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Support Project Initiation Memorandum (for Non-Scheduled Intelligence Production)	Type B	Control Number ER M 80-10009
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TO: Production Control Staff

2. Title or Subject (31) Line 1 Consequences of an Embargo on Line 2 US Grain Shipments to the Line 3 USSR Line 4 Line 5	3. Analyst(s) & Other Contributors (31) Line 1 Line 2
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4. Requester and Purpose (39) Line 1 Marshall Brent Line 2 National Security Council Line 3 to assess impact on USSR of a cutoff Line 4 in shipments of US grain Line 5 Line 6	Classification (39) SECRET
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5. Precis (39) Line 1 Discusses Soviet purchases of grain Line 2 for marketing year 1979/80, how much Line 3 has been moved, and what actions the Line 4 USSR will be forced to take if ship- Line 5 ments of US grain are halted. Line 6 Line 7 Line 8	
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APPROVAL:

Branch (if less than 10 manhours)	Date 1/3/80
Director (for special requesters)- MAURICE C. ERNST, Director Economic Research	Date 1/4/80

Note: Numbers in parentheses indicate the maximum number of characters and blanks to be inserted in a line-Lc., (16) means no more than 16 spaces.

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MEMORANDUM FOR: DCI
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The attached memo, "Consequences of an Embargo on US Grain Shipments to the USSR" was prepared at the request of the NSC Staff for discussion at this afternoon's NSC meeting.

[Redacted]

Maurice C. Ernst
Director
Economic Research

Date 3 Jan '80

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Consequences of an Embargo on US Grain
Shipments to the USSR

Background

The USSR's 1979 grain crop of 179 million tons is the smallest since 1975. In order to maintain the momentum of its very important livestock program while maintaining the currently low level of carryover stocks, the USSR would have to import about 60 million tons of grain. Because of port capacity constraints, imports cannot exceed 40 million tons so that internal adjustments to cope with the shortfall must be made. These adjustments will impact negatively on meat production -- a marked setback for Brezhnev who has stressed the growth of the livestock sector to improve living standards and has invested enormous resources to achieve this goal.

Soviet Grain Purchases

In early December officials of the Soviet grain trading organization, Eksportkhleb, said the USSR had purchased 40 million tons of grain for delivery during the current marketing year (July 1979 -- June 1980). The 40-million-ton grain import figure breaks down as follows: 12 million tons of wheat, 25.9 million tons of corn, and 2.1 million tons of barley and rye. We estimate the US share to be 32 million tons -- 7.6 million tons of wheat, 23.9 million tons of corn, and 500,000 tons of barley.

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To import this quantity of grain, plus additional purchases of soybeans and soybean meal would require an average monthly port discharge capacity of 3.6 million tons and is consistent with an official claim of an upper limit of 3.8 million tons per month. During July-December 1979, the USSR imported about 19 million tons of grain of which 15 million tons was of US origin. Unfulfilled contracts additional quantities from non-US sources are not readily available. for non-U.S. grain come to roughly 4 million tons. This leaves some 17 million tons of U.S.-origin grain contracted for by the USSR, but not yet delivered. Should an immediate embargo be placed on further shipments of US grain, the Soviet grain deficit would be increased from 20 million tons to 37 million tons, requiring Moscow to make substantial additional internal adjustments.

Coping with the Shortfall

Moscow has the following options in adjusting to the 37 million ton shortfall:

- o Draw down its small cushion of grain stocks (estimated at 10-15 million tons).
- o Increase the amount of flour milled from a ton of grain, thus reducing the quality of bread.
- o Reduce livestock inventories, especially hogs and poultry.

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- Reduce feed rations per head of livestock by cutting rations.
- Increase meat imports. World supplies are currently tight and this option is limited.

Moscow will probably draw down stocks even if the U.S. does not embargo grain exports. There would also be reductions of some 7 million tons in the feeding of grain to livestock, yielding about 1 million/less tons meat in 1980.

In the event of an embargo Moscow would have to make a much larger cut in livestock feeding. Meat production would suffer severely as a consequence, declining by 3 million tons in 1980, or about one-fifth. Most of the impact would be on pork production. Per capita output of meat would drop to the level of the early 1970s, a marked setback for the Brezhnev consumer welfare program. Indeed, official statements, coupled with buying patterns of the past six months, emphasize the Kremlin's serious intent to avoid popular dissatisfaction, such as accompanied the herd cutback associated with the 1975 harvest failure. Moreover, in the event of an embargo, the required sharp reduction in herds would mean that reduced levels of meat production would continue in 1981-82.

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Longer Run Outlook

Over the next few years we believe Soviet grain import needs will range from 20 million to 30 million tons annually, assuming average weather and a continued leadership commitment to expand livestock product output. The US-USSR Long-Term Grain Agreement, presently scheduled to end in September 1981, allows the USSR to purchase 8 million tons of grain annually from the United States. An additional 10 million tons annually probably will be available from non-US suppliers. million
The 2/to 12 million ton deficit can only be filled by additional quantities from the United States. Hence, if the US exports the maximum of 8 million tons currently permitted under the LTA, the Soviet leadership would have to curtail the highly publicized livestock program already announced for the eleventh five-year plan period (1981-1985).