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PROSPECTS FOR SOVIET WHEAT TRADE

Note by the United States Delegation

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I. TRADITIONAL SOVIET TRADE IN WHEAT

A. Exports

1. The Soviet Union has traditionally been an exporter of wheat. During the five years preceding 1963, when the USSR first became a net importer, Soviet wheat exports, despite wide annual fluctuations, averaged five million tons, exceeding imports by a ratio of almost 20/1. Since the late 1950's, the East European Communist countries have accounted for the hard core of Soviet wheat exports, with the Soviet occupied zone of Germany and Czechoslovakia taking between 40 to 60 per cent of the total.

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Cuba has also been a major recipient for the past five years. Most of the remainder went to Western Europe, with Great Britain, the Scandinavian countries (except Denmark), and Holland the USSR's foremost steady customers. During the period 1958-62, wheat exports were a major hard-currency earner for the USSR, amounting to about \$100 million annually. The only non-Communist less developed countries which received substantial wheat shipments were the UAR (until 1960) and Brazil.

2. The disastrous Soviet harvest in 1963 was followed by a reversal in the Soviet wheat export position. Although on a calendar year basis 1963 still shows an export surplus, the second half of that year marks the turning-point in the Soviet wheat trade position to that of a net importer. The largest deficit, over 5 million tons, occurred in 1964, even though the USSR slashed its exports by more than half by cutting off sales to all non-Communist customers except Finland and substantially reducing deliveries to Eastern Europe (but not Cuba). Despite an above-average harvest in 1964, Soviet wheat exports during the 1964/65 consumption year did not recover, and, as a consequence of another unsatisfactory wheat crop in 1965, exports during the calendar year 1965 registered a further decline, as deliveries to Poland, Bulgaria and Finland ceased. The UAR, on the other hand, received 200,000 tons.

Table 1. Soviet Wheat Production and Trade Since 1958
(1,000 metric tons)

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Production(1)	62,600	51,700	46,300	52,300	54,400	40,000	57,700	48,000
Exports	3,879	6,052	5,624	4,801	4,765	4,106	2,031	1,663
Imports	323	247	98	656	45	3,052	7,281	6,375
Net trade	+3,556	+5,802	+5,526	+4,145	+4,720	+1,054	-5,250	-4,712

B. Imports

3. On the other side of the ledger, Soviet wheat purchases abroad prior to 1963, which averaged 275,000 tons annually during the five-year period 1958-64, primarily served convenience purposes, including direct shipment of wheat from the Canadian West Coast for consumption in the deficit areas in the Soviet Far East, or were destined for delivery to other countries on Soviet account. In 1963, however, Soviet imports zoomed to over 3 million tons; in 1964 they increased further by almost two and a half times to 7.3 million tons, and in 1965 they declined by less than a million tons.

(1) Estimates of United States Department of Agriculture of actually usable crop except 1965.

4. Canada has been the USSR's primary supplier. In September 1963 the Soviet Union concluded an agreement providing for purchases of the grain equivalent of over 6 million tons of wheat and wheat flour from Canada over a three-year period ending in July 1966. Actual 1963-65 Soviet wheat imports from Canada were much larger, totaling 9.5 million tons, part of which was shipped directly to Cuba and East European destinations to meet Soviet commitments there. This is the only long-term arrangement for wheat which the Soviet Union has entered into, and it was renewed for another three years in June 1966 (see below).

5. The USSR's next largest supplier was Australia, with Soviet purchases in 1963 and 1964 totaling 2.9 million tons, and the bulk of the deliveries taking place in 1964 and 1965. Although the United States was the second largest Soviet supplier of wheat in 1964 with 1.8 million tons, the USSR has not bought any United States wheat since. Purchases from France, a latecomer, have increased steadily, and although deliveries recorded through 1965 are below a million tons, France may be expected to remain a favored source when Soviet requirements exceed imports from Canada. The Soviet Union has also made substantial but sporadic purchases from Argentina, partly on a barter basis.

II. EXPORT PROSPECTS

A. Current Export Commitments

6. Soviet wheat exports to Eastern Europe amounted to 1.15 million tons in 1965, somewhat less than in 1964 when they had plummeted to 1.3 million tons, less than half the annual average for the previous three years. In 1965 only Czechoslovakia and the Soviet occupied zone of Germany received Soviet wheat, and they are also the only countries which are known to have succeeded in obtaining commitments from the USSR for wheat deliveries in 1966. Czechoslovakia in December 1965 signed a contract for 1.3 million tons of Soviet grain, stated to be "mostly" wheat, while the Soviet occupied zone of Germany was allotted 1.2 million tons of grain. With the exception of the past three years, wheat imports by the Soviet occupied zone of Germany have averaged over 1.2 million tons, or about three quarters of its annual grain purchases from the USSR. It may be assumed, therefore, that the Soviet Union is committed to export between 1.8-2.2 million tons of wheat to these two countries in 1966.

7. Soviet exports of wheat and wheat flour to Cuba, which first assumed substantial proportions in 1961, have averaged half a million tons (in terms of grain) annually in recent years and are expected to continue at this level in 1966/67.

B. Possible Additional Exports

Eastern Europe

8. East European wheat imports since 1960 have varied between 4 and 5.6 million tons annually of which the USSR supplied between 60 and 75 per cent prior to 1964. Romania has been either self-sufficient or a net exporter (not usually to East European destinations) and will remain so in the current year. Bulgaria has been a net importer - the smallest in Eastern Europe - in the period since 1960 with amounts purchased abroad ranging from a few thousand tons to close to a quarter million tons. In early 1966, Bulgaria reportedly acquired in the neighborhood of 200,000 million tons of wheat from Greece. To complete purchases under its three-year agreement with Canada, which expires in October of this year, Bulgaria imported 100,000 tons for shipment by October 1966. The Bulgarians apparently sought Canadian authorisation to divert this amount to the Federal Republic of Germany, but did not succeed. They were reported to have offered as much as 250,000 tons of wheat on the international grain market during August, evidently in anticipation of a bumper crop. According to Brazilian press reports, that country in September purchased 50,000 tons of wheat from Bulgaria with an option for a like amount. In view of the record Bulgarian wheat crop this year and the above efforts to dispose of substantial amounts through sales abroad, Bulgaria clearly will not be in the market for Soviet wheat.

9. Of the remaining East European Communist countries, Hungary does not appear to be a likely customer for Soviet wheat this year. Even in the two years preceding the Soviet cutback in wheat deliveries to its CEMA partners, Hungarian purchases from the USSR were minimal and its overall imports of wheat and wheat flour amounted to only 150,000-300,000 tons annually. According to Embassy Budapest, Hungary is expected to be virtually self-sufficient in wheat during the current consumption year. Besides, Hungary can still buy 150,000 tons under its three-year agreement with Canada which runs through mid-1967.

10. Poland since 1960 has been the largest wheat importer in Eastern Europe, and its purchases abroad averaged 1.7 million tons in the past three years. In the late fifties Poland had deliberately reduced its reliance on wheat from the USSR in order to lessen its vulnerability to Soviet pressures to step up collectivisation, with the result that purchases from the USSR averaged less than 40 per cent of total Polish wheat imports in 1958-62. In the two years that followed, Soviet deliveries were down to a trickle, and in 1965 they ceased altogether. It may be assumed that this precipitous decline in Polish imports of Soviet wheat reflected lack of Soviet availabilities rather than a Polish desire to eliminate imports from this source. On the other hand, this cutback did not put the Poles in immediate straits, since they had lined up 400,000 tons per year, beginning in 1963, from Canada under a three-year agreement. They also were able to obtain substantial quantities of wheat from the United States under the PL-480, Title I program, which did not involve payment in hard

currency. Since Congress in 1964 found Poland ineligible for this program, however, its purchases from the United States have declined drastically.

11. In these circumstances increased Polish interest in Soviet wheat, for which it can pay in goods deliveries rather than scarce hard currency, is to be expected. While no definite Soviet undertaking in this regard has been publicised, Poland's Foreign Trade Minister indicated last year that "grain" was included in the list of Polish imports under the Soviet-Polish trade protocol for 1966. Despite a record wheat crop in 1965, Poland in the consumption year 1965/66 imported 1.7 million tons and current requirements may be somewhat lower. Poland has lined up the following quantities from free world sources for the current crop year:

	<u>Amount</u> (tons)
Canada	
Carry-over from old agreement	140,000
Contracted under new three-year agreement	300,000
Additional option	100,000
France	200,000-300,000
United States	140,000
Mexico	N.A.

12. This leaves upward of 300,000 tons of Polish requirements for wheat unaccounted for. The Poles were said to have expected to import half a million tons of French wheat beginning the last quarter of 1966 rather than the smaller amount listed above in 1967. None the less, no current Polish efforts to line up wheat from other free world sources have been reported, and Poland has even asked to switch an unspecified portion of an authorisation for an additional 280,000 tons from the United States under Commodity Credit Corporation credits to cotton. These indications that Poland might have received Soviet assurances for a substantial quantity of wheat, were confirmed when Gomulka announced early in November that the USSR has agreed to supply one million tons of grain from its new crop.

13. In view of the already substantial Soviet commitments to Czechoslovakia and the Soviet occupied zone of Germany, an upward revision in Soviet wheat deliveries to these countries appears less likely, and would in any event involve small amounts.

Less Developed Countries

14. The USSR's favorable supply situation may have important implications for its wheat exports to less developed areas. The Soviet Union will be in a much better position to exploit wheat shortages in such countries when political considerations make such action desirable. (Exports were made to the UAR even in 1965, when the Soviet crop was poor.) This is not to imply, however, that the USSR is likely to embark on a "wheat selling offensive" on a broad scale, or to make wheat exports a regular feature of its trade with less developed countries in the future. In view of the past wide fluctuations in Soviet wheat production, the USSR would undoubtedly shy away from any long-term commitments in this commodity. Nor would it make sense economically for the USSR to supply large quantities, say in excess of half a million tons, to any one recipient as long as the Soviet Union is importing large quantities of wheat from the free world. This would be equivalent to supplying less developed countries with hard currency loans, something the Soviet Union has consistently declined to do in its economic assistance programs.

15. On the other hand, the USSR can now be expected to step in with relatively small wheat supplies to selected less developed countries with favored regimes and in circumstances where it can score important political or propaganda gains. This year, more opportunities for such action may arise because of poor harvests in various less developed areas (e.g. the Maghred), and because in the United States, as a result of its very low carry-over stocks, the amount of wheat available for PL-480 programming (excluding barter) in the current consumption year at some 11 million tons is about 25 per cent below the volume shipped in 1965/66 to less developed countries on concessional terms. The publicity accorded the bountiful Soviet harvest, coupled with increased demand in the less developed countries, is likely to generate greater pressure from needy countries for Soviet wheat and may oblige the USSR to be more responsive to such requests.

16. A case in point is the recent decision of the Soviet Union to provide 200,000 tons of wheat to Algeria, which was announced on 31st October by the Algerian Government during the visit of two high-level Soviet delegations. Algeria suffered a severe drought this year which increased its current wheat import requirements to around one million tons. The Soviet decision came at a time when Algeria had succeeded in lining up only about half of the needed amount through commercial purchases from free world sources and was still awaiting a United States response to its request for 275,000 tons under PL-480 Title IV.

III. CURRENT IMPORT SITUATIONA. Despite Record Wheat Crop, Substantial Imports in 1966

17. As yet no official Soviet figures has been released on this year's total wheat output in the USSR, but the record wheat procurement of 54 million tons makes it clear that the current crop is larger than in any previous year. The usable 1966 Soviet wheat crop is tentatively estimated at about 70 million tons (compared with only 48 million last year and 58 million tons in 1964), which should be more than sufficient to cover domestic requirements.

18. In addition, the Soviet Union is committed to import about 3.9 million tons it purchased during the first half of 1966 for delivery in the 1966/67 consumption year. Under the three-year agreement concluded in June of this year, 3 million tons are due from Canada during the 12-month period beginning August 1966. The Soviet Union has already arranged for the delivery of at least 300,000-360,000 tons (in the form of flour), rumored to be largely for shipment to Cuba.

19. The USSR also bought 800,000-900,000 tons of wheat from France in the spring of 1966, of which at least 600,000 tons were scheduled for shipment in October and November of 1966. However, the delivery dates were reportedly postponed at Soviet request until 1967. It is therefore not certain how much of the French wheat will be imported by the USSR this calendar year. Thus imports in 1966 of French and Canadian wheat ordered this spring could range anywhere from 360,000 tons to 1.5 million tons (if Canadian deliveries are prorated on a monthly basis).

20. In addition, an estimated 5.5 million tons from earlier orders were still in the pipeline at the beginning of this year, as the tabulation below indicates.

<u>Supplier</u>	<u>Soviet Purchases</u> <u>1963-65</u>	<u>Soviet Imports</u> <u>Recorded 1963-65</u>	<u>Carry-over to</u> <u>1966</u>
	(in thousands of tons)		
Canada	13,119	9,519	3,600
Australia	3,050-3,150	2,914	136-236
Argentina	2,236	875	1,361
France	1,188	834	354
			5,450-5,550

These figures imply that Soviet wheat imports in 1966 will total at least 5.8 million tons and may reach a level of 7 million tons.

21. As late as August of this year, the Soviet Union was reported to be exploring the possibility of additional wheat supplies with France (for another million tons) and Argentina. Regardless of the outcome of these inquiries - which took place before the Soviet wheat crop could be definitely assessed - the USSR is now unlikely to be interested in further imports during the next year or so. On this assumption, Soviet imports in 1967 can be expected to be in the 3.5-4.7 million ton range, depending on the distribution of current imports of 3.9 million tons between 1966 and 1967.

B. Soviets Likely to Honor Import Commitments

22. There are no indications that the USSR will not live up to its current import commitments. As regards Canada, this commitment, within the framework of the three-year agreement for 1966/67-1968/69, is in the legally binding form of a contract for the entire first annual installment of three million tons of wheat and wheat flour. It is quite conceivable that the USSR may take advantage of the margin (usually 5 per cent more or less) generally provided in grain contracts, and also arrange to the extent feasible for delivery at a later date than in previous years, as it has done in the case of imports from France.

23. Nor do we believe that the USSR is contemplating any change in its commitment to buy another six million tons from Canada during the remaining two years of the agreement period, as has been speculated in the press. While it is not entirely clear how binding this undertaking is, the Soviet Union would be unlikely to jeopardize the excellent commercial reputation it has so painstakingly established. The Canadians reportedly expect Moscow to abide by its commitment and a high official of the Soviet Ministry of Foreign Trade stated, according to a diplomatic source, that the USSR has no plans to change its commitment, stressing the Soviets' "honor contracts". From a practical point of view, Soviet officials cannot at this time assess their import requirements two and three years hence in view of the possible wide fluctuations in wheat production from year to year due to the vagaries of the weather. While the expected rebuilding of state reserves out of this year's crop would provide a cushion in the event of poor results during the next two years, and thus reduce the extent of imports in such an emergency, one excellent crop is unlikely to obviate altogether the need for Soviet imports in the near term. It must be borne in mind that a substantial portion of Soviet imports from Canada has been for shipment to Cuba as well as for consumption in the Soviet Far East and could be expected to continue in large part when the USSR becomes again self-sufficient, even though they would then be offset by Soviet exports to other destinations.

IV. SOVIET HARD CURRENCY POSITION EASED

24. The lower level of Soviet wheat imports during the next year or so will have a favorable effect on the Soviet balance-of-payments position vis-à-vis the hard currency area. Wheat and wheat flour purchases from 1963 through 1965 have cost the USSR the equivalent of one and a quarter billion dollars, not counting transportation expenses, and have constituted a severe drain on Soviet foreign exchange reserves, which was reflected in gold sales worth US \$800-900 million.

25. In order to offset these unavoidable outlays, the USSR restricted other purchases from the West, and in 1965 succeeded in narrowing its trade deficit with industrially advanced countries to \$140 million from \$452 million in 1964. This was partly at the expense of machinery and equipment purchases in the West, which were reduced by \$120 million from the 1964 level. Since the USSR has acknowledged the need to continue imports of equipment embodying advanced Western technology for developmental purposes, the reduced level of wheat imports in the immediate future may lead to a less restrictive Soviet policy in equipment purchases from the West.

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