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SOVIET AND EAST EUROPEAN AGRICULTURE

Note by the Secretary-General

The attached report summarizes the information presented at a reinforced meeting of the Economic Committee with national experts held on 22nd/23rd April 1982.

2. Since then, the long-awaited Food Programme was announced on 24th May 1982 by President Brezhnev to the CPSU Central Committee Plenum: whilst reference to this development is included in the attached document, the content resulting from the meeting remains unaltered, as it reflects the situation at the time. A revised US estimate for the 1982 Soviet grain crop has now been released and is referred to in a footnote on page 3.

3. This report is submitted to the Council for information.

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SOVIET AND EAST EUROPEAN AGRICULTURE

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C-M(82)57SOVIET AND EAST EUROPEAN AGRICULTURENote by the Economic CommitteeINTRODUCTION

Experts from the United States, United Kingdom, France, Germany and Canada met with the Economic Committee on 22nd-23rd April 1982. The most important points to emerge from the discussions are covered below. In general, the experts reached the main conclusion that in 1981 the agricultural situation throughout the Warsaw Pact area, and in the USSR especially, had deteriorated by comparison with 1980, thus establishing a series of three lean years. The prospects for improvement in 1982 are bleak(1), whereas an abundant year would be necessary to affect stocks favourably and to permit significant herd increases.

THE AGRICULTURAL SITUATION IN THE USSR

2. The USSR has still not published a cereal crop figure for its 1981 harvest, thus breaking a precedent of many years and suggesting the result must have been well below those of 1979 at 179 million tonnes, and of 1980 at 189 million tonnes. The United States Department of Agriculture estimate for the 1981 Soviet grain harvest of 175 million tonnes remains valid even though lower figures have been put forward by some Western authorities, such as that of 160 million tonnes alleged to have been made by the International Wheat Council. On the basis of the US estimate, the dismal result falls about 60 million tonnes below the Plan target of 236 million tonnes and must be considered in the context that it represents the third consecutive poor harvest.

3. As a result, imports for the 1981-82 marketing year(2) will be of the order of 44 million tonnes. The Soviets have increased their storage and elevator capacity to about 45 million tonnes, but difficulties are still encountered in accommodating such imports.

(1) This has been confirmed by the newly released US Department of Agriculture estimate of 185 million tonnes for the 1982 Soviet grain crop. Such a result falls vastly below the official Soviet target of 238 million tonnes and is attributable to unfavourable weather conditions, delays in spring seeding and a reduction in total sown grain area.

(2) 1st July 1981 to 30th June 1982

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They have chartered smaller vessels in order to transport the grain into the interior of the country and thus avoid time and other losses at congested trans-shipment points in European and in the Far Eastern ports. The bulk of grain imports is destined for maintaining livestock herds. Meat production has been stagnating and the USSR imported 980,000 tonnes in 1981, notably from Eastern Europe, the E.E.C. and Argentina to supplement domestic output. It is projected that the USSR will spend nearly \$12.5 billion of hard currency on agricultural imports including grain, meat, sugar and vegetable oils - a massive bill which would greatly strain hard currency earnings. Already the Soviets are requesting 6-month credits or short-term financing, whereas formerly all transactions were paid for in cash. Grain imports will continue throughout the 1980s at a level of at least 25-30 million tonnes of cereals. The régime may be faced with decisions on the trade-off between consumer welfare and the need for imports of industrial equipment to improve production. Moreover, ideological adherence to stable consumer prices necessitates subsidies totalling 33 billion rubles which weigh heavily on the State budget.

4. The same endemic difficulties with infrastructure persist, but it was also emphasized that certain biological problems are assuming critical importance. The most obvious are the increase in soil acidity and the general deterioration in soil condition; neglect in liming and application of phosphates and the failure to develop seed varieties adapted to the climate and able to resist disease.

5. The Soviet government is keenly aware of this situation and realises that the move for change must be instigated through policy. Since 1978, the mention of a food programme has been tossed about without any concrete proposals. In his speech of 16th March 1982 to the Trade Union Congress, Brezhnev linked this programme with a forthcoming Food Plenum, the date of which has not yet been fixed.(1) Part of the delay occurs from raion and republic leaders waiting for directives from higher echelons, whereas the latter are anxious for grass roots inputs. If such a food programme is to be as wide-sweeping as Brezhnev indicated, the hesitancy is understandable, for such a reform, per se, of Soviet agriculture is likely to have an impact on the entire economy. Some short-term remedial measures are being explored, such as adapting Hungarian ideas especially to the private sectors in Georgia, the Baltic republics, Moldavia and Kirghizia.

(1) Brezhnev revealed for the first time, the content and scope of the Food Programme in his report to the Central Committee of 24th May 1982 - Ref. ED/EC/82/22.

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6. Application of advanced Western technology to boost productivity has been given little consideration: the difficulties involved in disseminating such technology throughout the country rarely justify the cost.

THE AGRICULTURAL SITUATION IN EASTERN EUROPE

Bulgaria

7. The Bulgarian government is encouraging its private sector through financial incentives. The benefits are evident from the following figures indicating the contribution of private plots to overall agricultural production in 1980:

Meat	39%	Eggs	53%	Vegetables	27%
Milk	36%			Fruit	40%

8. This result was achieved partly by increasing procurement prices at which the State purchased from the farmers. Another policy which has proved successful is permitting the private farmer to grow feed grain on land not utilized by the State co-operatives. Whatever grain is in excess of the farmers' needs may be sold to the State, which, in turn, sells it back to other private farmers for their livestock. The dual processes of grain growing and livestock raising are, thus, brought more efficiently together, with the State ensuring a reliable distribution of cereals.

Czechoslovakia

9. The Czechoslovak 1981 grain harvest at 9.5 million tonnes fell 1.5 million tonnes short of the Plan target. Owing to lack of hard currency the government has rigidly limited imports during 1982 to 0.5 million tonnes, which most directly will affect livestock. The State is seeking to cut back hog numbers which are heavy consumers of grain and to shift to ruminates which could graze on unexploited pasture lands. The meat supply, which is high by East European standards, is likely to experience a contraction, although demand may have shrunk as a result of price rises, introduced at the beginning of February 1982.

10. The government has recently issued decrees permitting plots of land to be leased to private individuals for personal cultivation and consumption. Private producers are allowed to sell at free prices produce grown on their own land or on plots rented from the Government. The resulting revenues are not subject to taxes. The State hopes, in this way, to alleviate the strain on the market for fresh produce. It is questionable whether such an idea will catch on in Bohemia and Moravia where the standard of rural life is already high. Only in Slovakia where levels are lower might such a system prove attractive.

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German Democratic Republic

11. The 1981 harvest in the GDR was between 9-9.5 million tonnes with domestic demand put at between 12-12.5 million tonnes. Technically, import needs are 3 million tonnes annually but the East German government is making an effort to reduce this to 1 million tonnes. A consequent deterioration in the meat supply is likely to ensue, although this result may be partly attenuated by the fact that, at 89.4 kg, the GDR has the high highest annual average per capita consumption in Eastern Europe. As in the case of Czechoslovakia, the GDR seeks to compensate for a planned cut-back in numbers of hogs and poultry, which are more dependent on imported grains, by shifting to cattle and other ruminates.

12. There is no official private sector, but the government enters into contracts with individual farmers in the socialized sector for the fattening of animals. Their resale back to the State is calculated and included in gross State production.

13. The rigid separation of meat and plant production on enormous complexes has proved inefficient and wasteful, particularly because of the high costs involved in moving grain between complexes and the transport of workers to their stations. As energy is at a premium, farmers are being encouraged to conduct operations within their own villages.

Hungary

14. The success of Hungarian agriculture serves as an example to other East European countries. The achievements have resulted from a skilful blending of State and small-scale private production. The Hungarian government has adopted a programme of fiscal incentives involving tax exemptions, quality bonuses (representing up to 15% of base price) and loans for the improvement of farm facilities, in an effort to render private agriculture more attractive. In this way, the expansion of private output has benefited total Hungarian agricultural production at a minimum of investment outlay for the State. Private production is specialized in certain areas, notably rabbits, honey and pigeons which find outlets in the West, thereby complementing the range of Hungarian agricultural exports.

15. At present, the value of private sector output is equivalent to total receipts for agricultural exports. Small-scale producers are responsible for 50-60% of port production, made possible largely through government supply of feed to the farmers. As in the other East European countries, Hungary is unlikely to increase its hog numbers as domestic demand is satisfied, the feed situation is in equilibrium and export possibilities (with the exception of less profitable shipments to Eastern Europe) are limited.

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16. The 1981 Polish grain harvest was fairly good at 20 million tonnes and the 1982 crop appears to be proceeding well. Despite continual shortages of pesticides, fertilizers, seed, and gasoline, the main detriment to Polish agriculture is the lack of a stable and viable policy on the part of the military régime towards the farmers. This policy alternates between threats and cajoling to persuade the farmers to deliver produce, but such an ambiguous attitude provides neither the basis nor the incentive for any long-term improvement in the present chaotic state of Polish agriculture. If events so continue, average annual per capita meat consumption could decline from 70 kg to 60 kg and, possibly, fall to as low as 40kg. Although import needs are between 7-8 million tonnes, the State will only be able to afford grain imports of some 4-5 million tonnes.

Romania

17. Figures tend to differ over the 1981 Romanian grain harvest and range from 18.5 to 19.9 million tonnes; the former result being based on a lower maize crop than was previously estimated. The overall agricultural results for the year reflected a drop of 2.2% (net) in relation to 1980 in which a fall of 5% was recorded against 1979 output. Two bad years in a row have led to food shortages, rationing, and price increase. The government has taken a course similar to that in the rest of Eastern Europe of cutting back hog numbers in favour of cattle to better balance cereal requirements with production.

POLITICAL AND ECONOMIC REPERCUSSIONS IN THE USSR AND EASTERN EUROPE AND IMPLICATIONS FOR THE ALLIANCE

18. Possibilities of intra-CMEA food transfers are extremely limited. Hungarian and to a lesser extent Romanian grain exports to the USSR are linked to Soviet deliveries of oil. Although Hungary benefited from a positive trade balance in the past, this trend may shift should her energy needs increase. Poland has managed to obtain 225,000 tonnes of wheat and 30,000 tonnes of corn from the USSR, but other East European countries resent being obliged to provide aid. The Polish situation has disrupted established trading patterns and aggravated national feelings to the detriment of the doctrine of increased CMEA integration.

19. An additional centrifugal force is the East European sense of isolation in East-West trade relations, as a result of credit sanctions levied by some Western nations in response to Soviet behaviour in Afghanistan and after the imposition of martial law in Poland.

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20. The possibility was discussed at the meeting of public unrest if meat consumption experiences a radical decline: such an eventuality might not happen if the governments ensure a fair and equal system of distribution. Moreover the absence of effective counter-political forces, for example, in the GDR or Czechoslovakia, to properly channel and direct popular discontent could mean that any unrest would be sporadic, not concentrated geographically and relatively easily controlled.

21. The fact that the USSR appears to be on the threshold of introducing reforms, makes the time ripe for the rest of Eastern Europe to act accordingly. The hypothesis was put forward that in-fighting and splitting within the Party ranks of these countries might arise over the extent of such measures and over the means adopted for their application. Whatever reforms are introduced they must appear sufficiently realistic and credible to satisfy populations tending to grow increasingly restless.

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