cover broad fields such as environmental protection, flight safety, engineering technology, standardisation and quality control, geology, architecture, forestry, machine building, and space research. Mixed intergovernmental commissions for economic, scientific and technical co-operation are normally established as a result of initial agreements. The aforementioned commissions are responsible for setting up mixed working groups (or specialised commissions) which concentrate on specific fields (e.g., the timber industry, the steel industry, and the aircraft industry).

Following the negotiation of initial agreements on economic co-operation Soviet FTOs and other organisations involved in foreign trade start negotiating more specific agreements with foreign governmental organisations and private companies. In many cases these agreements have led to the signing of contracts for the exchange of commodities between a Western company and an FTO. However, agreements between Soviet organisations and Western companies now involve much more than the exchange of goods between signatories. Indeed, one of the most noteworthy developments during the past few years is the growing interest amongst Soviet organisations and Western companies to enter into joint production schemes for the purpose of penetrating markets in third countries. For example, in 1976, the Soviet FTO Energomasheksport participated jointly with West European firms in bidding for a contract to supply equipment to a power station in Brazil.[217] In April 1977, the Austrian firm Elin-Union was negotiating with the Soviet FTO Mashinoeksport on the joint sale of mine lifts to third countries.[218] Approximately one year later the Deputy Chairman of the USSR's State Committee for Science and Technology, Dzhermen Gvishiani, mentioned that British and Soviet industries could participate in a number of co-production schemes. The joint production of automobiles which could be marketed in third countries was one of the schemes suggested by Gvishiani.[219]

In June 1978, officials from the Soviet Ministry of the Electronics Industry and members of the British company Plessey were discussing a scheme for the joint production of a music centre consisting of a record player, a tuner, a casette tape recorder, an amplifier, and speakers. During the first stage of the deal Plessey would be responsible for supplying the record players. However, during the second stage Plessey would only supply parts for the record players. Then at the final stage Soviet manufacturers would produce virtually all parts for the record player and the music centre. If the deal goes through the USSR could export these music centres to Britain and third countries.[220]

Another interesting development is the marked growth of Western participation in production facilities in the USSR. In 1966, the Italian automobile manufacturer Fiat agreed to help construct a plant in the USSR for the production of (Fiat-designed) automobiles. By the mid-1970s the automobile plant had not only significantly increased the number of automobiles in the USSR but also provided the Soviet Union with thousands of (Western-designed) cars which could be marketed abroad. One type of automobile produced in the aforementioned plant--the Lada--is generating quite a lot of interest in the West.

It is also important to mention that since the late 1960s Soviet officials have been encouraging Western investment (without equity ownership) in compensatory projects in the USSR. Such projects call for medium- and long-term Western credits for the purchase of machinery, equipment, and technical services. The imported Western goods/services are used to boost Soviet production of a wide range of commodities (e.g., natural gas, timber, coal, and chemicals). Soviet officials have placed a great deal of emphasis on compensatory projects as Western suppliers of machinery, equipment, and technical services are usually required to purchase part of the output of these projects which is equal to or greater than the value of Western project-related goods/services exported to the USSR.

The Impact of Soviet Exports on the West

Some rather encouraging economic developments have taken place between the USSR and MTEs over the past decade. For some time the Western world regarded the USSR as a backward exporter of raw materials. However, following the energy crises of the early and mid-1970s Soviet exports of petroleum, natural gas and electricity were looked upon as an important means of solving the world's energy problems. In addition, Soviet technology is now starting to play a greater role in the country's foreign trade. For example, in 1976, a U.S. drug firm obtained a licence from the USSR for the production of an anti-cancer drug.[221] Other examples include the sale of a Soviet licence to the United States for the production of aluminium, the sale of a Soviet licence to Japan for the production of a cooling system for blast furnaces, and even the sale of a Soviet licence to France for the production of champagne.[222]

Economic co-operation between the USSR and the West can result in the most efficient use of the world's resources. In the field of research and development much could be gained by co-ordinating the activities of Soviet and Western technicians. It is widely known that the Soviet merchant fleet has reduced shipping costs for Western exporters and importers. Although a sizeable portion of these savings might stem from the Soviet fleet's rate-cutting policy (as opposed to the efficiency of the fleet) it should be mentioned that the USSR has shown that it can reduce shipping costs for Westerners via other schemes. For example, on 26 November 1976, the USSR and Venezuela signed a petroleum-exchange agreement whereby Venezuela can arrange for its customers to receive petroleum from the USSR if this proves to be cheaper than shipping them Venezuelan petroleum. On the other hand the USSR can arrange for its customers to receive Venezuelan petroleum if this scheme is cheaper than shipping them Soviet petroleum.[223]

We should now turn our attention to APPENDIX A (pp. 410-416). After studying Soviet foreign trade operations under the six commodity classifications--food, beverages and tobacco; raw materials (excluding fuels, oils and fats); mineral fuels and related materials; chemicals; machinery and transport equipment; and other manufactured commodities--it is immediately obvious that only in a few instances are MTEs (or groups of MTEs) in APPENDIX A even moderately dependent on Soviet exports. (The reader's attention should be drawn to the fact that in 1975, the USSR accounted for 20.4 percent of the EFTA's imports of mineral fuels and related materials.) In almost all cases Soviet exports to MTEs (or groups of MTEs) in APPENDIX A amounted to well under 5 percent of total exports to these countries under each commodity classification. Moreover, American exports to MTEs (or groups of MTEs) in APPENDIX A far exceed Soviet exports in most cases.

According to a recent report Soviet petroleum will account for roughly 10 percent of Western Europe's petroleum imports by the late 1970s.[224] This might indicate that at some point the USSR would be in a position to apply a fair amount of pressure on countries in Western Europe in the event of an international crisis. However, it is interesting to note that the aforementioned report also claims that Soviet petroleum exports to Western Europe will fall sharply in the

1980s. By 1990, Soviet petroleum is expected to account for only 4 percent of Western Europe's petroleum imports.[225]

NOTES

[1]Harry Schwartz, Russia's Soviet Economy (London: Jonathan Cape, 1951), p. 35.

[2]P. I. Lyashchenko, Istoriya narodnogo khozyaistva SSSR (Moscow: Gosudarstvennoe sotsial'no-ekonomicheskoe izdatel'stvo, 1939), p. 603. Lyashchenko states: '. . . during the age of industrial capitalism Tsarist Russia possessed a vast stock of "internal colonies" which were exploited by capitalism as a source of raw materials for the industries of the home country and a market for the products of these industries. Colonial-national oppression was connected with this which kept the national borderlands at a backward colonial stage, resulting not only in the stifling of their national culture and economy, but also a lag in their nationalist capitalist development'.

[3]Ibid., p. 604.

[4]Ibid., p. 300.

[5]Ibid.

[6]Ibid., p. 605. According to Lyashchenko, Russian sugar and flour were sold in Turkish markets at prices below those charged to Russian consumers. (This pricing policy dates back to the time of Peter the Great. During that period it was extremely difficult for Russia to export finished commodities to the West but Russian iron could be readily sold to European countries. In 1720, Russia attempted to eliminate its foremost competitor, Sweden, from the world iron market by exporting iron for ten kopecks less than it was sold in domestic [Russian] markets. When foreign demand for Russian iron grew, Russia naturally increased the price of its popular commodity; see Simone Blanc, 'The Economic Policy of Peter the Great', in Russian Economic Development from Peter the Great to Stalin, ed. by William L. Blackwell [New York: New Viewpoints, 1974], p. 30).

[7]Lyashchenko, Istoriya narodnogo khozyaistva SSSR (1939 ed.) p. 605.

[8]Ibid., p. 607.

[9]Ibid.

[10]Ibid., p. 608.

[11]Ibid., p. 609.

[12]P. I. Lyashchenko, Istoriya russkogo narodnogo khozyaistva (Moscow: Gosudarstvennoe izdatel'stvo, 1927), p. 467.

[13]Harold G. Moulton and Leo Pasvolsky, Russian Debts and Russian Reconstruction (New York: McGraw-Hill, 1924), p. 16.

[14]Ibid., p. 17.

[15]Olga Crisp, Studies in the Russian Economy Before 1914 (London: MacMillan, 1976), p. 112.

[16]Rudolph Martin quoted in Alfred Manes, Staatsbankrotte (Berlin, 1919), p. 202, quoted in Moulton and Pasvolsky, Russian Debts . . ., p. 16.

[17]Moulton and Pasvolsky, Russian Debts . . ., pp. 17-18.

[18]Crisp, Studies in the Russian Economy . . ., p. 96.

[19]Ibid., p. 97.

[20]Ibid., p. 98.

[21]Ibid., p. 103.

[22]Ibid., p. 105, quoting G. Schultze-Gaevernitz, Volkswirtschaftliche Studien aus Russland (Leipzig, 1899), p. 526.

[23]Moulton and Pasvolsky, Russian Debts . . ., p. 24.

[24]Ibid., pp. 24-25, and 188. According to Moulton and Pasvolsky, Russia rendered few services to other countries and its foreign investments (e.g., in Asia) were so small that the returns were negligible. Russian emigres often sent money to their relatives in Russia but these sums were probably offset by Russian currency which had been taken from the country by the emigres. Official representatives, and tourists brought foreign currency into Russia but such sums were probably smaller than Russian expenditures abroad for the same purposes.

[25]Ibid., p. 19.

[26]Ibid., p. 31.

[27]Alexander Baykov, 'The Economic Development of Russia', in Russian Economic Development from Peter the Great to Stalin, ed. by William L. Blackwell (New York: New Viewpoints, 1974), p. 13.

[28]Estimates for Russia's annual national income are as follows: 1915/1916, 13.9 billion gold rubles; and 1916/1917, 12.2 billion gold rubles; see Lyashchenko, Istoriya narodnogo khozyaistva SSSR (1939 ed.), p. 644.

[29]For example, in 1913, over 71 percent of Russian exports and imports were carried by merchant vessels; see Russian Information and Review, Vol. V, No. 5 (2 August 1924), p. 73 .

[30]Indeed, Russia's merchant vessels were not too commonplace even in Russian ports. In 1900, only 11.8 percent of the ships arriving in Russian ports were under the Russian flag; see P. A. Khromov, Ekonomicheskoe razvitie Rossii (Moscow: Nauka, 1967), p. 361.

[31]V. Dygalo and N. Narbekov, Razvitie russkogo torgovogo flota', Morskoi flot, No. 1, 1976, p. 25.

[32]Moulton and Pasvolsky, Russian Debts . . ., p. 186.

[33]Crisp, Studies in the Russian Economy . . ., p. 56.

[34]Ibid.

[35]M. Zhirmunski, Soviet Export (Moscow: Mezhdunarodnaya kniga, 1936), pp. 109-110.

[36]Howard P. Kennard, ed., The Russian Year-Book for 1914 (London: Eyre and Spottiswoode, 1914), p. 573.

[37]John P. McKay, Pioneers for Profit (Chicago: University of Chicago Press, 1970), p. 383.

[38]Ibid., p. 384.

[39]S. S. Katzenellenbaum, Russian Currency and Banking 1914-1924 (London: P. S. King, 1925), p. 1.

[40]Crisp, Studies in the Russian Economy . . ., p. 98.

[41]Franklyn D. Holzman, 'Soviet Central Planning and Its Impact on Foreign Trade Behavior and Adjustment Mechanisms', in International Trade and Central Planning, ed. by Alan A. Brown and Egon Neuberger (Berkeley and Los Angeles: University of California Press, 1968), p. 281.

[42]Alexander Gerschenkron, Economic Relations with the U.S.S.R. (New York: The Carnegie Endowment for International Peace, 1945), p. 7.

[43]V. I. Lenin, Sochineniya, Vol. 30 (Moscow: Gosudarstvennoe izdatel'stvo politicheskoi literatury, 1950), p. 32.

[44]Lenin, Sochineniya (1950 ed.), Vol. 32, p. 62. Lenin states: 'Politics cannot help but take precedence over economics. To argue otherwise is to forget the ABC of Marxism'.

[45]Andrea Boltho, Foreign Trade Criteria in Socialist Economics (Cambridge: Cambridge University Press, 1971), p. 24. Boltho states: 'Marx's analysis of the future socialist state was never outlined in any detail, his main preoccupation having been the examination of the existing capitalist system'.

[46]Lenin, Sochineniya (1950 ed.), Vol. 33, pp. 40-41. Lenin states on page 40: '. . . we made the mistake of deciding to change over immediately to communist production and distribution. We decided that under the allotment [scheme] the peasants would provide us with the necessary amount of grain and we could distribute it among the factories and mills, thus achieving communist production and distribution'. Lenin continues on page 41: 'The allotment [scheme] in the rural areas--this direct communist approach to the problem of urban development--hindered the growth of productive forces and proved to be the primary cause of the profound economic and political crisis which we experienced in the spring of 1921. Therefore, it was necessary to

do that [i.e., to establish the New Economic Policy] which from the point of view of our line, our policy, cannot be called anything different than the most crushing defeat and retreat'.

[47]Gottfried Haberler, 'Theoretical Reflections on the Trade of Socialist Economies', in International Trade and Central Planning, ed. by Alan A. Brown and Egon Neuberger (Berkeley and Los Angeles: University of California Press, 1968), p. 29.

[48]See Haberler, 'Theoretical Reflections . . .', p. 32. Haberler states: 'Marxist economic theory . . . inculcates a complete disdain for and disregard of market forces, price mechanisms, and competition. This attitude is all-pervasive, but it has been especially damaging for the efficient allocation of resources in the area of investment and international trade'. See also P. J. D. Wiles, The Political Economy of Communism (Oxford: Basil Blackwell, 1962), p. 47. Wiles states: 'Marxism has no interest in economic choice, or the distribution of scarce resources between competing ends, i.e. in what many Western economists believe to be the chief concern of economic science. Marxists do not . . . bother their heads about such questions as the correct price relations between different commodities, or the desirable extent of the international division of labour'.

[49]Lenin, Sochineniya (1950 ed.), Vol. 2, p. 145.

[50]Lenin, Sochineniya (1950 ed.), Vol. 3, pp. 44-45.

[51]Lenin, Sochineniya (1950 ed.), Vol. 32, pp. 433-434. Lenin states: '. . . the development of capitalism, controlled and regulated by the proletarian state (i.e., "state" capitalism in this sense of the word), is advantageous and necessary in an extremely devastated and backward small-peasant country . . . This applies still more to concessions: without denationalising anything, the workers' state leases certain mines, forest tracts, oilfields, and so forth, to foreign capitalists in order to obtain from them additional equipment and machinery, enabling us to accelerate the restoration of Soviet large-scale industry'.

[52]Lenin, Sochineniya (1950 ed.), Vol. 33, p. 420.

[53]Ibid., p. 48.

[54]Ibid., p. 189.

[55]Ibid., pp. 188 and 190. On page 188 Lenin states: 'I understand that communists need time to learn to trade and those who are learning to trade will make the crudest mistakes for several years; but history will forgive them because they are newcomers to the business'. Lenin continues on page 190: '. . . "A man who has been beaten is worth two who have not" . . . As far as trade is concerned it is a pity we communists have not been thrashed enough . . .'

[56]V. I. Lenin, Polnoe sobranie sochinenii, 5th ed., Vol. 44 (Moscow: Izdatel'stvo politicheskoi literatury, 1964), p. 375.

[57]Ibid.

[58]Ibid., p. 407.

[59]*Ibid.*, p. 408. Lenin states: 'If the bourgeois camp in Genoa presents us with an ultimatum not to touch on questions of pacifism, but to speak only on narrow trade subjects, we should express our regret, but comply with their ultimatum saying that we had two aims at this conference: a pacifist aim and a trade aim. This will leave only one'.

[60]Lenin, *Polnoe sobranie sochinenii* (5th ed.), Vol. 45, p. 63.

[61]*Dekret nationalizatsii vneshnei torgovli*, 22 April 1918, quoted in *Vneshnyaya torgovlya*, No. 4, 1968, p. 2.

[62]A. A. Santalov and Louis Segal, ed., *Soviet Union Year-Book 1926* (London: George Allen and Unwin, 1926), pp. 257-258.

[63]See Glen Alden Smith, *Soviet Foreign Trade* (New York: Praeger, 1973), p. 31.

[64]Santalov and Segal, *Soviet Union Year-Book 1926*, p. 42.

[65]*Ibid.*, p. 43.

[66]*Ibid.*, p. 45.

[67]Smith, *Soviet Foreign Trade*, pp. 31-32, quoting *New York Times*, 9 May 1921, p. 20.

[68]A. A. Santalov and Louis Segal, ed., *Commercial Year-Book of the Soviet Union 1925* (London: George Allen and Unwin, 1925), p. 214.

[69]A. V. Engibarov, *Smeshannye obshchestva na mirovom rynke* (Moscow: Mezhdunarodnye otnosheniya, 1976), p. 4.

[70]*Ibid.*, p. 12.

[71]N. Barou, *Russian Co-operation Abroad* (London: P. S. King, 1930), p. 21.

[72]*Ibid.*, pp. 52, 62 and 68.

[73]E. F. Wise, 'Centrosoyus and Anglo-Soviet Trade', *The Soviet Union Review*, Vol. VI, No. 2 (10 January 1925), p. 30. Wise explains why it was advantageous for Tsentrosoyuz to transform its London agency into a joint-stock company: 'It [Centrosoyus Ltd.] is an English company registered in London and subject in all respects to the jurisdiction of the British Courts. The contracts made by it, therefore, are open to no conflict of laws or jurisdictions, and by this means doubts and hesitations which would certainly afflict many British traders in contracting direct with a Russian organisation are eliminated'.

[74]*Ibid.*, p. 31.

[75]Barou, *Russian Co-operation Abroad*, p. 68.

[76]*Ibid.*, p. 17.

[77]*Russian Information and Review*, Vol. V. No. 21 (22 November 1924), p. 330.

[78] Russian Information and Review, Vol. V, No. 19 (8 November 1924), p. 297.

[79] Santalov and Segal, Soviet Union Year-Book 1926, p. 267.

[80] Russian Information and Review, Vol. V, No. 24 (13 December 1924), p. 377.

[81] Ibid.

[82] Russian Information and Review, Vol. V, No. 19 (8 November 1924), p. 297.

[83] Russian Information and Review, Vol. V, No. 25 (20 December 1924), p. 403.

[84] Russian Information and Review, Vol. V, No. 19 (8 November 1924), p. 298. 'In agreements concluded by State [-owned] organisations abroad it is obligatory that a clause be inserted, whereby the other contracting party may present claims, that might arise from a transaction, exclusively to the given State [-owned] organisation in the name of which the transaction has been concluded; and repudiating any claims on the State [i.e., the USSR] or on other Economic organisations and establishments in the name of which the transaction has not been made'.

[85] Ibid.

[86] A. A. Santalov and Louis Segal, ed., Soviet Union Year-Book 1929 (London: George Allen and Unwin, 1929), p. 244.

[87] Smith, Soviet Foreign Trade, p. 58.

[88] 'Russian Oil Products Limited', The Soviet Union Review, Vol. VI, No. 18 (2 May 1925), p. 345.

[89] Smith, Soviet Foreign Trade, p. 59.

[90] 'Foreign Concessions in the U.S.S.R.', The Soviet Union Review, Vol. VI, No. 2 (10 January 1925), p. 33.

[91] Ibid.

[92] Smith, Soviet Foreign Trade, p. 62.

[93] Violet Conolly, Soviet Economic Policy in the East (London: Oxford University Press, 1933), p. 1.

[94] Ibid., p. 12.

[95] Ibid., quoting Iran de Teheran, 17 November 1931, p. 3.

[96] Conolly, Soviet Economic Policy . . ., p. 12, quoting Khan Kazemi, Le Commerce Exterieur de la Perse (Paris, 1930), p. 183.

[97] Conolly, Soviet Economic Policy . . ., p. 70.

[98] Smith, Soviet Foreign Trade, pp. 59-60.

[99]Santalov and Segal, Soviet Union Year-Book 1929, p. 315.

[100]Russian Information and Review, Vol. V, No. 21 (22 November 1924), p. 329.

[101]N. Barou, Russian Co-operative Banking (London: P. S. King, 1931), p. 24.

[102]Ibid., p. 23.

[103]Smith, Soviet Foreign Trade, p. 147.

[104]Lancelot Lawton, ed., Banking and Credit in the Soviet Union, Monographs Nos. 4 and 5 (London: School of Slavonic and East European Studies, University of London, 1935), pp. 18-19.

[105]Russian Information and Review, Vol. V, No. 22 (29 November 1924), p. 343.

[106]Ibid.

[107]The Soviet Union Review, Vol. VI, No. 17 (25 April 1925), p. 325.

[108]Santalov and Segal, Soviet Union Year-Book 1926, pp. 409-410.

[109]Barou, Russian Co-operative Banking, p. 36.

[110]Ibid., p. 48.

[111]Ibid., p. 50.

[112]The Soviet Union Review, Vol. VI, No. 4 (24 January 1925), p. 79.

[113]'Soviet Banks Abroad', International Affairs (Moscow), No. 7 (July 1969), p. 131.

[114]Samuel Pisar, Coexistence and Commerce (London: Allen Lane The Penguin Press, 1971), p. 153.

[115]'Soviet Banks Abroad', International Affairs, p. 131.

[116]For additional material on Moscow Narodny Bank Ltd., Banque Commerciale pour l' Europe du Nord and Bank Russo-Iran see pp. 318-336.

[117]Barou, Russian Co-operative Banking, p. 77.

[118]Ibid., p. 78.

[119]Russian Information and Review, Vol. V, No. 5 (2 August 1924) p. 73.

[120]'Soviet Shipping', The Soviet Union Review, Vol. VI, No. 5 (31 January 1925), p. 88.

[121]Ibid.

[122]Gerschenkron, Economic Relations . . ., pp. 66-67.

[123]In December 1920, the Commissariat of Finance quoted the pre-war (gold) ruble at approximately 80,000 Soviet (paper) rubles, while in March 1922, the pre-war ruble was quoted at 200,000 Soviet rubles; see A. V. Baikalov and Lancelot Lawton, ed., Money, Prices and Gold in the Soviet Union, Monograph 3 (London: School of Slavonic and East European Studies, University of London, 1934), p. 7.

[124]Baikalov and Lawton, Money, Prices and Gold . . ., p. 6.

[125]Ibid., p. 8.

[126]'The History of Soviet Currency', The Soviet Union Review, Vol. VI, No. 1 (3 January 1925), pp. 19-20.

[127]Santalov and Segal, Soviet Union Year-Book 1929, pp. 427-428.

[128]Ibid., p. 432.

[129]The reader should be familiar with the theory of purchasing-power parity (PPP) which states that the rate of exchange between two given currencies tends to reflect their relative purchasing powers, i.e., there is a close relationship between the internal value of a currency and its external value. For example, if a given assortment of commodities costs 4,000,000 rubles in Moscow and 1,000,000 dollars in New York the rate of exchange between the dollar and the ruble should be roughly 4 rubles = $1.00. This is called the PPP rate.

[130]W. Chapin Huntington and Lancelot Lawton, ed, The Prospects of British and American Trade with the Soviet Union, Monographs 7 and 8 (London: School of Slavonic and East European Studies, University of London, 1935), p. 5.

[131]Marshall I. Goldman, Detente and Dollars (New York: Basic Books, 1975), p. 60.

[132]Ibid.

[133]See Franklyn D. Holzman, International Trade Under Communism (New York: Basic Books, 1976), p. 38.

[134]Gerschenkron, Economic Relations . . ., pp. 45-46. (Generally speaking, dumping pertains to the exportation of commodities at prices below domestic costs of production [of the exporting nation]. At this time dumping charges are seldom brought against exporters unless their prices are well below the [wholesale] prices prevailing in the exporting country and it can be proven that such prices are damaging to sellers in the importing country.)

[135]However, it should be mentioned that the USSR might have exported commodities which were vital for the Soviet economy. According to Alec Nove, the USSR exported grain in the 1930s while some of the country's citizens were starving; see Alec Nove, 'East-West Trade: Problems, Prospects, Issues', The Washington Papers, Vol. VI, No. 53, (Beverly Hills and London: Sage Publications, 1978), p. 14.

[136]Zhirmunski, Soviet Export, p. 46.

[137]Ibid., p. 120.

[138]Gerschenkron, Economic Relations . . ., p. 16.

[139]I. V. Stalin, Sochineniya, Vol. 7 (Moscow: Gosudarstvennoe izdatel'stvo politicheskoi literatury, 1947), p. 281.

[140]Ibid., pp. 263 and 265. Stalin states on page 263: '. . . the production and trade of the capitalist countries which were terribly low at one time in the period of the post-war crisis . . . have begun to move forward and the political power of the bourgeoisie has become more or less consolidated'. He continues on page 265: 'Instead of the period of the surge of the revolutionary tide which we observed during the post-war crisis we now see a period of ebb . . . This means that the question of taking power, of the seizure of power by the proletariat in the immediate future is presently not on the order of the day . . .'

[141]Ibid., pp. 288-289.

[142]D. D. Mishustin, ed., Vneshnyaya torgovlya Sovetskogo Soyuza (Moscow: Mezhdunarodnaya kniga, 1938), p. 92.

[143]Stalin, Sochineniya, Vol. 6, p. 245.

[144]Franklyn D. Holzman, Foreign Trade Under Central Planning (Cambridge, Massachusetts: Harvard University Press, 1974), p. 57.

[145]Ibid., p. 58.

[146]Herbert S. Levine, 'The Effects of Foreign Trade on Soviet Planning Practices', in International Trade and Central Planning, ed. by Alan A. Brown and Egon Neuberger (Berkeley and Los Angeles: University of California Press, 1968), p. 258.

[147]Holzman, Foreign Trade Under Central Planning, p. 58.

[148]Stalin, Sochineniya, Vol. 7, p. 314.

[149]At one point Stalin even offered to make payments on Tsarist debts in return for such credits; see Stalin, Sochineniya, Vol. 10, pp. 230-231.

[150]This distrust was so great that some Western exporters holding bills of exchange which had been accepted by Soviet importing organisations resorted to money-market dealers whose discount rates for such acceptances were as high as 30 percent; see Gerschenkron, Economic Relations . . ., p. 68.

[151]It should be mentioned that almost all Western credits granted to the USSR were provided by exporters. The USSR seldom received (bank) loans from Western financial markets during the late 1920s and early 1930s.

[152]The interest payments on the $26-million deal negotiated in October 1928 between the International General Electric Company (IGEC) and the USSR were reportedly high enough to cover IGEC's claim against the Soviet government for damages connected with the confiscation of its property following the October Revolution; see Huntington and Lawton, The Prospects of British and American Trade . . ., p. 24.

[153]Stalin, Sochineniya, Vol. 13, p. 277.

[154]Ibid. (In the early 1930s Soviet gold production was twice as large as the output of Tsarist Russia. According to Stalin, gold production in the USSR could have been quadrupled in a short period of time if the proper equipment had been available.)

[155]A. P. Rosengoltz, Soviet Foreign Trade--New Developments (London: Trade Representation of the USSR in Britain, 1936), p. 9.

[156]Ibid., p. 12. But Rosengoltz admits on page 14 that even the Stalinist-type approach to foreign trade can be flexible under certain conditions. 'It goes without saying that the position taken up with regard to carrying out the third Five Year Plan with practically no imports does not exclude the importation of technical innovations or imports over and above those planned in cases of a hitch occurring in any branch of our economy, nor does it exclude increased purchases in certain capitalist countries on long-term credits'.

[157]Ibid., pp. 14-15.

[158]Ibid., p. 16.

[159]Huntington and Lawton, The Prospects of British and American Trade . . ., p. 13.

[160]Edouard Luboff, Russian Trade: A Constructive Policy (London: Anglo-Russian Economic Society, 1933), p. 22.

[161]Ibid., p. 23. (The reader should remember that at the time of this criticism the world was just beginning to shake off the effects of the Great Depression and the Soviet Union was reducing its imports markedly. Moreover, since the USSR had been calling for more balanced trade ['without exports--no imports'] during this period an unfavourable trade balance with the Soviet Union was considered unreasonable.)

[162]Quoted in Luboff, Russian Trade . . ., p. 25.

[163]Mishustin, Vneshnyaya torgovlya . . ., p. 105.

[164]Holzman, Foreign Trade Under Central Planning, p. 55.

[165]Mishustin, Vneshnyaya torgovlya . . ., pp. 8-11. On pages 8-9 Mishustin gives a typical Stalinist-type explanation for the importation of commodities: 'The principal aim of Soviet import [policy] is to make use of foreign commodities, especially machinery, for the quickest realisation of the plan of building socialism, for industrialisation and technical reconstruction of the national economy, and for the technological-economic independence of the USSR'. Mishustin explains the importance of Soviet exports on page 10: 'The basic aim of Soviet export [policy] is to receive foreign currency in order to pay for imports and to promote the accumulation of foreign currency reserves in the country . . . The USSR exports its commodities only for the purpose of paying for the comparatively small quantity of imported commodities which are necessary for the quickest fulfilment of the national economic plan'. On page 11 Mishustin states: 'We gave up 3 percent of all our production for exports during the First Five-Year Plan to secure imports which were necessary for the creation of advanced industries which is the basis of technological-economic independence of the USSR'.

[166]See Marshall I. Goldman, 'Autarchy or Integration--The USSR and the World Economy', in Soviet Economy in a New Perspective, compiled by the U.S. Congress, Joint Economic Committee, 94th Cong., 2nd sess.(Washington, D.C.: U.S. Government Printing Office, 1976), p. 82. Goldman states: 'From at least the time of Peter the Great, Russian regimes have periodically turned to the West to upgrade their industrial systems. Each time, however, the pre-revolutionary regimes ultimately lost their interest in the West and reverted to their former insular ways'.

[167]Mishustin, Vneshnyaya torgovlya . . ., p. 10.

[168]Stalin, Sochineniya, Vol. 10, pp. 220-221.

[169]Robert E. Ebel, Communist Trade in Oil and Gas (New York: Praeger, 1970), p. 17.

[170]Ibid., p. 18.

[171]Although the USSR was unwilling to sell its foreign-based distributing facilities it offered to sell all of its petroleum earmarked for export over a period of three years to the American and British group; see Ebel, Communist Trade . . ., p. 18.

[172]Marshall I. Goldman, Soviet Foreign Aid (New York: Praeger, 1967), p. 115.

[173]Zhirmunski, Soviet Export, p. 28.

[174]Ibid.

[175]Adam Zwass, Monetary Cooperation Between East and West, trans. by Michel Vale (White Plains, New York: International Arts and Sciences Press, 1975), p. 166.

[176]Gerschenkron, Economic Relations . . ., 55.

[177]Levine, 'The Effects of Foreign Trade . . .', p. 258.

[178]Ibid.

[179]N. Shmelev, 'Avtarkichna li sotsialisticheskaya ekonomika?', Voprosy ekonomiki, No. 4 (April 1976), p. 89.

[180]For example, in 1928, the USSR imported 30.4 percent of its machinery and equipment requirements. In 1932, this figure stood at 12.7 percent, and by 1937, it had dwindled to 0.9 percent; see Sotsialisticheskoe stroitel'stvo soyuza SSR (1933-1938), statisticheskii sbornik (Moscow: Gosplanizdat, 1939), p. 28.

[181]Shmelev, 'Avtarkichna li sotsialisticheskaya ekonomika?', P. 89.

[182]Margaret Dewar, Soviet Trade With Eastern Europe (London: Royal Institute of International Affairs, 1951), p. 2.

[183]In Hungary alone the Germans had interests in over 200 companies. All of these companies came under Soviet control in the immediate post-war period; see Dewar, Soviet Trade With Eastern Europe, p. 66n.

[184] *Ibid.*, pp. 62-63.

[185] *Ibid.*, p. 63.

[186] *Ibid.*, p. 79.

[187] *Ibid.*, p. 80.

[188] Smith, *Soviet Foreign Trade*, p. 149, quoting Thomas C. Stave, Second Secretary of the American Embassy in West Germany.

[189] Smith, *Soviet Foreign Trade*, p. 80.

[190] For examples of preferential treatment, see Dewar, *Soviet Trade With Eastern Europe*, pp. 66, 67 and 79.

[191] *Vneshnyaya torgovlya*, No. 5, 1950, p. 4 (Harrison's emphasis).

[192] Smith, *Soviet Foreign Trade*, p. 74. The Soviet Buying Commission, which functioned as an organ of the Soviet government, was established soon after the signing of the Lend-Lease agreement in June 1942.

[193] A. M. Smirnov, *Mezhdunarodnye valyutnye i kreditnye otnosheniya SSSR*, 2nd ed. (Moscow: Vneshtorgizdat, 1960), p. 259.

[194] *Ibid.*, p. 262.

[195] It should be pointed out that until recently the performance of exporting FTOs was often assessed on the basis of their ability to dispose of a given quantity of commodities (according to plan) rather than on their ability to expand Soviet exports. But even if FTOs had been encouraged to expand exports a few decades ago they probably would not have achieved much success as Soviet manufacturers have been notorious for producing goods which stimulate little demand in the West.

[196] Paul Ericson, 'Soviet Efforts to Increase Exports of Manufactured Products to the West', in *Soviet Economy in a New Perspective*, compiled by the U.S. Congress, Joint Economic Committee, 94th Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1976), p. 715.

[197] N. N. Smelyakov, 'Delovye vstrechi', *Novy mir*, No. 12 (December 1973), p. 210.

[198] *Ibid.*, p. 216.

[199] P. Zav'yalov and I. Kretov, 'Povyshenie konkurentosposobnosti eksportnoi produktsii i marketing', *Vneshnyaya torgovlya*, No. 12, 1977, pp. 32-33.

[200] *Financial Times*, 5 December 1977, p. 8.

[201] Moscow Narodny Bank, *Press Bulletin*, 22 October 1975, p. 3, quoting *Business Week*, 27 October 1975.

[202] Moscow Narodny Bank, *Press Bulletin*, 24 March 1976, p. 3, quoting *Ecotass*, 8 March 1976.

[203]*New York Times*, 4 February 1974, p. 45.

[204]*New York Times*, 19 March 1974, p. 47.

[205]Moscow Narodny Bank, *Press Bulletin*, 17 November 1976, p. 5, quoting *Soviet Business and Trade*, 10 November 1976.

[206]See Holzman, *International Trade Under Communism*, pp. 34-35; O. Rybakov, 'Ekonomicheskaya effektivnost' vneshnei torgovli', *Planovoe khozyaistvo*, No. 12, 1974, pp. 16-27; and J. Wilczynski, *Comparative Monetary Economics* (London: MacMillan, 1978), p. 82.

[207]V. Buglai, 'O nekotorykh sovremennykh burzhuaznykh kontseptsiyakh vneshnei torgovli', *Vneshnyaya torgovlya*, No. 3, 1976, p. 34.

[208]Zwass, *Monetary Cooperation Between East and West*, p. 52.

[209]L. I. Brezhnev, 'Otchet tsentral'nogo komiteta KPSS i ocherednye zadachi partii v oblasti vnutrennei i vneshnei politiki', *Materialy XXV s"ezda KPSS* (Moscow: Politicheskoi literatury, 1976), p. 56.

[210]CIA, *Soviet Commercial Operations in the West*, September 1977, p. 1.

[211]Engibarov, *Smeshannye obshchestva . . .*, p. 5. (Another Soviet source has also pointed out that the 'ever increasing' network of Soviet companies in the West represents an important means of improving sales of Soviet commodities; see N. P. Shmelev, ed., *Ekonomicheskie svyazi vostok-zapad: problemy i vozmozhnosti* [Moscow: Mysl', 1976], p. 82.)

[212]*East-West* (Fortnightly Bulletin), 12 April 1978, p. 3.

[213]Alec Nove, *The Soviet Economic System* (London: George Allen and Unwin, 1977), p. 277.

[214]*Ibid*.

[215]Goldman, *Detente and Dollars*, p. 60.

[216]*The Times*, 17 January 1975, p. 6.

[217]Moscow Narodny Bank, *Press Bulletin*, 7 April 1976, p. 6, quoting *Ecotass*, 15 March 1976.

[218]Moscow Narodny Bank, *Press Bulletin*, 27 April 1977, p. 6, quoting *Ecotass*, 4 April 1977.

[219]*Financial Times*, 23 March 1978, p. 6.

[220]Moscow Narodny Bank, *Press Bulletin*, 28 June 1978, p. 1, quoting *Ecotass*, No. 24, 1978.

[221]Moscow Narodny Bank, *Press Bulletin*, 17 August 1977, p. 7, quoting *International Herald Tribune*, 18 June 1976.

[222]Moscow Narodny Bank, *Press Bulletin*, 17 August 1977, p. 7, quoting *International Herald Tribune*, 16 August 1977.

[223] Financial Times, 27 November 1976, p. 11.

[224] Petroleum Economist, Vol. XLV, No. 6 (June 1978), pp. 246-247.

[225] Ibid.

Everything that an American corporation does or is alleged to do, whether in the Caribbean or in France, can be done by a Soviet corporation. Nay more so, for the Soviet corporation is directly under command of the Soviet government and so can be co-ordinated with other such corporations and with Soviet foreign trade.

--P. J. D. Wiles

CHAPTER II

SOVIET COMMERCIAL ORGANISATIONS AND PERSONNEL IN MARKET-TYPE ECONOMIES

Organs Responsible for Promoting and Guiding the Operations of the USSR's Foreign-Based Business Community

Since their inception Soviet foreign trade organisations (as well as other USSR-based organisations involved in foreign trade) have been legally entitled to set up foreign-based companies/offices. However, under the monopoly of foreign trade these trading organisations are required to secure permission from the Soviet government before establishing companies/offices abroad. The Ministry of Foreign Trade of the USSR is usually responsible for dealing with requests to set up Soviet foreign-based commercial organisations. According to J. R. Beerman, top-level Party officials are normally consulted on matters concerning the establishment of Soviet companies in market-type economies (MTEs).[1]

In the immediate post-war years adverse political conditions hindered the development of the USSR's business community in the West. Only a small number of Soviet foreign-based trading companies (SFTCs) were established in the West during the 1950s and early 1960s. By the mid-1960s a lot of the hostility toward Soviet economic expansion in world markets had disappeared. The operations of existing SFTCs started to increase significantly at that time reflecting the marked growth of Soviet trade with MTEs. However, it was soon recognised that the handful of Soviet companies in the West was not able to satisfy the requirements of the country's foreign trade sector. Therefore, by the late 1960s the USSR had started a campaign to penetrate numerous world markets via the establishment of joint-stock companies.

To a significant degree the marked increase in the number of SFTCs which took place after 1970 can be attributed to Brezhnev's decision to promote greater co-operation between the USSR and MTEs. In order to carry out his scheme Brezhnev made frequent trips to the West and negotiated numerous economic/political agreements. Soviet ministers later followed in Brezhnev's footsteps and negotiated more specific agreements with foreign governmental agencies and private corporations. These agreements gave rise to numerous contracts between USSR-based foreign trade organisations (FTOs) and Western firms. The intergovernmental agreements also stimulated FTOs to increase their presence in MTEs.

Despite the fact that some Politburo-level agreements with foreign nations provide the legal basis for the establishment of Soviet commercial organisations abroad it would be unreasonable to assume that Party leaders are responsible for determining the specific level of Soviet economic activity in foreign markets. After broad policy guidelines have been laid down by the Party, government organs are responsible for putting them into practice. Now that top-level governmental officials are convinced the Party favours a significant increase in the number of Soviet commercial organisations abroad we can assume that FTOs will be encouraged by various Soviet ministries to gain an even stronger foothold in MTEs.

Some General Comments on the Establishment and Operations of Soviet Foreign-Based Companies

SFTCs are established under local laws and the employees of such companies operate according to local business norms. In a legal sense SFTCs are considered Western companies with Soviet capital. As we learned in CHAPTER I, SFTCs are usually set up as joint-stock companies. The share capital of SFTCs is normally obtained from the earnings of their shareholders. SFTCs can be wholly owned by the USSR or owned by Soviet and foreign interests (i.e., mixed companies).

There are two principal groups of Soviet shareholders of SFTCs. The most common group comprises FTOs and other economic organisations in the USSR. The second group includes SFTCs which own share capital in other Soviet companies in the West. SFTCs can be minority shareholders of other SFTCs (in this case an SFTC would own less than 50 percent of another company's share capital) or parent companies (in this case an SFTC would own over 50 percent of another company's share capital). A high proportion of SFTCs established after 1970 have other SFTCs as shareholders. The advantage of such a policy is obvious: instead of SFTCs being entirely owned by Moscow-based interests (which might irk a few Western critics) they are partially (or even wholly) owned by the Soviet business community in the West. Now one might think that capital in the hands of Soviets--either in the East or the West--would have the same implications. However, it is well worth mentioning that SFTCs established by Soviet interests in the West are apt to create less adverse attention than SFTCs set up directly from Moscow and hence could become an important means of strengthening the

USSR's role in world markets.

The boards of directors of SFTCs are normally dominated by Soviet citizens. As a result the USSR is theoretically responsible for formulating the broad objectives of SFTCs. Members of the boards of directors of Soviet foreign-based parent companies often serve as directors of their subsidiaries. In some cases Soviet shareholders appoint local nationals to function as heads of their companies in the West. This is done in a few instances to comply with local business norms. Such appointments are also made for the purpose of utilising local managerial expertise.

As a rule local nationals are responsible for the day-to-day operations of SFTCs and hence fill most of the managerial positions. On occasion, managerial policies conflict with the objectives of Soviet directors. However, unless the disagreements involve rigid instructions from Moscow, Soviet directors are apt to be persuaded to accept the recommendations of their non-Soviet managers.

Almost all Soviet international businessmen have been educated in institutions (both Soviet and foreign) offering courses on international commerce, economics and finance. In most cases these businessmen are able to conduct their operations in the language of the host country. Soviet businessmen often spend a few years working abroad before they are promoted to the boards of directors of the larger SFTCs.

Some of the large SFTCs in Western Europe and the U.K. function as training centres for Soviet businessmen. Of course, not all Soviet international businessmen are initially assigned to companies in industrialised market-type economies (IMTEs). A number of them receive a practical introduction to the market mechanism by serving in less-developed (market-type) economies (LDCs). Some Soviet businessmen serve in various countries belonging to the Council for Mutual Economic Assistance (CMEA) before being assigned to positions in the West.

The average Soviet international businessman is assigned to an SFTC for two or three years. However, a few Soviet executives have served individual SFTCs for less than two years while others remained with individual SFTCs for a number of terms. Soviet citizens who are not assigned to top-level positions in SFTCs often serve for less than two years. SFTCs sometimes employ students from various CMEA members. Soviet citizens who are permanently assigned to SFTCs are often authorised to bring their families into the host countries.

When a Soviet director completes his first term with an SFTC he often applies for an additional term with the same company. If his request is denied the Soviet director is either reassigned to another (related) SFTC or sent back to the USSR. Soviet directors who have served in IMTEs are sometimes reassigned to LDCs or various CMEA members. A few former directors of SFTCs are given top-level positions in FTOs or ministries when they return to the USSR. Others simply return to the USSR and 'retire' from active commercial life.

Soviet international businessmen achieve varying degrees of success. A few of them are recognised as highly skilful operators in foreign markets. However, others get a less than average rating from their Western counterparts. In almost all cases the failure of Soviet businessmen in the West is not linked to ignorance of the market system. Indeed, Soviet international businessmen appear to be adequately briefed on conditions in MTEs before being assigned to positions in SFTCs.

It is interesting to note that SFTCs themselves might be responsible for producing and fostering international businessmen who lack some of the qualities which are demanded of their Western counterparts. Executives of Western multinational corporations seldom co-ordinate their operations with the national economic objectives of either home or host countries. Decisions are made on the basis of global economic considerations and the decision-making process takes place within the corporation. Indeed, national economic objectives are subordinate to the aims of entrepreneurs. But up till now Soviet (foreign and domestic) economic objectives have tended to determine the direction and level of the commercial operations of SFTCs. In markets where extensive commercial possibilities exist, SFTCs have been given little leeway to seek their own destinies. However, recent developments indicate that this situation might be changing. Nevertheless we should keep in mind that until the umbilical cord between Moscow and SFTCs is severed Soviet foreign businessmen will be required to follow a course which differs fundamentally from the course pursued by most of their Western counterparts.

As a rule SFTCs conduct formal annual general meetings. Shareholders of SFTCs normally send representatives to such meetings. The annual general meetings enable shareholders to study the success indicators (e.g., sales, profits, terms of contracts, etc.) of their companies as well as make recommendations on how the companies can improve their performance during the next year. The chairmen of the boards of directors are usually appointed at the annual general meetings. Announcements concerning the retirement of members of the boards of directors and the appointment of new directors to the boards are also made at the meetings.

SFTCs seldom pay dividends to their shareholders. The net profit of an SFTC is usually transferred to the company's reserve fund or used to increase the company's paid-up share capital. Profits of SFTCs can also be placed in bank accounts or used to purchase gilt-edged securities, bills of exchange, etc.

There are a number of ways the USSR can promote the development of SFTCs. As we just learned, shareholders of SFTCs often opt to plough back their profits. In addition, the USSR can subsidise SFTCs via direct cash payments or, more commonly, it can sell its exports to SFTCs at relatively low prices or buy its imports from such companies at relatively high prices. Moreover, the USSR can grant SFTCs monopoly and monopsony rights,[2] and cover licensing and technical assistance fees charged to SFTCs.

SFTCs often obtain supplies and services from other Soviet organisations in the West. For example, the Anglo-Soviet Shipping Company in London orders petroleum products from Soviet distributors in the U.K. and employs the services of Moscow Narodny Bank Ltd. In regions where Soviet goods and services are not readily available SFTCs obtain their supplies and services from local sellers.

SFTCs perform a number of functions. Soviet foreign-based shipping and insurance companies provide services for both CMEA and Western clients. The majority of SFTCs represent one or more FTOs and are responsible for selling Soviet-made products abroad as well as purchasing commodities in foreign markets on behalf of their shareholders. One such company is Sobren Chemiehandel GmbH (FRG) which is responsible for handling Soviet chemical exports to Germany and buying German chemicals on behalf of the FTO Soyuzkhimeksport. Some SFTCs are involved in selling commodities which are manufactured on the basis of Soviet and foreign technology. For example, the French-Soviet company Slava SA opened a plant in 1976 to assemble watches made with Soviet movements and French casings. The USSR is also setting up companies in IMTEs (e.g., Promolease in Paris) which are responsible for leasing Western machinery and equipment to CMEA organisations as well as leasing CMEA-made machinery and equipment to Western companies.

Some of the larger SFTCs are divided into at least four specialised departments: administrative, commercial, financial, and technical.[3] The administrative department is generally responsible for co-ordinating the activities of individual departments within the company. The commercial department is responsible for obtaining commodities directly from Soviet FTOs (e.g., automobiles from Avtoeksport, boat and ship engines from Sudoimport, tractors and road-building equipment from Traktoroeksport, and tyres from Radnoimport). The commercial department is also responsible for selling Soviet exports to local buyers and purchasing commodities in Western markets for FTOs. The financial department is responsible for arranging (or providing) banking services for buyers. The technical department performs a number of tasks including the servicing of Soviet exports and advertising.

Some SFTCs are set up to conduct their operations within a given country. On the other hand a growing number of SFTCs are set up in major world markets in order to facilitate Soviet trade with the host country and third countries. According to V. M. Ivanov, 'Soviet foreign trade organisations widely use the London market with its extensive international ties for trade with third countries'.[4] (Ivanov was probably referring to both SFTCs and USSR-based FTOs.) In 1975, Soviet trade turnover with third countries via companies (both British-owned and Soviet-owned) in the U.K. exceeded £400 million.[5]

A few of the larger SFTCs have recently established representative offices in Moscow. The advantage of such offices is not overly apparent in the light of the closely knit Soviet foreign trade network. In all likelihood SFTCs are merely following a policy set by a few Western firms in an attempt to generate additional business by advertising and providing on-the-spot services for their customers in Moscow.

Wholly Soviet-Owned Companies in World Markets[6]

SFTCs in this section are completely owned by the USSR. In most cases these companies were initially set up by Soviet shareholders. A few wholly Soviet-owned trading companies in MTEs initially operated as mixed companies or wholly Western-owned firms. SFTCs which are not included in this section can be found in APPENDIX B (pp. 417-421).

At the end of 1977 there were four wholly Soviet-owned companies operating in the United States--Amtorg Trading Corporation, Sovfracht (USA) Inc., Morflot American Shipping Inc., and Belarus Machinery of USA Inc. The Amtorg Corporation was established in New York in 1924, and is the oldest Soviet trading company in America. From 1947 to 1972, Amtorg was the only Soviet commercial organisation based in the U.S. (with the exception of the commercial counsellor's office in the Soviet Embassy). Since its inception Amtorg has functioned as an intermediary between American firms and Soviet FTOs. Although some members of Amtorg's staff have the authority to negotiate and sign contracts, they seldom carry out such activities. On occasion Amtorg provides assistance and logistical support for Soviet trade missions visiting the United States. During the last few years Amtorg has started to concentrate more of its efforts on increasing the level of Soviet exports to the United States. In line with this aim, Amtorg established an 'export and information department' which has offices in a separate building in New York City. Amtorg now has more direct access to Soviet FTOs through its representative office in Moscow named Mosamtorg. According to some sources Amtorg has been somewhat 'ineffective' in providing useful information and assistance to the American business community.[7] In 1976, Amtorg employed approximately forty Soviet and American citizens.

Sovfracht (USA) Inc. was established in New York in 1976, and is principally owned by the USSR-based chartering organisation Sovfrakht (see p. 362). During its early stages Sovfracht (USA) operated in the United States' freight market as a charterer and broker for American, Soviet and third-country dry-cargo ships to transport American grain to the USSR. At this time Sovfracht (USA) also charters Soviet and foreign tankers. In 1976, three Soviet citizens were employed in Sovfracht (USA).

Morflot American Shipping Inc. (Moram) was established in Clark, New Jersey in 1976, and is owned by the Soviet maritime organisation Sovinflot (see p. 362). In addition to its head office, Moram has branch offices in Dallas, Houston, and New Orleans. Moram's president is an American citizen who formerly served as a senior executive in two American shipping companies. He is reportedly earning 5 percent more at Moram than he was at his previous position. In addition to the president, Moram employs six directors and thirty-four sales personnel. All of Moram's employees are American citizens. According to one report Moram's annual level of business is about $70 million.[8]

The importance of Soviet companies like Sovfracht and Moram should be emphasised in the light of the marked increase in the USSR's maritime capabilities (see CHAPTER VI). Soviet shipping in and around the United States has become a big business operation. Moram is currently responsible for locating customers for some of the USSR's largest shipping companies--the Far Eastern Steamship Company (FESCO), the Baltic Steamship Company, the Black Sea Steamship Company, and the Northern Steamship Company. Soviet shipping companies offer American clients more than sixty sailings per month to and from ports on the east and west coasts, the Gulf of Mexico and the Great Lakes.

Belarus Machinery of USA Inc. was established in Milwaukee, Wisconsin at the end of 1976. The Soviet FTO Traktoroeksport is one of the company's shareholders. Belarus Machinery is responsible for selling and servicing Soviet tractors exported to the United States and arranging for the importation of American tractors into the USSR. In the latter half of 1978, the Soviet FTO Traktoroeksport agreed to deliver $1.5-million worth of agricultural tractors to Belarus Machinery.[9]

Amongst the wholly Soviet-owned companies in the U.K. are the Anglo-Soviet Shipping Company Ltd., the Black Sea and Baltic General Insurance Company Ltd., Nafta-GB Ltd., Technical and Optical Equipment Ltd., and United Machinery Organisation Plant Ltd. (UMO). The history of the Anglo-Soviet Shipping Company dates back to 7 June 1923, when it was first registered as Arcos Steamship Company Ltd. On 25 January 1928, the name of the company was changed to Anglo-Soviet Shipping Company. During the 1950s and most of the 1960s the Anglo-Soviet Shipping Company was principally engaged in chartering operations on behalf of the USSR-based chartering organisation Sovfrakht. The Anglo-Soviet Shipping Company was also responsible for appointing agents and stevedores for Soviet merchant vessels calling at ports in the U.K. In the late 1960s the Anglo-Soviet Shipping Company became the agent for Soviet vessels calling at the Port of London. In 1969, the Anglo-Soviet Shipping Company assumed responsibility for arranging supplies of fuel and lubricants for Soviet vessels in most world ports as well as arranging such supplies for foreign vessels in Soviet ports. In February 1970, the company became the general agent for all Soviet merchant ships operating in the U.K. and the Republic of Ireland. The Anglo-Soviet Shipping Company opened a branch office at Tilbury Dock in 1971 to facilitate the handling of containerised cargo. In 1973, the Anglo-Soviet Shipping Company employed sixty people including eight Soviet directors.[10]

Since 1973, a number of changes have taken place in the Anglo-Soviet Shipping Company. The company's chartering department was transformed into a separate London-based company under the name Sovfracht (London) Ltd. In addition, the Anglo-Soviet Shipping Company set up three subsidiary companies--Charter Travel Company Ltd. (CTC Lines), Sadko Marine Supplies Ltd., and the Anglo-Soviet Shipping Company (Humber) Ltd. The Charter Travel Company was established to handle business connected with cruises and main-line passenger services. Sadko Marine Supplies is responsible for arranging stores (e.g., fuel and food) for all Soviet vessels in U.K. ports. Sadko also arranges supplies for Soviet merchant vessels in other world ports. The Anglo-Soviet Shipping Company (Humber) acts as a general agent for all Soviet vessels calling at Humber ports.

In 1976, the Anglo-Soviet Shipping Company employed seventy-six British citizens and nine Soviet nationals. The company's board of directors comprised one local national and eight Soviet citizens. The number and nationality of the employees of Anglo-Soviet Shipping Company's subsidiaries are as follows: Charter Travel Company, twenty-two British employees; Sadko Marine Supplies, five British employees; and Anglo-Soviet Shipping Company (Humber), twenty British employees. Soviet personnel (i.e., the directors and one senior Soviet employee) assigned to Anglo-Soviet Shipping Company serve as directors of the subsidiary companies.[11]

The Anglo-Soviet Shipping Company is responsible for collecting freight charges of USSR-based shipping companies from British exporters and importers. In addition, the company deals with claims against Soviet merchant vessels. The Anglo-Soviet Shipping Company employs a team of freight canvassers to maintain constant contact with British exporters and importers. In order to facilitate its operations in the world charter market the Anglo-Soviet Shipping Company is represented by senior members of the Baltic Mercantile and Shipping Exchange. The Anglo-Soviet Shipping Company represents USSR-based shipping companies in international maritime organisations and conferences.

The Anglo-Soviet Shipping Company is a key participant in the door-to-door container service from the U.K. to Japan and Hong Kong. Containers are sent directly to Tilbury Dock where the Anglo-Soviet Shipping Company maintains transport services to Leningrad each week with first-class cellular containerships. In Leningrad the containers are transferred to the Trans-Siberian Railway for direct shipment to Nakhodka. The containers destined for Japan are shipped directly from Nakhodka while the containers for Hong Kong are shipped via Vladivostok.

The Anglo-Soviet Shipping Company also participates in a new freight service from the U.K. to destinations in Iran and Afghanistan. Commodities are loaded on special shallow-draft vessels (in Rochester, Felixstowe, and Hull) for shipment to Leningrad. During the summer months the vessels travel from Leningrad to the ports of Pahlavi and Now Shahr via the Volga River and Caspian Sea. From Pahlavi and Now Shahr the goods are shipped via land transport to such cities as Julfa, Teheran, Kushka, Termez, and Kabul. During the winter months land transport is used to ship commodities from Baltic ports to the aforementioned destinations.[12]

The Tilbury office of the Anglo-Soviet Shipping Company handles a sizeable portion of the port business of Soviet passenger-ships. During 1973, Soviet passenger-ships made approximately fifty calls at the Port of London. Soviet passenger-ships sail from London to New York, Montreal, the Atlantic islands, North Africa and the West Indies. Soviet passenger-ships are known throughout the world for their excellent services and reasonable fares.

The Black Sea and Baltic General Insurance Company was established in London in 1925. A sizeable portion of the company's share capital is owned by Ingosstrakh--the USSR-based insurance organisation. Since its inception the Black Sea and Baltic Insurance Company has been primarily concerned with insuring risks connected with trade between the USSR and the West. The company has branches in France and the Lebanon. It also sells insurance through a number of agencies in the West. Some of Black Sea and Baltic's business is conducted with brokers and underwriters from the Corporation of Lloyds. In London, the Black Sea and Baltic Insurance Company acts as a claims agent for Ingosstrakh. Between 1960 and 1974, the capital of the company increased from £500,000 to £1,900,000.[13]

The importance of the USSR's foreign insurance business has grown considerably as a result of the marked increase in Soviet foreign trade. Exports from the USSR which are insured by Ingosstrakh (and its foreign companies) earn additional foreign currency for the Soviet Union (FTOs increase the prices of their exports in order to cover the cost of insurance). Ingosstrakh can also reduce the foreign currency expenditures of the USSR by insuring the country's imports.[14] Soviet contract proposals sometimes contain a clause which provides for a Soviet importing organisation to insure its imports (which are purchased on an f.o.b. basis) from the time they leave the seller's premises until they arrive at their final destination. This is somewhat unusual in an f.o.b. contract in that the buyer agrees to provide insurance at a time when the seller should still be responsible for safeguarding the commodities. F.o.b. contracts containing this special clause normally provide for the deduction of a certain percent of the invoice price to cover the cost of insurance from the time the goods leave the seller's premises until they are safely stored on the ship.

It is sometimes advantageous for Western exporters to employ the services of Soviet insurance companies when selling commodities to the USSR and other CMEA nations. The Black Sea and Baltic Insurance Company specialises in the insurance problems of CMEA members and enjoys close business relations with Soviet and East European organisations which are responsible for handling insurance policies and claims. Since Black Sea and Baltic is in an advantageous position to assess the risks of exporting commodities to CMEA nations the company is often able to offer cheaper premiums than its Western-owned counterparts. In addition to its policies for Western exporters, Black Sea and Baltic also provides comprehensive insurance policies for Western shippers and buyers. Black Sea and Baltic's expertise in East-West trade enables it to handle insurance claims promptly. Western insurance companies can request assistance (for a fee of course) from Soviet insurance agents in order to eliminate some of the pitfalls of insuring commodity transfers between East and West. In this respect Soviet insurance companies can act in the best interest of their Western counterparts since CMEA trading organisations would probably be more reluctant to file questionable claims knowing that a given Western insurance company has hired the services of Soviet insurance agents.

A sizeable portion of Black Sea and Baltic's business is connected with all-risk policies (damage, default etc.) and non-payment-risk policies for Western manufacturers exporting machinery and equipment to CMEA nations. The company's marine department is actively involved in writing insurance policies against hull and cargo risks. Black Sea and Baltic is presently attempting to expand its aviation insurance business. For some time the company has tried to increase its business which lies outside the confines of East-West trade. In line with this aim Black Sea and Baltic recently started issuing life insurance policies. In April 1972, the Black Sea and Baltic Insurance Company reportedly agreed to partially underwrite $26-million worth of insurance against foreign expropriation of American private investments in LDCs. According to the U.S. Overseas Private Investment Corporation that was the first time the USSR had participated in insuring American overseas investment.[15]

Before World War II, London was an important market for Soviet petroleum exports. As we learned in CHAPTER I, the USSR established Russian Oil Products Ltd. in London to market Soviet petroleum and petroleum products. Immediately after the war the USSR began to scale down its operations in Western petroleum markets. As a result there was little need for Soviet petroleum companies in the West. Consequently, Russian Oil Products Ltd. was liquidated in the late 1940s. But a decade later the USSR began to show more interest in supplying petroleum to Western buyers. In the late 1950s the Soviet-owned company Nafta-GB was set up in London to handle Soviet imports and exports of petroleum and petroleum products.[16]

For some time the operations of Nafta-GB attracted little attention. However, by the late 1960s the company had 500 outlets in the U.K. and was reportedly under orders to gain an even larger share of the market.[17] Under the new marketing policy Nafta's oil derrick symbol was discarded and replaced with a red, yellow and black Nafta sign. Moreover, the company hired a British manager who had helped launch the Total and Amoco chains in the U.K.[18] Nafta also attracted a lot of business by selling its petrol three to four pence cheaper than leading brands.

In 1963, Fanny James and her nephew Rafael Hyams established the company Technical and Optical Equipment Ltd. to sell Soviet radios and cameras. Five years later (April 1968) the USSR acquired the company from the two British citizens. The history of Technical and Optical Equipment brings to light at least one drawback connected with Western firms acting as marketing agents for Soviet FTOs. According to Marshall Goldman, after it was clear that Technical and Optical Equipment was making a profit the USSR, 'by means of a series of political and economic pressures, forced the British owners [James and Hyams] out of their own company'.[19]

Although Goldman did not elaborate on the aforementioned 'political and economic pressures' which were applied against the former owners of Technical and Optical Equipment Ltd., there are many commonly used tactics which could be employed by FTOs to gain control over a small Western company operating as a retail or wholesale outlet for Soviet commodities. Firstly, the USSR is in a position to offer Western owners a generous amount (of convertible currency) for their company. (Most [Western] shareholders can be persuaded to sell if the price is right.) Secondly, FTOs could threaten to appoint a marketing agent in the same vicinity or they could set up their own operation (most likely with the assistance of a local company) for the purpose of driving a given company out of business. This could be accomplished by increasing the price of commodities exported to the retail or wholesale outlet (which would result in higher prices for local consumers) or simply selling products through the rival Soviet company (or appointed marketing agent) at prices below those charged by the retail or wholesale outlet. Thirdly, Soviet FTOs could threaten to drive a Western company out of business by decreasing commodity deliveries (or stopping such deliveries altogether). The USSR could also threaten to carry out a press campaign against a retail or wholesale outlet. (Soviet FTOs could attack an outlet for charging exorbitant prices, providing inadequate servicing facilities, etc.) Of course, any tactics which are not businesslike might prove to be too risky. Indeed, if a small Western retail or wholesale outlet should decide not to submit to Soviet pressures (with the firm backing of the local business community) FTOs would either lose an outlet for their commodities or be required to make amends to the Western company.

The FTO Mashpriborintorg and Moscow Narodny Bank Ltd. are shareholders of Technical and Optical Equipment. The company sells Soviet microscopes and photographic and optical equipment. Technical and Optical Equipment functions as Mashpriborintorg's sole agent in the U.K. In 1972, Technical and Optical Equipment sold over 100,000 radios and approximately the same number of cameras. Some of the Soviet citizens expelled from the U.K. on spying charges in September 1971 were employed in Technical and Optical Equipment.[20]

United Machinery Organisation Plant Ltd. (UMO) was established in Letchworth in 1969 to import and sell various types of machinery and equipment from the USSR. Some of the commodities handled by the company are as follows: earth-moving equipment, diesel generators, compressors, welding equipment, and helicopters. UMO acts as a representative for Traktoroeksport, Avtoeksport, Mashinoeksport, Sudoimport, Tekhmashimport and Energomasheksport. UMO has spare parts and servicing facilities in both Letchworth and Doncaster. Between 1972 and 1974, UMO sold more than 200 fifteen-ton KrAS 256B dump trucks and 30 thirty-ton 300-horsepower D572 bulldozers.

At the present time there is only one wholly Soviet-owned non-banking company in Austria--Garant Versicherungs AG. The company was established in Vienna in 1958, and a sizeable portion of its share capital is held by Ingosstrakh. Over half of Garant's business is conducted with the FRG while Austria and Switzerland rank second and third respectively. Garant maintains a permanent representative in

Belgium and operates through local insurance brokers in France, Switzerland and the Lebanon.

Garant's principal business is insuring against default and protracted payment. If for any number of reasons (e.g., red tape, and failure to obtain enough funds) a Soviet importing organisation fails to meet its obligations sixty days after the due date Garant immediately pays the insured.[21] Since 1974, insurance for late payment has become Garant's most important business. (In 1974, Garant's premium income from late-payment insurance totalled $567,263, while its premium income from machine and shipping insurance combined only totalled $539,014.)

Garant manufacturing-risk insurance covers the typical risks of cancellation of an order and non-acceptance of delivered goods as well as the risk of non-delivery of commodities due to a sudden import ban, cessation of diplomatic and economic relations, civil strife, or confiscation. In addition to the aforementioned insurance policy Garant offers shipping insurance, warehouse insurance, and insurance against the breakage and malfunction of machinery until the trial runs have been completed.[22] Like the Black Sea and Baltic Insurance Company, Garant insures some West to West commodity shipments.

There are three wholly Soviet-owned companies in Canada--Belarus Equipment of Canada Ltd., Stan Canada Machinery Ltd., and Emec Trading Ltd. These three companies and a Canadian-Soviet company (Socan Aircraft) have sold over 50 million-rubles (roughly $68-million) worth of machinery and equipment. Approximately half (i.e., 24 million-rubles worth) of this machinery and equipment will be delivered during the period 1977-1980.[23]

In 1973, the Soviet FTO Traktoroeksport and the Satra Corporation--an American company specialising in trade with the USSR--established two mixed companies to sell and service Soviet-made farm machinery and equipment in Canada. One company--Belarus Equipment of Canada Ltd.--was responsible for preparing the machinery and equipment for sale and providing after-sale servicing. Traktoroeksport owned 80 percent of the company's share capital and the Satra Corporation owned the remaining 20 percent. The other company--Belarus Sales of Canada Ltd.--was responsible for selling the aforementioned machinery and equipment through a network of dealerships. The equity distribution in this company was reversed-- Satra owned 80 percent of the share capital and Traktoroeksport 20 percent. Between 1975 and 1976, Belarus Sales of Canada was liquidated and Belarus Equipment of Canada assumed sole responsibility for the marketing and servicing of Soviet-made farm equipment in Canada. Belarus Equipment of Canada is now a wholly Soviet-owned company. The Soviet FTOs Traktoroeksport and Zapchast'eksport are shareholders of the company.

At the outset Belarus Equipment only sold agricultural tractors. The company now sells a wide range of commodities including tractors, harvesters, excavators, construction machinery, and motorcycles. Between 1973 and 1978, Belarus Sales and Belarus Equipment sold 3,500 agricultural tractors in Canada.[24] Belarus Equipment has a training programme for its Canadian employees on the maintenance and servicing of Soviet machinery and equipment. The company's share capital totalled 505,000 Canadian dollars (about $505,000) in 1975. During the same year Belarus' assets stood at approximately 2.7 million Canadian dollars (about $2.7 million).[25]

Stan Canada Machinery Ltd. was established in Toronto in 1972. One of the company's shareholders is the FTO Stankoimport. Stan Canada sells and services machine-tools and other types of industrial machinery produced in the USSR. The company sold about 350 machine-tools from mid-1975 to mid-1978.[26] Stan Canada employs eleven Soviet citizens including two of the company's vice-presidents. In addition to its head office in Toronto Stan Canada has a branch office in Montreal.

Emec Trading Ltd. was established in March 1973 to represent the Soviet FTO Energomasheksport. Emec Trading has offices in Vancouver and Winnipeg. The company is responsible for handling a wide range of commodities including hydrofoils and hydroelectric turbines. Since 1973, Emec has imported thirteen Volga-70 cargo hydrofoils.[27] The company is planning to import passenger hydrofoils. The president of Emec is a Soviet citizen. A Canadian citizen functions as the company's legal advisor.

There is one wholly Soviet-owned non-banking company in Germany--Schwarzmeer und Ostsee Transportversicherungs AG (Sovag). The company was set up in 1927 to handle transportation insurance and operate in the German reinsurance market. Sovag was liquidated by the Nazis in 1941, and re-established in 1956 to issue transportation and fire insurance. Since 1971, Sovag's underwriting operations have included theft, machine, construction and credit-guarantee insurance. Sovag has a joint coverage agreement with Allianz--a West German insurance company--regarding machine and construction insurance.[28] Sovag is based in Hamburg and reportedly has representatives in Belgium and France.

Soviet-Foreign (Mixed) Companies Operating In World Markets[29]

Companies in this section are owned by both Soviet and foreign shareholders. Since the early 1970s the number of mixed companies has increased significantly. Many of these companies are controlled by the USSR (i.e., the USSR owns over 50 percent of the share capital). In some cases the ownership of mixed companies is divided 50-50. In a few instances the USSR is a minority shareholder. Mixed companies not mentioned in this section are included in APPENDIX B.

There is only one American-Soviet profit-making company in the United States--U.S.-USSR Marine Resources Inc. The company was established in Bellingham, Washington in 1976. The share capital of U.S.-USSR Marine Resources totals $50,000 and is divided equally between Sovrybflot (the Soviet fishing fleet) and the Bellingham Cold Storage Company. U.S.-USSR Marine Resources is responsible for catching, processing and selling fish as well as servicing Soviet fishing vessels.

According to the agreement between the Bellingham Cold Storage Company and Sovrybflot, American fishing vessels are responsible for delivering hakefish to Soviet factory ships. After the hake have been processed on the factory ships a certain portion of the catch is shipped to the Bellingham Cold Storage Company in American refrigerator ships. Bellingham is responsible for marketing the processed hake in the United States. Sovrybflot was motivated to set up the mixed company when American authorities decided to establish the 200-mile exclusive economic zone after 1 March 1977. Approximately 10 percent of the total Soviet catch has come from areas which fall within this 200-mile zone.[30] Soviet fishing vessels connected with the mixed company are required to obtain permission from U.S. authorities before operating in American waters.

There is one British-Soviet company in the U.K.--East-West Leasing Company. The company was established in London in 1973 to promote the leasing of machinery and equipment between CMEA nations and the West. The share capital of East-West Leasing Company is evenly divided between Moscow Narodny Bank (London) and the British bank Morgan Grenfell.

There are two Austrian-Soviet companies operating in Austria--Asotra and Interprom Handelsgesellschaft mbH. Asotra began operating in 1976, and is owned by the Soviet freight forwarding organisation Soyuzvneshtrans, the Austrian company Express GmbH, and two subsidiaries of the Swiss companies Panalpina and Danzas. Soyuzvneshtrans owns 52 percent of Asotra's share capital. Asotra's operations include the transport of commodities from the USSR to Austria, the acceptance of goods in Austria for transport into/through the USSR, and the shipment of commodities (both Soviet and foreign) through Austria for delivery in other countries. There are approximately fifteen Asotra employees. Asotra's two managers are Austrian citizens.

Interprom Handelsgesellschaft mbH was established in Vienna in January 1978. The company's initial share capital amounted to 5 million Austrian shillings (about $278,000). Soviet FTOs own 60 percent of Interprom's share capital (Soyuzpromeksport, 50 percent; Soyuzgazeksport, 5 percent; and Soyuzkhimeksport, 5 percent) and the remaining shares are owned by an Austrian company. The vice-president of Soyuzpromeksport was nominated as director-general of Interprom. The company was set up to promote trade in raw materials and chemical products between Austria and the USSR. It is interesting to note that Interprom eventually plans to expand its operations to third countries.[31]

In 1976, the USSR owned share capital in eight companies operating in Belgium--Scaldia-Volga, the Belgium-Soviet Trade Company, Nafta-B, Transworld Marine Agency, NV Ferchimex, Russalmaz NV, NV East-West Agencies, and NV Elorg Belgie. Scaldia-Volga was established in Brussels in 1964. Two-thirds of the company's share capital is owned by the FTOs Avtoeksport, Mashinoeksport, and Traktoroeksport. Soviet citizens comprise the majority of Scaldia-Volga's directors. The chairman and head of administration of Scaldia-Volga are Soviet citizens. Scaldia-Volga handles the preparation and sale of Soviet motor vehicles. The company also sells Soviet machine-tools and pressing and forging equipment.

Scaldia-Volga's head office in Brussels (including the technical centre) has showrooms, spare-parts shops and a large service/repair centre. The company also has technical centres in Diegem, Charleroi, Namur, Liege and Ghent. In Antwerp, Scaldia-Volga has a depot for motor vehicles and a centre for the pre-sale preparation of Soviet automobiles.[32] Standard parts are imported from the USSR for the preparation of Soviet automobiles in Belgium. Some of the Soviet automobiles which are prepared in Belgium are sold to Poland, Hungary and Bulgaria. In 1969, Scaldia-Volga was on the verge of bankruptcy. Since then the company has made a remarkable recovery. During the first eleven months of 1976, Scaldia-Volga sold 14,000 Soviet automobiles; 12,000 more than in 1971.

Before we cover the remaining Belgian-Soviet companies it should be mentioned that Scaldia-Volga and other such mixed companies in MTEs account for a significant portion of Soviet automobile sales in the West. According to Engibarov, mixed companies sold 40.5 percent of Soviet automobiles exported to capitalist countries in 1974.[33] Most of the remaining automobiles were sold via Western-owned companies which received marketing rights from the Soviet FTO Avtoeksport. (For examples of these Western-owned companies see p. 142.)

The Belgium-Soviet Trade Company (Belso) was established in Antwerp in 1966. The Soviet FTOs Vneshposyltorg, Eksportles, Raznoeksport and Prodintorg own 75 percent of the company's share capital. The remaining shares are divided amongst five Belgian firms. Belso specialises in the wholesale trade of foodstuffs and consumer goods. The company sells commodities to both Soviet and foreign buyers. Belso has sales offices in Brussels, Antwerp, Liege and Charleroi. In 1967, Belso established a department store in Brussels named Maison de la

Russie. The store sells a variety of Soviet-produced goods including food, spirits, watches, cameras and handicrafts. In 1973, sales of Soviet commodities through Belso totalled $13 million. During the same period Belso sold $21-million worth of goods to the USSR.

Nafta-B was established in Antwerp in 1967 to promote the exportation of Soviet petroleum and petroleum products to Belgium and neighbouring countries. Prior to 1971, the USSR owned 60 percent of Nafta-B's share capital and was represented by four FTOs--Soyuznefteeksport, Soyuzpromeksport, Soyuzkhimeksport and Avtoeksport. The remaining shares were divided amongst Belgian shareholders including the Belgian Bunkering and Stevedoring Company and Societe Commerciale Antoine Vloeberghs. As a result of the issuance of 6,950 additional shares in 1971, the USSR acquired a 90 percent interest in Nafta-B. In 1971, Nafta-B's share capital totalled $2.6 million.

Nafta-B imports a sizeable amount of its petroleum from the USSR. However, Goldman has pointed out that in 1969 and 1970, Nafta-B was selling a lot more petroleum than the USSR was exporting to Belgium.[34] The amount which exceeded Soviet exports presumably came from the Middle East. In addition to crude oil, Nafta-B purchases petrol, fuel oil and other refined petroleum products from the USSR. Nafta-B's petroleum is currently being refined by the Belgian firm Albatros. According to some reports Nafta-B is planning to construct a petroleum refinery in Antwerp to process crude oil from Soviet and other sources.[35]

Nafta-B sells most of its petroleum and petroleum products to Western Europe and North America. The company has branch offices in Copenhagen and Zurich, and sales outlets in Antwerp, Liege, Brussels and Bruges. Nafta-B has storage tanks and a storage terminal in Antwerp. Nafta-B's total sales in 1975 amounted to 23.2 billion Belgian francs (about $657 million).

Transworld Marine Agency (TWM) was established in Antwerp in 1970. At that time the company's share capital totalled $142,800. In 1972, TWM's share capital was increased to $342,800. Five USSR-based organisations--Sovinflot, Sovfrakht, the Baltic Steamship Company, the Murmansk Steamship Company and the Latvian Steamship Company--own 75 percent of TWM's share capital. The remaining shares are owned by Belgians.

TWM is one of the largest shipping companies in the Benelux countries and represents at least twenty Soviet international lines. TWM's Belgium-based branch offices are located in Ghent, Ostend, Zeebrugge and Brussels. The company also has representative offices in the Netherlands (Amsterdam, Rotterdam, Delfzyl, Vlissengen and Terneuzen) and the FRG (Düsseldorf and Frankfurt). TWM functions as a freight forwarder, customs representative, shipping agent, insurer and travel agent. TWM and its agents handled 1,310 Soviet vessels in 1973, and 1,442 in 1974.

NV Ferchimex was established in Antwerp in 1972 to market Soviet fertilisers and chemical products in Belgium and neighbouring countries. The Soviet FTOs Soyuzpromeksport, Soyuzkhimeksport, Soyuznefteeksport and Avtoeksport own 60 percent of the company's share capital. The remaining shares are held by three Belgian firms--the Belgian Bunkering and Stevedoring Company, Societe Commerciale Antoine Vloeberghs and Steinman and Company.

Russalmaz NV was set up in Antwerp in 1973 by three Soviet FTOs--Almazyuvelireksport, Novoeksport and Soyuzpromeksport--and three Belgian companies: the Belgian Bunkering and Stevedoring Company, the Antwerp Diamond Company and Diacem.[36] The USSR owns 80 percent of Russalmaz's share capital. The company is primarily concerned with marketing Soviet diamonds in Western Europe. During the first half of 1975, the USSR delivered approximately $40-million worth of gemstones to the Antwerp market.

NV East-West Agencies was established in Aartselaar in 1973 to promote the sale of Soviet-made precision goods such as photographic equipment, optical supplies, radios, televisions, and accessories. It is a subsidiary of a Soviet-controlled company in the Netherlands under the same name (see third paragraph on this page). Before NV East-West Agencies was set up a Belgian company was responsible for the wholesale and retail marketing of the aforementioned Soviet commodities.

NV Elorg Belgie was established in Aartselaar in 1974 as a subsidiary of a Soviet-controlled company in the Netherlands under the same name (see fourth paragraph on this page). Elorg Belgie is responsible for handling the commercial and financial business connected with the export of Soviet computers and other electronic devices to buyers in Belgium and third countries. The company also prepares, buys, and sells computer programmes as well as repairs computers and other electronic devices. In addition to the parent company, the following SFTCs own share capital in Elorg Belgie: Nafta-B, Belso and Scaldia-Volga.

There are two Dutch-Soviet companies in the Netherlands--East-West Agencies and Elorg BV. East-West Agencies was established in 1959 as a wholly Dutch-owned company. In 1969, the USSR became the company's major shareholder. The Soviet FTO Mashpriborintorg owns a sizeable amount of the share capital in East-West Agencies. The company is based in the Hague and is responsible for selling Soviet-made photographic equipment, optical supplies and other precision goods.

Elorg BV was established in Hilversum in 1972 to sell Soviet computers in Western Europe and the Third World, adapt Western equipment to Soviet Minsk and Ryad computers, and to operate as a computer service agency. The Soviet FTO Elektronorgtekhnika owns 65 percent of the company's share capital. The remaining shares are held by the

Dutch firm Datacon. Total capital investment in Elorg BV was estimated at $7.3 million in the spring of 1976. The company has about thirty employees including a Soviet director and a few Soviet technicians.[37]

According to some reports Elorg BV has not been too successful. In the early part of 1976, the company's monthly cash flow was estimated at only $2,200. In addition, there have been a number of complaints from clients about the quality of Elorg's computer services. Moreover, the company appears to have experienced some difficulty adapting Western peripheral equipment to Soviet computers. We should also keep in mind that Elorg's problems go beyond economic and technical matters. In April 1976, Elorg's Soviet director, V. T. Khlystov, was expelled from the Netherlands following Dutch allegations that he used the company's resources to obtain confidential information on NATO aircraft production.[38] According to one report the publicity stemming from this incident has made it difficult for Elorg to acquire new customers.[39] However, despite its many problems the company has been successful in at least three respects: Elorg has been able to introduce Soviet-built computers and Soviet technicians to the West European computer market; Elorg has played an active role in acquiring information about developments and trends in Western computer industries; and Elorg has been able to obtain equipment and technical material in Western markets which have been hitherto unavailable to the USSR.

There are two Canadian-Soviet companies operating in Canada--Morflot Freight Liners Ltd., and Socan Aircraft Ltd. On 31 December 1975, Pacific International Freight Liners Ltd. (PIF)--a Soviet-controlled company--was transformed into Morflot Freight Liners Ltd. Like its predecessor, Morflot Freight Liners is controlled by the USSR. Only 5 percent of Morflot's shares are held by a Canadian shareholder and

Morflot is entitled to recall these shares at book value. Morflot represents the Soviet maritime organisation Sovinflot and acts as a general agent for Soviet shipping in and around Canada. Morflot is based in Vancouver.

Socan Aircraft was established in Calgary, Alberta in 1975 to install North American aviation equipment in the Soviet-built Yak-40--a medium-range jet--and to sell and service this aircraft in Canada. The Soviet FTO Aviaeksport owns 67 percent of the company's share capital and the remainder is owned by Allarco Developments Ltd.--a large Canadian conglomerate. Socan was formed after nearly five years of negotiations and the agreement is subject to review by Soviet and Canadian shareholders at the end of each five-year period. The company's development has been delayed as a result of the Canadian government's reluctance to certify the Yak-40.[40]

When the Yak-40 is certified Socan will import a stripped-down version of the plane from the USSR. Then the company plans to install the necessary equipment so the Canadian version of the Yak-40 meets the approval of the Canadian Ministry of Transport. According to one report Socan is expected to sell between thirty and thirty-five Yak-40 jets during the late 1970s and early 1980s.[41] Socan could also start marketing Soviet-made MI-8 and MI-10 heavy-duty helicopters. Soviet technicians will handle most of Socan's servicing operations until enough Canadian technicians are qualified to perform such duties. Socan also has marketing rights in the United States. However, Socan's exports might face stiff competition in the United States since an American company is currently planning to import Yak-40 airframes and add American engines, equipment and wiring to the aircraft.

Socan's initial share capital amounted to 50,000 Canadian dollars (about $50,000). The company's chairman of the board of directors, chief executive officer, president, and managing director are all Canadian citizens.[42] Soviet citizens occupy three of the five positions on Socan's board of directors.

In 1977, there were seven German-Soviet non-banking companies operating in the FRG--Neotype Techmaschexport GmbH, Plodimex Aussenhandels GmbH, Russische Holz GmbH, Sobren Chemiehandel GmbH, Überseeschiffahrtsagentur Transnautic GmbH, Russalmaz AG, and Wesotra Spedition und Transport GmbH. Neotype Techmaschexport GmbH was established in Cologne in 1973 to promote the sale of Soviet machinery and equipment connected with the printing industry. Prior to 1973, the USSR sold its printing machinery and equipment through a firm established by the West German company Anton Ohlert. The Soviet FTO Tekhmasheksport initially held 75 percent of Neotype's share capital and Anton Ohlert owned the remaining shares. In 1975, the FTO Tekhnopromimport became one of Neotype's shareholders. This researcher does not know whether Tekhnopromimport received new shares from the company or whether it purchased its shares from Tekhmasheksport or Anton Ohlert (or both). Neotype has sold machinery and equipment to 143 printing houses in the FRG and has sales outlets in a number of countries in Europe, Asia and Africa. Over half of Neotype's business involves third countries.

Plodimex Aussenhandels GmbH was set up in Juelich in 1974 to sell Soviet wines and vodka to customers in the FRG and neighbouring countries. The initial share capital of Plodimex amounted to DM 1.3 million (about $514,000). The FTO Soyuzplodoimport owns 51 percent of the company's share capital and the West German company Simex Aussenhandelsgesellschaft mbH--the company which had been responsible for importing Soviet vodka, red wine, brandy and champagne since 1963--owns the remaining shares. Plodimex plans to sell commodities other than the ones mentioned above in the near future.

Russische Holz GmbH (Russholz) was established in 1974 to promote the sale of Soviet wood, pulp, and paper products in the FRG. The shareholders of Russholz include the Soviet FTO Eksportles and several West German companies. Russholz's general-director is a Soviet citizen.

Sobren Chemiehandel GmbH was set up in Muelheim in 1974 to buy and sell chemical products in the FRG on behalf of the Soviet FTO Soyuzkhimeksport. The company's share capital totals DM 150,000 (about $68,000). Soyuzkhimeksport and the West German company Brenntag AG each own 49 percent of Sobren Chemiehandel's share capital. The remaining shares are held by Ost-West Handelsbank AG--a wholly Soviet-owned bank in the FRG. Sobren Chemiehandel is authorised to sign contracts concerning compensatory deals between the FRG and the USSR.

In 1974, Überseeschiffahrtsagentur Transnautic GmbH was set up in Hamburg to promote Soviet maritime operations in and around the FRG. The company's share capital is owned by Sovinflot and a West German firm. Überseeschiffahrtsagentur Transnautic is yet another example of the USSR's growing interest in penetrating Western shipping markets.

Russalmaz AG was established in Frankfurt in 1975 to handle the export and import of diamonds, other precious gemstones, various types of precious metals and jewelry on behalf of the Soviet FTO Almazyuvelireksport. Approximately 90 percent of the company's share capital is owned by Almazyuvelireksport and the remainder is owned by a West German firm. The German shareholder is responsible for handling Russalmaz's day-to-day operations.

Wesotra Spedition und Transport GmbH was established in Cologne in 1976 by the Soviet FTO Soyuzvneshtrans, the German Federal Railways, and three West German transport companies. Wesotra's responsibilities include: improving freight services between the FRG and the USSR; selecting the best routes for shipping commodities between the FRG and the USSR; co-ordinating the transport of cargo from third countries to the USSR; and co-ordinating the transport of cargo from the USSR to third countries. Soyuzvneshtrans owns 52 percent of Wesotra's share capital.

Some of the Finnish-Soviet companies operating in Finland are as follows: Konela, Suomen Petrooli, Teboil Oy, Koneisto AB, Finn-Elorg, and Saimaa Lines. Konela was established in Lauthasarri (a suburb of Helsinki) in 1947 to sell and service Soviet motor vehicles and boat/ship engines in Finland. At the present time the company is also responsible for preparing Soviet motor vehicles so they will satisfy the demands of Finnish consumers.[43] Konela is Avtoeksport's sole agent in Finland. Konela maintains a large import and preparation centre in Raippo which can prepare up to 60 motor vehicles per day; a large, centralised spare-parts depot in Helsinki which stocks more than 25,000 items for the vehicles; and 28 large, 14 medium-sized and about 50 small service stations and repair shops throughout Finland. The USSR owns 75 percent of Konela's share capital and the remaining portion is owned by Finnish shareholders. Konela's general-director and other top-level personnel are Soviet citizens.[44]

Since its inception Konela has sold approximately 150,000 Soviet automobiles and tractors in Finland. During the last few years Konela has been selling 10,000 to 12,000 Soviet automobiles annually to Finnish customers. Soviet automobiles and tractors comprise approximately 10 percent of Finland's total annual sales of automobiles and tractors.[45]

It is widely known that automobile servicing facilities in the USSR are considered underdeveloped vis-à-vis servicing facilities in the West. When the USSR started exporting automobiles to Western markets

Soviet manufacturers, FTOs and marketing companies were not prepared to meet the servicing demands of discerning Western consumers. As a result Soviet automobiles generated little interest despite their relatively low prices. This taught Soviet automobile manufacturers/sellers a valuable lesson: unlike the average Soviet consumer who is required to purchase what the Soviet automobile industry provides for him, the typical Western consumer can select an automobile from a wide range of (domestic and foreign) manufacturers. If a Western consumer is not satisfied with a given manufacturer he simply takes his business elsewhere. Since the early 1970s the USSR has made a serious effort to upgrade its servicing facilities abroad. This has reportedly led to a marked disparity between Soviet automobile servicing facilities abroad and such facilities in the USSR. According to Goldman, there are approximately 1,000 Soviet cars for every Konela garage in Finland while in the USSR there are about 2,200 Soviet cars for each servicing facility.[46]

Suomen Petrooli was set up as a Finnish company in 1932. In 1946, the USSR became a shareholder of Suomen Petrooli. The company is primarily responsible for marketing Soviet petroleum and petroleum products in the eastern part of Finland. The FTO Soyuznefteeksport owns most of Soumen Petrooli's share capital. Soumen Petrooli is based in Helsinki.

Teboil Oy is based in Helsinki and is responsible for selling such products as petrol, kerosene, diesel fuel, lubricants, liquefied gas, and auto accessories. The shareholders of Teboil include Soyuznefteeksport, Konela and Suomen Petrooli. In conjunction with Suomen Petrooli, Teboil supplies 400 automobile service stations and has 20 fuel depots with a total capacity of 600,000 cubic metres, two tankers and over 150 tanker-trucks and other fuel-carrying vehicles.[47]

Koneisto AB was established in Helsinki in 1964, and is responsible for selling and servicing various types of Soviet machinery and equipment. The shareholders of Koneisto include Teboil Oy, Konela, and two Soviet FTOs--Sudoimport and Stankoimport. In addition to its shareholders, Koneisto represents the following Soviet FTOs: Mashinoeksport, Mashpriborintorg, Energomasheksport, Tekhmasheksport, Tekhsnabeksport and Litsenzintorg. Koneisto maintains commercial centres and servicing facilities in Helsinki, Hanko, Jyvaskyla, Kirkkonummi and Oulu. The Helsinki complex includes a showroom, warehouse and depot. The Hanko complex includes production and storage facilities, showrooms, workshops and a spare-parts warehouse.

Finn-Elorg was established in Helsinki in 1974. The company's operations include the sale of Soviet computers. The Soviet FTO Elektronorgtekhnika owns over 50 percent of Finn-Elorg's share capital. The remaining shares are held by Teboil Oy and two Finnish companies.

Saimaa Lines was set up in the early 1970s to promote the operations of the Soviet merchant fleet. The company handles both containerised freight and bulk cargo. In 1975, Saimaa Lines opened a new line for the transport of containerised cargo from Western Europe to Iran. The route runs from Hamburg/Antwerp to Finland. When the goods arrive in Finland they are shipped via land transport (across the USSR) to Iran.

Some of the French-Soviet companies operating in France are as follows: Actif-Avto, Sogo and Company SA, Rusbois, Promolease and Fransov. Actif-Avto was set up by the Soviet FTO Traktoroeksport and a French farm co-operative in Paris in 1966 to assemble and sell Soviet agricultural tractors and other farm machinery. Traktoroeksport owns 70 percent of the company's share capital. Actif-Avto operates an office near Paris for receiving tractors and other machinery, and storing spare parts.

Sogo and Company SA was established in Paris in 1968 to sell Soviet chemicals (e.g., ammonia and methanol), patented medicines and raw materials for the pharmaceutical industry; and buy raw materials for the production of tyres, rubber goods, plastics and polyethylene. Amongst the company's shareholders are the FTO Soyuzkhimeksport and the French firm Gobert and Company. The initial share capital of Sogo and Company totalled 2 million French francs (about $400,000). The company's turnover amounted to approximately $150 million in 1973; 70 percent of this sum was connected with French exports to the USSR, and 30 percent with Soviet exports to France. In addition to its operations in France, Sogo and Company is planning to sell Soviet medicines in Spain.

Rusbois was established in Paris in 1969 to sell Soviet timber and wood products. The Soviet FTO Eksportles owns part of the company's share capital. Rusbois sold approximately $65-million worth of goods in 1973.

Promolease was set up in Paris in 1974 to lease various types of machinery and equipment to CMEA and Western clients. For example, the company purchases Soviet-made bulldozers to lease to the West, and buys Western-manufactured cargo containers to lease to Soviet and other CMEA clients. In 1977, Promolease was planning to extend its operations to the leasing of tankers, freighters, canning plants and road-building equipment. The shareholders of Promolease include Banque Commerciale pour l' Europe du Nord (the Paris-based Soviet bank) and Credit Lyonnais.

Fransov was established in 1976 to catch, process and sell fish and other types of marine life. The company also provides services for Soviet fishing vessels which operate off the east coast of Africa.

Sovrybflot owns 50 percent of the company's share capital and the remaining shares are held by French interests.

There are at least five Italian-Soviet companies operating in Italy--Stanitaliana SpA, Sovitalmare, Sovitpesca SpA, Dolphin Agenzia Maritima and Tecnicon SpA. Stanitaliana was set up in Milan in 1971 by the Soviet FTO Stankoimport and the Italian company Famo. Stanitaliana buys and sells machine-tools and forging and pressing equipment on behalf of Stankoimport. The company also sells machine-tools for the Soviet FTO Tekhmasheksport. The initial share capital of Stanitaliana amounted to 320 million lire (about $512,000); 84 percent of this capital was owned by Stankoimport. Stanitaliana is currently planning to build a showroom, spare-parts warehouse, machine-tool depot, workshop and a servicing facility in Assago. Between 1972 and 1974, Stanitaliana's sales of machinery and equipment increased from about $1.5 million to about $6.9 million.

Sovitalmare was established in 1976 to charter merchant vessels for Italian-Soviet trade. The shareholders of Sovitalmare include Sovfrakht (Moscow) and the Italian state-owned shipping company Finmare. Over half of Sovitalmare's shares are reportedly held by the Italians.

Sovitpesca was set up in Milan in 1976. The company's administrative offices are located in Leghorn. Sovitpesca is responsible for transporting fish to Italy and third countries, distributing fish in Italy and third countries, and providing services for Soviet fishing vessels.

Dolphin Agenzia Maritima was established in Genoa in 1976. The company is responsible for facilitating the operations of the Soviet merchant fleet. Sovinflot is the Soviet shareholder in Dolphin Agenzia Maritima.

On 15 September 1977, the Italian state-owned company Instituto per la Ricostruzione Industriale (IRI) signed an agreement with Litsenzintorg to establish the mixed company Tecnicon SpA. An affiliate of IRI--Italimpianti--owns 50 percent of Tecnicon's share capital and Litsenzintorg owns the other half. According to reports, Tecnicon will specialise in the design and construction of tin and steel mills in third countries.[48] It is interesting to note that unlike typical SFTCs which were set up to handle trade between the USSR and host countries, Tecnicon's operations will be primarily connected with promoting Italian and Soviet trade with third countries.

There are two Japanese-Soviet companies in Japan--the United Orient Shipping Agency and Nisotra. The United Orient Shipping Agency was set up in Tokyo in 1969 to facilitate Soviet maritime operations. The initial paid-up capital of the United Orient Shipping Agency totalled 50 million yen (about $139,000); 25 percent of the company's share capital was owned by Sovfrakht (Moscow), 25 percent by the (Soviet-owned) Far East Steamship Company, and 50 percent by Japanese interests.

In the latter part of 1977, the FTO Soyuzvneshtrans and three Japanese companies--Nippon Express Company, Nisshin Transportation and Warehousing Company, and Jeuro Container Transport Inc.--set up the mixed company Nisotra to operate the Trans-Siberian container service (i.e., the transport of containers between the Far East and Western Europe via the Trans-Siberian Railway). According to the agreement Soyuzvneshtrans owns 49 percent of the company's share capital and the remaining shares are divided equally amongst the Japanese partners. In addition to handling freight Nisotra rents and leases containers. Nisotra's seaborne transport services will be handled by the Far East Steamship Company and a Japanese shipping company on a 50-50 basis.[49]

According to one source the Japanese Foreign Ministry raised some objections over the establishment of Nisotra. One of the principal objections stemmed from the fact that the USSR (along with other shareholders in Nisotra) could monopolise the freight-forwarding business between Japan and Western Europe. Prior to the establishment of Nisotra it was pointed out that about sixteen Japanese freight-forwarding companies were shipping goods from Japan to Western Europe via the Trans-Siberian Railway. The Japanese Foreign Ministry expressed concern over the fact that the USSR could force these companies to ship their cargo through Nisotra. This would give Nisotra a tremendous amount of influence as the proportion of cargo shipped between Japan and Western Europe via the Trans-Siberian Railway has risen from 1 percent in the early 1970s to 20 percent in 1977.[50]

There are two Soviet-controlled companies in Norway--Koneisto Norge AS and Konela Norge Bil. Koneisto Norge was set up in Drammen in 1967 to distribute Soviet electrical engineering equipment, ships, machine-tools, forging and pressing equipment, precision instruments and bearings. The company's shareholders include Koneisto AB (Finland) and various FTOs.

Konela Norge Bil was established in Oslo to market Soviet motor vehicles. The Soviet FTO Avtoeksport is one of the company's shareholders. In 1972, Konela Norge Bil set up an 8,000 square-metre technical centre in Drammen which includes vehicle-preparation workshops, warehouses for spare parts and a paint shop. Two years later the company opened a new 2,000 square-metre commercial centre in Oslo. At the present time Konela Norge Bil provides supplies and services for over 50 automobile service stations throughout Norway.[51] Between 1974 and 1975, Konela Norge Bil's automobile sales increased from 1,400 to 1,750.

There are three Soviet-Spanish companies operating in Spain--

Sovhispan, Pesquerias Espanolas Sovieticas Conjuntas SA and Intramar SA. Sovhispan was established in Barcelona in 1971 to process and market fish and fish products as well as provide services for Soviet fishing vessels operating near the Canary Islands. The authorised share capital of the company totals 56 million pesetas (about $836,000). Sovrybflot owns 50 percent of Sovhispan's share capital and the remaining portion is owned by two Spanish companies--General de Tabacos de Filipinas of Barcelona and Suardias Chartering of Madrid. In 1976, Sovhispan established a representative office in Moscow. During the same year the company was planning to build a complex in Tenerife to process marine life and provide services for fishing vessels. Sovhispan sold approximately $29-million worth of Soviet fish products in 1975.

Pesquerias Espanolas Soviet Conjuntas SA (Pesconsa) was established in Madrid in 1975 to catch and sell fish. The initial share capital of the company totalled 5.6 million pesetas (about $84,000). Sovhispan is one of Pesconsa's shareholders. One of Sovhispan's directors functions as Pesconsa's president.

Intramar SA was set up in Madrid in 1976 to provide services for Soviet merchant vessels calling at Spanish ports. The company eventually plans to handle clients for Soviet passenger-ships. The Soviet maritime organisation Sovinflot and a Spanish firm are Intramar's shareholders.

Amongst the Soviet-Swedish companies conducting commercial operations in Sweden are Matreco Handels AB and Scansov AB. Matreco Handels was established in Stockholm in 1957 to market and service Soviet-made automobiles. The share capital of Matreco Handels totals 11,300,000 Swedish kronor (about $2,592,000); Avtoeksport owns Skr 11,000,000 (about $2,523,000) and Konela (Finland) owns the remaining Skr 300,000 (about $69,000). In 1975, Matreco Handels employed approximately eighty-five people.[52] The company has branch offices in Goteborg, Malmo, Gavle, Solleflea and Lulea. Matreco Handels is also represented by thirty-two sales and service agencies in Sweden. During 1978, Matreco Handels plans to open a large exhibition centre for passenger and commercial vehicles, farm equipment and industrial machinery.

Scansov AB was established in Stockholm in 1976 to facilitate seaborne trade between the USSR and Sweden. The company's share capital totals Skr 200,000 (about $46,000); Sovinflot owns 60 percent and the remaining shares are held by the Swedish company Fallenius and Lefflers. It is interesting to note that Scansov's Swedish shareholder has a majority of members on the board of directors. Fallenius and Lefflers is also responsible for appointing Scansov's managing director. Scansov employed approximately twenty people in February 1977.[53]

In addition to the aforementioned companies in IMTEs the USSR has companies in a number of LDCs. Some of these companies are listed as follows: the Ethiopian-Soviet Trading Company Ltd., Rafidian Fisheries Ltd., the Soviet-Mozambique Fishing Company, the West African Automobile and Technical Engineering Company, the Fil-Sov Shipping Company, the Marine Industries of Singapore-Soviet Company Pte Ltd. and the Singapore-Soviet Shipping Company. The Ethiopian-Soviet Trading Company Ltd. (Ethso) was set up in Addis Ababa, Ethiopia in 1967 to market Soviet motor vehicles, farm machinery and industrial equipment. The Soviet FTO Energomasheksport owns 72 percent of Ethso's share capital and the remaining shares are owned by an Ethiopian company. In addition to its main warehouse and sales facility in Addis Ababa, Ethso has several branches throughout Ethiopia.

Rafidian Fisheries Ltd. was established in Iraq in 1974. The share capital of the company totals 10 million Iraqi dinars (about $34 million). Iraq owns 51 percent of Rafidian Fisheries' share capital. The USSR has provided cold storage facilities and fishing vessels for the company. Soviet specialists have also trained Iraqi personnel working for Rafidian Fisheries. An Iraqi functions as the company's president and a Soviet citizen serves as vice-president.

The Soviet-Mozambique Fishing Company began operating in 1977. The company's operations include catching, processing and marketing marine life. Some of the processing is done on Soviet factory ships. The products of the Soviet-Mozambique Fishing Company are sold in both Mozambique and third countries. The company's share capital and profits are divided 50-50 between Mozambique and the USSR.

The West African Automobile and Technical Engineering Company (WAATECO) was set up in Lagos, Nigeria in 1967 to promote the sale of Soviet lorries, dump trucks, agricultural tractors, cross-country vehicles, buses, motorcycles and bicycles in Nigeria and other West African countries. In addition to its large commercial and technical complex in Lagos, WAATECO has branches in Kano, Jos, Benin, Maiduguri, Sokoto, Katsina, Ibadan and Kadun. The company has erected a number of standard buildings throughout Nigeria which contain workshops, service centres, storage rooms for spare parts, demonstration rooms and offices. WAATECO is now quite active in Liberia, Togo, the Ivory Coast and Equatorial Guinea.[54]

The Fil-Sov Shipping Company was established in the Philippines (Manila) in 1974 to facilitate the operations of the Soviet merchant fleet. A Philippine investor, E. M. Conjungco, owns 60 percent of Fil-Sov's share capital and the remaining shares are held by the Soviet maritime organisation Sovinflot. According to some reports the USSR has pumped funds into the company in order to cover operating losses.

However, this policy has not altered the 60-40 share capital ratio.

The Marine Industries of Singapore-Soviet Company Pte Ltd. (Marissco) was set up in Singapore in June 1975 by the Singapore company Straits Fisheries Pte Ltd. and Sovrybflot. The company was initially established to purchase marine life from Soviet fishing vessels and act as an agent for Soviet fishing vessels calling at ports in Singapore. Marissco's authorised share capital totals $12 million. The company's share capital and profits are divided 50-50 between Straits Fisheries and Sovrybflot. In June 1976, Marissco agreed to purchase 8,000 metric tons of fish and other types of sea foods from the Soviet FTO Prodintorg. According to one estimate Marissco will purchase about 27,000 metric tons of sea products from Prodintorg in 1979/1980. These marine products will be reprocessed and repacked in Singapore and then sold under the trade name 'Neptune's Pride'. In the latter part of 1977, Marissco was planning to set up a $12-million seafood processing and storage complex which could eventually become Singapore's first fully integrated seafood processing facility.[55]

The Singapore-Soviet Shipping Company (Sosiac) was established in Singapore in 1967 to provide supplies and services for Soviet merchant vessels operating in waters around Singapore. The company's shareholders are Sovinflot and a private local company. At the outset Sosiac's chartering activities were only connected with the USSR-based Far Eastern Steamship Company. However, by the early 1970s Sosiac was responsible for chartering merchant vessels from other Soviet shipping companies.

Western-Owned Companies Functioning as Agents of Soviet Commercial Organisations

Although its network of foreign-based companies has grown considerably the USSR still relies heavily on wholly Western-owned companies to market commodities on behalf of Soviet FTOs. Some of these Western agents are employed to operate within a given country. On the other hand Soviet trading organisations sometimes utilise the services of Western-owned companies to market goods in third countries.

Western commercial agents can be appointed directly by FTOs or appointed by Soviet companies/representative offices operating outside the USSR. Likewise, the day-to-day operations of commercial agents can be monitored by Soviet FTOs (via telephone, telex etc.) or foreign-based representatives of FTOs. Personnel from Soviet FTOs sometimes travel to the West in order to define broad commercial policy goals to their agents. In some cases foreign commercial agents are paid on a commission basis. In other cases agents receive a certain percentage of Soviet commodity deliveries. A few foreign agents receive cash payments from FTOs.

The successful implementation of the USSR's export scheme requires a highly sophisticated marketing network. At the present time the Soviet Union is relatively weak in marketing expertise and advertising technology and hence unable to cope with the fierce competition in world markets without the assistance of foreign agents who are keenly aware of the demands of local consumers. The use of foreign agents also eliminates the need for foreign currency expenditures to set up and maintain foreign-based companies. Moreover, foreign agents are responsible for establishing a foothold for Soviet commodities in world markets. If a particular Soviet export drive is unsuccessful the USSR simply ceases to offer such commodities in selected markets and is not faced with the problem of maintaining or liquidating a costly foreign-based company. But as we discovered previously, Soviet trading organisations can terminate their agreements with foreign agents and set up their own marketing companies (or simply buy out the Western agents) if selected Soviet commodities have successfully penetrated world markets.

In some cases Western companies are selected to market Soviet exports because these companies participate in the production of Soviet commodities. After the French company Line SA concluded a co-production agreement with the October Revolution Machine-Building Plant in Minsk it was announced that Line SA would be responsible for distributing Soviet-made machine-tools in the EEC.[56] However, in most cases Western marketing agents do not participate in the production of Soviet commodities. At the present time a sizeable proportion (i.e., over 50 percent) of Soviet automobile exports are sold through Western-owned companies which do not participate in the production of Soviet automobiles. Some of the larger wholly Western-owned companies that import and sell Soviet automobiles are as follows: Satra Motors Ltd. (U.K.), Lada Canada Ltd. and Satra Motors Inc. (U.S.).

The Soviet FTO Litsenzintorg is responsible for exporting and importing licences and patents. At the beginning of 1976 there were at least eleven Western companies acting as agents for Litsenzintorg. In most cases a standard agreement is drawn up between Litsenzintorg and its agents. This agreement normally gives an agent the right to search for buyers of Soviet licences within a certain geographic area. In addition to consultations with Soviet technicians, Litsenzintorg's agents receive advertising material and technical documents. After locating prospective buyers of Soviet licences the agents are expected to assist Litsenzintorg in negotiating and concluding contracts. In virtually all cases agents are not authorised to sign contracts on behalf of Litsenzintorg. The agents are also required to keep Litsenzintorg informed about the licence trade in selected countries, provide Litsenzintorg with reports on patent and licence legislation, and arrange exhibitions, symposia and conferences. Litsenzintorg's agents receive a commission from licence payments.[57]

A few of the USSR's business arrangements with Western agents indicate that Soviet traders (and their supervisory organs) are sometimes required to place commercial considerations above ideological motivations. Before Soviet diamond-marketing companies were set up in Belgium and the FRG it was almost impossible for the USSR to sell its industrial diamonds in Western markets without the co-operation of De Beers Consolidated of South Africa. As a result the USSR agreed to market its diamonds through De Beers.[58] Although the USSR is no longer forced to rely exclusively on the marketing services of De Beers, it is reasonable to assume that Soviet diamond exporters still conduct a fair amount of business through the South African company (e.g., Soviet diamonds are still being sold through De Beers in London).

Soviet personnel are seldom assigned to wholly Western-owned companies for the purpose of preparing/selling Soviet commodities. Soviet goods sold through foreign agents are generally ready for consumers before they are exported. If some preparation is necessary it usually does not require a great deal of technical expertise and is normally the responsibility of the foreign agent (e.g., placing Soviet commodities in attractive Western-made packages). But in a few cases Soviet technicians have been assigned to foreign companies for the purpose of preparing raw or half-finished exports. According to a member of the British Cabinet Office, Soviet personnel were assigned to De Beers Consolidated (London) to prepare Soviet diamonds. These technicians reportedly worked behind 'closed doors' and only selected South African and British advisory personnel had direct access to them.[59]

Soviet Personnel Rendering Technical Assistance to Western Firms Following the Sale of Soviet Industrial Licences

A number of IMTEs (e.g., France, the FRG, Italy, Japan, Sweden, the U.K. and the U.S.) are now purchasing Soviet industrial licences. Many of these licences are connected with the design and production of power-generating equipment and laser devices, and processes in ferrous and non-ferrous metallurgy, electronics, chemistry and mineral extraction. Although it is more common to find Western technicians operating in the USSR under licence agreements an increasing number of Soviet technicians are being temporarily assigned to Western firms to provide technical assistance following the sale of industrial licences. Litsenzintorg recently sold a licence to an American company (for a period of twelve years) concerning the underground gasification of coal. A provision for Soviet technical assistance was included in the agreement.[60]

Soviet Technicians Assigned to Western Companies for the Purpose of Inspecting Commodities Earmarked for Export to the USSR

Soviet commodity inspectors are temporarily assigned to companies in a number of Western nations to ensure that exports from the West meet the specifications of Soviet buyers. Before signing trade contracts Soviet FTOs sometimes request the right to send inspectors to Western manufacturing companies. Western governments often approve such requests in the interest of promoting trade with the USSR. At the end of 1975 there were seventy-one Soviet inspectors attached to British companies. During a debate in the House of Commons an MP from the Conservative Party pointed out that Soviet industrial inspectors assigned to British companies were involved in spying operations in the early 1970s and were consequently sent back to the USSR.[61]

Permanent Soviet Industrial Exhibitions

During 1979, the USSR plans to open up a permanent industrial exhibition in Lulea, Sweden. The exhibition space will be used by the Soviet FTOs Avtoeksport and Mashinoeksport to display automobiles and farm machinery. According to one source the exhibition space was granted in exchange for a Soviet promise to supply timber for the Lulea sawmill.[62]

The planned Soviet industrial exhibition in Lulea is one of the first examples of Soviet economic penetration of this nature. It could become a popular method of advertising/selling Soviet commodities especially if other localities are willing to grant exhibition space in exchange for Soviet commodities. However, even if other countries reject barter arrangements it might still be in the USSR's interest to pay (hard currency) for permanent exhibition space. Indeed, the cost of permanent exhibition space would probably be cheaper than establishing and maintaining a company.

Representative Offices of Soviet Organisations

The USSR has a number of foreign-based representative offices which are responsible for promoting, but not actually participating in, the business operations of the organisations they represent. Such offices are established for at least two reasons. Firstly, the cost of setting up and running a representative office tends to be much lower than the cost of establishing and operating a joint-stock company. Secondly, the host country might not favour the establishment of a Soviet company that could seriously disrupt local (and perhaps nationwide) business conditions or present a threat to national security.[63] Intourist--the Soviet organisation for foreign travel--and Aeroflot--the Soviet-owned airline--both have representative offices in the United States.[64] Intourist was granted permission to open its office in New York under the U.S.-USSR Cultural Exchange Agreement of 1957. (This agreement also gave the American Express Company permission to open up a representative office in Moscow.) Intourist's New York office is only authorised to carry out information operations; its commercial business is conducted by American travel agencies which are accredited by the USSR.[65]

Aeroflot has offices in New York and Washington, D.C. Aeroflot was granted permission to open its offices under Article 12 of the bilateral Civil Air Transport Agreement of 1966. Aeroflot's offices in the United States are not authorised to operate as ticket agents. Tickets are sold by Pan American Airways (and a few other airlines) on behalf of Aeroflot.

Soviet-Foreign (Mixed) Representative Companies

Companies in this category were set up to promote, but not actually participate in, the commercial operations of a number of Soviet-foreign business interests. There are at least two Soviet-foreign representative companies operating in IMTEs--the U.S.-USSR Trade and Economic Council Inc. and Groupement d' Intérêt Economique pour le Developpement des Echanges Commerciaux entre l' URSS et la France. The U.S.-USSR Trade and Economic Council was incorporated in New York in September 1973 on the basis of an intergovernmental protocol of June 1973 which stressed the need for such a council. The U.S.-USSR Trade and

Economic Council is similar to a joint chamber of commerce and its main goals are 'to create a business and government environment in the U.S. and USSR conducive to expanded commercial relations, to research major bilateral trade issues, and to assist in the implementation of commercial agreements'.[66] The council maintains offices in New York and Moscow and its dues-paying members include over 200 private American companies and about 100 Soviet economic organisations. The U.S.-USSR Trade and Economic Council does not negotiate and sign commercial contracts but it often renders contract-negotiating assistance, sponsors technical seminars and commodity exhibits, and arranges appointments for visiting businessmen. The council also publishes a bi-monthly journal covering a wide range of economic issues. A number of top-level private businessmen and governmental officials have held administrative positions in the council (e.g., the U.S. Secretary of the Treasury, William E. Simon; the president of Occidental Petroleum Corporation, Armand Hammer; the Soviet Minister of Foreign Trade, Nikolai S. Patolichev; and the Chairman of the State Bank of the USSR, Vladimir S. Alkhimov). The U.S.-USSR Trade and Economic Council is classified as a nonprofit corporation.

Groupement d' Intérêt Economique pour le Developpement des Echanges Commerciaux entre l' URSS et la France (Gisofra) was established in 1971 by three state-owned French banks--Banque Nationale de Paris, Credit Lyonnais and Societe General--and Banque Commerciale pour l' Europe du Nord. Like the U.S.-USSR Trade and Economic Council, Gisofra does not negotiate and sign commercial contracts. Gisofra's primary function is to co-ordinate the operations of French buyers and sellers with Soviet sellers and buyers. Gisofra is classified as a nonprofit company but its shareholders presumably profit from the venture by financing a large portion of the trade generated by it.

Joint Chambers of Commerce

The USSR participates in joint chambers of commerce in a number of IMTEs including the U.K., France, Italy, Belgium and Finland. The Russo-British Chamber of Commerce was established in 1916. Fifty-nine years later the Russo-British Chamber of Commerce was transformed into the British-Soviet Chamber of Commerce. In 1976, the members of the British-Soviet Chamber of Commerce included 45 Soviet FTOs and 650 major British firms.[67]

The Franco-Soviet Chamber of Commerce began operating in 1967. It is reportedly one of the most active joint chambers of commerce in the West. The Franco-Soviet Chamber of Commerce is responsible for collecting and disseminating material on economic trends, technological developments, commercial legislation, tariffs, transportation, insurance, tourism, etc. The joint chamber also makes arrangements for exhibitions, fairs, conferences and trade missions.[68]

During the latter half of 1977, members of the Italian-Soviet Chamber of Commerce met in Moscow. Discussions were held on a wide range of topics including prospects for the use of the transferable ruble (the CMEA unit of value) in Italian-Soviet trade. The members also agreed to hold discussions on the following topics during 1977 and 1978: scientific and technical co-operation; trade co-operation and mixed companies; industrial production and production integration; financial problems; and joint operations in third countries.[69]

Commercial Counsellors' Offices in Soviet Embassies

From the late 1940s to the early 1960s commercial counsellors' offices in Soviet embassies represented one of the few means of direct Soviet access to Western markets. During that period only a few Soviet trading companies were operating in the West and trips by Soviet foreign trade missions to IMTEs were infrequent. As a result, trading organisations in the USSR often requested the assistance of commercial counsellors' offices when negotiating contracts with foreign companies. Commercial counsellors' offices also represented a source of information for both Soviet and Western traders. In addition to the aforementioned functions, commercial counsellors' offices made arrangements for Soviet trade missions and fairs.

The importance of commercial counsellors' offices started declining when large official Soviet trade representations (see next section), joint commercial commissions and numerous SFTCs were set up in the West during the 1960s and 1970s. At this time most commercial counsellors' offices only have a minor role to play in Soviet foreign trade. Indeed, foreign businessmen who contact commercial counsellors' offices for assistance are likely to be told that such offices only have a 'loose relationship' with FTOs and SFTCs and, consequently, all requests for assistance should be placed with 'more appropriate organisations'. In all likelihood commercial counsellors' offices continue to play a key role in countries where the USSR has not set up a network of specialised commercial organisations.

Official Soviet Trade Representations

The USSR is granted permission to set up official trade representations in foreign countries through intergovernmental agreements. Such agreements normally contain provisions for foreign governments to establish trade representations in the USSR. In Article 5 of the 1972 Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Trade, the USSR was given permission to establish an official 'trade representation' in Washington, D.C. Article 5 also gave the United States the right to set up an official 'commercial office' in Moscow. According to Section 3 of Article 5, the USSR's trade representation in the United States does not have the right to affect the operations of Soviet FTOs. The trade representation is permitted to provide office facilities for employees or representatives of FTOs but such individuals cannot be officers or members of the administrative, technical or service staff of the trade representation, or participate directly in the negotiation, execution or fulfilment of trade transactions. The Soviet trade representation in the United States is entitled to all of the privileges and immunities which are enjoyed by the Soviet Embassy in Washington, D.C. In addition, the Soviet trade representative and his deputies are entitled to all of the privileges and immunities enjoyed by members of the diplomatic staff of the Soviet Embassy.[70]

The Soviet trade representation in the United States began its operations in October 1973. The trade representation has three divisions: USA Market and Economic Conditions Division, Raw Materials Division and Machinery and Equipment Division. The USA Market and Economic Conditions Division is primarily involved in studying a variety of bilateral economic and political issues, U.S. legislative developments, and the regulations of several U.S. governmental agencies. The other divisions (which employ the services of representatives of Soviet FTOs) are primarily concerned with providing information services for American and Soviet business interests. In addition to the aforementioned functions the Soviet trade representation sometimes makes travel arrangements and provides logistical support for Soviet trade missions visiting the United States. The trade representation is also responsible for the administration of major Soviet commercial exhibitions in the United States. In 1976, there were thirty Soviet citizens working for the trade representation in the United States (including the trade representative and his three deputies).[71]

The organisational makeup of the official Soviet trade representation in the United States does not differ significantly from that of its counterparts in other IMTEs. For example, the official Soviet trade representation in Sweden comprises a trade representative, two deputy trade representatives, a jurist, an economics section (including a section chief and two senior economists), a machinery and equipment section, a raw materials section and a navigation group. There were approximately forty-five employees of the official Soviet trade representation in Sweden during the early part of 1977. The employees included thirty-three Soviet citizens who were responsible for representing forty-three FTOs and other economic organisations. It is interesting to note that the mixed company Matreco Handels AB is represented in the official Soviet trade representation in Sweden.[72]

Temporary Soviet Purchasing Commissions

The USSR is authorised to set up temporary purchasing commissions through intergovernmental agreements. Such commissions are usually established to purchase machinery and equipment for large industrial projects in the USSR. In October 1972, the United States granted the Soviet Union permission (following a request from N. Patolichev) to establish the Kama Purchasing Commission in New York City. Under the original agreement the commission was set up provisionally for a period of one year and its operations could be extended, by mutual agreement, for three additional periods of one year each. The Kama Purchasing Commission is subordinate to the Ministry of Foreign Trade of the USSR and the official Soviet trade representation in the United States.[73] The Kama Purchasing Commission does not enjoy diplomatic immunity and privileges.

At the outset the Kama Purchasing Commission's primary functions were to procure American machinery and equipment for the Kama River Truck Complex in the USSR, supervise the transport of these commodities to the USSR, and arrange for the training (at American companies) of Soviet technicians who would be operating the machinery and equipment. Since 1972, the U.S. government has authorised the Kama Purchasing Commission to operate on behalf of four other large projects in the USSR--the Kuibyshev Fertiliser Complex, the Cheboksary Tractor Plant, the Moscow International Trade Centre and natural gas exploration in Yakutsk.

In 1976, there were approximately thirty-one representatives of Soviet FTOs working in the United States for the Kama Purchasing Commission. These representatives have the authority to negotiate (but not sign) contracts with American companies. According to the U.S. Department of Commerce, the Kama Purchasing Commission has excellent access to decision-makers in Moscow. As a result, American companies are often able to negotiate contracts through the commission instead of making expensive marketing trips to the USSR.[74] The Kama Purchasing Commission will presumably continue to operate in the United States as long as there are industrial projects in the USSR which require sizeable imports of American machinery and equipment.

Joint Intergovernmental Commissions for the Promotion of Commercial Relations Between the USSR and Market-Type Economies

Since the late 1960s the USSR has participated in the establishment of a number of joint economic commissions on the basis of intergovernmental agreements. There are two types of joint intergovernmental economic commissions--universal and specialised. Universal commissions include the Joint U.S.-USSR Commercial Commission; the British-Soviet Intergovernmental Commission for Economic, Scientific and Technical Co-operation; the French-Soviet Intergovernmental Commission for Economic, Scientific and Technical Co-operation (the 'Grand Commission'); the Austrian-Soviet Intergovernmental Commission for Economic, Scientific and Technical Co-operation; and the Soviet-Swedish Intergovernmental Commission for Economic, Scientific and Technical Co-operation. As we learned in CHAPTER I, universal commissions are responsible for setting up specialised commissions (or working groups). Top-level members of the Soviet government often participate in joint economic commissions (e.g., N. Patolichev served as chairman of the Joint U.S.-USSR Commercial Commission).

As a rule, joint economic commissions hold at least one meeting each year. Meetings between members of a joint commission normally take place in the USSR on one occasion and the country of the other party on the following occasion. Although joint economic commissions are not responsible for negotiating trade contracts they play a key role in determining the level of trade between the USSR and selected MTEs. The agreements which are drawn up by joint intergovernmental economic commissions sometimes contain growth targets for trade as well as guidelines for achieving such projected increases (e.g., methods of improving trade financing).

As the name implies, universal economic commissions are responsible for dealing with a wide range of problems. The Joint U.S.-USSR Commercial Commission was established in May 1972 to negotiate:

> an overall trade agreement including reciprocal MFN treatment; arrangements for the reciprocal availability of government credits; provisions for the reciprocal establishment of business facilities to promote trade;

an agreement establishing an arbitration mechanism for settling commercial disputes.[75]

In addition, the Joint U.S.-USSR Commercial Commission was set up to:

study possible U.S.-U.S.S.R. participation in the development of natural resources and the manufacture and sale of raw materials and other products;
monitor the spectrum of U.S.-U.S.S.R. commercial and economic relations, identifying and, when possible, resolving issues that may be of interest to both parties.[76]

The fifth session of the British-Soviet Intergovernmental Commission for Economic, Scientific and Technical Co-operation was held in London in May 1976. The Soviet mission was led by the Chairman of the State Committee for Science and Technology, V. A. Kirillin. According to a Soviet source: 'The Joint Commission welcomed the progress made in establishing contacts and in defining possible areas of co-operation for the participation of Soviet organisations in the construction in the U.K. of industrial projects, including those within programmes for the development of the nationalised sectors of British industry'.[77]

The seventh session of the Soviet-Swedish Intergovernmental Commission for Economic, Scientific and Technical Co-operation was held in Moscow in the early part of 1978. During the session working groups were set up in the pulp and paper, timber, woodworking, food and power-engineering industries. The topics which were discussed by the joint commission during the seventh session included Sweden's intention to participate in a production complex in the USSR, Sweden's interest in importing Soviet natural gas in the early 1980s and the joint production of commodities which could be marketed in third countries. The Soviet and Swedish members of the joint commission also made plans for joint symposia, exchanges of specialists and information, and the joint testing of equipment, instruments and materials.[78]

Specialised joint commercial commissions sometimes perform important functions. For example, in August 1977, the French-Soviet Shipping Commission met in Paris to review developments under the existing maritime agreement between the two countries and to discuss prospects for future growth of French-Soviet maritime co-operation.[79] The Norwegian-Soviet Fisheries Commission met in January 1978 to establish marine-life quotas for Norwegian, Soviet and third-country fishing vessels operating in the Barents Sea.[80]

Soviet Foreign Trade Missions

The trade mission is one of the most effective (and least costly) means of penetrating world markets. For over a half century the USSR has been sending trade missions to the West but their impact on foreign markets seldom generated much interest until the early 1970s. Soviet trade missions in the West are now quite commonplace and it is rather difficult to find an IMTE without at least one such mission present at any given time.

Soviet trade missions are often small (e.g., five to ten members) and include some of the most noteworthy Soviet experts in selected fields. A sizeable proportion of the members of such missions have previously travelled to the West and are familiar with the languages and customs of host countries. The leaders of Soviet trade missions usually hold top-level positions in ministries and FTOs. Soviet foreign trade missions normally remain in host countries for one or two weeks.

There are three principal types of trade missions: buying, selling/advertising and intelligence (or a combination of the three). Soviet buying missions are authorised to negotiate and, on some occasions, sign contracts on behalf of Soviet FTOs and other Soviet organisations involved in trade. Since individual buying missions are often responsible for purchasing a certain group of commodities for the entire Soviet economy these missions possess an enormous amount of purchasing power. For example, a Soviet grain-buying mission acquired a fair amount of notoriety when it purchased over 700 million bushels of grain from the United States during the summer of 1972. Nearly 440 million bushels of wheat (i.e., approximately 25 percent of the total American wheat crop for 1972) were included in the aforementioned figure. The grain purchases, according to a U.S. government publication, depleted American grain reserves, created farm-product shortages, forced up the price of food for American consumers, and created problems for American freight terminals, shipping lines and harbours which were required to handle the grain exports.[81] But that was only half of the story. A number of Americans criticised the USSR for carrying out its buying operations under a shroud of secrecy. This supposedly placed American sellers in a disadvantageous position. Moreover, a large segment of the American population was flabbergasted to learn that the USSR was able to make its massive purchases at a time when the U.S. government was paying export subsidies to keep the price of American grain at competitive levels. This policy reportedly cost American taxpayers over $300 million. And finally, a few Americans even suspected Soviet traders of operating as speculators by purchasing grain futures before the massive sales. Under such conditions, when the USSR started placing orders for large quantities of grain and the price of futures started rising, Soviet traders could sell their options and use the profit to help pay for their country's grain imports.

The tactics used by Soviet grain buyers in the United States during the summer of 1972 should come as no surprise. The fact that Soviet buyers operate as monopsonists has been known since the establishment of the monopoly of foreign trade. Each Soviet buying (and selling) mission is given a specific assignment. All members of Soviet trade missions must pursue a common goal. Since the USSR's requirements for grain were large, members of the Soviet grain-buying mission knew that they had to divide their orders amongst a number of American grain merchants in order to avert a rapid increase in price. (If Soviet traders had placed a large single order the full impact of the purchase would have been immediately known and the seller could have adjusted the price in accordance with market conditions.) So, after arriving in the United States, members of the Soviet grain-buying mission placed orders with a number of grain merchants who were all keen on selling to the USSR. Since individual grain merchants had little or no idea that Soviet buyers were dealing with other sellers most Americans were unaware of the full impact of Soviet orders until it was too late. Indeed, the members of the buying mission placed most of their orders before the marked price increases.

Some of the adverse publicity which was directed toward the USSR following the grain purchases of 1972 appears to be unfounded. We should keep in mind that a Soviet trade mission cannot carry out its operations without securing permission from the host country's government. Now a Soviet foreign trade mission might request that publicity on its presence in a given MTE be kept at a minimum. However, such a request can be easily disregarded. It is quite possible that the Nixon Administration was willing to offer Soviet traders a fair amount of assistance in 1972 in order to strengthen American-Soviet relations. As a result, the American government might well have decided to keep publicity on the buying mission at a minimum. According to Marshall Goldman, the American government was largely responsible for placing the cloak of secrecy over Soviet grain-buying operations in the United

States during 1972.[82]

The point should be made that Soviet buying missions cannot operate secretly in Western markets without collaborating with foreign sellers. Western exporters normally opt to deal secretly with Soviet importers since any premature information leaks regarding imminent massive purchases would tend to drive up the price of commodities before the exporter has an opportunity to purchase his supplies. And Soviet buying missions should not be criticised for (secretly) dividing their purchases between a number of Western exporters. As we just learned, if the Soviet Union had placed its entire order with one exporter the market would not have been able to cover such a large single purchase without levying a significant price increase on the USSR.

Now the next problem--should Western governments remove subsidies on commodities which will soon be purchased by the USSR?--is not so easy to solve. The U.S. government is supposedly responsible for creating the most favourable conditions for American producers/suppliers of grain. However, the U.S. government is also responsible for acting in the best interest of the entire American population. The immediate aftermath of the grain sales of 1972 indicated that the U.S. government had not acted judiciously.[83] But Goldman has pointed out that the grain sales amounted to a net gain for the United States.[84] If the U.S. government had reacted differently it is conceivable that Soviet buyers would have cut their purchases or taken their business elsewhere (or simply gone home empty-handed).

Once Soviet traders have gained access to Western markets we can expect them to deal as sagaciously as any other operators. So, the suspicion that the USSR was operating in the American futures market might have been premature but certainly not outside the realm of comprehension. Since any speculative operation requires a thorough knowledge of market conditions it is reasonable to assume that the USSR would first conduct its operations in the futures market via Western agents. This risk-sharing scheme would have a number of advantages. Firstly, as stated, the risks would be shared by two (or more) parties. Secondly, Western agents would most likely welcome Soviet speculators as partners since such speculators would be state supported and hence have adequate funds to cover all risks. Moreover, Soviet speculators would probably experience little trouble finding Western partners in the light of the fact that they would be in an advantageous position to co-ordinate their activities with the operations of Soviet buyers.

It is still not clear whether all American merchants are in a better frame of mind to deal with Soviet traders.[85] But at least some Americans are well aware of the fact that Soviet traders should not be regarded as bumpkins. Indeed, any Soviet trader who operates in the West is required to think and act on the same level as all other participants in the marketplace. This point was aptly expressed by the former U.S. Secretary of Agriculture Earl Butz:

> , . . . the Russians buy . . . grain in this country like any other commercial purchaser. They buy it in the private grain trade market from whomever they want to buy it at whatever price they need to pay to get it.[86]

As a result of the USSR's grain-buying operations during the summer of 1972, the entire American business community undoubtedly learned some rather revealing facts about the Soviet Union's ability to penetrate and operate in Western markets. But only time will tell if Americans are prepared to deal sagaciously with Soviet traders. The American government has taken a step which will undoubtedly decrease the effectiveness of the USSR's grain-buying tactics which were utilised in the early 1970s. At this time U.S. grain exporters are required to report to the Department of Agriculture all grain sales over 100,000 tons within 24 hours after the purchase.[87] This is one encouraging development. However, the point should be stressed that Western governments could do a lot more for their traders. Without actually getting involved in trade operations, governments of Western nations could easily provide a vast amount of (economic) information which would put their market operators on a more equal footing with Soviet monopsonists. Such a policy would not undermine the principles of a market-type economy. Indeed, it would actually strengthen the position of Western entrepreneurs engaged in trade with the East. Under such conditions Soviet officials might well have to concede that MTEs can truly operate in a rational fashion vis-à-vis centrally planned economies.

Before the USSR started showing much interest in exporting finished products to the West the activities of Soviet selling/advertising missions were somewhat limited. The export of raw materials and half-finished products seldom called for much marketing expertise since Western buyers had a general idea of the goods offered by the USSR and were relatively content with the quality and price of such commodities. But now that the USSR is starting to manufacture finished products which are capable of competing with commodities from Western industries Soviet traders have started to place great emphasis on marketing and advertising operations in the West.

Trade fairs have become an important means of marketing Soviet commodities for at least two reasons. Firstly, Soviet sellers are given free access to a large number of foreign buyers from all parts of the world. This reduces the need for Soviet traders to travel around looking for customers. Trade fairs also give Soviet sellers access to foreign buyers who operate in areas that are not open to Soviet citizens. Secondly, trade fairs represent a relatively inexpensive means of promoting Soviet exports. For example, a Soviet fur exhibit might only require a few boxes of furs to give buyers a good idea of the variety and quality of such commodities. The personnel and transportation costs connected with this type of exhibit would be quite low. One might think that Soviet machinery and equipment exhibits would be rather costly. However, the USSR can now use its marketing companies in the West to prepare and transport machinery and equipment for trade fairs. Personnel who work for such companies are called upon to participate in trade fairs which means that technicians and salesmen do not have to be sent from the USSR in many cases.

Soviet participation in a trade fair in Düsseldorf during 1975 led buyers to order over $100-million worth of commodities from Soviet FTOs.[88] During April and May 1976, the USSR participated in a trade fair in Hanover. Sixteen FTOs offered a wide range of commodities including a 500,000-kilowatt steam turbine, turbo-generators, automobiles, televisions, radios, cameras, a Yak-40 jet, an MI-8 helicopter, a KA-26 helicopter and merchant vessels (models of the merchant vessels were displayed at the fair).[89] During the period July 1976 to May 1978, the USSR participated in trade fairs in the following cities: Bogota, Buenos Aires, Chicago, Helsinki, Marseilles, Sao Paulo and Vienna.

Selling/advertising missions are especially useful for promoting the sale of Soviet exports in countries which run a large trade surplus with the USSR. For example, in the latter half of 1977, a Soviet trade mission visited eleven Canadian cities in an effort to promote Soviet exports.[90] In 1976, the USSR exported 41.9 million-rubles worth of goods to Canada and imported 501.7 million.

Selling/advertising missions are also used to promote Soviet services. The Soviet Ministry of the Maritime Fleet has been especially active in sending missions abroad. For example, in Kuala Lumpur on 9 December 1976, a Soviet shipping mission negotiated an agreement with the Freight Committee of the Rubber Industry of Malaysia regarding the shipment of Malaysian rubber to Europe in Soviet merchant vessels.[91]

Trade missions are sometimes used for information-gathering purposes. Such missions have increased significantly as a result of the numerous co-operation agreements which have been signed between the USSR and its trading partners since the early 1970s. In the latter part of April 1976, a six-member Soviet mission led by Viktor A. Lobanov--Deputy Minister of the Power-Machine Building Ministry--travelled to the U.K. for discussions with executives in the field of electrical and nuclear power. The visit was a follow-up to meetings which were held in Moscow between members of a British mission (organised by the British Nuclear Forum) and Soviet technicians. (It should be pointed out that many visits by trade missions are based on reciprocity.) At the end of their ten-day visit to the U.K., the members of the Soviet mission signed a protocol enabling the two countries to search for areas of mutual commercial interest.[92]

Between September and October 1976, a seven-member Soviet mission interested in agricultural equipment and techniques spent thirteen days visiting various organisations in seven American states. The mission was sponsored by the U.S.-USSR Trade and Economic Council. The members of the mission included L. N. Efremov, First Deputy Assistant to the Chairman of the Soviet State Committee for Science and Technology; E. A. Kalinin, First Deputy to the Minister of the Tractor and Agricultural Equipment-Building Ministry; A. F. Mukhin, head of the Technical Directorate of the Ministry of Machinery for Animal Husbandry and Feeding; N. N. Markelov, director of NATI (the research institute for automobiles and tractors); and E. P. Gubin, section head of the All-Union Institute of Agricultural Economics.[93]

One of the few published reports of a Soviet information-gathering mission appeared in an article written by N. N. Smelyakov, Deputy Minister of Foreign Trade of the USSR. Smelyakov has made a number of trips to the West while serving with the Ministry of Foreign Trade. He also functioned as chairman of the Amtorg Corporation in New York during the 1950s. Throughout most of his article Smelyakov spoke highly of the American, German and Japanese business communities. He had great respect for America's economic strength and praised the German economy for its ability to meet the demands of the world market. But Smelyakov had the highest praise for the Japanese economy. (He often used the phrases 'business America' and 'super business Japan'.) Like most foreign businessmen who visit Japan, Smelyakov was impressed by the character and determination of the Japanese people. Advertising techniques used by the Japanese (e.g., the placement of waterproof watches in attractive aquariums) also caught Smelyakov's eye.[94] However, Smelyakov was probably impressed most of all by Japan's ability to produce high-quality commodities and improve the technological innovations of other countries. After examining perfect castings in a Japanese foundry, Smelyakov remarked that he was depressed because even in the best Soviet casting shops products of such quality were difficult to find. (In the article Smelyakov, who was once a foundry worker himself, asked his comrades to pardon his remark about the inferior quality of Soviet castings.[95]) On another occasion Smelyakov visited a Japanese silicate factory which had been constructed on the basis of a Soviet licence. Smelyakov pointed out that it took the Japanese just over six months to construct the factory while the same type of factory sometimes takes two and one-half years to construct in the USSR.[96]

Soviet Participation in Non-Aid Industrial Projects in the West

On occasion the USSR will submit tenders for internationally advertised industrial projects. For example, in February 1977, the USSR announced that one of its FTOs had signed a contract worth an estimated $137.5 million with the Ministry of Petroleum Resources of Nigeria for the construction of two petroleum pipelines on a turnkey basis.[97] The contract was secured for the USSR by the FTO Tsvetmetpromeksport which placed a more favourable bid than contractors from the United States, France, Italy, Japan, the Netherlands and the FRG.

Tsvetmetpromeksport will act as general contractor for the construction of the two pipelines. One pipeline will be laid from a petroleum refinery at Warri to the town of Ikorodu. The other will extend from Ikorodu to the towns of Ibadan and Ilorin. The planned length of the two pipelines combined is 800 kilometres. Both pipelines are expected to be in operation by October 1978.

Under the contract Tsvetmetpromeksport is responsible for carrying out prospecting work, delivering building equipment, conducting construction operations, and putting the pipelines into operation. About 700 Soviet engineers, technicians and other skilled workers will participate in the project. Approximately 10,000 tons of Soviet equipment (including bulldozers, excavators, trailers, tractors, pipe carriers, pipe-laying machines, truck-mounted cranes and welding machines) will be delivered to Nigeria. It is interesting to note that Tsvetmetpromeksport has hired a British firm as a subcontractor to carry out design work for the pipeline project.[98]

The USSR has also participated in a few industrial projects in IMTEs since the early 1970s. For example, the Soviet Union helped construct a metallurgical complex in the southern part of France. In addition, Soviet technical assistance was utilised in the construction of a large metallurgical complex in Scandinavia and two atomic power stations in Finland.[99] It is also interesting to note that in the early part of 1978, the USSR offered to construct a zinc smelter (valued at over £100 million) in the Republic of Ireland.[100] The proposal was made following an offer by an American company.

Soviet participation in non-aid projects in the West could increase significantly as a result of the USSR's willingness to operate jointly with Western-owned companies. As we learned previously, such co-operation has already begun. For example, the Soviet FTOs Energomasheksport and Tekhnopromeksport, and the German company Deutsche Babcock and Wilcox agreed to build a 310-megawatt electrical unit for the Costanera Sur Power Station in Argentina.[101] In 1972, the USSR and the Westinghouse Corporation placed a bid to supply generating units for the Grand Coulee Dam in the United States. A short time later the Westinghouse Corporation teamed up with the USSR once again to bid on a contract connected with the Rock Island hydroelectric project in the United States.[102] We should also recall that the Italian-Soviet company Tecnicon SpA was set up to construct tin and steel mills in third countries (see p. 135). Furthermore, in a protocol which was signed in 1977, India and the USSR agreed to set up coke-oven batteries in third countries.[103]

Soviet Technicians Working in Less-Developed Countries

Between 1970 and 1975, the number of Soviet (economic) technicians working in LDCs on aid and non-aid projects grew from 10,600 to 17,785; an increase of 68 percent (see TABLE 2.1). In 1976, almost half of these technicians were based in Algeria, Iran, Iraq and Syria. During

1976, Afghanistan and India (combined) employed approximately 2,350 Soviet technicians while Iraq employed about 2,900 and Somalia 1,000. According to CIA estimates the annual salaries of Soviet technicians can run as high as $15,000 to $20,000 each. If other costs and allowances are added these estimates could be doubled.[104]

TABLE 2.1

SOVIET ECONOMIC TECHNICIANS EMPLOYED IN LESS-DEVELOPED COUNTRIES, 1970-1975[a]

Year	Middle East and South Asia	Africa	Latin America	East Asia	Total
1970	6,455	4,010	35	100	10,600
1971	6,600	4,200	75	150	11,025
1972	7,225	3,760	190	25	11,200
1973	8,295	4,590	185	25	13,095
1974	8,375	6,000	300	10	14,685
1975	11,500	5,930	330	25	17,785

[a]Minimum estimates of technicians present for a period of one month or more.

Source: CIA, Communist Aid to Less Developed Countries of the Free World, 1975 (July 1976), p. 8.

LDCs are often required to spend foreign currency on Soviet technicians. Such foreign currency expenditures are usually earmarked for salaries, round-trip airfare between the USSR and the host country,[105] holiday pay (if the technician spends his holiday in the host country), round-trip airfare between the host country and the USSR if the technician spends his holiday in the Soviet Union and life insurance premiums. If the period of employment is over one year Soviet technicians are often permitted to bring their families. The cost of transporting a technician's family is also borne by the host country. In addition to direct foreign exchange expenditures the host country is responsible for some of the maintenance costs of the technician (and his family) including medical care and hospitalisation benefits, office and laboratory facilities, transportation for official business in the host country and furnished housing.[106]

A number of Soviet technicians are employed in LDCs to train local personnel. By the end of 1976, the USSR's training programme in LDCs had produced 300,000 skilled workers and 150,000 managerial, administrative and research personnel for Soviet-funded projects.[107] Many industrial development contracts between the USSR and LDCs now contain provisions for the construction of permanent training facilities to guarantee a continuing supply of skilled local personnel.

NOTES

[1]Personal discussion with J. R. Beerman, expert in socialist law at the University of Glasgow.

[2]P. J. D. Wiles, Communist International Economics (Oxford: Basil Blackwell, 1968), p. 479.

[3]See A. V. Engibarov, Smeshannye obshchestva na mirovom rynke (Moscow: Mezhdunarodnye otnosheniya, 1976), pp. 24-25.

[4]Moscow Narodny Bank, Press Bulletin, 12 May 1976, p. 3, quoting from an address given by V. M. Ivanov.

[5]Ibid.

[6]Unless stated otherwise, the material in this section was obtained from the following source: CIA, Soviet Commercial Operations in the West, September 1977.

[7]Personal correspondence with the U.S. Department of Commerce.

[8]Herbert E. Meyer, 'This Communist Internationale has a Capitalist Accent', Fortune, February 1977, p. 136.

[9]Moscow Narodny Bank, Press Bulletin, 16 August 1978, p. 4, quoting Ecotass, No. 32, 1978.

[10]Personal correspondence with Anglo-Soviet Shipping Company Ltd.

[11]Ibid.

[12]Anglo-Soviet Shipping Company Ltd., 50th Anniversary 1923-1973, p. 6.

[13]A. Zlobin, '50 Years of the Black Sea and Baltic', Moscow Narodny Bank Quarterly Review, Vol. XV, No. 4 (Winter 1974-1975), p. 38.

[14]Western exporters often opt to sell their commodities to the USSR on an f.o.b. basis. As a result, the USSR is free to request the services of Soviet shipping and insurance companies. The USSR occasionally requests c.i.f. quotations from Western exporters but such requests are normally made for the purpose of gaining information. (For obvious reasons, Soviet shipping and insurance companies operating in world markets try to obtain as much information as possible on rates charged by their Western-owned counterparts.)

[15]Francis T. Miko, 'Soviet-American Commercial Relations, 1969-74--A Chronological Summary', in Western Investment in Communist Economies, compiled by the U.S. Congress, Senate, Subcommittee on Multinational Corporations, 93rd Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1974), p. 69, quoting Deadline Data of World Affairs, No. 631.

[16]It is interesting to note that between 1941 and 1971, Soviet petroleum companies in Britain (Russian Oil Products and Nafta-GB) were not permitted to import petroleum directly from the USSR. In order to obtain petroleum exported by the USSR the companies were required to make arrangements with countries (e.g., Finland) which imported Soviet petroleum; see Marshall I. Goldman, Detente and Dollars (New York: Basic Books, 1975), p. 106.

[17]The Times, 13 May 1968, p. 19. The article pointed out that approximately 400 of these outlets were probably commercial customers (e.g., road-haulage firms) and the remaining 100 were most likely petrol stations.

[18]The Times, 8 March 1968, p. 17.

[19]Goldman, Detente and Dollars, p. 140.

[20]Ibid.

[21]The Editors of Business International, 'Trading with the Soviet Union', in American-East European Trade, ed. by Philip D. Grub and Karel Holbik (Washington, D.C.: The National Press, 1969), p. 178.

[22]Ibid.

[23]Moscow Narodny Bank, Press Bulletin, 19 July 1978, p. 4, quoting Ecotass, No. 27, 1978.

[24]Ibid.

[25]Carl H. McMillan, Direct Soviet and East European Investment in the Industrialized Western Economies, East-West Commercial Relations Series, Working Paper No. 7 (Ottawa, Canada: Institute of Soviet and East European Studies, Carleton University, February 1977), p. 55.

[26]Moscow Narodny Bank, Press Bulletin, 19 July 1978, p. 4, quoting Ecotass, No. 27, 1978.

[27]Ibid.

[28]Under the terms of the agreement every construction and machine insurance policy handled by Sovag must be written jointly with Allianz.

[29]Unless stated otherwise, the material in this section was obtained from the following source: CIA, Soviet Commercial Operations . . . .

[30]McMillan, Direct Soviet . . ., p. 69.

[31]Moscow Narodny Bank, Press Bulletin, 1 March 1978, p. 7, quoting East-West Markets (Chase World Information), 20 February 1978, and Mining Journal, 24 February 1978.

[32]V. Petrov, 'V/O "Avtoeksport"--20 let', Vneshnyaya torgovlya, No. 11, 1976, p. 29.

[33]Engibarov, Smeshannye obshchestva . . ., p. 6.

[34]Goldman, Detente and Dollars, pp. 107-108. In Goldman's words: 'The Soviet oil dealer, . . ., like Exxon and BP, is serving as a middleman. He buys oil in one country (not necessarily his own), sells it in another (also not necessarily his own), and pockets the profit in hard currency'.

[35]McMillan, Direct Soviet . . ., p. 69.

[36]J. Wilczynski, The Multinationals and East-West Relations (London: MacMillan, 1976), p. 105.

[37]McMillan, Direct Soviet . . ., p. 65.

[38]Ibid.

[39]Meyer, 'This Communist Internationale . . .', p. 148.

[40]McMillan, Direct Soviet . . ., p. 60.

[41]See Moscow Narodny Bank, Press Bulletin, 19 July 1978, p. 5, quoting Ecotass, No. 27, 1978.

[42]McMillan, Direct Soviet . . ., p. 60.

[43]Konela has found it necessary to prepare Soviet automobiles in Finland since Soviet manufacturers are reportedly experiencing difficulties in producing cars which will meet the demands of Finnish consumers.

[44]McMillan, Direct Soviet . . ., p. 58.

[45]Petrov, 'V/O "Avtoeksport"--20 let', p. 29.

[46]Goldman, Detente and Dollars, p. 138.

[47]McMillan, Direct Soviet . . ., p. 67.

[48]Moscow Narodny Bank, Press Bulletin, 21 September 1977, p. 12, quoting International Herald Tribune, 16 September 1977.

[49]Moscow Narodny Bank, Press Bulletin, 7 December 1977, p. 7, quoting Soviet Business and Trade, 23 November 1977.

[50]Financial Times, 1 November 1977, p. 7.

[51]Petrov, 'V/O "Avtoeksport"--20 let', p. 30.

[52]Personal correspondence with the Royal Swedish Ministry for Foreign Affairs.

[53]Ibid.

[54]Petrov, 'V/O "Avtoeksport"--20 let', p. 30.

[55]Moscow Narodny Bank, Press Bulletin, 2 November 1977, p. 6, quoting Business Times, 22 October 1977.

[56]Moscow Narodny Bank, Press Bulletin, 19 October 1977, p. 7, quoting Soviet Business and Trade, 28 September 1977.

[57]G. Shadrin, 'Organizatsionno-pravovye voprosy razvitiya litsenzionnoi torgovli SSSR s kapitalisticheskimi stranami', Vneshnyaya torgovlya, No. 12, 1975, p. 49.

[58]Samuel Pisar, Coexistence and Commerce (London: Allen Lane the Penguin Press, 1971), p. 193. Pisar states: 'Having found it impossible to market its industrial diamonds in the outside world without the cooperation of De Beers Consolidated of South Africa, . . . Soviet officials thought nothing of striking a bargain with a concern which is capitalistic and monopolistic par excellence'.

[59]Personal conversation with a member of the British Cabinet Office.

[60]Vneshnyaya torgovlya, No. 6, 1975, p. 43.

[61]Financial Times, 27 November 1975, p. 16.

[62]East-West (Fortnightly Bulletin), 30 September 1976, p. 4.

[63]It would seem logical that few Western governments (if any) would permit the USSR to operate freely in vital sectors of their economies (e.g., the transportation, food, drug and energy industries). However, there appears to be at least one exception: some Western governments permit the USSR to operate more or less freely in their financial markets (see CHAPTER IV and CHAPTER V).

[64]Intourist and Aeroflot have representative offices in most IMTEs.

[65]Personal correspondence with the U.S. Department of Commerce.

[66]Ibid.

[67]Moscow Narodny Bank, Press Bulletin, 3 November 1976, p. 9, quoting Soviet News, 26 October 1976.

[68]Pisar, Coexistence and Commerce, pp. 146-147.

[69]Moscow Narodny Bank, Press Bulletin, 3 August 1977, p. 5, quoting Ecotass, 18 July 1977.

[70]U.S. Department of Commerce, U.S.-Soviet Commercial Agreements 1972 (Washington, D.C.: U.S. Government Printing Office, January 1973), pp. 90 and 93.

[71]Personal correspondence with the U.S. Department of Commerce.

[72]Personal correspondence with the Royal Swedish Ministry for Foreign Affairs.

[73]Personal correspondence with the U.S. Department of Commerce.

[74]Ibid.

[75]U.S. Department of Commerce, U.S.-Soviet Commercial Agreements 1972, p. 2.

[76]Ibid.

[77]Soviet News, No. 5834, 18 May 1976, p. 188. (Harrison's emphasis.)

[78]Moscow Narodny Bank, Press Bulletin, 15 February 1978, p. 8, quoting Ecotass, No. 5, 1978.

[79]Moscow Narodny Bank, Press Bulletin, 24 August 1977, p. 4, quoting Ecotass, 8 August 1977.

[80]The Times, 12 January 1978, p. 5.

[81]U.S. Congress, Senate, Committee on Government Operations, Russian Grain Transactions, 93rd Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1974), p. 1.

[82]For Goldman's account of Soviet purchases of American grain in 1972, see Goldman, Detente and Dollars, pp. 193-224.

[83]Critics have pointed out that the U.S. government knew the severity of the Soviet grain shortage long before the USSR made its purchases but failed to provide adequate information for the American business community.

[84]For example, the grain sales to the USSR reduced the amount of surplus grain in storage warehouses which saved Americans millions of dollars worth of operating costs. The sales also led to higher market prices for wheat which reduced U.S. government subsidies. These and other savings were estimated at approximately $800 million. This sum more than offset the government subsidies which were paid out during the Soviet grain purchases. In addition, the USSR's request for ten-year credits at 2 percent interest per annum was denied by American authorities. As a result, the USSR accepted three-year credits at 6 1/8 percent per annum; see Goldman, Detente and Dollars, p. 217.

[85]When Soviet grain-buying missions visited the United States in 1973, the U.S. government and American grain exporters almost repeated their blunders of 1972.

86 U.S. Congress, Russian Grain Transactions, p. 11.

87 Connie M. Friesen, The Political Economy of East-West Trade (New York: Praeger, 1976), p. 156.

88 Moscow Narodny Bank, Press Bulletin, 24 March 1976, p. 4, quoting Ecotass, 8 March 1976, and Soviet Business and Trade, 17 March 1976.

89 Moscow Narodny Bank, Press Bulletin, 5 May 1976, p. 2, quoting Ecotass, 5 April 1976.

90 Moscow Narodny Bank, Press Bulletin, 19 October 1977, p. 6, quoting Agefi, 3 October 1977.

91 Moscow Narodny Bank, Press Bulletin, 22 December 1976, p. 8, quoting Straits Times, 11 December 1976.

92 Moscow Narodny Bank, Press Bulletin, 12 May 1976, p. 1, quoting Soviet Weekly, 8 May 1976.

93 Journal of the US-USSR Trade and Economic Council, Vol.2, No. 4 (October-November 1976), p. 20.

94 N. N. Smelyakov, 'Delovye vstrechi', Novy mir, December 1973, p. 227. When Smelyakov noticed that the watches on the bottoms of the aquariums showed the correct time he remarked that no written advertisement was necessary as the quality of the watches was obvious.

95 Ibid.

96 Ibid.

97 For the sake of comparison, total Soviet exports to Nigeria in 1976 amounted to approximately $32.5 million. Following the signing of the $137.5-million contract one would expect a marked increase in Soviet exports to Nigeria. However, Soviet exports to Nigeria only amounted to about $47.6 million in 1977. This indicates that the USSR will either be working on the project for a number of years or sharing a sizeable portion of the contract with foreign companies. Since the date of completion for the pipeline project is set for the latter part of 1978, it is likely that the USSR will request a great deal of assistance from foreign subcontractors.

98 Moscow Narodny Bank, Press Bulletin, 2 March 1977, p. 5, quoting Ecotass, 14 February 1977.

99 A. Voinov, 'Dolgosrochnoe ekonomicheskoe sotrudnichestvo sotsialisticheskikh i promyshlenno razvitykh kapitalisticheskikh stran', Planovoe khozyaistvo, No. 5, 1974, p. 84.

100 Financial Times, 10 February 1978, p. 5.

101 Financial Times, 15 January 1976, p. 4.

102 Goldman, Detente and Dollars, p. 141.

103 Financial Times, 22 September 1977, p. 8.

[104]CIA, Communist Aid to the Less Developed Countries of the Free World, 1976 (August 1977), pp. 5, 8, 19 and 31.

[105]It is reasonable to assume that foreign currency expenditures for air transport have been reduced following the marked increase in Aeroflot's operations since the early 1970s.

[106]Leo Tansky, 'Soviet Foreign Aid to the Less Developed Countries', in New Directions in the Soviet Economy, Part IV, compiled by the U.S. Congress, Joint Economic Committee, 89th Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1966), p. 960.

[107]CIA, Communist Aid to the Less Developed Countries of the Free World, 1976, p. 8.

When Soviet planners desire to import, the cheaper the better. It is we who, when offered goods cheaply, insist on stopping them by anti-dumping restrictions. At least in this respect they [i.e., Soviet planners] may be more sane than we are!

--Alec Nove

CHAPTER III

WESTERN PARTICIPATION IN INDUSTRIAL PROJECTS IN THE USSR

Soviet interest in large-scale industrial co-operation with IMTEs after World War II was brought to light in April 1966 when a Soviet foreign trade mission headed by the Minister of the Automobile Industry, Alexander Tarazov, went to Italy in order to negotiate a contract with Fiat for the construction of an automobile complex in the USSR. Shortly after the arrival of the trade mission the Soviet Foreign Minister, Andrei Gromyko, travelled to Italy for the purpose of participating in the negotiations. Gromyko's visit marked the first time a Soviet foreign minister held talks in Italy since the end of World War II.[1] This indicated that Soviet leaders were beginning to stress the importance of utilising Western technology to increase and upgrade automobile production in the USSR. The Fiat deal of 1966 was worth approximately £290 million (about $812 million at that time) and proved to be the largest undertaking in the history of the Fiat company. Fiat alone was responsible for supplying about £108-million (about $302-million) worth of equipment for the Volga Motor Works in Togliatti.

The Volga Motor Works was expected to produce approximately 600,000 automobiles a year (400,000 modified Fiat-124 cars and about 200,000 others).[2] The Fiat deal was responsible for undermining one of the remaining vestiges of Stalinist foreign trade policy. From 1946-1965, the USSR obtained Western technology from licences and turnkey plants without relying on Western technicians to teach operational procedures to Soviet industrial personnel. However, as a result of the Fiat deal about 2,500 Soviet technicians were trained in Italy. In addition, up to 850 Westerners (520 from Fiat) were assigned to the Volga Motor Works at one time.[3] This level of exposure to Western techniques and personnel was unprecedented since the end of World War II.

Various Types of Industrial Projects in the Soviet Union

There are three principal types of industrial projects in the USSR which utilise foreign capital. Industrial undertakings which fall within the first category will be called compensatory projects. These projects are suitably named in the light of the fact that project-related commodity deliveries from the Soviet Union are used to pay for (all) imported machinery, equipment and technical services connected with the project. Compensatory projects call for at least two contracts: one for the sale (or purchase) of foreign equipment and know-how, and the other for the purchase (or sale) of Soviet project-related commodities. In almost all cases the foreign supplier (exporter) agrees to import Soviet project-related commodities. However, it is also possible for the foreign supplier to arrange for another Western company to purchase a given amount of project-related commodities.

Industrial projects falling within the second category will be referred to as barter projects. Such projects call for imports which will be paid off on the basis of Soviet commodities that are not produced from the project itself (i.e., goods/services other than the products of a given project are used to pay for imports connected with this project). As in the case of compensatory projects, barter projects call for at least two contracts: one for the sale (or purchase) of foreign machinery, equipment and technical services; and the other for the purchase (or sale) of a wide range of Soviet commodities.

Industrial undertakings which fall within the third category will be called non-compensatory projects. As the name implies, the USSR is unable to import machinery and equipment for industrial projects on the basis of commodity payments (i.e., Western exporters are unwilling to accept Soviet commodities as payment for machinery, equipment and technical services). In the light of this fact non-compensatory projects must either satisfy an acute need in the Soviet economy or be set up to produce commodities which can be eventually sold to a wide range of buyers in world markets.

Western Investment in Compensatory Projects in the USSR

In the mid-1960s Soviet officials started encouraging the establishment of compensatory projects in the USSR. Such projects are important to the USSR for a number of reasons. Firstly, they are based upon long-term industrial co-operation (usually ten to fifteen years) and hence become an integral part of the country's scheme for planned economic development. Since Soviet officials maintain absolute control over compensatory projects in the USSR (i.e., Westerners are not permitted to own share capital in such projects or any other projects in the Soviet Union) it is easy to see how the operations of these projects could be conducted in order to comply with national economic objectives. Secondly, compensatory projects sometimes require a tremendous amount of capital and technology. Without Western assistance the USSR would be forced to channel a large share of its investment resources into these projects at the expense of undertakings in other sectors of the economy. Thirdly, compensatory projects can eventually reduce (or eliminate) the USSR's demand for specific imports from the West (e.g., a project which produces spark plugs might reduce the number of such commodities imported by the Soviet Union). Finally, and perhaps most important, the USSR's obligations connected with the importation of Western machinery, equipment, licences and technical services for compensatory projects are covered by the output of these projects. As a result, Soviet obligations arising from such projects should be seen in a different light than ordinary trade deficits with Western nations.

In addition to satisfying Soviet requirements for selected commodities and providing the means for purchasing Western technology, compensatory projects can also become important foreign currency earners. Indeed, when all project-related foreign debts have been met the output which exceeds domestic requirements can be exported to the West for cash. According to a Soviet source, 20-30 percent of the output of most compensatory projects is earmarked for export to foreign creditors.[4] Therefore, between 70 and 80 percent of the output from compensatory projects can be used in any way which suits the wishes of Soviet officials. A. Voinov sums up the advantages of compensatory projects (or compensatory 'enterprises'):

> Since accounts with the Western partner are settled on the basis of the output of the newly created enterprise its [i.e., the enterprise's] construction does not burden the balance of payments, and after completion, thanks to additional guaranteed deliveries to the world capitalist market . . ., [the enterprise] guarantees the steady receipt of convertible currency.[5]

In the light of the aforementioned advantages the USSR has attempted since the late 1960s to promote compensatory projects via trade agreements with IMTEs. For example, Article 2 of the Agreement on

Trade and Economic Co-operation Between the USSR and France for the Period 1970-1974, mentioned the possibility of 'creating certain industrial complexes [projects] that correspond to the economic interests of both countries, with the stipulation that part of the production of such complexes will be imported by interested organisations and firms of the other country for the full value of equipment supplied and services rendered'.[6]

It is interesting to note that compensatory projects were discussed in great detail during the economic debate of the Twenty-Fifth Congress of the Communist Party of the Soviet Union (CPSU). During the course of the discussions it was noted that these projects have only been set up for the development of raw materials and the production of semi-finished goods. As a result, some of the participants called for the establishment of compensatory projects for the production of finished goods. Moreover, it was generally acknowledged that compensatory projects should play a greater role in Soviet foreign trade, especially with IMTEs.[7]

TABLE 3.1 provides data on compensatory agreements negotiated between the USSR and IMTEs during the period 1969-1976. On the basis of these agreements the USSR is entitled to import at least $7,138-million worth of Western commodities on a compensatory basis.[8] Our attention should be drawn to the fact that some compensatory projects cited in TABLE 3.1 differ markedly with respect to export potential. For example, the Italian (Montedison)-Soviet chemical plants require imported equipment totalling $500 million while projected exports from the plants between 1975 and 1985 fall short of this sum. On the other hand the Italian (ENI, Finsider)-Soviet natural gas project calls for $190-million worth of imports while exports between 1975 and 1985 are expected to reach $4,400 million (i.e., the value of natural gas exports

TABLE 3.1

SELECTED SOVIET COMPENSATORY AGREEMENTS/ PROJECTS, 1969-1976

Commodity/ industrial undertaking	Contractor	Estimated value of Soviet imports (millions of $)	Year of initial purchases	Year of initial Soviet exports	Value of project-related exports (millions of $)	
					1975-80	1981-85
Natural gas	Austria (OeMV, Voest-Alpine)	110	1969	1969	900	1,000
East Siberian forestry project	Japan	163	1969	1969	Deal completed in 1974	
Natural gas	FRG (Ruhrgas, Mannesmann)	1,500	1970	1974	2,800	4,700
Natural gas	Italy (ENI, Finsider)	190	1971	1974	1,200	3,200
Natural gas	France (Gaz de France, Vallourec)	250	1972	1976	700	1,462
East Siberian wood-chip plant	Japan	45	1972	1972	145	50
Ust-Ilimsk timber complex	France (Parsons and Whitemore)	60	1974	1977	34	50
Chemical plants	France (Litwin)	100	1974	1977	50	60
Kuibyshev ammonia and urea complex	United States	400	1975	1978	2,000	2,500
Chemical plants	Italy (Montedison)	500	1975	1977	175	250

TABLE 3.1--Continued

Commodity/ industrial undertaking	Contractor	Estimated value of Soviet imports (millions of $)	Year of initial purchases	Year of initial Soviet exports	Value of project-related exports (millions of $) 1975-80	1981-85
South Yakutian coal at Chulman	Japan	450	1975	1989 [sic]	80	860
Kursk iron ore pelletisation plant	FRG (Krupp, Korf, Salzgitter, Siemens and Demag)	1,000	1975	NA	450	1,000
Second East Siberian forestry project	Japan	550	1975	1975	1,100	-
Chemical plants	Italy (ENI)	1,000	1975-80	NA	NA	NA
Chemical plants	France (Creusot-Loire)	220	1975	1979	100	225
Aluminium complex	France (PUK)	600-1,000	1976	NA	NA	NA

Source: Moscow Narodny Bank, Press Bulletin, 15 December 1976, p. 9, quoting Soviet Business and Trade, No. 14, 8 December 1976. The year of initial Soviet exports connected with the South Yakutian coal project at Chulman is undoubtedly cited incorrectly in TABLE 3.1. In all likelihood Soviet exports will begin in 1979.

for the eleven-year period is projected to exceed the value of imports by over twenty-three times). It should also be noted that in most cases exports from compensatory projects during the period 1981-1985 are projected to exceed exports for the period 1975-1980.

Japanese-Soviet compensatory projects came under serious consideration in the mid-1960s. The proposed projects were aimed at exploiting the vast natural resources of Siberia and the Soviet Far East and would supposedly result in significant economic gains for both countries. From the Soviet perspective the projects would hasten the development of natural resources and boost the level of industrialisation in Siberia and the Soviet Far East.[9] On the other hand compensatory projects in these regions would be long-term sources of raw materials for Japanese industries.

The agreement on the East Siberian forestry project was signed in the late 1960s. Under the terms of the agreement Japan was responsible for supplying $133-million worth of equipment and $30-million worth of consumer goods over a three-year period for the development of timber resources near the Amur River. Soviet timber exports to Japan from 1969-1973 paid for most of the imported equipment and consumer goods. The Japanese credit which was granted to the USSR for the purchase of the equipment called for a 20 percent downpayment with repayment of the balance over a period of five years (1969-1973) at 5.8 percent interest per annum. Deferred payments were arranged for the $30-million worth of consumer goods. The agreement set the initial price of Soviet timber exports to Japan at $21 per cubic metre and provided for an increase of 1 percent of the base price for each year after 1970.[10] Ten Soviet FTOs and fourteen Japanese companies participated in the East Siberian forestry project.[11]

On the basis of previous discussions the next undertaking is best described as a barter project. However, it might be wise to mention this project now as it is so closely connected with Japanese-Soviet projects cited in TABLE 3.1. According to one source, Japanese participation in the construction of a Soviet port on Wrangel Bay during the early 1970s 'was a logical corollary to the discussions on joint development of raw materials'.[12] The port is capable of handling 10 million tons of coal and 800,000 tons of wood chips per annum (in addition to an unknown quantity of other commodities). Japan granted the USSR an $80-million seven-year credit (at 6 percent interest per annum) to purchase equipment and technical services for the construction of the port. The USSR was required to make a cash downpayment of 12 percent.[13] To pay off the credit the USSR exported wood and wood chips to Japan.[14] In addition to promoting Japanese-Soviet trade the port on Wrangel Bay handles commodities shipped from Japan to Western Europe.

The agreement on the East Siberian wood-chip plant was signed in December 1971. Under the terms of the agreement Japan will receive wood products from the plant during the period 1972-1981. The $45-million credit was granted to the USSR for a period of six years at an annual interest rate of 6 percent.[15]

Since 1974, Japan has agreed to supply well over $1-billion worth of credits for compensatory projects in the USSR. In mid-1974, Japan agreed to help the USSR build coal-mining enterprises in the southern part of Yakutia. Under the terms of the agreement Japan is required to deliver $450-million worth of machinery, equipment and other commodities to the Soviet Union. Exports of coking coal from the enterprises will be used to pay for the Japanese equipment and other supplies. In September 1974, Japan and the USSR negotiated a second compensatory deal on the development of timber resources in Eastern Siberia. Under the terms of this agreement Japan granted the USSR a $550-million credit for the purchase of equipment, materials and consumer goods. The USSR started exporting processed wood chips and larch pulp wood to Japan in 1975 to pay for Japanese equipment and supplies.[16]

Japan is also interested in developing Soviet natural gas resources. In February 1973, the USSR offered Japan an opportunity to participate in assessing the feasibility of developing natural gas deposits in Yakutia. The following year both Japan and the United States concluded agreements of intent to participate in the search for Yakutian natural gas. At that time the Americans and the Japanese were expected to contribute $100 million each for the $600-million exploratory venture. However, the U.S. Export-Import Bank was unable to participate in the scheme (as a result of congressional restrictions on U.S. government credits to the USSR) which meant the Soviet Union would have been required to pay market interest rates for American credits/loans. Needless to say, the USSR refused to accept credits/loans for the venture at market interest rates. Without American participation Japan decided to bow out of the deal. Approximately two years later Japan and the United States became interested once again in the development of Yakutian natural gas reserves. On 31 March 1976, Japan extended the USSR a $25-million credit to help finance the search for natural gas in Yakutia. At about the same time the Bank of America extended the USSR a $25-million credit for the same purpose. About 80 percent of the Japanese credit came from Japan's Export-Import Bank and the balance was supplied by private sources. The Japanese credit was extended for a period of six years at an annual interest rate of 6.375 percent.[17] The fact that Japan and the United States are now only contributing one-fourth of their initial offers indicates the USSR was able to accumulate additional capital from its own resources for the exploratory venture during the two years of stalemate. Total natural gas reserves in Yakutia are estimated at 13,000 billion cubic metres. If the USSR decides to develop these reserves an estimated $3.9-billion worth of credits from the United States and Japan might be needed for the construction of various projects including a gas pipeline from Yakutia to the Pacific Ocean, a gas liquefaction plant and a berth for gas-carrying vessels. These credits would be repaid by annual deliveries of ten billion cubic metres of Soviet gas to both

Japan and the United States over a period of twenty to twenty-five years.[18]

In 1975, Japan agreed to supply $152.5-million worth of credits to the USSR for the exploration of petroleum and gas reserves under the continental shelf off Sakhalin Island. The credits fell into three categories. The first credit amounted to $22.5 million and was connected with the purchase of computers and other equipment. It was granted for a period of five years (plus a three-year grace period) at an annual interest rate of 6.75 percent. The second credit totalled $30 million and was earmarked for maintenance and labour costs. The credit was granted for a period of five years at an annual interest rate of 7.25 percent. Japan also agreed to extend the USSR a $100-million 'exploration-risk credit'. This credit will be repaid in the form of petroleum and gas over an eighteen-year period if production operations begin. However, the USSR is not required to repay the credit if it is not economically feasible to set up production facilities.[19] During 1977, petroleum and gas deposits were found under the continental shelf off Sakhalin Island.[20]

Since 1969, Austria, the FRG, France and Italy have extended the USSR over $2-billion worth of credits for the development of Soviet natural gas reserves. The credits were primarily used to purchase large-diameter pipes and pipeline-laying equipment for the construction of the Orenburg natural gas pipeline. The credits will be repaid via deliveries of Soviet natural gas over a period of twenty years or more. In addition to their participation in Soviet natural gas projects, the FRG, France and Italy have agreed to provide the USSR with approximately $2.5-billion worth of credits for other types of compensatory projects including a timber complex, chemical plants, an iron ore pelletisation plant and an aluminium complex.

At the present time over 90 percent of the Soviet natural gas exported to Austria, the FRG, Italy and France is connected with compensatory agreements.[21] This figure enables us to draw some rough conclusions (about natural gas) from official Soviet foreign trade statistics and the data in TABLE 3.1. Unfortunately, this researcher is unaware of other estimates which would enable us to deal with other commodities (e.g., timber, coal and chemicals) that are connected with compensatory projects in the USSR.

First of all let us assume that 95 percent of the Soviet natural gas exported to Austria, the FRG, Italy and France is connected with compensatory agreements. Under such conditions Austria imported approximately 54.3 million-rubles (about $73.8-million) worth of Soviet project-related natural gas in 1975; 88.5 million-rubles (about $120.4-million) worth in 1976; and 100.9 million-rubles (about $137.2-million) worth in 1977. Therefore, Austria imported about $331.4-million worth of Soviet project-related natural gas during the three-year period 1975-1977. According to TABLE 3.1, the USSR expects to export $900-million worth of project-related natural gas to Austria during the six-year period 1975-1980. If so, the USSR will be required to export approximately $568.6-million worth of project-related natural gas to Austria during the three-year period 1978-1980 (or $189.5-million worth for each of the three years). It is quite possible that the USSR will come close to achieving its export plan. As we learned, Soviet exports of project-related natural gas to Austria grew from $120.4 million in 1976, to $137.2 million in 1977; an increase of 14 percent. If Soviet exports of natural gas to Austria continue to grow by 14 percent each year during the period 1978-1980, then Soviet exports of gas during this period will amount to about $538.0 million. (Note that any rise in the price of natural gas would make it easier for the USSR to achieve its target.) However, even if the USSR fails to export $900-million worth of gas to Austria during the period 1975-1980, it is only fair to point out that the value of Soviet exports of project-related natural gas to Austria during the period 1975-1977 is already three times larger than the value of project-related machinery and equipment exported from Austria.

The FRG imported approximately 276.7 million-rubles (about $376.3-million) worth of Soviet project-related natural gas during the three-year period 1975-1977. According to TABLE 3.1, the USSR plans to export $2,800-million worth of project-related natural gas to the FRG during the six-year period 1975-1980. In order to achieve this goal the USSR will be required to export $2,423.7-million worth of project-related natural gas during the three-year period 1978-1980 (or $807.9-million worth for each of the three years). Soviet exports of project-related natural gas to the FRG grew from about $116.8 million in 1976, to about $188.1 million in 1977; an increase of 61 percent. In the event Soviet exports of natural gas to the FRG increase by 61 percent each year during the period 1978-1980 (which is a mighty bold assumption), then natural gas deliveries during this three-year period will amount to $1,575.2 million. It is immediately obvious that Soviet exports of natural gas to the FRG will have to increase by much more than 61 percent each year during the period 1978-1980 in order for the USSR's export plan to be achieved. But if Soviet exports of project-related natural gas only increase by 40 percent each year during the period 1978-1980, the USSR will be able to pay for all project-related machinery and equipment exported from the FRG.

Italy imported approximately 178.4 million-rubles (about $242.6-million) worth of Soviet project-related natural gas during the three-year period 1975-1977. TABLE 3.1 shows that the USSR plans to export $1,200-million worth of project-related natural gas to Italy during the period 1975-1980. This means that the USSR will be required to export \$957.4-million worth of project-related natural gas during the period 1978-1980 (or \$319.1-million worth for each of the three years). Soviet exports of project-related natural gas to Italy grew from \$67.3 million in 1976, to \$125.8 million in 1977; an 87 percent increase. If this trend continues (which again is a mighty bold assumption) the USSR will experience no trouble in achieving its export target.

France imported approximately 88.1 million-rubles (about \$119.8-million) worth of Soviet project-related natural gas during the two-year period 1976-1977. TABLE 3.1 shows that the USSR plans to export \$700-million worth of project-related natural gas to France during the five-year period 1976-1980. In order to achieve this goal the USSR will be required to export \$580.3-million worth of natural gas to France during the three-year period 1978-1980 (or \$193.4-million worth for each of the three years). In 1977, Soviet project-related natural gas exports to France amounted to \$86.9 million. If Soviet natural gas exports to France increase by just over 45 percent each year during the period 1978-1980, the USSR will be able to achieve its export plan.

It might be interesting to note that during the two-year period 1975-1976, Soviet natural gas production (in physical terms) increased at an annual average rate of 11 percent while Soviet natural gas exports (in physical terms) increased during the same period at an annual average rate of 36 percent. (However, we should keep in mind that Soviet exports of gas still comprise a small portion of Soviet natural gas production. In 1975, Soviet exports of gas [in physical terms] amounted to 6.7 percent of Soviet natural gas production while in 1976 this figure stood at 8 percent.) We should also take note of the fact that the rate of growth of Soviet natural gas production (in physical terms) and the rate of growth of Soviet natural gas exports (in physical terms) have both declined since 1975 (i.e., the rate of increase in Soviet natural gas production fell from 12.2 percent in 1975, to 10.9

percent in 1976, while the rate of increase in Soviet exports of gas declined from 37.9 percent in 1975, to 33.7 percent in 1976. Such comparisons can be quite useful if they are made over a period of years. But Westerners might have trouble making future comparisons as the figure for Soviet exports of gas (in m^3) was excluded from 1977 Soviet trade statistics.

In 1973, the Occidental Petroleum Corporation and the USSR negotiated one of the largest commercial deals between a private company and government trade organisations. The Occidental deal will run for a period of twenty years and is worth between $7 billion and $20 billion.[22] The deal is split into two parts. The first part involves the construction of a terminal and industrial complex in the Baltic Sea port of Ventspils, the construction of a similar terminal in the Black Sea port of Odessa, and the construction of an ammonia pipeline between Odessa and Togliatti.[23] According to a Soviet source, the USSR will pay for all its imported American equipment connected with the Occidental deal via commodity deliveries (e.g., ammonia, potash and urea) from Soviet industrial projects utilising such equipment.[24] The second part of the Occidental deal involves a series of barter transactions and hence cannot be regarded as an intrinsic part of our discussions on compensatory projects. However, since we would gain little by covering this material at a later point a brief summary of the second part of the Occidental deal will be presented at this time. Under the terms of the second part of the deal Occidental Petroleum will export about one million tons of superphosphoric acid each year to the USSR during the period 1978-1997. The USSR will pay for the superphosphoric acid by exporting to the Occidental Petroleum Corporation about 2.1 million tons of ammonia each year over a ten-year period commencing in 1978, approximately 1.5 million tons of ammonia each year during the next ten years (1988-1997) and 1 million tons of potash and 1 million tons of urea each year for the period 1978-1997.[25]

In 1972, three American-owned companies--Tennessee Gas Transmission Company (Tenneco), Brown and Root Inc., and Texas Eastern Transmission Corporation--and the USSR were considering a scheme (often referred to as the North Star project) which called for the extraction of natural gas from the Tyumen area in Western Siberia, the construction of a natural gas pipeline from the Tyumen gas fields to Murmansk, and the creation of facilities to promote the transport of gas from Murmansk to the United States and France. Under the scheme approximately 1.5 billion cubic feet of natural gas would be exported to the United States each day and 500 million cubic metres to France.[26] In 1974, the North Star project was all but abandoned as a result of the U.S. Export-Import Bank's inability to provide adequate financing facilities. Two years later the North Star project was revived when the U.S. Export-Import Bank requested that French, German and British banks provide credits/loans for the realisation of the project. (The Export-Import Bank would presumably guarantee American financial obligations for imports of Soviet natural gas so the USSR would not experience any difficulty in repaying the credits granted by French, German and British financial institutions.) If the North Star scheme is put into operation it could be worth over $10 billion. According to one estimate the FRG could provide $2-billion worth of credits (most likely for the purchase of pipes and compressor stations); France $1.6 billion (for a liquefaction plant); and the U.K., $1.4 billion (for cranes and bulldozers). In addition, $4.1 billion would be needed to construct gas-carrying tankers and $1 billion to build a receiving terminal in the United States.[27]

During the early part of 1977, the Bendix Corporation--an American company--and the USSR were discussing the possibility of setting up a rather novel type of compensatory project. If an agreement is negotiated the Bendix Corporation will construct a $30- to $40-million spark-plug manufacturing plant in the USSR. The plant would be capable of producing between 50 million and 70 million spark plugs per year. Credits/loans for the deal would probably come from American commercial banks. The spark plugs would carry the Bendix name and be stamped 'made in the USSR'. Approximately 75 percent of the plant's output would be sold in the USSR and 25 percent exported through Bendix's international marketing network. Foreign currency earnings from the sale of the exported spark plugs would be used to repay the American credits/loans. Two clauses in the proposed deal are somewhat unusual. Firstly, although the project would be under the direction of Soviet managers the Bendix Corporation would have the right to dictate the type of spark plug produced for export and a Bendix official assigned to the plant would have the power to accept or reject spark plugs for export. Secondly, the Bendix Corporation would have the right to participate in any discussions concerning further investment in the project.[28]

Another American company offered to set up a clothing-manufacturing factory in the USSR on a compensatory basis. If the scheme is approved the American company will be responsible for supplying the factory with new patterns each year in order to keep up with changes in fashion. The company would also be required to purchase between 20 and 30 percent of the factory's output over a period of ten years. If necessary, cloth would be exported from the United States to the Soviet clothing-manufacturing factory.[29]

In the early part of 1975, the U.K. extended the USSR a £950-million government-backed line of credit. This move was aimed at improving the competitive position of British exporters vis-à-vis their counterparts in other IMTEs. (Government-backed credits usually carry lower interest rates than credits without such support.) An improvement in the competitive position of British exporters was recognised as a necessary step toward correcting the large imbalance in Anglo-Soviet trade.[30] However, after a period of two years only £124 million (or 13 percent) of the line of credit had been used.[31] A few reasons have been suggested for the lack of Soviet interest in the so-called 'cheap' credit package. Firstly, the reluctance of many British companies to quote fixed prices has been cited as a primary reason for the lack of large British export contracts with the USSR.[32] (Soviet traders tend to reject contracts with floating prices.) Secondly, at least one Soviet analyst felt that there was a 'lack of desire, a lack of real drive on the part of British industries to win back the share of the Soviet market which used to belong to them for so many years in the past'.[33] Thirdly, it is sometimes mentioned that British exporters lose large contracts as a result of their reluctance to negotiate compensatory agreements with the USSR. In April 1976, L. A. Kostandov, the Minister of the Soviet Chemical Industry, mentioned in London that the USSR was planning to import about £3.5-billion worth of commodities for its chemical industry during the period 1976-1980. But he emphasised that the USSR was primarily interested in compensatory deals.[34] At the same time V. P. Pavlov, the deputy Soviet trade representative in the U.K., warned British exporters that they might lose major Soviet orders to European and American competitors if they (i.e., British exporters) did not change their attitude toward compensatory deals.[35] On another occasion L. A. Kostandov mentioned that British companies could organise a consortium to supply machinery and equipment for a petrochemical project in the USSR. (In other words the USSR was practically offering the U.K. a contract.) The British companies would be paid via deliveries of commodities from the petrochemical project over a period of ten to fifteen years. Kostandov even suggested that any net foreign currency earnings from the project (i.e., earnings from project-related exports which exceed the amount necessary to pay for goods imported from the U.K.) could be used to purchase additional foreign (British) machinery, equipment and other supplies.[36]

In May 1977, the Soviet FTO Tekhmashimport and a consortium of U.K.-based companies--Davy Powergas, Imperial Chemical Industries (ICI) and Klockner Ina Industrial Plant--agreed to participate in a compensatory deal which calls for the construction of two methanol plants in the USSR. The $275-million deal between the consortium and the USSR represented Britain's first major involvement in Soviet compensatory projects.[37] The deal was publicised (by both British and Soviet sources) as an important means of improving Britain's trade balance with the USSR[38] as well as increasing British receptivity to the idea of trading on a compensatory basis. The Davy-ICI-Klockner deal involved the negotiation of three separate contracts. Under the terms of the first contract Davy Powergas is responsible for designing, constructing and commissioning the two methanol plants. ICI and Klockner both negotiated contracts with the USSR for the purchase of methanol from the two plants.[39] According to one report approximately 300,000 tons of methanol (or 20 percent of the output of the two plants) will be exported to ICI and Klockner over a ten-year period (1981-1990).[40]

Although the next arrangement is similar in some respects to the aforementioned compensatory deals it is nevertheless extraordinary and should be placed within a special category. Under this arrangement selected West European countries have agreed to participate in the construction of natural gas pipelines in the southwestern part of the USSR in return for transport services connected with the purchase of natural gas. However, the natural gas which is delivered to Western Europe will not be transported via the previously mentioned pipelines. In November 1975, Austria, France, the FRG, Iran and the USSR agreed to participate in this unusual deal. Just prior to this arrangement Austria, France and the FRG agreed to purchase 11 billion cubic metres of natural gas from Iran each year from 1981-2003. It was initially decided that a pipeline should be constructed across Turkey and the Balkans in order to transport the Iranian gas to Western Europe.[41] But after the USSR was invited to participate in the discussions a far different scheme for transporting the gas was adopted. Under the new scheme the 11 billion cubic metres of Iranian gas earmarked for Western Europe will be transported to the southwestern region of the USSR. Then instead of constructing a pipeline from the southwestern part of the USSR to Western Europe, the Iranian gas will be used in the southwestern region of the USSR and an equivalent amount of Soviet natural gas (presumably from West Siberian gas fields) will be sent to Western Europe via existing pipelines.[42] One part of the deal calls for the construction of a gas pipeline from the southern part of Iran to the city of Astara on the Iranian-Soviet frontier. Austria, France, the FRG and the USSR will participate in the construction of the $3-billion pipeline. Another part of the deal involves West European participation in the construction of gas pipelines in the southwestern part of the USSR. In all, 13.4 billion cubic metres of Iranian gas will be exported each year to the USSR under the terms of the agreement--11 billion cubic metres originally earmarked for Austria, France and the FRG; 2 billion for the USSR;[43] and .4 billion allowed for wastage. According to one report the gas exported to the USSR will cost between $.90 and $1.00 per 1,000 cubic feet. The USSR is expected to place a 63 percent surcharge (as a transit fee) on the

11 billion cubic metres of natural gas exported to Western Europe.[44] In December 1975, the FRG extended the USSR a DM 1.2-billion ($452.8-million) line of credit to purchase commodities (e.g., steel pipes) from German manufacturers for the construction of Soviet gas pipelines in conjunction with the Iranian gas deal. The USSR will have up to twelve years to repay this credit. Payments from the FRG to the USSR for gas transport services will be used to cover Soviet obligations connected with the line of credit.[45]

Barter Projects

In the latter part of 1972, Pepsico--an American company--agreed to participate in the construction of a Pepsi-Cola plant in the USSR. Under the terms of the agreement Pepsico was required to supply equipment, technical services and Pepsi-Cola concentrate. In exchange, Pepsico received Soviet vodka and wines which could be sold in world markets. The Pepsi-Cola produced in the USSR was earmarked for domestic consumption.

The Pepsico deal has evolved into a fairly promising business operation. Between 1973 and 1976, two Pepsi-Cola plants were set up in the USSR. In August 1976, Pepsico announced that it would participate in the construction of three new Pepsi-Cola plants in the USSR. According to reports, the equipment and Pepsi-Cola concentrate supplied by Pepsico for the three plants will be paid for (on a 'dollar for dollar' basis) via Soviet vodka exports to Pepsico.[46] In January 1978, Pepsico agreed to set up five additional Pepsi-Cola plants in the USSR.[47] Once again the equipment and Pepsi-Cola concentrate supplied by Pepsico will be paid for by deliveries of Soviet vodka. It might be interesting to note that Soviet vodka exports to the United States increased from 375,000 rubles (about $510,000) in 1975, to 1,565,000 rubles (about $2,128,400) in 1977.

The Pepsico deal must have pleased Soviet leaders for at least two reasons. Firstly, the USSR was able to obtain Western technology in exchange for a commodity which did not require a great deal of additional capital investment.[48] Secondly, the USSR was seemingly in a position to start exporting vodka to Pepsico as soon as equipment for the plants was shipped to the USSR. Under such conditions long-term credits for the construction of the Pepsi-Cola plants would be unnecessary. As a result, any interest payments connected with the construction of the plants were most likely minimal.

As a rule, the USSR prefers joint industrial projects in which the foreign participant agrees to accept full payment for his exports in the form of goods produced in the Soviet Union. However, the USSR is currently considering proposals for joint projects in which the Western partner agrees to accept partial payment for his exports in the form of goods produced in the Soviet Union. For example, in 1976, Alfred Dunhill--a British company--offered to construct a cigarette factory in the USSR. The company agreed to extend the USSR a ten-year credit for the purchase of equipment, packaging materials and primary products (presumably tobacco). Alfred Dunhill suggested that between 20 and 30 percent of the credit could be repaid in the form of Soviet goods.[49] (In all likelihood cigarettes would only comprise a fraction of these goods.) Alfred Dunhill also offered to promote the sale of Soviet cigarettes through its international marketing network in addition to helping the USSR improve cigarette-packaging techniques.

Non-Compensatory Projects

In virtually all cases non-compensatory projects (i.e., joint industrial undertakings which are not classified as barter projects or compensatory projects) are set up in the USSR for only two reasons. Firstly, non-compensatory projects should satisfy acute economic needs. (It is widely known that consumer demand alone does not constitute the need for such projects in the USSR.) Secondly, if non-compensatory projects are not set up to satisfy pressing needs in the Soviet economy then these projects must be capable of earning enough foreign currency to cover construction costs.

One of the most successful non-compensatory projects is the Volga Motor Works which was mentioned at the beginning of this chapter. The Volga Motor Works currently produces over 600,000 cars each year, or roughly 30 percent of Soviet automobile production.[50] The motor works is responsible for producing the Lada--the Soviet automobile which is similar in design to the Fiat-124. (Ladas are sold in the USSR under the name 'Zhiguli'.[51]) According to one source, Ladas comprise approximately two-thirds of all Soviet automobile exports.[52]

Ladas appear to be selling quite well in the West. In 1976, it was announced that Satra Motors Inc.--an American company--would eventually import 10,000 Ladas per year.[53] During the first eight months in 1977, over 8,000 Ladas were sold in the U.K. Sales during this period were almost 50 percent higher than sales during the first eight months of 1976. It was projected that Ladas would represent approximately 1 percent of new car sales in the U.K. during 1977. In Britain the Lada is outselling the following types of automobiles: Alfa-Romeo, Mercedes-Benz, BMW and Saab.[54] During 1977, the Canadian company Lada Canada Ltd. signed a $35-million contract connected with the importation of Ladas. According to the president of Lada Canada, a new Lada is at least $500.00 cheaper than any other new car in Canada.[55] In 1977, New Zealand was planning to import up to 1,000 Ladas.

It was projected that the Lada would sell for $1,500 less than the (Italian-made) Fiat in New Zealand.[56] TABLE 3.2 shows the quantity and value of Soviet automobile exports to selected IMTEs for the years 1970, 1976 and 1977.

TABLE 3.2

SOVIET AUTOMOBILE EXPORTS TO SELECTED INDUSTRIALISED MARKET-TYPE ECONOMIES, 1970-1977.

Country	1970		1976		1977	
	Quantity	Value thousands of rubles	Quantity	Value thousands of rubles	Quantity	Value thousands of rubles
The U.K.	256	151	9,498	7,699	14,921	13,954
the FRG	74	42	13,872	15,469	10,530	13,585
France	-	-	12,584	11,881	12,946	13,280
Belgium (inc. cars without motors)	994	476	14,635	17,103	10,043	12,480
Finland	4,288	2,570	11,817	13,318	9,061	10,507
The Netherlands	1,213	598	6,154	7,096	8,814	9,976
Denmark	487	269	5,833	6,415	4,099	4,212

Source: Official Soviet foreign trade statistics.

It is interesting to note that the Volga Motor Works plans to produce two new Soviet-designed motor vehicles which could be exported to the West by the early 1980s. One model will be classified as a 'supermini' and equipped with front-wheel drive, a one-litre engine, two side doors and a hatchback. The other model--the 'Niva'--is a four-wheel drive cross-country vehicle based upon the Lada design. The USSR plans to produce 20,000 Niva vehicles in 1978. The Niva will be sold in the

West for about £4,000 (approximately $8,000).[57]

The USSR occasionally hires Western firms to construct facilities for tourists and foreign businessmen. Up till now most of these facilities have been constructed on a non-compensatory basis. In 1974, the USSR decided to employ Western companies for the purpose of constructing the Centre for International Trade and Scientific-Technical Relations in Moscow. The trade centre will cost well over $110 million and will contain a twenty-storey office building, a 2,000-seat conference hall, two hotels with a combined capacity of 1,225 rooms, a concert hall, a 500-seat cinema and an underground garage for 600 automobiles. The U.S. Export-Import Bank and Chase Manhattan Bank each provided $36-million worth of credits for the project and the USSR provided $8 million in cash.[58] The Kama Purchasing Commission in New York is responsible for negotiating with American suppliers. According to the Chairman of Gosbank, Vladimir S. Alkhimov, the Centre for International Trade and Scientific-Technical Relations will probably pay for itself (via receipts from foreign businessmen and tourists) in six years.[59] (In other words the trade centre might be capable of earning over $110-million worth of convertible currency for the USSR every six years, or over $18 million annually.) The USSR has not published any estimates on the amount Westerners will be required to pay for using the trade centre's facilities. However, one Western source has warned that the Moscow trade centre 'will be as expensive as anything near the Paris Bourse or the City of London'.[60]

Foreign capital can enable the USSR to develop natural resources in one industry which will lead to an increase in the amount of raw materials available for export in another industry. For example, in July 1976, Japan agreed to extend the USSR credits for the purchase of three Japanese natural-gas processing plants (presumably on a non-compensatory basis). Vladimir Alkhimov pointed out that the plants would enable the USSR to process and consume 10 billion cubic metres of natural gas each year which is equivalent in calorific capacity to 10 million tons of petroleum.[61] (In other words natural gas could replace petroleum as a fuel in the USSR and hence leave more petroleum for export.) As we learned previously, Soviet industrial projects which are constructed on the basis of foreign capital can also reduce the USSR's demand for selected foreign commodities in the long run. Indeed, the Soviet Union might find that it is more advantageous to import production facilities for mineral fertilisers than it is to request fertiliser deliveries from foreign countries each year.

For the time being the USSR will continue to depend upon raw-material exports (e.g., petroleum, natural gas, timber and ores) as a valuable source of convertible currency. As the existing supplies of raw materials are depleted it will become more costly for the USSR to locate and develop new sources. In the light of this fact the USSR's interest in utilising foreign capital and technology will seemingly increase. This will call for improved methods of attracting foreign capital into the USSR. It also means that greater emphasis could be placed on preliminary studies for determining the effectiveness of utilising foreign capital in the Soviet economy.

On Measuring the Effectiveness of Utilising Foreign Credits for the Creation of Industrial Projects in the Soviet Union[62]

According to Grinev and Lebedinskas, foreign credits can be utilised for industrial projects in the USSR if such credits guarantee a higher degree of effectiveness than domestic (Soviet) capital investment, or if sufficient domestic (Soviet) resources are not available for a particular industrial project. Before negotiating a credit agreement with a foreign contractor, Soviet officials are expected to make extensive calculations on the effectiveness of utilising foreign credits for a given project. One of these calculations involves comparing the costs of utilising foreign credits for a particular industrial project (i.e., the deliveries of Soviet industrial output which are required to repay the credit plus interest) with the costs of constructing the project exclusively on the basis of domestic (Soviet) resources.[63] When considering the utilisation of foreign credits for domestic industrial projects Soviet economists must pay close attention to international interest rates, international repayment schemes and foreign trade prices in order to safeguard against unprofitable undertakings. In some cases Soviet economists are encouraged to search for ways of bringing about changes in conditions which are unfavourable for the use of foreign credits in industrial projects. (In other words Soviet economists are not merely instructed to reject unfavourable proposals. By working out various problems with their foreign counterparts Soviet economists might be able to bring about changes which would make the proposals beneficial for both parties.)

There are two principal indicators which show the desirability of utilising foreign credits for industrial projects in the USSR--the absolute effect (absolyutnyi effekt) and effectiveness (effektivnost). The absolute effect is the difference between the commodity gains from the utilisation of foreign credits and the expenditures (i.e., commodity deliveries to creditor nations) which are connected with the use of such credit. In other words the absolute effect is the surplus production which is placed at the disposal of the debtor nation as a result of the utilisation of foreign credit. Effectiveness can be determined by comparing a wide range of economic effects resulting from the utilisation of foreign credit with the volume of production required to repay the credit plus interest. Grinev and Lebedinskas used five formulae showing various economic effects in order to calculate the effectiveness of utilising foreign credits for industrial projects in the USSR.

The first formula deals with the macroeconomic effect 'E_T' of import-export deliveries connected with the use of foreign credit when reduced to one point in time. It is written as follows:

$$E_T = \sum_{t=0}^{T} (Zi_t - Ze_t)(1 + r)^{T - t}$$

Where

- T represents the length of the international agreement, in years;
- t represents a specific year within the agreement;
- Zi_t represents national economic expenditures for all products imported in year 't' on the basis of credit granted for that year [i.e., the amount the USSR would be required to spend in order to produce the commodities which are imported on the basis of credit], in rubles;
- Ze_t represents national economic expenditures on all products exported in year 't' to repay the credit plus interest, in rubles;
- r represents the coefficient for the calculation of intertemporal expenditures. [The coefficient is most likely derived from the rate of interest.]

As we learned previously, most Soviet industrial projects which are set up on the basis of foreign capital must produce a certain amount of commodities for export (especially to repay foreign credits). This enables us to measure the reduction in the cost of producing a unit of output as a result of increased production for export. The formula for the effect 'E_k' which is connected with economies of scale[64] is as follows:

$$E_k = \sum_{t=0}^{T} \left[(C_1 + IK_1) - (C_2 + IK_2) \right] V_{2t}$$

Where

- C_1 represents the cost of producing a unit of output in year 't' which is produced exclusively for the satisfaction of domestic needs, in rubles;
- C_2 represents the cost of producing a unit of output in year 't' taking into consideration the increase in production which is necessary to produce commodities for export, in rubles;
- K_1 represents capital investment per unit of output exclusively for domestic needs, in rubles;
- K_2 represents capital investment per unit of output taking into consideration the increase in production which is necessary to produce commodities for export, in rubles;
- I represents the normative coefficient of effectiveness of capital investment [i.e., a centrally determined coefficient for minimum rate of return];
- V_{2_t} represents the volume of production delivered to the Soviet economy in year 't', in physical units.

In some cases exports from a given Soviet industrial project will exceed the amount necessary to repay the credit plus interest. The formula for calculating the effect 'E_s' of commodity deliveries which exceed the amount necessary to cover obligations connected with the credit agreement is as follows:

$$E_s = \sum_{t=0}^{T} (Pe_t \; Xi.ekv._t - Zch.e._t) \; V_{1_t}$$

Where

- Pe_t represents foreign trade prices of products for export at the time of delivery during year 't', in transferable rubles;
- $Xi.ekv._t$ represents the coefficient of effectiveness of the import equivalent in year 't';
- $Zch.e._t$ represents national economic expenditures of the USSR on 'net' exports in year 't'. i.e., on exports exceeding the amount delivered to repay the credit plus interest, in rubles;
- V_{1_t} represents the volume of exports from a given economic project in year 't', in physical units.

Foreign credits can also enable the USSR to commence work on an industrial project before Soviet capital is available for such a project. The formula for the effect 'E_v' of an early commencement of a given project is as follows:

$$E_V = \sum_{m=1}^{n} IKV$$

Where

n represents the amount of time saved in putting an industrial project into operation, in years (or months);
m represents a specific year (or month);
K represents capital investment per unit of output in a given industrial project, in rubles;
V represents the volume of output of the industrial project which is delivered to the Soviet economy in year (or month) 'm'.

And finally, it is necessary to compare the production costs of a given commodity from a foreign-financed industrial project in the USSR with: the cost of producing the same commodity in a Soviet-financed enterprise, the cost of importing this commodity into the USSR, and the cost of producing a substitute commodity in a Soviet-financed enterprise. These data make it possible to calculate the effect 'E_Z' of satisfying Soviet requirements for a particular commodity from the output of a foreign-financed industrial project in the USSR. The formula is as follows:

$$E_Z = \sum_{t=0}^{T} (S_{1_t} - S_{2_t})(V_{2_t} - V_{1_t})$$

Where

S_{1_t} represents the cost of producing a given commodity in a Soviet-financed enterprise, or the cost of importing this commodity, or the cost of producing a substitute commodity in a Soviet-financed enterprise during year 't', in rubles;
S_{2_t} represents the cost of a given commodity from an industrial project constructed on the basis of foreign credit during year 't', in rubles.

The overall effect (obshchii effekt) 'E' of utilising foreign credits for the construction of an industrial project in the USSR is the sum of the aforementioned effects.

$$E = E_T + E_K + E_S + E_V + E_Z$$

The effectiveness of utilising foreign credits for the construction of an industrial project in the USSR can be determined from the following formula:

$$\frac{\sum_{t=0}^{T} Zi_t(1 + r)^{T - t} + E_k + E_s + E_v + E_z}{\sum_{t=0}^{T} Ze_t(1 + r)^{T - t}} > 1$$

Soviet Participation in Compensatory Projects in the West

We have just learned that Western participation in Soviet industrial projects could become an important part of East-West trade. However, it is only fair to point out that the USSR appears to be interested in boosting the level of its participation in compensatory projects in the West. For example, in the early part of 1978 it was announced that the USSR will invest approximately $2 billion for the development of phosphate resources in Morocco. Soviet capital will be used to develop the Me Kala phosphate mine and construct a railway from the mine to a harbour in Essaouira. The USSR will receive raw Moroccan phosphate, triple-super phosphate and phosphoric acid in return for its investment. (It is interesting to note that the USSR will not be permitted to sell these commodities to third countries.) When Soviet credits have been paid off, phosphates and phosphate derivatives will be exported to the USSR in exchange for Soviet petroleum, timber and chemical products.[65]

Future Soviet investment in MTEs will probably not be limited to traditional compensatory projects. Moreover, such investment might not be confined to LDCs. For example, one CMEA country--Rumania--has just invested $53 million for the development of coal resources in the United States (Virginia).[66] The investment was made on the basis of a $53-million loan granted to Rumania by a consortium of Western-owned banks (including Banque Commerciale pour l' Europe du Nord). Rumania will receive high-grade metallurgical coal in return for its investment.

NOTES

[1]The Times, 13 April 1966, p. 11.

[2]The Times, 16 August 1966, p. 1.

[3]U.S. Congress, Senate, Western Investment in Communist Economies, 93rd Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1974), p. 3.

[4]Vneshnyaya torgovlya, No. 2, 1976, p. 8.

[5]A. Voinov, 'Dolgosrochnoe ekonomicheskoe sotrudnichestvo sotsialisticheskikh i promyshlenno razvitykh kapitalisticheskikh stran', Planovoe khozyaistvo, No. 5, 1974, p. 83.

[6]Vneshnyaya torgovlya, No. 8, 1969, p. 2 (Harrison's emphasis).

[7]Moscow Narodny Bank, Press Bulletin, 17 March 1976, p. 3, quoting V. M. Ivanov, head of the Soviet trade representation in the U.K.

[8]It might be interesting to note that the sum of Western commodities which the USSR is entitled to import under compensatory agreements negotiated during 1969-1976 ($7,138 million) represents about 50 percent of total Soviet imports of machinery and equipment from Austria, France, the FRG, Italy, Japan and the U.S. during the same period. (Total Soviet imports of machinery and equipment from these six IMTEs during the period 1969-1976 amounted to 11,015.2 million rubles or about $14,386.1 million.)

[9]For quite some time Soviet leaders have stressed the importance of increasing the rate of industrialisation in Siberia and the Soviet Far East. Although Soviet officials maintain that the USSR is capable of carrying out this task alone, it is generally recognised (by both Western analysts and their Soviet counterparts) that insufficient Soviet capital resources and inferior Soviet technology make it extremely difficult for the USSR to develop Siberian natural resources quickly and efficiently without foreign assistance; see U.S. Congress, Senate, Western Investment in Communist Economies, p. 41.

[10]U.S. Congress, Senate, Western Investment in Communist Economies, p. 38.

[11]Vneshnyaya torgovlya, No. 2, 1976, p. 9.

[12]U.S. Congress, Senate, Western Investment in Communist Economies, p. 38.

[13]Ibid.

[14]John T. Farrell, 'Soviet Payments Problems in Trade with the West', in Soviet Economic Prospects for the Seventies, compiled by the U.S. Congress, Joint Economic Committee, 93rd Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1973), p. 694.

[15]U.S. Congress, Senate, Western Investment in Communist Economies, p. 38.

[16]I. F. Semichastnov, 'Na poroge zavershayushchego goda devyatoi pyatiletki', Vneshnyaya torgovlya, No. 1, 1975, p. 7.

[17]Financial Times, 2 April 1976, p. 4.

[18]Moscow Narodny Bank, Press Bulletin, 11 January 1978, p. 6, quoting Ecotass, No. 52, 1977.

[19]Moscow Narodny Bank, Press Bulletin, 30 July 1975, p. 5, quoting Reuter East-West Trade News, 24 July 1975.

[20]Moscow Narodny Bank, Press Bulletin, 7 September 1977, p. 13, quoting Reuter East-West Trade News, 6 September 1977.

[21]S. Ponomarev, 'Sotrudnichestvo SSSR s kapitalisticheskimi stranami na kompensatsionnoi osnove v oblasti toplivnoi promyshlennosti', Vneshnyaya torgovlya, No. 4, 1978, p. 26.

[22]According to an article in the New York Times (20 May 1973, p.1) the Occidental deal is worth between \$7 billion and \$8 billion. However, articles in the Financial Times (25 January 1978, p. 5) and Pravda (26 June 1974, p. 4) claim that the deal is worth \$20 billion.

[23]Moscow Narodny Bank, Press Bulletin, 16 November 1977, p. 3, quoting Business Week, 7 November 1977.

[24]Voinov, 'Dolgosrochnoe ekonomicheskoe sotrudnichestvo . . .', p. 83.

[25]See Financial Times, 25 January 1978, p. 5.

[26]Financial Times, 28 April 1976, p. 4.

[27]Moscow Narodny Bank, Press Bulletin, 9 June 1976, p. 17, quoting Reuter East-West Trade News, 1 June 1976.

[28]Moscow Narodny Bank, Press Bulletin, 26 January 1977, p. 8, quoting Business Week, 31 January 1977.

[29]Moscow Narodny Bank, Press Bulletin, 17 March 1976, p. 5, quoting from an address given by V. M. Ivanov.

[30]In 1975, the USSR exported 591.1 million-rubles worth of commodities to the U.K. and imported 368.2 million. One year later Soviet exports to the U.K. totalled 824.9 million rubles and imports from the U.K. amounted to 406.9 million. However, it is only fair to mention that a sizeable number of Soviet commodities imported into the U.K. are eventually re-exported.

[31]Financial Times, 12 February 1977, p. 13.

[32]Financial Times, 16 August 1976, p. 1.

[33]Moscow Narodny Bank, Press Bulletin, 17 March 1976, p. 5, quoting from an address given by V. M. Ivanov.

[34]Financial Times, 9 April 1976, p. 4.

[35]Ibid.

[36]Moscow Narodny Bank, Press Bulletin, 12 May 1976, p. 3, quofrom an address given by V. M. Ivanov. (Note that this address by V. M. Ivanov differs from the one cited in Moscow Narodny Bank, Press Bulletin, 17 March 1976.)

[37]Prior to the Davy-ICI-Klockner deal the U.K. participated in two small compensatory projects in the USSR. One project involved the construction of a low-pressure polyethelene plant. Soviet exports of polyethelene were used to pay for British machinery, equipment and technical services. The other deal involved the export of British equipment and technology for the toy-making industry in the USSR. The U.K. agreed to accept toys from the USSR as payment for the equipment and technology.

[38]Financial Times, 20 May 1977, p. 7. (It might be interesting to note that in 1976, Soviet exports to the U.K. were 2.0 times larger than imports from the U.K., while in 1977, Soviet exports to the U.K. were 2.6 times larger than imports.)

[39]Financial Times, 18 May 1977, p. 1.

[40]Financial Times, 20 May 1977, p. 7.

[41]Journal of the US-USSR Trade and Economic Council, Vol. 2, No. 4 (October-November 1976), p. 8.

[42]The reader should be aware of the fact that pipelines from West Siberian gas fields to Western Europe were already under construction at the time of the agreement between Iran and the three West European nations. In February 1978, the USSR signed an agreement with Czechoslovakia regarding the use of the Czechoslovak natural gas pipeline for the delivery of the 11 billion cubic metres of Soviet gas to Western Europe.

[43]This gas is presumably payment for Soviet assistance in the construction of the Iranian natural gas pipeline.

[44]Financial Times, 1 December 1975, p. 5.

[45]See Moscow Narodny Bank, Press Bulletin, 7 January 1976, p. 14, quoting Agefi, 23 December 1975.

[46]Moscow Narodny Bank, Press Bulletin, 25 August 1976, p. 5, quoting Reuter East-West Trade News, 18 August 1976.

[47]The Times, 11 January 1978, p. 6.

[48]But the USSR could argue that the United States received vodka for commodities which required only a marginal amount of capital investment. Indeed, the Americans have a comparative advantage in the production of Pepsi-Cola while the Soviets enjoy a comparative advantage in the production of vodka.

[49]Moscow Narodny Bank, Press Bulletin, 10 November 1976, p. 2, quoting Ecotass, 1 November 1976.

[50]Moscow Narodny Bank, Press Bulletin, 27 October 1976, p. 4, quoting Soviet Business and Trade, 13 October 1976.

[51]N. Smelyakov, Deputy Minister of Foreign Trade of the USSR, mentioned that it was necessary to find a more suitable name for marketing the Zhiguli abroad. The reason was simple: the name Zhiguli sounds much like 'gigolo' and words in the Arabic language which mean 'ignoramus' and 'false'; see N. N. Smelyakov, 'Delovye vstrechi', Novy mir, December 1973, p. 236. Smelyakov also mentioned that the name of the Soviet automobile 'Zaporozhets' was changed to 'Yalta' because the former sounds similar to a Finnish word for 'pig tail'.

[52]Financial Times, 28 November 1977, p. 4.

[53]Moscow Narodny Bank, Press Bulletin, 27 October 1976, p. 4, quoting Soviet Business and Trade, 13 October 1976.

[54]The Times, 5 September 1977, p. 15.

[55]Moscow Narodny Bank, Press Bulletin, 26 October 1977, p. 9, quoting Reuter East-West Trade News, 19 October 1977.

[56]Financial Times, 4 July 1977, p. 4.

[57]Financial Times, 28 November 1977, p. 4.

[58]Moscow Narodny Bank, Press Bulletin, 1 December 1976, p. 3, quoting Business Week, 6 December 1976.

[59]Journal of the US-USSR Trade and Economic Council, Vol. 2, No. 4 (October-November 1976), p. 8.

[60]Moscow Narodny Bank, Press Bulletin, 1 December 1976, p. 3, quoting Business Week, 6 December 1976.

[61]Soviet News, 3 August 1976, p. 288.

[62]V. Grinev and A. Lebedinskas, 'Opredelenie effektivnosti privlecheniya inostrannykh kreditov dlya sozdaniya na territorii SSSR proizvodstvennykh moshchnostei', Planovoe khozyaistvo, No. 6, 1975, pp. 39-47.

[63]For example, if a given amount of machinery costs 1,500,000 rubles to produce in the USSR it might be advantageous for Soviet officials to consider importing such machinery for the construction of an industrial project if the imported machinery can be paid off in the form of commodity deliveries from the project which cost, say, 1,000,000 rubles to produce.

[64]Grinev and Lebedinskas pointed out that it would be possible to construct a similar formula to measure the effect of utilising the latest technological developments in industrial projects set up on the basis of foreign capital.

[65]Financial Times, 31 January 1978, p. 4.

[66]Moscow Narodny Bank, Press Bulletin, 18 January 1978, p. 13, quoting Business Week, 16 January 1978.

> Despite the strong Marxist-Leninist contempt for capitalist aims and methods, the pragmatists whose task it is to operate a collectivist economy have long ago realized that international business will for an indefinite time have to be conducted within a capitalist frame of reference.
>
> --Samuel Pisar

CHAPTER IV

THE FINANCING OF SOVIET FOREIGN TRADE

We learned in CHAPTER I that NEP was responsible for bringing about a significant increase in Soviet operations in world financial markets. Soon after the period of War Communism Soviet leaders began to encourage long-term foreign investment in the USSR as a means of promoting the rapid industrialisation of the Soviet economy. Ordinary foreign trade operations also increased appreciably after the introduction of NEP indicating that Soviet leaders were interested in using foreign markets to satisfy the country's immediate economic requirements. The growth of Soviet foreign commercial operations under NEP necessitated the development of the USSR's trade financing mechanism. Soviet banks were encouraged to strengthen their ties with world financial markets and the chervonets was conceived as a means of eventually serving as the basis of Soviet (and perhaps worldwide) foreign trade financing.

Soviet foreign trade policy was altered drastically under Stalin. By the late 1920s Western investment in the USSR was no longer encouraged and Soviet currency could not be legally used to finance foreign trade. As a result, Soviet foreign trade had to be either conducted on a barter basis or financed by foreign currencies. Moreover, by the late 1920s there was some evidence that the USSR was using foreign trade as a means of gaining economic independence from the Western (capitalist) world. But Stalin's foreign trade policy did not lead to a sharp decline in Soviet commercial operations until after 1932. During the late 1920s and early 1930s, exports of Soviet raw materials were increased in order to help pay for massive imports of Western machinery and equipment which were required for the rapid industrialisation of the Soviet economy. In addition, Western nations were willing to extend the USSR credits during this period in an attempt to shake off the ill effects of the Great Depression by stimulating Soviet demand for Western commodities. This led to a marked increase in Soviet foreign indebtedness between the late 1920s and the early 1930s.

As we learned in CHAPTER I, Soviet foreign trade turnover declined sharply after 1932. Soviet trade surpluses during the period 1933-1936 enabled the USSR to pay off most of its foreign debt. By the late 1930s it appeared as though the USSR was on the verge of achieving independence from Western financial markets. This situation continued for almost two decades if we overlook the USSR's commercial/financial obligations connected with Lend-Lease. However, the evidence suggests that Stalin never favoured severing all ties with Western financial markets. Indeed, Soviet commercial banks in the West continued to operate (albeit in a restricted fashion) despite the adverse conditions which existed from the late 1930s to the mid-1950s.

By the mid-1960s Western nations were beginning to sense the presence of the USSR in their financial markets. Less than a decade later the Soviet Union had made a significant impact on every major financial market in the Western world. Such an impact is not surprising in the light of the USSR's enormous economic capabilities. After a lengthy period of deliberation Soviet leaders have found once again that it is in their best interests to make full use of the opportunities which exist in world markets. As a result of the USSR's expanding operations in world markets the vehement criticism of Western economic systems is slowly losing its prevalence in Soviet foreign policy. At this time Soviet critics of East-West interdependence are overshadowed by policy-makers who appear to be preoccupied with the promotion of long-term economic co-operation between the USSR and MTEs.

The Operations of the Foreign Trade Bank of the USSR

The Foreign Trade Bank of the USSR (Vneshtorgbank) is directly responsible for supervising and controlling Soviet foreign currency operations. Although Vneshtorgbank was established in 1924, the State Bank of the USSR (Gosbank) handled most of the Soviet Union's foreign currency transactions until the early 1960s. Indeed, between 1924 and 1960, Vneshtorgbank's foreign currency operations were primarily confined to non-commercial areas (e.g., tourism and diplomatic missions) and it was recognised by some critics as nothing more than a semi-autonomous branch of Gosbank. During the late 1950s both the volume of Soviet foreign trade and the number of countries trading with the USSR began to increase significantly. As a result, Soviet officials decided that most foreign currency operations of the USSR should be the responsibility of a single specialised bank. In 1961, Vneshtorgbank's operations were expanded to include commercial transactions with FTOs which were previously handled by Gosbank.

According to one source, Soviet officials increased Vneshtorgbank's role in the sphere of foreign trade financing for 'prestige' reasons.[1] When the USSR began to welcome medium- and long-term credits/loans from IMTEs some Soviet officials thought that it would be improper for Gosbank to guarantee such credits/loans. In addition, it was recognised that any Soviet bank maintaining close relations with Western financial institutions would be required to conduct some of its operations according to Western financial norms. As we shall learn, Gosbank would have great difficulty conducting present-day financial operations with the West without undermining its professed immunity from all of the so-called 'contradictions' of world financial markets.

Like most large Western commercial banks, Vneshtorgbank is a joint-stock company. Its shareholders include Gosbank, the Ministry of Finance, Ingosstrakh, the Central Union of Consumers' Co-operatives and a number of FTOs. Vneshtorgbank's resemblance to Western banks and its close connections with commercial organisations in MTEs have given the bank a reputation for being the most capitalistic organisation in the USSR. Indeed, there are even some Westerners who think that the Soviets working for Vneshtorgbank are more capitalistic than capitalists in the West. One Westerner sized up the Soviet bankers in Vneshtorgbank as follows: 'On the one hand there is a peasant-like greed and on the other the sophistication of high finance'.[2] Nevertheless, the fact remains that Vneshtorgbank's operations are still strongly influenced by Gosbank (and the Ministry of Finance). According to one source, Gosbank supplies Vneshtorgbank with a large amount of (ruble) funds and a sizeable number of top-level personnel.[3] Moreover, the chairman of Vneshtorgbank normally serves as a member of Gosbank's board of managers and the two banks periodically exchange personnel.[4]

At the present time Vneshtorgbank handles virtually all types of financial transactions which are connected with Soviet foreign trade (including government financial agreements). Most analysts agree that

Vneshtorgbank has a monopoly over the financing of Soviet foreign trade. The bank makes and accepts payments on behalf of Soviet FTOs and provides credit for them. Vneshtorgbank also provides credit for some Soviet enterprises which manufacture commodities for export.[5] Moreover, the bank is authorised to grant credits and loans to both foreign companies and individuals. In addition to the aforementioned functions Vneshtorgbank handles a wide range of non-commercial transactions; accepts deposits from both Soviet and foreign sources; opens accounts in rubles and foreign currencies; deals abroad in gold, silver and other precious metals; guarantees commercial paper issued by Soviet FTOs; and buys and sells foreign currencies.[6]

Soviet foreign trade operates according to the principles of preisausgleich. When world market prices for Soviet exports are below Soviet wholesale prices, exporting FTOs sometimes receive funds from the state budget (via Gosbank-Vneshtorgbank) which will offset their losses. (In other words Gosbank-Vneshtorgbank use funds from the state budget to make up the difference to exporting FTOs if the ruble proceeds [which are calculated on the basis of official exchange rates] from their exports fall short of Soviet wholesale prices.) In the event world market prices for Soviet exports exceed domestic (Soviet) wholesale prices Gosbank-Vneshtorgbank can be called upon to transfer any excess earnings of exporting FTOs to the state budget. When world market prices for Soviet imports exceed Soviet wholesale prices, importing FTOs sometimes receive funds from the state budget (via Gosbank-Vneshtorgbank) which will offset their losses. (In other words Gosbank-Vneshtorgbank can use funds from the state budget to pay importing FTOs the difference between the ruble amounts paid to these FTOs by Soviet wholesalers and the amounts paid by importing FTOs to foreign exporters.) If Soviet wholesale prices for imported commodities exceed the amounts paid for such imports, Gosbank-Vneshtorgbank can be called upon to transfer any excess earnings of Soviet importers to the state budget.

One of Vneshtorgbank's most important operations involves the buying and selling of foreign currency in accordance with the USSR's foreign exchange policy. According to the Chairman of Gosbank, Vladimir Alkhimov, Vneshtorgbank carries out extensive operations in Western financial markets in order to obtain maximum earnings from foreign currency resources. Soviet foreign currency reserves are usually kept in the most stable currencies to safeguard against losses through devaluation. In addition to its operations in 'spot' foreign exchange markets Vneshtorgbank buys and sells foreign currencies in 'forward' foreign exchange markets. (For a discussion of 'spot' and 'forward' foreign exchange markets see footnote number 22 on pp. 284-285.) Of course, Vneshtorgbank has a policy of depositing foreign currency in (Western-based) banks which offer the highest deposit rates.[7]

The marked growth in Soviet foreign trade since the mid-1960s has led to a concomitant increase in the activities of Vneshtorgbank. Between 1966 and 1972, Vneshtorgbank's assets increased from 3.8 billion rubles to 10.1 billion. At the beginning of 1977, the bank's assets stood at 26.1 billion rubles (about $35.5 billion). TABLE 4.1 provides data on Vneshtorgbank from 1 January 1975 to 1 January 1977.

It is impossible to calculate the exact amount of convertible currency included in Vneshtorgbank's balance sheet without gaining access to highly classified data. However, we can make some very rough estimates on the basis of Soviet foreign trade statistics. In 1974, approximately 54 percent of Soviet foreign trade (export and import operations) was conducted with socialist countries (i.e., CMEA members and a few non-members); in 1975, 56 percent; and in 1976, 56 percent. About 31 percent of Soviet foreign trade was carried out with IMTEs in 1974, 31 percent in 1975, and 33 percent in 1976. And approximately

TABLE 4.1

BALANCE SHEET OF THE BANK FOR FOREIGN TRADE OF THE USSR, 1 January 1975-1 January 1977 (in rubles and kopecks)

Assets	1 January 1975	1 January 1976	1 January 1977
Cash, current and other accounts	3,680,881,153.86	3,276,155,099.39	4,191,313,913.89
Credits granted, guarantees and acceptances	12,883,627,330.29	18,859,599,797.04	21,923,960,654.49
Securities, shares and stocks	21,831,195.76	22,466,562.38	28,308,941.93
Other assets	2,879,131.55	3,694,253.71	5,994,055.33
Total	16,589,218,811.46	22,161,915,712.52	26,149,577,565.64

Liabilities	1 January 1975	1 January 1976	1 January 1977
Share and reserve capital	668,985,986.54	741,985,986.54	834,985,986.54
Resources on current and other accounts	10,625,298,770.37	14,098,208,827.23	15,213,471,691.12
Credits received, guarantees and acceptances	5,193,844,456.85	7,199,713,818.59	9,970,482,311.28
Net profit	94,800,447.14	115,460,852.20	123,453,293.95
Other liabilities	6,289,150.56	6,546,227.96	7,184,282.75
Total	16,589,218,811.46	22,161,915,712.52	26,149,577,565.64

Sources: Vneshnyaya torgovlya, No. 9, 1975, p. 30; and Moscow Narodny Bank, Press Bulletin, 12 October 1977, p. 12.

15 percent of Soviet foreign trade was conducted with LDCs in 1974, 12 percent in 1975, and 12 percent in 1976. Since Vneshtorgbank is

primarily responsible for financing Soviet foreign trade it would be reasonable to assume that the breakdown of funds included in the bank's balance sheet (or the ratio of rubles to foreign currency) roughly resembles the way in which the USSR finances its trade with various types of foreign countries. It is widely known that most Soviet trade with socialist countries is financed on the basis of non-convertible (transferable) rubles. In addition, it is widely accepted that most Soviet trade with IMTEs is financed in hard currency.[8] Now the amount of convertible currency (i.e., hard currency and soft currency[9]) involved in Soviet trade with LDCs is a little more difficult to estimate. However, it is generally accepted that most Soviet trade with LDCs is conducted on the basis of bilateral agreements which are denominated in non-convertible clearing dollars (see p. 237). So, the amount of trade between the USSR and LDCs which is financed via hard and soft currencies is probably small. On the basis of the aforementioned data and assumptions it is probably fair to say that the amount of convertible currency included in Vneshtorgbank's total assets is a sum not much lower or greater than 30 percent of the bank's total assets.

After studying the assets side of Vneshtorgbank's balance sheet for only a few moments most Western bankers would point out that the sum under the category 'credits granted, guarantees and acceptances' is relatively large. On 1 January 1975, this sum comprised 78 percent of total assets; on 1 January 1976, 85 percent; and on 1 January 1977, 84 percent. The amount of credit granted by most Western commercial banks lies somewhere between 55 and 70 percent of total assets. Western bankers would also quickly notice that the sum under the category 'securities, shares and stocks' is extremely small. On 1 January 1977, this sum comprised only 0.1 percent of total assets. In Western commercial banks the balance-sheet sum which is attributed to investments (e.g., government gilt-edged securities) often amounts to 10 or 15 percent of total assets. However, there is nothing extraordinary about the fact that Vneshtorgbank's operations differ somewhat from those of the average Western commercial bank. Indeed, many Western bankers would be surprised if Vneshtorgbank stepped up its investment operations in the light of the fact that a market for securities does not exist in the USSR.

It is interesting to note that the ratio of funds in the category 'cash, current and other accounts' to total assets declined significantly between the early and mid-1970s. On 1 January 1972, this ratio stood at 35 percent; on 1 January 1975, 29 percent; on 1 January 1976, 18 percent; and on 1 January 1977, 19 percent. So what was the reason for this rapid decline from 1 January 1972 to 1 January 1976? It is fairly obvious that banks desiring to increase their liquidity position channel additional funds into the balance-sheet category 'cash, current and other accounts'. Between the early and mid-1970s the USSR recorded some rather large trade deficits with IMTEs. These deficits led to a marked increase in Vneshtorgbank's borrowing operations in the West. It is possible that officials in Vneshtorgbank (and perhaps top-level Party members) decided that it would be wise to maintain a ready supply of financial resources during the first half of the 1970s in the interest of improving the USSR's creditworthiness. Indeed, at a time when Vneshtorgbank was just beginning to play an active role in world financial markets a simple misjudgment by Soviet bankers might well have thrown a monkeywrench into the USSR's plans for improved financial co-operation with IMTEs. Therefore, Vneshtorgbank minimised the possibility of an embarrassing financial predicament by keeping a safe supply of cash on hand, in current accounts, and in deposit accounts. But as we have seen, this policy began to wither away in the mid-1970s.

We should now turn our attention to the liabilities side of Vneshtorgbank's balance sheet. Share and reserve capital comprised just over 3 percent of Vneshtorgbank's total liabilities on 1 January 1977. There is nothing unusual about this so we shall quickly move on to the second category. Vneshtorgbank's major depositors include other Soviet banks, Soviet FTOs, the International Bank for Economic Co-operation (IBEC) and the International Investment Bank (IIB). The amount of convertible currency deposited in Vneshtorgbank is undoubtedly large in the light of the fact that virtually all Soviet organisations authorised to deal in foreign currencies (e.g., FTOs, hotels and government shops) must use Vneshtorgbank's facilities. Indeed, we don't often hear of Soviet organisations (excluding banks) depositing funds in Chase Manhattan Bank (or any other Western-owned financial institution). As a rule the USSR does not permit its commercial organisations (again Soviet banks excluded) to shop around for the highest interest rates.[10] Vneshtorgbank also receives convertible currency deposits from a limited range of foreign banks. Financial institutions in individual CMEA nations and banks in LDCs might be given concessionary deposit rates for placing convertible currency resources in Vneshtorgbank. However, it seems likely that any concessions would be in transferable rubles (or a similar form of payment) and not convertible currency.

Credits received by Vneshtorgbank comprised 38 percent of the bank's total liabilities on 1 January 1977. This figure would appear extraordinarily large to any banker who is unfamiliar with the Soviet foreign trade system. Banks in MTEs which are responsible for financing foreign trade (e.g., commercial banks and merchant banks) obtain almost all of their financial resources from current and deposit accounts. Western banks offer a wide range of services in order to encourage individuals and organisations to open up current accounts. These banks also attract financial resources from individuals, trading companies and other banks by offering competitive deposit rates for funds placed in accounts for specific periods (e.g., thirty days, three months, six months, one year, two years, three years, etc.). On the basis of funds in current and deposit accounts Western banks grant credits and loans to trading companies. As a rule Western trading companies are free to conduct business with a wide range of financial institutions. However, a Western-type financial market does not exist in the USSR (if we disregard black market operations). Moreover, Soviet FTOs, in virtually all cases, are not permitted to carry out their own financial operations in world markets. As we have learned, Vneshtorgbank has a monopoly over the financing of Soviet foreign trade. Since Soviet FTOs are not permitted to receive credits and loans directly from foreign sources, Western banks must grant credits and loans to FTOs via Vneshtorgbank. This is the reason for the large amount of credit granted to Vneshtorgbank.

Now one might think that Vneshtorgbank would play a more active role in attracting foreign currency deposits from Western banks and trading companies. Such a move would give the USSR access to convertible currency without paying high interest rates. Indeed, it is common knowledge that interbank deposit rates are slightly lower than free-market interest rates for credits and loans. However, Soviet officials have been reluctant to encourage an expansion of Vneshtorgbank's operations in this direction for a number of reasons. Firstly, some of the government-supported credits currently available to Vneshtorgbank carry interest rates which are well below interbank deposit rates. Secondly, Vneshtorgbank would have to become a full-time operator in world financial markets. It would be useless for Vneshtorgbank to look for depositors only at times when it is necessary to obtain funds for financing foreign trade. Few Western bankers (if any) would make deposits in Vneshtorgbank knowing that the USSR requires hard currency in order to finance its trade deficits. In addition, the costs of keeping pace with developments in world financial markets would be quite high. Since free-market interest rates for credits/loans are now only slightly higher than interbank deposit rates, banks must be able to find borrowers at the same time (or even before) deposits are received. Such activity leaves little room for error and calls for a high level of expertise. Soviet officials might also be reluctant to increase Vneshtorgbank's participation in world financial markets in the light of the fact that the USSR already has nine foreign-based banks operating in major Eurocurrency markets. As we shall learn, these banks have been quite successful in attracting deposits from Western banks and trading companies. In addition to the aforementioned arguments it should be pointed out that the time might not be right for Vneshtorgbank's emergence as a full-time operator in world financial markets. Over time Western bankers have more or less accepted the presence of the so-called 'small' Soviet foreign trade banks in their financial systems. But Vneshtorgbank would hardly be regarded as just an ordinary socialist bank operating in Western markets. Within a short period of time Vneshtorgbank could conceivably become a key manipulator of conditions in selected financial markets in the West (with the help of other Soviet organs). This might lead Western bankers to take concerted action against Vneshtorgbank. Western bankers could simply agree to stop depositing funds in banks on Soviet soil (or such bankers could stop depositing funds in Soviet banks altogether). This, of course, would curb the USSR's foreign currency operations without eroding the reputation of Soviet financial institutions. In all likelihood Soviet banks would eventually agree to operate within the guidelines established by Western bankers. Another course of action against Vneshtorgbank would be far more harmful. Western bankers could place short-term funds in Vneshtorgbank and then fail to extend the period of these deposits knowing that Vneshtorgbank granted medium-term credits/loans on the basis of short-term deposits. Such action could easily destroy the USSR's impeccable standing in world financial markets.

We should now return to our discussion on Vneshtorgbank's liabilities. It is quite possible that the percentage of hard currency in the category 'credits received, guarantees and acceptances' is higher than the percentage of hard currency in the category 'resources on current and other accounts'. As we learned previously, Western banks (excluding Soviet-owned banks operating in the West) are reluctant to deposit hard currency in Vneshtorgbank (above a token sum) but they will extend credits/loans to the bank if the USSR pays market interest rates (or if Western governments agree to make up the difference between low interest rates charged to the USSR and free-market rates). In studying this problem it is important to keep in mind that the category 'resources on current and other accounts' most likely has a higher proportion of rubles than the category 'credits received, guarantees and acceptances' as the organisations responsible for supplying Vneshtorgbank with ruble funds would be more inclined to make deposits than grant credits to the bank.

From the published data on Vneshtorgbank's activities it is not possible to calculate the amount of credit received by the bank during any given year. Indeed, we only know Vneshtorgbank's credit position on specific days (e.g., the amount of credit Vneshtorgbank had on its books on 1 January 1977). It is also important to remember that financial resources placed in the category 'credits received, guarantees and acceptances' on 1 January 1977, undoubtedly included credits granted before 1976. However, it is possible to make a rough estimate of the amount of credit extended to Vneshtorgbank by IMTEs in any given year by using Soviet foreign trade statistics. We know that the typical contract connected with Soviet imports from IMTEs calls for a 15-20 percent cash downpayment. This would indicate that the USSR purchases roughly 80-85 percent of its imports from IMTEs on credit. (Of course, it is important to realise that the USSR makes some of its cash downpayments on the basis of loans obtained in Western financial markets.) Now we must not forget barter trade and other schemes for financing Soviet commerce with IMTEs.[11] Let's assume that approximately 10-15 percent of Soviet imports from IMTEs are connected with barter arrangements and non-typical methods of payment. On the basis of these assumptions it is possible to estimate that between 7,358.7- and 8,116.2-million rubles worth of (hard currency) credit was extended to the USSR (Vneshtorgbank) in 1976, to finance Soviet imports from IMTEs.[12] (It is quite obvious that a sizeable part of of this credit was actually granted to the USSR during 1976 because a high proportion of Soviet foreign trade is financed on a short-term basis. However, no attempt will be made to estimate the amount of short- medium- and long-term Soviet foreign trade which took place during 1976.)

On the Financing of Soviet Trade with the West

Before the late 1960s there were only a few textbooks and articles dealing with the financing of East-West trade. By the mid-1970s this situation had changed markedly. For about twenty years after the end of World War II almost all Soviet trade with IMTEs was conducted on either a short-term (i.e., payment for commodities within one year) or barter basis. As a result, the financing of Soviet trade with IMTEs was a relatively simple matter and almost any textbook on foreign trade could serve as a guide. However, the rapid expansion of many forms of CMEA trade with IMTEs during the early and mid-1970s has given rise to a number of publications on the financing of East-West trade. Interest in this field should increase as the USSR becomes more venturesome in its international financial dealings.

Between 1965 and 1977, there were only two years (1967 and 1974) when the USSR recorded a (visible) trade surplus with IMTEs. This is a good indication that hard currency resources are in short supply in the USSR. For many years the Soviet Union has used various schemes to decrease its hard currency deficit. One scheme involves cutting imports and expanding exports. However, the disadvantages of this policy are so obvious that it is only used as a last resort.[13] A similar scheme calls for more balanced trade between the USSR and creditor nations with little or no change in the USSR's trade position vis-à-vis debtor nations. Soviet officials frequently mention that the USSR's trade with the United States and the FRG should be more balanced. (Both the U.S. and the FRG maintain surpluses in their trade with the USSR.) But we seldom hear Soviet officials calling for more balanced trade with the U.K. (For quite some time Soviet exports to the U.K. have been considerably larger than British exports to the USSR.) The Soviet Union also encourages Western exporters to accept some payment in the form of Soviet commodities. If a Western-produced commodity is not urgently needed in the USSR a Western exporter might be required to accept Soviet goods for over half the value of his shipment. But if the acquisition of a given commodity is quite important a Western exporter might only be required to accept Soviet goods amounting to

10 or 20 percent of the value of his contract. (It is interesting to note that the USSR prefers to export manufactured commodities on a barter basis rather than raw materials.[14] The reason is simple: a number of Soviet raw materials [e.g., petroleum, natural gas and timber] can be sold more readily for hard currency than Soviet manufactured products.)

According to most estimates the USSR's hard currency indebtedness (i.e., Soviet trade-related debts to IMTEs) amounted to over $10 billion at the end of 1977. Compensatory projects could become an important means of improving the USSR's trade balance vis-à-vis IMTEs. It is conceivable that the USSR's trade position with IMTEs could start to improve by the early 1980s if earnings from compensatory projects increase according to Soviet projections. However, it is wise to keep in mind that although compensatory projects have generated some interest in the West their future success in eliminating the USSR's hard currency trade deficits depends on a number of key factors which we know little about at this time (e.g., the future demand for Western technology in all sectors of the Soviet economy, the future level of Western investment required to develop Soviet natural resources, the production costs of the same natural resources [or substitutes] in the West, and the willingness of IMTEs to become dependent on vital supplies of Soviet raw materials).

The Financing of Compensatory Projects in the USSR

Compensatory projects normally involve six parties: the Soviet importer, the Soviet exporter, the foreign exporter, the foreign importer, Vneshtorgbank, and a Western bank (or a consortium of Western banks). It was mentioned previously that compensatory projects call for at least two contracts. The Soviet importer agrees to purchase machinery, equipment and technical services from the Western exporter, and the Western importer (remember that the Western importer can be the Western exporter, another Western buyer or both) agrees to purchase products from the compensatory project which will cover the sums paid for the machinery, equipment and technical services. At this time it might be wise to mention that the Western exporter (supplier) does not have to wait a number of years before he is paid off via the output of the industrial project. In almost all cases the Soviet importer (buyer) obtains commodities for a compensatory project on the basis of medium- and long-term buyer's credits and supplier's credits. At the present time the USSR favours buyer's credits as they tend to be slightly cheaper than supplier's credits.[15] Both buyer's credits and supplier's credits make it possible for the Western supplier to receive immediate payment for his exports to the USSR. Then at some future date the Western importer is responsible for purchasing commodities from the compensatory project. (This procedure will be explained in greater detail a little later.)

Ever since Western governments began participating in East-West trade by granting credits with low interest rates and guaranteeing credits granted by private domestic banks the USSR has become even more reluctant to pay market rates for credits from IMTEs.[16] A few government financial institutions in the West (e.g., the U.S. Export-Import Bank) offer credit to foreign borrowers at interest rates far below those prevailing in the free market. This credit is normally granted in conjunction with credit from private sources. Although private banks usually charge market rates for credit the low government interest rates tend to make the combined rate quite favourable. Instead of actually granting credits to foreign borrowers some Western governments guarantee credits granted by private domestic banks. For example, the Export Credits Guarantee Department (ECGD) was set up in the U.K. to provide government credit insurance for British lenders. By guaranteeing credits, Western governments agree to cover the losses incurred by private banks if foreign borrowers fail to pay off their financial obligations. This reduces some of the risk connected with the granting of credit and enables private banks to provide credit for foreign borrowers on more favourable terms.

Soviet officials are well aware of the fact that Western exporters are becoming more interested in the Soviet market in the light of the adverse economic conditions in IMTEs. By increasing their imports from IMTEs Soviet traders maintain that they are helping to ameliorate economic conditions in the West. This is another reason for the USSR's reluctance to pay market interest rates for Western credits.

Both the USSR's reluctance to pay market interest rates and the desire of Western companies to secure Soviet contracts led to a 'credit race' which began in the early 1960s.[17] In 1976, a number of IMTEs attempted to establish guidelines for the granting of credits in order to slow down the credit race. The guidelines dealt with minimum predelivery payments, minimum interest rates and maximum periods for various types of credits.[18] However, it seems that the guidelines have not been very effective in curbing the practice of cutting interest rates to secure Soviet contracts. In May 1978, the British government announced that interest rates were being reduced for credits granted under the U.K.'s export credit agreement with the USSR following the reduction in French and Italian interest rates on credits to the USSR.[19]

Now there are some cases when Soviet importers are unable to obtain Western government-supported credits. Knowing that the Soviets are averse to paying market interest rates, Western exporters will sometimes increase the price of their commodities and use this additional income to cover the cost of arranging credits for the USSR at rates below those charged in the free market (i. e., Western exporters will make up the difference to banks which grant Soviet importers concessionary rates). Although the USSR does not approve of this scheme Soviet officials are more inclined to accept higher contract prices than interest rates which appear too high.

We shall now return to the financing of compensatory projects. When a Soviet FTO agrees to import commodities for a compensatory project Vneshtorgbank and the foreign supplier are responsible for planning the financing of the deal. Compensatory deals occasionally call for the importation of sizeable amounts of Western machinery and equipment (e.g., steel pipes). Since Vneshtorgbank's hard currency resources are usually insufficient to finance these deals Western banks are called upon to provide financial assistance. In some cases the foreign supplier might be asked to contact banks in the West. However, at this time Vneshtorgbank maintains correspondent relationships with approximately 1,600 foreign banks (a large number of these banks are in IMTEs) which means that the USSR has good access to most financial markets.

As we learned, the USSR will normally try to obtain medium- and long-term buyer's credits from banks in the West. Such credits enable the USSR to pay cash for its imports. Since a buyer's credit calls for a Western exporter's bank (in many cases the Western exporter's bank is one of Vneshtorgbank's correspondents) to place hard currency resources at the disposal of Vneshtorgbank the credit is often referred to as a loan which is tied to specific commodity purchases. On rare occasions Vneshtorgbank receives a buyer's credit in the form of a lump sum. This enables the Soviet importer (via Vneshtorgbank) to pay off the Western exporter immediately for all commodities connected with a particular compensatory project. When the Western exporter is required to make a number of commodity deliveries a line of credit is extended to Vneshtorgbank which gives the Soviet importer access to a specific amount of hard currency credit for a certain length of time. Under this scheme Vneshtorgbank, acting on behalf of the Soviet importer, is entitled to draw credits which correspond to the value of each commodity shipment. When the USSR receives a buyer's credit the Soviet importer is required to issue promissory notes, guaranteed by Vneshtorgbank, for each day on which it will pay a certain portion of the principal plus interest to the Western financial institution(s) that granted the credit. These promissory notes are usually negotiable instruments (i.e., they can be discounted and re-discounted in world money markets).[20]

Under the terms of compensatory agreements the Western importer will eventually start receiving shipments of commodities from the USSR. In most cases these shipments will amount to a sum which is equal to or greater than the value of project-related machinery, equipment and technical services exported to the USSR. Now it is the USSR's turn to receive payments connected with a particular compensatory project. In some cases the Western importer opts to pay cash for Soviet project-related commodities. Under such conditions the Western importer would normally obtain a loan from Western banks. However, the Western exporter could also request credit from the USSR (i.e., Vneshtorgbank). Such credit would most likely be granted on a short-term basis as the Western importer would be able to place the Soviet project-related commodities on the market soon after they are received. Of course, the payments from the Western importer would be used by Vneshtorgbank to cover hard currency debts connected with the importation of Western commodities into the Soviet Union.

Unlike buyer's credits, supplier's credits are granted by an exporter to an importer. (Remember, in the case of buyer's credits the exporter's bank is responsible for granting credit to the importer.) Before the USSR starts importing machinery and equipment for a compensatory project on the basis of a supplier's credit, Vneshtorgbank must send a letter of credit to the Western exporter. A letter of credit is a promise issued by an importer's bank (e.g., Vneshtorgbank) to an exporter stating that the importer's bank will guarantee the financial obligations of the importer if all conditions in the letter of credit are met.[21] There are two types of letters of credit: irrevocable and revocable. The terms of an irrevocable letter of credit cannot be altered without the consent of all parties involved. On the other hand the terms of a revocable credit can be modified or cancelled at any time without notice. Therefore, it is easy to understand why virtually all exporters demand the issuance of irrevocable letters of credit.

In most cases the importer's bank first sends a letter of credit to the exporter's bank. After the exporter's bank has taken note of the conditions in the letter of credit the letter is passed on to the exporter. If the exporter's bank accepts the conditions in the letter of credit (i.e., if the bank agrees to handle the financial business of the exporter under the letter of credit) the document becomes a confirmed letter of credit. In the event the exporter's bank does not accept the conditions in the letter of credit the document is known as an unconfirmed letter of credit.

A confirmed letter of credit is highly desirable (at least from the exporter' point of view) since it indicates that officials in both the importer's bank and exporter's bank feel that the importer will meet all of his financial obligations. As we shall learn, under a confirmed letter of credit the exporter's bank is often responsible for discounting bills of exchange drawn up by the exporter and discounting promissory notes issued by the importer. Under an unconfirmed letter of credit only the importer's bank is prepared to assure the exporter that the importer will meet all of his financial obligations. The exporter's bank is not required to discount bills of exchange and promissory notes issued under an unconfirmed letter of credit.

Bills of exchange are often used in connection with supplier's credit schemes. A bill of exchange is a written order drawn up by an exporter and sent to an importer requiring the importer to pay a certain sum to the exporter on a given date. A bill of exchange becomes a negotiable instrument when it is signed (accepted) by the importer (and guaranteed by Vneshtorgbank in the case of the USSR) and returned to the exporter. (Bills which have been signed by the importer are often referred to as 'acceptances'.) If a contract calls for the shipment of all goods at once only one bill of exchange is normally required. However, compensatory deals usually call for the issuance of a number of bills of exchange as commodity shipments normally take place over a certain period of time.

Bills of exchange have varying periods of maturity (e.g., 60 days, 90 days, 6 months, 1 year, etc.). In the event an exporter wishes to receive payment before the bill has matured (this is usually the case) the exporter's bank will often purchase the bill for its face value minus a certain sum for discounting and related charges. Under a confirmed letter of credit the exporter's bank usually agrees to provide discounting facilities for the exporter on a non-recourse basis (i.e., the exporter's bank will discount bills of exchange and promissory notes guaranteed by the importer's bank without taking action against the exporter in the event the importer's bank is unable to honour its financial obligations). If the exporter's bank refuses to discount a bill of exchange the exporter can take the bill to other banks operating in Western money markets. In most cases the exporter is required in the letter of credit to include shipping documents (e.g., the invoice, the bill of lading, the insurance policy and the inspection certificate) with the bill of exchange when the bill is discounted. Under such conditions the credit is known as a documentary (supplier's) credit. After the bill of exchange has been discounted it can be held until its maturity date (at which time it is presented to Vneshtorgbank or a bank designated by Vneshtorgbank for collection) or re-discounted in the money market. In some cases the Soviet importer might decide to issue promissory notes (guaranteed by Vneshtorgbank) to the Western exporter. Under such a scheme the exporter is not required to draw up bills of exchange. The process for collecting payment via promissory notes is the same as for bills of exchange.

Although Soviet officials have a reputation for being rather reluctant to accept novel financing schemes recent developments indicate that the USSR is becoming more receptive toward different approaches to the financing of trade between the USSR and IMTEs (especially if the Soviet Union benefits from such schemes). For example, the $275-million compensatory deal between the consortium of U.K.-based companies--Davy Powergas, ICI and Klockner Ina Industrial Plant--and the Soviet FTO Tekhmashimport differed markedly from traditional methods of financing Anglo-Soviet trade. After negotiating with the USSR for over a year the consortium appeared to be in a less favourable position than its foremost rival--the West German company Lurgi. According to reports, the consortium was in a disadvantageous position because it was tendering in sterling while Lurgi was tendering in Deutsche marks. When the USSR compared the two prices on the basis of spot exchange rates[22] the Davy-ICI-Klockner price was about £17 million higher. However, under a scheme devised by Morgan Grenfell, a British bank, the consortium was able to switch its tender from sterling to dollars which resulted in a 6 percent price reduction. At the time of the negotiations sterling was being traded at a discount (i.e., below par) vis-à-vis the dollar and the mark in the forward foreign exchange market (in other words foreign exchange dealers felt that the value of sterling would depreciate over time). Under these conditions it was advantageous for the consortium to use the Morgan Grenfell scheme. In a nutshell, the scheme enables, say, a British exporter to denominate his contract (or tender) in a foreign currency which is being traded at a premium vis-à-vis sterling and to sell the payments over the delivery period in the forward foreign exchange market. By using this scheme the exporter's sterling income would be considerably higher than if the contract had been based on the spot rate for sterling at the time of the negotiations. As a result, the additional income can be used to reduce the price of the contract.

Morgan Grenfell, acting on behalf of the consortium, demonstrated to Soviet officials that the consortium could match Lurgi's price by tendering in marks and selling the marks for sterling in the forward foreign exchange market. Following this move the USSR requested that the two competitors submit tenders in dollars. This lowered the consortium's tender while Lurgi's price was increased (the dollar was being traded at a discount vis-à-vis the mark in the forward foreign exchange market). In the final analysis the consortium's (dollar) tender proved to be slightly better than the (dollar) tender submitted by Lurgi.

It should be mentioned that the USSR never openly favoured the

U.K.'s decision to switch from financing trade in sterling to financing trade in foreign currency. Following the Davy-ICI-Klockner deal the USSR made a special effort to point out that dollar financing for the two methanol plants did not set a precedent. This attitude is unlikely to change as long as the USSR maintains a favourable balance of trade with the U.K. Indeed, Soviet officials obviously reckon that it is much easier to use surplus earnings from Anglo-Soviet trade to pay off British exporters than it is to convert sterling balances into dollars in order to cover obligations with British exporters.

Although the USSR appeared to make a major concession by accepting the dollar financing scheme the overall terms of the deal must have pleased Soviet authorities. In the first place British exporters became involved in a major compensatory deal. This will undoubtedly have a favourable impact on the negotiations which are presently taking place between the U.K. and the USSR on future compensatory projects including chemical plants, pulp and paper plants, and factories for the production of light machinery and equipment. Secondly, 85 percent of the contract was covered by government-supported buyer's credits instead of the customary 80 percent. According to one report the credits were extended for a period of eight and one-half years at an annual interest rate of about 7 percent.[23]

The Financing of Soviet Foreign Trade on a Non-Compensatory Basis

In the last section we learned some basic methods of financing Soviet trade with IMTEs. The commercial documents (e.g., letters of credit, bills of exchange and promissory notes) which were mentioned are widely used for all types of Soviet trade with the West. In addition, the banking operations which are connected with compensatory projects do not differ from those which are connected with ordinary commodity transfers on a medium- and long-term basis. It is therefore unnecessary to devote any more time to the procedural details of financing Soviet foreign trade on a medium- and long-term basis.

In some ways the methods of financing Soviet foreign trade on a short-term basis are similar to the methods used to finance other types of trade. Letters of credit are the most common method of financing Soviet foreign trade on a short-term basis. This is the safest way of financing trade since the importer's bank guarantees the financial obligations of the importer. Under the terms of letter-of-credit financing Vneshtorgbank has two key responsibilities. Firstly, the bank is responsible for guaranteeing both promissory notes issued by Soviet importers and bills of exchange drawn up by Western exporters (and signed by Soviet importers). Secondly, Vneshtorgbank is responsible for collecting hard currency payments on behalf of Soviet exporters.

In addition to letter-of-credit financing there are at least two other methods of financing Soviet foreign trade on a short-term basis: payment on cash-against-documents terms and payment on open account terms. Since both of these schemes do not require the issuance of letters of credit they are normally used in cases where there is a great deal of mutual trust between an exporter and an importer. In order to receive payment on a cash-against-documents basis an exporter presents shipping documents to his bank. These documents are then sent to the importer's bank. Under normal conditions the exporter is paid a few weeks after the importer's bank receives the shipping documents. In some cases the exporter is paid immediately after presenting the shipping documents to his bank. (Under such conditions a small amount would be deducted from the total price of the exporter's contract.) Then the documents are forwarded to the importer's bank.

After a certain length of time the exporter's bank receives a sum from the importer's bank which is equal to the total price of the exporter's contract.

The financing of trade on an open account basis involves the highest amount of risk. At the present time this method is seldom used for financing trade between the USSR and the West. Under the terms of open account financing an importer is permitted to take possession of commodities before the exporter receives a cash payment or negotiable instrument. The exporter sends shipping documents to the importer either before or about the same time that commodity shipments take place. The importer is then responsible for making sure that the exporter is paid according to the terms of the commercial contract.

Barter Agreements

The USSR sometimes negotiates barter agreements with IMTEs. We usually think of barter trade as the exchange of goods and services on a short-term basis without the use of money. On rare occasions the USSR is able to obtain a full shipment of Western commodities for a shipment of Soviet goods of equal value. Under such conditions a contract is drawn up for the mere exchange of commodities.

In some cases the USSR attempts to reduce the price of a given shipment of Western commodities by offering to exchange Soviet goods for a portion (say 10 or 20 percent) of these Western commodities. Such schemes normally call for two contracts. One contract is connected with the financing of trade on a hard currency basis. The financing techniques connected with this contract do not differ from those which have already been mentioned. The second contract, of course, is merely a promise to deliver a certain amount of Soviet goods/services to the Western partner within a specified amount of time.

Switch Transactions

It was mentioned previously that most of the USSR's trade with LDCs is financed on the basis of non-convertible clearing dollars. This scheme calls for the exportation of Soviet commodities which carry dollar (world market) prices. After receiving these commodities LDCs must either pay the USSR immediately (from clearing-dollar balances) or agree to export goods and services to the USSR of equal (dollar) value over a certain period of time. Since many LDCs are unable to pay for Soviet exports immediately these countries opt to cover their trade deficits via future commodity exports to the USSR. As a result, LDCs issue promissory notes (or sign bills of exchange issued by Soviet exporters) stating that they will repay the USSR on the basis of future clearing-dollar earnings from the sale of goods and services to Soviet importers.

In some cases the USSR is able to purchase commodities from IMTEs by turning over its clearing-dollar balances to Western exporters. These exporters can then obtain goods from LDCs on the basis of the clearing-dollar balances and sell the commodities for hard currency in world markets. However, some exporters in IMTEs are reluctant to accept commodity payments from LDCs. In such cases the USSR can sell its clearing-dollar balances via any number of 'switch houses' in the West. Switch houses are responsible for locating traders who are willing to pay convertible currency for clearing-dollar balances. If a switch house is able to find a buyer for a clearing-dollar balance the USSR receives a given amount of convertible currency which can be used to purchase commodities from IMTEs.

The Financing of Soviet Trade with IMTEs on a Clearing Account Basis

The USSR presently conducts most of its trade with Finland on the basis of bilateral agreements. Such agreements stipulate that the trade between the two countries should be balanced each year (i.e., imports and exports connected with Finnish-Soviet trade should be approximately equal). Under the terms of the bilateral agreements Finnish-Soviet commercial deals are financed via ruble clearing accounts. The procedure is quite simple. Ruble clearing accounts are opened in Vneshtorgbank and the central bank of Finland. When a Finnish exporter delivers commodities to the USSR he is paid (by Vneshtorgbank) in rubles. The Finnish exporter subsequently exchanges these rubles for Finnish marks at the central bank of Finland. (Note that these rubles are nonconvertible; they are merely swapped for Finnish marks at the central bank of Finland.) The rubles are then placed in a ruble clearing account in the central bank. When a Finnish importer receives commodities from the USSR he instructs the central bank of Finland to pay a given ruble sum to the Soviet exporter. This sum is subsequently transferred from the ruble clearing account in the central bank of Finland to a ruble clearing account in Vneshtorgbank. The Finnish importer is then responsible for repaying the central bank (in marks) after the imports have been sold.

It might be interesting to note that countries other than Finland and the USSR can take advantage of the clearing-account agreement signed between the two countries. For example, in the mid-1970s the Armco Steel Corporation--an American company--was attempting to sell a semi-submersible oil rig to the USSR. However, the company was at a disadvantage because low-cost financing was not available from American financial institutions. In order to compete with a Japanese company, Armco decided to offer a joint bid with the Finnish company Rauma-Repola Oy. The deal between Armco and Rauma-Repola meant that the USSR could pay for part of the oil rig via clearing rubles. As a result, the bid by Armco and Rauma-Repola proved to be more attractive to the USSR than the Japanese offer.[24]

On Soviet Economic Aid and Military Deliveries to Less-Developed Countries

For quite some time the USSR has achieved rather large trade surpluses with LDCs. In 1970, the USSR's trade surplus with LDCs amounted to 690.3 million rubles (about $766.2 million); in 1971, 554.4 million rubles (about $615.4 million); in 1972, 664.1 million rubles (about $803.6 million); in 1973, 1,201.2 million rubles (about $1,633.6 million); in 1974, 1,004.7 million rubles (about $1,366.4 million); in 1975, 311.2 million rubles (about $423.2 million); in 1976, 913.1 million rubles (about $1,241.8 million); and in 1977, 2,340.8 million rubles (about $3,183.5 million). Most analysts agree that Soviet economic aid and military deliveries have been primarily responsible for these surpluses. Indeed, without such aid and deliveries the USSR might well have difficulty achieving even small trade surpluses with LDCs.

Economic aid from the USSR is granted to a wide range of LDCs in the form of Soviet goods and services. Such commodities are usually priced on the basis of world market prices hence the contracts connected with the USSR's aid programme are normally denominated in non-convertible clearing dollars. Since most LDCs are unable to pay immediately for large shipments of Soviet commodities the USSR extends credits to these countries in the interest of increasing Soviet exports. Credits which fall under the USSR's aid programme are normally granted on favourable terms (e.g., interest rates often range between 1.5 and 5 percent). It is important to keep in mind that credits granted to LDCs under the USSR's aid programme are used almost exclusively for the purchase of Soviet commodities. In addition to interest-bearing credits, the USSR also provides LDCs with interest-free credits and grants (gifts).

Since the mid-1950s Soviet economic aid and military deliveries have played a key role in strengthening the USSR's commercial ties with LDCs. Like aid-related exports, some Soviet military deliveries are financed by clearing-dollar credits (on favourable terms). In 1976, Soviet military deliveries to LDCs were estimated at $2,190 million.[25] This sum was over five times larger than the amount of Soviet economic aid granted to LDCs during the same period (see TABLE 4.2 and TABLE 4.3). It is also important to note that Soviet economic aid and military deliveries to LDCs in 1976 amounted to over half (i.e., 51 percent) of the value of Soviet exports to LDCs during the same year.[26]

TABLE 4.2

SOVIET MILITARY SUPPLIES FOR LDCS,
AGREEMENTS AND DELIVERIES
(in millions of dollars)

Year	Value of agreements	Deliveries
1955-1966	4,500	3,575
1967	525	500
1968	500	500
1969	350	450
1970	1,150	1,000
1971	1,600	850
1972	1,500	1,205
1973	2,800	3,010
1974	3,500	2,250
1975	2,000	1,685
1976	2,450	2,190
Total	20,875	17,215

Source: CIA, Communist Aid to the Less Developed Countries of the Free World, 1976 (August 1977), p. 3.

TABLE 4.3

SOVIET ECONOMIC AID TO LDCS, EXTENSIONS AND DRAWINGS (in millions of dollars)

Year	Aid extended	Aid drawn
1954-1966	5,065	2,245
1967	291	310
1968	379	310
1969	494	355
1970	198	385
1971	1,125	440
1972	802	430
1973	661	490
1974	580	690
1975	1,299	485
1976	875	420
Total	11,769	6,560

Source: CIA, Communist Aid to the Less Developed Countries of the Free World, 1976, p. 7.

It was mentioned previously that credits connected with the USSR's economic aid programme are normally granted on more favourable terms than commercial credits from world financial markets. For example, in November 1976, the USSR agreed to provide Peru with a line of credit which gave selected Peruvian buyers access to ten-year credits at annual interest rates between 4 and 5 percent.[27] It is interesting to note that some state-owned companies in LDCs receive Soviet credits on more favourable terms than privately owned companies. On 13 February 1974, the USSR agreed to provide Argentina with a credit to finance deliveries of Soviet machinery, equipment and technical services. Under the agreement Argentine state agencies are entitled to ten-year credits at 4.5 percent annual interest while private Argentine companies are required to pay 5 percent interest for their ten-year credits.[28]

In most cases Soviet economic aid is tied to specific industries in LDCs. The industries which have held prominent positions in the

Soviet economy (i.e., the heavy industries) have greatly influenced the USSR's foreign aid policy. Indeed, the USSR has joined other industrially developed countries in recognising the importance of the Third World as a market for the output of highly specialised home industries. During the period 1954-1976, approximately 75 percent of Soviet economic aid offered to LDCs was earmarked for electric power, manufacturing and extractive industries (see TABLE 4.4).

TABLE 4.4

DISTRIBUTION OF SOVIET ECONOMIC AID
EXTENDED TO LDCS, 1954-1976

Economic sector	Percent
Manufacturing and extractive industries	55
Electric power	20
Transportation and communications	8
Agriculture	6
Geological prospecting	6
Education, science, culture and health	5
Total	100

Source: CIA, Communist Aid to the Less Developed Countries of the Free World, 1976, p. 8.

Soviet aid-related credits for specific industrial projects in LDCs are often granted on very favourable terms. For example, in 1977, the USSR granted India a 3.5 million-ruble credit which is repayable over a period of fifteen years at an annual interest rate of 2.5 percent. The credit is earmarked for the purchase of Soviet machinery, equipment and technical services for the development of copper reserves in the Malanjkhand region.[29] Moreover, Soviet credits for specific commodity purchases are frequently granted on very favourable terms. In April 1977, the USSR granted India a 250 million-ruble credit which is repayable over a twenty-year period (plus three years grace) at an annual interest rate of 2.5 percent. The credit can be used to finance imports of Soviet machinery and equipment for steel plants, coal mines and other sectors of the Indian economy.[30]

Soviet technical missions play a key role in determining the direction and level of Soviet economic aid. These missions comprise leading technicians from many sectors of the Soviet economy and are responsible for assessing the feasibility of proposed projects in LDCs. In most cases a foreign government will ask the USSR to send a technical mission. In other cases the USSR will offer to send a technical mission to an LDC if Soviet intelligence agencies deem such a move to be in the best interests of the Soviet Union. During the last decade Soviet technical missions have been responsible for generating a significant amount of business for Soviet FTOs. In the early part of 1977, a Soviet technical mission was sent to Costa Rica for the purpose of studying the feasibility of projects planned by the Oficina de Planificacion Nacional (Ofiplan) for the period 1977-1981. Amongst the planned projects is a $700-million to $1,000-million aluminium plant with a 760 kilowatt hydroelectric unit.[31]

The State Committee for Foreign Economic Relations is responsible for formulating and controlling the USSR's economic aid programme. The committee is given the task of apportioning limited Soviet aid resources on the basis of economic and political considerations. Representatives of the State Committee for Foreign Economic Relations are responsible for negotiating economic aid agreements with LDCs. Leaders of Soviet organisations which supply goods and services to LDCs under the USSR's foreign aid schemes also participate in the negotiations. After the aid agreements have been drawn up, top-level Party and government officials are often called upon to sign them.[32]

The USSR's foreign aid programme has helped the country in a number of respects. Firstly, the USSR has been able to stimulate interest for its industrial products and technical services. As a result, the Soviet Union is now competing in markets which have traditionally been commercial strongholds of IMTEs.[33] Secondly, by investing its surplus capital in labour-intensive economies the USSR has been able to overcome some of the problems connected with its manpower shortages. Indeed, some of the USSR's production targets can be realised through commodity shipments from Soviet-funded industrial projects in LDCs. Thirdly, commodity shipments from Soviet-funded projects in LDCs can also be diverted to selected world markets. Steel destined for some markets in Africa and Southeast Asia can be shipped (via land or sea) more cheaply from Soviet-funded plants in India than it can from the USSR. Moreover, a successful Soviet-funded project creates an on-going demand for additional Soviet deliveries to either replace worn machinery or expand the project's operations. And finally, a successful Soviet-funded project can generate interest in initiating other projects utilising Soviet machinery, equipment and technical services.

The Soviet foreign aid programme appears to be holding up quite well despite adverse publicity from such countries as the United States and China. Needless to say, the two countries differ markedly in their criticism of the Soviet foreign aid programme. Ever since the USSR started extending a fair amount of economic and military aid, Americans have criticised the Soviet Union for using foreign aid as a means of promoting Marxism-Leninism in LDCs. Leon M. Herman states:

> The reasons that motivate the Soviet leaders to extend aid to the developing nations are, in short, largely external to the specific needs of the recipients. They do not spring from a desire to bring relief from temporary economic pressures, such as food shortages or balance-of-payments difficulties. Rather, the sights of the Soviet leadership are fixed on finding ways to promote the building of economic institutions likely to produce the 'correct' historymaking changes in these countries. They would not be Marxist politicians if they acted otherwise.[34]

The Chinese, of course, take a different view of Soviet foreign aid.

> Taking the cunning schemes of U.S. imperialism as its example, Soviet revisionist social-imperialism has in recent years made heavy inroads in Asia, Africa and Latin America in the name of providing economic and military 'aid'. In this way it has carried out expansion and aggression in a number of countries in these continents. Such 'aid' is an important component part of the Soviet revisionists' plot to collude and contend with U.S. imperialism in a vain attempt to redivide the world; it is one of the ways they ruthlessly enslave and exploit Asian, African and Latin American people.[35]

It is quite obvious that part of the USSR's foreign aid programme is aimed at promoting Soviet-type economic (and political) institutions in LDCs. However, it is only fair to point out that Soviet economic aid has helped to raise the standard of living for some people in LDCs. Moreover, much could be said about the fact that Soviet economic aid helps to reduce the balance-of-payments deficits of LDCs and even takes some of the pressure off world financial markets. Indeed, without clearing-dollar financing LDCs would either be forced to pay market rates for commercial credits or governments of IMTEs would have to provide additional amounts of economic aid at the expense of straining the delicate structure of the international monetary system.

There is no conclusive evidence that the USSR is scheming to to gain control over LDCs via its aid programme. But even if it is, recent reports seem to suggest that the USSR has a long way to go. For almost two decades India has been considered one of the USSR's most important recipients of economic aid.[36] However, a few years ago Bhabani Sen Gupta pointed out that the United States had rendered over twice as much aid for India's economic development as the USSR. Moreover, Sen Gupta contends that 'Despite the socialist rhetoric of India's economic and social planning, India is well advanced on the road to capitalist development, and Soviet scholars have long given up hope that it would traverse the noncapitalist path'.[37] And the setbacks for the USSR in Egypt and Somalia indicate that despite significant infusions of economic and military aid the Soviet Union can still be sent packing at a moment's notice.

Soviet Visible Exports as a Means of Financing Imports from the West

Although the USSR has recorded some rather large trade deficits with IMTEs during the 1970s it is still important to note that throughout this period most Soviet imports from IMTEs were financed on the basis of Soviet exports. According to trade statistics published by the USSR, Soviet exports to IMTEs amounted to 72 percent of Soviet imports from these countries in 1976, and 89 percent in 1977. As we learned, when a Western importer receives Soviet commodities he must either pay off the Soviet exporter immediately (in goods or cash) or agree to pay for the commodities at some future date. If the Western importer wishes to pay at some future date he must send promissory notes to the Soviet exporter (or Vneshtorgbank) or sign (accept) bills of exchange issued by the Soviet exporter. These promissory notes and bills of exchange can either be held by the Soviet exporter (or Vneshtorgbank) until they mature (at which time they can be presented to the importer's bank for collection) or the notes and bills can be discounted in Western money markets. The earnings of Soviet exporters are usually placed in Vneshtorgbank or Soviet banks in the West. Such earnings, of course, are used to pay for Soviet imports.

It was mentioned previously that the USSR has recorded some rather large trade surpluses with LDCs during the 1970s. Clearing dollars represent a significant portion of these trade surpluses. In some cases the USSR is able to finance its imports from IMTEs on the basis of clearing-dollar balances. However, it is generally accepted that such transactions are unable to cover all Soviet trade deficits with IMTEs. Now it is quite possible that the USSR finances some of its debts with IMTEs on the basis of surplus hard currency earnings from LDCs. We know from Western reports that some Soviet trade with LDCs is financed with hard currency. For example, in October 1975, the Financial Times reported that Vneshtorgbank and two London-based banks--Citicorp International Bank Ltd. and Lloyds Bank International Ltd.--arranged two Eurocurrency loans for Argentina totalling $50 million.[38] The loans were guaranteed by the central bank of Argentina and reportedly obtained to finance deliveries of equipment from the Soviet FTO Energomasheksport. Prior to receiving the two loans Argentina was required to repay a significant portion of its foreign debt which led to a marked reduction in the country's foreign currency reserves.[39] This might well have been the reason for Vneshtorgbank's participation in the loans. In the light of Argentina's precarious financial position it seems possible that hard currency payments for Energomasheksport's equipment might have been out of the question for some time if Argentina had been required to raise the two loans without Vneshtorgbank's assistance. It is interesting to note that Vneshtorgbank functioned as a co-manager of the consortium which arranged the two loans. By serving in such a capacity Vneshtorgbank was able to help determine the participation fees connected with the loans. So, Argentina might have received the loans on relatively favourable terms. Soviet lending and borrowing operations in world financial markets will be discussed in greater detail in CHAPTER V. For the moment it is only necessary to be aware of the fact that LDCs sometimes pay rather significant sums of hard currency for Soviet exports.

Government-Supported Credits for the USSR

We learned previously that the USSR is reluctant to pay market interest rates for credit. Part of this reluctance stems from the belief that IMTEs can benefit from trade with the USSR without charging exorbitant interest rates. It should also be mentioned that the USSR usually attempts to secure credits from IMTEs for the longest periods. In 1976, Vladimir Alkhimov pointed out that interest rates on government-supported credits granted to the USSR by France, Italy, Japan, the U.K. and other countries were around 6 or 7 percent while interest rates in the free market were about 10 percent. According to Alkhimov, countries which grant credits to the USSR on favourable terms benefit in a number of ways.

> Our [the USSR's] purchases in these countries provide jobs and state revenues through tax receipts. At the same time our purchases expand production and raise the countries' technological level and competitive ability.[40]

Alkhimov also mentioned one important reason for Soviet interest in obtaining credits on a medium- and long-term basis. During the early 1970s the price of petroleum and natural gas increased by over 400 percent, coal and metals (excluding gold) between 200 and 300 percent and gold about 400 percent. If Soviet officials had decided to pay cash for the deliveries of Western machinery and equipment for the Volga Motor Works the USSR would have been required to export far more petroleum, gas, gold etc. in the mid-1960s than it will be required to export during the 1970s in order to pay off the long-term credits plus interest.[41] (Of course, there is no evidence that Soviet planners actually foresaw significant increases in world market prices for Soviet petroleum, gas, gold etc.)

A number of Western governments have extended lines of credit to the USSR for periods up to five years. (A line of credit enables a borrower to draw a certain amount of credit over a given length of time.) Most government-supported lines of credit amount to well over $1 billion each. These lines of credit are extremely important to the

USSR as they give Soviet officials a good idea of the amount of hard currency available for financing Soviet imports from IMTEs. Now it is widely known that IMTEs grant government-supported credits which are not connected with lines of credit. However, such credits are only granted on a case-by-case basis (i.e., a Western exporter and a Soviet importer usually have no way of knowing whether government-supported credits are available for their contract until government authorities have made a decision). Of course, government approval is required for each credit granted under lines of credit extended by Western governments. But in such cases both the Western exporter and Soviet importer have at least a fair idea that their contract will be financed on the basis of government-supported credits.

During the mid-1970s five Western governments extended the USSR lines of credit totalling $7.6 billion. The largest line of credit amounted to $2.8 billion and was extended by France for a period of five years (1975-1979). Under the French line of credit, long-term credits for contracts below $100 million carry an interest rate of 7.55 percent including all fees and premiums. Long-term credits for contracts exceeding $100 million carry an interest rate of 7.2 percent. French government-supported credits can be granted for periods up to eight and one-half years. Contracts which involve such credits call for a 20 percent cash downpayment.[42]

Britain, Japan, Italy and Canada also extended government-backed lines of credit to the USSR during the mid-1970s. The U.K.'s line of credit amounted to £950 million (or about $1.8 billion at the time it was granted). Interest rates on British government-supported credits are around 7 percent. Japan's line of credit totalled $1.6 billion and was granted to finance specific projects in the USSR. Interest rates on Japanese government-supported credits range between 6 and

9 percent. In October 1975, the Italian government extended the USSR a $900-million line of credit. The credit was broken down into three tranches: $550 million for 1976, $175 million for 1977, and $175 million for 1978. Interest rates on Italian government-supported credits are around 7.55 percent. Canada's Export Development Corporation extended a $500-million line of credit to the USSR in May 1975. Credits granted under this agreement carry an interest rate of 7.5 percent.[43]

It is important to keep in mind the fact that most government-supported credits carry fixed interest rates.[44] (In other words a government-backed credit which is granted for a period of seven years will normally carry the same rate of interest throughout the seven-year period.) This, of course, enables the USSR to calculate the exact cost of borrowing. On the other hand, Eurocurrency (or free-market) loans to the USSR usually carry floating rates (i.e., interest rates are permitted to fluctuate).

In the latter part of 1976, the president of the U.S.-USSR Trade and Economic Council, Harold B. Scott, pointed out that the USSR had utilised only 50 percent of the aforementioned French line of credit, 10 percent of the aforementioned Canadian line of credit and 5 percent of the aforementioned British line of credit. On the basis of these facts Scott concluded that the Soviets appear to be rather 'conservative' when it comes to borrowing from IMTEs.[45] Now the notion that the USSR is cautious about going too far into debt with IMTEs seems to be well founded. The disadvantages of over-borrowing are obvious: such a policy could place the USSR in a precarious financial position and result in a fair amount of adverse publicity. But the USSR's record hardly suggests that Soviets are reluctant to borrow if conditions are favourable. Soviet planners are constantly looking for Western credits (on favourable terms) which will enable the USSR to boost its export potential. In the words of one of Vneshtorgbank's directors, A. S. Maslov, 'When there is a favourable and profitable proposal, we take it'.[46] It might be interesting to note that the USSR sometimes attempts to obtain credits for Western machinery and equipment in the face of rising world market prices for these commodities. For example, in April 1974, Japan extended the USSR a $450-million credit to purchase Japanese machinery and equipment for the development of South Yakutian coal deposits. About a year and a half later (November 1975) the USSR insisted that Japan should provide an additional $150 million for the coal project in order to cover the rising costs for Japanese machinery and equipment.[47] Soviet planners undoubtedly estimated that additional exports of coal (or rising world market prices for coal) would cover the costs of importing more Japanese machinery and equipment.

It should also be mentioned that the USSR's reluctance to start borrowing immediately after a line of credit has been extended can give one the impression that the Soviets could care less about accepting credits from a particular IMTE. However, as the expiration date of the line of credit approaches the Soviets have been known to develop a hearty appetite for hard currency credits. Let's consider the £950-million line of credit which was extended to the USSR by the U.K. in February 1975. (Remember that the line of credit was extended for a period of five years.) About a year and a half after the line of credit had been extended (i.e., in July 1976) only 4 percent (£36 million) was utilised.[48] But by November 1977, the amount drawn from the line of credit had risen to about £450 million (47 percent).[49] This marked increase is a good indication that the line of credit will be fully utilised by February 1980.

Private Credits for the Financing of Soviet Imports from the West

When government-supported credits are unavailable the USSR is often required to finance its Western imports through private banks. The interest rates (plus participation and commitment fees) for credits granted by private sources are usually higher than those which are connected with government-supported credit schemes. Moreover, private lenders normally place floating interest rates on their credits.

The FRG has not extended much low-cost credit to the USSR. However, it is interesting to note that the USSR has not pushed for a significant change in the FRG's lending policy. According to one source, the USSR is willing to pay cash (either from its own reserves or from funds obtained in Eurocurrency markets) for a sizeable amount of its imports from the FRG as the constant appreciation of the Deutsche mark tends to make even short-term financing in marks relatively expensive.[50]

The West German bank Ausfuhrkredit GmbH (AKA) is quite active in financing trade between the USSR and the FRG. Shareholders of AKA include a number of West German private banks. Since AKA specialises in trade financing it is able to provide credits at rates slightly below those prevailing in the free market.[51] As a rule, AKA and other banks in the FRG finance German-Soviet trade via supplier's credits.

Between October 1974 and September 1977, banks in the FRG extended lines of credit totalling approximately DM 3.7 billion (about $1.6 billion at 1977 exchange rates) for German-Soviet gas pipeline deals. In September 1977, a consortium of West German banks granted Vneshtorgbank a DM 300-million credit (about $133 million). According to one report the credit was granted for a period of ten years at a fixed rate of interest.[52] In January 1978, a consortium of West German banks extended a DM 600-million line of credit (about $285 million) to Vneshtorgbank for the purpose of financing Soviet imports of German steel pipes. Under the terms of the agreement Vneshtorgbank is entitled to draw DM 600-million worth of credits over a period of one year (January 1978-January 1979). The USSR will repay such credits over a period of seven years.[53]

The low level of American-Soviet non-agricultural trade is often blamed on the U.S. government's reluctance to provide adequate credit facilities for Soviet importers. In some cases the USSR is forced to pay market rates for credits in order to finance imports from the United States. However, it should be noted that the USSR seldom purchases commodities in the United States if the same goods (or substitutes) are sold in countries which offer more favourable terms for credit.[54] Recognising that a fair amount of business is lost by not providing adequate financing facilities for Soviet importers, American commercial banks have started proposing credit schemes aimed at boosting American-Soviet trade. One of the most interesting schemes was divulged by Bank of America at a special meeting of the U.S.-USSR Trade and Economic Council in February 1975. The plan called for the creation of a three-year, $500-million revolving credit facility which would give the USSR access to short-term credits after individual agreements have been finalised between American exporters and Soviet importers. According to a Bank-of-America official, the charges connected with these credits would most likely be more favourable than market rates for medium- and long-term credits.[55]

Soviet Hard Currency Earnings from Selected Visible and Invisible Exports

The USSR does not publish statistics on its earnings from a number of visible exports and all invisible exports. Some of the important visible exports which are not cited in official Soviet trade statistics include gold and other precious metals, and non-industrial diamonds and other precious gems. The Soviet merchant fleet and tourist industry account for a sizeable portion of the USSR's invisible earnings. However, as the USSR's commercial and financial activities grow, the Soviet Union could start earning quite a lot of hard currency from other invisible sources. These sources include Soviet banking services (both in the USSR and abroad) and dividends paid to Soviet shareholders of foreign-based companies.

Soviet Gold Sales in the West

Official statistics on Soviet gold reserves, production and sales are not published by the USSR. (The USSR published data on its gold reserves until the mid-1930s.) Since the end of World War II, Western analysts have been publishing estimates on the size of annual Soviet gold sales in the West. These estimates are based upon (estimates of) the amount of Soviet gold imported by individual Western nations. In the light of the fact that most Western nations are reluctant to give an accurate account of their gold operations it is obviously difficult to make a reliable estimate on the amount of Soviet gold which is sold in the West each year. Therefore, we should always allow for a margin of error when using estimates on Soviet gold sales. In addition to Soviet gold sales, Western analysts have also produced estimates on the annual level of Soviet gold output. On the basis of these estimates the USSR is ranked as the world's second largest gold producer. As in the case of Soviet gold sales, we should allow for a margin of error when using estimates on Soviet gold production. TABLE 4.5 provides data on Soviet gold output and sales during the period 1950-1973.

TABLE 4.5

SOVIET GOLD OUTPUT, SALES AND RESERVES, 1950-1973
(in metric tons)

Year	Output[a]	Sales to the West[a]	Sales to the West[b]	Other uses[a]	Change in Reserves[a]	Reserves[a]
1950	128	-	-	5	+ 123	1,446
1951	140	-	-	5	+ 135	1,581
1952	149	-	-	6	+ 143	1,724
1953	150	67	125	6	+ 77	1,801
1954	149	67	65	7	+ 74	1,875
1955	145	67	65	8	+ 70	1,945
1956	151	133	135	10	+ 8	1,953
1957	157	231	230	11	- 85	1,868
1958	166	196	195	12	- 42	1,826
1959	175	222	265	14	- 61	1,765
1960	188	178	185	15	- 5	1,760
1961	201	173	280	16	+ 12	1,772
1962	215	191	190	19	+ 5	1,777
1963	229	489	490	20	- 280	1,497
1964	244	401	400	21	- 178	1,319
1965	260	488	490	23	- 251	1,068
1966	278	-	-	25	+ 253	1,321
1967	249	13	10	28	+ 208	1,529
1968	304	10	10	31	+ 263	1,792
1969	318	-	5	33	+ 285	2,077
1970	336	-	50	37	+ 299	2,376
1971	345	20	90	42	+ 283	2,659
1972	360	190	200	57	+ 113	2,772
1973	371	280	330	86	+ 5	2,777
1975	(Plan) 404					

[a]Kaser's estimates.

[b]Estimates from the Bank for International Settlements.

Sources: Michael Kaser, 'The Soviet Balance of Payments', International Currency Review, Vol. 6, No. 3 (May-June 1974), p. 60; and data obtained via this researcher's personal correspondence with the Bank for International Settlements.

It should be pointed out that estimates on Soviet gold production cited in TABLE 4.5 differ markedly from other estimates. According to some sources Soviet gold production throughout the 1950s and early 1960s fluctuated between 8.8 million troy ounces (about 274 metric tons) per year and 19.3 million troy ounces (about 600 metric tons).[56]

However, in 1964, the CIA published much lower estimates which were supposedly based on documents supplied by the Soviet defector Colonel Oleg Penkovsky. According to the updated estimates Soviet gold production in the early 1960s fluctuated between 4.3 million troy ounces (about 134 metric tons) per year and 4.9 million troy ounces (about 152 metric tons).[57] Estimates from the U.S. Bureau of Mines placed Soviet gold production at 5.1 million troy ounces (about 159 metric tons) for 1963, and approximately 5.6 million troy ounces (about 174 metric tons) for 1964.[58] An employee of Radio Free Europe has estimated that Soviet gold production amounted to 242 metric tons in 1972, and 275 metric tons in 1973.[59]

For decades gold has served as an important means of covering Soviet trade deficits with IMTEs. At one time gold was so important to the USSR that production costs of the metal were seldom taken into consideration.[60] If Soviet leaders wished to increase the country's gold reserves few objections were raised on the grounds that gold production was unprofitable. In 1974, the production costs for Soviet gold were estimated at $75.00 or $85.00 per troy ounce.[61] Since the price of gold did not rise much above $45.00 per troy ounce until the early 1970s it is possible that the USSR was selling gold at a loss for some time. (It is assumed that production costs for Soviet gold were about the same in the 1960s as they were in the first half of the 1970s.)

The data in TABLE 4.5 show that Soviet gold production has increased markedly since the early 1950s. In the light of the fact that few Western credits and loans were granted to the USSR between 1946 and 1966, it was wise for the USSR to increase its gold production as the metal represented an important means of financing Soviet foreign trade. For example, the sharp increase in Soviet gold sales which took place from 1963-1965 was undoubtedly connected with the huge shipments of Western wheat to the USSR during the same period. Since gold was one of the few Soviet commodities which could be readily sold in IMTEs it is not surprising that gold production was encouraged in the USSR during the 1950s and 1960s despite the costs. But why did gold production continue to increase in the early 1970s when Western credits were granted to the USSR on a fairly large scale? The answer, of course, is quite simple: between January 1972 and January 1974, the world market price for gold increased from $45.70 to $129.11 per troy ounce.[62] Indeed, after 1972, gold production in the USSR became a profitable undertaking (if the aforementioned estimates on the cost of producing Soviet gold are accurate). Now can we say that the marked increase in Soviet gold sales from 1972-1973 was connected with the massive Soviet purchases of American wheat during the same period? Perhaps, but we should also bear in mind that the United States granted the USSR a $750-million credit in 1972 for the purpose of financing American grain exports to the USSR during the period 1972-1973. In the light of this fact it is doubtful that the sharp increase in Soviet gold sales during 1972 and 1973 can be attributed solely to Soviet purchases of American wheat. However, the overall Soviet trade deficit with IMTEs in 1972 (about $1,209.7 million) and in 1973 (about $1,141.3 million) might well have induced the USSR to step up its operations in world gold markets. According to one estimate the USSR sold $325-million worth of gold in 1972, and $800-million worth in 1973.[63] But these estimates could be too low. According to estimates by the Bank for International Settlements (BIS), the USSR sold 200 metric tons of gold in 1972, and 330 metric tons in 1973 (see TABLE 4.5). In the event the USSR sold its gold for $58.00 per troy ounce in 1972 (i.e., the average price for gold in 1972), and $97.00 per troy ounce in 1973 (the average price in 1973), the USSR would have earned $373 million from gold sales in 1972, and $1,029 million in 1973.

Soviet gold sales amounted to 7 million troy ounces (about 218 metric tons) in 1974.[64] The following year sales dropped to approximately 150 metric tons.[65] According to one source, between 250 and 300 metric tons of Soviet gold, worth an estimated $1 billion to $1.2 billion, were sold in world markets during 1976.[66] However, another source estimated that the USSR sold about $1.4-billion worth of gold in 1976.[67] Soviet gold sales in 1975 and 1976 indicate that there is not necessarily a strong correlation between Soviet grain imports from the West and Soviet gold sales. Indeed, in 1975, the poor Soviet grain harvest did not lead to massive gold exports (as far as most of us know) from the USSR. But in 1976, Soviet gold sales increased markedly in the face of an excellent grain harvest. During 1977, 'communist countries' sold about 450 metric tons of gold (presumably in the West). This amount of gold would be worth approximately $2.2 billion at $150.00 per troy ounce. If the USSR was responsible for 75 percent of the gold sales attributed to 'communist countries' during 1977, Soviet earnings would have totalled about $1.6 billion.[68]

As one of the major gold-selling nations, the USSR has shown on a few occasions that it is capable of bringing about marked changes in the price of gold. According to London merchant bankers, Soviet gold sales from January through the early part of April 1972, helped to stabilise conditions in world gold markets. However, when rumours started circulating in mid-April about a decline in South African gold production (South Africa is the world's largest gold producer) the USSR temporarily suspended its selling operations. This move helped bring about a sharp increase in the price of gold. In August 1972, rumours that the USSR would have to sell large quantities of gold to finance grain imports led to a marked decrease in the price of the metal. When the USSR temporarily halted its selling operations in the latter part of 1972, the price of gold increased.[69]

The USSR's success in obtaining credits and loans from IMTEs has brought about a fundamental change in Soviet gold-selling tactics. As we learned, the USSR was often required to sell gold in the 1950s and 1960s in order to finance imports from IMTEs. Whenever the USSR was forced to finance large trade deficits gold prices normally fell as a result of rumours that Soviet traders would soon begin selling part of their reserves. However, at this time Soviet trade deficits do not necessarily lead to an increase in Soviet gold sales. The USSR now has easy access to Western credits which means that Soviet gold traders can plan their activities according to conditions in the marketplace. If a Soviet trade deficit leads to a sharp decline in the price of gold Soviet traders could decide to hold on to their supplies. In the event the price of gold falls too low the Soviets could be induced to enter the market as buyers. Indeed, the USSR has been operating as a buyer in world gold markets for some time.[70] When the Soviet trade position improves and the price of gold increases, Soviet traders could decide to sell some of the gold obtained in the West (for a handsome profit) along with some of their Soviet gold. Nowadays we can expect the USSR to borrow funds from IMTEs if projected increases in the price of gold are greater than interest charges on hard currency credits and loans.

In addition to its operations in the world bullion market (i.e., the market for gold bars and ingots) the USSR has also been quite active in the market for gold coins and medals. In the latter part of 1975, Dresdner Bank agreed to market the chervonets--the Soviet ten-ruble gold coin weighing 7.74 grammes. (The reader should not confuse the gold coin with the bank note mentioned in CHAPTER I.) Vneshtorgbank was responsible for negotiating and signing the deal with the West German bank. A London gold dealer saw the chervonets as a means of selling Soviet gold reserves without moving prices too sharply in the bullion market.[71] On the other hand, Michael Kaser maintained that the decline in world market prices for bullion encouraged the Soviets to produce the chervonets in an attempt to receive the most hard currency from their sales of the precious metal.[72] The USSR's decision to start minting the chervonets was undoubtedly influenced by the fact that the demand in the West for legal-tender gold coins increased significantly during 1974. According to Kaser, the chervonets apparently replaced an earlier scheme which called for the mass production and marketing of Soviet gold jewellery in the West. The chervonets started selling for DM 95.00 in the FRG and $36.50 in the United States. These prices were reportedly 4 to 5 percent above the world market price for 7.74 grammes of bullion.[73] The USSR set the premium for the chervonets below the premiums for other legal-tender coins (e.g., the Krugerrand) in an attempt to gain a strong foothold in the market. At the outset the chervonets became so popular that the premium was raised to 8 percent.[74]

In the latter part of 1977, the gold, silver and platinum commemorative coins for the 1980 Moscow Olympics became legal tender in the USSR. This move was seen as an attempt to boost sales of the coins in the West as some countries charge a value-added tax on coins which are not legal tender.[75] According to one source a consortium of Western companies--the Numinter Group--will be responsible for marketing the coins in the West. It is projected that the Numinter Group will sell about $150-million worth of the commemorative coins.[76] (Note that this figure [$150 million] is only the face value of the coins.)

Soviet earnings from the coins will be used to finance the Moscow Olympics.

The USSR also produced 10,000 one-ounce gold medals to commemorate the Apollo-Soyuz space flight. Many of the medals were sold in the West. In mid-1975, the USSR was selling the medals for about $340.00 apiece. (American coin dealers were selling the Apollo-Soyuz medals for $425.00 each.[77]) At that time one troy ounce of gold (bullion) was worth about $162.00.

We should now turn our attention to Soviet gold reserves. Throughout the 1950s and early 1960s, estimates on Soviet gold reserves fluctuated between 112.5 million troy ounces (about 3,499 metric tons) and 290 million troy ounces (about 9,019 metric tons). However, in 1964, the CIA published estimates on Soviet gold reserves which were considerably lower than the aforementioned figures. The updated estimates were supposedly based on documents supplied by Colonel Penkovsky. These estimates placed Soviet gold reserves between 70.7 million troy ounces (about 2,199 metric tons) and 85.2 million troy ounces (about 2,650 metric tons).[78] Therefore, at the official rate of $35.00 per ounce Soviet gold reserves in the early 1960s were worth an estimated $2,474.5 million to $2,982.0 million. (The reader should note that these estimates differ from Kaser's estimates in TABLE 4.5.)

As we learned, the USSR increased its gold sales from 1963-1965 in order to pay for imports of Western grain. According to statistics from the International Monetary Fund (IMF) Soviet gold sales in the West amounted to $260 million in 1957, $210 million in 1958, $255 million in 1959, $200 million in 1960, $275 million in 1961, and $215 million in 1962.[79] Soviet purchases of wheat from Australia, Canada, France, the FRG and the United States in 1963, were partially responsible for Soviet gold sales amounting to $550 million during that year.[80]

During the early months of 1964 the USSR sold about $330-million worth of gold in Western markets.[81] Following the gold sales in 1963, the USSR claimed that its gold reserves had not been markedly reduced. One Soviet report mentioned the discovery of a large gold field on the Kolyma River. East German reports in the early 1960s mentioned new gold discoveries in Central Asia, Kazakhstan and Transcaucasia which were supposedly capable of producing as much gold as the eastern and northeastern regions of the USSR produced at that time.[82] Moreover, a number of Soviet reports mentioned that modern machinery and mining techniques were being employed to increase gold production in the USSR.

In 1965, Soviet gold sales in the West amounted to approximately $550 million.[83] Once again the USSR indicated that its gold reserves would not be significantly reduced as a result of increased gold sales. Soviet reports mentioned new gold discoveries in Uzbekistan and Kazakhstan (on the Irtysh River), as well as new ore-dressing plants and increased prospecting in the Kyzyl-Kum Desert.[84] Over 40 percent of the Soviet gold which was sold during 1965 ($225 million or 200 metric tons) was placed on the market during the three-month period immediately following the signing of contracts in August for the importation of 6,040,000 metric tons of Canadian wheat (and wheat flour) into the USSR from 1965-1966. Some of the Soviet gold was sold in London while another portion was reportedly sold through the BIS.[85]

Reports published in the West indicate that Soviet gold production during the early 1960s did not keep pace with Soviet gold sales during the same period. According to one report Soviet gold production amounted to $644 million from 1960-1964.[86] This sum is well under half the size of estimated Soviet gold sales during the same period. On the basis of output and sales estimates, Western analysts concluded that Soviet gold reserves fell sharply during the first half of the 1960s.

One source claimed that Soviet gold reserves fell from $3,000 million in 1956, to $2,000 million in 1964.[87] At the end of 1965, the CIA placed Soviet gold reserves at 1,000 metric tons[88] amounting to about $1,124 million at the official rate of $35.00 per troy ounce. (Kaser's estimate /TABLE 4.5/ on Soviet gold reserves in 1965 is almost the same as the estimate by the CIA.)

As we learned from TABLE 4.5, Soviet gold sales decreased significantly from 1966-1971. If the CIA estimates are accurate, one reason behind the slow down in Soviet gold-selling operations is quite obvious. (Indeed, the Soviets would have been forced to scrape the bottom of the gold barrel in order to remain key operators in the marketplace.) However, we must also take into consideration the fact that Western government-supported medium- and long-term credits became the chief method of financing Soviet trade deficits with IMTEs from 1966-1971 (and indeed after that period). During the period 1966-1971, such credits amounted to more than $2 billion.[89] In the light of this fact the USSR might have been reluctant to sell part of its gold reserves during the late 1960s and early 1970s, even if such reserves amounted to well over the estimated 1,000 tons. According to Paul Einzig, the USSR might well have decided in the mid-1960s that the price of gold would rise significantly vis-à-vis major Western currencies in the near future. Therefore, it was clear that gold reserves had to be increased. The fact that Western nations started granting credits to the USSR on a large scale during the latter part of the 1960s must have heartened Soviet officials since such credits meant that most Soviet gold production could be used to build up the country's reserves. Einzig states:

> The Soviet Government shared the assumption held by hoarders of gold, that a substantial devaluation of the dollar could not be delayed for very long, and it considered it worthwhile to pay

interest on foreign credits rather than use up its gold stock in payment for essential imports.[90]

There is little doubt that Soviet gold reserves increased markedly between 1966 and 1972. According to Franz Pick, Soviet gold reserves amounted to about $10.8 billion in 1972 at the official rate of $35.00 per troy ounce. At the free-market price of $65.00 per troy ounce these reserves were worth an estimated $20.1 billion.[91] However, according to another source the market value of Soviet gold reserves amounted to $8.8 billion in mid-1973.[92] Western analysts have estimated that in 1976, Soviet gold reserves in Gosbank were anywhere between 2,700 and 8,700 metric tons. On the basis of the latter estimate (8,700 metric tons) Pick calculated that the USSR's gold stock would be worth $11.8 billion at the official price of $42.22 per troy ounce, and $45.0 billion at the free-market price for gold at the end of 1975.[93] But according to another source the Soviet gold stock amounted to 3,250 metric tons in the early part of 1977.[94] On the basis of this estimate (3,250 metric tons) the USSR has the fifth largest gold stock in the world. (The top four gold holders are the United States, the IMF, the FRG and France.) Of course, there are even lower estimates. In 1977, the CIA estimated that the USSR's gold reserve amounted to 1,870 (metric) tons.[95] The marked difference between estimates on Soviet gold reserves indicates that it would be rather difficult to draw any meaningful conclusions from a given estimate.

In all likelihood the USSR would be reluctant to sell off a large portion of its gold stock even if Soviet holdings are quite substantial. As we learned, the USSR can now obtain credits and loans quite easily from world financial markets. Moreover, any massive sales are bound to reduce the price for gold. In the middle part of 1978, gold was selling for around $200.00 per troy ounce. With prices like that the USSR could well be content to keep its sales around the 1977 level (i.e., about 338 metric tons). According to the CIA, Soviet gold production amounted to 350 (metric) tons in 1976. By 1980, Soviet gold production could reach 420 (metric) tons.[96] In the event the USSR keeps selling gold at the 1977 level (by weight) Soviet reserves will probably not increase (if annual domestic consumption totals 75-100 tons).

Before we turn our attention to a new topic it might be interesting to study some of the gold markets in which the USSR operates. According to the IMF, the USSR was operating in the London gold market and a number of gold markets in Western Europe during the early 1950s.[97] Until the late 1950s the USSR sold most of its gold in Western Europe where more favourable free-market rates for transferable sterling could be obtained. However, after the introduction of unified exchange rates for sterling in 1958, most Soviet gold was consigned directly to the U.K. and sold through the London gold market. During 1959, the U.K.'s gold imports were valued at $967.5 million of which $255.2 million (or 26 percent) came from the USSR.[98] This sum ($255.2 million) represented all (recorded) Soviet gold sales in 1959. A few years later the situation had changed. As we learned, the USSR sold about $215-million worth of gold in 1962, and $550-million worth in 1963. During 1962, the U.K. imported $106.9-million worth of Soviet gold (or 50 percent of total [estimated] Soviet gold sales). One year later the U.K. imported $281.2-million worth of Soviet gold (or 51 percent of total [estimated] Soviet sales)[99] while $250-million worth of total (estimated) Soviet sales was sold in Western Europe (primarily in Paris).[100]

By the mid-1960s London was no longer considered a major market for Soviet gold. In 1965, the U.K.'s gold imports totalled $1,378.3 million of which $112.6 million (or 8 percent) represented purchases from the USSR.[101] The $112.6-million worth of Soviet gold imported by the U.K. in 1965 represented 21 percent of total (estimated) Soviet gold sales for that year. According to the IMF, the USSR established a bank in Beirut during 1963 (the Beirut branch of the Moscow Narodny Bank) to 'diversify' Soviet gold sales.[102] Three years later a Soviet bank (Wozchod Handelsbank) was established in Zurich. Since the level of Soviet-Swiss trade was rather low at that time a number of bankers surmised that the bank would be used to facilitate Soviet gold sales in the West.[103] In all likelihood the USSR did not decide to diversify its gold sales merely for the sake of earning higher profits in other markets. It is quite obvious from IMF reports that Western analysts were able to monitor Soviet operations in the London gold market quite closely. Therefore, if the USSR sold most of its gold through the London market in a given year, Western analysts had a rough idea of total Soviet gold sales for that year. This was unacceptable for the USSR. By setting up gold-selling outlets (i.e., banks) in a number of markets the USSR could spread its sales over a much wider sphere and hence make the information-gathering process somewhat laborious for Western analysts. Moreover, by operating in countries which are more reluctant to divulge data on gold sales (e.g., the Lebanon and Switzerland) the USSR could make the intelligence operations of Western analysts even more difficult. In the early 1970s the Moscow Narodny Bank established another branch in Singapore. It might be interesting to note that Singapore is one of the key gold markets in Asia.

We can assume that very little Soviet bullion is shipped directly to foreign dealers. (If most Soviet bullion was shipped directly to foreign dealers the USSR would be exporting the metal constantly.) In all likelihood the USSR sends large shipments of gold to selected markets on a few (unannounced) occasions each year. A sizeable amount of this gold is shipped by air. Soviet banks operating in the West are responsible for picking up gold exported by the USSR. The gold is subsequently placed in the banks' vaults. Since the banks do not own the gold the value of the metal does not appear on the banks' balance sheets. Indeed, Soviet foreign-based banks (SFBBs) merely agree to protect the valuables (gold and other precious metals) of their deposit-box holders. After a period of time the owners of the gold (e.g., Vneshtorgbank and Gosbank) instruct SFBBs to sell a portion of the metal to various buyers. The orders authorising the sale of this gold contain instructions on how the proceeds will be handled. The owners of the gold can: 1) request that the funds be sent directly to them; 2) request that the earnings be deposited in SFBBs; 3) instruct SFBBs to deposit the funds in Western-owned banks; or 4) instruct SFBBs to pay off Soviet debts on the basis of earnings from the sale of the gold.

Soviet Sales of Other Precious Metals

Estimates from a few Western sources indicate that Soviet hard currency earnings from precious metals (excluding gold) are quite substantial. In studying these estimates we should use a certain amount of caution for at least two reasons. Firstly, estimates sometimes prove to be inaccurate. Therefore, as in the case of gold, we should allow for a (rather large) margin of error when using estimates on Soviet sales of other types of precious metals. Secondly, estimates on Soviet earnings from the sale of selected products in the West (i.e., goods which are not cited in Soviet trade returns) are usually given in dollars. This can lead one to conclude that the USSR receives all payments in the form of hard currency. We can be sure that most of the USSR's exports of precious metals to the West are destined for IMTEs. Therefore, it is correct to assume that almost all of the USSR's earnings from such exports are in the form of hard currency. However, we should also be aware of the fact that Soviet exports of precious metals are sometimes purchased by LDCs. In such cases payment could be in the form of commodities. (Of course, some of these commodities from LDCs could be sold for hard currency. For example, the USSR could decide to exchange some of its platinum for Venezuelan petroleum. In all likelihood the USSR would have no trouble selling the petroleum for hard currency.)

In 1973, Soviet platinum sales were estimated at $325 million while nickel sales amounted to $25 million.[104] During 1976, Soviet sales of precious metals (excluding gold) were estimated at $600 million.[105] According to another estimate published in 1978, annual Soviet platinum and palladium sales in the West now amount to over $200 million.[106]

Soviet Diamond Sales in the West

For reasons which were mentioned in the last section, we should also use some caution when studying dollar estimates for Soviet diamond sales. According to one analyst, Soviet diamond sales in the West increased from $200 million in 1972, to $420 million in 1973.[107] In 1976, the USSR sold an estimated $800-million worth of diamonds in the West.[108] Wilczynski claims that annual Soviet diamond sales in the West amount to approximately $500 million.[109]

It is interesting to note that in 1975, the president of the Israel Diamond Exchange, Moshe Schwitzer, reported that the USSR was selling diamonds in world markets for prices which were nearly 50 percent lower than those prevailing in the free-market. As a result, Asian dealers cancelled $10-million worth of orders for Israeli polished gems. According to the report the USSR's policy was aimed at raising hard currency and not at undermining Israel's diamond-selling operations.[110]

Soviet Foreign Currency Earnings from Invisible Exports

It is generally assumed that most of the USSR's invisible income is derived from the merchant fleet and tourist industry. In 1975, the USSR's net earnings from the merchant fleet were estimated at $400 million while net earnings from the tourist industry totalled an estimated $150 million.[111] In 1976, the USSR's net earnings from the merchant fleet and tourist industry (combined) were estimated at $550 million.[112] Of course, these estimates include all net earnings from the merchant fleet and tourist industry. Therefore, we must keep in mind that both convertible and non-convertible currencies are included in these estimates. In the light of the USSR's success in penetrating Western shipping markets (see CHAPTER VI) we might assume that net earnings from Soviet maritime operations contain a rather significant amount of hard currency (say, 10-20 percent or $40 million to $80 million). Moreover, it is generally accepted that Western tourists spend (or exchange) more hard currency in the USSR than the Soviet government provides for its citizens who are permitted to travel in the West. But in the final analysis it is almost impossible to give an accurate estimate on net hard currency earnings from the Soviet merchant fleet and tourist industry without some assistance from Gosbank or Vneshtorgbank. At the present time there is no evidence that Soviet officials are willing to provide such assistance.

The USSR also obtains a fair amount of hard currency via Soviet nationals living abroad. According to Wilczynski, remittances from Soviet citizens living abroad fall between $100 million and $200 million each year.[113] But once again a sizeable portion of this estimate probably includes non-convertible currencies.

At the present time the net profits of Soviet companies in the West are usually ploughed back. (More will be said about this a little later.) Since the companies (including banks) are still relatively small the profits are seldom large enough to justify annual dividend payments to shareholders in the USSR. However, as the operations of the companies increase, dividends might be paid to Soviet shareholders on a regular basis. These funds could be used to cover trade deficits, set up new companies in the West etc. In addition to its hard currency earnings from companies in the West, the USSR could start earning quite a lot of hard currency from services provided by commercial-financial organisations in Moscow. As we learned, Moscow could become a major world trade and financial centre. If this happens, Soviet banks (in Moscow) will handle an increasing number of financial transactions between FTOs and Western firms, and Soviet commercial organisations will be set up to act as consultants for Westerners operating in the USSR.

On the Problem of Soviet Hard Currency Indebtedness

In order to present a fair analysis of Soviet hard currency indebtedness it is necessary to clear up a few problems which we have not discussed up till now. We know that the USSR's visible trade balance with IMTEs is one method of assessing the USSR's hard currency position. The key problem is this: does the USSR record all of its visible trade?

Now it is widely known that the USSR does not mention such commodities as gold bullion, non-industrial diamonds, and platinum and other precious and semiprecious metals in its trade statistics. However, are sales of these commodities included in official Soviet foreign trade statistics? In all likelihood most (or all) Soviet exports of non-industrial diamonds, other precious and semiprecious gems, platinum and a wide range of semiprecious metals are included in Soviet trade statistics. Moreover, many exports of services (e.g., the enrichment of uranium by the USSR for IMTEs[114]) are included in Soviet trade statistics.

Most of us are aware of the fact that Soviet foreign trade statistics include figures for total Soviet exports to individual Western countries. It is also known that the figures for total Soviet exports to individual MTEs can be much larger than the sum of the commodity groups listed under these countries. TABLE 4.6 shows the difference between total Soviet (visible) exports to five IMTEs during 1976 and the sum of commodity groups listed under each country. The sizeable residual in TABLE 4.6 (376.7 million rubles or about $512.3 million) proves that the USSR includes an important group of commodities in its published statistics without actually naming them. So what are these commodities? Perhaps D. J. I. Matko and Alec Nove solved the problem in an article written for The Three Banks Review (March 1962, pp. 18-19). In dealing with a similar problem the two analysts mentioned that the USSR, like most other countries, does not include gold bullion movements (sales) in its trade statistics. Since gold bullion sales are not included in the residual it would be reasonable to assume that almost all sales of commodities like gems (e.g., diamonds) and selected metals (e.g., platinum, palladium and nickel) appear in the residual.

TABLE 4.6

TOTAL SOVIET VISIBLE EXPORTS TO SELECTED COUNTRIES DURING 1976 AND THE SUM OF COMMODITY GROUPS LISTED UNDER EACH COUNTRY
(in millions of rubles)

Country	Total Soviet visible exports	Sum of commodity groups	Residual
U.K.	824.9	566.5	258.4
Belgium	323.1	265.9	57.2
FRG	1,069.2	1,042.7	26.5
Switzerland	108.1	90.6	17.5
France	773.8	756.7	17.1
Total			376.7

Source: Official Soviet foreign trade statistics.

It might be interesting to take a brief look at the residual in TABLE 4.6 which is connected with Anglo-Soviet trade. In 1976, the U.K. imported £208.8-million worth of 'non-metallic mineral manufactures' (i.e., diamonds and other precious gems) from the USSR.[115] At the official rate of £1 = 1.23 rubles in December 1976, £208.8 million would be equal to 256.8 million rubles. With little doubt, we have found most of the commodities exported to the U.K. which the USSR failed to mention in its trade statistics.

TABLE 4.7 shows the USSR's balance of (visible) trade with IMTEs during the period 1970-1976. In order to get a more accurate picture of the USSR's hard currency indebtedness we would have to include net earnings (or losses) from invisible trade. This would be quite difficult. We learned previously that the USSR's net earnings from the merchant fleet amounted to an estimated $400 million in 1975. But how much hard currency was included in this sum? It was mentioned before that the Soviet merchant fleet has been quite successful in penetrating Western shipping markets. This would indicate that the USSR earns quite a lot of hard currency from its maritime operations. However, it is important to keep in mind that when Soviet merchant vessels operate in Western markets they often pay hard currency for supplies (fuel, food etc.) and services. Moreover, it is quite possible that on some occasions Soviet merchant vessels operate at a net hard currency loss. For example, if a Soviet merchant vessel transports commodities from Leningrad to Luanda (Angola) on a clearing account basis (i.e., the Soviet goods and transport services are not sold for convertible currency) the vessel might actually record a net hard currency loss if it is required to stop for supplies/services in West European ports and unable to pick up any hard currency transport business along the way. (Of course, it should be mentioned that even if a Soviet vessel loses a little hard currency on its journey the loss would probably not be as great as it would be if the USSR was forced to hire a Western-owned merchant ship to transport Soviet commodities.)

TABLE 4.7

SOVIET BALANCE OF TRADE WITH INDUSTRIALISED MARKET-TYPE ECONOMIES
(in millions of dollars[a])

Year	Soviet imports from IMTEs	Soviet exports to IMTEs	Soviet gold sales	Balance
1970	2,819.5	2,390.8	56.0	- 372.7
1971	2,887.0	2,757.7	102.0	- 27.3
1972	4,163.2	2,953.5	325.0	- 884.7
1973	6,241.2	5,099.9	800.0	- 341.3
1974	8,359.2	8,509.9	1,050.0	+ 1,200.7
1975	13,195.5	8,350.3	725.0	- 4,120.2
1976	14,717.4	10,654.8	1,200.0	- 2,862.6
Total				- 7,408.1

[a]The following exchange rates were used to convert rubles into dollars: for 1970-1971, 1 ruble = $1.11; for 1972, 1 ruble = $1.21; for 1973-1976, 1 ruble = $1.36.

Source: Official Soviet foreign trade statistics.

In 1975, the USSR's net earnings from the tourist industry were estimated at $150 million. But how much hard currency was included in this sum? It was mentioned previously that the USSR receives more hard currency from Western tourists than it permits its citizens to take out of the country when they visit the West. However, any estimate on the USSR's net hard currency earnings from the tourist industry (without the assistance of Gosbank or Vneshtorgbank) would be purely arbitrary.

Although little has been said up till now about the Trans-Siberian Railway (the Soviet 'land bridge') it is important to mention that the Soviet Union is already earning a fair amount of hard currency by transporting goods destined for Western and Eastern markets via this railway. The importance of the railway will probably increase in the near future. In addition, Soviet net hard currency earnings from technical services (which are not included with the USSR's visible trade), air transport and Soviet citizens living abroad could amount to a few million dollars. However, such earnings are probably small enough for us to overlook at this time. Since Soviet goods are delivered f.o.b. to the USSR's border we can assume that no extra charges are placed on Soviet natural gas and petroleum destined for Western Europe (and elsewhere) until such commodities leave the USSR.

During the last decade many Western analysts reckoned that the USSR either achieved a small hard currency surplus in its invisible trade with MTEs or suffered a small deficit. Net hard currency earnings from the Soviet merchant fleet could now amount to over $75 million each year. Moreover, the Soviet Union's annual net hard currency earnings from the tourist industry could go as high as $60 million. However, it is unlikely that net hard currency earnings from other forms of invisible trade (e.g., insurance) would add much to the combined net hard currency earnings of the merchant fleet and tourist industry. Let's just assume that the USSR's net hard currency earnings from the merchant fleet, the tourist industry and a few other sources of invisible income amount to $150 million each year. This is indeed a significant sum but it is only half of the problem. Western nations charge the USSR sizeable amounts of hard currency each year for services. Indeed, the Arthur Andersen Company which was set up in Moscow to teach Western accounting techniques to Soviet businessmen is most likely paid in hard currency. In addition, the USSR has spent a fair amount on Western industrial licences. We should also note that the USSR has lately paid enormous sums for Western banking services (e.g., annual interest on Soviet debts could amount to over $500 million). So, Soviet invisible trade with IMTEs could now result in a (large) net loss for the USSR.

TABLE 4.8 shows Soviet trade surpluses with LDCs for the period 1970-1976. If we knew the amount of hard currency involved in Soviet trade with LDCs we would have a better understanding of the USSR's financial position vis-à-vis IMTEs. (Of course, any net hard currency earnings from LDCs could be used to cover trade deficits with IMTEs.) It was mentioned previously that Soviet foreign trade banks sometimes arrange hard currency loans for LDCs. In some cases these loans are not connected with the sale of Soviet commodities. (In CHAPTER V we will learn that Soviet banks occasionally lend hard currency to LDCs in order to take advantage of profitable interest rates.) But in other cases, loans arranged by Soviet banks are utilised by LDCs to buy Soviet exports. However, reports on such loans are so infrequent that few conclusions can be drawn from this information. We should also keep in mind that the USSR uses hard currency earnings from some LDCs to cover Soviet debts with other LDCs. (The USSR must use hard currency to finance its trade deficits with a few LDCs.)

TABLE 4.8

THE USSR'S BALANCE OF TRADE
WITH LDCS, 1970-1976
(in millions of rubles)

Year	Soviet exports to LDCs	Soviet imports from LDCs	Balance
1970	1,835.9	1,145.6	+ 690.3
1971	1,825.1	1,270.7	+ 554.4
1972	2,007.9	1,343.8	+ 664.1
1973	2,936.5	1,735.3	+ 1,201.2
1974	3,388.7	2,384.0	+ 1,004.7
1975	3,310.0	2,998.8	+ 311.2
1976	3,740.1	2,805.1	+ 935.0
Total			+ 5,360.9

Source: Official Soviet foreign trade statistics.

We learned previously that the USSR has granted a fair amount of economic aid to LDCs. Almost all of this aid is repaid via commodity deliveries from LDCs. The CIA estimated that from 1970-1976, LDCs received about $3,340-million (approximately 2,632 million-rubles) worth of (gross) economic aid from the USSR. Part of this sum could have been used to make repayments on Soviet economic aid granted to LDCs prior to 1970. However, since Soviet economic aid is usually used to make commodity purchases let's simply deduct the total amount of such aid received by LDCs during 1970-1976 (i.e., 2,632 million rubles) from the total deficit stemming from Soviet trade with LDCs during the same period. (No attempt will be made to calculate the interest on the trade deficit.) This leaves 2,728.9 million-rubles worth of Soviet deliveries of military supplies and other commodities which had to be financed on the basis of clearing-dollar credits and hard currency cash payments.

In all likelihood a high proportion of the aforementioned sum (2,728.9 million rubles) comprises military supplies. Up till now only a few estimates have been published on hard currency cash sales of Soviet military supplies. Gur Ofer maintains that (hard currency) cash sales of Soviet military supplies were probably quite limited before 1973.[116] (At the time he arrived at this conclusion Ofer was aware of an estimated $125-million worth of Soviet arms sales on a cash basis to Libya during the period 1971-1973.[117]) Ofer also suggests that after 1973 a much greater proportion of Soviet military deliveries went to petroleum-exporting countries indicating the possibility of increased hard currency cash sales.[118] However, the latest available CIA estimates indicate that Soviet hard currency earnings from exports of military supplies might well have decreased after 1973. TABLE 4.9 shows the amount of Soviet military deliveries to selected regions in the Third World from 1972-1976. In 1972, the Middle East received an estimated $970-million worth of military supplies from the USSR (or 81 percent of all Soviet exports of armaments to the Third World). By 1973, this figure had increased to $2,655 million (or 88 percent of all exports of Soviet armaments to the Third World). After 1973, the estimated amount of Soviet military deliveries to the Middle East fell sharply. In 1976, the Middle East received an estimated $830-million worth of military supplies from the USSR (or only 38 percent of all Soviet armaments exported to the Third World). Since African countries have become more important recipients of Soviet military supplies it is rather doubtful that a significant proportion of the aforementioned 2,728.9 million-rubles worth of military supplies and other commodities was financed on the basis of hard currency cash payments. Even if 25 percent of the 2,728.9 million-rubles worth of armaments and other commodities was financed by hard currency cash payments the amount (i.e., 682.2 million rubles or roughly $928 million) would be small in comparison with the total Soviet trade deficit with

IMTEs during the period 1970-1976 (see TABLE 4.7 on p. 273).

TABLE 4.9

SOVIET MILITARY DELIVERIES TO SELECTED REGIONS IN THE THIRD WORLD, 1972-1976 (in millions of dollars)

Geographic region	1972	1973	1974	1975	1976
Africa	55	75	235	600	1,070
Latin America	0	10	25	55	80
Middle East	970	2,655	1,785	850	830
South Asia	180	270	205	180	210
Total	1,205	3,010	2,250	1,685	2,190

Source: CIA, Communist Aid to the Less Developed Countries of the Free World, 1976 (August 1977), p. 3.

The trade deficit cited in TABLE 4.7 is much lower than some estimates on Soviet net hard currency indebtedness. For example, the CIA estimated that the USSR's net hard currency indebtedness at the end of 1976 amounted to $14 billion.[119] The estimate in TABLE 4.10 is even higher. Of course, interest charges have not been added to the deficits in TABLE 4.7. However, even if a compound interest charge of 10 percent is added to each deficit in TABLE 4.7 the total still falls short of $10 billion. So why is there such a difference between the Soviet trade deficit cited in TABLE 4.7 and estimates on Soviet net hard currency indebtedness? Perhaps it should be mentioned once again that Soviet foreign trade banks sometimes receive hard currency loans and deposits simply for the purpose of relending such funds to non-Soviet borrowers. For example, Vneshtorgbank might receive a hard currency loan (or deposit) not to finance Soviet foreign trade, but for the purpose of relending the funds (usually for higher interest charges) to, say, Vietnam's foreign trade bank. In this case the amount lent to (or deposited in) Vneshtorgbank would probably be classified by some Western analysts as part of the USSR's net hard currency indebtedness even though the funds would not be used to finance Soviet foreign trade deficits. Moreover, Soviet foreign-based banks are now actively involved in lending funds to Western borrowers that are not classified as financial institutions (in other words, Western analysts might not take some of these loans into consideration when making estimates on net Soviet hard currency indebtedness).

TABLE 4.10

NET HARD CURRENCY INDEBTEDNESS OF THE USSR
AT THE END OF 1976
(in millions of dollars)

Estimated drawings on official export credit commitment	6,586
Supplier's credits	3,700
Net hard currency position with Western banks[a]	5,912
Total net debt	16,198

[a]Data collected at the end of September 1976 from banks in the U.S., the U.K., the FRG, France, Belgium, the Netherlands, Italy, Sweden, Canada, Japan and Switzerland, and foreign branches of U.S. banks in the Carribbean and Far East.

Source: East-West Markets (Chase World Information), 7 March 1977, pp. 7-8.

Of course, hard currency funds lent to (or deposited in) Soviet banks must be classified as debts of the USSR no matter if such funds are used to finance Soviet foreign trade or not. However, it is necessary to recognise the distinction between the two cases. If Soviet banks lend hard currency to Soviet FTOs for the purpose of financing the USSR's foreign trade deficits then the Soviet Union is responsible for repaying its own banks so they, in turn, can meet their financial obligations with Western creditors. When Soviet banks lend hard currency to non-Soviet organisations these banks are still responsible for repaying their Western creditors. But in this case Soviet banks have a claim on non-Soviet organisations and not on the USSR.

It should also be pointed out that the USSR might be forced to borrow hard currency from Western financial markets to facilitate its economic/political penetration into LDCs. In order to make a favourable impression on LDCs, Soviet personnel assigned to these countries will sometimes spend hard currency for local goods and services. However, after a certain amount of time has passed the hard currency spent by the USSR in a given LDC might well start to flow back into Soviet hands.

According to Soviet statistics the USSR's 1977 trade deficit with IMTEs was well below the deficit for 1976. In 1977, the USSR imported 9,929.9 million-rubles (about $13,504.7-million) worth of goods from IMTEs and exported 8,817.3 million-rubles (about $11,991.5-million) worth of goods to these countries resulting in a deficit of 1,112.6 million rubles (about $1,513.1 million). However, if we bring Soviet gold sales into the picture (remember that the USSR sold about $1.6-billion worth of gold in 1977) the Soviet Union achieved a hard currency trade surplus of roughly $100 million in 1977. In the light of this fact we can assume that the USSR did not increase its hard currency indebtedness in 1977 as a result of its trade with IMTEs. But in all likelihood the USSR's hard currency surplus in 1977 was not large enough to cover principal and interest payments on previous debts indicating that the USSR was forced to increase its hard currency indebtedness vis-à-vis IMTEs during 1977. (For example, if the USSR's debt service ratio [i.e., total annual payments of principal and interest as a percentage hard currency exports] with IMTEs stood at 20 percent in 1977, then principal and interest payments from the USSR to IMTEs during that year would have amounted to approximately $2,398.3 million.)

On Soviet Creditworthiness

The marked increase in Soviet hard currency indebtedness during the 1970s has resulted in some concern over the USSR's ability to meet its financial obligations. At one time Western economists considered a debt service ratio of 12 percent to be quite high. According to TABLE 4.11, the USSR's debt-service ratio has exceeded 12 percent since 1968. (It should be noted that the debt-service ratios in TABLE 4.11 were probably based upon total Soviet hard currency indebtedness and not just trade-related deficits with IMTEs.) Now one might think that the USSR had trouble obtaining credits from IMTEs when the Soviet debt-service ratio amounted to 20 percent in 1975. However, this was not the case. In fact, Soviet officials probably concluded that it was easier to obtain credits during 1975/1976 than ever before. (As we learned, a number of Western governments extended credits to the USSR during this period.)

There are a number of reasons to believe that hard currency credits will be available to the USSR despite rising Soviet trade deficits with IMTEs. Firstly, most Western lenders agree that the USSR has an impeccable financial record. Moreover, many of these lenders feel that Soviet officials wish to maintain that impeccable financial record. Secondly, the Western world has recognised the importance of the Soviet market. In an attempt to ameliorate world economic conditions, Western nations have been willing to extend credits to the USSR on favourable terms. And thirdly, Western lenders are now starting to look at Soviet trade deficits in a different light. As we learned before, compensatory projects could solve part of the USSR's hard currency indebtedness problem. During the initial stages of such projects Western analysts should expect a marked increase in Soviet trade deficits with IMTEs. But after a period of years the deficits should be covered via commodity deliveries from the USSR.[120] In addition, most Western analysts agree that rigid centralised planning will prevail in the USSR for many years to come. Although Soviet bankers have acknowledged that the USSR is willing to borrow funds from IMTEs on a large scale, such funds will be used, in virtually all cases, to boost Soviet export potential. In the words of A. S. Maslov: 'all . . . import needs should be covered by export possibilities. This is the law for socialist planning'.[121]

TABLE 4.11

SOVIET HARD-CURRENCY DEBT-SERVICE RATIOS, 1960-1975 (in percent)

Year	Debt service as a percentage of Soviet hard currency exports
1960	5
1961	8
1962	12
1963	14
1964	15
1965	12
1966	11
1967	11
1968	13
1969	15
1970	18
1971	18
1972	20
1973	17
1974	15
1975	20

Sources: John Farrell and Paul Ericson, 'Soviet Trade and Payments with the West', in Soviet Economy in a New Perspective, compiled by the U.S. Congress, Joint Economic Committee, 94th Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1976), p. 738; and John Farrell, 'Soviet Payments Problems in Trade with the West', in Soviet Economic Prospects for the Seventies, compiled by the U.S. Congress, Joint Economic Committee, 93rd Cong., 1st sess. (Washington, D.C.: U.S. Government Printing Office, 1973), p. 692.

NOTES

[1]M. F. Pindak, 'Post-War Trends in East European Banking', in Banking, Money and Credit in Eastern Europe, ed. by M. Yves Laulan (Brussels: NATO, 1973), p. 153.

[2]Bay City Times, 1 June 1975, p. 12.

[3]Daniel Gallik, Jesina Cestmir, and Stephen Rapawy, The Soviet Financial System: Structure, Operations and Statistics, compiled by the U.S. Department of Commerce (Washington, D.C.: U.S. Government Printing Office, 1968), p. 29.

[4]U.S. Department of Commerce, 'Trading with the U.S.S.R.', Overseas Business Reports, January 1974, p. 21.

[5]Ibid.

[6]Arthur Andersen and Company, Executive Summary: Tax and Trade Matters, U.S.S.R., (U.K. ed., 1976), p. 28.

[7]V. Alkhimov, 'Rol' bankovskoi sistemy v razvitii Sovetskogo Soyuza', Vneshnyaya torgovlya, No. 6, 1978, p. 11.

[8]Finland is one exception. Most trade between the USSR and Finland is financed via ruble clearing accounts.

[9]For the purpose of this discussion we shall assume that there are three types of currencies--hard, soft, and non-convertible. Hard currencies (e.g., the U.S. dollar, the Deutsche mark and the British pound) can be readily exchanged for other currencies. In addition, hard currencies are held as reserves and are widely used for multilateral transactions. Soft currencies (e.g., the Indian rupee, the Iraqi dinar and the Argentine peso) can also be readily exchanged for other currencies in most cases. However, soft currencies are usually not held as reserves and are not widely used in multilateral transactions. Non-convertible currencies (e.g., the Soviet ruble, the Czech crown, the Hungarian forint and the Polish zloty) can only be exchanged for other currencies under strict government control. Moreover, non-convertible currencies are not used for multilateral transactions nor are such currencies held as international reserves.

[10]Indeed, under the monopoly of foreign exchange transactions all foreign currency earned by organisations in the USSR must be sold (or handed over) to either Vneshtorgbank or Gosbank; see A. G. Nadezhdina, ed., Denezhnoe obrashchenie i kredit SSSR (Moscow: Financy, 1976), p. 330.

[11]Some of the other schemes for financing Soviet trade with IMTEs include switch transactions and financial arrangements connected with bilateral clearing accounts.

[12]Soviet imports from IMTEs in 1976 totalled 10,821.6 million rubles. If we deduct 15 percent of this sum for barter arrangements and non-typical methods of payment and 20 percent for cash downpayments

[12](cont.) this leaves 7,358.7 million-rubles worth of commodities imported on the basis of Western credits. If we deduct 10 percent for barter trade and 15 percent for downpayments our estimate increases to 8,116.2 million rubles. (Of course, our estimates would be even higher if we included the hard currency loans received by the USSR for meeting downpayment requirements. Over the last few years the USSR has used some Eurocurrency loans for downpayments on contracts with IMTEs; see Euromoney, March 1977, p. 49.)

[13]Of course, the USSR could threaten to carry out such a policy unless the West granted credits to Soviet traders. In this case the threat of cutting imports and expanding exports would act as a lever for obtaining Western credits (on favourable terms).

[14]U.S. Department of Commerce, 'Trading with the U.S.S.R.', p. 23.

[15]Suzanne F. Porter, East-West Trade Financing (Washington, D.C.: U.S. Department of Commerce, Bureau of East-West Trade, 1976), p. 6.

[16]The USSR has always opposed high interest rates on ideological grounds. According to J. Wilczynski, 'in Marxist ideology interest--especially above 3-4 percent (covering the reasonable cost of credit administration)--is regarded as part of "surplus value" and as such a form of capitalist exploitation'; see J. Wilczynski, The Multinationals and East-West Relations (London: MacMillan, 1976), p. 164.

[17]See Peter Knirsch, Interdependence in East-West Economic Relations, Essay No. 5, Marshall Plan Commemorative Conference, Chateau de la Muette, Paris, 2-3 June 1977, p. 7.

[18]Financial Times, 16 June 1976, p. 4.

[19]Financial Times, 27 May 1978, p. 4.

[20]Promissory notes are issued for various periods (e.g., 60 days, 90 days, 6 months, 1 year etc.). If a holder of a promissory note wishes to receive payment before the note has matured the note can be discounted in the money market. A financial institution that discounts a Soviet promissory note can hold the note until it matures (at which time the note can be presented to Vneshtorgbank [or a bank designated by Vneshtorgbank] for collection) or the note can be re-discounted in the money market.

[21]The conditions which are connected with a letter of credit are included in a letter-of-credit agreement signed by the importer and sent to his bank either before or at the same time of the issuance of the letter of credit. The instructions in the letter-of-credit agreement are based upon the terms of the contract between the importer and the exporter.

[22]Currencies can be traded (bought and sold) in the foreign exchange market on either a spot or forward basis. In the former case, transactions are carried out immediately. In the forward foreign exchange market, currencies are traded for future transactions (i.e., currencies can be purchased for transactions which will take place in 30 days, 60 days, 90 days, 6 months etc). The difference between the spot rate of exchange and the forward rate is determined by the rate

[22](cont.) of interest and the exchange risk. (The exchange risk is based upon a given currency's chances for appreciating or depreciating at some future date.) Therefore, in the case of sterling, the size of the premium or discount of 'forward' sterling compared with 'spot' sterling is an indicator of whether market forces expect an appreciation or depreciation of sterling vis-à-vis given currencies.

[23]Financial Times, 28 July 1977, p. 6. For additional material on the Davy-ICI-Klockner deal see Financial Times, 18 May 1977, p. 1; and Financial Times, 20 May 1977, p. 7.

[24]Moscow Narodny Bank, Press Bulletin, 11 August 1976, p. 11, quoting Business Week, 9 August 1976.

[25]For some time Western analysts have shown that residuals in official Soviet foreign trade statistics and CIA estimates on Soviet military deliveries to LDCs are quite similar in size. For example, total Soviet exports to LDCs amounted to 3,310.0 million rubles in 1975, and 3,740.1 million in 1976. However, if all the figures representing Soviet exports to individual LDCs are added up the following results are obtained: in 1975, Soviet exports to individual LDCs amounted to approximately 1,924.9 million rubles, and in 1976, 1,935.8 million. For 1975, the difference between total Soviet exports to LDCs and the sum of Soviet exports to individual LDCs amounted to approximately 1,385.1 million rubles (about $1,883.7 million), and for 1976, the difference amounted to 1,804.3 million rubles (about $2,453.8 million). According to CIA estimates Soviet military aid to LDCs stood at $1,685 million in 1975, and $2,190 million in 1976.

[26]Soviet exports to LDCs in 1976 amounted to 3,740.1 million rubles (about $5,086.5 million).

[27]CIA, Communist Aid to the Less Developed Countries of the Free World, 1976 (August 1977), p. 25.

[28]Bank of London and South America Review, Vol. 8, No. 4 (April 1974), p. 208.

[29]Moscow Narodny Bank, Press Bulletin, 27 April 1977, p. 15, quoting Mining Journal, 22 April 1977.

[30]Financial Times, 28 April 1977, p. 6.

[31]Moscow Narodny Bank, Press Bulletin, 6 April 1977, p. 11, quoting Bolsa Review, March 1977.

[32]For example, the 250 million-ruble credit deal arranged for India in April 1977 was signed by the Soviet Foreign Minister, Andrei Gromyko, during his visit to India.

[33]Although some exports of Soviet machinery and equipment to LDCs have replaced deliveries of similar commodities from IMTEs, the marked difference between the amount of Soviet economic aid extended and the amount drawn indicates that LDCs are still not satisfied with a large portion of the commodities the USSR has chosen to offer under its economic aid programme.

[34]Leon M. Herman, 'The Political Goals of Soviet Foreign Aid', in Dimensions of Soviet Economic Power, compiled by the U.S. Congress, Joint Economic Committee, 87th Cong., 2nd. sess. (Washington, D.C.: U.S. Government Printing Office, 1962), pp. 478-479.

[35]'Soviet Revisionist New Tsars Use "Aid" to Stretch Their Claws into Asia, Africa and Latin America', Peking Review, No. 28, 11 July 1969, p. 24.

[36]Between 1954 and 1975, the USSR extended 18 percent of its foreign economic aid (credits and grants for LDCs) to India.

[37]Bhabani Sen Gupta, 'The Soviet Union and South Asia', in The Soviet Union and the Developing Nations, ed. by Roger E. Kanet (Baltimore, Maryland: John Hopkins University Press, 1974), p. 141.

[38]Financial Times, 30 October 1975, p. 24.

[39]Moscow Narodny Bank, Press Bulletin, 5 November 1975, p. 15, quoting American Banker, 29 October 1975.

[40]Journal of the US-USSR Trade and Economic Council, Vol. 2, No. 4 (October-November 1976), p. 8.

[41]Ibid.

[42]East-West Markets (Chase World Information), 7 February 1977, p. 8.

[43]Ibid.

[44]See Euromoney, March 1977, p. 49.

[45]Harold B. Scott, 'Special Report', Journal of the US-USSR Trade and Economic Council, Vol. 2, No. 4 (October-November 1976), p. 18.

[46]Euromoney, March 1977, p. 49.

[47]Moscow Narodny Bank, Press Bulletin, 3 December 1975, p. 13, quoting Agefi, 27 November 1975.

[48]Moscow Narodny Bank, Press Bulletin, 21 July 1976, p. 3, quoting Reuter East-West Trade News, 15 July 1976.

[49]Financial Times, 8 November 1977, p. 42.

[50]Arthur Andersen and Company, Executive Summary . . ., p. 30

[51]Moscow Narodny Bank, Press Bulletin, 23 April 1975, p. 12, quoting Ecotass, 31 March 1975.

[52]Moscow Narodny Bank, Press Bulletin, 28 September 1977, p. 15, quoting Reuter East-West Trade News, 21 September 1977.

[53]Moscow Narodny Bank, Press Bulletin, 25 January 1978, p. 15, quoting Reuter East-West Trade News, 18 January 1978.

[54]Until the mid-1960s the United States had a monopoly over a vast number of technological processes. If the USSR required a special type of machine Soviet traders often had to make their purchases in the United States (or go without). But this situation has changed. The USSR can now turn to Western Europe, Japan and the U.K. for imports of technology if conditions are unfavourable in the United States. In some cases the USSR is able to purchase commodities from foreign-based American subsidiaries. When the USSR purchases commodities from American subsidiaries in Western Europe, Japan and the U.K., Soviet traders are able to take advantage of the various government-backed financing schemes which exist in these countries.

[55]Financial Times, 7 March 1975, p. 4.

[56]Wall Street Journal, 24 July 1973, p. 14.

[57]Ibid.

[58]The Times, 19 November 1965, p. 18.

[59]Wall Street Journal, 4 March 1974, p. 6.

[60]Paul Einzig, The Destiny of Gold (London: MacMillan, 1972), p. 80.

[61]Wall Street Journal, 4 March 1974, p. 6.

[62]Moscow Narodny Bank, Quarterly Review (Summer 1974), p. 29.

[63]Wall Street Journal, 4 March 1974, p. 6.

[64]Christian Science Monitor, 15 August 1975, p. 1.

[65]East-West Markets (Chase World Information), 10 January 1977, p. 9.

[66]East-West Markets (Chase World Information), 7 March 1977, p. 7.

[67]U.S. Congress, Joint Economic Committee, Soviet Economic Problems and Prospects, 95th Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1977), p. 23.

[68]The estimate on gold sales of communist countries was published in The Times, 13 June 1978, p. 21. Our estimate for Soviet gold sales cannot be too far off as another source reported that the USSR sold about $1.6-billion worth of gold between January and November 1977; see East-West (Fortnightly Bulletin), 25 November 1977, p. 3.

[69]Wall Street Journal, 24 July 1973, p. 14.

[70]East-West Markets (Chase World Information), 10 January 1977, p. 9.

[71]The Times, 29 December 1975, p. 12.

[72]Michael Kaser, 'Soviet Union', International Currency Review, Vol. 8, No. 1 (January-February 1976), p. 49.

[73]*The Times*, 29 December 1975, p. 12.

[74]Kaser, 'Soviet Union', p. 49.

[75]*East-West* (Fortnightly Bulletin), 15 November 1977, p. 7.

[76]Moscow Narodny Bank, *Press Bulletin*, 31 May 1978, p. 13, quoting *Reuter East-West Trade News*, 17 May 1978.

[77]*Christian Science Monitor*, 15 August 1975, p. 1.

[78]*Wall Street Journal*, 24 July 1973, p. 14.

[79]International Monetary Fund (hereafter IMF), *Annual Reports* for 1958 (p. 146), 1959 (p. 151), 1960 (p. 145), 1961 (p. 126), 1962 (p. 157) and 1964 (p. 103).

[80]IMF, *1964 Annual Report*, p. 103.

[81]IMF, *1965 Annual Report*, p. 97.

[82]*Ibid*.

[83]IMF, *1966 Annual Report*, p. 113.

[84]*Ibid*.

[85]*The Times*, 19 November 1965, p. 18.

[86]*Ibid*.

[87]*Ibid*.

[88]Statement by the Director of the CIA, William E. Colby, in *Allocation of Resources in the Soviet Union and China*, compiled by the U.S. Congress, Joint Economic Committee, 93rd Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1974), p. 65.

[89]*Ibid*.

[90]Einzig, *The Destiny of Gold*, p. 92.

[91]Franz Pick, *Pick's Currency Yearbook 1972* (New York: Pick Publishing Corporation, 1972), p. 516.

[92]*Wall Street Journal*, 4 March 1974, p. 6.

[93]Franz Pick, *Pick's Currency Yearbook 1976-1977* (New York: Pick Publishing Corporation, 1978), p. 599.

[94]*East-West Markets* (Chase World Information), 10 January 1977, p. 9.

[95]U.S. Congress, Joint Economic Committee, *Soviet Economic Problems and Prospects*, 95th Cong., 1st sess. (Washington, D.C.: U.S. Government Printing Office, 1977), p. 23.

[96]*Ibid*.

[97]IMF, 1954 Annual Report, pp. 115-116.

[98]IMF, 1960 Annual Report, p. 149.

[99]IMF, 1964 Annual Report, p. 107.

[100]Ibid., p. 105.

[101]IMF, 1966 Annual Report, p. 117.

[102]IMF, 1964 Annual Report, p. 103.

[103]The Times, 2 April 1966, p. 7.

[104]Wall Street Journal, 4 March 1974, p. 6.

[105]East-West Markets (Chase World Information), 7 March 1977, pp. 7-8.

[106]J. Wilczynski, Comparative Monetary Economics (London: MacMillan, 1978), p. 154.

[107]Wall Street Journal, 4 March 1974, p. 6.

[108]East-West Markets (Chase World Information), 7 March 1977, pp. 7-8.

[109]Wilczynski, Comparative Monetary Economics, p. 154.

[110]Financial Times, 20 November 1975, p. 4.

[111]John Farrell and Paul Ericson, 'Soviet Trade and Payments with the West', in Soviet Economy in a New Perspective, compiled by the U.S. Congress, Joint Economic Committee, 94th Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1976), p. 735.

[112]East-West Markets (Chase World Information), 7 March 1977, pp. 7-8.

[113]Wilczynski, Comparative Monetary Economics, p. 154.

[114]According to Vladimir Alkhimov, during the mid-1970s (roughly 1974-1976) uranium enrichment deals between the USSR and West European nations amounted to approximately $2 billion; see Journal of the US-USSR Trade and Economic Council, Vol. 2, No. 4 (October-November 1976), p. 8. Now of course the USSR did not receive $2 billion over the three-year period for enriching uranium from countries in Western Europe. This sum undoubtedly includes the price of importing the spent uranium into the USSR and the price of the exported (enriched) uranium destined for Western Europe. Nevertheless, Soviet hard currency earnings from uranium enrichment services amount to many millions of dollars. In 1974, it was reported that France concluded a $7-million contract with the USSR concerning the enrichment of 450 tons of French uranium ore at Soviet plants. A similar agreement was concluded between the USSR and a West German firm; see A. Voinov, 'Dolgosrochnoe ekonomicheskoe sotrudnichestvo sotsialisticheskikh i promyshlenno razvitykh kapitalisticheskikh stran', Planovoe khozyaistvo, No. 5, 1974, pp. 84-85.

[115]Overseas Trade Statistics of the United Kingdom, December 1976, p. 8.

[116]Gur Ofer, 'Soviet Military Aid to the Middle East--An Economic Balance Sheet', in Soviet Economy in a New Perspective, compiled by the U.S. Congress, Joint Economic Committee, 94th Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1976), p. 219.

[117]Ibid., p. 219n.

[118]Ibid., p. 223.

[119]Penelope Hartland-Thunberg, 'Soviet Bloc Borrowing from the West: Prospects and Implications', Strategic Review (Winter 1977), p. 56.

[120]Lawrence J. Brainard--vice-president and senior international economist for Bankers Trust Company--has recently estimated that at the end of 1976, Soviet imports under compensatory agreements ($6,356 million) amounted to about one-third of the USSR's (committed and outstanding) foreign indebtedness ($18,900 million); see Lawrence J. Brainard, 'Financing Soviet Capital Needs in the 1980s', in The USSR in the 1980s (Brussels: NATO, 1978), pp. 167 and 169. It should be noted that the $6,356 million represents total imports under compensatory agreements. Therefore, we should not treat the entire sum as part of the USSR's hard currency indebtedness (obviously some of the imports have been paid off). In addition, Brainard's estimate of Soviet foreign indebtedness seems quite high. (When import commitments [$4,800 million] are excluded the estimate [$14,100 million] becomes a little more realistic.) Nevertheless, Brainard made an important point: at this time a sizeable portion of the USSR's hard currency indebtedness includes imports under compensatory agreements. As we learned, such debts should be paid off via commodity deliveries from the USSR.

[121]Euromoney, March 1977, p. 49.

Der Spiegel: How does the monetary crisis affect the business of Soviet banks in the West?

Andrei Dubonossov: The instability in the Western monetary system has the same negative effect on the business of Soviet banks as it does on all other financial institutions which operate here.

Der Spiegel: Does that mean you favour a stable Western monetary system?

Andrei Dubonossov: Certainly, certainly. Stability is the basis for sound business.

Der Spiegel: As a Soviet banker are you not sensing a certain contradiction? You are worried about a system that you inwardly reject?

Andrei Dubonossov: I am not worried about it. My attitude coincides with the attitude of my country. In connection with the policy of co-existence, Western stability is of great significance for us.

Der Spiegel: What do you think--as a Soviet banker in the capitalist system--about Lenin's teaching that the destruction of the bourgeois economy is dependent upon the destruction of its payments system?

Andrei Dubonossov: One should not quote Lenin out of context.

--An excerpt from Der Spiegel's interview with the Soviet international banker Andrei Dubonossov.

CHAPTER V

SOVIET OPERATIONS IN WORLD FINANCIAL MARKETS

The Eurocurrency Market

The terms Eurocurrency market and Eurodollar market are often interchangeably used. The Eurodollar market as we know it today began developing in the mid-1950s. Eurodollars were first described as dollars held by financial institutions in the U.K. and Western Europe. The dollars began accumulating in British and European banks as a result of American foreign trade deficits, military expenditures and arbitrage.[1] However, Eurodollars are now commonly known as dollars held outside the United States. Indeed, there are (Euro-) dollar markets throughout the world. One method of providing funds for the Eurodollar market involves the placing of dollars in foreign banks. For example, an American investor may decide to withdraw dollars from his bank in the United States in order to make deposits in a Luxemburg bank. Another way of channelling dollars to the foreign currency market in Luxemburg is a little more complex. Let's assume that a London bank, as a result of a commercial transaction of one of its customers, has a credit balance with a bank in New York. Let us also assume that a businessman in Luxemburg asks his bank for dollars to finance the importation of commodities from the United States. In order to provide the funds for its client the Luxemburg bank accepts the dollar deposit transferred by the London bank from its account in New York. The reader should note that this operation has resulted in the creation of credit. The London bank still has a claim (i.e., on the Luxemburg bank instead of the New York bank) while the Luxemburg bank has a claim on the New York bank which can be used to finance the commercial operations of its client.

Eurodollars are preferred by both lenders and borrowers for a number of reasons. Firstly, the Eurodollar market is considered a worldwide market[2] that is not directly controlled by international organisations (e.g., the IMF) and national monetary authorities. Few governments place heavy restrictions on the amount of dollars deposited in domestic banks or the amount of dollars lent/re-deposited by these banks. In most cases Eurodollar lending does not call for an adherence to liquidity ratios which are established by national monetary authorities for other types of lending. Secondly, virtually all financial institutions (and individuals) have easy access to Eurodollars if they are prepared to pay market rates for such funds. Thirdly, as long as

Eurodollars remain convertible they represent a form of ready cash which can be used for any type of international financial transaction. Borrowers normally receive Eurodollars in the form of loans which are not tied to specific commodity purchases.[3] (In other words Eurodollar loans can be used in any way that suits the wishes of the borrower.) This freedom often induces the USSR to borrow Eurocurrencies instead of government-backed credits even though the interest rates for the former are higher than the latter.

The principal Eurocurrency markets are found in the U.K. (London); the United States (New York); Western Europe (Luxemburg, Paris, Frankfurt, Zurich, Rome, Amsterdam); Canada; Singapore and Japan (Tokyo). (The market for dollars in Asia is often referred to as the Asiadollar market.) Other Eurocurrency markets exist in the Bahamas, the Cayman Islands and Panama. In 1976, dollars comprised 78 percent of all funds in the Eurocurrency market.[4]

Early Soviet Operations in Eurocurrency Markets

For some time Western analysts thought that socialist financial institutions might have been responsible for founding the Eurodollar market. During the early 1950s Soviet and other CMEA foreign trade banks started shifting their dollar deposits from American financial institutions to banks in the U.K. and Western Europe. According to Paul Einzig, the conditions during the cold war might have induced CMEA banks to adopt such a policy.

> The view was widely held that their [i.e., the CMEA banks'] main object was to conceal from the American authorities the size of their dollar holdings by disguising them as the holdings of London or Paris banks. In re-depositing their dollars, Communist banks wished to safeguard themselves against the risk of a seizure of their funds by the United States authorities in case of

> an aggravation of the Cold War. The possibility of legal action taken by creditors of Imperial Russia to attach Soviet deposits might also have been in the minds of the Soviet authorities.[5]

On the other hand CMEA banks might have been attempting to establish a base for future Eurodollar operations in London and Paris. It should be noted that many central banks, commercial banks and large corporations throughout the world deposited dollars in U.S.-based banks in spite of the low interest rates prevailing in America. The reason behind this policy is quite clear: by depositing small sums in U.S.-based banks the depositors (as well as other organisations and individuals in the depositors' countries) would be in a position to request loans, credits and deposits from American banks at some future date. However, since American financial institutions (based in the U.S.) were prohibited from lending to communist countries under the Johnson Debt Default Act of 1934, there was little or no reason for CMEA countries to deposit dollars in the United States. But CMEA banks had much to gain by depositing their funds elsewhere. Indeed, by placing deposits in British and West European banks CMEA members assumed that financiers in the U.K. and Western Europe would soon feel obliged to place deposits in CMEA banks (both within the bloc and abroad) as well as extend loans/credits to CMEA trading organisations.

At the outset Soviet banks offered to deposit their dollars for interest charges below those prevailing in the free-market.[6] As a rule, these deposits were made on a short-term basis. When British and West European banks were offered dollar deposits at attractive rates they reduced the amount of dollars deposited by correspondent banks in the United States and started accepting dollar deposits from banks operating outside of the United States. Soon after Soviet banks had established themselves as lenders (or depositors) of Eurodollars these banks quickly started operating as borrowers. British and West European banks that accepted deposits from Soviet banks found it difficult to refrain from placing deposits in Soviet banks when rates were favourable. By 1963, Soviet foreign-based banks (i.e., the Moscow Narodny Bank and Banque Commerciale pour l' Europe du Nord) were operating on a fairly large scale as borrowers and lenders of Eurodollars but their position had changed from net depositors/lenders (vis-à-vis Western owned banks) to net borrowers.[7] Until the late 1960s Soviet operations in the Eurodollar market were primarily conducted on a short-term basis. However, as Soviet banks became known as scrupulous operators in Eurodollar markets such banks were able to obtain deposits on a medium-term basis.

Until recently the USSR has mentioned next to nothing about its operations in the Eurodollar market. (Of course, Soviet authors have attacked the so-called 'contradictions' of the Eurodollar market for some time.[8]) In the mid-1970s an article was published in Moscow Narodny Bank's Quarterly Review which provided a rather revealing account of the USSR's early operations in the Eurodollar market. The article was written by K. J. H. Robbie--a British economist working for Moscow Narodny. Although Robbie's statistical material is way out of date, the unique character of his article compels us to study some of the main points.

In the mid-1950s foreign currency deposits in Moscow Narodny Bank (MNB) and Banque Commerciale pour l' Europe du Nord (Eurobank) appeared to follow developments in Soviet foreign trade (see TABLE 5.1). Balances were built up as Western importers paid for Soviet commodities and balances were reduced when Soviet importers paid for Western goods. However, after 1957, deposit changes in both banks appeared to be influenced by other factors. According to Robbie, the marked increase in deposits in 1959 can be attributed to MNB's success in attracting foreign currency deposits from non-socialist sources.[9] However, Robbie offers no explanation for the decrease in deposits during 1958; a year when the USSR recorded a trade surplus with IMTEs.

TABLE 5.1

THE SOVIET UNION'S TRADE, AND DEPOSITS IN SOVIET-OWNED BANKS IN THE U.K. AND WESTERN EUROPE
(in millions of dollars)

Year	Change in deposits at Eurobank plus change in correspondent accounts (deposits) at Moscow Narodny Bank	The Soviet Union's trade balance with Western Europe, North America and Japan
1956	+ 48.1	+ 33.8
1957	+ 74.4	+ 54.0
1958	- 44.5	+ 59.1
1959	+ 304.1	+ 113.1
1960	- 19.4	- 47.0
1961	+ 99.4	+ 13.6

Source: K. J. H. Robbie, 'Socialist Banks and the Origins of the Euro-currency Markets', Moscow Narodny Bank, Quarterly Review (Winter 1975-1976), p. 29, quoting Annual Reports of Eurobank and Moscow Narodny Bank, and Direction of Trade.

TABLE 5.2 shows the marked difference in the size of deposits in MNB and Eurobank during the period 1955-1962. According to Robbie, the data suggest that socialist banks might have preferred to make wholesale foreign currency deposits[10] in Eurobank up until the late 1950s as Paris was considered a more developed Eurocurrency market than London at that time.[11] This would indicate that the proportion of foreign currency deposits in MNB connected with trade financing was most likely higher than the proportion in Eurobank from 1955-1958. Indeed, it is quite possible that Eurobank utilised a significant portion of these deposits from socialist countries for purposes other than trade financing (e.g., some of the funds were undoubtedly deposited/re-deposited in non-socialist banks).

TABLE 5.2

DEPOSITS IN SOVIET-OWNED BANKS IN THE U.K. AND WESTERN EUROPE (in millions of dollars)

Year	Deposits in Eurobank	Correspondent accounts (deposits) in Moscow Narodny Bank	Total
1955	115.0	23.5	138.5
1956	142.5	44.1	186.6
1957	215.3	45.7	261.0
1958	196.3	20.2	216.5
1959	377.5	143.1	520.6
1960	357.1	144.1	501.2
1961	422.4	178.2	600.6
1962	495.6	214.5	710.1

Source: Robbie, 'Socialist Banks . . .', p. 30, quoting Annual Reports of Eurobank and Moscow Narodny Bank.

As we can see from TABLE 5.3, during the mid- and late 1950s most of the deposits in MNB were placed by banks. According to Robbie, virtually all of these deposits were made by socialist banks.[12] In most cases the non-bank depositors were organisations connected with East-West trade. The reader will note that during the period under consideration the growth of bank deposits in MNB was quite erratic. This can be explained by the erratic nature of East-West trade as well as the re-channelling of funds by socialist banks to the Paris market.

We learned previously that during the mid-1950s MNB was primarily involved in financing East-West trade while Eurobank was conducting a fair amount of wholesale Eurocurrency business. However, it was not too long before MNB began operating in the wholesale market. On 28 February 1957, MNB deposited $800,000 in a London merchant bank. A little over six months later MNB made a deposit of $1 million in the same account. On 24 October 1957, MNB withdrew $1 million from the account in the merchant bank. According to Robbie, this was one of

TABLE 5.3

FOREIGN CURRENCY DEPOSITS IN MOSCOW NARODNY BANK (in pounds)

Year		Deposits by banks	Deposits by non-banks
1954	December	819,863	212,801
1955	June	313,255	218,062
	December	18,697	351,630
1956	June	1,251,945	455,805
	December	107,718	368,308
1957	June	15,653	373,363
	December	7,186,766	409,489

Source: Robbie, 'Socialist Banks . . .', p. 30.

the first concrete examples of MNB investing surplus dollars in a wholesale foreign-currency deposit market. In the early part of April 1958, a U.S.-dollar deposit account was opened in MNB in the name of a socialist bank. On 5 April 1958, Eurobank deposited $5 million in this account for a period of one month. On the 9th, 10th and 18th of April 1958, additional one-month deposits were made totalling $7 million. These funds provided MNB with the means to make further deposits both in the U.K. and abroad. On 5 April 1958, MNB deposited $5 million in the aforementioned London merchant bank. On 18 April an additional $5 million was deposited in the same bank 'at an adequate margin over the deposit rate'[13] (i.e., the London merchant bank offered MNB a higher rate of interest than MNB offered to its depositors). Within a short period of time MNB had opened accounts in two Canadian banks, another London merchant bank and a European bank. Most of MNB's deposits were made in U.S. dollars for a period of one month each.

Although MNB's wholesale Eurocurrency operations involved rather small sums ($5 million and below) during 1958, Robbie estimated that the bank's activities might have accounted for a 10 percent increase in the size of the London Eurocurrency market for that year. During the latter part of 1959, MNB's wholesale Eurocurrency operations increased significantly. This period perhaps marks the beginning of MNB's large-scale Eurocurrency operations both in the U.K. and abroad. TABLE 5.4 shows MNB's two-way Eurocurrency operations during 1959. In addition to the marked increase in the amount of dollar deposits made by MNB during 1959, the bank also increased the number of its deposit accounts as well as the amount of non-dollar deposits. At the end of 1959, MNB was dealing with about thirty banks in the wholesale Eurocurrency market. In contrast to the typical one-month Eurocurrency deposits which were made during 1958, deposits placed in MNB (as well as deposits made by MNB) had a wide range of maturities (e.g., call, 7 days, 14 days, and 1 to 6 months). Moreover, the size of individual deposits started growing in the late 1950s.

TABLE 5.4

EUROCURRENCY DEPOSITS BY BANKS
IN MOSCOW NARODNY DURING 1959
(in pounds)

Month	Deposits received[a]	Deposits re-lent[a]
End of January	1,999,559	2,231,495
February	5,774,605	6,031,131
March	5,811,269	6,043,205
April	6,335,274	6,567,210
May	4,170,214	4,580,722
June	17,832,584	18,219,259
July	15,641,946	16,229,333
August	19,969,814	20,222,277
September	21,050,750	21,551,346
October	25,145,718	28,510,601
November	30,247,873	31,610,777
December	28,243,919	28,226,598

[a]Differences between the columns can be attributed to such items as U.S.-dollar current accounts and holdings of currency notes.

Source: Robbie, 'Socialist Banks . . .', p. 32.

TABLE 5.5 shows the source of foreign currency deposits in MNB and the ways in which MNB used these funds. The reader should also take note of the various currencies which were deposited in MNB. A number of important conclusions can be drawn from TABLE 5.5. Firstly, the widespread assumption that Soviet foreign trade banks made large deposits in Canadian banks during the late 1950s and early 1960s is at least partially true. Secondly, although socialist banks provided 70 percent of MNB's dollar resources, only 40.4 percent of MNB's deposits in socialist banks were comprised of dollars. We should also note that virtually all of MNB's non-dollar deposits were made in socialist banks. These facts clearly indicate that CMEA banks were more interested in obtaining non-dollar funds during this period. The increase in the amount of trade between CMEA and the U.K. and Western Europe provided the basis for such borrowing activity.

Robbie's article went a long way towards explaining the early Eurocurrency operations of Soviet foreign-based banks (SFBBs). However, it was inevitable that the article could go no further. After the early 1960s Soviet trade with the West grew significantly and both the size and number of SFBBs had to be increased in order to meet the rising Soviet demand for Eurocurrency financing. In addition to its own trade financing operations the USSR is required to assist CMEA members and other so-called 'friendly' nations (e.g., Vietnam, North Korea and Angola) with their trade financing activities. Nowadays it would not be surprising to learn that Bank of America deposited $1 million in MNB. However, if it could be proven that MNB placed the same $1 million in the central bank of Angola (or any number of other banks) the outcry would be deafening. But the clamour would not only come from Western politicians. Indeed, most financiers in all parts of the world would be appalled if such data were published.

If MNB's secrets were published what would stop someone from divulging Bank of America's lending and borrowing operations? For this very reason banking secrecy exists. Needless to say, both socialist and capitalist bankers (if the distinction is even possible) would have it no other way.

TABLE 5.5

CURRENCY COMPOSITION OF FOREIGN CURRENCY DEPOSITS IN MOSCOW NARODNY BY BANK CATEGORIES, DECEMBER 1959
(in percent)

Source of funds	U.S. $[a]	Sw. fr.	DM	BM[b]	B. fr.[c]	D. gl.[d]	All currencies
Socialist banks	70.0	56.8	3.0	-	-	-	58.0
U.K. merchant banks	-	-	-	-	-	-	-
U.K. international banks	8.0	43.2	83.5	100.0	100.0	100.0	31.7
Canadian banks	10.0	-	-	-	-	-	6.3
West European banks	2.0	-	10.5	-	-	-	3.4
Other banks	-	-	3.0	-	-	-	0.6
All banks	62.8	12.8	20.2	3.0	0.5	0.7	100.0

Uses of funds	U.S. $[a]	Sw. fr.	DM	BM[b]	B. fr.[c]	D. gl.[d]	All currencies
Socialist banks	40.4	100.0	97.4	-	100.0	100.0	62.2
U.K. merchant banks	4.0	-	-	-	-	-	2.5
U.K. international banks	30.3	-	2.6	-	-	-	19.5
Canadian banks	25.3	-	-	-	-	-	15.8
West European banks	-	-	-	-	-	-	-
Other banks	-	-	-	-	-	-	-
All banks	62.6	12.9	23.3	-	0.5	0.7	100.0

[a]The reader's attention should be drawn to the fact that the percentage figures for dollars listed under 'source of funds' do not add up to 100 percent (70.0 + 8.0 + 10.0 + 2.0 = 90.0) whereas in all other cases the percentage figures add up to 100 percent. Robbie did not offer an explanation for the missing 10 percent.

[b]Bekomarks--West German marks of limited convertibility.

[c]Belgium francs.

[d]Dutch guilders.

Source: Robbie, 'Socialist Banks . . .', p. 34.

Recent Soviet Operations in Eurocurrency Markets

Generally speaking, until the mid-1970s Vneshtorgbank did not obtain Eurocurrency loans from Western-owned banks[14] nor did the bank participate with Western-owned financial institutions in the granting of Eurocurrency loans to various countries. Throughout the 1950s and early 1960s Vneshtorgbank (and Gosbank) obtained Eurocurrencies through SFBBs. Since SFBBs were expected to operate like their Western-owned counterparts it was fitting that Soviet bankers in the West should handle all of the wheeling and dealing connected with Eurocurrency loans. Once SFBBs obtained Eurocurrency deposits such funds could be passed on to Vneshtorgbank. In the latter part of 1963 the International Bank for Economic Co-operation (IBEC) was set up in Moscow. The IBEC is jointly owned by CMEA members and one of its principal functions is promoting short- and medium-term trade between CMEA members via transferable ruble clearing accounts. However, the IBEC was also set up to operate in world financial markets. In the light of this fact the USSR gained indirect access to Eurocurrency funds in the mid-1960s via the IBEC. In 1970, the International Investment Bank (IIB) was set up in Moscow. The IIB is also jointly owned by CMEA members and its principal functions include the financing of industrial development in CMEA nations and the promotion of economic integration within CMEA. Like the IBEC, the IIB operates in Eurocurrency markets hence the USSR has indirect access to Eurocurrency resources via another CMEA organisation.[15]

In the latter part of 1974, Vneshtorgbank was trying to raise a $100-million Eurocurrency loan through a consortium of Western banks. According to one source that was Vneshtorgbank's first attempt to negotiate a Eurocurrency loan via a syndicate of (Western-owned) banks.[16]

During the first half of 1974, the USSR reportedly experienced some difficulty in obtaining supplier's credits from Western exporters. This might have been the reason behind Vneshtorgbank's entry into the market. By obtaining such a large sum, the USSR would have been in a position to pay off a number of Western exporters without being concerned about the availability or terms of individual supplier's credits. On the other hand Soviet officials may have reckoned that the time was right for Vneshtorgbank's entry into Eurocurrency markets in the light of Soviet schemes for future large-scale Eurocurrency operations. Vneshtorgbank was attempting to obtain the aforementioned loan for a period of five years at a rate of 1 percent over the London interbank offered rate (LIBOR).[17]

In February 1975, Vneshtorgbank received the $100-million loan which had been under negotiation since the latter part of 1974.[18] Just two months later Vneshtorgbank received a $250-million Eurocurrency loan via a consortium of over twenty French, American and other banks. The loan was granted for a period of five and one-half years at 1 1/8 percent over LIBOR.[19] Between the latter part of 1975 and the early stages of 1976, Vneshtorgbank received a five-year $400-million Eurocurrency loan from a consortium of banks.[20] Then in July 1976, Vneshtorgbank received a five-year $250-million Eurocurrency loan.[21] Thus within a period of about eighteen months Vneshtorgbank raised $1 billion in the Eurocurrency market alone.

It is well worth noting that the sharp increase in Soviet Eurocurrency borrowing which took place during 1975 and 1976 might have been unplanned. Just prior to this period Soviet officials had every right to be pleased with developments in the USSR's trade with the West. Indeed, the growth of Soviet exports to the West and the availability of funds in Eurocurrency markets indicated that conditions could not be much better for the importation of large amounts of Western machinery and equipment into the USSR. But the situation soon turned sour. Alec Nove aptly explains what happened:

> Then in 1975 came a shock: Soviet exports fell, as a result of the Western recession, while imports rose steeply, partly as a result of orders already placed, and partly as a consequence of the deplorable harvest of 1975, which led to very large purchases being made in the United States and Canada. To cap everything, the price of gold fell. Therefore the Soviet Union ran into short-term payments difficulties and its debt increased steeply.[22]

From August 1976 to February 1978, Vneshtorgbank did not receive any publicly announced Eurocurrency loans. Now this might lead one to conclude that Soviet officials had become quite concerned about the USSR's hard currency indebtedness by the middle of 1976. However, before reaching any conclusions we should take a closer look at the problem. It is necessary to keep in mind the fact that 1975 was the last year of the 1971-1975 Five-Year Plan and Soviet officials were most likely reluctant to jeopardise the fulfilment of planned economic objectives by restricting imports from the West. Therefore, despite the aforementioned adverse economic conditions during 1975, Soviet officials must have reckoned that, all things considered, it was far more important to increase the country's hard currency indebtedness than to slow down the country's economic development. The $400-million loan, and the $250-million loan which followed in July 1976, could have been earmarked for imports from IMTEs under the new (1976-1980) Five-Year Plan. Moreover, it is conceivable that these two loans (plus other credit facilities available to the USSR) were sufficient to finance (planned) imports from the West up until the early part of 1978.

There are other reasons to indicate that the temporary cessation of publicly announced Eurocurrency loans to the USSR could have been the result of factors not connected with the assumption that the Soviets were getting concerned about the country's rising hard currency indebtedness. Firstly, although Soviet banks continued to receive relatively favourable terms on Eurocurrency loans throughout the mid-1970s, the cost of borrowing increased between April 1975 and November 1976. When Soviet borrowers resumed their operations in Eurocurrency markets in the latter half of 1975, the cost of a five-year Eurocurrency loan for the USSR stood at approximately 1 $^{1}/_{4}$ percent over LIBOR[23] (compared with 1 $^{1}/_{8}$ percent during the early part of the year). Any increase in the cost of loans induces borrowers to reassess their plans. As we learned, a number of government-supported lines of credit were extended to the USSR during the mid-1970s. We should also note that a fair amount of publicity about Soviet borrowing activities and indebtedness started to appear during the period under consideration. The USSR is naturally sensitive about such issues. In June 1976, three large American banks--Bank of America, Chase Manhattan Bank and Citibank--announced that they would not participate in a Eurocurrency loan for the USSR which was being negotiated at that time.[24] But there is little evidence that this reluctance was connected with Soviet payments problems. Such reluctance might well have stemmed from the fact that Soviet officials often demand the most favourable interest rates without giving Western creditors enough financial information to establish the risks of lending to the USSR. So, it is possible that Soviet authorities were not overly concerned about the country's hard currency indebtedness. However, Western reports regarding possible Soviet financial difficulties might have induced the Soviets to scale down their overt borrowing operations for a brief period.

As we learned, the USSR has access to hard currency via the IBEC and IIB. Since the IBEC and IIB are not wholly owned or legally controlled by the USSR (the share capital of the two banks is divided amongst all CMEA nations) it is difficult to classify the banks as

Soviet organs. But a number of Western critics argue that the USSR is in a position to greatly influence the operations of both banks. According to Glen Smith, 'the International Bank for Economic Cooperation is headquartered in Moscow and in many ways operates as an intrabloc subsidiary of the Foreign Trade Bank /̲Vneshtorgbank̲7 '.[25] However, most Westerners agree that in a legal sense the IBEC and IIB operate in Eurocurrency markets on behalf of the entire CMEA bloc. Hard currency funds lent to (or deposited in) the two CMEA banks become the responsibility of the banks' shareholders. This is extremely important for the USSR. In the event the USSR reaches its Eurocurrency borrowing limit in the eyes of Western creditors, hard currency can be made available to the USSR via the IBEC and IIB. If Soviet officials wish to lessen the impact of their borrowing activities in Eurocurrency markets they can request that the two CMEA banks obtain a portion of the total amount of hard currency needed (i.e., a concerted operation involving Vneshtorgbank and the IBEC and IIB). This might have happened in January 1976 when Moscow Narodny Bank reported that both Vneshtorgbank and the IIB received Eurocurrency loans. (The loan that the IIB received was valued at $350 million.) Part (or all) of the sum which was received by the IIB could have been subsequently channelled to Vneshtorgbank without most Western financiers knowing (or caring). Indeed, up till now the West has not been too concerned about what happens to hard currency funds in the IBEC and IIB as long as principal and interest payments are made on time. But this situation could be changing. Some Western bankers are starting to demand that CMEA banks provide information on how Eurocurrency funds will be used. Moreover, to offset the lack of Soviet data Western banks are now exchanging information (under the auspices of the BIS) on the state of the Soviet economy (see <u>East-West</u> /̲Fortnightly Bulletin̲7 16 May 1977, p. 8).

In March 1978, Vneshtorgbank received a $400-million loan from a consortium of Western banks. The loan was granted for a period of seven years at a rate of 3/4 percent over LIBOR.[26] The reader's attention should be drawn to the fact that while the duration of the loan was increased from previous norms (i.e., from five to seven years) the cost of borrowing fell sharply (i.e., fees over LIBOR fell from 1 1/4 percent to 3/4 percent).

In addition to being an active borrower in Eurocurrency markets Vneshtorgbank occasionally functions as a lender of hard currency (outside of the USSR). When lending Eurocurrency funds to foreign countries Vneshtorgbank usually joins banking consortia comprised of other Soviet banks, Western-owned banks and CMEA banks. During the latter half of 1975, Vneshtorgbank participated in two Eurocurrency loans for LDCs. On both occasions Vneshtorgbank functioned as a co-manager. (Remember that managers of Eurocurrency loans set the participation fees.) The first loan amounted to $150 million and was granted to Turkey. The second loan totalled $50 million and was granted to Argentina (see p. 247). According to some reports no Soviet exports were connected with the loan for Turkey.[27] In July 1976, Vneshtorgbank participated in a $600-million Eurocurrency loan for the IIB. Then in January 1977, Vneshtorgbank provided funds for a DM 150-million ($63-million) loan to Cuba. (For an account of Vneshtorgbank's borrowing and lending operations in Eurocurrency markets from January 1975-August 1978 see APPENDIX C.)

An Overview of the Structure and Operations of Soviet Foreign-Based Banks

The operations of SFBBs have grown considerably during the past decade. A sizeable portion of this growth can be attributed to the increase in financial transactions between East and West. However, it is interesting to note that SFBBs now ascribe part of their success (or failure) to operations which lie outside the confines of East-West trade.

As a rule, SFBBs are fully chartered credit and deposit institutions. Such banks operate according to the laws and banking norms prevailing in host countries. SFBBs are entitled to accept deposits from a wide range of sources and place deposits in a number of financial institutions. The granting of hard currency resources to organisations involved in East-West trade is one of the most important functions of SFBBs. In many cases SFBBs provide such resources to CMEA organisations on favourable (preferential) terms. According to one Soviet source:

> Banks of socialist countries conducting operations in Western countries have ever increasing opportunities to obtain resources from the capitalist financial market. As we know, the important objectives of these banks are to accumulate available resources and grant credits in foreign currency to socialist countries on favourable terms.[28]

SFBBs also play an important role in arranging and granting hard currency credits/loans to LDCs (see APPENDIX C). Small credits/loans are sometimes granted to LDCs by SFBBs alone. However, when large Eurocurrency loans are granted to LDCs, SFBBs participate along with Western-owned banks. On a few occasions SFBBs have granted loans to IMTEs (see APPENDIX C). Eurocurrency loans from SFBBs to socialist countries, LDCs and IMTEs are not necessarily connected with Soviet foreign trade. In some cases SFBBs function as managers (or co-managers) of Eurocurrency loans.

Although SFBBs are authorised to accept deposits from all types of persons such banks normally do not offer services to non-commercial depositors. However, there are always exceptions. For example if the president of General Motors Corporation or Chase Manhattan Bank wishes to open an account in Moscow Narodny Bank it is doubtful that his request would be denied. Employees of SFBBs are sometimes permitted to open deposit accounts. Moreover, some SFBBs offer their employees bank credit (on relatively favourable terms) for any number of reasons (e.g., automobile and home purchases).

Until the 1960s, SFBBs operated almost exclusively as middlemen between large Western commercial banks and state-controlled financial institutions in the USSR, other CMEA countries and LDCs. By operating in such a fashion SFBBs were often regarded as transfer organisations. (SFBBs would obtain financial resources from world markets and immediately transfer such funds to government-controlled banks.) Since SFBBs conducted most of their business with other banks, final borrowers in CMEA (e.g., FTOs) seldom came into contact with SFBBs. The situation is much the same today. As we learned, Soviet FTOs must conduct virtually all of their financial business through Vneshtorgbank. Moreover, most FTOs in other CMEA countries operate in the same fashion. This policy will probably not change for a good long time. It should also be mentioned that SFBBs still prefer to grant credits/loans to state-controlled (as opposed to private) banks in LDCs. However, in IMTEs (and in a few LDCs such as Singapore), SFBBs appear to be making more contact with final borrowers than ever before.

It is generally assumed that the primary function of most SFBBs is the financing of East-West trade. However, the day-to-day operations of individual SFBBs are by no means identical. For some time Moscow Narodny Bank (MNB) and Eurobank were responsible for selling quite a lot of Soviet gold in the West. But at the present time Wozchod Handelsbank in Zurich is considered the most active gold trader of all SFBBs. During the early 1970s MNB was quite active in the Eurobond market (i.e., the market for bonds denominated in Eurocurrencies). By the end of 1976, MNB had all but ceased its operations in the Eurobond market. On the other hand Eurobank still operates in the Eurobond market from time to time.

One might expect that SFBBs have common goals and operate in a fully integrated fashion. Of course, it would be extremely difficult to verify this assumption without gaining access to unpublished records of the banks' operations. We learned previously that MNB and Eurobank passed Eurocurrencies back and forth during the mid- and late 1950s. According to some sources, operations of this nature are still being conducted within the network of SFBBs.[29] Indeed, if Wozchod Handelsbank is offering a relatively favourable rate of interest for dollar deposits MNB might decide to withdraw its short-term dollar deposits from, say, an American bank and transfer these dollars to its account in Wozchod Handelsbank. A number of SFBBs sometimes participate in the same consortium loan. During January 1976, six SFBBs participated in a $350-million Eurocurrency loan to the IIB. Many other examples of SFBBs operating together can be found in APPENDIX C. It would also be reasonable to assume that a fair amount of rapport takes place between various SFBBs in the light of the fact that some SFBBs own share capital in other SFBBs. However, we should be careful about assuming that SFBBs were set up to operate within a tightly-knit network. This would imply that the operations of one SFBB are largely determined by the needs of other SFBBs. There is little reason to believe this. In all likelihood MNB would not place dollar deposits in other SFBBs (above a token sum) if such funds could be used more profitably outside of the network. Moreover, MNB might well withdraw its dollar deposits from, say, Wozchod Handelsbank and deposit these dollars in bank of America if the deposit rates paid by the American bank are higher. Now we should not rule out the possibility that at some future date Soviet officials might attempt to bring about a higher degree of cohesion between SFBBs. But such a move would run counter to banking norms in the West and would most likely undermine the USSR's carefully nurtured reputation in world financial markets.

It was mentioned previously that dividends from Soviet-owned companies in the West could become an important source of hard currency for the USSR. The available data on the operations of SFBBs suggest that the banks normally do not pay dividends to their shareholders. One of the few indications that SFBBs have ever sent dividends to their shareholders in the USSR appeared in a published interview with the Soviet international banker Andrei Dubonossov. When asked by Der Spiegel if Soviet banks in Western Europe always send a portion of their profits to Moscow, Dubonossov replied that these banks sometimes pay dividends[30] (presumably to shareholders in Moscow). However, Dubonossov may have been referring to dividends paid to Soviet shareholders for the purpose of increasing the banks' share capital. This is quite different from the actual transfer of funds to Moscow. As we shall learn, the net profits of SFBBs are sometimes used to increase the amount of share capital in these banks. But the transfer of funds to Moscow is not required for this operation. The banks' annual reports occasionally state that Soviet shareholders decided to use part of the profits to increase the amount of share capital in SFBBs. In addition, shareholders of SFBBs sometimes request that a portion of the profits be used to increase the banks' reserves.

It is generally accepted that Soviet officials are responsible for guiding the operations of SFBBs. According to some sources, a supervisory council is responsible for defining the broad objectives of SFBBs.[31] The supervisory council is based in the USSR and comprises representatives of SFBBs' shareholders. We would expect a number of supervisory-council members to be employed by Gosbank (including the state savings banks), Vneshtorgbank, Stroibank and selected

Soviet FTOs as these organisations are principal shareholders of SFBBs. In addition, employees of some SFBBs are conceivably members of the supervisory council since various SFBBs own share capital in other SFBBs (e.g., Ost-West Handelsbank owns share capital in MNB). So what role does the supervisory council play? In all likelihood supervisory-council members are not responsible for closely monitoring the operations of SFBBs. It would be almost impossible for supervisory-council menbers in Moscow to be aware of all the intricate day-to-day operations of SFBBs. Moreover, some supervisory-council members occupy top-level positions in Gosbank, Vneshtorgbank and other Soviet organisations. If these individuals were required to supervise the operations of SFBBs frequently they would have little time for other commitments. Therefore, it appears as though supervisory-council members have one primary function: presiding over the annual general meetings of SFBBs. This role enables supervisory-council members to evaluate the annual operations of SFBBs and appoint Soviet executives to various positions within these banks. On some occasions supervisory-council members visit SFBBs when annual general meetings are not being held. Such visits are often on an informal basis (i.e., supervisory-council members may pay short visits to SFBBs while serving with foreign trade missions). However, in other cases supervisory-council members are required to visit SFBBs for the purpose of presiding over 'extraordinary general meetings'. This normally indicates that marked changes must be made in the structure/operations of SFBBs.

As a rule, the day-to-day operations of SFBBs are supervised by Soviet executives holding key positions in these banks. The highest governing body in SFBBs is the board of directors. The members of individual boards of directors are selected at annual general meetings (or 'extraordinary general meetings'). Some members of the boards of directors opt to retire during the course of annual general meetings while others request an additional term. The period of service for directors of SFBBs differs widely. A few directors only serve with individual banks for two or three years while other directors spend over a decade with the same bank. For example, Sergei Alexeev served as a top-level executive in Eurobank for over fourteen years.[32]

Directors of SFBBs are often selected from the ranks of supervisory-council members while 'retired' members of SFBBs frequently serve as members of the supervisory council. Therefore, a director of MNB who served in London for, say, three years could be assigned to the supervisory council in Moscow. After working in the USSR for a few years this former director of MNB could be sent back to London for another three-year term. On the other hand the aforementioned director/supervisory-council member could be assigned to another SFBB (e.g., Wozchod Handelsbank) after serving with the council. This is quite common. It is also a well-known fact that a director of a SFBB can be reassigned to another SFBB without serving an interim term with the supervisory council. For example, Andrei Dubonossov retired from MNB and was promptly assigned to Ost-West Handelsbank in Frankfurt. In unusual cases a director of one SFBB can serve as a director of another SFBB at the same time. For example, during the mid-1970s O. N. Kulikov served as director in both MNB and Banque Unie Est-Ouest (Luxemburg).

Not all boards of directors of SFBBs follow the same organisational pattern. MNB's board of directors is solely comprised of Soviet citizens. Eurobank's board of directors includes both Soviet and French bankers. A French national functions as the chairman (president) of Eurobank's board of directors.[33] Wozchod Handelsbank also has a mixed (Soviet-Swiss) board of directors but in this case a Soviet citizen functions as chairman of the board.

A number of former directors of SFBBs are assigned to key posts in the USSR. Indeed, one almost gets the impression that SFBBs serve as proving grounds for top-level executives in Vneshtorgbank. For example, the following former directors of MNB have served (or are serving) as directors of Vneshtorgbank: V. A. Drovossekov, N. V. Nikitkin and A. S. Maslov. Former directors of SFBBs are also assigned to posts in Gosbank. G. I. Skobelkin--a former director of MNB--is currently functioning as the manager of Gosbank's foreign and economic research department. According to some sources, when Sergei Alexeev retired from Eurobank he became an advisor to the Chairman of Gosbank.[34]

Boards of management are responsible for carrying out the day-to-day operations of SFBBs. The managers (and deputy managers) operating in SFBBs are usually specialists in financing trade between the USSR and specific geographic areas. All of the larger SFBBs employ bankers who have expert knowledge of financial conditions in the following areas: Africa, Asia, Eastern Europe, Latin Amercia, North America, the U.K. and Western Europe.

The managers of SFBBs are theoretically supervised by members of the boards of directors. As a rule the boards of management of SFBBs are dominated by local nationals. There are at least two reasons for this policy. Firstly, the USSR is unable to assign its citizens to SFBBs without the approval of local authorities. It is doubtful that local authorities would agree (at this time) that all (or most) management positions in SFBBs should be occupied by Soviet nationals. Moreover, local bank employees (especially members of bank unions) might argue that an increase in the number of Soviets in SFBBs could lead to an increase in the number of unemployed local bankers. Secondly, it would be difficult for the USSR to provide Soviets who are thoroughly familiar with conditions in Western financial markets. Such experience not only requires an excellent command of the language(s) of the host country but also many years of dealing with market forces in the Western world. An innocent mistake by a manager can often lead to a catastrophic situation. For obvious reasons Soviet officials wish to minimise the chances of unnecessary errors taking place within their foreign banking network. Therefore, local nationals appear to be the most logical candidates for management positions within SFBBs.[35] As Soviets become more adept at functioning in world financial markets it is conceivable that the USSR might attempt to increase the number of Soviet managers in SFBBs.

The employees of SFBBs not functioning as directors or managers (e.g., members of economics departments, foreign exchange dealers, legal advisors, clerks, librarians, secretaries etc.) are, in most cases, local nationals. As a rule, local nationals are placed in charge of individual departments in SFBBs.[36] The total number of personnel in individual SFBBs differs markedly. Some of the smaller SFBBs have less than 100 employees while a few of the larger SFBBs (e.g., MNB and Eurobank) employ around 300.

The economics departments in SFBBs are responsible for compiling and analysing data on economic conditions in local and world markets. The studies and reports of individual economics departments are often circulated throughout the Soviet international banking network giving a number of bankers and traders access to useful material. A portion of this material is sent to institutions in the USSR. The chief economists in SFBBs usually serve as advisors to the bank's directors. Some economics departments even function in a public capacity. For example, MNB employs six or seven economists who are responsible for publishing a Press Bulletin and Quarterly Review in addition to their other activities. The Press Bulletin is published each week and contains material from non-Soviet sources on general developments in East-West trade, translated articles from the Soviet press, interviews with Soviet traders and bankers, various seminars on East-West commerce, official ruble exchange rates and foreign trade statistics from a wide range of Eastern and Western nations. Approximately 1,500 Press Bulletins are sent each week to selected trading companies, banks, universities and individuals. MNB's Quarterly Review is highly regarded by economists in the U.K. and abroad. As a rule, the Quarterly Review is not primarily concerned with East-West trade. It normally contains a commentary on general trends in world markets, and articles on foreign currencies (e.g., the dollar, the Deutsche mark, the pound sterling, the Swiss franc, the Japanese yen etc.) and gold. (Soviet gold production, sales and reserves are not mentioned in these articles.) In addition, some interesting articles on Soviet companies in the West and Soviet operations in Eurocurrency markets have been published in MNB's Quarterly Review. Eurobank also publishes a press bulletin and quarterly review.

Since their inception SFBBs have functioned as contact centres for Soviet and Western traders. When travel to and from the USSR was difficult, SFBBs saved traders a great deal of time and money by participating in the negotiation of contracts. Since Soviet traders now have good access to Western companies, and businessmen in the West are more or less free to visit the USSR, it might be reasonable to assume that SFBBs have lost some of their importance as East-West contact centres. However, SFBBs will probably continue to be convenient centres for Soviet and Western businessmen to meet. Although the USSR does not maintain diplomatic and commercial relations with the Republic of South Africa at this time, Soviet leaders could eventually decide that it is advantageous to buy uranium (directly) from South Africa. Now it is a fair assumption that contracts connected with such imports would not be negotiated in Pretoria, Cape Town or Moscow. However, since Soviet and South African traders presently conduct a fair amount of their international business in the U.K. and Western Europe, SFBBs could become key negotiating centres for uranium deals between the two countries. It should also be mentioned that Soviet and South African traders share common interests as major producers of gold and diamonds. It is possible that these traders meet on occasion in order to discuss developments in gold and diamond markets. SFBBs represent ideal meeting places for such discussions (especially those connected with gold).

We learned previously that the USSR occasionally stores quite a lot of gold in the vaults of SFBBs. It would seem logical that such gold would be eventually sold. But under some conditions the USSR might be able to profit from its gold stocks in the West without removing the gold from vaults in SFBBs. Let's assume that at some point it would be more advantageous for the USSR to finance its trade deficits via Western credits than by selling gold (e.g., when credit is cheap and the price of gold low). If the USSR is not in a precarious financial position Soviet importers would probably be able to obtain Western credits quite easily (especially in a buyer's market). However, if Western lenders should ever have doubts about the USSR's creditworthiness they might start demanding some form of collateral before granting credits to Soviet FTOs. Under such conditions the vaults in SFBBs could be opened up for selected Western bankers. Once Western lenders are convinced that the USSR has enough gold in the West to cover principal and interest payments they would most likely offer credits to the USSR on relatively favourable terms.

Moscow Narodny Bank Ltd.

On 18 October 1919 the Moscow Narodny Bank Ltd. (MNB) was established in London. The adverse political and economic conditions during the 1920s hampered the bank's development. However, by the mid-1920s Soviet trade with IMTEs started to increase rapidly which resulted in a fair amount of new business for MNB. As a consequence of the growth in Soviet foreign trade MNB set up a branch in Paris in 1925, an agency in New York in 1926, and a branch in Berlin in 1928. At the end of 1929, MNB's total assets exceeded £8 million.[37]

The marked decrease in Soviet foreign trade during the mid- and late 1930s greatly reduced the operations of MNB. From 1934-1935, MNB's branches in Paris and Berlin were closed down and the bank's shareholdings in various financial institutions (e.g., the Transit Bank of Riga, the Svenska Bank, the Far Eastern Bank and Banque Commerciale pour l' Europe du Nord) were sold. The decline in American-Soviet trade resulted in the closing of MNB's agency in New York. In 1932, MNB's share capital stood at £1,750,000. By 1937, the bank's share capital had fallen to £525,000.[38]

After World War II, MNB's operations began to expand. At the end of 1948, MNB's total assets stood at £15.5 million, compared with only £1.5 million at the end of 1945. However, the improvement in MNB's activities was short-lived. In May 1950, MNB closed its Shanghai branch which had been set up in 1934. By the end of 1952, MNB's total assets only amounted to £6 million.[39]

MNB's growth after 1952 has been quite steady. Indeed, except for a slight setback in 1958, MNB's total assets have increased each year since 1952.[40] TABLE 5.6 shows the growth in MNB's activities after 1959. The most noteworthy period of growth took place from 1971-1976,

TABLE 5.6

DEVELOPMENT OF MOSCOW NARODNY BANK, 1960-1976
(in millions of pounds)

Year	Total assets	Advances to customers, including bills discounted	Correspondents' accounts (deposits) with the bank
1960	55.6	36.3	51.4
1961	78.1	54.4	63.6
1962	103.9	64.7	76.6
1963	185.8	140.7	158.3
1964	204.8	134.9	172.8
1965	233.1	197.5	197.1
1966	251.0	178.2	209.6
1967	299.5	191.3	245.5
1968	322.3	261.0	270.6
1969	331.9	235.0	273.9
1970	363.9	275.7	318.8
1971	391.8	284.6	340.4
1972	584.8	454.3	462.7
1973	835.9	671.9	706.9
1974	1,116.2	NA	NA
1975	1,213.5	NA	NA
1976	1,518.3	NA	NA

Sources: Moscow Narodny Bank, Fiftieth Anniversary Year, October 1919-October 1969 (Stevenage Herts: The Bay Tree Press), p. 10; and Moscow Narodny Bank, Annual Reports, 1972-1976.

when MNB's total assets increased from £391.8 million to £1,518.3 million; an increase of 288 percent. During the period 1960-1973, funds included in the category 'advances to customers, including bills discounted' fluctuated between 62 percent of total assets (1962) and 85 percent (1965). Throughout the same period the funds included in the category 'correspondents' accounts with the bank' fluctuated between 92 percent of total liabilities (1960) and 74 percent (1962). The reader should note that MNB established a branch in Beirut in 1963, and a branch in Singapore in 1971. In the light of this information it is interesting to note that MNB's total assets only increased by 10 percent from 1963-1964, while the bank's total assets increased by

49 percent from 1971-1972. However, MNB was financing quite a lot of trade between CMEA and the Middle East before the Beirut branch was set up.[41] This would explain the modest increase in MNB's activities following the establishment of the branch. On the other hand, MNB's operations in Singapore and surrounding areas were rather limited until the establishment of the Singapore branch. As a result, a marked increase in MNB's total assets followed the establishment of this branch.

We should now turn our attention to the assets side of MNB's balance sheet for 1976 (TABLE 5.7). The sum representing 'advances to customers and other accounts' comprised 75 percent of MNB's total assets at the end of 1976. Since MNB is primarily involved in the financing of East-West trade, a sizeable portion of the £1,132.3 million is most likely channelled to foreign trade banks in CMEA countries. As we learned, banks operating in the West can grant loans to CMEA banks or place deposits in these socialist banks. However, from MNB's balance sheet there is no way of telling the way in which CMEA banks receive hard currency funds. MNB also grants loans to LDCs and IMTEs (see APPENDIX C). On occasion MNB grants loans to final borrowers (as opposed to banks). For example, in the early part of 1975, MNB's Beirut branch participated in a $40-million Eurocurrency loan to the Middle East Airlines.

Since 1973, MNB has not published data which would enable analysts to calculate the bank's 'advances to customers' as well as the sum representing 'other accounts'. (It is possible that MNB classifies organisations involved in East-West trade as its 'customers'.) According to MNB's <u>1973 Annual Report</u>, the sum in the category 'advances to customers, including bills discounted' amounted to £671.9 million. The report also stated that 'advances to customers and other accounts' amounted to £669.7 million while the sum in the category 'bills dis-

TABLE 5.7

BALANCE SHEET OF MOSCOW NARODNY BANK, LTD., INCLUDING THE BRANCHES IN BEIRUT AND SINGAPORE, 31 DECEMBER 1976 (in pounds)

Assets	
Cash in hand and at banks	15,506,000
Money at call and short notice	157,595,000
Short-term deposits	60,409,000
British and other government treasury bills	5,076,000
Investments:	
British government and other quoted securities	3,857,000
Unquoted securities	4,684,000
Bills discounted	110,313,000
Advances to customers and other accounts including amounts due from subsidiaries (£300)	1,132,266,000
Bank property including furniture and fittings and motor cars at cost less depreciation	5,968,000
Liabilities of customers for obligations as per contra	22,633,000
Total	1,518,307,000
Liabilities	
Capital:	
Authorised: 40,000,000 ordinary shares of £1 each Issued: 36,500,000 ordinary shares of £1 each fully paid	36,500,000
Reserve account	7,800,000
Profit and loss account	10,000
Current, deposit and other accounts including provision for taxation and inner reserves and amounts due to subsidiaries	1,451,364,000
Obligations for account of customers as per contra	22,633,000
Total	1,518,307,000

Source: Moscow Narodny Bank, 1976 Annual Report.

counted' totalled £88.7 million. If we subtract £88.7 million from £671.9 million we learn that 'advances to customers' amounted to £583.2 million (or 87 percent of 'advances to customers and other accounts'). Now if we subtract £583.2 million from £669.7 million we learn that 'other accounts' totalled £86.5 million (or 13 percent of 'advances to customers and other accounts'). In the event that significant changes have not taken place in the structure of MNB's balance sheet we can calculate that 'advances to customers' in 1976 amounted to roughly £985.1 million (87 percent of 'advances to customers and other accounts'). However, significant changes might well have taken place in MNB's balance sheet. Perhaps the funds included in 'other accounts' began to increase markedly (vis-à-vis 'advances to customers') after 1973. We will learn a little later that this might have happened when MNB's Singapore branch stepped up its operations in the Asian real estate market.

In addition to granting loans, MNB discounts bills of exchange and promissory notes for CMEA and Western traders. The sum for 'bills discounted' comprised 7 percent of MNB's total assets at the end of 1976. When CMEA banks grant credit (on behalf of CMEA exporters) to Western importers such banks receive bills of exchange and promissory notes which have been signed by the Western importers. These bills and notes can either be held until maturity or they can be discounted in Western money markets. If a CMEA bank needs liquid resources (cash) such bills and notes can be discounted in, say, MNB. As a result of this operation the CMEA bank receives liquid resources and MNB obtains negotiable instruments which can either be held until maturity or rediscounted in the money market. Of course, if the bills and notes are held until maturity MNB stands to gain a fair amount from interest charges. Now to look at this subject a little differently, let's assume that a Soviet importer sends a promissory note to a Western exporter. Let's also assume that the Western exporter does not wish to hold the note until it matures. Under such conditions the promissory note can be discounted in, say, MNB. Now if MNB holds the note until it matures MNB is in a position to present this note to Vneshtorgbank for collection. We should note that the interest payments from the Soviet Union have been used to promote the development of the Soviet international banking network. If the Western exporter had decided to present the note to a Western bank for discounting, the Western bank would have collected interest payments from the Soviet Union.

Funds in the categories 'cash in hand and at banks' and 'money at call and short notice' comprised 11 percent of MNB's total assets at the end of 1976. This proportion is about average for a commercial bank. In addition to its liquid resources, MNB has 4 percent of its total assets in short-term (anywhere from 30 to 360 days) deposit accounts. These accounts can be in any number of banks both within and outside CMEA.

It is interesting to note that MNB started operating in the market for British and other government treasury bills during 1974. Between the end of 1975 and the end of 1976, MNB's holdings of British and other government treasury bills fell from £5,108,000 to £5,076,000. MNB's investments in British government and other quoted securities have fallen markedly since the early 1970s. At the end of 1971, MNB's investments in this category amounted to £28,897,506 (or 7 percent of total assets). By the end of 1976, MNB's investments in British government and other quoted securities stood at £3,857,000 (or 0.3 percent of total assets). MNB's holdings of unquoted securities (most likely share capital of Soviet companies in the West) started appearing in MNB's 1973 Annual Report. At the end of 1973, MNB's holdings of unquoted securities amounted to £663,138 (or 0.1 percent of total assets). By the end of 1976, MNB's holdings of unquoted securities stood at

£4,684,000 (or 0.3 percent of total assets).

We should now turn our attention to the liabilities side of MNB's balance sheet (TABLE 5.7). Funds in the category 'current, deposit and other accounts' comprised 96 percent of MNB's total liabilities at the end of 1976. Since 1973, MNB has not published data on the amount of funds deposited by 'correspondents'. In 1973, funds included in the category 'current, deposit and other accounts' amounted to £806.2 million. 'Correspondent accounts' with MNB in 1973 totalled £706.9 million (or 88 percent of 'current, deposit and other accounts'). If significant changes have not taken place in the structure of MNB's balance sheet we can estimate that 'correspondent accounts' with MNB in 1976 amounted to approximately £1,277.2 million (88 percent of £1,451.4 million).

TABLE 5.8 shows MNB's profit and loss accounts from 1972-1976. Since the early 1970s there have been modest increases in MNB's profits each year. As we learned, dividends are seldom paid to Soviet shareholders. (MNB's principal shareholders include Gosbank, Vneshtorgbank, Stroibank, Tsentrosoyuz, Eksportles, Eksportkhleb, Ingosstrakh, Mashinoeksport, Prodintorg, Soyuznefteeksport, Raznoeksport, Soyuzkhimeksport and Stankoimport.[42]) During the period 1972-1976, almost all of MNB's net profits were channelled to the reserve account. After transferring a large share of the net profit to the reserve account MNB's directors often propose that such funds be used to increase the bank's share capital. From 1972-1976, MNB's (paid-up) share capital increased from £7 million to £36.5 million. Part of this increase can be attributed to annual bonus issues of share capital (on the basis of funds in the reserve account) which took place between 1972 and 1976. For example, in 1975, MNB's directors proposed the issuance of 1 million, one-pound shares to the bank's shareholders on the basis of funds in the reserve

TABLE 5.8

PROFIT AND LOSS ACCOUNTS OF MOSCOW NARODNY BANK, 1972-1976
(in pounds)

	1972	1973	1974	1975	1976[a]
Balance brought forward	9,964	24,532	27,071	36,912	13,000
Net profit for the year, after taxation based thereon including corporation tax at 52 percent (49 percent in 1973, and 40 percent in 1972), and after making transfers to and from inner reserves, out of which provision has been made for diminution in the value of assets	1,214,568	1,302,539	1,359,841	1,425,829	1,497,000
Less:					
Proposed transfer to reserve account	1,200,000	1,300,000	1,350,000	1,450,000	1,500,000
Balance carried forward	24,532	27,071	36,912	12,741	10,000

[a]Figures have been rounded off.

Sources: Moscow Narodny Bank, Annual Reports, 1972-1976.

account. From 1975-1976, MNB's share capital increased from £15.5 million to £36.5 million. This increase was largely the result of the issuance of £20-million worth of share capital (20 million shares at one pound each) which was paid for in cash. The majority of these shares were probably purchased by Gosbank and Vneshtorgbank.

At the end of 1976, MNB owned 100 percent of the share capital in four companies. The companies are as follows: Monab Nominees Pte. Ltd. (Singapore), Mosnar Investment Holding Co. Ltd. (U.K.), Mosnar Securities Ltd. (U.K.), and Popular Nominees Ltd. (U.K.). In addition, MNB owns share capital in two SFBBs--Banque Unie Est-Ouest and Wozchod Handelsbank. At the end of 1976, MNB owned 26 percent of the share capital in Banque Unie and 17 percent of the share capital in Wozchod Handelsbank.

In 1976, MNB's board of directors comprised eight Soviet citizens. The board included one chairman and managing director, two deputy chairmen, and five directors. One deputy chairman functioned as the head of the Singapore branch, and one director functioned as the head of the Beirut branch. The salary of MNB's chairman and managing director amounted to £21,560 in 1976. The salaries of the remaining members of the board fell between £2,501 and £22,500. It might be interesting to note that MNB's directors are permitted to own a small portion of the share capital in the bank (usually one to five shares).

During the last two decades the operations of MNB have appeared quite frequently in Western press reports. This is not unusual in the light of the fact that MNB is perhaps the best known Soviet bank in the West. Most of the press reports on the activities of MNB have been connected with the bank's day-to-day operations (e.g., MNB's participation in a consortium loan to a CMEA bank). However, since the early 1970s MNB has received a lot of unwanted press coverage. We learned previously that economists in MNB are responsible for writing reports on gold in the bank's Quarterly Review. In the summer of 1972, one of MNB's economists stated in the Quarterly Review that if all South African gold output was sold the price of gold would be about $50.00 per ounce. (At that time gold was selling for about $66.00

per ounce.) The statement follows:

> . . . the price which would prevail if all South African output were sold is around $50 per ounce, and this price (corrected for inflation) should, everything being equal, be re-established when and if South Africa resumes a full sales policy.[43]

The statement was most likely valid but it nevertheless created numerous problems. Soon after the Quarterly Review was published the price of gold reportedly dropped from $66.00 per ounce to $61.25. According to Western reports it was not South African sales that reduced the price but the statement in MNB's Quarterly Review. Western reporters lost no time in making the most out of this issue. One reporter was able to capture the sentiments of Eduard P. Gostev, the head of Wozchod Handelsbank. When asked what he thought of MNB's statement Gostev replied 'I think it's nutty'.[44] Since Wozchod Handelsbank has been responsible for selling quite a lot of Soviet gold, Gostev's sentiments were probably even more acrid when he was discussing the issue with Soviet bankers. Another Western reporter, realising that a Soviet economist might have been responsible for the drop in the price of gold, used the issue to criticise the entire Soviet economic system.

> So quite possibly, some poor Moscow Narodny economist is being advised to learn more about market economics or prepare to spend the winter in Moscow. If so, however, such censure would hardly be fair. If his own government knew something about market economics it would know that the application of a market system in Russia itself could go a long way towards making life more comfortable. Then being sent home might not be a punishment.[45]

Throughout the latter part of 1975 and the early part of 1976, MNB received quite a lot of publicity over the case involving the Austrian financial institution Creditanstalt-Bankverein and a consortium of British and other banks. MNB functioned as a member of this consortium. During 1973 and 1974, the aforementioned consortium supplied funds for a commercial deal on the basis of letters of credit issued by Creditanstalt. In 1975, Creditanstalt failed to honour all of its financial obligations connected with the letters of credit. As a result, Moscow Narodny officials decided to block Creditanstalt's access to $3 million which Creditanstalt had placed in a deposit account in MNB. According to some reports MNB offered to hand over the $3 million to a British court until the matter was settled. However, Creditanstalt rejected this proposal and issued a writ against MNB. After conferring with their legal staff, Moscow Narodny officials decided to turn the $3 million over to Creditanstalt. The case will eventually be decided in the Austrian courts.[46]

We learned previously that MNB established a branch in Singapore in 1971. At the end of 1972, it was announced that the Singapore branch had increased MNB's total assets and profit by quite a large margin.[47] However, this increase was not solely connected with the financing of East-West trade. Indeed, MNB's 1972 Annual Report stated that the Singapore branch was 'actively involved' in operations other than those connected with the financing of East-West trade. Although the Singapore branch was involved in a lot of business outside the confines of East-West trade, Moscow Narodny officials in London appeared to be convinced that such activity was being conducted in a sagacious manner.

> The Bank [i.e., MNB] is indeed fortunate in having in this territory [i.e., in Singapore] a Management who have the experience and capacity to deal with the many intricate problems connected with the successful inauguration of a new enterprise.[48]

Moscow Narodny's 1973 Annual Report also contained evidence that the operations of the Singapore branch were expanding rapidly. Moreover, Moscow Narodny officials in London were still confident that the Singapore branch was operating sagaciously: 'Our Branch's interests are well diversified and fully secured'.[49]

On the basis of early reports Soviet officials had every right to be pleased with the operations of MNB's branch in Singapore. According to one source, within two years the branch became one of the largest banks in Singapore. At the end of 1973, the 'earning assets' of

MNB's Singapore branch amounted to approximately $588 million. This sum represented 14 percent of the 'earning assets' of all banks in Singapore.[50] Soviet officials could also proudly point out that the lending operations of MNB's branch greatly exceeded those of the First National City Bank's branch in Singapore.[51]

The euphoria connected with the success of MNB's Singapore branch was short-lived. At the end of 1975, MNB announced that its Singapore branch was forced to cover 'bad and doubtful debts'.[52] A number of these 'bad and doubtful debts' were connected with the branch's dealings with Mosbert Holdings--a Hong Kong company. In 1972, Amos Dawe--the former chairman of Mosbert Holdings--and Teo Poh Kong--the former manager and advisor of MNB's Singapore branch were introduced. Dawe was interested in obtaining loans for property development in Asia and Teo Poh Kong considered property development as the most profitable form of (long-term) investment. The match was perfect. Between 1972 and 1975, the Singapore branch granted Mosbert credits/loans totalling $61 million. This sum represented approximately 75 percent of all credits/loans granted to Mosbert.[53]

Mosbert Holdings collapsed in 1975 and MNB's Singapore branch was left holding the bag. MNB's losses as a result of the Mosbert collapse could amount to millions of dollars.[54] However, the embarrassment connected with the affair was probably more damaging than any pecuniary losses. Indeed, for three years MNB's Singapore branch was dealing closely with a company which, according to Bank of America, had engaged in 'fictitious, fraudulent and dishonest transactions'.[55] Moreover, a few critics suggested that the MNB-Mosbert connection was part of a Soviet plot to infiltrate the Chinese business community in Hong Kong.[56]

The Soviets are currently attempting to improve the reputation of MNB's branch in Singapore. The branch is now under the direction of a Soviet managing director and two Soviet deputy general managers. (The branch was previously run by a Soviet general manager, a Soviet deputy general manager, and a local manager and advisor.) Teo Poh Kong no longer works for MNB.[57] In addition, Moscow Narodny officials announced that the entire profit of the Singapore branch for 1976 was utilised to cover some of the 'bad and doubtful debts'.[58] Moreover, one of MNB's shareholders (presumably Gosbank or Vneshtorgbank) made deposits in the Singapore branch in order to strengthen the branch's position. Interest payments for these deposits will only come from future profits of the branch.[59] A brief statement from MNB's new chairman and managing director, O. N. Kulikov, gives one the impression that the Singapore branch's operations (at least for the meantime) will be closely monitored from London (or Moscow).

> Our Branch in Singapore has gone through a period of necessary retrenchment in its activities to allow for the reinforcement of the branch's organisation and improvement of the structure of its operations. I am confident that the measures we are taking and the support given will enable the branch to strengthen its position.[60]

On 21 December 1976, MNB's shareholders held an 'extraordinary general meeting' in London. The members of the meeting included Vladimir Alkhimov (Chairman of Gosbank) and A. R. Makeev (Deputy Chairman of Vneshtorgbank). During the course of the meeting (or perhaps before) S. A. Shevchenko--the chairman and managing director of MNB since the early 1970s--and S. A. Ovseitchik--the former general manager of the Singapore branch--resigned from MNB. In all likelihood Shevchenko and Ovseitchik will not serve with another SFBB. The new chairman and managing director of MNB is now responsible for clearing up any remaining problems in Singapore as well as improving the reputation of MNB. With little doubt, one of Kulikov's principal goals is to convince the world banking community that MNB is truly a bank which is preoccupied with the financing of East-West trade. According to MNB's 1976 Annual Report:

> The Bank's principal function continues to be the fostering and financing of East-West trade, and it is on the development of this trade that our prosperity firmly rests.

Mosbert Holdings was by no means the only company that created problems for MNB. In August 1977, it was announced that MNB lent a British munitions company--Cylinder Formings Ltd.--£2 million over a seven-year period (1971-1977). MNB first started lending to Cylinder Formings when the company was involved in the production of machine-tools. However, when Cylinder Formings switched over to munitions, MNB still kept up its business connections with the company. Some of Cylinder Formings' contracts came from NATO. After deciding that Cylinder Formings could no longer meet its financial obligations, Moscow Narodny officials requested in July 1977 that a receiver be appointed. At the time of its closure, Cylinder Formings owed MNB between £800,000 and £1,000,000.[61] It is interesting to note that the former managing director of Cylinder Formings claimed that the company could not obtain some contracts because the British Ministry of Defence was aware of MNB's dealings with Cylinder Formings.[62]

Since MNB officials had access to files belonging to Cylinder Formings it was mentioned that NATO secrets might have fallen into the hands of Soviet agents. Therefore, the British Ministry of Defence was called in to investigate the matter. It was later announced that no classified material had been connected with any of Cylinder Formings' contracts. In all likelihood MNB's dealings with Cylinder Formings would not have attracted so much attention if the company had been liquidated a few months earlier. Indeed, during July 1977, it was also disclosed that a type of tank in the British army had been supplied with Soviet-made spare parts for its cooling system.[63]

Before MNB's dealings with Cylinder Formings had been forgotten another case involving MNB came to light. On this occasion a writ was filed against MNB alleging that the bank had wrongfully sold shares in a company which was responsible for constructing a resort in Hong Kong. MNB granted loans to a Panama-based Chinese entrepreneur, Edward Wong Wing Cheung, for the development of the aforementioned resort. Cheung offered MNB share capital in his Hong Kong Resort Company--the company responsible for constructing the resort--as collateral. According to one report, other banks stopped financing the project when it became known that a Soviet bank was involved. As a result, the Hong Kong Resort Company was liquidated and, despite protests from Cheung, the share capital was transferred to MNB. Soon after this move MNB sold the shares. Cheung argued that the sale of the shares was wrong because MNB's loans had been granted on a long-term basis (in other words Cheung did not owe MNB any money at the time of the sale). The loans (plus interest) granted to Cheung by MNB amounted to roughly $67.5 million.[64]

During the early and mid-1970s the adverse political and economic conditions in the Lebanon hampered the operations of MNB's Beirut branch. Despite these problems the assets of the Beirut branch increased by over 10 percent during 1972 and 1973. Since most of the Beirut branch's business is connected with 'off-shore' transactions (i.e., transactions with banks and trading companies outside the Lebanon) it is possible for the branch to operate in spite of local difficulties. At the end of 1976, MNB announced that its branch in Beirut was fully operational.

In the mid-1970s MNB established a representative office in Moscow. A Soviet employee of MNB, Oleg Lapushkin, was placed in charge of the office. Then in November 1977, MNB, the Bank of Scotland and Morgan Grenfell set up a joint representative office in Moscow. (The joint representative office replaced MNB's office in Moscow.) According to a MNB report, the joint office 'will oversee the interests of all three banks and their customers, in particular by maintaining contacts and liaising with the relevant Soviet institutions and with international and foreign bankers in Moscow'.[65] The joint representative office was set up to combine MNB's expertise in East-West trade financing, with the experience of Morgan Grenfell and the Bank of Scotland in arranging and providing ECGD-backed credits for major projects. The joint office is currently managed by Oleg Lapushkin.

It is interesting to note that in September 1975, MNB became the first Soviet-controlled bank to participate in a loan arranged by an affiliate of the International Bank for Reconstruction and Development.[66] Then in February 1978, MNB participated for the first time in the granting of an ECGD-backed dollar buyer credit. The credit was granted to Poland for the purchase of barley from the U.K.[67] In August 1978, MNB helped provide a £10.5-million loan for the London Borough of Lambeth.

Banque Commerciale pour l' Europe du Nord SA (Eurobank)

Banque Commerciale pour l' Europe du Nord was set up in Paris in 1921 by White Russian emigrants. Four years later the bank was sold to the USSR. Since 1925, all share capital in Banque Commerciale has been owned by Soviet organisations. According to one source, Gosbank owns 48.32 percent of the share capital in Eurobank, Vneshtorgbank owns 21.45 percent, and Stroibank, Eksportles and Tsentrosoyuz own most of the remaining shares.[68]

At the end of 1976, Eurobank's board of directors comprised four French nationals and three Soviets. A French national functions as president of the board and a Soviet citizen occupies the position of vice-president. Two Soviet members of the board are based in the USSR with Eurobank's shareholders (Gosbank and Vneshtorgbank). These two members usually attend Eurobank's annual general meeting in Paris although their presence is not mandatory.[69]

Eurobank is one of the most active SFBBs in the sphere of consortium lending (see APPENDIX C). For many years Eurobank has maintained close financial relationships with a number of banks in Latin America (e.g., the central bank of Cuba). Eurobank is perhaps the most active SFBB in Eurobond markets. Just recently Eurobank purchased a portion of the $30-million worth of floating-rate notes issued by Bank Handlowy w Warszawie.[70]

Eurobank's operations can be broken down into three broad categories. Approximately 45 percent of the bank's activity is connected with Eurocurrency business (i.e., the borrowing, lending and depositing of Eurocurrencies). Roughly 40 percent of Eurobank's business concerns export/import transactions. (Most of these transactions are connected with Soviet foreign trade.) About 15 percent of Eurobank's business is connected with (franc) transactions between French companies/individuals. According to one report Eurobank handles transactions for the French Communist Party.[71]

TABLE 5.9 shows the development of Eurobank's operations from 1973-1976. During this period total assets grew by 27 percent. At the end of 1976, Eurobank's total assets amounted to F.fr. 14,143.3 million (approximately £1,724.8 million). This sum is a little larger than MNB's total assets. At the end of 1976, balances with banks (including other organisations involved in banking operations) comprised 76 percent of Eurobank's total assets. Balances of banks (including other organisations involved in banking operations) comprised 91 percent of Eurobank's total liabilities. At the end of 1976, Eurobank's capital amounted to F.fr. 250 million (about £30.5 million) and net profit F.fr. 38.9 million (about £4.7 million). It is obvious from TABLE 5.9 that Eurobank's principal operation is the attraction of financial resources from banks (and related organisations) and the transfer of most of these funds to banks (and related organisations). In this respect Eurobank and MNB have much in common.

TABLE 5.9

DEVELOPMENT OF EUROBANK'S OPERATIONS, 1973-1976 (in millions of F.fr.)

	1973	1974	1975	1976
Total assets	11,121.4	12,433.8	13,613.7	14,143.3
Balances with banks and other organisations involved in banking operations (assets)	8,824.0	9,595.4	11,045.6	10,698.5
Balances of banks and other organisations involved in banking operations (liabilities)	10,105.6	11,320.5	12,475.4	12,880.6
Capital	150.0	200.0	250.0	250.0
Net profit	28.6	27.0	40.2	38.9

Sources: Eurobank, Annual Reports, 1973-1976.

Like their counterparts in London, Eurobank's directors often propose (to the bank's shareholders or supervisory-council members) that funds in the reserve account be used to increase the bank's share capital. For example, on 14 May 1975, Eurobank's directors suggested to shareholders that the bank's (paid-up) share capital should be increased from F.fr. 200 million to F.fr. 250 million. It was proposed that one-half of the new share capital (i.e., F.fr. 25 million) should come from the bank's reserves while the other half should be purchased (on a cash basis) by Eurobank's shareholders.[72]

Bank Russo-Iran Ltd.

Bank Russo-Iran was first set up in Teheran in 1923 as the Russian-Iranian Banking Office of the Russian-Asiatic Company. In 1932, the Russian-Iranian Banking Office was transformed into the Bank Russo-Iran.[73] According to one source Vneshtorgbank owns 84 percent of the share capital in Bank Russo-Iran and Gosbank owns 16 percent.[74]

Bank Russo-Iran is primarily concerned with financing trade between Iran and CMEA countries. The bank is not regarded as one of the most active SFBBs in Eurocurrency markets. However, on at least two occasions Bank Russo-Iran has participated in the granting of Eurocurrency loans (see APPENDIX C).

Bank Russo-Iran's total assets increased from 5.4 billion rials in 1972, to 7.7 billion (about £59.3 million) in 1975; an increase of 43 percent. In the early part of 1975, the bank's share capital stood at 600 million rials (about £4.6 million). (The share capital was supposedly increased to 1.25 billion rials [about £9.6 million] in June 1975.[75]) Bank Russo-Iran's profit amounted to 69 million rials (about £531,000) in 1972.[76]

Wozchod Handelsbank AG

Wozchod Handelsbank was established in Zurich in July 1966. The bank's initial share capital amounted to Sw.fr. 10 million. In 1966, Gosbank owned 55 percent of the share capital in Wozchod Handelsbank, Vneshtorgbank owned 40 percent, and Soviet state savings banks owned the remaining 5 percent.[77] According to one report a few Swiss bankers tried to discourage Soviet officials from establishing Wozchod Handelsbank but the Soviets 'were not to be discouraged'.[78]

In 1972, Wozchod Handelsbank's board of directors comprised three Swiss nationals and two Soviet citizens. A Soviet citizen functioned as president of the board while one Swiss national and one Soviet citizen functioned as vice-presidents. During 1972, the board of management comprised two Swiss nationals and two Soviet citizens. Each member of the board of management was placed in charge of a particular department within the bank (e.g., foreign trade, foreign exchange, economics, etc.).

Wozchod's total assets increased from Sw.fr. 394.5 million at the end of 1972, to Sw.fr. 461.1 million (about £51.2 million) at the end of 1973; an increase of 17 percent. At the end of 1972, Wozchod's balances with banks amounted to Sw.fr. 255.0 million (or 65 percent of total assets). At the same time the balances of banks amounted to Sw.fr. 322.8 million (or 82 percent of total liabilities). Wozchod's share capital stood at Sw.fr. 40 million (about £4.4 million) in 1972, and net profit amounted to Sw.fr. 2.0 million (about £222,000). This researcher has been unable to obtain any data from Wozchod's Annual Reports for the period 1974-1976. So, in order to get an idea of Wozchod's size at the end of 1976 it is necessary to make some very rough estimates on the basis of available data. If Wozchod's total assets increased by 15 percent each year during the period 1974-1976, then the bank's total assets would amount to Sw.fr. 701.3 million (about £175.3 million). In the event Wozchod's total assets increased by 20 percent each year during the period 1974-1976, then the bank's total assets would amount to Sw.fr. 796.8 million (about £199.2 million)

Since Wozchod Handelsbank operates within a community where banking secrecy prevails, few reports on the bank's activities are published. So, there is little left to say about Wozchod Handelsbank. We know from APPENDIX C that Wozchod occasionally participates with other SFBBs in the granting of Eurocurrency loans. In addition, since Wozchod supposedly sells more gold than any other SFBB there is good reason to believe that security measures are more strict in Wozchod than in other SFBBs. And finally, we can assume that Wozchod Handelsbank follows the practice of providing 'numbered accounts' for depositors.

Ost-West Handelsbank AG

Ost-West Handelsbank was established in Frankfurt on 11 November 1971. The initial share capital of the bank totalled DM 20 million. In 1973, Ost-West Handelsbank's share capital was increased to DM 50 million. At the end of 1973, Gosbank owned 52 percent of the share capital in Ost-West Handelsbank, Vneshtorgbank owned 42 percent, and three Soviet FTOs--Promsyrioimport, Eksportles and Tekhmashimport--owned two percent each. However, by the end of 1976 the situation was much different. At that time Gosbank owned 15 percent of the share capital in Ost-West Handelsbank, Vneshtorgbank owned 13 percent, the Soviet state savings banks owned 9 percent and seven Soviet FTOs owned 9 percent each.

TABLE 5.10 shows the development of Ost-West Handelsbank from 1974-1976. During this period the bank's total assets increased from DM 1,346.7 million to DM 1,781.9 million (about £451.1 million); an increase of 32 percent. (At the end of 1976, MNB's total assets were almost three and one-half times larger than Ost-West Handelsbank's total assets.) At the end of 1976, balances with banks comprised 63 percent of Ost-West Handelsbank's total assets. At the same time, balances of banks comprised 80 percent of Ost-West Handelsbank's total liabilities. At the end of 1976, the bank's share capital amounted to DM 60 million (about £15.2 million) while net profit totalled DM 6.9 million (about £1.7 million).

TABLE 5.10

DEVELOPMENT OF OST-WEST HANDELSBANK, 1974-1976 (in millions of DM)

	1974	1975	1976
Total assets	1,346.7	1,529.7	1,781.9
Balances with banks (assets)	837.8	981.1	1,114.8
Balances of banks (liabilities)	1,076.2	1,211.6	1,417.4
Capital	50.0	60.0	60.0
Net profit	6.0	6.5	6.9

Sources: Ost-West Handelsbank, Annual Reports, 1974-1976.

In 1976, three German nationals and three Soviet citizens served on Ost-West Handelsbank's board of directors. The positions of chairman and vice-chairman were occupied by Soviet citizens based in the USSR. Only one Soviet director was based in Germany. In 1976, Ost-West Handelsbank's board of management comprised two German nationals and two Soviet citizens. The Soviet members of the board of management function as chairman and vice-chairman. Both reside in Germany.

Like MNB, Ost-West Handelsbank owns share capital in SFBBs. At the end of 1976, Ost-West Handelsbank owned 7 percent of the share capital in Banque Unie Est-Ouest, 5.75 percent of the share capital in MNB and 3.85 percent of the share capital in Wozchod Handelsbank. Ost-West Handelsbank also owns 30 percent of the share capital in a Soviet insurance company (Schwarzmeer und Ostsee Versicherungs) and 2 percent of the share capital in a Soviet foreign-based trading company (Sobren Chemiehandel).[79]

Donau Handelsbank AG

Donau Handelsbank was established in Vienna in March 1974. The bank's initial share capital totalled A.sh. 100 million. In 1974, Gosbank owned 60 percent of the share capital in Donau Handelsbank, and Vneshtorgbank owned the remaining 40 percent.[80] From 1974-1976, Donau Handelsbank's total assets increased from A.sh. 2,720.3 million to A.sh. 3,605.0 million (about £129.3 million); an increase of 33 percent. At the end of 1976, the bank's net profit amounted to A.sh. 2.7 million (about £96,800) while capital still totalled A.sh. 100 million (about £3.6 million). According to one source Donau Handelsbank deposited $1 million in the Allgemeine Wirtschaftsbank just before that bank collapsed. As a result, Gosbank recalled Donau's Soviet manager.[81]

Banque Unie Est-Ouest SA

Banque Unie was established in Luxemburg on 12 June 1974. The bank's initial share capital totalled L.fr. 375 million. Banque Unie's shareholders include Gosbank, Vneshtorgbank, MNB, Eurobank, Ost-West Handelsbank, Bank Russo-Iran and Wozchod Handelsbank.[82]

TABLE 5.11 shows the development of Banque Unie from 1975-1976. During this period the bank's total assets increased from L.fr. 18,803.3 million to L.fr. 24,673.5 million (about £407.2 million); a 31 percent increase. At the end of 1976, balances with banks (and related organisations) amounted to 54 percent of total assets. At the same time balances of banks (and related organisations) amounted to 94 percent of total liabilities. Share capital totalled L.fr. 500 million (about £8.3 million) in 1976, and net profit amounted to L.fr. 68.5 million (about £1.1 million). Banque Unie is currently one of the most active

SFBBs in the Eurocurrency market (see APPENDIX C).

TABLE 5.11

DEVELOPMENT OF BANQUE UNIE EST-OUEST, 1975-1976
(in millions of L.fr.)

	1975	1976
Total assets	18,803.3	24,673.5
Balances with banks and other organisations involved in banking operations (assets)	9,265.8	13,428.4
Balances of banks and other organisations involved in banking operations (liabilities)	17,787.6	23,205.6
Capital	375.0	500.0
Net profit	15.9	68.5

Sources: Banque Unie Est-Ouest, Annual Reports, 1974/1975-1975/1976

Banque Unie's board of directors comprises four Soviet citizens. Two members are based in the USSR. A local national is in charge of the bank's board of management. The remaining members of the board of management are predominantly local nationals.

NOTES

[1]Arbitrage is the practice of switching (short-term) funds from one market (or form of investment) to another in order to obtain the highest rate of return. Since the monetary authorities in the United States often kept interest rates below those in the U.K. and Western Europe, American investors were encouraged to deposit their funds abroad.

[2]Indeed, even Moscow has become a quasi-part of the Eurocurrency market as Vneshtorgbank is fairly active in the borrowing and lending of Eurocurrencies.

[3]Remember that a loan is a sum of money lent by an institution (or individual) to another institution (or individual) while credit enables the borrower to use or possess commodities without immediate payment. However, there is one exception. As we learned, buyer's credits enable the importer to make immediate payment for goods/services.

[4]Morgan Guaranty Trust Company, World Financial Markets, September 1976, p. 13.

[5]Paul Einzig, The Euro-Dollar System: Practice and Theory of International Interest Rates, 4th ed. (London: MacMillan, 1970), p. 30.

[6]Paul Einzig, The Euro-Dollar System: Practice and Theory of International Interest Rates, 3rd ed. (London: MacMillan, 1964), p. 71.

[7]Ibid.

[8]See L. Glukharev, 'The Euro-Dollar Market and Inter-Imperialist Contradictions', International Affairs (Moscow), No. 9 (September 1972), pp. 50-57.

[9]K. J. H. Robbie, 'Socialist Banks and the Origins of the Eurocurrency Markets', Moscow Narodny Bank, Quarterly Review (Winter 1975-1976), p. 29.

[10]Wholesale Eurocurrency deposits are made by banks which are unable to utilise such funds for more profitable purposes (e.g., the financing of trade). Banks that accept wholesale Eurocurrency funds must find final borrowers (e.g., trading companies) or they too will be forced to make wholesale deposits.

[11]Robbie, 'Socialist Banks . . .', p. 30.

[12]Ibid.

[13]Ibid., p. 31.

[14]It is recognised that Vneshtorgbank was financing trade via Western-owned banks long before the early 1970s. Indeed, for quite some time Western exporters have obtained Eurocurrency payments by discounting bills of exchange and promissory notes guaranteed by Vneshtorgbank. Such payments are sometimes called 'indirect loans' to the USSR. However, at this point we are discussing direct loans (i.e., the transfer of funds from Western-owned banks to the USSR).

[15]Of course, the USSR also has access to Eurocurrency markets via banks in individual CMEA countries. However, it is unnecessary to cover this topic in any detail as such banks, in all likelihood, have never carried out any meaningful operations in Eurocurrency markets on behalf of the USSR.

[16]The Times, 7 November 1974, p. 19.

[17]LIBOR represents the London interbank offered rate for six-month Eurocurrency deposits. The reader should keep in mind that Eurocurrency loans normally carry fluctuating rates. For example, a five-year Eurocurrency loan might carry rates according to the following scheme: for the first two years, 1 percent over LIBOR; for the next two years, 1 1/4 percent over LIBOR; and for the remaining year, 1 1/2 percent over LIBOR.

[18]Moscow Narodny Bank, Press Bulletin, 5 February 1975, p. 13.

[19]East-West (Fortnightly Bulletin), 24 April 1975, pp. 6 and 9. It is interesting to note that an executive in one of the banks in the consortium was also chairman of Les Grandes Hotels Associes--the French company which won a $180-million contract to build hotels in Moscow and Leningrad.

[20]Moscow Narodny Bank, Press Bulletin, 7 January 1976, p. 15.

[21]Moscow Narodny Bank, Press Bulletin, 28 July 1976, p. 13.

[22]Alec Nove, 'East-West Trade: Problems, Prospects, Issues', The Washington Papers, Vol. VI, No. 53 (Beverly Hills and London: Sage Publications, 1978), p. 21.

[23]The Times, 15 October 1975, p. 25.

[24]East-West (Fortnightly Bulletin), 25 June 1976, p. 6.

[25]Glen Alden Smith, Soviet Foreign Trade (New York: Praeger, 1973), p.151.

[26]Moscow Narodny Bank, Press Bulletin, 22 March 1978, p. 2.

[27]Financial Times, 30 October 1975, p. 24; Moscow Narodny Bank, Press Bulletin, 15 October 1975, p. 13; and Moscow Narodny Bank, Press Bulletin, 5 November 1975, pp. 15-16.

[28]O. S. Bogdanov and A. A. Dostal', 'Razvitie ekonomicheskikh svyazei mezhdu sotsialisticheskimi i promyshlenno razvitymi kapitalisticheskimi stranami', Den'gi i kredit, No. 11, 1974, pp. 66-67.

[29]Personal conversations with members of SFBBs.

[30]Der Spiegel, No. 47, 1971, p. 52.

[31]Personal conversations with members of SFBBs.

[32]Banque Commerciale pour l' Europe du Nord (Eurobank), Report of the Directors, 23 May 1973.

[33]According to French banking norms the president of all foreign banks operating in France must be a local national.

[34]Personal conversations with members of Eurobank.

[35]But it should be pointed out that local nationals are no guarantee that SFBBs will operate efficiently. Indeed, the actions of one Western manager of a SFBB cost the USSR a few million dollars. This case will be covered a little later.

[36]Until the late 1960s or early 1970s a Soviet citizen functioned as head of MNB's economics department. However, at this time a British economist occupies the position.

[37]Moscow Narodny Bank, Fiftieth Anniversary Year, October 1919-October 1969 (Stevenage Herts: The Bay Tree Press), p. 2.

[38]Ibid., p. 4.

[39]*Ibid.*, p. 5.

[40]The reader should not attach too much significance to small annual increases in MNB's total assets. Since a high proportion of MNB's financial transactions are carried out in foreign currencies a decrease in the value of the pound would tend to inflate the balance-sheet total when the bank's foreign currency accounts are converted into sterling at the end of the year.

[41]Moscow Narodny Bank, *Fiftieth Anniversary Year*, . . ., p. 12.

[42]Material obtained from Companies Registration Office in London.

[43]*International Herald Tribune*, 26 September 1972, p. 7, quoting MNB's *Quarterly Review*.

[44]*International Herald Tribune*, 26 September 1972, p. 7.

[45]*Wall Street Journal*, 26 September 1972, p. 24.

[46]For background material on the Creditanstalt case see MNB's *Press Bulletin*, 9 February 1977, pp. 17-20; and *The Times*, 26 January 1976, p. 17.

[47]Moscow Narodny Bank, *1972 Annual Report*, p. 9.

[48]*Ibid*.

[49]Moscow Narodny Bank, *1973 Annual Report*, p. 8.

[50]Arun Senkuttuvan, 'A Change of Emphasis for Moscow', *Fareastern Economic Review*, Vol. 91, No. 5 (30 January 1976), p. 51.

[51]*Ibid*.

[52]Moscow Narodny Bank, *1975 Annual Report*, p. 7.

[53]Andrew Davenport and Arun Senkuttuvan, 'Moscow: Retreat from Mosbert', *Fareastern Economic Review*, Vol. 91, No. 4 (23 January 1976), p. 56.

[54]See Herbert E. Meyer, 'This Communist Internationale has a Capitalist Accent', *Fortune*, February 1977, p. 142. Meyer claims that MNB's losses could exceed $60 million. This figure is undoubtedly too large. Most of MNB's loans to Mosbert should be covered after the sale of Mosbert's property.

[55]Philip Bowring, 'Slamming the Door on Mosbert', *Fareastern Economic Review*, Vol. 91, No. 7 (13 February 1976), p. 108.

[56]*Observer*, 6 August 1978, p. 5.

[57]It might be interesting to note that Teo Poh Kong claims that his Soviet boss urged him to 'lend as much as possible as far as possible'; see *Observer*, 6 August 1978, p. 5.

[58]Moscow Narodny Bank, *1976 Annual Report*, p. 11.

[59]Ibid.

[60]Ibid., p. 4.

[61]The Times, 19 August 1977, p. 1.

[62]The Times, 20 August 1977, p. 3.

[63]Ibid.

[64]The Sunday Times, 2 October 1977, p. 72.

[65]Moscow Narodny Bank, Press Bulletin, 23 November 1977, p. 1.

[66]Moscow Narodny Bank, Press Bulletin, 5 November 1975, p. 16.

[67]Moscow Narodny Bank, Press Bulletin, 15 February 1978, p. 1.

[68]O. Kuschpeta, The Banking and Credit System of the USSR (Leiden and Boston: Martinus Nijhoff, 1978), p. 69.

[69]Personal conversations with members of Eurobank.

[70]Moscow Narodny Bank, Press Bulletin, 24 May 1978, p. 13.

[71]Euromoney, January 1976, p. 14.

[72]Banque Commerciale pour l' Europe du Nord (Eurobank), Report of the Directors, 14 May 1975.

[73]Peter M. Mattson, 'Soviet-Owned Banks in Foreign Countries, An Outline', Osteuropa Wirtschaft, No. 1 (January 1976), p. 45.

[74]Paul Gekker, 'The Soviet Bank for Foreign Trade and Soviet Banks Abroad: A Note', Economics of Planning, Vol. 7, No. 2 (1967), p. 189.

[75]Mattson, 'Soviet-Owned Banks . . .', p. 45.

[76]Kuschpeta, The Banking and Credit System . . ., p. 69.

[77]The Times, 29 July 1966, p. 17.

[78]The Times, 2 April 1966, p. 7.

[79]Ost-West Handelsbank, 1976 Annual Report, p. 14.

[80]Moscow Narodny Bank, Press Bulletin, 13 February 1974, p. 10, quoting Reuter East-West Trade News, 4 February 1974.

[81]Meyer, 'This Communist Internationale . . .', p. 142.

[82]Banque Unie Est-Ouest, 1975/1976 Annual Report, p. 4.

The United States may have no desire to copy Soviet policy structure or goals in the oceans. It is important that as a Nation, however, we are cognizant of the progress made in ocean capability by the Soviet Union, and, where appropriate, benefit by the lessons it may provide.
--National Ocean Policy Study Staff

CHAPTER VI

SOVIET MARITIME OPERATIONS

Development of the Soviet Merchant Fleet After World War II

World War II severely crippled the Soviet merchant fleet (SMF). Almost half of the USSR's ships were lost during the war and most of the remaining vessels needed repairs.[1] Toward the end of the war the USSR received a few merchant-type ships through the Lend-Lease agreement. In addition, the USSR collected some ships from the Axis nations as reparations. But on the whole the USSR emerged from World War II as a major world power without a developed merchant fleet.

Immediately after the war there was no reason for the USSR to start developing its merchant fleet on a massive scale. At that time the Soviet Union was primarily concerned with improving its commercial relations with Eastern Europe. Railways and roads linking the USSR with Eastern Europe provided the basis for commodity transport between the two regions. In the early 1950s, almost all Soviet trade with non-CMEA members was directed toward neighbouring countries in Asia and the Middle East. However, by the early 1960s, Soviet foreign trade was being conducted on a worldwide basis. This expansion of Soviet trade exposed the shortcomings of the SMF. In 1959, 55 percent of the USSR's seaborne foreign trade was transported in Soviet ships. By 1961, this figure had fallen to 37 percent.[2] The failure of the SMF to keep in step with the country's external commercial operations forced the USSR to charter more foreign ships.[3] Such a policy required additional hard currency expenditures. However, it also placed the country in a precarious political position. For example, the growing level of Soviet trade with Cuba following the advent of the Castro regime in 1960 increased the USSR's demand for shipping services. Since the Soviet Union was initially unable to meet that demand with its own merchant vessels it was forced to charter a number of foreign ships (especially tankers). As a result, the USSR was placed at the mercy of Western shipowners. The restrictive measures initiated by the United States against ships that transported cargo to Cuba (e.g., such ships were not permitted to use American port facilities) and the boycott organised by Western petroleum companies against foreign tankers which carried Soviet oil to Cuba during the early 1960s, made Soviet chartering both difficult and expensive. These facts helped to bring about a swift change in Soviet maritime policy.

The accelerated development of the SMF began in the early 1960s. In 1960, the SMF held the thirteenth position in the world in both gross registered tonnage (grt)[4] and deadweight tonnage (dwt)[5]. By 1968, the USSR held the sixth position in both categories (see TABLE 6.1). In order to bring about the rapid development of its merchant fleet the USSR purchased a large number of foreign ships. During the period 1956-1970, approximately 40 percent of the USSR's merchant ships were constructed in Soviet yards, about 50 percent were built in other socialist countries (especially Poland and East Germany) and the remaining 10 percent came primarily from Western Europe and Japan.[6]

TABLE 6.1

WORLD MERCHANT FLEET BY TYPE AND FLAG, 1939-1975
(ships 100 grt or over)

All Ships
(thousands of grt unless specified otherwise)

Flag	Sept. 1939	July 1950	July 1960	July 1965	July 1968	July 1969	July 1970
World	61,426	85,277	129,485	158,847	189,534	203,778	214,790
Liberia	-	279	11,646	18,404	26,871	29,884	33,236
Japan	5,427	1,410	7,289	11,902	19,935	23,041	25,613
U.K.	16,892	17,845	21,416	21,782	21,402	23,102	24,896
Norway	4,686	5,335	11,048	15,523	19,356	19,215	19,037
Greece	1,763	1,072	3,475	5,767	6,259	7,626	9,382
U.S.	8,722	31,575	25,464	22,057	19,205	18,982	17,817
Panama	722	3,137	4,095	4,255	5,040	5,235	5,607
USSR	1,154	969	2,771	5,936	8,814	9,354	9,646
France	2,748	2,881	4,711	5,072	5,685	5,953	6,189
Italy	3,322	2,883	5,508	6,211	7,112	7,218	7,287
FRG	-	178	4,516	5,449	6,547	7,059	7,637

Source: General Council of British Shipping, British Shipping Statistics, 1975, pp. 24-25.

TABLE 6.1--Continued

Flag	July 1971	July 1972	July 1973	July 1974	July 1975	Percent of world grt on 1 July 1975	Thousands of dwt on 1 July 1975	Percent of world dwt on 1 July 1975
World	233,757	254,030	274,835	295,404	325,028	-	544,199	-
Liberia	38,477	44,363	49,824	55,246	65,760	20.2	126,011	23.2
Japan	28,980	33,257	35,031	36,845	37,912	11.7	63,345	11.6
U.K.	26,417	27,693	29,345	30,605	32,151	9.9	52,698	9.7
Norway	21,406	23,198	23,279	24,501	25,764	7.9	45,425	8.4
Greece	12,962	15,221	19,175	21,632	22,395	6.9	37,525	6.9
U.S.	15,743	14,371	14,146	13,625	13,666	4.2	20,305	3.7
Panama	6,164	7,628	9,414	10,806	13,347	4.1	21,948	4.0
USSR	10,456	10,686	11,052	11,590	12,263	3.8	16,200	3.0
France	6,746	7,123	7,893	8,527	10,383	3.2	17,924	3.3
Italy	7,966	7,992	8,665	9,089	9,893	3.0	15,510	2.9
FRG	8,413	8,236	7,592	7,655	8,199	2.5	13,460	2.5

The growth of Soviet maritime operations was especially impressive during the Seven-Year Plan (1959-1965). In 1958, the SMF carried only 7 percent of the country's total (i.e., both foreign and domestic) cargo turnover. By 1965, this figure had risen to 14 percent. The operations of the SMF increased from 57.4 billion ton-miles in 1958, to 209.9 billion in 1965. During 1965, the USSR had over 800 ships which were suitable for long-distance transport, compared with approximately 250 in 1958. By the mid-1960s, almost 80 percent of Soviet merchant vessels had been constructed during the previous ten-year period which meant that the USSR had one of the youngest merchant fleets in the world.[7]

During the period 1960-1969, the SMF grew from 2,771,000 grt to 9,354,000 grt; an increase of 238 percent. Since 1969, the growth of the SMF has been steady albeit unimpressive. The rapid expansion of the Greek and Panamanian merchant fleets in the first half of the 1970s was responsible for dropping the USSR from sixth place (in mid-1970) to eighth place (in mid-1975) in the world merchant fleet (in terms of grt). When compared with the recent rate of growth of the world merchant fleet, the growth of the SMF falls below the world average. From mid-1970 to mid-1975, the SMF grew from 9,646,000 grt to 12,263,000 grt; an increase of 27 percent. During the same period the world merchant fleet grew from 214,790,000 grt to 325,028,000 grt; an increase of 51 percent. In mid-1975, the SMF comprised about 4 percent (of the grt) of the world merchant fleet.

The SMF has become an important part of the Soviet economy. The SMF currently handles well over half of the USSR's total seaborne foreign trade.[8] Moreover, the SMF can now transport virtually all cargo which is connected with the USSR's economic and military aid programmes. The foreign currency earnings of the SMF cover the USSR's obligations connected with the chartering of foreign merchant vessels. Furthermore, such earnings are sometimes large enough to provide other sectors of the Soviet economy with foreign currency resources.[9]

In mid-1975, dry-cargo ships comprised 70 percent (of the grt) of the SMF. A high proportion (i.e., 86 percent of the grt) of the USSR's dry-cargo vessels falls within the 'general-cargo' classification (see TABLE 6.2). General-cargo ships are well suited for transporting most types of civilian and military cargo. However, such ships are usually required to remain in port much longer than specialised vessels as the cargo is often loaded/unloaded piece-by-piece. Moreover, as a result of their unspecialised nature, general-cargo ships are often required to transport less profitable cargo.

Soviet merchant vessels are generally smaller than vessels in the world merchant fleet. In mid-1975, the average Soviet dry-cargo ship was about 5,700 dwt and the average Soviet tanker approximately 11,200 dwt. At the same time the average dry-cargo ship in the world merchant fleet was about 9,500 dwt and the average tanker 36,300 dwt. However, small vessels are ideally suited for transporting cargo to and from Soviet ports. At the present time few Soviet harbours are deep enough to handle dry-cargo ships larger than 23,000 dwt or tankers above 50,000 dwt. At the end of 1974, the USSR had only four merchant ships larger than 50,000 dwt--one tanker, two combination oil/dry-bulk carriers and one dry-bulk carrier.[10] All four of these vessels are currently involved in cross-trade operations (i.e., the ships are used to transport cargo to and from countries other than the USSR). They will presumably start operating in Soviet ports when dredging operations have been completed in the late 1970s.

TABLE 6.3 shows selected tanker fleets. In mid-1975, Soviet oil tankers comprised 2.5 percent (of the grt) of the world oil-tanker

TABLE 6.2

WORLD MERCHANT FLEET BY TYPE AND FLAG, 1 JULY 1975
(ships 100 grt or over)

Dry-Cargo Ships
(thousands of grt unless specified otherwise)

Flag	General-cargo ships No.	General-cargo ships Grt	Cellular containerships No.	Cellular containerships Grt	Ore/bulk vessels No.	Ore/bulk vessels Grt	Combination vessels No.	Combination vessels Grt
World	21,381	71,195	419	6,244	3,308	61,832	403	23,716
Liberia	578	3,611	23	226	731	13,021	137	6,655
Japan	2,749	4,912	45	1,086	362	9,132	46	3,269
U.K.	1,086	4,886	91	1,365	241	5,189	38	2,919
Greece	1,514	6,303	4	35	365	5,957	22	1,215
Norway	875	1,940	1	52	234	5,388	57	3,827
USSR	1,757	7,319	11	61	35	519	2	99
U.S.	558	4,490	103	1,750	181	1,821	2	80

Source: General Council of British Shipping, British Shipping Statistics, 1975, pp. 8-9.

TABLE 6.2--Continued

Flag	Passenger-ships No.	Passenger-ships Grt	Ferries (1,000 grt or over) No.	Ferries (1,000 grt or over) Grt	Other dry-cargo ships No.	Other dry-cargo ships Grt	Total dry-cargo ships No.	Total dry-cargo ships Grt	Total dry-cargo ships Dwt	Percent of world dry-cargo ships Grt	Percent of world dry-cargo ships Dwt
World	138	2,793	1,004	4,034	399	1,077	27,052	170,891	257,726	-	-
Liberia	6	96	5	25	2	26	1,482	23,662	41,936	13.8	16.3
Japan	-	-	195	778	210	517	3,607	19,695	29,906	11.5	11.6
U.K.	19	518	77	299	7	7	1,559	15,182	21,917	8.9	8.5
Greece	14	229	81	318	11	20	2,011	14,077	22,419	8.2	8.7
Norway	11	215	38	131	28	149	1,244	11,703	18,858	6.9	7.3
USSR	15	282	65	244	-	-	1,885	8,524	10,677	5.0	4.1
U.S.	7	124	30	84	8	49	889	8,399	10,881	4.9	4.2

TABLE 6.3

WORLD MERCHANT FLEET BY TYPE AND FLAG, 1 JULY 1975
(ships 100 grt or over)

Tankers
(thousands of grt and dwt)

TABLE 6.3--Continued

Flag	Oil Tankers			Chemical carriers			Liquefied-gas carriers			Other tankers			Total tankers			Percent of world tankers	
	No.	Grt	Dwt	No.	Grt	Dwt	No.	Grt	Dwt	No.	Grt	Dwt	No.	Grt	Dwt	Grt	Dwt
World	7,024	150,057	281,597	341	967	1,607	421	2,999	3,103	96	114	165	7,882	154,137	286,472	-	-
Liberia	940	41,584	83,441	19	108	179	30	404	452	1	2	3	990	42,098	84,075	27.3	29.4
Japan	1,568	17,520	32,625	169	83	138	145	583	626	29	31	49	1,911	18,217	33,439	11.8	11.7
U.K.	560	16,096	29,871	24	170	267	30	703	642	-	-	-	614	16,969	30,780	11.0	10.7
Norway	291	13,387	25,643	28	315	520	45	360	402	1	-	1	365	14,061	26,566	9.1	9.3
Greece	410	8,295	15,081	1	-	1	11	17	18	6	5	7	428	8,318	15,106	5.4	5.3
France	137	6,938	13,137	12	62	102	9	241	212	10	14	22	168	7,255	13,473	4.7	4.7
Panama	269	5,530	10,282	3	3	5	20	216	268	2	3	6	294	5,752	10,560	3.7	3.7
U.S.	318	5,167	9,237	9	85	161	1	15	26	-	-	-	328	5,267	9,424	3.4	3.3
Italy	321	4,061	7,214	18	25	41	29	148	139	22	10	15	390	4,244	7,410	2.8	2.6
USSR	481	3,713	5,499	1	1	2	2	7	5	8	18	18	492	3,739	5,524	2.4	1.9

Source: General Council of British Shipping, British Shipping Statistics, 1975, pp. 10-11.

fleet. At the same time Soviet oil tankers made up 30 percent (of the grt) of the SMF. The importance of Soviet oil tankers is quite obvious since, according to William Carr, petroleum accounts for almost half (by weight) of total Soviet seaborne trade.[11]

During the tanker boom which preceded the Arab petroleum embargo of 1973, Soviet planners were considering the possibility of acquiring a supertanker fleet. Since that time a few tankers in the 150,000 deadweight-ton range have been added to the SMF.[12] In the mid-1970s Soviet officials were thinking of adding a 330,000 deadweight-ton oil tanker to the SMF. Such a tanker would most likely be used for cross-trade operations as it would be much too large for most Soviet ports. The 1976-1980 Five-Year Plan has called for a marked growth of the Soviet tanker fleet. Some of the planned tankers will fall within the 100,000-150,000 deadweight-ton range.[13] However, the present world-wide surplus of oil tankers could induce Soviet officials to modify their plans. The acquisition of combination oil/dry-bulk carriers (as opposed to tankers) would give the SMF more flexibility in meeting the uncertainties of the world shipping market.

In 1977, the CIA predicted that Soviet petroleum production will start declining by the late 1970s or early 1980s[14] while Soviet consumption of petroleum is expected to remain constant or increase. If the CIA prediction is true, the composition of the USSR's tanker fleet could change during the next decade. At this time, small Soviet tankers play a key role in transporting Soviet petroleum to LDCs. (Many ports in LDCs are too shallow for supertankers.) However, since petroleum represents an important hard currency earner, Soviet officials could eventually decide to decrease oil exports to LDCs (and selected members of CMEA[15]) in order to increase petroleum sales to IMTEs. (Such a move would almost be inevitable if the USSR runs into serious payment difficulties with IMTEs.) Since it is generally accepted that supertankers can deliver large amounts of petroleum to IMTEs more efficiently than small tankers, a marked increase in Soviet petroleum deliveries to IMTEs could lead to a sharp rise in the number of Soviet supertankers.[16]

In the early 1970s the USSR started to break away from its policy of building traditional dry-cargo vessels and began constructing/purchasing semi-containerships and other specialised merchant vessels. Semi-containerships are capable of transporting both loose cargo and containerised freight. On such ships the loose cargo is normally placed within the hull and the containers are placed on the deck. Some general purpose dry-cargo ships can be transformed into semi-containerships by increasing the amount of deck space and adding devices for securing the containers. In 1972, the SMF obtained three general purpose semi-containerships. In 1975, 28 such ships were added to the SMF.[17]

Semi-containerships are well-suited for Soviet shipping operations in foreign waters and could prove to be an important part of the SMF even if the USSR does not significantly increase its own container trade. For example, the Soviet Union could send a semi-containership to an LDC loaded (below the deck) with various types of loose cargo. While the vessel is en route it might be ordered to pick up any available containers in IMTEs. As a result, the semi-containership not only delivers Soviet cargo to the LDC but also earns hard currency by transporting containerised cargo between IMTEs.

In mid-1975, the USSR had eleven cellular containerships[18] with a combined capacity of 69,000 dwt. The average Soviet cellular containership amounted to approximately 6,300 dwt. At the same time the United States had 103 such vessels with a combined capacity of 1,628,000 dwt. In mid-1975, the average American cellular containership totalled about 15,800 dwt. The largest Soviet containership at the end of 1974 was capable of transporting 358 (twenty-foot) containers and travelling at a speed of seventeen knots per hour. During 1975, the USSR was planning to acquire some East German containerships in the 13,000 deadweight-ton range. These vessels can carry 774 (twenty-foot) containers and travel at speeds exceeding twenty knots per hour. But even the East German containerships are considered small by world standards. Some cellular containerships in the world merchant fleet amount to 49,000 dwt and have space for almost 3,000 containers. A few of these large Western containerships can travel at speeds exceeding thirty knots per hour.[19]

The recent agreement between Japan and the USSR regarding the transport of containers to such areas as Southeast Asia, Indonesia, Australia and New Zealand indicates the Soviet Union could soon become a key participant in world container transport. Japanese exports to Western Europe and the United Kingdom greatly exceed imports from these regions. Since a high proportion of Japanese exports are shipped in containers a number of empty containers were ultimately being sent back to Japan. One of the large Japanese freight forwarders saw the possibility of securing additional outward bound freight from Western Europe and the U.K. (to Southeast Asia, Indonesia, Australia etc.) by offering importers in the Pacific region attractive rates for transporting cargo in these containers. The Soviet Union joined the Japanese in this scheme by offering attractive rates for transporting the containers from ports on the west coast of the USSR to Vladivostok via the Trans-Siberian Railway.[20] The SMF came into the picture by participating in the transport of the containers from Vladivostok to Japan and other countries in the Pacific region.

It is worth mentioning that a New Zealand freight forwarder,

C. H. Williams, claims there are at least four factors which are proving (or could prove) to be obstacles to the development of the Japanese-Soviet container-transport scheme in New Zealand: time, loyalty, pressure from Western shipping companies and governmental intervention. In order to use the Trans-Siberian Railway for the transport of cargo from Western Europe to the Far East, commodities are first delivered to either Berlin or some Soviet city where they are consolidated before being shipped across Siberia. The commodities are then transported from Vladivostok to Japan. In Japan the goods are deconsolidated and shipped to their various destinations. In the end, some New Zealand importers must allow up to three months for transport time. Conference-line vessels[21] (from West European ports) reach New Zealand in approximately four weeks and the movements (sailings) of the ships are known so importers can plan production and sales more effectively. Regarding loyalty, Williams points out that many New Zealand companies enjoy close relationships with shippers who have served some of these companies for over 100 years. Some British and West European shippers can even cite occasions when they provided services at a loss. If necessary, Western shipping companies could start pressuring certain suppliers to use the services of conference vessels. Moreover, conference lines could also ask Western governments for protection if their losses are too great.[22]

In spite of this rather gloomy situation in New Zealand, the USSR seems to be quite active in the transport of containerised cargo between Europe and the Far East. Much of this activity involves the use of the Trans-Siberian Railway. It should also be pointed out that during the Tenth Five-Year Plan (1976-1980) the USSR expects to increase the number of its containerships considerably.[23] Some of these vessels are undoubtedly planned for cross-trade operations. Furthermore, a container-manufacturing plant will soon be completed in the USSR. Since the composition of Soviet seaborne exports is unlikely to change for some time (i.e., almost all Soviet exports shipped by sea will continue to be bulk commodities such as timber, ores and petroleum) it is likely that some of the containers produced in the USSR will be used for cross-trade operations.

The USSR acquired its first roll-on/roll-off (ro/ro) vessels in 1974. Ro/ro vessels were initially constructed to carry wheeled vehicles and cargo in trailers. At this time they are also used to transport containers and palletised cargo. Ro/ro ships can be loaded and unloaded much faster than general-cargo vessels and full container-ships. The largest ro/ro ships in the SMF at the end of 1974 stood at 6,000 dwt and were capable of reaching speeds up to seventeen knots per hour. Some West European ro/ro ships are larger than 20,000 dwt and are capable of travelling at speeds up to twenty-two knots per hour.[24]

During the next few years the size and number of ro/ro vessels in the SMF should increase significantly. Three types of ro/ro ships--the 20,000 deadweight-ton Soviet-built 'Kapitan Smirnov', the 21,000 deadweight-ton Finnish-built 'Magnitogorsk', and the 17,500 deadweight-ton Polish-built 'Skulptor Konenkov'--are currently under construction for the SMF. The Kapitan Smirnov is capable of carrying over 1,000 containers and travelling at speeds up to 25 knots per hour. The Magnitogorsk can carry 1,100 containers and travel at 22 knots per hour. The Skulptor Konenkov has space for 800 containers and can travel at 21 knots per hour.[25] All of the aforementioned ro/ro vessels are capable of competing with the best ro/ro ships in the world merchant fleet. According to one report the USSR had four ro/ro vessels and fourteen full containerships in 1977. It is estimated that by

1980 the SMF will have nearly forty such ships.[26]

One of the most recent acquisitions of the SMF is the barge carrier or LASH (lighter aboard ship). Like the full containership and ro/ro, the barge carrier spends little time in port. Such carriers transport shallow-draft barges which are loaded with all types of cargo. The barges are dropped off in various harbours and towed by tugboats to inland docks or shallow coastal ports. Barge carriers would be especially useful if the USSR is supplying a country with economic and military aid during a period of war (e.g., a Soviet barge carrier could deliver supplies without entering a dangerous foreign port.) The USSR ordered its first barge carriers from Poland and Finland in 1975. During the period 1978-1979, the USSR will receive two barge carriers from Finland. Each vessel will be able to transport twenty-six 1,300-ton barges. In 1979, the SMF will receive Soviet-built barge carriers.[27]

Data on the development of the SMF between 1 January 1975 and 1 January 1977 are provided in TABLE 6.4. During this period the SMF grew from 14,356,397 grt to 15,311,074 grt; a 7 percent increase. From 1 January 1975 to 1 January 1977, passenger-ships and passenger-carrying freighters increased by 14 percent, tankers grew by 13 percent, and dry-cargo ships increased by 3 percent. The reader might wonder why the size of the SMF was reduced by 137,320 grt from 1 January 1975 to 1 January 1976. Almost all (i.e., 127,690 grt or 93 percent) of the decrease can be attributed to the loss of a number of steamships (as opposed to diesel-powered ships) from the SMF.[28] On 1 January 1977, diesel-powered vessels comprised 87 percent of the SMF.[29]

During 1976, the USSR completed eighty-five merchant vessels totalling 503,318 grt[30] (see TABLE 6.5). This tonnage represented 46 percent of the growth of the SMF between 1 January 1976 and 1 January 1977. General-cargo ships over 2,000 grt accounted for 43 percent of

TABLE 6.4

THE SOVIET MERCHANT FLEET, 1 JANUARY 1975-
1 JANUARY 1977[a]
(self-propelled ships 100 grt or over)

Type of ship	Number			Gross registered tonnage		
	1975	1976	1977	1975	1976	1977
Passenger-ships and passenger-carrying freighters	198	195	201	559,479	595,092	636,658
Dry-cargo ships	2,175	2,154	2,240	9,146,359	8,910,237	9,431,667
Tankers	452	429	443	3,512,472	3,529,138	3,976,289
Service and auxiliary ships	734	754	776	356,037	386,317	416,146
Technical ships[b]	361	369	391	314,449	304,664	332,705
Other ships	294	318	342	467,601	493,629	517,609
Total	4,214	4,219	4,393	14,356,397	14,219,077	15,311,074

[a]Since British and Soviet statistics differ on the size of the SMF (British statistics do not include service and auxiliary ships, technical ships etc.) the reader should not attempt to compare data in TABLE 6.4 with data in TABLES 6.1, 6.2 and 6.3. The reader should also be aware of the fact that the USSR includes the fishing fleet in its data on the SMF. Data on the Soviet fishing fleet have been excluded from TABLE 6.4.

[b]This category includes survey ships, salvage vessels, fire-fighting ships, vessels equipped for diving personnel etc.

Sources: Morskoi flot, No. 5, 1977, p. 13; Morskoi flot, No. 5, 1976, p. 7; and Morskoi flot, No. 11, 1975, p. 11.

the tonnage completed by the USSR during 1976; tankers, 26 percent; ore and bulk carriers, 25 percent; and general-cargo vessels under 2,000 grt only accounted for 1 percent.

Recent Soviet foreign trade statistics confirm that foreign ships and equipment play a key role in the development of the USSR's maritime capabilities. In 1976, the USSR imported 915.1 million-rubles worth of ships and maritime equipment and exported only 86.2 million-rubles worth of the same commodities. In 1977, Soviet imports of ships and

and equipment amounted to 918.3 million rubles (about $1,276.4 million) while exports stood at 106.5 million rubles (about $148.0 million). During the mid-1970s, Finland, the GDR, Poland and Yugoslavia were regarded as important suppliers of ships for the USSR.

TABLE 6.5

SHIPS COMPLETED IN THE USSR DURING 1976, BY PRINCIPAL TYPES

Type	Number	Gross registered tonnage
General cargo ships 2,000 grt or over	33	214,495
Oil tankers	5	129,510
Ore and bulk carriers	6	126,235
Combination bulk/oil carriers	3	8,097
General cargo ships under 2,000 grt	9	5,257
Containerships 2,000 grt or over	-	-
Liquefied gas and chemical carriers	-	-
Miscellaneous	29	19,724
Total	85	503,318

Source: Lloyd's Register of Shipping, Annual Summary of Merchant Ships Completed in the World During 1976, pp. 5-6.

On the Organisational Make-Up of the Soviet Merchant Fleet

The Ministry of the Merchant Fleet is responsible for formulating and controlling Soviet maritime policy. The Main Administration for the Operation of the Fleet and Ports is responsible for co-ordinating the activities of the SMF. Soviet maritime operations are carried out by seventeen shipping companies under the direction of three regional administrations (see CHART 6A).

CHART 6A

MINISTRY OF THE MERCHANT FLEET OPERATING STRUCTURE

Main Administration for the Operation of the Fleet and Ports

Administration for the operation of the fleet and ports of the Northwestern Basin (Sevzapflot)	Administration for the operation of the fleet and ports of the Southern Basin (Yuzhflot)	Administration for the operation of the fleet and ports of the Far Eastern Basin (Dal'flot)
1. Northern Steamship Company (Arkhangel'sk)	2. Black Sea Steamship Company (Odessa)	3. Far Eastern Steamship Company (Vladivostok)
4. Murmansk Steamship Company (Murmansk)	5. Novorossiisk Steamship Company (Novorossiisk)	6. Primorsk Steamship Company (Nakhodka)
7. Baltic Steamship Company (Leningrad)	8. Azov Steamship Company (Zhdanov)	9. Sakhalin Steamship Company (Kholmsk)
10. Estonian Steamship Company (Tallinn)	11. Georgian Steamship Company (Batumi)	12. Kamchatka Steamship Company (Petropavlovsk)
13. Latvian Steamship Company (Riga)	14. Danube Steamship Company (Izmail)	
15. Lithuanian Steamship Company (Klaipeda)	16. Caspian Steamship Company (Baku)	
	17. Central Asian Steamship Company (Chardzhou)	

Source: William Carr, 'Soviet Shipping Strength and Its Employment', in Soviet Oceans Development, U.S. Congress, Committee on Commerce and National Ocean Policy Study, 94th Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1976), p. 345.

The largest Soviet shipping companies are located on the Black Sea and Baltic Sea, and in the Far East. Each of these companies is equipped to transport general and bulk cargo, containerised freight and wheeled vehicles to all parts of the world. The largest Soviet shipping company specialising in the transport of petroleum and petroleum products is the Novorossiisk Steamship Company. Another shipping company of the same type is the Primorsk Steamship Company. The Georgian and Latvian shipping companies operate both dry-cargo vessels and tankers. The Lithuanian, Estonian, Murmansk, Far Eastern and Azov shipping companies specialise in transporting general and bulk cargo. The Northern Steamship Company plays a leading role in the transport of Soviet timber exports. The Danube Steamship Company is mainly responsible for handling cargo (via the Danube River) destined for CMEA countries, Austria and the FRG. The amount of transit cargo handled by the company has increased significantly. By using sea-going vessels from other Soviet shipping companies the Danube Steamship Company has been able to extend its cargo lines from the Danube River to Mediterranean and Red Sea ports. The Caspian Steamship Company is responsible for transporting cargo between the USSR and Iran. The Central Asian Steamship Company handles freight between Afghanistan and the USSR (via the Amu Darya River).[31]

Two specialised shipping organisations--Sovfrakht and Sovinflot--are also attached to the Ministry of the Merchant Fleet. Sovfrakht: charters foreign vessels for transporting Soviet cargo; hires out Soviet merchant vessels to foreign charterers; acts as a broker between foreign shipowners and shippers; and utilises hired tonnage. Sovfrakht has been carrying out maritime activities for over forty years. It has representative offices/companies in a few key world markets and maintains close business contacts with over 800 foreign shipowners, charterers and brokers.

Sovinflot was established in 1969, and is responsible for arranging supplies and services for Soviet vessels abroad as well as providing supplies and services for foreign ships in Soviet ports. It handles a considerable share of the business of Soviet vessels operating on regular lines as well as containerships involved in cross-trade operations. Sovinflot operates through a network of representative offices, joint-stock companies, foreign agents and stevedore firms in over 120 countries.[32]

Until recently, the USSR has shown little interest in joining Western shipping conferences. By operating outside the conferences the SMF is capable of attracting quite a lot of business by offering shipping charges which are considerably lower than conference freight rates. According to one report the USSR undercuts Western freight rates by 15-20 percent.[33] But the Japanese Shipowners' Association claims that Soviet shipping rates are sometimes 40 percent below conference rates on major Japanese routes to the United States and elsewhere.[34] It might be interesting to note that in the first half of 1978, a Soviet shipping line--Balt-Atlantic--secured a large part of a contract to transport buses from the FRG to the United States. (Some of the buses were purchased with federal funds.) According to the U.S. Federal Maritime Commission, Balt-Atlantic did not seek approval for its transport charges which were approximately 50 percent lower than conference rates.[35]

There have been a number of claims that the low rates charged by the SMF are not necessarily an indication that the SMF is capable of operating more efficiently than its Western counterparts. But since the Soviet economy is almost completely isolated from IMTEs it is extremely difficult to ascertain whether the SMF is operating on the basis of efficiency criteria or merely charging low rates in order to obtain as much hard currency as possible. Western reports occasionally mention that the SMF is heavily subsidised.[36] In addition, the Soviet government provides various benefits/services (e.g., insurance) for the SMF which most Western shipowners are required to purchase for themselves. However, it is necessary to recognise that the low wages paid to Soviet seamen also help to keep shipping rates at low levels. (One report claims that an average Soviet seaman receives the equivalent of about $30.00 per week while an average Western seaman receives $150.00[37])

Much of the SMF's business in the West is connected with bilateral trade. According to recent estimates, Soviet ships carry 97 percent of the (volume of) seaborne cargo transported between the USSR and Japan, 84 percent of the (volume of) seaborne cargo shipped between the USSR and the U.K., and 75 percent of the (volume of) seaborne cargo transported between the USSR and the FRG. In addition, the SMF is now transporting a fair amount of cargo between third countries. During the first half of 1976, Soviet ships carried about 10 percent of all seaborne cargo transported between the west coast of the United States and Hong Kong. (Hardly any of this cargo was exported or imported by the USSR.) Furthermore, it is estimated that the USSR handles about 10 percent of the cargo shipped between Europe and the Far East.[38]

A high proportion of Soviet seaborne exports consists of bulk commodities. On the other hand the USSR imports relatively few bulk goods (unless the country is experiencing a serious grain shortage). According to S. Luk'yanchenko, Deputy Minister of the SMF, the ratio of Soviet seaborne exports to imports (based on volume) is roughly five to one.[39] Therefore, after Soviet merchant vessels deliver the country's exports to foreign markets and pick up Soviet imports, they are still capable of engaging in cross-trade operations while en route to the USSR. A few Soviet merchant vessels are even ordered to remain in foreign waters throughout the winter months because ready access to Soviet ports during this period cannot be guaranteed. Of course, such ships are free to compete with Western merchant vessels in the world freight market.

Since the late 1960s, major Western shipping nations have been aware of the growing amount of cargo handled by the SMF. This growth will probably continue for at least two reasons. Firstly, the low freight charges will most likely attract new customers. Secondly, the size of the SMF is projected to increase from 18.4 million dwt in 1980, to 23 million dwt in 1985[40] (remember that the SMF amounted to 16.2 million dwt in mid-1975). Soviet officials are undoubtedly planning to use some of this additional tonnage to gain a stronger foothold in Western shipping markets.

Up till now Western nations have been reluctant to take measures that would seriously restrict the operations of Soviet merchant vessels. During the 1960s and early 1970s, various maritime agreements were signed between the U.S. and USSR. However, such agreements were only connected with the bilateral seaborne trade between the two countries. (In other words, American and Soviet shippers were guaranteed certain portions of the bilateral cargo.) So, the SMF was still free to use whatever tactics were necessary to ship cargo from, say, New York to London. For almost a decade the U.K. has been trying to reach an 'understanding' with Soviet shippers. But such attempts have not been too successful. Therefore, the U.K. has appealed to the European Economic Community (EEC) for assistance (see CHAPTER VII for details).

The SMF has two distinct roles--economic and political. According to the Minister of the SMF, T. Guzhenko, the establishment of a powerful and modern SMF has provided for the needs of the national economy in coastal transport; helped to make Soviet foreign trade independent from the capitalist freight market; liquidated the country's negative freight balance; and guaranteed the stability of Soviet foreign trade in the face of unforeseen situations like the economic boycotts against Cuba and the closure of the Suez Canal.[41] Prior to the early 1960s the USSR was seemingly content to charter foreign ships to facilitate its trading operations. The volume of cargo which the SMF could not handle during the 1950s was not too large hence foreign currency payments for shipping services did not place a heavy burden on the USSR's budget. But the increase in Soviet trade and aid was responsible for changing the USSR's shipping policy.

The Soviet quest for independence from the world freight market was intensified immediately after the USSR's decision to step up the development of its merchant fleet. Since the early 1960s the USSR has attempted to handle virtually all of its seaborne foreign trade. Whenever the USSR negotiates a foreign trade contract which involves the transport of commodities by ship, the country attempts to purchase its imports f.o.b. and sell its exports c.i.f.[42] The centralised control of both foreign trade and shipping in the USSR makes flag discrimination relatively easy. For some time the USSR was able to carry out its discriminatory shipping policy without provoking Western shippers. However, as the SMF developed into a potential threat, Western shippers began demanding changes in Soviet maritime policy. Selected Western governments are now considering the possibility of curbing the activities of the SMF in the West. So, within a short period of time Soviet traders could experience more difficulty in negotiating f.o.b. terms for their imports and c.i.f. terms for their exports.

The growth of the SMF has seemingly enhanced the political position of the USSR. Nowadays the Soviet flag can be seen at various times in over 1,200 ports throughout the world. The SMF is now capable of handling virtually all of the USSR's seaborne trade with CMEA members and LDCs. Moreover, even IMTEs are now aware of the presence of the SMF. But a large merchant fleet could conceivably present problems for the USSR under some conditions. If relations should temporarily sour between East and West, Soviet merchant vessels would have difficulty carrying out worldwide operations because they would not be able to obtain supplies and services from ports belonging to adversaries of the USSR. The recipients of Soviet economic and military aid would not appreciate a marked reduction in the number of Soviet merchant ships visiting their ports after becoming accustomed to regular deliveries for many years. Furthermore, the USSR's modern fleet would be underutilised during a period of strained relations and hence an economic liability. There would most likely be no attempt to update the underutilised fleet so when political conditions improved the USSR might have an obsolete merchant fleet. And finally, if war broke out between East and West, Soviet merchant vessels in and around Western ports would be quickly confiscated.

Most of the cargo transported by the SMF is connected with foreign (as opposed to coastal or domestic) trade.[43] As a result, the USSR's maritime policy is greatly influenced by conditions in the international freight market.

> The Soviet merchant fleet is primarily concerned with foreign transport and its activities are connected with the capitalist market. Therefore, a knowledge of the rates and cargoes of the capitalist fleet is one of the responsibilities of the officers of the ships and the commercial [e.g., shipping agents] and operational [planning] personnel of the Soviet merchant fleet.[44]

Soviet foreign shipping rates are established by the Bureau of Prices of the State Planning Commission (Gosplan) on the basis of rates prevailing in the world cargo market. Shipping charges for cross-trade operations are based on free-market freight rates and Soviet liner rates are established for each shipping line according to world liner rates. Shipping charges on lines which are jointly operated by Soviet and foreign companies are determined by agreements between the affiliated shipping companies.

According to one estimate, of the 114 million tons of cargo handled by the SMF in international trade during 1974, approximately 90 million tons (79 percent) consisted of Soviet exports and imports.[45] The remainder was cross-trade cargo. A sizeable portion of cross-trade cargo handled by the SMF consists of commodities which are destined for CMEA countries and LDCs (e.g., Canadian flour for Cuba, Iraqi petroleum for Eastern Europe, Cuban military supplies for Angola etc.). Payments for such services are often made on a clearing-account basis. But as we have learned, the USSR is also earning quite a lot of hard currency from the operations of the SMF in the West.

In June 1975, the SMF was handling freight on fifty-eight international lines (see APPENDIX D). At that time only five of the USSR's international cargo lines were affiliated with shipping conferences. In the latter part of 1976 the Balt-Atlantic line was planning to join seven North Atlantic shipping conferences. The Continental North Atlantic Westbound Freight Conference and the Continental North Atlantic Eastbound Freight Conference submitted proposals to the U.S. Federal Maritime Commission to modify the existing rate agreements in order to give Balt-Atlantic membership as a semi-containership operator. The proposals suggested a two-tier rate system under which Balt-Atlantic would be granted a 10 percent rate differential in the first year of membership and 6.5 percent in the second year. By the end of the second year Balt-Atlantic was expected to bring up the quality of its shipping services to conference levels and operate on an equal basis. Balt-Atlantic agreed to join the other five shipping conferences--North Atlantic Westbound Freight Conference, North Atlantic-United Kingdom Freight Conference, North Atlantic-Baltic Freight Conference, Scandinavia-Baltic/North Atlantic Westbound Freight Conference, and North Atlantic-French Atlantic Freight Conference--without any special interim rate arrangements.[46] However, according to evidence which has already been mentioned (see p. 363) Balt-Atlantic is apparently not honouring all of its conference agreements.

On the Foreign Currency Operations of the Soviet Merchant Fleet[47]

When operating abroad, Soviet merchant vessels are required to carry out many of their financial transactions in convertible currencies. A large portion of the convertible currency expenditures of a Soviet ship comprises payments for supplies and repairs, and wages for the crew when the ship is docked in foreign ports. Convertible currency is also used to pay for port taxes and pilotage. Letters of credit[48] are used to provide Soviet merchant vessels with the necessary amounts of convertible currency to cover such expenditures. The captain of a Soviet merchant ship receives letters of credit from his shipping company if the ship departs from its port of registration.[49] If the ship departs from any other port the letters of credit are issued by an agent of Sovinflot. In the event a Soviet merchant vessel requires additional convertible currency resources while operating abroad (e.g., the ship might be ordered to remain in foreign waters for a longer period than anticipated) letters of credit are sent by telegram. Of course, convertible currency can also be obtained from Westerners who have decided to use the services of Soviet merchant vessels (especially passenger-ships).

When a Soviet merchant ship arrives in a foreign port its captain presents a letter of credit to an agency providing financial services for the SMF. The agency obtains convertible currency from local banks on the basis of the letter of credit and gives such currency to the captain of the vessel. A receipt for the convertible currency is issued by the captain to the agent of Sovinflot. If any convertible currency remains after all expenses have been covered, the captain normally returns such cash to the agent of Sovinflot. The captain of the merchant vessel receives a receipt from the agent for any returned sums.

A Soviet merchant vessel must keep a ruble account of its convertible currency operations. The foreign currency earnings and expenditures of a Soviet merchant vessel are calculated into rubles at the official rates of exchange (i.e., the rates established by Gosbank) prevailing on the day the ship departs from the USSR unless an order is received from the shipping company (or other higher Soviet organs) to change the existing rates. In the event a Soviet merchant vessel is ordered to revalue its foreign currency holdings the captain appoints an 'inventory commission' from amongst his crew members to carry out this task. The convertible currency operations of Soviet ships are recorded in a separate cash ledger. Separate balances are maintained for individual currencies (i.e., foreign currencies are not converted into one form of exchange [e.g., dollars] and aggregated).

Members of the crew are paid according to their job descriptions and the type of ship on which they serve (e.g., tanker, dry-cargo ship, passenger-ship etc.). Most crew members are paid on an hourly basis. A few members of the crew (e.g., physicians) are paid fixed sums for the duration of the voyage. Convertible currency wages of Soviet crew members are determined on the basis of official rates of exchange (e.g., if a crew member is paid 75 kopecks per hour, and the official rate of exchange is 1 ruble = $1.40, the crew member receives $1.05 per hour on a foreign currency basis). The Soviet authorities do not levy a tax on convertible currency earnings of crew members.

When a Soviet merchant ship returns to the USSR after completing a foreign voyage the captain is required to submit a foreign currency report to his shipping company. The report is a detailed account of of the ship's expenditures (including sums which have been written off as 'official necessities', e.g., the wining and dining of Western charterers) and earnings during the period abroad. Documents which show the ship's foreign currency operations (e.g., receipts from foreign companies that have provided goods/services for the Soviet merchant vessel, and records of transactions between the ship and the foreign agents of Sovinflot) are included with the captain's report.

Measuring the Effect of the SMF on the USSR's Balance of Payments

A number of reasons indicate that it is advantageous for a country to acquire and maintain a powerful merchant fleet. Maritime transport charges comprise a significant portion of the delivered (c.i.f.) prices of commodities. In addition, a country's ability to transport its own imports can result in enormous foreign currency savings. Furthermore, merchant ships are capable of earning quite a lot of convertible currency from cross-trade operations. So, on the surface it appears that a domestic merchant fleet is an important means of improving a country's balance-of-payments position.

Now the foreign currency earnings and savings attributed to a country's merchant fleet are important performance indicators but they do not reflect the fleet's overall effect on the country's balance of payments. The impact on the balance of payments of substituting domestic for foreign merchant vessels cannot be measured solely by the foreign currency earnings (and savings) of the domestic fleet since this disregards the capital costs (i.e., the costs of purchasing foreign merchant vessels) and the necessary foreign currency expenditures which are connected with the operation of domestic ships abroad. Moreover, the foreign currency earnings of the merchant fleet which exceed foreign currency expenditures do not reflect the overall balance-of-payments effect of the fleet since they do not take into account the foreign currency losses attributed to the reduction in sales of goods and services (in home ports) to foreign ships which have been replaced by domestic vessels.

The problems of measuring the overall balance-of-payments effect of a nation's merchant fleet were largely solved by R. O. Goss in 1965. Although Goss was concerned with the balance-of-payments effect of Western merchant fleets, his methodology can be applied to the SMF. According to Goss, when measuring the balance-of-payments effect of a country's merchant fleet the key question is: 'What is the net extent to which the balance of payments differs from what it would have been if the investment in ships had not taken place'?[50] The formula which appears below is largely based on material in Goss' article.

$$E = I + S - (C + O + L)$$

Where

- E represents the effect of a country's merchant fleet on the balance of payments;
- I represents the foreign currency income of the merchant fleet;
- S represents the foreign currency savings attributed to the merchant fleet;
- C represents the capital costs of the merchant vessels that were purchased abroad;
- O represents the foreign currency operating expenditures (e.g., supplies and services, port taxes, pilotage etc.) of the merchant fleet;
- L represents the foreign currency losses attributed to the use of a given country's merchant vessels (see lines 1-5 on this page).

Only a few Western analysts have attempted to estimate the balance-of-payments effect of the SMF. In 1971, Robert E. Athay published a book which dealt with this problem. Using Goss' methodology, Athay estimated the net effect of the SMF on the USSR's balance of payments for the years 1960, and 1964-1966 (see TABLE 6.6). As far as this researcher knows, there has been no (published) attempt to update Athay's estimates.

There appears to be at least one reason for the lack of estimates on the balance-of-payments effect of the SMF. A Soviet textbook published in 1964, contains some rather useful material on the foreign currency operations of the SMF.[51] Athay was able to make some of his estimates on the basis of material included in this textbook. In the light of the marked development of the SMF after 1965 (resulting, of course, in the increase of Soviet shipping activities in hard currency areas) it is reasonable to assume that Soviet officials are now quite wary about permitting the same type of material to appear outside the confines of Soviet institutions.

TABLE 6.6

NET EFFECT ON BALANCE OF PAYMENTS IN HARD AND NON-CONVERTIBLE CURRENCIES OF USING SOVIET RATHER THAN FOREIGN SHIPS TO CARRY A PORTION OF SOVIET SEABORNE FOREIGN TRADE, 1960 and 1964-1966
(in millions of rubles)

Year	Non-convertible currency			Hard Currency			Combined net gain
	Gains	Losses	Balance	Gains	Losses	Balance	
1960	105.0	124.6	- 19.6	47.2	44.6	2.6	- 17.0
1964	239.8	132.4	107.4	140.8	78.0	62.8	170.2
1965	300.6	206.0	94.6	161.8	86.1	75.7	170.3
1966	328.2	201.5	126.7	192.8	86.6	106.2	232.9

Source: Robert E. Athay, The Economics of Soviet Merchant-Shipping Policy (Chapel Hill, North Carolina: University of North Carolina Press, 1971), p. 68.

On Measuring the Comparative Advantage of the SMF

According to Athay, 'Measuring the absolute gains to the balance of payments resulting from investments in merchant shipping does not constitute a complete test of the effectiveness of that program as a policy of import substitution'.[52] A more meaningful analysis can be carried out by comparing the gains to the balance of payments from shipping relative to those of alternative investment programmes. This involves calculating the ruble expenditures necessary for each unit of foreign currency saved in substituting domestic shipping services for foreign shipping and comparing this ruble-foreign exchange ratio with corresponding ratios for various Soviet imports.

On the basis of data for the period 1961-1965, Athay estimated that the USSR was required to spend between 1.5 and 1.6 rubles on its home-produced merchant vessels in order to save one dollar. Athay then compared his estimated ruble-dollar ratios with the CIA's estimates of ruble-dollar ratios for selected groups of Soviet imports. The outcome of Athay's analysis indicated that over two-thirds of the groups of imports offered greater foreign currency (dollar) savings per ruble spent than did merchant shipping.[53] However, these estimates should not be taken too seriously as Athay himself was well aware of the fact that accurate estimates are extremely difficult to make because of the lack of pertinent data from the USSR and the disparity between Soviet (domestic) prices and world-market prices. Although Soviet planners have access to data which would enable them to make comparative-cost calculations, Philip Hanson concluded in his article on the SMF that a fair amount of time would elapse before policy decisions on merchant shipping in the USSR are based on such calculations.

> It would be interesting but idle to ask what the 'true' comparative advantage of the Soviet Union is in shipping. Economists specializing in shipping in the USSR are trying to find out themselves by refining estimates of national balance-of-payments returns from investments in shipping and relating them to similar estimates for other investments. But they have a long way to go.[54]

The Soviet Fishing Fleet

Russia's fishing fleet rarely ventured beyond the country's coastal waters. Soviet fishermen continued this policy for over three decades after the October Revolution. In the early 1950s the Soviet fishing fleet began penetrating distant fishing regions in the Atlantic and Pacific oceans. By the mid-1970s the Soviet Union had become one of the world's leading fishing nations (second only to Japan) with the largest distant-water fishing fleet.

The Soviet fishing industry is now an important foreign currency earner. In 1955, the USSR's fish imports were forty-four times larger than exports (see TABLE 6.7). However, in 1976, the USSR exported seven times more fish than it imported. Soviet earnings from fish exports, minus fish imports, increased from 20 million rubles in 1970, to 76.2 million rubles (about $103.6 million) in 1976.

TABLE 6.7

SOVIET EXPORTS AND IMPORTS OF FISH, 1955-1976
(in millions of rubles)

Year	Exports	Imports	Balance
1955	.4	17.4	- 17.0
1957	.5	21.6	- 21.1
1959	6.2	18.7	- 12.5
1961	7.9	6.3	1.6
1963	18.2	15.4	2.8
1965	23.5	12.3	11.2
1967	26.2	13.4	12.8
1969	27.0	9.8	17.2
1970	32.3	12.3	20.0
1971	41.4	10.3	31.1
1972	37.4	9.4	28.0
1973	49.1	6.0	43.1
1974	70.1	13.8	56.3
1975	91.5	14.9	76.6
1976	89.0	12.8	76.2

Source: Official Soviet foreign trade statistics.

On 1 January 1977, the Soviet fishing fleet included 2,930 vessels (100 grt or over) totalling 4,559,832 grt (see TABLE 6.8). Diesel-powered vessels comprised 95 percent of this total and steamers made up the remaining 5 percent. Between 1 January 1975 and 1 January 1977, the tonnage of the Soviet fishing fleet grew by over 17 percent.

TABLE 6.8

THE SOVIET FISHING FLEET, 1 JANUARY 1975-
1 JANUARY 1977
(self-propelled ships 100 grt or over)

Year	Number	Gross registered tonnage
1975	2,865	3,882,564
1976	2,933	4,391,941
1977	2,930	4,559,832

Sources: Morskoi flot, No. 5, 1977, p. 13; Morskoi flot, No. 5, 1976, p. 7; and Morskoi flot, No. 11, 1975, p. 11.

The Soviet fishing fleet is apparently much larger than the figures suggest in TABLE 6.8. In 1976, Milan Kravanja maintained that the Soviet fishing fleet comprised over 4,500 high-seas, distant-water vessels totalling over 6 million grt.[55] This total, according to Kravanja, represented over 50 percent of the world's high-seas fishing fleet which was estimated at 11-12 million grt. Kravanja's estimate most likely included all Soviet fishing vessels (i.e., ships under and above 100 grt) which were capable of operating outside Soviet coastal waters as well as reserve fishing vessels and various support ships which might have been included in Soviet statistics on the SMF under such headings as 'service and auxiliary ships' and 'other ships' (see p. 359).

Although the size of the Soviet fishing fleet is impressive (no matter which statistics you wish to use), it is the least productive of the fleets belonging to the five largest fish-catching nations in the world--Japan, the USSR, Spain, Norway and the United States. One reason for this low productivity is the fact that over half of the tonnage of the Soviet fishing fleet consists of support vessels. On the other hand, support vessels only comprise 14 percent of the Japanese fishing fleet.[56] The USSR's distant-water fishing fleet requires a large number of support vessels for at least two reasons. Firstly, such vessels reduce hard currency payments for supplies and services in foreign ports. Secondly, a number of countries are still reluctant to permit Soviet fishing vessels to use their port facilities even though the USSR might be willing to pay hard currency for supplies and services.

As a result of the lack of port services and Soviet fish-processing facilities abroad, the Soviet fish industry was induced to develop efficient methods of supplying its fishing vessels and processing its catches on the high seas. After studying the Japanese method of supplying fishing vessels and processing marine catches on the high seas, the USSR decided to adopt a similar policy. The scheme involves the creation of large fishing flotillas which are supported by 'factory mother-ships'. These mother-ships are capable of carrying thousands of tons of supplies and equipment. They also have facilities for cleaning and processing marine catches. The fishing flotillas are one solution to the problem of great distances between the USSR and Soviet fishing regions.

In 1969, the USSR launched one of the largest factory mother-ships in the world--the 'Vostok'. This mother-ship totals 43,000 dwt and has the characteristics of five different types of vessels: a dry-cargo ship with a storage capacity of over 13,000 tons; a fish-factory ship which is capable of processing many tons of marine life each day; a passenger-ship capable of transporting hundreds of people;

a tanker; and a refrigerator ship.[57] The Vostok is able to remain in tropical waters for up to four months without replenishment. The factory mother-ship carries fourteen Nadezhda-type fishing boats totalling about 60 dwt each. A helicopter from the Vostok is used to supply the Nadezhda fishing boats whilst they are operating away from the mother-ship.

The Ministry of the Fish Industry's information centre on Rozhdestvensky Boulevard in Moscow is responsible for knowing the location of Soviet fishing vessels as well as the size of their catches. The centre receives information from all regions of the world and in many respects functions as a sophisticated naval intelligence unit. A section of the information centre was described as follows:

> Behind the control panels of computers is a huge operational map of the fishing fleet of the USSR's Ministry of the Fish Industry. It does not have the usual colours--yellow, green and brown--which show deserts, forests and mountains. The map is a very deep blue of the seas and oceans. On this map even continents appear as small islands.
>
> The director flipped the switch. Squares, figures and routes of ships became illuminated. In the right corner, columns of numbers were lit. Today on the high seas there are 1,929 ships; 1,420 of them are fishing, 103 are en route and 149 are in ports . . .[58]

The political significance of the Soviet fishing fleet should not be underestimated. In some LDCs, a Soviet fishing vessel is regarded as an important means of supplying marine protein to local markets. Such dependence is obviously desirable for the USSR. The strategic significance of the Soviet fishing fleet should also be mentioned. Like their counterparts in the SMF, officers in the Soviet fishing fleet are reserve members of the Soviet navy. In addition to reporting their daily position at sea, officers of Soviet fishing vessels are required to send all information of military interest to Moscow. According to Michael MccGwire, 'Fishing fleets working in the more strategic areas are likely to include one or two ships which are specially fitted for intelligence work'.[59]

During the Portuguese sardine fishermen's strike in 1974, the Soviet fishing fleet functioned as an instrument of Soviet foreign policy. But the actions of the fleet were somewhat unexpected. By agreeing with Portuguese authorities to supply sardines to Portugal's canneries the Soviet fishing fleet acted as a strike breaker. In the words of Carl Jacobsen, 'Ideological criteria and proletarian solidarity concepts clearly played second fiddle to the pragmatic desire to foster good relations with Portugal's new radical (but as yet far from Marxist) regime'.[60]

NOTES

[1]Nicholas G. Shadrin, 'The Soviet Merchant Marine, a Late Developing Economic Growth Sector', in Soviet Economic Prospects for the Seventies, compiled by the U.S. Congress, Joint Economic Committee, 93rd Cong., 1st sess. (Washington, D.C.: U.S. Government Printing Office, 1973), p. 722.

[2]William Carr, 'Soviet Shipping Strength and Its Employment', in Soviet Oceans Development, compiled by the U.S. Congress, Committee on Commerce and National Ocean Policy Study, 94th Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1976), p. 332.

[3]S. Luk'yanchenko, 'Morskoi flot i vneshnyaya torgovlya SSSR, Vneshnyaya torgovlya, No. 1, 1977, p. 24.

[4]The General Council of British Shipping defines gross registered tonnage (or gross registered tons) as the capacity in cubic feet of both the space within the hull and the enclosed space above the deck (with certain exceptions) available for cargo, stores, passengers and crew divided by 100. Thus 100 cubic feet of capacity is equivalent to one gross ton.

[5]The General Council of British Shipping defines deadweight tonnage (or deadweight tons) as the weight in tons (2,205 pounds) of cargo, stores, fuel, passengers and crew carried by the ship when loaded to a maximum summer loadline.

[6]Shadrin, 'The Soviet Merchant Marine, . . .', p. 720.

[7]Ibid., p. 723.

[8]According to one source the SMF handles 60 percent of the USSR's seaborne foreign trade (exports and imports) while the American merchant fleet only transports 5 percent of the United States' seaborne foreign trade; see U.S. Congress, Committee on Commerce and National Ocean Policy Study, Soviet Oceans Development, p. 3.

[9]Shadrin, 'The Soviet Merchant Marine, . . .', p. 720.

[10]Carr,'Soviet Shipping Strength . . .', p. 332.

[11]Ibid., p. 335.

[12]See Luk'yanchenko, 'Morskoi flot i vneshnyaya torgovlya SSSR', p. 24.

[13]Carr, 'Soviet Shipping Strength . . .', p. 342.

[14]U.S. Congress, Joint Economic Committee, Soviet Economic Problems and Prospects, 95th Cong., 1st sess. (Washington, D.C.: U.S. Government Printing Office, 1977), p. 6.

[15]A high proportion of Soviet petroleum exports to CMEA members is delivered via pipeline.

[16]Of course, the USSR could decide to concentrate its export drive on IMTEs in Western Europe. Under such conditions, pipelines could be used to transport Soviet-produced petroleum (as well as Soviet petroleum imports from the Middle East) to selected IMTEs in Western Europe.

[17]Morskoi flot, No. 3, 1976, p. 1.

[18]A cellular containership (often referred to as a 'full containership') is equipped to transport containerised cargo both below and above the deck.

[19]Carr, 'Soviet Shipping Strength . . .', p. 334.

[20]Personal correspondence with C. H. Williams, a New Zealand freight forwarder and director of Hurley and Williams Ltd., Auckland.

[21]Conference-line vessels belong to shipping conferences. Such conferences are comprised of shipping companies which offer scheduled (cargo and passenger) services on selected trade routes. A shipping conference is responsible for establishing the rates charged by its members as well as alloting sailings amongst these members.

[22]Personal correspondence with C. H. Williams.

[23]Luk'yanchenko, 'Morskoi flot i vneshnyaya torgovlya SSSR', p. 25.

[24]Carr, 'Soviet Shipping Strength . . .', p. 334.

[25]Ibid., p. 343. (It might be interesting to note that a Deputy Minister of the Soviet Merchant Fleet claims that the Magnitogorsk can carry about 1,400 containers plus vehicles and other types of cargo; see Luk'yanchenko, 'Morskoi flot i vneshnyaya torgovlya SSSR', p. 26.)

[26]The Economist, 18 June 1977, p. 85.

[27]Luk'yanchenko, 'Morskoi flot i vneshnyaya torgovlya SSSR', p. 26.

[28]See Morskoi flot, No. 5, 1976, p. 7; and Morskoi flot, No. 11, 1975, p. 11.

[29]See Morskoi flot, No. 5, 1977, p. 13.

[30]Fishing vessels have been excluded from this total. In 1976, the USSR constructed 108 such vessels totalling 112,580 grt; see Lloyd's Register of Shipping, Annual Summary of Merchant Ships Completed in the World During 1976, pp. 5-6.

[31]Luk'yanchenko,'Morskoi flot i vneshnyaya torgovlya SSSR', p. 25.

[32]Ibid., pp. 28-29.

[33]Guardian, 7 April 1978, p. 14.

[34]General Council of British Shipping, Eastern Bloc Shipping, 8 December 1977, p. 1.

[35]General Council of British Shipping, Eastern Bloc Shipping, 19 April 1978, p. 2.

[36]Of course, some Western merchant fleets are also subsidised.

[37]The Economist, 18 June 1977, p. 85.

[38]Herbert E. Meyer, 'This Communist Internationale has a Capitalist Accent', Fortune, February 1977, pp. 141-142.

[39]Luk'yanchenko, 'Morskoi flot i vneshnyaya torgovlya SSSR', p. 25.

[40]U.S. Department of Commerce, Expansion of the Soviet Merchant Marine Into the U.S. Maritime Trades, August 1977, p. 3.

[41]T. Guzhenko, 'Glavnoe povyshenie effektivnosti proizvodstva', Morskoi flot, No. 3, 1971, p. 3.

[42]By obtaining imports on an f.o.b. basis the USSR is free to use its own ships to transport the commodities from foreign ports to the USSR hence saving significant sums of foreign currency. Of course, when Soviet commodities are exported on a c.i.f. basis the USSR receives foreign currency payments for both the goods and transport services.

[43]Of the 192.0 million tons of cargo transported by the SMF in 1974, 114.0 million tons (or 59 percent) were connected with foreign trade. The disparity between foreign and domestic water transport is much greater if the performance of the SMF is measured in ton-miles. Of the 417.0 billion ton-miles logged by the SMF in 1974, 385.0 billion (or 92 percent) were connected with foreign trade; see Carr, 'Soviet Shipping Strength . . .', p. 335. (The reader should note that the data on the performance of the SMF reflect both the transport of Soviet exports and imports as well as the cross-trade operations of the SMF.)

[44]S. F. Koryakin and I. L. Bernshtein, Ekonomika morskogo transporta, 2nd ed. (Moscow: Transport, 1964), p. 452.

[45]Carr, 'Soviet Shipping Strength. . .', p. 335.

[46]East-West Markets (Chase World Information), 15 November 1976, p.3.

[47]See G. I. Belozerov, L. M. Gas'kov, and M. S. Yasev, Ekonomika, organizatsiya i planirovanie raboty morskogo transporta (Moscow: Transport, 1969), pp. 369-372.

[48]For the purpose of this discussion a letter of credit is an order from a domestic bank (e.g., Vneshtorgbank) to a foreign bank authorising payment of a specified sum (or up to a specified sum) to an individual (or organisation) named in the letter.

[49]Ships are registered in ports where their (i.e., the vessels') respective companies are based.

[50]R. O. Goss, 'Investment in Shipping and the Balance of Payments, a Case Study of Import-Substitution Policy', Journal of Industrial Economics, Vol. XIII, No. 2 (March 1965), p. 104.

[51]See Koryakin and Bernshtein, Ekonomika morskogo transporta.

[52]Robert E. Athay, The Economics of Soviet Merchant-Shipping Policy (Chapel Hill, North Carolina: University of North Carolina Press, 1971), p. 69.

[53]Ibid., p. 74.

[54]Philip Hanson, 'The Soviet Union and World Shipping', Soviet Studies, Vol. XXII, No. 1 (July 1970), p. 57.

[55]Milan A. Kravanja, 'The Soviet Fishing Industry: A Review', in Soviet Oceans Development, compiled by the U.S. Congress, Committee on Commerce and National Ocean Policy Study, p. 382.

[56]Ibid., p. 385.

[57]Shadrin, 'The Soviet Merchant Marine, . . .', p. 759.

[58]Sovetskaya Rossiya, 19 May 1971, p. 4.

[59]Michael MccGwire, 'Naval Power and Soviet Oceans Policy', in Soviet Oceans Development, compiled by the U.S. Congress, Committee on Commerce and National Ocean Policy Study, p. 136.

[60]Carl G. Jacobsen, 'The Civilian Fleets', in Soviet Oceans Development, compiled by the U.S. Congress, Committee on Commerce and National Ocean Policy Study, pp. 278-279.

CHAPTER VII

RESTRAINTS ON SOVIET COMMERCIAL-FINANCIAL OPERATIONS IN MARKET-TYPE ECONOMIES

Up till now Soviet commercial-financial operations in MTEs have been controlled, for the most part, by local laws and norms which govern the activities of all participants in Western markets. The rapid growth of the USSR's operations in MTEs is a good indication that government and business leaders in the West are not averse to a rather significant level of Soviet commercial-financial activity in their respective communities. In the event Soviet leaders decide to maintain or intensify the USSR's foothold in MTEs, Soviet traders and bankers must conduct their operations according to the guidelines established by proponents of the market mechanism.

On the Laws Governing the Establishment and Operations of Soviet Trading Companies and Banks in MTEs

At this time there are very few laws (if any) which specifically pertain to the establishment of Soviet foreign-based trading companies and banks (SFTCs and SFBBs). According to W. H. Balekjian, Soviet applications for the establishment of SFTCs and SFBBs are most likely given the same degree of consideration throughout the EEC as applications from all other foreign (i.e., non-EEC) business interests.[1] The same conditions appear to prevail in the United States. According to government and private sources, there are no American laws which specifically deal with the establishment of SFTCs and SFBBs.[2]

The absence of laws on the establishment of SFTCs and SFBBs should not give one the impression that the USSR is free to set up any type of company whenever and wherever Soviet officials deem appropriate. Generally speaking, the establishment of an SFTC or SFBB involves three steps. Firstly, the USSR informs the appropriate national governmental organs of its intention to set up an SFTC or SFBB. (In the United States these governmental organs include the Department of Commerce and the Department of State.) As a rule, the USSR follows the international practice of informing such organs via a formal (written) request. National governmental organs can reject Soviet requests for the establishment of SFTCs and SFBBs for any number of reasons. An SFTC or SFBB which might disrupt economic conditions in a given locality (e.g., a Soviet company that could put a local firm out of business) or present a threat to national security would most likely be rejected by most governmental organs. (For example, according to an American lawyer, 'the USSR would certainly not be able to establish a missile-manufacturing corporation in the United States'.[3]) In addition, the USSR would obviously not be permitted to set up an SFTC or SFBB in a given MTE if such a move conflicts with national economic/financial policies. We should note that the USSR has yet to establish a bank on Wall Street (or anywhere in the United States). (In all likelihood the USSR has made moves in this direction over the past two decades.) However, it is unlikely that the USSR will be permitted to set up a bank in the United States until American governmental officials adopt a more liberal policy of financial co-operation with the Soviet Union. Now on to the second step: Soviet officials must gain the approval of local governmental officials before setting up an SFTC or SFBB. Since local laws that govern the establishment of joint-stock companies sometimes differ markedly it is reasonable to assume that the USSR might experience more difficulty setting up a company in one locality than another. Moreover, we should bear in mind that some local officials are less willing to accept the presence of Soviet companies in their communities (for ideological reasons) than officials in other localities. Thirdly, the USSR must gain the support of the local business community and consumers. Needless to say, without the support of both groups a Soviet company would not stand a chance of operating as a profit-making organisation.

At the present time there are few laws (if any) which specifically pertain to the operations of SFTCs and SFBBs. As we learned, SFTCs and SFBBs are expected to function like their Western counterparts. SFTCs and SFBBs submit their annual reports and balance sheets (when required) to local and national governmental officials. In almost all cases, SFTCs and SFBBs fall under the same tax schedules as their local counterparts. Some countries place heavy restrictions on the exportation of funds (dividends) from foreign (including Soviet) companies while other nations do not. Unless there are marked changes in the operations of SFTCs and SFBBs it is reasonable to assume that very few laws will be passed to discriminate against such organisations.

Soviet Commercial Organisations Established on the Basis of Intergovernmental Agreements

We discussed a number of organisations in CHAPTER II which were set up on the basis of intergovernmental agreements (e.g., Soviet trade representations, joint commercial commissions, purchasing commissions and at least one joint-stock company--the U.S.-USSR Trade and Economic Council). Many of these organisations were not established to buy and sell commodities. However, they are able to promote Soviet trade by facilitating the operations of Soviet FTOs, SFTCs and SFBBs. Virtually all intergovernmental agreements concerning the establishment of Soviet (and mixed) commercial organisations abroad contain operational guidelines and staffing instructions for these organisations. The organisations are set up on a permanent or temporary basis. In the latter case the intergovernmental agreements cite the period of time within which the organisations can operate.

Procedures for Assigning Soviet Personnel to Commercial/Financial Posts in the West

Almost all Western governments have restrictions (sometimes referred to as 'personnel ceilings') on the number of Soviet citizens who can be permanently assigned to commercial and financial positions. In the middle part of 1977 there were 120 Soviet citizens assigned to such positions in the United States under the prevailing personnel ceiling.[4] Of course, personnel ceilings can be increased or decreased to fit a particular situation.

The procedure for assigning a Soviet citizen to a commercial or financial post is rather simple (although it often takes a long time) and differs little from country to country. A Soviet citizen must obtain a visa before taking up a post in an SFTC or SFBB. If the applicant is not classified as a *persona non grata* the visa is usually granted. The Soviet applicant is also required to convince Western government officials that he is fully qualified for a certain position. If a Soviet banker (or bank employee) is applying for a position within an SFBB he will probably experience no difficulty in obtaining permission (usually in the form of a work permit) to function in such a capacity (once he has obtained a visa).

Members of Soviet foreign trade missions normally gain permission to operate in MTEs without too much trouble. (Remember that Soviet trade missions only remain in MTEs for about one or two weeks.) The visa applications for members of Soviet trade missions are usually processed in about one month. The local host of a Soviet trade mission is often responsible for providing the appropriate Western governmental organs with a detailed account of the mission's itinerary.

On the Laws Governing the Activities of Soviet Personnel Assigned to SFTCs, SFBBs and Other Soviet Organisations in MTEs

In most cases, Soviet citizens assigned to foreign-based commercial-financial organisations are governed by the same laws which regulate the activities of local nationals. However, there are at least two exceptions. Firstly, official Soviet trade representations are usually set up as integral parts of Soviet Embassies. As a result, the heads of the trade representations (i.e., the trade representatives) and their deputies normally enjoy all of the privileges and immunities which are enjoyed by diplomatic staff members of Soviet Embassies. Other members of Soviet trade representations usually enjoy all of the privileges and immunities which are enjoyed by corresponding personnel in Soviet Embassies. Secondly, most MTEs place heavy travel restrictions on Soviet citizens who are permanently or temporarily assigned to all forms of commercial-financial organisations. In many cases, Soviet nationals working in the West are not permitted to travel more than fifty miles from their places of employment without special permission. In addition, most Western nations maintain a list of areas which are classified as 'off-limits' for Soviet citizens.

It is interesting to note that some Western governments have offered to ease travel restrictions on Soviet citizens living abroad in return for reciprocal action by the Soviet government. According to the U.S. State Department:

> The United States Government has long believed that Soviet restrictions on foreign travel within the USSR inhibit direct contacts between Soviet citizens and foreigners which could promote international understanding. A system of areas closed to travel by Soviet citizens in this country was set up in 1955 after several vain attempts to induce the Soviet Government to drop its travel restrictions on foreigners in force since 1941. Our position has always been that we will abolish our own travel restrictions on Soviet citizens if the Soviet Government will reciprocate, or that we will respond in kind to any reduction or abolishment of Soviet travel restrictions on Americans.[5]

Needless to say, the Soviets have been slow to respond to similar proposals from a wide range of Western countries. In the light of this fact it seems highly likely that stringent travel restrictions will remain in force for quite some time on Soviet citizens working in the West.

Most Western governments are prepared to deal expeditiously with Soviet citizens involved in espionage. Within the last two decades only a few members of SFTCs have been expelled (or arrested) for such activity. As far as this researcher knows, no Soviet citizens working in SFBBs have been expelled (or arrested) for spying. This is a good indication that the USSR has been reluctant to assign personnel to these companies and banks for the purpose of carrying out espionage. The reason for this policy is quite clear: any serious violation of a host country's laws by a member of an SFTC or SFBB could seriously affect the USSR's commercial-financial relations with that country.[6] Moreover, a single incident of such nature could culminate in far greater problems for the USSR if other countries become suspicious of Soviet personnel in SFTCs and SFBBs throughout the West. But we should note that Soviet officials do not appear reluctant to assign spies to other types of commercial organisations. Since the early 1970s a number of MTEs have expelled Soviet intelligence agents who were assigned to various Soviet organisations in the West. One of the most notable cases took place in September 1971 when the British government expelled 105 Soviet citizens out of a total working force of approximately 550 Soviets assigned to various organisations in the U.K.[7] Many of the expelled agents were members of the Soviet trade representation in London. The Soviet defector responsible for exposing the spy ring was himself a KGB (secret police) officer disguised as a member of the Soviet trade representation.[8]

Now at that time it might have been reasonable to assume that Anglo-Soviet trade would decrease sharply following the expulsion of a large number of Soviet citizens who were employed in official Soviet organisations in the U.K. (e.g., the Soviet Embassy and the Soviet trade representation). But this did not happen. In 1970, Soviet exports to the U.K. (in current prices) amounted to 418.2 million rubles (imports from the U.K. stood at 223.2 million rubles). During 1971, Soviet exports to the U.K. (in current prices) fell slightly to 406.8 million rubles (imports from the U.K. amounted to 200.0 million rubles). The decrease was a little more pronounced in the following year when Soviet exports to the U.K. (in current prices) amounted to 371.1 million rubles (imports from the U.K. stood at 186.7 million rubles). However, by the end of 1973, Soviet exports to the U.K. (in current prices) increased markedly to 540.6 million rubles (imports from the U.K. declined slightly to 174.6 million rubles). These data indicate that Anglo-Soviet trade was not seriously affected by the mass exodus of personnel from the Soviet Embassy and trade representation.

In addition to reducing the number of Soviet employees in the United Kingdom from 550 to 445, the British government took other measures which probably decreased the USSR's desire to continue widespread espionage in the U.K. Following the deportation order the British government informed the USSR that the number of Soviet citizens assigned to the Soviet Embassy, the Soviet trade representation and all other Soviet organisations in the U.K. could not rise above the number of Soviet nationals serving in such organisations after the departure of the intelligence agents (i.e., after September or October 1971, the maximum number of Soviet citizens who could serve in Soviet organisations in the U.K. stood at roughly 445). (Of course, this ceiling could be increased after a certain amount of time.) The British government also informed the USSR that each time a Soviet official was expelled from the U.K. for spying the authorised number of Soviet employees in that category would be reduced by one.[9]

Restraints on the Operations of the Soviet Merchant Fleet in the West

Until the late 1960s, shippers in MTEs did not appear to be overly concerned with the level of Soviet participation in Western freight markets. Before that time it was widely known that the SMF was undercutting Western rates but conditions in world freight markets were so favourable that Western shippers had little reason to attack the USSR. It should also be pointed out that Soviet shippers can quite easily argue that they were forced to charge lower rates during the 1960s because Soviet shipping services were inferior to those offered by Western shippers. But times have changed. The Soviet merchant fleet is no longer considered grossly inferior to its Western counterparts. Moreover, the level of competition in Western freight markets has grown considerably. This is largely the result of the marked growth of the world merchant fleet from 1970 to 1975 in the face of adverse conditions for world trade (e.g., recessions, protectionism etc.). Since Western shippers are now forced to bargain hard for a sizeable portion of their business they are becoming increasingly critical of Soviet maritime tactics.

In 1968, the British and Soviet governments signed a navigation treaty in an attempt to establish a happy medium between British and Soviet shippers. The two governments agreed that 'free and fair competition' should prevail in the transport of commodities between the U.K. and the USSR.[10] The treaty did not specify the amount of bilateral seaborne trade which should be transported in British and Soviet ships. However, the treaty set up an Anglo-Soviet shipping commission which is responsible for discussing maritime relations between the two countries. The commission meets at least once a year in either London or Moscow. British shipping interests are permitted to participate in these meetings. Up till now such meetings (and the treaty) have done little to improve relations between British and Soviet shippers.

In 1972, a maritime agreement was signed between the United States and the USSR. The agreement specified that American and Soviet shippers were entitled to transport equal shares of the bilateral seaborne trade between the two countries.[11] (About two-thirds of this cargo was earmarked for Soviet and U.S. shippers and the rest for third-country shippers.) However, it appears as though the USSR has forgotten about some of its obligations under the agreement. In August 1976, the U.S. State Department claimed that the USSR had violated the section of the maritime agreement concerning the amount of cargo which could be transported in American and Soviet vessels.[12]

In the opinion of many Western shippers the SMF is presently conducting a policy of unfair competition. These shippers argue that the SMF is able to reduce its rates to the point where there is no way of meeting the Soviet challenge without government action. As a result, a few Western governments are now considering ways to curb Soviet penetration into the world freight market. (It should be pointed out that many IMTEs have maritime laws that can be used to protect their shippers.) Moreover, shippers and government leaders in individual EEC nations are now calling for concerted action against the SMF (as well as other socialist fleets). In May 1978, the European Communities Commission made the following proposals after considering arguments from individual member-states of the EEC:

> (1) . . . member states and the Community should define the objectives to be pursued in relation to cargo liner shipping by state-trading countries;
> (2) . . . member states should set up monitoring procedures enabling them to follow the activities of the liner operators of state-trading countries using Community ports;
> (3) . . . member states and the Commission should regularly examine developments in this area through approved consultative procedures; [and]
> (4) . . . the Council [i.e., the Council of Ministers of the EEC], in certain circumstances and on a proposal from the Commission, should take powers to place quantitative restrictions on cargo carried to and from Community ports in state-trading country vessels. These restrictions could be applied generally, by certain member states only, or in a specific area or trading range.[13]

The U.K. probably took the strongest stand against the tactics of the SMF. The British government's recent proposals to the EEC called for each member-state to adopt laws on shipping which are similar to those prevailing in the U.K. Such laws would enable individual member-states of the EEC to: (1) levy a tax on every Soviet ship entering their ports; (2) fix minimum rates at which Soviet ships can pick up cargo in their ports; (3) set up a quota system which would direct Soviet ships to less popular ports; and (4) draw up contract clauses for the amount of bilateral seaborne trade that should be transported in their own merchant vessels.[14]

In the light of its strong stand against the current activities of the SMF, the British government must have been quite disappointed in the outcome of the meeting between transport ministers of the EEC. On 13 June 1978, the transport ministers failed to agree on counter-measures against the SMF. However, they did agree on a scheme to monitor the operations of CMEA merchant vessels. Under this scheme the EEC will maintain records of the cargoes carried by such ships as well as the rates charged for transport services.[15] It appears as though the USSR will now be forced to take the warnings of Western governments more seriously. If not, future meetings which deal with the so-called unfair practices of the SMF could well result in a marked diminution of Soviet activities in world freight markets.

On Future Soviet Participation in International Economic Organisations

The steady growth of Soviet commercial-financial operations in the West coupled with the fact that a few CMEA nations (i.e., Hungary, Poland and Rumania) are currently members of some Western-dominated international economic organisations has prompted a number of Western analysts to study the problems connected with Soviet membership in these organisations.[16] At this point it is necessary to mention that the West seems to be taking a more favourable attitude toward improving economic relations with the USSR (in spite of minor problems like the SMF), and the Soviet Union, in its turn, seems to be slowly recognising the importance of more profound commercial-financial relations with MTEs. In the event these trends continue, the USSR could start participating in the General Agreement on Tariffs and Trade (GATT), the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). (The reader should note that the IBRD is often referred to as the World Bank.)

On the Prospects for Soviet Participation in GATT

For many years the USSR has criticised the West (especially IMTEs) for imposing high tariffs on Soviet exports. Of course, the USSR could eliminate some of these tariffs by participating in GATT. Article I of GATT states: 'any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties'. But instead of participating in GATT, the USSR has attempted to gain most-favoured-nation status through bilateral agreements with MTEs.

The USSR's reluctance to participate in GATT partially stems from the fact that Soviet officials would be required to make a number of concessions which could undermine Soviet foreign economic policy as it exists today. For example, contracting parties are expected to follow anti-dumping guidelines which are included in Article VI of GATT. Moreover, under Article XV: 'The CONTRACTING PARTIES shall seek co-operation with the International Monetary Fund to the end that the CONTRACTING PARTIES and the Fund may pursue a co-ordinated policy with regard to exchange questions within the jurisdiction of the Fund'. (Of course, Article XV contains special provisions for contracting parties that are not members of the IMF.) According to Article XVI, Section A:

> If any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory, it shall notify the CONTRACTING PARTIES in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary.

It is quite obvious that Articles VI, XV and XVI would conflict with present-day Soviet foreign economic policy. But since Hungary, Poland and Rumania are participants in GATT it is conceivable that at some future date the USSR might decide that the advantages of becoming a contracting party outweigh the disadvantages. In addition, the current members of GATT could decide, within a reasonable amount of time, to ease the conditions for Soviet membership in order to promote greater international economic rapport.

On the Prospects for Soviet Membership in the OECD

Unless Soviet attitudes change markedly, it is unlikely that the USSR will seek membership in the OECD for at least four reasons. Firstly, most of the members of the OECD are IMTEs. (At this time there are no socialist members in the OECD although Yugoslavia enjoys 'special status' in the organisation.) Secondly, the primary aims of the OECD include the promotion of economic growth, high employment and financial stability in member-countries. (In other words, the USSR would have to openly agree to help promote favourable economic conditions in IMTEs.) Thirdly, OECD members are required to promote the expansion of world multilateral trade. As a result, the USSR would have to operate in conjunction with international organs of the world (capitalist) monetary system (e.g., the IMF). And finally, the OECD is responsible for publishing data on the economic systems of member-countries. Before joining the OECD, the USSR would probably be required to divulge economic data which do not appear in official Soviet statistics.

On the Prospects for Soviet Membership in the IMF and the IBRD

The USSR would benefit from membership in the IMF and IBRD for at least two reasons. Firstly, the USSR would have access to hard currency resources in both organisations. Secondly, it would probably be easier for the USSR to obtain credits and loans from banks in individual IMTEs if Soviet officials decide to join the IMF and IBRD.

Adam Zwass has pointed out that although the USSR participated in discussions on the establishment of a post-war international monetary system, Soviet officials decided against joining the IMF and the IBRD in the mid-1940s because of the strong American presence in both of these organisations.[17] However, much has happened during the past thirty years. Firstly, American influence in both organisations has decreased significantly. (For example, the EEC now has more voting power in the IMF than the U.S.) Secondly, the instability of the international monetary system coupled with the marked depreciation of the dollar has brightened the prospects for Soviet participation in the establishment of a new world monetary system via existing international economic organisations.[18] At this point it should be mentioned that Rumania has been a member of both the IMF and IBRD for some time. In the light of this fact there is now little reason for socialist countries to argue that all of their goals are necessarily incompatible with the objectives of the IMF and IBRD.

Under Article VIII, Section 5 of the IMF's <u>Articles of Agreement</u>, member-countries are required to supply the IMF with national economic data. For example, members are required to provide data on their 'International balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items'. This would obviously be a stumbling-block to Soviet participation in the IMF. However, Article VIII, Section 5 also states that 'In requesting information the Fund shall take into consideration the varying ability of members to furnish the data requested'.

Another stumbling-block to Soviet membership in the IMF is the fact that the USSR does not have a convertible currency. It is widely known that the IMF was established to promote multilateral trade via a multilateral system of payments. Article I of the IMF's Articles of Agreement states that one of the purposes of the IMF is: 'To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade'. This would indicate that convertibility is a pre-condition for membership. However, under Article XIV, a country without a convertible currency is entitled to join the IMF if such a country shows a willingness to establish a convertible currency 'as soon as conditions permit'. Since all members of the IBRD must join the IMF, there is little reason to discuss the problems connected with Soviet membership in this bank.

On the Prospects for Ruble Convertibility

The increasing level of Soviet commercial-financial dealings in world markets could someday induce Soviet leaders to establish a ruble with at least a limited degree of convertibility. Such a move could promote the growth of Soviet foreign trade. Moreover, it could give the USSR a key policy-making role in the international monetary system.

A convertible currency is generally considered to be a form of exchange that can be (freely) converted into other currencies and commodities (i.e., goods and services). Convertible currencies are desirable because they facilitate multilateral transactions. In addition, a country whose currency is used as an international reserve currency is in a position to cover some of its foreign debts by exporting its paper money.[19] However, convertible currencies can also create problems.

For example, under a floating-rate system, exchange rates can fluctuate markedly as a result of speculative activity.

By maintaining a convertible currency a given country's price system tends to be based on world market prices. For example, if commodity prices in a country are significantly higher than world market prices for the same goods (or substitutes) it is reasonable to assume that large amounts of currency will be exported from this country in order to purchase goods at more favourable prices. Such action would normally induce local sellers in the aforementioned country to adjust their prices (along the lines of world market prices) to curb the outward flow of funds. (If this is not possible such sellers would probably go out of business and seek a more profitable livelihood.) On the other hand, if commodities in a given country are considerably cheaper than the same commodities (or substitutes) in world markets the rising inflow of funds from abroad should induce sellers (of the inexpensive commodities) to increase prices. Of course, such a system does not exist in the USSR. Since Soviet buyers are not entitled to export their rubles simply to take advantage of cheaper commodity prices, and Soviet producers/sellers are not permitted to alter their prices according to (domestic and international) demand, the Soviet price system does not necessarily reflect conditions in world markets. In the event Soviet officials wish to maintain their centrally-determined price system it would be reasonable to assume that the power to carry out foreign exchange transactions would remain entirely in the hands of Soviet planners.

For the purpose of this discussion we will consider three types of rubles: (1) the transferable (CMEA) ruble, (2) a hypothetical (Soviet) ruble that can be converted into other currencies but not into goods and services, and (3) a hypothetical (Soviet) ruble that can be exchanged for both commodities and other currencies (i.e., a convertible ruble). As we learned, the IBEC was set up in 1963 to promote a multilateral clearing system within CMEA. The basic unit of account in the IBEC is the transferable ruble (or T-ruble). In some respects the operations of the IBEC are similar to those of the BIS. T-ruble balances in the IBEC are created via the export of goods and services of countries utilising the bank's services.[20] For example, let's assume that during a particular year the USSR exports 2 billion T-rubles worth of commodities to a given country (operating within CMEA's clearing system) and imports 1.8 billion T-rubles worth of commodities from that country. The balance (i.e., 200 million T-rubles) could be used by the USSR to cover (T-ruble) debts with other countries or the balance could be placed at the disposal of the IBEC. In the latter case the sum could be lent to a country requiring T-rubles to cover its trade deficit. (Some T-ruble funds are placed in the IIB in order to promote industrial development within CMEA.) It is important to note that at this time T-ruble balances cannot be exchanged for convertible currency.

Despite the fact that capitalist countries are entitled to join the IBEC or participate in CMEA's T-ruble clearing system without joining the bank,[21] H. G. Trend maintains that no non-socialist country has joined the IBEC or participated in the bank's settlement system.[22] The reluctance of Western nations to conduct business with the IBEC prior to 1977 is quite understandable since preliminary balancing of settlements was obligatory until the latter half of 1976.[23] (In other words, if the U.S. had agreed to export 100 million T-rubles worth of goods to the USSR in 1975, the U.S. would have eventually been required to import 100 million T-rubles worth of goods from the USSR.) Soon after the IBEC's announcement that preliminary balancing of settlements was no longer necessary, Western analysts began predicting that a Euro-ruble market would soon be established.[24] According to one report, 'it [i.e., the IBEC's decision to permit unbalanced T-ruble transactions] could well lead to [the] creation of a Eurorouble market in which Western companies exporting goods . . . [to] Comecon countries would sell transferable roubles to companies wishing to buy goods from Comecon countries'.[25] Needless to say, SFBBs (and even the IBEC) were besieged with calls about the new Euruble market.[26] The situation was finally straightened out in the early part of 1977. However, it is quite obvious from the IBEC's Economic Bulletin that CMEA officials did not take the Western reports very lightly:

> , . . . some of the press agencies of Western countries were inexact in their statement[s] and commented without foundation on the character of the adopted alterations, misinterpreting them as the creation of a Eurorouble, introduction of the convertibility of the transferable rouble, the possibility of establishing a secondary market of this currency, etc. These statements are unrelated to the reality of the situation . . . .[27]

The blame for the problems connected with the IBEC's announcement in the latter half of 1976 should not be borne solely by Western analysts. True, these analysts were overly optimistic, but it is only fair to point out that the IBEC made the initial announcement without elaborating on the change. So, Western analysts foresaw the possibility of a lot of East-West trade being financed via (non-convertible) T-rubles. Since preliminary balancing of settlements was no longer obligatory, it was only natural to assume that some Western companies would have large amounts of T-rubles which they would be willing to sell to the highest bidder. However, many Western analysts failed to realise that changes in the T-ruble's world standing would have to come about before Western companies would be willing to accept large amounts of T-rubles as payment for goods and services. Indeed, Jozef Van Brabant has mentioned that if T-rubles are widely used for the financing of East-West trade, a Euroruble market could be established that would rival the Eurodollar market. But Van Brabant was also quick to point out that before the West starts accepting the T-ruble as an important means of financing East-West trade, CMEA nations will have to guarantee the T-ruble's (commodity or currency) convertibility.[28] Although there is little indication that CMEA (as a whole) favours the emergence of a convertible T-ruble, Imre Vincze, Hungarian Deputy Minister of Finance, has claimed that CMEA nations are currently planning to establish a T-ruble which can be converted into Western currencies. Such a ruble could be in use by 1990.[29]

In 1973, Peter Wiles suggested a type of ruble which would have 'financial convertibility' (i.e., it could be converted into other currencies) but could not be used to purchase commodities ('goods inconvertibility').[30] Such a ruble would offer the USSR financial flexibility without undermining the rigid Soviet price system. Since a number of Western currencies have depreciated markedly since the early 1970s, while the ruble's (official) rate of exchange has appreciated, Western investors could find that under these conditions it would be highly desirable to sell their (fully) convertible currencies for rubles (and collect a small profit when they finally cash their rubles for dollars, pounds etc.) instead of engaging in day-to-day foreign exchange operations. The USSR could use Western currencies which are obtained via the sale of rubles for a wide range of purposes (e.g., the payment of foreign debts, foreign exchange operations etc.). In the event the financially-convertible ruble becomes an accepted hedge against inflation,the ruble could become another world reserve currency.

It is appropriate to close this section by briefly discussing the prospects for the establishment of a ruble which can be exchanged for both commodities and currencies. Through harsh foreign exchange restrictions the USSR might be able to maintain a reasonable amount of control over the country's currency exports and imports. But it is certain that the USSR's centrally-determined price system would constantly be under pressure. If Soviet prices are set markedly higher than prices prevailing in world markets, Soviet citizens would find ways of exporting rubles in order to make purchases abroad. In addition, a fair amount of Soviet currency might be exported from the USSR (by private citizens) to purchase goods which are not available in the Soviet Union. Moreover, spontaneous purchases of Soviet goods by Westerners could create shortages in the USSR. Furthermore, under a system of floating exchange rates the convertible ruble could be quite easily used for speculative purposes. Unlike the situation today, Soviet financial institutions could well be forced to buy up rubles or the market would soon become glutted and the value of the Soviet currency would depreciate. Of course, the problems arising from the convertible ruble would not necessarily be the result of unauthorised trading. Indeed, the value of the ruble could fall as a result of poor economic development/planning in the Soviet economy (i.e., a decline in Soviet economic performance could lead to trade deficits which in turn might add vast sums of rubles to world financial markets). In the light of these facts it seems rather doubtful that we will see a (fully) convertible ruble for quite some time.[31]

NOTES

[1]Personal conversations with W. H. Balekjian, Department of European Law, University of Glasgow. It might be interesting to note that when a Soviet company is set up in, say, the U.K., this company has the same amount of access to the EEC as any other company established in the U.K.; see W. H. Balekjian, Legal Aspects of Foreign Investment in the European Economic Community (Manchester: Manchester University Press, 1968), Chapter X.

[2]Personal correspondence with the U.S. Department of Commerce, the U.S. Department of State, and the law firm Covington and Burling (Washington, D.C.).

[3]Personal correspondence with the law firm Covington and Burling.

[4]Personal correspondence with the U.S. Department of State.

[5]Ibid.

[6]For example, if Nafta-B was closed because one of its directors participated in a major spying operation, Soviet petroleum sales to Belgium (and indeed to other parts of Western Europe) would probably decline.

[7]The Times, 25 September 1971, p. 1.

[8]The Times, 30 September 1971, p. 1.

[9]The Times, 25 September 1971, p. 1.

[10]The Times, 22 September 1975, p. VIII.

[11]U.S. Department of Commerce, U.S.-Soviet Commercial Agreements 1972 (Washington, D.C.: U.S. Government Printing Office, January 1973), p. 24.

[12]Financial Times, 18 August 1976, p. 4.

[13]European Communities Commission (London office), Cargo Liner Shipping: Threat from State Trading Companies, 12 May 1978, p. 2.

[14]Daily Telegraph, 7 June 1978, p. 21.

[15]The Times, 14 June 1978, p. 6.

[16]For example, see John S. Garland, Financing Foreign Trade in Eastern Europe (New York: Praeger, 1977), pp. 92-93; and Franklyn D. Holzman, International Trade Under Communism (New York: Basic Books, 1976), Chapter 4.

[17]Adam Zwass, Monetary Cooperation Between East and West, trans. by Michel Vale (White Plains, New York: International Arts and Sciences Press, 1975), pp. 168-170.

[18]It might be interesting to note that the director of the Moscow-based Institute for World Economy and International Relations, Nikolai Inozemtsev, mentioned in the latter part of 1976 that if an international conference was held to reorganise world currencies, the interests of socialist countries should be taken into consideration; see Financial Times, 3 November 1976, p. 4.

[19]J. Wilczynski, Comparative Monetary Economics (London: MacMillan, 1978), p. 152.

[20]The reader should note that T-rubles are not a form of currency (i.e., they are not issued in the form of cash). T-rubles are merely accounting units arising from the export of goods and services.

[21] Ekonomicheskaya gazeta, No. 8, February 1975, p. 20.

[22] H. G. Trend, 'Comecon's Currency-Finance Mechanism in Need of Improvement', Radio Free Europe Research, RAD Background Report No. 253, 22 December 1977, p. 17.

[23] See the report on the 43rd meeting of the IBEC Council, quoted in Moscow Narodny Bank, Press Bulletin, 8 December 1976, pp. 14-17. The report states: 'the requirement of obligatory preliminary balancing of settlements is eliminated. Such balancing is now advisable but not obligatory'.

[24] It should be pointed out that the so-called Euroruble has been under discussion since the early 1970s; see Banking, Money and Credit in Eastern Europe, ed. by M. Yves Laulan (Brussels: NATO, 1973), pp. 24-25; and Michael Kaser, 'Towards a Convertible Eurorouble', International Currency Review, Vol. 5, No. 3 (May-June 1973), p. 26.

[25] Financial Times, 17 December 1976, p. 32.

[26] Personal conversations with members of SFBBs.

[27] Moscow Narodny Bank, Press Bulletin, 13 April 1977, p. 16, quoting IBEC, Economic Bulletin, No. 5, 1977.

[28] Jozef M. Van Brabant, 'The Comecon Currency Controversy', International Currency Review, Vol. 9, No. 1 (January-February 1977), p. 23.

[29] Moscow Narodny Bank, Press Bulletin, 16 July 1975, p. 13, quoting Euromoney, July 1975.

[30] P. J. D. Wiles, 'On Purely Financial Convertibility', in Banking, Money and Credit in Eastern Europe, ed. by M. Yves Laulan (Brussels, NATO, 1973), p. 119.

[31] See Jozef M. Van Brabant, East European Cooperation (New York: Praeger, 1977), p. 301.

CONCLUSIONS

The importance of Soviet commercial-financial dealings with the West has grown considerably since the mid-1960s. This phenomenon is largely the result of the growing emphasis which Soviet analysts now place on the economic (as opposed to military) achievements of the USSR. In the words of one Soviet author: 'Historically, socialism is called upon to transform the world primarily through its [i.e., socialism's] successes in economics, science, technology, the development of culture and the raising of the living standards of the entire population' (see V. M. Kudrov, 'Nekotorye voprosy ekonomicheskogo sorevnovaniya SSSR i SShA', SShA ekonomika politika ideologiya, No. 9, 1975, p. 16). During the 1950s and 1960s, few Soviet analysts stressed the importance of boosting the volume of Soviet industrial output and the efficiency of Soviet industrial processes via the technology of IMTEs. At this time Western technology is recognised by many Soviet scholars as an important means of developing the Soviet economy. The Soviet quest for economic rationality has softened the USSR's attitude toward the presence of Western businessmen and technicians in the Soviet Union. Some of these Westerners are working on joint industrial projects which will be in operation during the twenty-first century.

The desire of Soviet leaders to improve economic relations between the USSR and MTEs is also manifested in the number of Soviet organisations which have been established in the West during the 1970s. Many of these organisations were set up to promote Soviet trade with MTEs through governmental channels. Other organisations were established to deal directly with both companies and individual consumers in the West. The marked expansion of the USSR's international network of trading companies and banks clearly indicates that Soviet officials have recognised the importance of more direct contact with Western markets.

Although the increase in Soviet commercial-financial dealings with the West has led to a number of encouraging developments, it has also brought about some problems which could eventually hamper the growth of Soviet trade with IMTEs. During the 1950s and 1960s, Soviet trade with IMTEs was more or less balanced. But after 1970, the USSR has recorded some rather large hard-currency trade deficits. At this time Soviet trade-related debts to IMTEs amount to well over $10 billion. It is also important to note that Soviet payments for debt servicing might have amounted to $3 billion in 1977, and could go as high as almost $4 billion during 1978 (see The Times, 12 April 1977, p. 4). If these estimates are accurate the USSR's (hard currency) debt-service ratio now stands at about 25 percent, and could increase to over 30 percent by the end of 1978 if Soviet exports to hard currency areas do not increase significantly. Now it is difficult to believe that the Western world is presently concerned that the USSR will be unable to meet all of its financial obligations. After all, we are dealing with the second largest economy in the world (the USSR's 1976 GNP was estimated at $897.3 billion; see CIA, National Basic Intelligence Factbook, July 1977, p. 203). Soviet gold reserves are undoubtedly large enough to cover a sizeable portion of the USSR's debts. Moreover, Soviet foreign indebtedness does not appear so large when compared with the debts of selected LDCs (see Financial Times, 17 June 1977, p. 4). Furthermore, Western creditors are well aware of the USSR's impeccable financial record with IMTEs. So why are IMTEs concerned about the USSR's indebtedness? The reason is quite clear: Soviet officials are still unwilling to provide necessary data for Western creditors in the face of rising Soviet debts. If the USSR's financial position is so sound why should there be any reluctance to cite a few pertinent facts?

The problem of reciprocity has become more important in the light of the expansion of Soviet commercial-financial operations in the West. During the past decade the SMF and SFTCs and SFBBs have been free to take advantage of opportunities in Western markets. However, at this time the Soviet economy is still closed to Western entrepreneurs. True, there has been a marked increase in the number of Western representative offices in the USSR. But this can hardly be considered an important development as such offices are not permitted to engage in commercial activity. Even Western companies that participate in compensatory projects in the USSR are seldom permitted to function in a decision-making capacity. So, at some point the USSR could find that Western nations are reluctant to permit the free growth of the Soviet foreign-based business community without evidence that the Soviet economy is becoming more accessible to Western traders.

Three years ago this researcher argued against more Western government participation in trade with the USSR. But times have changed and so has this researcher. It is now recognised that Western governments can play an important role in improving the conditions for private operators in the sphere of East-West trade (note that I only mentioned East-West trade). Selected government departments in IMTEs now have quite a lot of access to their Soviet counterparts. When serious problems arise between private and state traders, Western governments should be quick to discuss such problems with appropriate Soviet organs. (For example, if the SMF is accused of undercutting the rates of American shippers the U.S. Department of Commerce should demand an explanation for this policy from the Soviet Ministry of the Merchant Fleet.) If the response from a particular Soviet ministry is unsatisfactory the appropriate Western-government department should immediately take action to safeguard the interests of private traders. (For example, legislation could be passed that would help American shippers compete with the SMF.)

Many Western entrepreneurs have found it difficult to deal with or compete against Soviet traders because of a lack of information. Therefore, information and advisory offices for East-West trade should be set up in appropriate Western government departments to compile and distribute data as well as provide consultative services for private traders. Much of the information which is made available to Western companies could come from government organs which are set up to research problems that are connected with East-West trade (e.g., the Bureau of East-West Trade in the United States). Other information could come from discussions between Western government leaders and Soviet officials. Since Soviet officials are probably more inclined to discuss sensitive issues with government representatives than private businessmen, it is likely that government-sponsored information and advisory offices would even be able to assist commercial intelligence departments in the largest private firms.

In the final analysis, most of the burden of dealing with Soviet traders should fall on the shoulders of Western entrepreneurs. Given an adequate supply of information from government sources, Western traders should be able to deal sagaciously with Soviet organisations. If selected groups of Soviet and Western traders cannot resolve their differences, Western governments should be called upon to deal with these problems as soon as possible. Such a policy encourages the use of the market mechanism whilst it protects the interests of efficient Western traders in the face of competition from centrally planned economies.

The call for more Western government participation in East-West trade matters was not made in the hope of solving the real problems which now hinder the development of Soviet economic relations with MTEs. There is no doubt that some Western governments are now in a position to put a lot of pressure on Soviet leaders for the purpose of gaining information which would help Western businessmen make economic decisions. But one could well ask if this tactic is really necessary. There are a number of obvious problems in the Soviet economy. The CIA has made a controversial projection that Soviet petroleum production will start declining by the early 1980s in spite of the fact that the USSR has vast oil reserves. If this is true the USSR could experience some serious problems. It is hard to believe that Western companies would not be in a position to assist the USSR if such difficulties arise. Of course, the petroleum sector is but one part of the Soviet economy that might benefit from Western technology. Large-scale Western participation in other sectors of the Soviet economy could well make the USSR a better place to live. Moreover, any increase in Western operations in the Soviet economy is bound to create more Soviet commercial activity in the West. Such developments could reduce tensions between the USSR and MTEs. However, as long as Soviet leaders insist on isolating the Soviet economy from the West a major impediment to the development of East-West relations will exist.

Soviet leaders maintain that their current policies will someday give rise to an economy which is far superior to any market-type economic system. This possibility cannot be ruled out. But if economic conditions in the USSR do not improve vis-à-vis the West, Soviet leaders will find that it is increasingly difficult to convince the Soviet citizenry that someday is worth waiting for.

APPENDIX A

SOVIET SHARE OF WORLD EXPORTS TO SELECTED COUNTRIES AND GROUPS OF COUNTRIES
1970-1975
(in millions of U.S. dollars)

Commodity classification and countries	1970	1972	1973	1974	1975
I. Food, beverages and tobacco					
World exports to the U.S.	5,780	7,110	8,920	10,060	9,130
Soviet exports to the U.S.	6	2	1	1	1
Soviet share %	0.1	negl.	negl.	negl.	negl.
World exports to Canada	1,030	1,340	1,640	2,150	2,230
Soviet exports to Canada	-	-	-	1	-
Soviet share %	-	-	-	negl.	-
American exports to Canada	560	660	810	970	1,060
American share %	54.4	49.3	49.4	45.1	47.5
World exports to Japan	2,110	3,040	5,590	7,030	7,330
Soviet exports to Japan	7	6	14	32	29
Soviet share %	0.3	0.2	0.3	0.5	0.4
American exports to Japan	730	810	1,930	2,260	2,140
American share %	34.6	26.6	34.5	32.1	29.2
World exports to the EEC[a]	17,230	23,380	31,730	35,360	40,300
Soviet exports to the EEC	62	63	64	74	89
Soviet share %	0.4	0.3	0.2	0.2	0.2
American exports to the EEC	1,480	1,800	2,950	3,370	3,950
American share %	8.6	7.7	9.3	9.5	9.8
World exports to the EFTA[b]	2,080	2,750	3,800	4,520	4,680
Soviet exports to the EFTA	16	13	17	33	20
Soviet share %	0.8	0.5	0.4	0.7	0.4
American exports to the EFTA	225	250	350	460	510
American share %	10.8	9.1	9.2	10.2	10.9
World exports to LDCs[c]	7,360	9,310	14,150	21,650	23,560
Soviet exports to LDCs	190	160	380	780	510
Soviet share %	2.6	1.7	2.7	3.6	2.2
American exports to LDCs	1,770	2,170	4,010	5,900	6,140
American share %	24.0	23.3	28.3	27.3	26.1
World exports to CPEs[d]	4,140	5,250	7,910	9,190	12,080
Soviet exports to CPEs	520	340	500	600	550
Soviet share %	12.6	6.5	6.3	6.5	4.6
American exports to CPEs	76	530	1,590	970	1,580
American share %	1.8	10.1	20.1	10.6	13.1

APPENDIX A--Continued

Commodity classification and countries	1970	1972	1973	1974	1975
II. Raw materials (excluding fuels, oils and fats)					
World exports to the U.S.	3,450	4,290	5,150	6,500	5,750
Soviet exports to the U.S.	16	14	12	20	38
Soviet share %	0.5	0.3	0.2	0.3	0.7
World exports to Canada	750	790	960	1,320	1,250
Soviet exports to Canada	3	3	2	5	2
Soviet share	0.4	0.4	0.2	0.4	0.2
American exports to Canada	550	580	710	960	960
American share %	73.3	73.4	74.0	72.7	76.8
World exports to Japan	5,020	5,770	9,880	10,870	8,330
Soviet exports to Japan	200	295	510	730	560
Soviet share %	4.0	5.1	5.2	6.7	6.7
American exports to Japan	1,340	1,400	2,550	2,770	2,360
American share %	26.7	24.3	25.8	25.5	28.3
World exports to the EEC	13,080	14,930	22,430	29,820	25,800
Soviet exports to the EEC	320	415	680	1,010	960
Soviet share %	2.4	2.8	3.0	3.4	3.7
American exports to the EEC	1,510	1,660	2,660	3,680	3,150
American share %	11.5	11.1	11.9	12.3	12.2
World exports to the EFTA	1,670	1,920	2,690	3,740	3,500
Soviet exports to the EFTA	95	87	160	270	345
Soviet share %	5.7	4.5	5.9	7.2	9.9
American exports to the EFTA	135	135	205	340	280
American share %	8.1	7.0	7.6	9.1	8.0
World exports to LDCs	3,790	4,630	7,010	10,190	9,480
Soviet exports to LDCs	140	190	205	400	355
Soviet share %	3.7	4.1	2.9	3.9	3.7
American exports to LDCs	1,080	1,140	1,790	2,970	2,720
American share %	28.5	24.6	25.5	29.1	28.7
World exports to CPEs	3,550	3,950	5,790	6,960	7,330
Soviet exports to CPEs	1,210	1,320	1,630	1,690	2,450
Soviet share %	34.1	33.4	28.2	24.3	33.4
American exports to CPEs	105	170	425	540	295
American share %	3.0	4.3	7.3	7.8	4.0

APPENDIX A--Continued

Commodity classification and countries	1970	1972	1973	1974	1975
III. Mineral fuels and related materials					
World exports to the U.S.	3,360	5,730	9,730	27,090	27,670
Soviet exports to the U.S.	-	-	50	7	46
Soviet share %	-	-	0.5	negl.	0.2
World exports to Canada	770	1,160	1,560	3,640	3,830
Soviet exports to Canada	-	-	-	11	16
Soviet share %	-	-	-	0.3	0.4
American exports to Canada	270	355	360	530	870
American share %	35.1	30.6	23.1	14.6	22.7
World exports to Japan	3,420	5,640	7,720	24,380	24,090
Soviet exports to Japan	68	58	105	190	245
Soviet share %	2.0	1.0	1.4	0.8	1.0
American exports to Japan	520	440	500	1,450	1,570
American share %	15.2	7.8	6.4	5.9	6.5
World exports to the EEC	10,830	16,600	23,720	60,960	55,750
Soviet exports to the EEC	335	465	1,070	1,990	2,500
Soviet share %	3.1	2.8	4.5	3.3	4.5
American exports to the EEC	355	375	365	720	960
American share %	3.3	2.3	1.5	1.2	1.7
World exports to the EFTA	1,770	1,430	3,390	7,590	7,940
Soviet exports to the EFTA	275	400	580	1,420	1,620
Soviet share %	15.5	16.5	17.1	18.7	20.4
American exports to the EFTA	36	33	35	53	99
American share %	2.0	1.4	1.0	0.7	1.2
World exports to LDCs	4,710	6,380	9,870	28,090	29,140
Soviet exports to LDCs	150	210	250	660	830
Soviet share %	3.2	3.3	2.5	2.3	2.8
American exports to LDCs	290	265	315	520	720
American share %	6.2	4.2	3.2	1.9	2.5
World exports to CPEs	1,750	2,450	3,320	4,210	7,660
Soviet exports to CPEs	1,090	1,460	1,840	2,090	4,430
Soviet share %	62.3	59.6	55.4	49.6	57.8
American exports to CPEs	30	2	6	8	23
American share %	1.7	0.1	0.2	0.2	0.5

APPENDIX A--Continued

Commodity classification and countries	1970	1972	1973	1974	1975
IV. Chemicals					
World exports to the U.S.	1,250	1,840	2,330	4,100	3,570
Soviet exports to the U.S.	1	1	2	30	44
Soviet share %	negl.	negl.	negl.	0.7	1.2
World exports to Canada	710	900	1,120	1,680	1,650
Soviet exports to Canada	-	-	4	4	6
Soviet share %	-	-	0.4	0.2	0.4
American exports to Canada	550	690	840	1,210	1,220
American share %	77.5	76.7	75.0	72.0	73.9
World exports to Japan	810	910	1,660	2,260	1,680
Soviet exports to Japan	5	7	14	23	12
Soviet share %	0.6	0.8	0.8	1.0	0.7
American exports to Japan	320	315	630	770	590
American share %	39.5	34.6	38.0	34.1	35.1
World exports to the EEC	7,810	10,660	15,150	23,670	21,640
Soviet exports to the EEC	34	34	49	155	175
Soviet share %	0.4	0.3	0.3	0.7	0.8
American exports to the EEC	1,200	1,200	1,560	2,210	2,230
American share %	15.4	11.3	10.3	9.3	10.3
World exports to the EFTA	2,130	2,720	3,740	5,640	5,210
Soviet exports to the EFTA	16	13	20	48	49
Soviet share %	0.8	0.5	0.5	0.9	0.9
American exports to the EFTA	155	150	230	290	285
American share %	7.3	5.5	6.1	5.1	5.5
World exports to LDCs	5,190	6,750	9,380	15,790	16,370
Soviet exports to LDCs	49	61	79	180	200
Soviet share %	0.9	0.9	0.8	1.1	1.2
American exports to LDCs	1,280	1,460	2,020	3,600	3,740
American share %	24.7	21.6	21.5	22.8	22.8
World exports to CPEs	2,040	2,830	3,580	5,430	6,380
Soviet exports to CPEs	180	220	250	275	340
Soviet share %	8.8	7.8	7.0	5.1	5.3
American exports to CPEs	37	38	38	64	89
American share %	1.8	1.3	1.1	1.2	1.4

APPENDIX A--Continued

Commodity classification and countries	1970	1972	1973	1974	1975
V. Machinery and transport equipment					
World exports to the U.S.	11,610	17,750	21,820	24,990	24,290
Soviet exports to the U.S.	-	-	-	2	6
Soviet share %	-	-	-	negl.	negl.
World exports to Canada	5,840	8,770	10,520	13,190	14,780
Soviet exports to Canada	-	-	1	4	10
Soviet share %	-	-	negl.	negl.	0.1
American exports to Canada	4,870	7,110	8,730	10,940	12,360
American share %	83.4	81.1	83.0	82.9	83.6
World exports to Japan	1,820	2,090	2,750	3,780	3,150
Soviet exports to Japan	3	6	6	6	4
Soviet share %	0.2	0.3	0.2	0.2	0.1
American exports to Japan	1,150	1,250	1,490	2,120	1,700
American share %	63.2	59.8	54.2	56.1	54.0
World exports to the EEC	25,030	35,070	47,330	54,210	61,280
Soviet exports to the EEC	48	55	90	105	150
Soviet share %	0.2	0.2	0.2	0.2	0.2
American exports to the EEC	4,080	4,310	5,770	7,180	7,660
American share %	16.3	12.3	12.2	13.2	12.5
World exports to the EFTA	7,750	10,760	14,130	17,120	18,800
Soviet exports to the EFTA	27	36	79	90	170
Soviet share %	0.3	0.3	0.6	0.5	0.9
American exports to the EFTA	710	760	870	1,350	1,430
American share %	9.2	7.1	6.2	7.9	7.6
World exports to LDCs	19,450	26,510	35,140	50,760	70,410
Soviet exports to LDCs	900	1,020	1,240	1,220	1,520
Soviet share %	4.6	3.8	3.5	2.4	2.2
American exports to LDCs	4,940	5,940	7,720	11,760	16,580
American share %	25.4	22.4	22.0	23.2	23.5
World exports to CPEs	10,130	14,360	19,190	23,350	30,890
Soviet exports to CPEs	1,730	2,460	3,200	3,750	4,310
Soviet share %	17.1	17.1	16.7	16.1	14.0
American exports to CPEs	69	105	340	530	890
American share %	0.7	0.7	1.8	2.3	2.9

APPENDIX A--Continued

Commodity classification and countries	1970	1972	1973	1974	1975
VI. Other manufactured commodities					
World exports to the U.S.	13,280	17,590	20,690	26,320	22,750
Soviet exports to the U.S.	31	48	110	175	54
Soviet share %	0.2	0.3	0.5	0.7	0.2
World exports to Canada	2,960	4,250	5,220	7,470	7,070
Soviet exports to Canada	4	8	12	8	6
Soviet share %	0.1	0.2	0.2	0.1	0.1
American exports to Canada	1,710	2,300	2,940	4,340	4,320
American share %	57.8	54.1	56.3	58.1	61.1
World exports to Japan	2,240	2,810	6,220	6,790	4,870
Soviet exports to Japan	97	53	195	215	72
Soviet share %	4.3	1.9	3.1	3.2	1.5
American exports to Japan	485	660	1,010	1,100	920
American share %	21.7	23.5	16.2	16.2	18.9
World exports to the EEC	34,260	44,920	62,360	79,420	77,920
Soviet exports to the EEC	245	290	420	530	520
Soviet share %	0.7	0.6	0.7	0.7	0.7
American exports to the EEC	2,200	2,040	2,730	3,830	3,740
American share %	6.4	4.5	4.4	4.8	4.8
World exports to the EFTA	8,300	10,690	14,940	19,390	19,310
Soviet exports to the EFTA	71	65	130	155	125
Soviet share %	0.9	0.6	0.9	0.8	0.6
American exports to the EFTA	350	365	495	700	690
American share %	4.2	3.4	3.3	3.6	3.6
World exports to LDCs	15,260	18,400	25,690	40,290	44,370
Soviet exports to LDCs	265	305	330	510	430
Soviet share %	1.7	1.7	1.3	1.3	1.0
American exports to LDCs	2,280	2,190	3,100	5,080	5,540
American share %	14.9	11.9	12.1	12.6	12.5
World exports to CPEs	8,660	11,410	14,830	19,460	24,020
Soviet exports to CPEs	1,700	2,090	2,300	2,360	3,560
Soviet share %	19.6	18.3	15.5	12.1	14.8
American exports to CPEs	35	39	80	120	200
American share %	0.4	0.3	0.5	0.6	0.8

[a]The European Economic Community (EEC) includes the following countries: Belgium, Denmark, France, the FRG, Italy, Luxemburg, the Netherlands, the Republic of Ireland, and the U.K.

[b]The European Free Trade Association (EFTA) includes the following countries: Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland.

APPENDIX A--Continued

[c]Less-developed countries (LDCs).

[d]Centrally planned economies (CPEs) include members of the Council for Mutual Economic Assistance (CMEA) and China.

Source: United Nations, Department of Economic and Social Affairs, Statistical Yearbook 1976 (New York, 1977), pp. 434-462.

APPENDIX B

SOVIET TRADING COMPANIES AND BANKS OPERATING IN THE WEST

Companies by country	Year of establishment or year operations commenced	Share capital owned by the USSR (%)
<u>Australia</u>		
Fresco Australia Line	1976	85
Opal Maritime Agency Ltd.	1974	NA
<u>Austria</u>		
Asotra	1976	52
Donau Handelsbank AG	1974	100
Garant Versicherungs AG	1958	100
Interprom Handelsgesellschaft mbH	1978	60
<u>Belgium</u>		
Belgium-Soviet Trade Company (Belso)	1966	75
NV East-West Agencies	1973	NA
NV Elorg Belgie	1974	80 (approx.)
NV Ferchimex	1972	60
Nafta-B	1967	90
Russalmaz NV	1972	80
Scaldia-Volga	1964	66 (approx.)
Transworld Marine Agency (TWM)	1970	75
<u>Cameroon</u>		
Keteko	1973	NA
<u>Canada</u>		
Belarus Equipment Ltd.	1972	100
Emec Trading Ltd.	1973	100
Morflot Freight Liners Ltd.	1975	95
Socan Aircraft Ltd.	1975	67
Stan Canada Machinery Ltd.	1972	100
<u>Ethiopia</u>		
Ethiopian-Soviet Trading Company Ltd. (Ethso)	1967	72
<u>Federal Republic of Germany</u>		
Neotype Techmaschexport GmbH	1973	75

APPENDIX B--Continued

Companies by country	Year of establishment or year operations commenced	Share capital owned by the USSR (%)
Federal Republic of Germany (cont.)		
Ost-West Handelsbank AG	1971	100
Plodimex Aussenhandels GmbH	1974	51
Russalmaz AG	1975	90 (approx.)
Russische Holz GmbH (Russholz)	1974	NA
Sobren Chemiehandel GmbH	1974	51
Schwarzmeer und Ostsee Transportversicherungs AG (Sovag)	1927	100
Überseeschiffahrtsagentur Transnautic GmbH	1974	50 (approx.)
Wesotra Spedition und Transport GmbH	1976	52
Finland		
Finn-Elorg	1974	NA
Koneisto AB	1964	NA
Konela	1947	75
Saimaa Lines Ltd.	early 1970s	NA
Suomen Petrooli	1946	NA
Teboil Oy	1934	NA
France		
Actif-Avto	1966	70
Banque Commerciale pour l' Europe du Nord SA (Eurobank)	1925	100
Fransov	1976	50
Groupement d' Interet Economique pour le Developpement des Echanges Commerciaux entre l' URSS et la France (Gisofra)	1971	NA
Promolease	1974	NA
Rusbois	1969	NA
Societe d' Agences Maritimes Franco-Sovietique SA (Sagmar)	1974	NA
Slava SA	1972	NA
Sogo and Company SA	1968	NA
Stankofrance	1971	NA
Iran		
Bank Russo-Iran	1923	100
Iraq		
Rafidian Fisheries Ltd.	1974	49

APPENDIX B--Continued

Companies by country	Year of establishment or year operations commenced	Share capital owned by the USSR (%)
Italy		
Dolphin Agenzia Maritima	1976	NA
Stanitaliana SpA	1971	84
Sovitalmare	1976	NA
Sovitpesca SpA	1976	NA
Tecnicon SpA	1977	50
Japan		
Nisotra	1977	50
United Orient Shipping Agency	1969	50
The Lebanon		
Moscow Narodny Bank (Beirut branch)	1963	-
Luxemburg		
Banque Unie Est-Ouest SA	1974	100
Mozambique		
Soviet-Mozambique Fishing Company	1977	50
The Netherlands		
East-West Agencies	1969	NA
Elorg BV	1972	65
Transworld Marine Agency NV	1972	NA
Nigeria		
West African Automobile and Technical Engineering Company (WAATECO)	1964	NA
Norway		
Koneisto Norge AS	1967	NA
Konela Norge Bil	NA	NA
The Philippines		
Fil-Sov Shipping Company	1974	40

APPENDIX B--Continued

Companies by country	Year of establishment or year operations commenced	Share capital owned by the USSR (%)
Singapore		
Marine Industries of Singapore-Soviet Company Pte Ltd. (Marissco)	1975	NA
Moscow Narodny Bank (Singapore branch)	1971	-
Singapore-Soviet Shipping Company (Sosiac)	1967	NA
Spain		
Intramar SA	1976	NA
Pesquerias Espanolas Sovieticas Conjuntas SA (Pesconsa)	1975	NA
Sovhispan	1971	50
Sweden		
Alco	1975/1976	49
Matreco Handels AB	NA	97 (approx.)
Scansov AB	1976	60
Switzerland		
Wozchod Handelsbank AG	1966	100
The United Kingdom		
Anglo-Soviet Shipping Company Ltd.	1923	100
Anglo-Soviet Shipping Company (Humber) Ltd.	mid-1970s	
Black Sea and Baltic General Insurance Company Ltd.	1925	100
Charter Travel Company Ltd. (CTC Lines)	mid-1970s	100
East-West Leasing Company	1973	50
Moscow Narodny Bank Ltd.	1919	100
Nafta-GB Ltd.	late 1950s	100
Sadko Marine Supplies Ltd.	mid-1970s	100
Sovfracht (London) Ltd.	mid-1970s	100
Technical and Optical Equipment Ltd.	1968	100
United Machinery Organisation Plant Ltd. (UMO)	1969	100

APPENDIX B--Continued

Companies by country	Year of establishment or year operations commenced	Share capital owned by the USSR (%)
The United States		
Amtorg Trading Corporation	1924	100
Belarus Machinery of USA Inc.	1976	100
Morflot American Shipping Inc. (Moram)	1976	100
U.S.-USSR Marine Resources Company Inc.	1976	50
Sovfracht (USA) Inc.	1976	100

Sources: CIA, Soviet Commercial Operations in the West, September 1977; and selected press reports.

APPENDIX C

SELECTED EUROCURRENCY LOANS GRANTED BY INTERNATIONAL BANKING CONSORTIA COMPRISED OF WESTERN BANKS, SOVIET FOREIGN TRADE BANKS, AND THE IBEC AND IIB, JANUARY 1975-AUGUST 1978

Date loan was announced	Soviet/CMEA banks participating in consortium loan	Total amount of loan[a]	Terms	Recipient
January 1975	Moscow Narodny Bank (MNB)	$10 million	five-year floating-rate loan	Finland
February 1975	MNB	$100 million	five years	Vneshtorgbank
February 1975	MNB (Beirut branch) and Eurobank	$40 million	medium-term loan	Middle East Airlines
February 1975	Eurobank, Banque Unie and Wozchod Handelsbank	$100 million	five years	Hungary
February 1975	Eurobank and Ost-West Handelsbank	$100 million	nine years	Egypt
March 1975	Eurobank	DM 80 million	five years	Spain
April 1975	MNB, Eurobank, Banque Unie, Ost-West Handelsbank and Donau Handelsbank	$140 million	medium-term loan	Brazil
April 1975	Eurobank	$140 million	ten years	Malaysia
April 1975	Eurobank	$150 million	seven years	Frigg Gas Field Developments
April 1975	Eurobank	$150 million	seven years	Frigg Gas Field Transportation
July 1975	Eurobank	$250 million	medium-term loan	Vneshtorgbank
July 1975	Banque Unie	$100 million	five years	Mexico

APPENDIX C--Continued

Date loan was announced	Soviet/CMEA banks participating in consortium loan	Total amount of loan[a]	Terms	Recipient
August 1975	MNB	$10 million	medium-term floating-rate loan	Iran
September 1975	MNB, Ost-West Handelsbank, Bank Russo-Iran, Banque Unie, Eurobank and the IBEC	DM 250 million	five years	Cuba
September 1975	Eurobank	$50 million	eight years	Poland
September 1975	Eurobank and Banque Unie	$50 million	five years	Poland
October 1975	Banque Unie	$50 million	five years	Brazil
October 1975	Eurobank	DM 300 million	five years	Cuba
October 1975	Eurobank and the IBEC	$25 million	five years	African Development Bank
October 1975	Wozchod Handelsbank	$28 million	NA	Brazil
October 1975	MNB (Beirut branch), Eurobank and Wozchod Handelsbank	$500 million	NA	Iraq
October 1975	Eurobank and Vneshtorgbank	$150 million	medium-term loan	Turkey
November 1975	Vneshtorgbank	$50 million	five years	Argentina
November 1975	Eurobank	$10 million	five years	Spain
November 1975	Eurobank	$150 million	medium-term loan	Peru
November 1975	Eurobank and Banque Unie	$200 million	five years	Greece
November 1975	Eurobank	$160 million	medium-term loan	Brazil
January 1976	Eurobank and Banque Unie	$150 million	six years	Hungary

APPENDIX C--Continued

Date loan was announced	Soviet/CMEA banks participating in consortium loan	Total amount of loan[a]	Terms	Recipient
January 1976	Eurobank	DM 100 million	five years at 1 3/4 percent over LIBOR	Vietnam
January 1976	MNB, Eurobank, Donau Handelsbank, Bank Russo-Iran, Banque Unie and Ost-West Handelsbank	$350 million	NA	IIB
January 1976	MNB	$400 million	five years	Vneshtorgbank
January 1976	Eurobank	$20 million	five years	Senegal
January 1976	Eurobank	DM 20 million	medium-term loan	Republic of Gabon
February 1976	Eurobank and the IBEC	DM 100 million	five years	Vietnam
February 1976	Eurobank, Banque Unie and the IBEC	$40 million	six-year floating-rate loan	Bank Polska Kasa Opieka SA
April 1976	Eurobank	$120 million	medium-term loan	Brazil
April 1976	Wozchod Handelsbank and the IBEC	$50 million	six-year floating-rate loan	Iran
June 1976	Eurobank	$40 million	long-term loan	African Development Bank
June 1976	Eurobank	$30 million	NA	Poland
July 1976	Vneshtorgbank	$600 million	six years	IIB
July 1976	Eurobank and the IBEC	DM 200 million	floating-rate loan	Cuba
July 1976	Eurobank	$500 million	seven years	Electricite de France
September 1976	Eurobank	$50 million	NA	Algeria

APPENDIX C--Continued

Date loan was announced	Soviet/CMEA banks participating in consortium loan	Total amount of loan[a]	Terms	Recipient
September 1976	Wozchod Handelsbank	$13.5 million	seven-year floating-rate loan	Polestar Navigation SA
September 1976	Eurobank	$60 million	medium-term loan	Groupement de l' Industrie Siderurgique
October 1976	Eurobank	$25 million	five years	Spain
January 1977	Vneshtorgbank and the IBEC	DM 150 million	five years	Cuba
August 1977	Eurobank	$20 million	NA	Yugoslavia
November 1977	Eurobank	$30 million	NA	Algeria
November 1977	Eurobank	$35 million	NA	Yugoslavia
December 1977	MNB	$600 million	seven years	IIB
January 1978	Eurobank	DM 100 million	medium-term loan	Tradinvest Bank and Trust Company of Nassau Ltd.
February 1978	Eurobank	$500 million	eight years	France
March 1978	MNB	$105 million	medium-term loan	Yugoslavia
March 1978	MNB	$50 million	medium-term loan	Yugoslavia
March 1978	MNB	$400 million	seven years at 3/4 percent over LIBOR	Vneshtorgbank
April 1978	Eurobank	$27.1 million	short-term loan	Fundacion Instituto Municipal de Energia de Maracaibo
April 1978	Eurobank	$100 million	seven years	Gaz de France

APPENDIX C--Continued

Date loan was announced	Soviet/CMEA banks participating in consortium loan	Total amount of loan[a]	Terms	Recipient
April 1978	Banque Unie	$200 million	medium-term loan	Italy
May 1978	Eurobank	$65 million	medium-term loan	Creusot-Loire (France)
June 1978	Banque Unie and Wozchod Handelsbank	$300 million	medium-term loan	Hungary
June 1978	Banque Unie	DM 400 million	eight years	Denmark
July 1978	Eurobank	$218 million	NA	Algeria
July 1978	Eurobank	DM 100 million	NA	Brazil
July 1978	Eurobank	$150 million	medium-term loan	Lebanon
August 1978	Eurobank	$150 million	seven years	Portugal
August 1978	Eurobank	$65 million	medium-term loan	Finsider SpA (Italy)
August 1978	Eurobank	$150 million	medium-term loan	Tunisia
August 1978	Eurobank	$120 million	medium-term loan	Brazil
August 1978	Banque Unie and Eurobank	$700 million	NA	Mexico
August 1978	Eurobank	$25 million	medium-term loan	Algeria
August 1978	Eurobank	$60 million	medium-term loan	Algeria

[a]It is important to keep in mind that each sum represents the total amount of the consortium loan and not the sum granted by socialist banks.

Sources: Selected Press Bulletins from Moscow Narodny Bank.

APPENDIX D

INTERNATIONAL CARGO LINES OF THE USSR, 30 JUNE 1975

Lines Operated Unilaterally by Soviet Shipping Companies

Company	Route
Murmansk	Soviet Baltic/Western Europe-Eastern Canada/Great Lakes[a]
Baltic	Soviet Baltic/Western Europe-U.S. East Coast (Balt-Atlantic)[b]
Baltic	Soviet Baltic/Western Europe-Australia[c]
Baltic	Soviet Baltic/Western Europe-New Zealand[c]
Baltic	Soviet Baltic/Western Europe-Venezuela and West Coast of South America (Balt-Pacific)[a]
Baltic	Soviet Baltic/Western Europe-Central America, West Indies and U.S. and Mexican Gulf (WICAS)
Baltic	Soviet Baltic/Finland-Netherlands/Belgium (Balt-Scan)[a]
Baltic	Soviet Baltic-West Germany/East Coast United Kingdom (London)
Baltic	Soviet Baltic-West Germany/Netherlands
Baltic	Soviet Baltic-Cuba
Baltic	Soviet Baltic-Belgium
Baltic	Soviet Baltic-East Coast United Kingdom (Hull)-Belgium-Finland
Baltic	Soviet Baltic-Sweden-Italy-UAR-Western Europe[a]
Baltic/Latvian	Soviet Baltic/Western Europe-Portugal/Spain
Estonian	Soviet Baltic/Western Europe-Eastern Mediterranean[a]
Estonian	Soviet Baltic-East Coast Sweden
Estonian	Soviet Baltic-Denmark-Norway-Eastern Mediterranean
Estonian	Soviet Baltic-Norway and Denmark
Estonian	Soviet Baltic/Finland/Norway-Netherlands/Belgium
Lithuanian	Soviet Baltic-West Germany

APPENDIX D--Continued

Company	Route
Latvian	Soviet Baltic-East Coast United Kingdom (London/Tilbury)
Danube	Soviet Danube-Near East (Lebanon, Syria, UAR and Cyprus)
Danube	Soviet Danube-Turkey
Danube	Soviet Danube-North Africa
Danube	Soviet Danube-Greece
Black Sea	Soviet Black Sea-Persian Gulf (Iraq)
Black Sea	Soviet Black Sea-Syria
Black Sea	Soviet Black Sea-Vietnam
Black Sea	Soviet Black Sea-Cuba
Black Sea	Western Europe/Soviet Black Sea-Southeast Asia [a]
Black Sea	Soviet Black Sea/Mediterranean Europe-Eastern Canada/ Great Lakes[c]
Black Sea	Soviet Black Sea-East Africa/Red Sea
Azov	Soviet Black Sea-Turkey/Greece
Azov	Soviet Black Sea-Italy
Azov	Soviet Black Sea-Near East
Caspian	Iran (Caspian)-Baltic-North Sea (via Volga-Baltic Waterway)[a]
Far East	Southeast Asia-Western Canada and the United States
Far East	Soviet Far East/Japan-Western Canada and the United States[a]
Far East	Soviet Far East/Japan-Western Canada and the United States[a]
Far East	Soviet Far East/Japan-Southeast Asia/India[a]
Far East	Soviet Far East-Hong Kong-Japan[a]
Far East	Soviet Far East/Japan[a]
Far East	Soviet Far East/Philippines[a]

Lines Operated Jointly by Soviet and Foreign Shipping Companies

Soviet company	Route	Nationality of foreign partner
Baltic	Soviet Baltic-East Coast United Kingdom (London)	British

APPENDIX D--Continued

Soviet company	Route	Nationality of foreign partner
Baltic	Soviet Baltic/Western Europe-East Coast of South America (Balt-America)[c]	Polish and East German
Estonian	Soviet Baltic-West Germany	West German
Estonian	Baltic/Western Europe-West Africa[c]	Polish and East German
Latvian	Soviet Baltic-West Coast United Kingdom	British
Latvian	Soviet Baltic-East Germany	East German
Latvian	Soviet Baltic-France (Atlantic)	French
Latvian	Soviet Baltic-Netherlands	Dutch
Latvian	Soviet Baltic-Belgium	Belgian
Black Sea	Soviet Black Sea-Bulgaria	Bulgarian
Black Sea	Soviet Black Sea-UAR	Egyptian
Black Sea	Soviet Black Sea-India/Sri Lanka	Indian
Black Sea	Soviet Black Sea-Southern France	French
Azov	Soviet Black Sea-Algeria	French
Far East	Soviet Far East-Japan	Japanese

[a]An independent line primarily involved in cross-trade operations.

[b]In June 1975, Balt-Atlantic was an independent line primarily involved in cross-trade operations. However, at the end of 1976, Balt-Atlantic was planning to join seven North Atlantic shipping conferences.

[c]A conference line primarily involved in cross-trade operations.

Source: William Carr, 'Soviet Shipping Strength and Its Employment', in Soviet Oceans Development, compiled by the U.S. Congress, Committee on Commerce and National Ocean Policy Study, 94th Cong., 2nd sess. (Washington, D.C.: U.S. Government Printing Office, 1976), pp. 338-341.

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