SE~~C~~RET
(When filled in)

22579

Support Project Initiation Memorandum (for Non-Scheduled Intelligence Production)	Type B	Control Number [redacted]

TO: Production Control Staff.

2. Title or Subject (31)
Line 1 Soviet Purchases of Sugar
Line 2 for Hard Currency
Line 3
Line 4
Line 5

3. Analyst(s) & Other Contributors (31)
Line 1 [redacted]
Line 2

Manhours: 6

Completion Date (y m d) 1978 April 5

4. Requester and Purpose (39)
Line 1 Self-initiated. To inform Julius
Line 2 Katz, Assistant Secretary for
Line 3 Economic and Business Affairs.
Line 4 Department of State.
Line 5
Line 6

Classification (39)
Top Secret [redacted]

5. Precis (39)
Line 1 Confirmation of Soviet purchases of
Line 2 Cuban sugar for hard currency and
Line 3 possible consequences for the world
Line 4 market
Line 5
Line 6
Line 7
Line 8

APPROVAL:

		Date
Branch (If less than 10 manhours)	for [redacted]	5 Apr. 1978
Division (If 10 manhours or greater)	[redacted]	
Director (for special requesters)	MAURICE C. ERNST, D/OER	

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

SE~~C~~RET

~~TOP SECRET~~ [redacted]

[redacted]

CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

6 April 1978

MEMORANDUM FOR: Mr. Julius Katz
Assistant Secretary of State
for Economics and Business Affairs
Department of State

SUBJECT : Soviet Purchases of Cuban Sugar for Hard Currency

REFERENCE : Working Group on Food and Agriculture Policy, Meeting of 4 April, and the Need to Develop a US Domestic Sugar Policy

1. Despite official denials, evidence is mounting that the USSR is buying substantial quantities of raw sugar from Cuba for hard currency. According [redacted] the USSR paid Cuba US $30 million for an unknown quantity of sugar at the end of March. At the current world price of $.08, this would be close to 170,000 tons or 35 percent of the reported 480,000 tons to be bought for hard currency. (See our NID article of 1 April, attached.) Purchases for hard currency are in addition to the on-account quantities determined by the USSR/Cuban trade protocol on a yearly basis.

2. These hard-currency purchases combined with the 2.9 million tons scheduled for delivery under the protocol and estimated domestic sugar production of 9.0-9.1 million tons will provide the USSR with roughly 800,000 tons in excess of estimated domestic consumption. We judge the bulk of this sugar will be used to rebuild internal stocks, sharply depleted by two

ER M 78-10233C
[redacted]
Copy 11 of 15

[redacted]

~~TOP SECRET~~ [redacted]

CLASSIFIED BY [redacted]
EXEMPT FROM GENERAL DECLASSIFICATION SCHEDULE OF E. O. 11652, EXEMPTION CATEGORY:
§ 5B(1), (2), (3) or (4) (circle one or more)
AUTOMATICALLY DECLASSIFIED ON
Impossible to Determine
(unless impossible, insert date or event)

[redacted]

consecutive years of low domestic production. Imports in 1976 and 1977 were not sufficient to allow normal inventory maintenance.

3. On the other hand, the USSR has negotiated an export quota of 500,000 tons under the new International Sugar Agreement (ISA) and conceivably could meet it. Current large supplies of sugar, however, suggest developing new markets will be difficult short of selling below the already depressed world price. Since 1972, Moscow has exported between 50,000 tons and 100,000 tons of refined sugar annually to countries such as Finland, Afghanistan, Mongolia, and Vietnam, markets that are not likely to expand. Furthermore, we think it unlikely the USSR will discount sugar prices from current levels simply to boost exports to the ISA limit.

4. As noted in our NID article, the USSR is increasing its support of the Cuban economy this year to compensate for Havana's continued hard currency shortage. Given the present glut of sugar on the world market, Havana is undoubtedly having extreme difficulty finding hard currency markets for its sugar -- which normally accounts for about 70 percent of total hard currency earnings. Moreover, a continued Cuban inability to find markets for its revised 2.0 million tons export quota under the new ISA could place this quota in jeopardy when these quotas come up for revision in three years. Recent reports that Havana is postponing sugar deliveries for soft currencies to East European countries to meet its hard currency contracts with the USSR underscore the immediacy of the Cuban situation.

[redacted]

Attachment
As stated:

[redacted]

[redacted]

[redacted]

NID 1 April 1978

USSR-Cuba: Economic Support

The USSR and East European countries are increasing their support of the Cuban economy this year to compensate for Havana's continued hard currency shortage and, perhaps, to show support for Cuba's activist policies in Africa. The information we have so far, however, is not sufficiently firm to conclude that Havana is being compensated for its African activities. [redacted]

Soviet economic support for Cuba will rise substantially in 1978 to the equivalent of at least $1.8 billion in sugar and petroleum subsidies—some 10 percent more than in 1977 and nearly three times the 1975 level when large-scale price subsidization first began. Moscow apparently has reluctantly agreed to increase its purchases of Cuban sugar to 2.9 million tons—200,000 tons over the planned level—at about four times the world price. The Soviets, despite official denials, are also reported to be buying an additional 480,000 tons of sugar with hard currency

(See USSR-Cuba. . .Page 2)

From Page 1

at the world price of about 8 cents a pound.

Moscow, moreover, has apparently assured the Cubans that it will meet their petroleum requirements through 1980 at an essentially fixed price of about $7.25 per barrel, or slightly over half the prevailing world rate. Lastly, the USSR has agreed, again with some reluctance, to increase deliveries of selected transportation equipment and semimanufactured goods. Cuba has been forced to cut back on such imports from the West because of decreased hard currency earnings.

Moves by the East European countries, with the exception of Romania, to expand commercial relations with Cuba have been described by one [redacted] official as an "increase in foreign aid." The expansion includes an across-the-board rise in purchases of Cuban sugar at over twice the world price. This in turn will enable Havana to increase its purchases from East European countries of items formerly bought in the West.

The East European decision to buy more Cuban sugar at an inflated price will result in a subsidy equivalent to $150 million. Several East European [redacted] have criticized this policy in view of Eastern Europe's improved sugar supplies and its maintenance of export prices for Cuba at 1975 levels. The [redacted] in Havana has been critical of the sale to Cuba of machinery that could be sold in the West for badly needed hard currency.

Much of the increased aid takes the form of the usual programmed assistance aimed at stabilizing Cuban foreign exchange earnings. For example, Cuba's integration into the Council for Economic Mutual Assistance and the coordination of the CEMA members' 1976-80 five-year plans provided Havana with a guaranteed market and a stable price for a large portion of its sugar exports. Havana was also assured stable prices for its imports from CEMA.

Under the recently concluded International Sugar Agreement, the USSR and East Germany are permitted to reexport 500,000 tons and 75,000 tons of sugar respectively to the world market. Given the oversupply of sugar on the world market, they may have considerable difficulty making sales for hard currency.

The unprecedented magnitude of Soviet and, to a lesser degree, East European largess suggests that Cuba's large-scale support of Soviet policy interests in Africa may have been a factor. Accelerated purchases of Cuban sugar by CEMA countries are surprising, given these countries' sharply higher supplies and the poor prospects for Soviet and East German reexports.

The USSR's assurances to Cuba of adequate supplies of petroleum at stable prices through 1980 constitute a sharp reversal of Soviet international oil policy; if applicable only to Cuba and not to other CEMA countries, it would underscore the increasingly symbiotic nature of the Cuban-Soviet relationship. The East Europeans' acquiescence in Cuban demands is also unusual in view of their longstanding reluctance to expand economic relations with Havana, and suggests that political factors played a major role in their decision as well. [redacted]

[redacted] *CIA, DIA, NSA-*

TOP SECRET

[redacted]