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(When filled in)

Support Project Initiation Memorandum (for Non-Scheduled Intelligence Production) Type B

TO: Production Control Staff

2. Title or Subject (31)

Line 1 Extent of Soviet Success in  
Line 2 Circumventing US Grain Em-  
Line 3 bargo  
Line 4  
Line 5

3. Analyst(s) & Other Contributor: (31)

Line 1  
Line 2

Manhours: 15

Completion Date (y m d)

80-07-16

4. Requester and Purpose (39)

Line 1 Timothy Deal  
Line 2 Staff Member, NSC  
Line 3  
Line 4 For possible briefing of Zbigniew  
Line 5 Brzezinski  
Line 6

Classification (39)

[Redacted Classification Box]

5. Facts (39)

Line 1 Provides an estimate of how much grain  
Line 2 the Soviets have been able to buy in  
Line 3 international markets to replace the US  
Line 4 embargoed grain; the impact on Soviet  
Line 5 livestock productin and retail suppliers  
Line 6 of meat.  
Line 7  
Line 8

APPROVAL:

[Approval Signature Boxes]

Date

/17/80

Date

7/17/80

Date

Director (for special requests)

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.

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NATIONAL FOREIGN ASSESSMENT CENTER  
CENTRAL INTELLIGENCE AGENCY  
WASHINGTON, D.C. 20505

16 July 1980

MEMORANDUM FOR: Timothy Deal  
Staff Member  
National Security Council

SUBJECT : Extent of Soviet Success in Circumventing  
US Grain Embargo

1. In response to your request, the following represents OER's latest estimates on the subject.

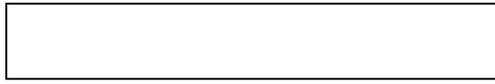
Replacement of US Grain

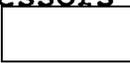
2. The Soviets have had only limited success in replacing the 17 million tons of embargoed US grain for the LTA year ending 30 September 1980. We estimate the USSR will not be able to replace more than 8 million tons, reducing total imports from their planned level of around 36 million tons to 27 million tons. So far, we can confirm post-embargo Soviet grain purchases of 5.2 million tons and another 2.5 million tons unconfirmed that replaces US grain and would be delivered by 30 September. However, given current Canadian drought-related efforts to delay grain deliveries and Soviet port congestion problems, actual deliveries will be no more than 8 million tons (assuming all the unconfirmed sales are valid). See attachment A for quantities and source of USSR grain imports.

3. Moscow has been more successful in replacing the US embargoed 400,000 tons of soybean meal and 700,000 tons of soybeans. Although exact amounts are difficult to confirm, believe the Soviets have at least doubled their intended imports of US origin soybean meal through West European firms. Similarly, US soybeans have been or will be replaced with Argentine, Brazil, and transshipped US beans through West European ports. Most of the soybean meal being shipped by West European firms was probably produced from US beans because South American beans have only recently become

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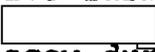
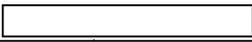


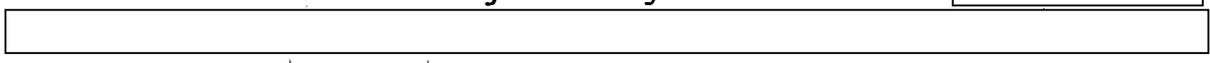
available. The ability of the US Government to monitor possible US beans and meal shipments through Western Europe to the USSR has been hampered by unwillingness of EC governments to cooperate and misunderstanding by some US Agricultural Counselors that it was legal for West European processors to use US soybeans for meal sold to the Russians. 

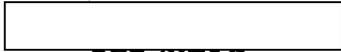
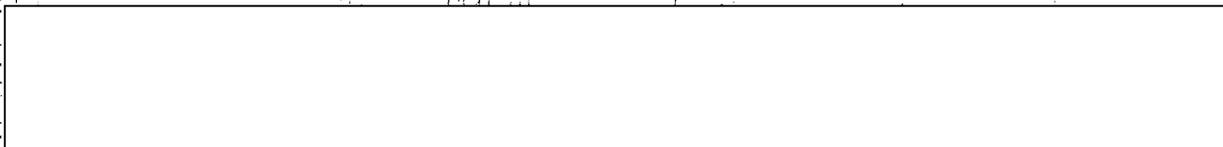
Impact on 1980 Meat Production

4. Even with full US exports we would have expected meat production to be flat this year as the effects of the poor 1979 grain crop worked their way through feed supplies. We now expect a drop in meat production of 300,000 to 500,000 (2 to 3 percent) from the 1979 level as a result of the US embargo and a grain harvest in the 210-220 million ton range. Emergency slaughtering -- such as occurred in January and February -- will only partially offset the potential impact of lower grain supplies on meat production. By 1 January 1981, livestock inventories may be down 2 to 3 percent, with about a fourth of the drop due to reduced US grain imports. The 1 June data for numbers of swine on state and collective farms shows a 2 percent reduction from last year. Meat production on state and collective farms has steadily declined since February in comparison to corresponding months in 1979 (attachment B). 

Retail Meat Shortages

5. The Soviet meat supply continues to deteriorate, according to the latest reports (see attachment C for situation as of early June). Meat production on state and collective farms during May was 6 percent below that of May 1979.  report poorer meat supplies in Moscow during July and an even worse situation outside of the capital, exemplified by a complete absence of beef in some of the major tourist hotels. The shortages have driven meat prices up at the collective farm markets to such an extent that ceilings are being imposed by some local authorities. The impact of the embargo alone on meat consumption is difficult to assess; at least it exacerbates an already poor situation, and the 300-500,000 tons of meat that would be available without the embargo could be significant at the margin. Moreover, the embargo could have a large psychological impact on the Soviet man on the street who is aware of it through foreign broadcasts. 

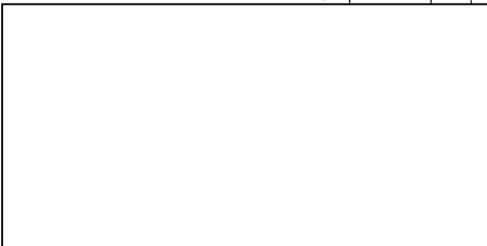




OER/NFAC

**Attachments:**  
As stated

- Cy 1 - Tim Deal (LDX'd)
- 2 - Mike Calingaart, State (LDX'd)
- 3 - D/OER
- 4 - Howard Hjort, USDA
- 5 - Tom Saylor, USDA
- 6 - D/NFAC
- 7 - NSC Coordinator



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Attachment A

(Million Metric Tons)

USSR IMPORTS (C)

(Oct 1979 - Sep 1980)

<u>Commodity/Country or Region</u>	<u>Estimates as of 4 Jan</u>	<u>Estimates as of 6 Mar</u>	<u>Estimates as of 15 Jul</u>
<b>Wheat</b>			
USA	7.2	2.3	2.4
Canada	1.6	2.9	2.6
Australia	2.4	2.4	3.0
EC	0.4	0.5	1.0
Argentina	1.0	1.8	2.1
Other	0.3	0.3	0.7
Diversion	--	0.5	--
<b>Total</b>	<b>12.9</b>	<b>10.7</b>	<b>11.8</b>
<b>Barley/Oats/Rye</b>			
USA	0.5	0.2	0.1
Canada	0.6	1.1	1.0
Australia	0.6	0.6	1.3
EC	0.2	0.2	0.4
Other	0.3	0.4	0.4
Diversion	--	0.3	--
<b>Total</b>	<b>2.2</b>	<b>2.8</b>	<b>3.2</b>
<b>Corn and Sorghum</b>			
USA	18.2	6.1	6.0
Argentina	2.0	3.5	3.2
S. Africa	--	--	0.3
Thailand	--	0.1	0.1
Other	0.7	1.3	1.8
Diversion	--	0.5	0.5
<b>Total</b>	<b>20.9</b>	<b>11.5</b>	<b>11.9</b>
<b>Total Grains</b>			
USA	25.9	8.6	8.5
Other	10.1	16.4	17.9
<b>Total</b>	<b>36.0</b>	<b>25.0</b>	<b>26.9</b>

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Attachment B

USSR: Meat Production by Three Types of  
Output Definitions (U)

I. Meat Production - Kolkhoz and Sovkhoz

(By Month, Thousand Tons, Live Weight) 1/

	<u>1979</u>	<u>1980</u>	Index <u>1980/1979</u> (Corresponding Month)
January	1,285	1,426	111
February	1,115	1,277	115
March	1,470	1,322	90
April	933	928	99
May	1,054	995	94
June	1,688	1,480	89

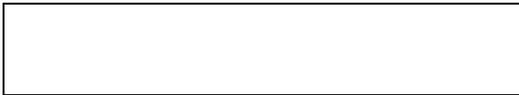
Source: Monthly livestock statistics published in Ekonomicheskaya Gazeta. Meat production is defined as liveweight sales for slaughter from state and collective farms.

1/ Generally, statistical "Coverage I" is larger than the Procurement figure (Coverage II). However, the procurement number is occasionally higher. For example in June and September of both 1978 and 1979, reported procurements were 2 to 3 percent above reported production.

Includes beef, pork, mutton and poultry.  
Excludes production from the private sector.

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IA. Beef Production (Thousand Tons - Live Weight)

	<u>1979</u>	<u>1980</u>	Index 1980/1979 (Corresponding Month)
January	840	932	111
February	710	819	115
March	977	861	88
April	564	563	99
May	616	570	93

IB. Pork Production (Thousand Tons - Live Weight)

	<u>1979</u>	<u>1980</u>	Index 1980/1979 (Corresponding Month)
January	320	346	108
February	280	314	112
March	348	295	85
April	238	220	92
May	284	260	92

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IC. Poultry Production (Thousand Tons - Live Weight)

	<u>1979</u>	<u>1980</u>	Index 1980/1979 (Corresponding Month)
January	100	119	119
February	99	112	113
March	111	126	114
April	100	113	113
May	120	128	107

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Attachment C

**USSR: Food Shortages  
Worsen**

Last year's poor harvest has led to severe and widespread shortages of meat and other quality foods, further pushing back Moscow's program to upgrade the Soviet diet. Per capita consumption of meat, a major standard by which Soviet consumers gauge their welfare, is expected to decline by about 3 percent this year. The leadership has been unusually frank in acknowledging the shortages and has indicated concern about the repercussions on its campaign to increase labor productivity and improve incentives. Soviet consumers, already pessimistic about near-term prospects for relief, may become more disaffected if the situation worsens this year, as we expect.

**The Record**

Prior to 1975, good progress was made in raising the output of quality foods. Per capita meat consumption in particular increased by more than 20 percent between 1970 and 1975. The poor grain harvest of 1975, however, caused a severe setback, and the amount of meat consumed per person regained the 1975 level only in 1979.

In 1980, per capita meat consumption probably will be down by about 3 percent, the result of last year's disappointing grain harvest and, to some extent, restricted imports of US grain. This estimate is based on a projected 1980 meat output of 15.2 million tons—compared with the Soviets' original target of 17.3 million tons—and about 500,000 tons of meat imports. A temporary rise in the number of animals slaughtered occurred in the first quarter of this year because of feed shortages, but by April this phenomenon had run its course and was partially offset by lower slaughter weights.

Other foods hit particularly hard by shortages of livestock feed were butter and milk. Butter output at government enterprises during January-April fell 10

percent from the same period in 1979. Milk yields have been declining since the first of the year, and milk output rose only 0.5 percent.

**Effect on the Consumer**

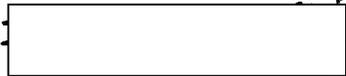
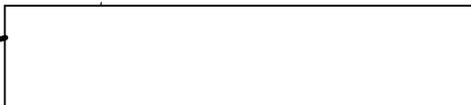
Recent  reporting   indicates that Soviet consumers are obsessed with the worsening food situation. Their extreme sensitivity to the meat shortage demonstrates that the meat supply is the primary standard by which relative affluence is measured.

- Recent  generally agree that shortages worsened in 1978; now, even when available, three-hour queues for meat are not unusual and local rationing systems are common.

indicates a complete absence of meat in provincial state stores and consequent heavy reliance on private plots or the collective farm market.

- report that  are more preoccupied with shortages of food and other consumer items than with any other problem. These  assert that the shortages of meat, dairy products, fruit, and vegetables are "the worst in many years." A recent  visit to Tallinn, a city usually well supplied, found half-full meat and produce counters one hour after opening at "the best food store in town" according to residents.

According to Western news reports, strikes in May at the Tegliatti and Gorkiy auto and truck plants are partially attributed to food shortages. Apparently the protests were settled peacefully when the authorities brought in fresh food and other supplies. Widely scattered incidents of unrest during the last



year in Yerevan, Estonia, and Murmansk also are linked to the food situation. During the two years following the poor harvest of 1975, there were reports of strikes or demonstrations in protest of food shortages in more than 20 Soviet cities.

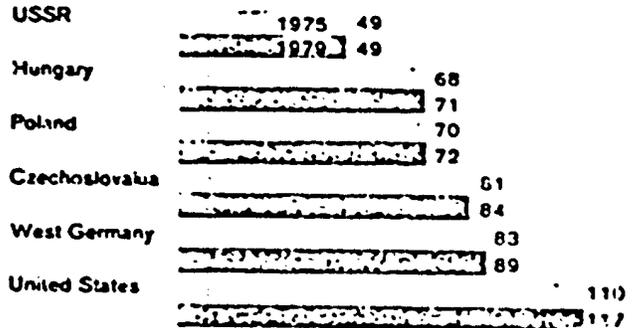
### Current Meat Shortage Worse Than 1975

The current meat situation appears more bleak than after the poor 1975 harvest although per capita meat consumption in both years is estimated to be the same. This has been caused by a number of factors.

- **Pressure From Rising Income and Stable Prices.** Increased frustrations over the meat supply are being fueled by rising personal incomes and the refusal of the Soviets to use prices as a rationing device in the state sector. These factors, together with a high income elasticity of demand for meat, have created a much larger notional gap between supply and demand.
- **Growth of Special Distribution Systems.** The proliferation of special distribution systems since 1975 has rechanneled food supplies largely away from state retail stores, leaving the Soviet citizen with no "special access" to food and forcing him to bear most of the burden. Administered by local governmental, trade, and plant authorities, these special systems include (a) direct distribution of food by state industrial enterprises to their workers, (b) a ration card system that entitles each employee to a certain quantity of food per month bought from state stores, and (c) access to institutional cafeterias that serve higher quality fare than public dining establishments.
- **Soaring Prices in Collective Farm Markets.** Price inflation in the collective farm markets (CFMs) has discouraged low income buyers who had turned readily to this outlet as a supplement after the 1975 poor harvest. Traditionally an escape valve for the excess demand for quality foods, the CFMs have offered greater reliability of supply and higher quality and assortment than state

### Per Capita Meat Consumption<sup>1</sup>

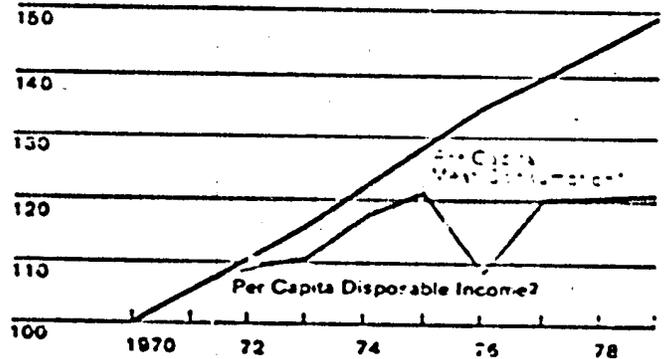
Kilograms



<sup>1</sup> Comparable basis, includes red meat, poultry, and edible offals.

### USSR: Meat Consumption and Disposable Income

Index 1970 = 100



<sup>1</sup> Per capita consumption of meat is derived by 1) adjusting meat production statistics to exclude slaughter lots and then 2) adjusting the resulting quantity for domestic margin and net trade and 3) dividing by the population. Because the USSR is now purchasing delayed inventory statistics in 1975, inventory changes are assumed to start during 1976-78.

<sup>2</sup> Per capita disposable income is computed as the sum of 1) total personal money income less deductions for taxes, state social funds, and other party membership dues and insurance premiums divided by the national population.



stores, but at premium prices. Because of the growing gap between the supply of and demand for quality foods, CFM prices soared in the late 1970s. In Moscow CFMs, the average meat price rose by 40 percent in the past five years. By the end of 1979 beef and pork prices in CFMs were two and a half to three times the state retail level.



**The Regime Admits Food Problems But ...**

In his speech to a Central Committee Plenum last November, Brezhnev candidly spoke of the shortages of meat and dairy products and other consumer goods. Taking their cue from him, regional leaders at follow-up republic party plenums and in recent election speeches have detailed local problems with the food supply. First Secretary Masherov of Belorussia has been the most categorical, declaring that "in the exceptional circumstances" of the 1979 drought, grain production has fallen 40 percent short of needs, which threatens to create an "almost complete lack of livestock products for sale to the public." He also admitted "interruptions" in the supply of milk and expressed alarm at the continuing decline in the number of privately owned cows.



Despite the outpouring of sympathy for the consumer's plight, the leadership has shown little inclination for meaningful action other than stop-gap grain imports. In the short run, nationwide rationing might shorten queues and provide a more equitable basis for distribution. The leadership, however, seems satisfied with the piecemeal systems locally initiated and administered. Larger meat imports also could provide some cushion for the current problems. Trade sources indicate that imports will be somewhat larger than last year, but still short of the record amount imported in 1977.

In the longer run, the regime could raise retail prices and restrain income growth, bringing demand more in line with food supplies. Moscow, however, continues to promise price stability on basic goods and seems genuinely apprehensive about consumer reac-

tion to a price rise. The Soviet riots in 1962 over Khrushchev's food price hikes and Gomulka's ouster in Poland because of price hikes seem ever fresh in their minds. Although restraint in income growth has been accomplished during the last several years, such a policy will be hard to maintain in the upcoming period of serious labor shortages.



The leadership's tendency to sit on its hands probably stems from the feeling that a good harvest this year will revive the livestock program enough to assuage consumer discontent. Indeed, prospects for an above-average grain crop of 210-220 million tons this year are good.\* We estimate, however, that near record imports of about 30 million tons will still be required to boost output of livestock products substantially above 1979 levels. More important, consumer pessimism is not likely to be dissipated without perceived increases in welfare sustained over several years.



Moscow undoubtedly realizes the consequences of continuing food shortages on worker motivation. An article by Kosygin last July in the journal of the State Planning Commission (Gosplan) noted that the "satisfaction of demand expressed by the population ... is an important aspect of ... strengthening stimuli for raising labor productivity." An unusually frank article by a Soviet sociologist writing in the March issue of a prominent economics journal neatly summarizes the problem. She argues that large investments in more productive machinery will fail to increase productivity unless accompanied by sizable increases in consumer goods. She concludes that it is "not accidental" that the current decline in labor productivity has taken place against a background of shortages of food and other consumer goods.



\* See IEEW article of 12 June 1980, "USSR: Outlook for Grain Production and Imports."

