

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

EXEMPLAIRE N° 1
COPY

ORIGINAL: FRENCH
1st February, 1965

NATO CONFIDENTIAL
DOCUMENT
AC/127-D/179

COMMITTEE OF ECONOMIC ADVISERS Included Corrige.
Rectif. Inclus

WHEAT PURCHASES BY COMMUNIST COUNTRIES AND SALES
OF GOLD ON WESTERN MARKETS

Note by the Chairman of the Sub-Committee on Soviet Economic
Policy

At the request of the Committee of Economic Advisers(1), the Sub-Committee on Soviet Economic Policy has undertaken a further examination of wheat purchases by Communist countries and Soviet sales of gold on the basis of information supplied by the delegations most concerned with these problems(2).

2. The attached report constitutes an attempt to provide a synthesis of the information available at the end of October 1964 on the volume of Chinese, Eastern European and Soviet wheat imports from western countries and the reasons behind them. At the same time, it provides an assessment of the repercussions which these purchases may have had both upon the Soviet economy and upon those of the western countries.

3. The Sub-Committee approved this report at its meeting of 16th November, 1964(3), subject to confirmation by the Canadian, United Kingdom and United States Delegations. This confirmation having been obtained, the report is submitted to the Committee of Economic Advisers.

(Signed) A. VINCENT.

OTAN/NATO,
Paris, XVIe.

- (1) See AC/127-R/132, Item V.
(2) AC/127-D/139, AC/127-D/139/1, AC/127-D/139/2, AC/127-D/139/3;
AC/89-WP/126, AC/89-WP/126/1, AC/89-WP/128, AC/89-WP/134,
AC/127-D/137, AC/127-D/137/1, AC/127-WP/132/2.
(3) AC/89-R/59, Item IV(5).

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WHEAT PURCHASES BY THE COMMUNIST
COUNTRIES AND SOVIET GOLD SALES
ON FREE WORLD MARKETS

Report by the Sub-Committee on Soviet Economic Policy

1. Purchases of wheat flour by Communist countries on free world markets during the two years 1963 and 1964 have amounted to about 23 million tons. In addition to those which Communist China has been making regularly since 1961, there have been exceptional orders by the Soviet Union which can be attributed to the extremely poor Soviet grain harvest in 1963, and there have also been smaller orders from the countries of Eastern Europe. These purchases may be broken down as follows (see Annex I):

- Communist China, imports

In 1963: 5.2 million tons
In 1964: 5.05 million tons

- Countries of Eastern Europe and Soviet-occupied Zone of Germany

Orders placed in 1963 for the crop-year 1963/1964: over 2 million tons.

- USSR

(a) Imports according to Soviet statistics:

in 1963: 2.7 million tons
in 1964: 6.5 million tons

(b) Orders placed in 1963 for the crop year 1963/1964 according to western estimates:

10.6 million tons.

I. COMMUNIST CHINA

2. After the failure of the "Great Leap Forward" which reduced Communist China to the verge of famine during the years 1960-1961 and in spite of the priority recently given to agriculture, the Chinese Authorities are continuing to import wheat from the West. These wheat imports rose to 5.2 million tons in 1963 and on the basis of an average of the prices prevailing on the world market between January and October 1963 must have cost about \$312 million (excluding transport charges). In 1964 they have probably exceeded the 1963 level; purchases already made by the end of July 1964 from western countries, mainly Australia and Canada, amounted to more than 5 million tons and, following the method of calculation adopted for 1963, their value has been estimated at \$310 million. The International Wheat Council expects this trend in Chinese wheat imports to continue during the next few years.

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II. COUNTRIES OF EASTERN EUROPE AND SOVIET-OCCUPIED ZONE OF GERMANY

3. A slightly higher level of consumption and the general inefficiency of the agricultural system in the Communist countries have transformed the countries of Eastern Europe from net exporters of grain before the Second World War into net importers. Their imports - mainly from the USSR - have thus averaged 5.4 million tons a year from 1959 to 1962. However, after the extremely bad Soviet harvest in 1963, these countries were obliged more than ever before to turn to the free world for supplies of wheat. This was the case not only with Poland and Czechoslovakia, which are regular importers of western grain, but also with Bulgaria, Hungary and the Soviet-occupied Zone of Germany, the appearance of which as buyers of wheat on western markets in 1963 was decidedly unusual. In the coming years imports from the free world will depend essentially upon whether there is an exportable surplus of Soviet wheat. Eastern European orders placed with western countries, in particular Canada and the United States, should reach some \$100 million (excluding transport charges); but many unknown factors make it difficult to estimate the total cost of these imports, in particular those of Hungary, Bulgaria and the Soviet-occupied Zone of Germany.

III. USSR

4. Soviet orders for wheat for the period 1963-1964 should amount to about \$850 million (excluding transport charges) of which orders placed with Canada and the United States account for \$482.5 million and \$140 million respectively. According to information available from Soviet sources, Soviet imports of wheat from Canada and Australia in 1963 totalled \$198.5 million.

5. Thus, in 1963 the USSR, hitherto a net exporter of grain, almost became a net importer, since net exports were only 1 million tons (see Annexes I and IV). Although still below their pre-revolutionary level, net exports of grain have risen since the 1950's following the development of the "virgin lands" and have exceeded the very low levels to which they had fallen in Stalin's time; in 1962 they reached 7.4 million tons of which 4.7 million tons were of wheat. In 1964, when the greater part of the grain ordered by the USSR in 1963 will have been delivered, the excess of exports over imports will probably disappear completely and be replaced by a substantial deficit.

6. Apart from the organizational weaknesses of Soviet agriculture, which are well-known, the influence of certain special factors should be borne in mind:

- (i) weather conditions were extremely unfavourable in 1963;
- (ii) inept farming methods employed in bringing the "virgin lands" under cultivation led to exhaustion of the soil, weed infestation and wind erosion, thus exacerbating the uncertainty of the harvest;