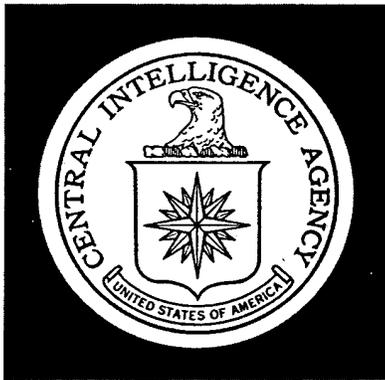


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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Soviet Grain Supply, 1968*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
December 1968

INTELLIGENCE MEMORANDUM

Soviet Grain Supply  
1968

Summary

For the third year in a row the USSR has harvested an excellent grain crop, which will permit it to meet current domestic needs, to fulfill current export commitments, and to add to the sizable grain stocks. The total grain crop in 1968, estimated at 130 million to 135 million metric tons, is the second largest grain crop in Soviet history. It falls between the record crop of 140 million tons in 1966 and the next best crop of 122 million tons obtained in 1967. Production of bread grains (wheat and rye) in 1968 is also the second largest on record. The totals of both grain and bread grains produced in 1968 are one-fourth above the respective average annual levels attained in 1958-65.

With respect to grain imports, the USSR has delayed the purchase from Canada (its principal supplier) of the 4 million tons of grain remaining to be bought in the final year of a three-year agreement running from mid-1966 to mid-1969. Despite the good Soviet crop, this commitment probably will be honored, although the terms may be renegotiated.

The total demand of Soviet client states\* for

\* *The term client states denotes a close bilateral political relationship. Client states of the USSR include the following: the Eastern European countries, including Albania and Yugoslavia; Cuba; North Vietnam; North Korea; the United Arab Republic (UAR); and Algeria.*

*Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research.*

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grain imports from all sources in the 1968/69 trade year (1 July-30 June) has been projected to about 11 million tons, slightly above the 1967/68 level. The Soviet Union is already committed to provide some 5-1/2 million to 6-1/2 million tons of this amount. Given the improved Soviet supply position for bread grains, the international political environment, and the desire of the client states to conserve hard currency, the client states undoubtedly will press the USSR to provide a larger share of their import requirements. The USSR, on the other hand, may wish to increase earnings of hard currency through sales of grain to Free World countries (excluding the UAR) -- more than 0.7 million tons in 1967 -- and also to augment its grain stocks.

If net exports in the 1968/69 trade year are held to about the level stipulated in outstanding agreements -- approximately to 6-1/2 million or 7 million tons -- the USSR will be able to make significant additions to reserve stocks of grain. As a rough estimate, the additional supply minus projected domestic and export requirements could bring the total accumulated grain reserves to 20 million to 25 million tons by the end of the current consumption year (31 July 1969). Grain stocks of this magnitude will enable the USSR to weather a moderately poor crop year without the need for large emergency grain imports.

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Production in 1968

1. In 1968 the USSR harvested the second largest grain crop in its history. The total production of 130 million to 135 million tons ranks between the record crop of 140 million tons harvested in 1966 and the third best crop of 122 million tons obtained in 1967. Production of bread grains in 1968 is also the second largest on record -- 80 million to 85 million tons compared with 92 million tons produced in 1966 and 74 million tons in 1967 (see Table 1). The totals of both grain and bread grains produced in 1968 are one-fourth above the respective average annual levels of 1958-65.

2. Weather conditions for the 1968 grain crop were not altogether favorable. Although fall-sown grain crops in much of the European USSR were seeded under subnormal moisture conditions, timely precipitation in the fall of 1967 permitted adequate development of seedlings over most of the winter grain area. Also, the accumulation of soil moisture from an above-normal snow cover during the winter months somewhat mitigated the adverse effects of unusually dry weather in April and May in the principal winter wheat areas -- the Ukraine, Moldavia, and the North Caucasus.

3. In spring grain areas, with the exception of major parts of the new lands, April and May moisture conditions were generally adequate at the time of sowing. Then in late June and early July timely rains bolstered crop prospects in the new lands spring wheat regions of Kazakhstan and West Siberia. An average level of grain production in those areas and an outstanding harvest in the Volga, Urals, and central black-soil zones of European USSR more than compensated for the fact that grain output in the Ukraine, Moldavia, and parts of the North Caucasus fell to below the level of 1967 because of the spring and summer droughts there.

4. As in past years, the Soviet official claim of gross grain production in 1968 (165 million tons) must be reduced to obtain an estimate of net usable grain. Because of inclement weather during the harvest in the new lands areas and a shortage of trucks and railroad cars for transporting grain, above-average harvest losses probably occurred. There was more than normal shortage of truck and rail capacity for moving the harvest to storage

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Table 1

USSR: Production of Total Grains and Bread Grains  
Official Claims and CIA Estimates  
1958-62 Annual Average and 1963-68

Year	Million Metric Tons			
	Total Grain Production a/		Bread Grain Production b/	
	Official Claim c/	CIA Estimate d/	Official Claim c/	CIA Estimate d/
1958-62 annual average	130	105	86	69
1963	108	92	62	51
1964	152	120	88	71
1965	121	100	76	62
1966	171	140	114	92
1967	148	122	90	74
1968	165	130-135	N.A.	80-85

a. Including pulses.

b. Wheat and rye.

c. Bunker weight of usable grain. Net usable grain is estimated as the gross output minus excess moisture, unripe and broken kernels, weed seeds, and postharvest losses incurred in loading and unloading of grain between the combine and storage facilities. CIA estimates of net production of grain during 1959-67 have reflected a reduction of between 14 percent (1963) and 26 percent (1960) in the official claims for gross output of grain.

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facilities, largely as a result of the partial mobilization of the armed forces during the Czechoslovak crisis, which apparently resulted in the temporary requisitioning of a sizable number of trucks by the military. In addition, the areas with exceptionally high grain yields in 1968 have a relatively low density of rail networks and grain storage facilities. Therefore, the estimate of 130 million to 135 million tons for 1968 is below the official claim by 18 to 21 percent. Furthermore, a larger than normal proportion of this year's bread grain crop of 80 million to 85 million tons may be below milling quality and therefore may be usable only for feeding of livestock.

#### Internal Supply Position

5. Government purchases of grain from producers of the 1968 crop will exceed 68 million tons, an amount at least one-fifth above the average annual level of procurement in 1965-67. As a result, supplies of grain will be ample to meet domestic needs for high-quality bread supplies in 1969. In addition, the USSR will be in a position to meet export commitments and possibly also to enhance its earnings of hard currency by renewing grain sales to Free World customers. Finally, if total net exports in the 1968/69 trade year are held to approximately 6-1/2 million to 7 million tons, the USSR will be able to make significant additions to its reserve stocks of grain.\*

6. Little information is published on the utilization of grain in the Soviet Union, and statistics on stocks are closely guarded secrets. Relative stagnation in grain production in the years prior to the crop failure in 1963 probably caused a drawing down of grain reserves to a low level, but the good grain crops of 1966-67 permitted substantial replenishment of grain reserves. Although only a rough estimate is possible, comparison of supplies

\* It should be noted, however, that these additions could be smaller if additional grain must be used for food in place of potatoes. The harvest of potatoes, the other starchy staple in the Soviet diet, may be significantly below the near record level of last year.

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with projected requirements for current domestic needs (food, feed for livestock, seed for the 1969 crop, and industrial uses) plus current export commitments suggests an accumulation of grain reserves to 20 million to 25 million tons at the end of the current consumption year (31 July 1969).

7. Reserves of this size would provide the Soviets with a hedge against future shortfalls in grain production and additional leverage in foreign trade. The estimated grain stocks represent about one-half of the annual consumption of grain for food.

8. Thus, the Soviets are in a relatively good position to withstand a moderate decline in grain production in the coming year -- for example, to a level of 115 million or 120 million tons -- without having to import much grain and without deterioration in the quality of the daily diet as a result of the available grain being used for bread instead of feed for livestock to produce meat and milk.

#### Outlook for Trade

9. The excellent 1968 grain harvest will permit the USSR to continue for the second year in succession its traditional role as a net exporter of grain. During 1957-62, annual exports of grain averaged 7 million tons and imports were negligible. Because of the poor harvests in 1963 and 1965, the Soviets imported unusually large quantities of grain during 1963-66 in order to meet domestic needs and at least a major part of export commitments to client states. Exports in 1964-66 declined to an average annual level of less than 4 million tons, and average annual imports increased to more than 7 million tons (see Table 2).

#### Soviet Grain Imports

10. During 1964-66, nearly all Soviet grain imports (largely wheat and wheat flour) were from Free World countries and were paid for in hard currency. Canada has been by far the largest, most consistent supplier (see Table 3) and is now the only country with an agreement to sell grain to the USSR.

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Table 2

USSR: Exports, Imports, and Net Trade in Total Grain and Wheat  
1960-62 Annual Average and 1963-67

	Thousand Metric Tons					
	1960-62 Annual Average	1963	1964	1965	1966	1967
Exports						
Total grain a/	7,483	6,278	3,524	4,340	3,568	6,257
Of which:						
Wheat	5,063	4,106	2,030	1,663	2,805	5,284
Imports						
Total grain a/	312	3,052	7,281	6,375	7,746	2,185
Of which:						
Wheat	266	3,052	7,281	6,375	7,583	1,828
Net trade b/						
Total grain a/	-7,171	-3,226	+3,757	+2,035	+4,178	-4,072
Of which:						
Wheat	-4,797	-1,054	+5,251	+4,712	+4,778	-3,456

a. Excluding rice and flour. The quantities shown in Table 4 differ from the amounts shown above to the extent that rice and flour are included in Table 4.  
b. A plus sign denotes net imports; a minus sign, net exports.

Table 3

USSR: Imports of Wheat, a/ by Country of Origin  
Trade Years 1960/61-1962/63 Annual Average  
and 1963/64-1967/68

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Trade Year	Country of Origin					Total
	Argentina	Australia	Canada b/	France	United States	
1960/61-1962/63 annual average	--	--	68	--	--	68
1963/64	10	1,537	6,055	150	1,720	10,044
1964/65	54	921	1,279	99 c/	46	2,656
1965/66	2,186	576	5,792	130 c/	--	9,187
1966/67	21	--	3,264	822	--	4,683
1967/68	--	--	1,820	--	--	1,920

a. Including wheat flour in wheat equivalents.

b. Including exports to Cuba from Canada on Soviet account.

c. Excluding exports to Eastern Europe on Soviet account.

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11. The Soviets are expected to purchase in the near future at least a portion of the 4 million tons of grain remaining under a three-year agreement with Canada. Under the original terms of the 1966 agreement, the Soviet Union was obligated to purchase 9 million tons before mid-1969. The USSR bought 3 million tons in 1966/67 and 2 million tons in 1967/68. The fact that none has been purchased thus far in the 1968/69 trade year has led to speculation that the Soviets may renege on their commitment. The consensus in international grain trade circles, however, is that the Soviets will honor the contract, either precisely or by renegotiating the terms. For example, the mid-1969 deadline might be extended for one or two years, with most of the grain going to Cuba (on Soviet account) or to Soviet Far East ports.

#### Soviet Grain Exports

12. The principal recipients of Soviet grain exports during 1964-66 were Czechoslovakia, East Germany, Poland, and Cuba. Exports to Free World countries for hard currency were negligible. From the beginning of the 1965/66 trade year through the 1967/68 trade year, exports to client states in Asia (North Vietnam and North Korea) and Africa (the UAR and Algeria) have increased rapidly. The expansion of exports to individual countries in these areas, however, has been irregular. Thus, exports of wheat to Asia and Africa combined increased from 300,000 tons in the 1965/66 trade year to about 1.1 million tons annually in the 1966/67 and 1967/68 trade years. Exports of grain to the UAR during 1967 reached 1 million tons (see Table 4) but declined to 300,000 tons in 1968. North Korea received 390,000 tons during the 1967/68 trade year. Shipments of flour to North Vietnam reached 160,000 tons in calendar year 1967 and will probably reach 250,000 tons in 1968.

13. Total grain imports of these client states from all countries in the 1968/69 trade year are projected at 11.2 million tons, somewhat above the 1967/68 level. Soviet exports of grain to these states are expected to range between 5.6 million and 6.6 million tons, or from 50 to 60 percent of total import requirements. Given the greatly improved Soviet supply position for bread grains, the international political environment, and the desire of the client states to conserve hard currency, these

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Table 4  
USSR: Exports of Grain, a/ by Country of Destination  
1960-62 Annual Average and 1963-67

	Thousand Metric Tons					
	1960-62 Annual Average	1963	1964	1965	1966	1967 b/
Total	7,616	6,662	3,969	4,710	3,993	6,780
Eastern Europe c/	4,616	4,239	2,736	3,205	2,894	3,679
Czechoslovakia	1,429	1,501	900	1,169	1,242	1,349
East Germany	1,940	1,577	1,191	1,054	1,148	1,187
Poland	771	820	110	491	504	1,042
Hungary	302	141	15	378	--	101
Bulgaria	82	150	120	113	--	--
Rumania	34	--	400	--	--	--
UAR	--	--	--	202	Negl.	1,000
Cuba d/	362	762	777	745	855	927
North Vietnam	14	4	2	2	15	220
North Korea	133	50	--	101	118	251
Communist China	184	--	--	--	--	--
Other	2,307	1,607	454	455	111	703

a. Including flour (converted into grain equivalents by using a 72 percent extraction rate) and groats.  
b. Preliminary estimates.  
c. The total includes Albania and Yugoslavia.  
d. Including imports of grain and flour from Canada and Mexico on Soviet account.

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states no doubt will try to get the USSR to provide a larger share of their total requirements.

Eastern Europe

14. The total demand of the Eastern European Communist countries for imported grain in the 1968/69 trade year is projected at 6.4 million tons, 10 percent above the 1967/68 level. The overall net increase in import requirements of nearly 0.7 million tons reflects the need to compensate for lower output in East Germany, Hungary, and Bulgaria; relatively good harvests in Czechoslovakia and Poland have reduced their import needs below the 1967/68 level. The USSR has a current commitment to supply slightly more than 4 million tons of the estimated required imports of 6.4 million tons. About one-half of the remainder has been purchased or contracted from Free World countries. In view of the need to conserve hard currency, Poland, Hungary, and Bulgaria may seek additional grain from the Soviets above the present commitments.

Other Client States

15. During the 1968/69 trade year, client states outside of Eastern Europe will require total grain imports of about 5 million tons. The USSR probably will supply as much as 2.0 million tons and possibly more to the five countries involved -- Cuba, North Vietnam, North Korea, UAR, and Algeria. Given the uncertainty of alternative supply arrangements, the USSR may be asked during the balance of the trade year to contribute a considerably larger share of the total.

16. For the present, however, the outlook calls for the Soviet Union to provide grain imports to the five countries at about the same levels as in the past year, the amounts being about 0.9 million tons for Cuba, 0.4 million tons for North Vietnam, 0.2 million tons for North Korea, and perhaps 0.5 million tons for the UAR and Algeria combined.

The Free World

17. Despite the desire to expand earnings of hard currency, the Soviets have not indicated an intention to significantly increase grain sales to the Free World. The new International Grain Agreement (IGA), subscribed to by major Free World traders

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(but not by the Soviet Union), should not restrain the USSR from attempting to regain the previous level of exports in Free World markets, which averaged 2.3 million tons in 1960-62. Although IGA member importers are obligated to buy stipulated portions of their total requirements from IGA member exporters, a sizable potential market in hard currency areas still remains. The Soviet Union could, for example, attempt to sell grain to its major trading partners among the developed countries (the United Kingdom, West Germany, Japan, Italy).

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