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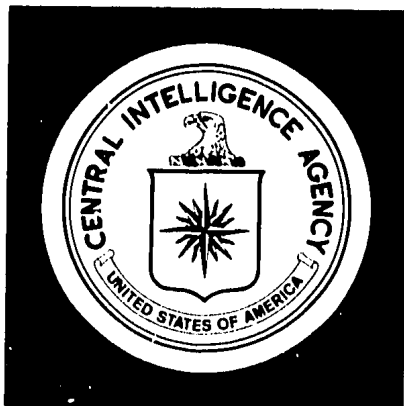
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# Economic Intelligence Weekly

**Secret**

CIA No. 8138/74  
14 August 1974

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ECONOMIC INTELLIGENCE WEEKLY

14 August 1974

AGRICULTURE

**Agricultural Prices Move Up;** Prices of most US farm commodities have strengthened in the wake of crop losses and low world stocks. (See page 4.)

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**In India,** improved rains have checked deterioration in the fall grain crop. Normal rains during the next two months are still needed. New Delhi is banking on another Soviet grain loan to help meet its food needs. Moscow now appears willing.

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**Bangladesh officials** continue to dramatize the severity of recent floods to support pleas for additional foreign assistance. Even if damage from the now receding waters proves only moderate, food stocks provide little safety margin.

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**USSR: Dimmer Grain Prospects;** Dry weather in July has lowered our estimate of Soviet grain output from 205 million to slightly under 200 million tons. (See page 1.)

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**Soviet Officials,** after dragging their heels, now agree that a US agricultural team can tour the spring wheat areas in late August.

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**China: Unfavorable Harvest Prospects;** Scheduled grain imports for FY 1975 already are up 20% above FY 1974. (See page 2.)

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**Canada: New Beef Restrictions;** Recently announced quotas pose problems for US and Australian producers. (See page 3.)

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FINANCIAL MARKETS

**In Europe,** the dollar strengthened last week, rising between 0.5% and 1.5% against the world's major currencies. Only minimal dollar intervention was necessary to smooth out the markets in the face of last week's

political events. The Italians have resumed dollar sales, averaging \$50 million a day, to support the lira. Gold was fixed at \$152.25 an ounce in London Monday, down slightly for the week.

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INDUSTRIAL NATIONS

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**Australia's Labor Government** has been given broad powers over mineral and energy development policies under a bill passed last week by the joint session of the Australian Parliament. The legislation—rejected on three previous votes—is designed to further the government's policy of promoting Australian ownership and control of its natural resources. Canberra's toughening attitude toward foreign investment has already resulted in a sharp decline in new investment in the mining industry.

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DEVELOPING NATIONS



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**Saudi Arabia** has initiated a program to spread its rapidly mounting oil wealth among its 6 million people. (See page 7.)

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METALS MARKETS

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**Copper Prices in London** reached a yearly low of 82 cents a pound on Friday. Japanese copper sales boosted LME copper stocks to a yearly high of over 50,000 tons. Prices

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are likely to start back up in view of the continuing copper strike by some US firms and reports that Japanese sales have ended. Lead and zinc prices remained steady during the week. [redacted]

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The Dominican Republic, by applying for membership in the International Bauxite Association, hopes to strengthen its drive for increased taxes and royalties on its own bauxite exports. [redacted] (See page 7.)

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A Reynolds Metal Company Subsidiary in Guyana is awaiting action by the government following a breakdown in negotiations over a proposed tax increase on bauxite, similar to the Jamaican formula. A cabinet meeting was to convene on Tuesday to discuss the possible introduction of legislation to impose Guyana's demands. [redacted]

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#### PUBLICATIONS OF INTEREST

**Chile: The Junta Struggles for Economic Recovery (See page 8.)**

#### COMPARATIVE INDICATORS

**Recent Data Concerning Internal Economic Activities (See page A-1.)**

**Recent Data Concerning External Economic Activities (See page A-2.)**

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## Articles

## USSR: DIMMER GRAIN PROSPECTS

Because of dry weather in July, we have reduced our estimate of the 1974 Soviet grain crop from 205 million tons to slightly less than 200 million tons. Even though the expected crop would represent the second largest in history, it would barely meet rising requirements.

**Crop Progress**

Rainfall – by far the most important short-run determinant of grain output – was abundant over most of the grain area from mid-April through June, promising a harvest even larger than the plan target of 205.6 million tons. In July, weather conditions turned sour in a large part of the grain belt. West of the Urals, with the start of the harvest, rains were heavy and accompanied by strong winds. East of the Urals, the rains failed over a wide area at a time when the grain had reached the critical heading stage. In the first half of July, scant rainfall and very high temperatures prevailed over about 10 million hectares of grain in Tselinograd and Pavlodar Oblasts in Kazakhstan and in Altay Kray in West Siberia.

We estimate that the hot and dry conditions resulted in a loss of about 8 million tons of grain, primarily spring wheat. Citing widespread weather difficulties, Deputy Minister of Agriculture B. Runov told a group of USDA officials last week that this year's harvest would be "only average."

By early August the harvest rate was substantially below last year's level. If nothing else, the wet and lodged crop west of the Urals will reduce the milling quality of the wheat. Reduced quality will especially hurt because we estimate that far less wheat will be produced this year – 85 million tons, compared with 110 million tons in 1973.

**Outlook for Imports**

The reduced output would fall at the lower end of the range of estimated Soviet domestic requirements and export commitments – 198 million to 211 million tons. The regime has the option of drawing down carryover stocks of 20 million to 30 million tons – an option made possible by the record harvest of 1973. At this stage, the milling quality of the carryover wheat is the key to

Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed.

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prospects for Soviet imports in FY 1975. Another factor in Moscow's attitude toward grain imports is price. A number of Soviet agricultural officials have hinted over the past few years that corn and soybeans might be bought to support the livestock program if prices were right. But prices are still high on the world market - and presumably will stay up if US harvest prospects do not improve.

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### CHINA: UNFAVORABLE HARVEST PROSPECTS\*

China's 1974 grain crop appears unlikely to reach the record 250 million tons harvested last year. Even if the weather were unusually favorable for the rest of the year, the chances of output increasing as fast as population - by 2%, or 5 million tons - are small.

Early-harvested grain crops - which normally account for 40% of grain output - were poor because of drought in the north and unseasonable frost in the south. Erratic spring rains, together with unusually low temperatures, have forced changes in acreage patterns that will adversely affect fall-harvested crops. Furthermore, the growth of domestic fertilizer production has slowed, and deliveries from Japan - China's major source of imported fertilizer - have been cut back.

Grain imports, meanwhile, are increasing. Contracts for delivery of 9.6 million tons of grain in FY 1975 - 20% more than in FY 1974 - have already been

#### Chinese Imports of Grain

	Million Tons					
	FY 1974			FY 1975 <sup>1</sup>		
	Wheat	Corn	Total	Wheat	Corn	Total
<b>Total</b>	<b>5.9</b>	<b>2.1</b>	<b>8.0</b>	<b>9.0</b>	<b>0.6</b>	<b>9.6</b>
United States	3.1	1.7	4.8	2.7	0.1	2.8
Canada	1.6	....	1.6	4.0	....	4.0
Australia	1.2	....	1.2	1.6	....	1.6
Argentina	....	0.3	0.3	0.5	0.6	1.1
Other	....	....	....	0.2	....	0.2

1. Preliminary.

\* For further details, see ER IM 74-12, *China: Unfavorable Harvest Prospects*, August 1974.

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signed, and more purchases are likely. The US share of these purchases has declined as a result of Peking's dissatisfaction with US corn and of its deliberate policy of diversifying sources of supply. In the past year, China has concluded three-year agreements with Canada, Australia, and Argentina to provide more than 4 million tons of grain annually through 1976.

The long-term program to end dependence on imported grain and chemical fertilizers – a program built around the purchase of 13 urea fertilizer complexes – will not help until near the end of the decade. In the interim, Chinese agricultural production and the need for foreign grain will remain sensitive to weather conditions.

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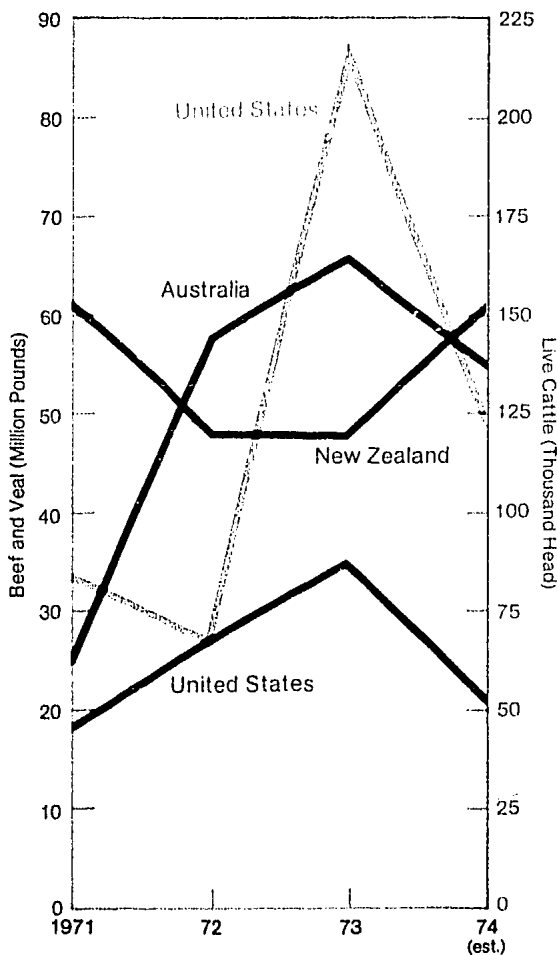
**CANADA: NEW BEEF RESTRICTIONS**

Canadian quotas on beef and cattle imports threaten to hurt US and Australian sales and intensify market disruptions caused by EC and Japanese import bans. The quotas follow soon after Ottawa lifted the ban on imports from the United States—imposed because of possible contamination by DES, a growth hormone in cattle feed.

The quotas, instituted as part of a program to protect Canadian producers, are for one year beginning 12 August. They restrict total imports to the 1969-73 average—126 million pounds of fresh and frozen beef and veal and 83,000 head of cattle, other than young animals bought for feeding.

Canada is a major foreign market for US beef and cattle, accounting for \$148 million in sales in 1973—50% of US beef exports and 80% of cattle exports. The US quota will be about 18 million pounds of fresh and frozen beef and veal and all 83,000 head of cattle. The quota and the short-lived DES import ban are expected to reduce US beef and cattle exports to Canada this year to about 60% of the 1973 level.

**Canadian Imports of Cattle and Beef and Veal**



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Australia's quota of 47 million pounds ends its hopes for a sizable rise in deliveries to Canada. Australia had previously been stung when Japan, a major customer, prohibited beef imports through 1974. These developments could stimulate increased Australian exports to the United States and put pressure on beef prices later this year. New Zealand, the third largest beef exporter to Canada, has a quota 27% above its beef and veal sales to Canada in 1973.

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### AGRICULTURAL PRICES MOVE UP

Prices of most US farm commodities entering international trade have strengthened following several months of decline from record highs. Low world stocks, withholding of commodities by farmers, and speculative buying prompted by adverse weather are contributing to the pressure on supplies.

Price increases since early June for wheat, corn, and soybeans reflect mainly market reaction to dry weather and crop losses in the United States and Canada. Prices will remain sensitive to crop production announcements, to developments in world livestock markets, and to Asian and Soviet import requirements.

Booming demand for sugar in the face of tight supplies has intensified pressure on prices. Free market prices for raw sugar have almost doubled since January to a record high of about 30 cents per pound. Because of low world stocks, buyers are jittery about harvest prospects and are making precautionary purchases.

Cotton prices, in contrast, have continued to decline since last winter's high of 80 cents per pound. This decline reflects forecasts of increased world production in 1974/75, importers' decisions to draw down their large stocks, and a depressed consumer market for textiles in most developed countries.

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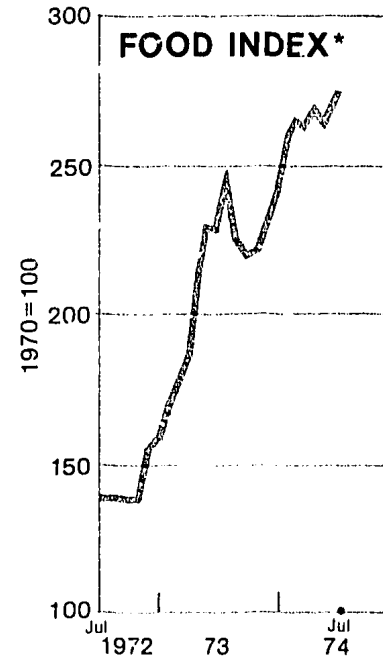
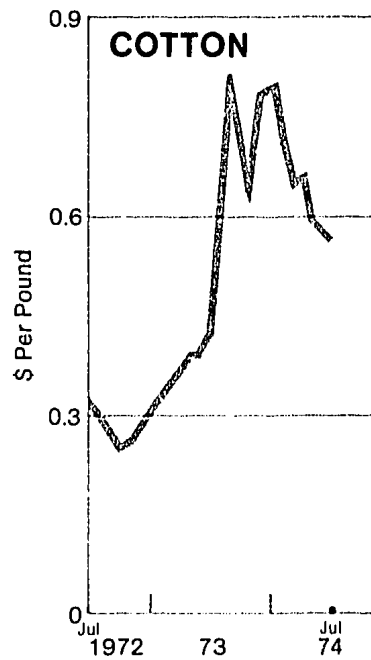
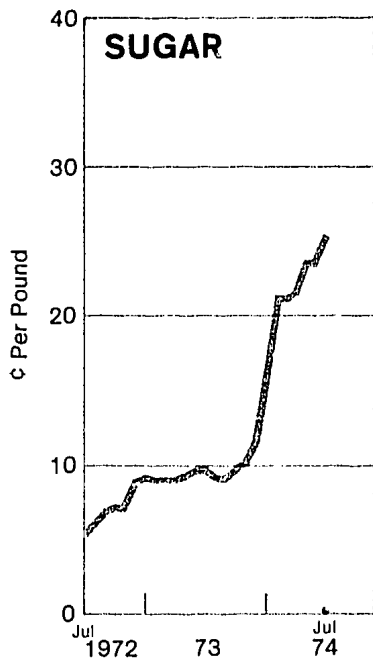
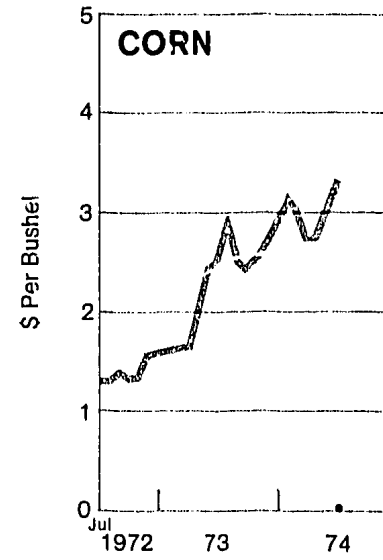
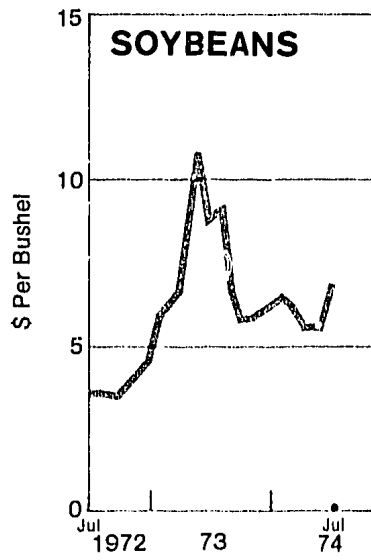
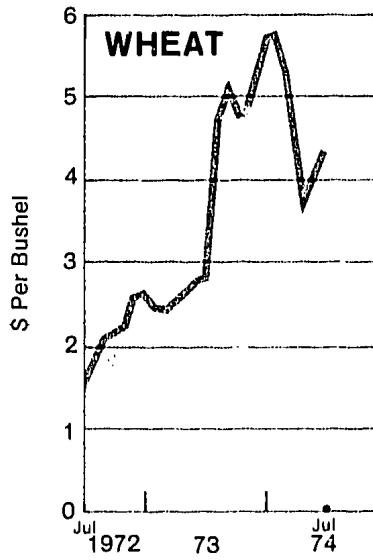
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# AGRICULTURAL PRICES



\* This is a compiled index by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

## COMMODITIES

	(Cash Prices in US \$)			
	12 Aug	Week Ago	Month Ago	Year Ago
Wheat—Kansas City #2 Hard Winter (bushel)	4.21	4.33	4.37	5.19
Corn—Chicago #2 Yellow (bushel)	3.43	3.52	3.22	3.38
Soybeans—Chicago #1 Yellow (bushel)	7.69	8.30	6.37	10.59
Sugar—World Raw New York #11 (pound)	0.2980	0.2925	0.2400	0.0905
Cotton—Memphis 1 <sup>1</sup> / <sub>16</sub> (pound)	0.5150	0.5375	0.5395	0.6275

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## Notes

**Saudi Arabia: People to Share in Oil Wealth**

The Saudi council of ministers has decided on a series of actions to lower the cost of living and spread oil income among the people. Government salaries, including the military, are due for a substantial boost, to the benefit of a half million people. The price of domestic fuel will be reduced to the lowest level in the world; gasoline is already pegged at 28 cents per gallon. Housing will be subsidized; all Saudis will be eligible for interest-free, 15-year loans covering 70% of the cost. Electricity rates will be halved. Up to now, most of the 6 million Saudis have had little opportunity to share in their country's rapidly mounting wealth.

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**Dominican Republic to Join Bauxite Group**

Santo Domingo has formally applied for membership in the International Bauxite Association, made up of seven bauxite-producing countries which account for 84% of US bauxite and alumina supplies. The Dominican Republic, the source of 4.5% of US supplies, hopes to strengthen its position in its current negotiation with an Alcoa subsidiary for increased taxes and royalties. At the same time, membership in the group will bring pressure on Santo Domingo to hold out in the negotiation for no less than the Jamaican tax increase formula. The move thus may complicate US efforts to persuade the government to restrain its demands.

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**Publication of Interest**

**Chile: The Junta Struggles for Economic Recovery**  
(ER IM 74-10, August 1974, )

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The memorandum describes the efforts of Chile's military junta (a) to restore economic order, (b) to deal with an inflation that will exceed 300% in 1974, (c) to increase agricultural and copper production, and (d) to return Chile to a market economy. GDP will probably grow 6%-7% this year, and Chile's international payments position will be the best since 1970, as a result of record copper earnings. Full economic recovery and stabilization, however, appear to be several years away.

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## INTERNAL ECONOMIC INDICATORS

## GNP\*

Constant Market Prices

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	Previous Quarter
	Latest Quarter	From Previous Quarter			
United States	74 II	-0.3	3.6	-1.1	-1.2
Japan	74 I	-5.0	5.8	-3.6	-18.6
West Germany	74 I	1.2	3.5	1.5	5.0
France	73 IV	1.8	5.8	5.7	7.3
United Kingdom	74 I	-3.5	1.9	-4.4	-13.3
Italy	73 IV	1.9	3.7	5.3	7.7
Canada	74 I	1.7	5.4	3.0	7.0

## WHOLESALE PRICES

Industrial

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier
	Latest Month	From Previous Month			
United States	Jul 74	2.7	9.3	25.1	34.2
Japan	Jun 74	1.3	11.2	35.3	11.2
West Germany	Jun 74	0.2	7.0	13.1	10.3
France	Jun 74	-1.0	12.8	34.3	13.0
United Kingdom	Jun 74	1.3	10.9	24.2	25.4
Italy	May 74	0.7	14.5	43.0	35.6
Canada	May 74	0.8	11.2	23.5	30.4

## INDUSTRIAL PRODUCTION\*

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier**
	Latest Month	From Previous Month			
United States	Jun 74	0	4.6	-0.1	2.4
Japan	Jun 74	-2.5	6.6	-0.9	-7.1
West Germany	May 74	1.1	3.5	0	-0.7
France	May 74	2.4	6.1	2.4	-1.1
United Kingdom	May 74	-1.1	2.2	0.2	22.4
Italy	Jun 74	5.7	5.8	6.5	3.9
Canada	May 74	-0.5	6.2	2.6	2.5

## CONSUMER PRICES

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier
	Latest Month	From Previous Month			
United States	Jun 74	1.0	6.1	11.1	11.7
Japan	May 74	0.3	11.3	23.1	15.7
West Germany	Jun 74	0.4	6.3	6.9	6.5
France	Jun 74	1.1	8.0	13.8	18.9
United Kingdom	May 74	1.4	10.5	16.0	25.3
Italy	Jun 74	1.3	9.5	16.6	16.9
Canada	Jun 74	1.3	6.5	11.4	15.5

## RETAIL SALES\*

Current Prices

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier**
	Latest Month	From Previous Month			
United States	Jul 74	4.2	10.2	8.4	14.8
Japan	Mar 74	-4.8	11.1	6.6	-1.8
West Germany	Mar 74	-1.3	8.2	5.6	14.6
France	Apr 74	-3.1	6.1	15.0	5.5
United Kingdom	Mar 74	1.3	12.0	9.4	6.5
Italy	Dec 73	3.1	17.2	25.5	47.1
Canada	May 74	5.1	12.4	18.2	17.7

## MONEY SUPPLY\*

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier**
	Latest Month	From Previous Month			
United States	Jul 74	-0.1	6.7	5.4	9.5
Japan	Apr 74	-1.6	17.4	10.5	16.7
West Germany	Apr 74	0.3	9.1	0.4	9.5
France	Feb 74	-0.3	11.9	9.0	14.9
United Kingdom	Jun 74	-0.6	8.7	0.8	8.3
Italy	Dec 73	2.6	21.2	17.9	22.1
Canada	Jun 74	-2.0	13.0	11.2	21.2

## MONEY-MARKET RATES

	Representative Rates	Latest Date	Percent Rate of Interest		
			1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Dealer-placed finance paper	Aug 7	11.43	8.50	9.00
Japan	Call money	Jul 31	13.25	7.50	12.00
West Germany	Interbank loans (3 Months)	Aug 7	9.44	15.08	8.70
France	Call money	Jul 31	13.50	8.75	12.88
United Kingdom	Sterling interbank loan (3 mo.)	Aug 7	13.08	11.75	13.29
Canada	Finance paper	Aug 7	11.63	7.50	11.15
Euro-Dollars	Three-month deposits	Aug 7	13.60	11.50	11.74

\*Seasonally adjusted.  
 \*\*Average for latest 3 months compared with average for previous 3 months.

14 August 1974  
 Office of Economic Research/CIA

Note: US data provided by US government agencies

## EXTERNAL ECONOMIC INDICATORS

### EXPORTS\* f.o.b.

	Latest Month	Cumulative			Percent Change
		Million US \$			
		1974	1973	Change	
United States	Jun 74	8,357	46,808	32,110	45.1
Japan	Jun 74	4,641	24,020	16,690	47.5
West Germany	Jun 74	0,320	42,780	29,813	43.5
France	Jun 74	4,056	22,210	16,918	31.3
United Kingdom	Jun 74	3,215	17,040	13,613	25.2
Italy	Jun 74	2,270	13,285	9,401	41.3
Canada	May 74	2,802	12,812	10,077	27.1

### EXPORT PRICES US\$

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier
		Month	1970	1970	1970
United States	Jun 74	3.1	11.8	28.0	14.7
Japan	Jun 74	0.9	17.1	35.1	29.7
West Germany	May 74	4.4	16.1	30.5	95.7
France	Mar 74	0.2	13.1	12.8	8.7
United Kingdom	Mar 74	7.2	11.0	19.4	49.6
Italy	Jan 74	-1.2	10.0	19.1	9.8
Canada	Apr 74	3.2	14.8	43.0	78.7

### IMPORTS\* f.o.b.

	Latest Month	Cumulative			Percent Change
		Million US \$			
		1974	1973	Change	
United States	Jun 74	8,822	46,871	33,058	41.8
Japan	Jun 74	4,849	26,195	14,190	84.6
West Germany	Jun 74	4,844	30,517	23,330	30.8
France	Jun 74	4,137	23,995	16,303	47.2
United Kingdom	Jun 74	4,333	23,145	15,498	49.3
Italy	Jun 74	2,817	17,271	10,672	61.8
Canada	May 74	2,635	12,196	9,220	32.3

### EXPORT PRICES National Currency

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier
		Month	1970	1970	1970
United States	Jun 74	3.1	11.8	28.0	14.7
Japan	Jun 74	2.7	10.2	44.5	30.6
West Germany	May 74	1.6	4.7	14.9	23.1
France	Mar 74	3.4	8.8	20.2	32.7
United Kingdom	Mar 74	4.2	11.8	26.4	44.5
Italy	Jan 74	4.9	10.9	31.3	52.2
Canada	Apr 74	2.7	12.5	38.2	62.0

### TRADE BALANCE\* f.o.b./f.o.b.

	Latest Month	Cumulative (Million US \$)		
		Million US \$		
		1974	1973	Change
United States	Jun 74	-265	-948	685
Japan	Jun 74	-8	-1,575	-4,075
West Germany	Jun 74	1,476	12,260	6,483
France	Jun 74	-81	-1,779	615
United Kingdom	Jun 74	-1,119	-6,100	-1,885
Italy	Jun 74	-547	-3,986	-1,271
Canada	May 74	167	616	856

### IMPORT PRICES National Currency

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier
		Month	1970	1970	1970
United States	Jun 74	0	18.5	47.8	34.8
Japan	Jun 74	2.3	17.7	83.2	27.7
West Germany	May 74	2.9	6.5	25.5	16.5
France	Mar 74	5.9	14.2	52.1	177.0
United Kingdom	Mar 74	6.4	20.9	60.9	107.4
Italy	Jan 74	10.8	19.6	65.5	125.4
Canada	Apr 74	-1.5	9.9	27.6	57.1

### BASIC BALANCE\*\* Current and Long-Term-Capital Transactions

	Latest Period	Cumulative (Million US \$)		
		Million US \$		
		1973	1972	Change
United States*	74 I	2,065	-1,006	3,071
Japan	Jun 74	-1,206	-4,373	-4,047
West Germany	Apr 74	860	917	2,336
France	73 IV	-431	-369	-2,102
United Kingdom	73 IV	-1,394	-1,954	-1,210
Italy	73 II	-336	971	-332
Canada	74 I	-195	-191	-4

### EXCHANGE RATES Spot Rate As of 9 Aug 74

	US \$ Per Unit	Percent Change from			
		Dec 66	18 Dec 1971	19 Mar 1973	2 Aug 1974
		1971	1973	1974	1974
Japan (Yen)	0.0033	19.75	1.76	-13.12	-0.54
West Germany (Deutsche Mark)	0.3865	53.74	24.56	9.15	-0.57
France (Franc)	0.2107	4.36	7.01	-4.40	-1.36
United Kingdom (Pound Sterling)	2.3720	-15.00	-8.97	-3.62	-0.52
Italy (Lira)	0.0015	-4.18	-10.81	-13.33	-0.71
Canada (Dollar)	1.0238	10.99	2.61	2.62	0.10

### OFFICIAL RESERVES

	Latest Month	Billion US \$			
		Billion US \$			
		End of	1 Year Earlier	3 Months Earlier	Jun 1970
United States	Jun 74	14.9	14.5	12.9	14.6
Japan	Jul 74	13.2	4.1	15.2	12.7
West Germany	Jun 74	34.2	8.8	32.3	32.9
France	Jun 74	8.2	4.4	11.6	8.1
United Kingdom	Jun 74	6.7	2.8	7.0	6.4
Italy	Jun 74	5.3	4.7	6.0	6.7
Canada	Jul 74	6.0	4.3	5.8	6.2

### TRADE-WEIGHTED EXCHANGE RATES\*\*\*

	Percent Change from			
	Dec 66	18 Dec 1971	19 Mar 1973	2 Aug 1974
	1971	1973	1974	1974
United States	-15.03	-5.76	0.81	0.27
Japan	9.89	-3.63	-15.43	-0.44
West Germany	30.33	13.38	8.36	-0.04
France	-17.76	-4.38	-6.83	-0.93
United Kingdom	-34.51	-20.33	-5.96	-0.20
Italy	-25.90	-24.57	-17.66	-0.17
Canada	8.25	1.65	3.29	0.30

\*Seasonally adjusted.

\*\*Converted into US dollars at current market rates of exchange.

\*\*\*Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange-rate variations among the major currencies.