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ECONOMIC COMMITTEE

THE SUPPLY SITUATION IN THE EUROPEAN COMECON COUNTRIES
(WITHOUT THE USSR) IN 1975/76 (WITH SPECIAL CONSIDERATION
TO THE SUPPLY OF AGRICULTURAL PRODUCTS)(1)

Note by the German Delegation

I. General Situation in the COMECON Area (without USSR)

During the period from 1971 to 1975 the governments of the COMECON countries considered as their main task in the economic sector the rapid increase of the standard of living of the population. The real income was to be increased and the quality and quantity of the consumer goods on the market improved. The governments hoped to be able to avoid inflationary developments by

- preventing a more rapid increase in real income than in labour productivity in industry and
- maintaining the level of consumer prices as stable as possible.

According to the plan fulfilment reports for the years of 1971 to 1973 it could be expected at first that it would be possible to reach the targets until the end of 1975. However, the growing foreign trade relations of the COMECON countries with the West - which made them particularly vulnerable to the world-wide inflationary price increases - increasingly led to economic difficulties within the COMECON area. The development of the standard of living slowed down from 1974/75.

(1) For the situation in the USSR, see previous working paper AC/127-WP/484.

N A T O C O N F I D E N T I A L

In mid-July 1976 the situation was as follows:

There are considerable shortages - which vary in the various COMECON countries - in the supply of industrial consumer goods. The range and quality of the goods on the market are below the level of 1975 and 1974. However, the supply is generally still sufficient, although part of the supply is considered unsatisfactory by the population.

On the other hand, as regards food supply there are considerable gaps in the whole COMECON area, both regionally and with respect to the range of goods. There are serious shortages of meat and meat products as well as of potatoes, fruit and vegetables. Since good overall harvest results can no longer be expected in the Soviet bloc because of the unfavourable weather conditions, there is hardly any hope that the supply situation can be improved from domestic sources or within infra-COMECON trade in 1976.

2. The present bad supply situation is mainly caused by the unsatisfactory harvest results of 1974 and 1975 which were due in particular to weather conditions. The following factors have also contributed to the shortages, especially of high-quality food-stuffs:

- (a) From 1971 to 1975 a major part of the growing investment requirements in the key industries (energy production, engineering industry, chemical industry) had to be met with expensive imports from the West. Since both investment funds and foreign currencies became scarce, the economic leadership was compelled to cut investments for the consumer goods and food industries. As a consequence, the labour productivity as well as the production in these branches lagged behind overall industrial achievements during these years (see Annex 1 and 2). Moreover, because of favourable sales conditions, in particular the products of the consumer goods and food industries were increasingly exported to western countries.

In addition to this, there was an increase in the supply commitments of the COMECON countries within intrabloc trade, especially vis-à-vis the USSR.

- (b) In spite of the ever worsening supply of domestic markets the planned rise in real incomes was maintained. The rates of growth were not adjusted to the labour productivity in the consumer goods and food industries. While total real incomes from 1971 to 1975 increased by an annual average of 6.1 %, the labour productivity in the consumer goods industry rose by only 5.4 % and by only 4.6 % in the food industry (see Annex 2).

This incomes policy as well as the maintenance of stable consumer goods prices resulted in an inflationary demand boom which the economic leaders of the various countries were unable to cope with. Inadequate planning coordination, inefficient distribution, and transport deficiencies caused further shortages and supply gaps.

- (c) Because of the unsatisfactory supply of industrial consumer goods the growing purchasing power finally led to an increased demand for high-quality foodstuffs, in particular for meat. The market was no longer able to react flexibly to these structural changes in demand. Already in 1974 the available fodder stocks were no longer adequate for the growing livestock. The deficit had to be covered mostly by expensive imports from the West.

In 1975 the fodder shortage due to the substantially reduced harvest became an acute problem which could only be solved insufficiently by imports. In the meantime, the indebtedness vis-à-vis the West had almost tripled compared with 1972/73.

In general, foreign currency was only available for particularly urgent imports of investment goods.

At the end of 1975/beginning of 1976 the COMECON countries were compelled to slaughter large numbers of cattle. Stockpiling was hampered by the insufficient number of cold-storage facilities and lacking capacities in the food-canning factories. An increase of exports was mostly not possible because of lacking flexibility in the planning economy, of transport problems and, finally, also because of the agricultural market regulations of the EEC.

3. The data of the various COMECON countries about the extent of the drought damage or the supply difficulties in 1976 as well as their prognoses of expected harvest results are not very reliable and incomplete. It is therefore impossible to estimate the existing food deficit or the import requirements after the harvest. Moreover, there are no clear indications whether the USSR has fully met her grain supply commitments vis-à-vis other COMECON countries in the year 1975/76 in spite of the bad harvest of 1975.

II. The Supply Situation in the Various COMECON Countries (without the USSR). (The order of succession corresponds to the present degree of supply difficulties)

1. Hungary

The supply situation in Hungary is better than in the other COMECON countries, including the USSR. Although about 19 % less grain was harvested in 1975 than in 1974 and pig- and cattle-stocks were reduced by 16 % respectively 5.5 %, there were no real supply gaps. Agricultural

production fully met the requirements- especially because of the good corn and sugar beet harvests. ¹⁾

Hungarian experts expect at least a better grain result in 1976 than in 1975 (12.3 million tons). A yield of 3,650 kg per hectare (without corn) is expected - 1.4 % more than the average yield in the GDR.

Unlike in other COMECON countries the inflationary excess purchasing power was reduced by an increase of consumer prices ²⁾ already in December 1975, thus preventing an excess demand with ensuing supply shortages. Temporary supply difficulties occurred only in June 1976. The government announcement of further price increases on 1 July ³⁾ caused a temporary hoarding psychosis.

It can be assumed that because of the bad supply situation in the other Soviet bloc countries, especially in the USSR, Hungary will be committed to increase her deliveries of agricultural products. (The Ten-Year-Agreement concluded at the end of 1975 between Hungary and the USSR provides, inter alia, for the supply-so far until 1980 - of corn, wheat, and beef amounting to 1,900 million rubles by Hungary to the USSR.

2. Bulgaria

Although Bulgaria achieved in 1975 the highest rate of growth in gross agricultural production (+ 7 %) of the whole planning period of 1971 - 1975, the result was declared unsatisfactory by the leadership (planning target: + 9.3 %).

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- 1) Sugar beets were imported only because of the insufficient sugar contents of the domestic production.
 - 2) Inter alia sugar by 50 %, building material by 22 %.
 - 3) Meat and meat products by 32 to 35 %, fish and fowl by 27 - 29 %, flour products by 80 %.

The yield of bread and fodder grain in 1975 amounted to 7.1 million tons, to 6.8 million tons in 1974 and 7.3 million tons in 1973. The bread grain harvest still exceeded the domestic requirement in 1975 but - just as in 1974 - fodder grain was in short supply.

The following forecasts can be made for the harvest of 1976:

- A grain harvest of about 7 million tons can be expected.
- The shortage in the fodder sector will probably become more serious.
- As a result of the fodder shortage since 1974, the food production of animal origin will be very limited also in 1976.

There is not only a shortage of meat, but also of milk, dairy products, fruit and vegetables. Apart from organizational deficiencies in the distribution, one of the main causes for this shortage is the priority given to supplies for tourist centers. Angry reactions by the population have not become known up to now (the Bulgarians have been used to temporary supply shortages for years).

However, the situation could substantially deteriorate until the end of the year if Bulgaria has to increase her exports to the USSR. The percentage of food-stuffs in Bulgaria's exports to the Soviet Union allegedly rose to 44.2 % already in 1975 - compared with about 35 % in 1974.

3. Romania

The supply of food-stuffs to the population has always been worse in Romania than in the other COMECON countries, even in good harvest years. This was caused by the still low degree of mechanization in agriculture, the inferior grain yields per hectar ¹⁾, deficiencies in organization,

1) Grain yield per hectar (average of the last 4 years) about 2,500 kg (GDR: 3,600 kg, FRG: about 4,400 kg).

and transport shortcomings, but especially by permanent miscalculations of agricultural production possibilities.¹⁾ This had particularly unfavourable consequences as too high export commitments had been entered into on the basis of these unrealistic expectations. The supply gaps in the whole country in 1975 which reached critical proportions in various areas can be primarily attributed to this situation. Due to the flood disaster in the summer of 1975 the production of meat (live-weight) decreased by 15 %, of potatoes by about 35 % and that of fruit and vegetables by 16 %. The grain harvest of 15.2 million tons, however, exceeded that of 1974 (13.5 million tons).

It can be expected that the harvest result of 1976 will not be below that of 1975. This would cover the domestic requirement of agricultural products with the exception of meat whose production will probably further decrease while export commitments increase.

Shortages of bread and flour may occur during the next months if supply agreements have again been concluded on the basis of excessive planning targets (1976 + 35.2 %).

4. Poland

From 1971 to 1973 the development of gross agricultural production (average annual growth 6.4 %) was relatively favourable compared with other COMECON countries. In 1974 the grain yield (21.4 million tons) was still 4.8 % above the level of 1973, however, there were substantially lower yields of the remaining products (vegetables - 13.3 %, sugar beets - 5.1 %, and potatoes - 4.6 %).

The shortage of fodder - which could be alleviated in the beginning by western imports - became more serious in 1975 (grain harvest: 18.1 million tons, i.e. 15.6 % less than in 1974) and led to a decrease in animal production by 1.9 %.

1) Gross agricultural production: Planning target 1971-1975: + 36 to 49 %, fulfilled: 25.4 %.
Grain production: Planning target 1973: + 9 %, fulfilled: - 12.3 %; planning target 1974: + 35.4 %, fulfilled: - 1.9 %; planning target 1975: + 51.1 %, fulfilled: + 12.3 %

Meat production dropped from 3.1 million tons (slaughter weight) in 1974 to 2.8 million tons in 1975. The production of milk and dairy products in 1975 remained also below the level of 1974.

Unfavourable weather conditions caused further shortages in the fodder sector in 1976 and - as at the end of 1975 - resulted in extensive slaughtering of pigs. While the export of meat and meat products - especially to western countries - could be maintained at the level of 1974 in 1975 it decreased by about 22 %, unprocessed meat even by 46 %, in the first quarter of 1976 compared with the same period in 1975.

Bad weather in the Winter and Spring of 1976 affected both the winter and the summer grain. From May/June 1976 the weather differed very much regionally; in the west of Poland there was a drought while in the east there were low temperatures and rain. At best a grain harvest of about the average of the last five years, i.e. about 19 million tons, can be expected in 1976.

The repeated shortages in the supply of the population, especially with meat, since 1974 were caused to a small extent only by developments in the agricultural sector. Organizational failure in the field of distribution, an inadequate transport system, changes in the consumer attitude of the population, and above all an inflationary excess purchasing power - which is greater in Poland than in the other COMECON countries - are responsible for the aggravated situation. Drastic price increases, as they were planned at the end of June 1976, and a better supply of industrial consumer goods could contribute to reduce the demand in the food sector (and thus to overcome the shortages). Instead, the cancellation of the price in-

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creases induced the population to make panic purchases of food-stuffs. According to information received, "the shops look as if they had been pilfered, and new supplies are not arriving."

A basic improvement of the supply situation can also not be expected after the harvest. It is true that agricultural producer prices have been increased (40 % for grain, about 20 % for meat) in order to give the farmers an incentive to increase their supplies to the state market. However, since prices in the free markets increased even more because of the general shortage, this measure will meet with little success. The planned average price increase for meat of 35 % which is to be valid until the end of 1976 will by no means diminish the pressure of demand.

It cannot be assessed for the time being to what extent Poland will have to contribute to cover the supply deficit of other COMECON countries, and especially of the USSR. Up to now, about one third of the agricultural export products of plant origin went to the COMECON area, especially to the USSR, the GDR, and the CSSR.

5. GDR

The plan fulfilment report for 1975 does not contain any data on agricultural results. Due to the reduced grain yield per hectare (1974: 3,970 kg, 1975: 3,550 kg) the harvest of 1975, provided there has been no change in the size of the cultivated area, is estimated at about 8.3 million tons, i.e. approximately 1.4 million tons or 15 % less than in 1974. It appears likely that the yields of potatoes, sugar beets, fodder root crops, and field fodder plants dropped up to 20 % below the level of 1974.

Slaughtering of an unusually high number of cattle in 1975 - due to fodder shortages - as well as a reduced interest in pig-breeding because of the reduction of producer prices led to an acute meat shortage during the first half-year of 1976. No action was taken to relieve the situation by increasing meat prices. The quality of the meat on the market has generally deteriorated.

In addition to signs of shortage of milk and dairy products there is a danger of reduced supplies of fruit and vegetables because of lacking irrigation. In some areas fresh products allegedly are available only on certain days.

The agricultural functionaries in the GDR are assessing the harvest prospects for 1976 very pessimistically. They assume that in some areas only half or one third of the expected yield can be harvested. This year's grain harvest can be estimated only approximately. It will probably be between 6.2 and maximum 6.7 million tons; i.e. 20 % to 25 % less than in 1975. It cannot yet be said to what extent the harvest of root crops will be reduced.

While the supply of the GDR population was considered as safe until the beginning of June 1976, difficulties and problems have steadily increased since then, not least due to hoarding purchases.

The difficult situation in the agricultural sector and the ensuing fear of a lower production of all kinds of food-stuffs led to a Politbureau resolution on 20 July 1976 which contains inter alia the following instructions:

- Straw may be used for fodder purposes only.
- All potatoes have to be bought up; all the potatoes which cannot be used for seeding or eating go to the starch industry; none should be used for fodder purposes.

- The collection of kitchen wastes, acorns, and chestnuts as fodder reserve is to be organized.
- Workers' and farmers' inspections have to control the better utilization of wood, meadow, and road edges as well as the cultivation of small areas in villages and on village borders.

According to latest information the GDR delivers food-stuffs in quantities, unknown so far, to the USSR in order to contribute to the alleviation of the latter's supply difficulties. These exports comprise porc and venison, fowl, tinned sausages and vegetables, all sorts of milk products as well as sugar and starch. Originally, these goods were planned to be exported to western countries. It remains to be seen what effect possible "aid supplies" to other COMECON countries will have on the supply level of the GDR.

6. CSSR

The CSSR was quite successful in the agricultural sector in 1974. The grain harvest reached^a/record figure of 10.4 million tons (increase compared with 1973: 7.3 %), the production of sugar beets increased by about 33 %, that of meat (slaughter weight) by 7.5 %. Only in the case of potatoes a loss of about 11 % had to be accepted. The overall agricultural development during the period from 1971 to 1974 was positive; the CSSR succeeded in reducing its dependence on grain imports from the USSR and was able to meet its requirement of milk, butter, eggs, and to a major part also of meat, from its domestic production.

The CSSR planned to accelerate the increase of animal production on a broad basis in 1975. This project failed because plant production was reduced by continuous drought. The grain harvest amounted to 9.3 million tons

in 1975 (one million tons less than in 1974). Even more serious was the 20.4 % lower potato harvest.

Winter damage amounted to about 10 % in 1976. The first harvest of fodder plants (clover and lucerne) was bad mainly in Slovakia; the loss in the whole territory of the CSSR can be estimated at 20 - 25 % at least. It appears likely that the harvest of early potatoes was even worse.

From the end of 1975/beginning of 1976 the insufficient fodder supply led also in the CSSR to a decimation of the cattle-stock and to a meat shortage so far unknown.

The supply of the population deteriorated rapidly as from May 1976. At present the situation is probably even more critical than in the other Soviet bloc countries. Transport problems (shortage of wagons) which have never occurred to this extent up to now play an important role in this connection.

Meat has been rationed recently (according to the region 600 - 1000 g per week and family, 250 g for single persons). Potatoes, fruit, and vegetables are hardly available since mid-June. Completely insufficient is the supply of butter, milk, dairy products, and eggs. 50 to 60 % of the shops are closed. The most urgent requirements have to be met on the black market at excessive prices.

According to latest information (July 1976) the drought was much more serious in the CSSR than in the GDR. Temporarily, the use of water was only permitted for personal purposes (not for the irrigation of private vegetable gardens, for instance). Where possible, cattle was driven from the lower regions to higher ground. Major quantities of seed potatoes dried in

the soil. Additional damage was caused by vermin and extensive weed growth.

Under these conditions it is impossible to estimate even remotely the overall losses of plant production, especially of grain. In any case, the supply of the population until the harvest year of 1977 can be ensured only by large imports.

The government is watching this development with growing concern. The Central Committee met on 16 June 1976; Party Chief Husak announced immediate measures. This was followed on 28 June 1976 by an emergency meeting of the deputy chairmen of the regional committees of the state railways on "serious supply problems". On 6 July 1976 a "Central Harvest Commission" was convened in Prague for the first time. In this body measures against a further aggravation of the supply situation are to be prepared under the chairmanship of the Minister of Food and Agriculture of the CSSR. The government hopes "to save what remains to be saved" by using comprehensively organized manpower (employing also soldiers and youths) as well as agricultural machines and means of transport.

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European COMECON Countries (without USSR):
Growth of some industrial branches compared with the
overall industrial growth ⁺) 1971 - 1975 (overall
industrial growth = 100)

	Metallurgy	Engineering Industry	Chemical Industry	Consumer Goods Industry	Food Industry
Bulgaria	120	155	123	.	65
CSSR	81	125	143	70 ⁺⁺)	72
GDR	111	102	128	94	87
Poland	64	133	111	80	81
Romania	86	140	121	102	61
Hungary	75	125	160	91	71

+) according to preliminary data

++) estimated

European COMECON Countries (without USSR):
Development of the labour productivity (overall
industry and food industry) and of the real income
during the period 1971 - 1975 ⁺) (average rates of
growth per year in per cent)

	Labour Productivity		Real income
	Overall industry	Food industry	
Bulgaria	7,0	4,5	5,2
CSSR	5,9	4,2	5,3
GDR	5,3	4,6	4,8 ++)
Poland	7,6	6,2	10,1
Romania	6,5	4,0	6,8
Hungary	6,2	4,4	4,7
Country average	6,4	4,6	6,1

+) preliminary figures

++) real net money income of the population