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THE SOVIET AGRICULTURAL CRISIS

Report by the Chairman of the Economic Committee

Attached for the information of the Council is a report on the current Soviet agricultural crisis and its consequences.

2. The Economic Committee is continuing to study this question and will submit a more detailed report to the Council as soon as it has completed its task.

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N A T O R E S T R I C T E D

THE SOVIET AGRICULTURAL CRISIS

A. CRISIS

(i) Grain

Since mid 1971 the USSR has signed a series of deals involving massive purchases of grain from the West for delivery by mid 1973. At least 22 million tons of wheat and over 9 million tons of feed grains for livestock are involved. These purchases, totalling possibly over 34 million tons, are valued at around \$2,000 million. They are on a far larger scale than any previous imports and about 60% of the total is being drawn from the United States, a significant innovation in Soviet trading policy. Although a revolving credit of \$500 million per annum over a period of three years has been granted by the United States, most of the purchases are payable cash on delivery. The latest figures of Soviet purchases in this sector from the United States, both firm and under negotiation, are given at 17.4 million tons of food and feed grains. The USSR has been a net exporter of grain except in the three years following the harvest disaster of 1963. Soviet grain imports are usually small and have in the past come principally from Canada to meet Soviet Far East needs.

2. Soviet commentators have estimated that gross grain production this year will amount to about 168 million tons (nearly 8% down on 1971). Western specialists are not agreed on the total Soviet grain shortfall for 1972. However, estimates suggest a gross harvest of around 160 million metric tons, i.e. some 30 million metric tons below the official target for this year, and up to 20 million tons below last year's results. Losses due to moisture content, inadequate storage and transport may be as high as 20%, and final net figures could be as low as 125 to 130 million metric tons. The USSR has cancelled its own grain exports to the West for the time being; in recent years, these have averaged around 500,000 tons annually.

3. No official figures are available on Soviet grain reserves, but these are reported to have been between a low of 15 million and a high of 30 million tons at the beginning of 1972. In addition to making good the losses incurred this year, the Soviet Government may have been encouraged to build up its possibly low grain reserves in view of the relatively advantageous price it obtained from the United States. Canadian sales of wheat (3 million tons) worth \$195 million and United States sales of maize, barley and oats (2.9 million tons) totalling \$136 million, both in 1971, may also have been used to boost reserves.

4. Fodder for livestock could be in short supply and there may be some truth in as yet unsubstantiated reports of large-scale slaughter of cattle because of fodder shortages (see paragraph 6). If this is the case, it is the livestock sector which will prove most worrying for the Soviet Government, whose plans to effect substantial improvements to the population's diet by 1975 through higher meat production could well be seriously delayed.

5. In addition to the highly unstable climate, other chronic factors leading to the current agricultural crisis include: centralisation and collectivisation of the farming system, an ongoing shortage of chemical fertilisers and pesticides, high seeding rates with subsequent shortage of quality seedings, poor quality control of stored grain with resulting deterioration, and the chronic chaos in deliveries of machinery and spare parts for farm equipment. It may be concluded that the large purchases from the West have been made principally for four reasons:

- (a) imports of wheat are needed to cover the expected loss in harvest production caused by the weather;
- (b) in addition, imports of wheat are required to increase supplies of good quality bread grain;
- (c) imports of feed grains and soyabeans, likely to continue over the next few years, are needed to support expansion in the livestock sector and to raise meat and dairy products output;
- (d) grain imports are also intended to build up reserves against further relatively poor harvests in the near future.

Moreover, it may be concluded that the particular urgency of these purchases is caused by the coincidence of these factors; each, on its own, would not require such drastic action.

(ii) Other sectors

6. Poor harvests have been reported for millet, buckwheat, fruits, sunflowers, sugar beet and potatoes. Latest reports indicate that Poland is sending up to 1½ million tons of potatoes to the USSR: the need is apparently so urgent that naval landing craft are being utilised for shipments between certain Baltic ports. Because of the current shortage of hay and other silage for dairy cattle, it is reported that animals are being slaughtered at a high rate. Presumably this is occurring initially in the private sector, although it is

anticipated that state and collective farm herds will also be reduced. In 1964 following an equally severe agricultural crisis, the Soviet hog population reportedly fell from 70 to 40 million; no data are available at present on livestock reductions, but, while large, they will probably not be so extensive this time.

(iii) Harvest results in the other COMECON countries

7. Harvest results have apparently been adversely affected throughout the COMECON area. Heavy rains and serious flooding in Romania during September and early October delayed the harvesting of autumn crops, and large quantities have been ruined, especially vegetables and fruit, but also maize, potatoes and sunflower seed. Abnormally cool and rainy weather in Bulgaria delayed the harvesting of a number of crops, especially maize, fruit and vegetables which are threatened by frost. Poland's grain harvest has been the victim of severe rains and the chances of a good crop are slight; the situation in Poland is especially bad for the individual farmers - the private sector constitutes around 83% of Polish agriculture - who have no facilities for quick-drying of grains on the fields. Both Czechoslovakia and Hungary have reported adequate crops, both of which have also suffered from intermittent heavy rains, and Hungary is experiencing problems with its fruit and vegetable crop. Poland normally imports up to 2 million tons of grain annually, mostly from the USSR; Czechoslovakia and the GDR, approximately 1.5 million tons each. Presumably these COMECON countries will turn to Moscow for supplementary grain imports also. The consequences of allowing the satellites to seek out their own grain markets in the West could be serious for Moscow in the long run, and it is more likely, therefore, that even during the present hypercritical period, the Soviet Union will once again expend hard currency in order to meet the bloc's demands in this sector. In all the other COMECON countries, autumn ploughing and sowing is reported behind schedule.

8. The Soviet Government's agricultural goals are ambitious and entail heavy capital investment. Apart from maintaining an adequate production of grain for human consumption, especially wheat, the Government is committed to raising dietary standards and this entails increasing meat and dairy production, with a consequential need to ensure adequate supplies of grains (maize, oats and barley) for animal feed. The expansion in the production of these feed grains has not kept pace with demand and increasing quantities of the poorer quality wheat are being fed to animals. The Soviet Government is now faced with the position that after less than two years and after heavy capital investment, there is little likelihood of meeting their 1971/1975 agricultural targets.

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B. IMPLICATIONS

9. Grain purchases from the West could cost the USSR as much as \$2 billion in convertible currency including freight charges. Despite available credits, the Soviet Union will have to find a great deal of hard cash or resume gold sales in large quantities. Indeed, the USSR will have to pay out hard currency equivalent to nearly twice the average annual value of imports of Western technology and equipment in recent years. A more restrictive short-term policy on industrial imports from the West could result from the strain on hard currency, - a strain somewhat alleviated by the recent opening of new credit sources in the United States.

10. The sudden upsurge in Soviet grain purchases has already had considerable repercussions on world grain markets: wheat prices increased 30% over two months. The quantities contracted from the United States represent a quarter of normal US wheat production; United States domestic prices are inflating, export subsidies have been dropped and in the short term United States wheat stocks will be nearly halved.

11. Current grain purchases will probably have to be continued over the next two years. Indeed, failing a rapid improvement in climatic and institutional conditions the import of grain may well become a permanent feature of Soviet trade. This state of affairs could have advantages for the Alliance at a CSCE. Soviet reliance on the West for its grain needs in the future might well offset to some extent the potential Alliance dependence on the USSR for certain raw materials, especially oil and natural gas supplies. Soviet purchases of around 5 million tons of grain annually from the West, could cost the USSR between \$350 and \$400 million each year at least.

12. The purchases will certainly exacerbate the already heavy trade imbalance between the United States and the USSR, running generally in the ratio of 3 to 1 in favour of the United States, especially as there is little short term optimism over substantial Soviet exports to the United States, due to the structure of the Soviet manufacturing industry, and the quality of goods produced. The hard currency situation will remain tight.

13. The crisis will reportedly force adjustments in the Soviet national budget and economies are already being applied in all sectors. Up to \$24 billion is reported to have been transferred to the agricultural budget.

14. Port facilities will be severely burdened as they attempt to cope with grain shipments from the West. In the port of Odessa alone, for example,  $2\frac{1}{2}$  times the amount of grain was handled in September last as was handled for the whole of 1971. Similar problems are envisaged in the case of the railway system; shortages of rolling stock and storage facilities are anticipated.

15. The ambitious agricultural aims of the Soviet Government are an important part of their programme to raise Soviet standards of living, and must have aroused some consumer expectations. Clearly, the Government is determined to avoid bread shortages this winter; but the import of feed grains indicates that they are not prepared to defer unduly their plan to achieve substantial improvements to the Soviet diet by 1975.

16. Presumably the Soviet leaders have not forgotten the Polish workers' protests of December 1970 which had a broad economic impact. It must be assumed that the Soviet leadership will make every effort through extensive imports of grain and cattle feed to forestall such an eventuality.

17. Although no mention has yet been made publicly by Moscow of its Western grain deals, the scale of the purchases is a tacit admission of failure in a sector of the economy in which the present Soviet leadership have always felt particularly vulnerable. They have now been forced to allocate even more resources - and in hard currency - to agriculture and this will affect investment policy in other sectors of the economy.