

ORIGINAL: FR NCH
18th November, 1965

NATO CONFIDENTIAL
WORKING PAPER
AC/127-WP/168

COMMITTEE OF ECONOMIC ADVISERS

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

Note by the International Secretariat

Following the precedent of the last few years, in 1965 communist countries have bought on the free world markets substantial quantities of wheat. In particular, purchases by the Soviet Union are of the same order of magnitude as the huge imports of 1963/64 (9.4 million tons) (1). On the basis of the information received, notably that provided by certain delegations (2), the following estimates of wheat imports by communist countries during the 1965/1966 crop year can be made (3):

Soviet Union	:	9.7 million tons
Eastern Europe	:	3.4 " "
Communist China	:	4.8 " "

2. It is still possible that during the next few months the Soviet Union may purchase up to 2 million tons more wheat. In this case, it is likely that she would be obliged to have recourse to the United States market. Australia has practically no unsold stocks; the amounts available in France and Argentina are very limited; the same certainly applies to Canada after the recent agreement with Communist China. This agreement provides that the latter will import from 3 to 5 million tons of wheat between August 1, 1966 and July, 31, 1969. In addition, by common agreement, the deliveries might be increased to a maximum of 7.5 million tons and the period of the contract lengthened to five years; in this case aggregate sales could reach 12.5 million tons (4).

(1) C-M(65)21

(2) AC/89-WP/169, note by the German Delegation
AC/89-WP/170, " " " Canadian "
AC/89-WP/172, " " " United Kingdom Delegation
AC/89-WP/173, " " " United States "
AC/89-WP/174, " " " United Kingdom "

(3) See Table at Annex

(4) AC/89-WP/178

3. Forced collectivisation, measures aimed at restricting the right of private ownership and the freedom of action of the farmers, the often inopportune intervention of the central bureaucracy, the shortage of agricultural equipment and the lack of interest of a peasantry deprived of real economic incentives explain, in part, the disappointing agricultural results obtained in communist countries. As regards the other reasons, they vary from one country to another.

4. In Communist China the 1965 grain crop has suffered from a protracted drought in the northern provinces. Estimated at 185 millions tons the crop will not exceed its level of 1957 and of 1964, whereas the Plan had provided for a 5% increase over last year's level. For a number of years now, the growth of the Chinese population (15 million persons annually) has not been accompanied by a corresponding increase of agricultural production.

5. The situation in the Eastern European countries is much more complex. Even if the structural weaknesses of their economies were put right, it is very unlikely that Czechoslovakia and the Soviet-occupied Zone of Germany would be able to meet the demand for grain through domestic production. The fact that these countries buy some of their imports in the West rather than in the Soviet Union can be considered as an indication of the dwindling of Soviet wheat surplus available for export even when production has been normal. As regards the other countries of Eastern Europe, the production of which should normally meet the local demand, their imports are in the main attributable to the inadequate progress of their agriculture. According to available estimations, in 1965 grain crops in the Soviet-occupied Zone of Germany and Czechoslovakia seem to have been rather poor (5% below their 1964 level). The Hungarian crop is likely to have remained unchanged. On the other hand the results obtained in Poland, Rumania and Bulgaria, the main producers in the area, have been satisfactory (increase of 10% to 15% in comparison with 1964). Taken together the Eastern European countries' imports average about 8 million tons a year, of which 5 to 6 million tons are delivered by the Soviet Union. It may be anticipated in view of the general success of this year's crops that these countries will import less from the U.S.S.R. - where the crop has shown a deficit - but will buy in the West at least 3 million tons of wheat.

6. The 1965 grain harvest in the Soviet Union is estimated at about 100 million tons compared to 120 million tons in 1964 and 95 million tons in 1963. This disappointing result can be attributed largely to the unfavourable weather conditions which have affected most grain-growing regions; storms and excessive rainfall in the Ukraine and the Caucasus and exceptional drought in the Virgin Lands. The present shortage of grain has been aggravated by the following factors :

- (i) increasing domestic requirements as a result of demographic expansion (the population is increasing by some 3 million a year);
- (ii) the recovery of livestock herds combined with a rise in the price of meat (20-50% for beef, 30-70% for pork, 10-70% for lamb), effective from 1st May 1965, which has encouraged farmers to divert bread grains from their normal purpose in order to use them as fodder;
- (iii) wheat exports to other countries: the countries of Eastern Europe, Cuba, the developing nations, in particular the United Arab Republic, to which 300,000 tons of wheat which had been purchased in the Free World were delivered in September 1965;
- (iv) the cumulative effect of past errors in Soviet agricultural policy. In March 1965, Brezhnev admitted that agricultural production had risen by only 10% during the period 1959-65 instead of 70% as planned.

7. The recent wheat purchases confirm the necessity and the urgency of the measures taken in the spring of 1965 by the Soviet leaders in favour of agriculture: a rise in the price paid for compulsory deliveries of wheat and rye to the state (1), a substantial rise in the price paid for above-quota deliveries of grain, for which the state will henceforth pay 50% more than the normal price, a reduction in the volume of compulsory deliveries (reduced from 68 million tons in 1964 to 56 million tons in 1965) which should permit an increase in above-quota deliveries, a rise in the incomes of collective farmers, a general moratorium on collective farm debts to the state, a substantial increase in investment in agriculture (\$80 billion are to be invested in five years, i.e. almost as much as has been invested in this sector of the economy since 1945).

8. From the point of view of the Soviet Union, imports of wheat from the West might have the following consequences :

- (1) an increase in sales of gold. A rough calculation (2) suggests that the cost of the wheat purchases will amount to at least \$650 million to which must be added \$100 million for transport costs. However, since 1 million tons of wheat from the Argentine has been bartered for Soviet petroleum products, the total amount which the Soviet Union will be called upon to pay out before July 1966 will probably amount to about \$570 million. Following their wheat purchases during the crop year 1963-64, the Soviets sold

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- (1) This increase amounted to more than 10% for deliveries from collective farms. In the case of state farms where the prices paid by the state are generally lower than those paid to the collective farms, the difference has been reduced and even abolished altogether for deliveries from certain regions.
 - (2) See table at Annex.

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\$550 million worth of gold in 1963 and \$450 million worth in 1964 compared with an annual average of \$235 million during the years 1960, 1961 and 1962. According to provisional estimates by the American Authorities, Soviet gold reserves in August 1965 totalled \$1,500 million (1). Part of these reserves will probably be used to pay for the wheat purchases. Up till now, at least one sale of gold was made in September to the Bank of International Settlements in Basle. This amounted to \$112.5 million (2). According to various Western estimates, it seems that the Soviets will be obliged to sell a total of \$450 - \$500 million worth of gold in order to finance their imports;

- (11) a reduction during the coming months of the volume of orders for industrial goods placed with Western European suppliers, as was the case after the wheat purchases in 1963/64. The Soviet Union will no doubt endeavour to arrange its foreign trade in such a way as to release the resources necessary to pay for part of these wheat imports.

9. The Soviet wheat purchases also entail certain consequences for the Western world :

- (1) a more buoyant market in freight rates (3) and the re-entry into service of a certain number of oil tankers which can also be used for transporting grain;
- (ii) a reduction in the surplus stocks of the traditional wheat exporting countries, and consequently some rise in the level of world prices; the size of United States wheat stocks is, however, such as to preclude any prolonged upsurge;
- (iii) a recovery of the Canadian trade balance and a reduction in that country's balance of payments deficit. Greater prosperity in the agricultural sector will have favourable repercussions on other branches of the Canadian economy;

(1) AC/127-R(52), Item I

(2) See the New York Herald Tribune 4th-5th September, 1965. The New York Times of 20th October, 1965, also referred to Soviet sales of gold to the Bank of International Settlements; 70 tons of gold (\$75 million) were said to have been delivered. It is not clear, however, whether this refers to additional sales or to deliveries of gold covered in the transaction announced at the beginning of September.

(3) For example, maximum and minimum freight rates per ton for the St. Laurent-United Kingdom crossing were as follows in s. and d. :

July 1964:	33s. 0d., 32s. 9d.
July 1965:	42s. 6d., 41s. 3d.
August 1964:	36s. 6d., 36s. 6d.
August 1965:	48s. 6½d., 45s. 0d.

- (iv) a strengthening in the financial position of the West, since the Soviet gold sales should relieve pressure from the central banks on United States gold reserves. In addition, these sales represent a significant addition to the gold reserves of the Free World. The rate of increase of gold output has in fact fallen steadily since 1962, from 6.6% to 3.9% in 1964. Soviet sales amounting to some \$450 million in 1965 would amount to nearly 30% of Free World gold output (\$1.4 billion in 1964); they should therefore somewhat ease the pressure of world demand for gold. Finally, the volume of world reserves will be increased to the extent that Russian gold is not hoarded or used for non-monetary purposes.

OTAN/NATO
Paris, XVIème.

ESTIMATED COMMUNIST COUNTRIES' WHEAT
IMPORTS FROM THE FREE WORLD DURING THE 1965/66 CROP YEAR

Importing country	Exporting country	Quantities (in metric tons)	Approximative f.o.b. value (in million US \$)
Communist China	Canada	2,200,000	\$134.6
	Australia	1,500,000	\$ 92.0
	Argentina	<u>1,100,000</u>	<u>\$ 61.6</u>
		4,800,000	\$288.2
Soviet Union	Argentina	2,100,000	\$114.8(1)
	Australia	600,000	\$ 36.4(2)
	Canada	6,300,000	\$435.0
	France	<u>700,000(3)</u>	<u>\$ 39.7</u>
		9,700,000	\$625.9
Eastern Europe	Canada(4)	1,300,000	\$ 88.4
	France(4)	1,800,000	\$102.1
	United States	45,000	\$ 3.5(5)
	Mexico	<u>300,000</u>	<u>\$ 18.2</u>
		3,445,000	\$212.2

- (1) Of which \$53.2 million represents the f.o.b. value of 1 million tons of wheat exchanged for Soviet gas-oil, following a barter agreement concluded in April, 1965.
- (2) The USSR has a further option of 60,000 tons; if it were taken up the value of Soviet purchases would amount to \$40 million.
- (3) Negotiations are currently taking place for further grain sales up to a maximum of 500,000 tons (AC/127-R/162).
- (4) As regards sales to Eastern Europe, lack of sufficient data makes it impossible to give a breakdown by country; the figures are those furnished, on a provisional basis, by the United States Delegation (AC/89-WP/173). Canadian wheat sales, estimated at 1.3 million tons, are made up of a 200,000 tons deal clinched with Czechoslovakia and 1.1 million tons representing deliveries to be made under trade agreements concluded in 1963 and 1964 between Canada on the one hand and Bulgaria, Czechoslovakia, Poland, Hungary and the Soviet Zone on the other. French wheat sales are composed of 300,000 tons sold under contract to Poland and 1.5 million tons to be delivered under trade agreements with East Germany, Bulgaria, Poland and a tentative arrangement with Hungary (likely to cover the sale of 170,000 tons). The exact destination of the Mexican wheat exports to Eastern Europe is not known.
- (5) The value of this sale by the United States to the Soviet Zone is very probably c.i.f.