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WEEKLY REVIEW

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CENTRAL INTELLIGENCE AGENCY

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The Communist World

SOVIET TRADE ACTIVITY IN THE INDUSTRIAL WEST

Within a week after the central committee approved Khrushchev's plan for the chemical industry, Soviet traders apparently had their instructions and budget allocations and were renewing their activity in trade circles of the industrial West.

Contracts for fertilizer installations, plastics and synthetic plants, petrochemical equipment, and mining machinery are already in various stages of negotiation. **Officials in Bonn** report they have under consideration a proposal by a West German consortium to supply the USSR with \$400 million worth of petrochemical equipment. A Soviet mission is negotiating with the British Imperial Chemical Industry (ICI), which heretofore has supplied the USSR with technical know-how. ICI reportedly has offered to deliver equipment and processes for the production of fertilizers, herbicides, rubber chemicals, and plastics. Negotiations also are under way for large numbers of Japanese chemical fertilizer plants.

Another Western consortium, involving US equipment and processes, is discussing delivery of a large oil refinery. In addition, contracts for a wide range of other machinery and equipment will probably soon be signed. These contracts apparently had been postponed until the new chemical equipment buy-

ing program was presented to the plenum and allocations for various trade corporations for next year were approved.

The Soviet need for additional credit to finance planned expanded purchases is crucial. The USSR presumably can generate sufficient funds to meet down payments on sizable orders. However, credit arrangements must be set now to spread out the heavy crush of payments which otherwise would fall due in 1965-66 when equipment contracted for next year will be delivered. Soviet ability to increase hard-currency reserves is not likely to improve in the near future. Moscow's current grain imports will reduce its gold reserves by 25 percent. If these continue beyond mid-1964, the Soviet hard-currency position will be under further strain.

Despite the bleak foreign exchange prospects for the USSR, Soviet officials appear hopeful that Western competition for Soviet orders will be adequate to foster Western governmental and banking opinion favorable to more and longer term credit. Moscow may also hope that a continuation of its relatively restrained foreign policy will be helpful in this context. While viewing the USSR as an acceptable commercial risk, the banking community has heretofore been unwilling to extend credits beyond a five-year period because of uncertainty about future political developments. (SECRET)

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ARABS PLAN NO OVERT ACTION AGAINST ISRAELI PROJECT

The Arab states evidently do not plan any overt military action against Israel when in late January or early February the Israelis begin pumping tests for their Jordan River diversion project, but sabotage of the project's facilities may be attempted.

The Arab military chiefs who met in Cairo in mid-December apparently decided that direct military attacks are not feasible. The chiefs reportedly agreed, however, that the states bordering on Israel should mount independent and uncoordinated clandestine operations.

The Arab League Defense Council, which meets in January, probably will approve this recommendation, but its implementation is another matter. Egyptian, Jordanian, and Lebanese officials have indicated privately that their governments have no intention of taking aggressive action of any kind against the Israeli project.

Nasir, however, told the Canadian ambassador in early December that he was worried that Syria might act unilaterally and present the other Arab

states with a dilemma. Damascus will be under strong pressure to fulfill its threats against the Israeli scheme, particularly in view of the close proximity of the Syrian border to Israel's pumping station on Lake Tiberias.

Nasir's wariness about becoming involved in a war with Israel over Jordan waters was also evident in a speech he made on 23 December. He emphasized that the problem is political rather than military in nature and that the chiefs of staff cannot solve it. He called for a summit meeting of Arab presidents and kings to seek a solution.

Israel, according to the chief of Israeli military intelligence, considers there is an outside possibility that Syria might bomb or shell the pumping facility's transformer station. However, the Israelis believe the primary threat stems from former Palestinians now living in Syria, Jordan or Lebanon, who might make a dramatic effort to sabotage the project even though they probably could not cause serious damage. (SECRET NO FOREIGN DISSEM/BACKGROUND USE ONLY)

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