

CONSEIL DE L'ATLANTIQUE NORD  
NORTH ATLANTIC COUNCIL

EXEMPLAIRE n°186  
COPY

ORIGINAL: FRENCH  
5th March, 1965

NATO CONFIDENTIAL  
DOCUMENT  
AC/127-D/179(Revised)

COMMITTEE OF ECONOMIC ADVISERS included Comtg.  
Rec'd Incls  
WHEAT PURCHASES BY COMMUNIST COUNTRIES AND  
SOVIET GOLD SALES 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 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 a brief assessment of the repercussions which these purchases may have had both upon the Soviet economy and upon those of the western countries.

3. At its session of 16th November, 1964(3), the Sub-Committee decided, subject to confirmation by some delegations, to submit this report to the Committee of Economic Advisers. The present revised version takes into account the suggestions made in that Committee(4); in addition the document has been brought up to date as far as possible and gives an idea of the present situation in the light of information available at the beginning of February 1965. Annex VI in particular contains the most recent data.

(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/126, 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).  
(4) AC/127-R/151, Item V.

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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 by Communist China in western countries during 1964 probably exceeded 5 million tons valued at about \$310 million according to the method of calculation adopted for 1963; up till July 1964 Chinese purchases in Canada amounted to 717,000 tons valued at United States \$48.4 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 largely exceed \$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 \$424.2 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. Although still below their pre-revolutionary level, Soviet exports of grain have risen since the 1950's following the development of the "Virgin Lands" and have exceeded the very low level to which they had fallen in Stalin's time. In 1962, Soviet exports had reached 7.4 million tons of which 4.7 million tons of wheat, but in 1963 net exports of grain did not exceed 1 million tons (see Annex I, table 3, and Annex IV). The excess of exports over imports probably disappeared completely and was replaced by a substantial deficit in 1964, year during which the greater part of the grain ordered by the USSR during 1963 was delivered.

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;

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- (iii) the efforts made during the last few years to increase livestock herds have resulted in an increase in the share of fodder crops in total grain production: the inevitable result of a bad harvest was a further strain on the available supplies of bread grains;
- (iv) in addition it is possible that bread grains and bread had replaced certain starchy foods (in particular potatoes) in the diet of the population and certain types of fodder for livestock feeding. This appears all the more probable firstly because the 1962 potato crop had been poor and secondly because the increase in the price of meat by encouraging the breeding of livestock had led to an increased demand for animal feeding stuffs.

7. The abnormal imports of wheat during 1963 and 1964 came as a surprise both to foreign observers and to the Soviet Authorities themselves who, as late as April 1963, had concluded an agreement with Brazil for the delivery of wheat during 1963-1965. To explain this state of affairs one is driven to the conclusion that Soviet agricultural statistics greatly exaggerated the volume of production. They showed output of grain in 1962 to have been 148 million tons whereas western experts(1) consider that this figure should be deflated to 115 million tons; these experts estimate the harvest in 1963, for which the Soviets themselves have so far published no statistics, at 95-105 million tons. According to provisional western estimates the 1964 crop might have reached some 110-120 million tons (see Annex II).

8. Although an assessment of the total grain requirements of the USSR is difficult, calculations based on western estimates of production and consumption norms show that these requirements (i.e. total internal consumption, including seed and waste, exports and additions to stocks) amount to between 105 and 125 million tons (see Annex III). Since in 1963 the Soviets probably maintained internal consumption and exports, both to the countries of Eastern Europe and to the western world (see Annex IV), it may be that the real reason behind the Soviet imports was the desire to maintain the stocks which had been built up after the good harvest of 1958 and which it had not been possible to increase in the following years.

IV. SIGNIFICANCE AND CONSEQUENCES

(a) For the Soviet Economy

9. That the USSR should be obliged to have recourse to the West for supplies of wheat has not only tarnished its prestige, especially among the developing countries, by showing up the inefficiency of the Communist agricultural system, it has also cost the USSR nearly \$1 billion (including transport charges) thus constituting a heavy burden upon the Soviet balance of payments.

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(1) AC/127-D/139/2, AC/89-WP/126.

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