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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions	
169594	MEMO	L. PAUL BREMER TO CRAIG FULLER RE PAPER	1	2/3/1981	B1	
169595	PAPER	RE GRAIN EMBARGO AGAINST USSR	4	ND	B1	
169596	BACKGROUND PAPER	RE GRAIN EMBARGO	6	ND	B1	
169597	SUMMARY	SUMMARY OF PAPER	2	ND	B1	
		R 4/8/2013 CREST NLR-748-20-125-2-5				
169598	REPORT	W. ODOM TO R. ALLEN RE GRAIN EMBARGO	2	1/30/1981	B1	
		PAR 4/8/2013 CREST NLR-748-20-125-3-4				
169600	REPORT	RE USSR/GRAIN EMBARGO (SAME AS DOC #169567)	26	1/26/1981	B1	B3
		PAR 4/8/2013 CREST NLR-748-20-125-4-3				

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169595	PAPER RE GRAIN EMBARGO AGAINST USSR	4	ND	B1

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ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
169596	BACKGROUND PAPER RE GRAIN EMBARGO	6	ND	B1

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MEMORANDUM

NATIONAL SECURITY COUNCIL

UNCLASSIFIED
with CONFIDENTIAL Attachment

February 3, 1981

INFORMATION

MEMORANDUM FOR: RICHARD V. ALLEN

FROM: TIM DEAL

SUBJECT: Grain Embargo

Attached, as requested, is a summary of CIA's paper "USSR: Adjusting to the Grain Embargo".

CONFIDENTIAL

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Summary of CIA's Paper "USSR: Adjusting to the US Grain Embargo"

1. Soviet Grain Import Needs. The USSR had a disastrous harvest in 1979. Grain production totaled 179 million metric tons (MMT), 50-60 MMT below the level necessary to maintain herds and fulfill livestock production goals. The Soviets hoped to close, but not eliminate this gap, through a combination of stock drawdowns and imports (25 MMT from the US and 11 MMT from non-US sources). (U)

2. US Measures. In response to Afghanistan, the US took retaliatory action against the USSR's vulnerable livestock sector. By limiting grain shipments to 8 MMT during the 1979-80 agreement year (October 1979 - September 1980), the US denied the Soviets 17 MMT of grain plus 1.2 MMT of soybeans and meal, and small quantities of poultry. To maximize the impact of our action, the US sought to obtain the cooperation of the other major grain exporters (Canada, Australia, the European Community, and Argentina). None of the major exporters actually agreed to cut back sales to the USSR, but Canada, Australia, and EC said that they would not "replace" directly or indirectly the 17 MMT we denied the USSR. In fact, grain exports from the major countries were equal to or greater than in any previous year. (C)

3. Soviet Import Performance. The Soviets were able to make up roughly half of the 17 MMT embargoed by the US. Total Soviet imports during the agreement year amounted to 28 MMT, 8.4 MMT below pre-embargo forecasts. On a marketing year basis (July 1979 - June 1980), Soviet imports fell approximately 6 MMT below pre-embargo projections. The 2.4 MMT difference between imports during the agreement and the marketing years -- a point of special concern and controversy for the Canadian Government -- was largely due to heavy US exports to the USSR during the July-September 1979 period, 3-6 months before the embargo. (C)

a. Logistical Constraints. The partial embargo effectively reduced Soviet port handling capacity by several million tons. Because of the need to use smaller ships, congestion at Soviet ports worsened. The average load per ship decreased while port turnaround time rose. (C)

b. Circumvention of the Embargo. CIA does not have evidence of any large-scale circumvention of the embargo. The Soviets probably obtained 500,000 tons (less than 2% of total imports) through transshipments. The East Europeans probably used about 1 MMT from total imports of 17 MMT to replace exports of domestic and transshipped grain. (C)

4. Impacts on Soviet Livestock Sector. The loss of 8.4 MMT of grain due to the embargo would normally have resulted in an 8% reduction in grain available for feed. The Soviets decided, however, to draw heavily on stocks. Total grain available for feeding

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thus dropped only 2%. Yet, the livestock sector suffered since meat and milk output were down as were animal weights and growth in annual herds. Meat production in 1980 dropped about 3% below the 1979 level and 5% below plan. (C)

5. Prospects for 1981. The second consecutive poor harvest in 1980 (189 MMT) has left a deficit of roughly 40 MMT simply to maintain herds and hold stocks and livestock production steady. In 1981 the Soviets will again be dependent on imports to fulfill their requirements. If the partial embargo continues, the Soviets will probably import about 34 MMT of grain during the October 1980 - September 1981 period, 6 MMT higher than in the 1979-80 agreement year and 2 MMT below Soviet port capacity. The effectiveness of the embargo has been reduced because of increased sales by other exporters and Soviet success in overcoming logistical constraints. If the US lifted the embargo now, the USSR would probably buy additional corn from the US, plus some oilseeds. If we maintain controls and if the Soviets allow herds to decrease, meat production will be at the 1980 level. If the Soviets maintain herd size, meat production will drop 3%. (C)

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MEMORANDUM

NATIONAL SECURITY COUNCIL

CONFIDENTIAL WITH SECRET ATTACHMENT

INFORMATION

January 30, 1981

MEMORANDUM FOR: RICHARD V. ALLEN

FROM: WILLIAM E. ODOM WO

SUBJECT: Grain Embargo Against the USSR (U)

CIA is producing a paper which sums up the impact of the grain embargo on the Soviet economy. I am attaching a typed copy for your advance information (Tab A). The finished version will be out early next week. If a Cabinet Meeting discusses the issue, this paper could be useful background. (C)

I would like to add some comments on the "key findings" of the CIA analysis for your own use in the policy debate. First, a glance at the paper gives the impression that the impact has been very small, and the implication seems to be that there is no reason for continuation. A closer look, however, reveals that the chaos created for the Soviets in shifting to new sources of grain and in adapting their livestock programs has caused much greater costs than the simple figures indicate. Moreover, as the paper says, the Soviets cannot maintain the status quo in livestock production because they cannot import the required 40 million tons this year. The follow-on effects, therefore, are still coming. (C)

Second, it is important to realize that international grain demand remains so great that U.S. exports have not and will not suffer whether or not the embargo is lifted. (C)

Third, Argentina was the critical break in our international embargo effort. If the U.S. takes a more forthcoming approach on arms sales to Argentina, cooperation in an embargo might be forthcoming. In other words, past failure to coordinate international support does not mean that it will necessarily remain a failure. (C)

Fourth, and more important than any of the economic arguments, the political impact of the grain embargo is not widely appreciated in the Congress or in broader media circles. 25

The GOSPLAN hierarchy was in disarray, saying that it would take years to sort out the dislocations in the five year planning process. In party circles, it caused basic doubts about their assessment of the U.S. ability politically to respond to the overall Soviet strategic challenge. Both Arbatov's group and Dobrynin's staff were discredited in their judgments of what an American President could make stick in the face of an election process in the grain belt. (C)

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Review on January 30, 1987

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This political impact was no less in the Persian Gulf states, particularly in Pakistan and Saudi Arabia. The Europeans were also shocked, upset by it, but forced to admit that the U.S. really seemed to be serious. The technology embargo through COCOM, to be sure, has much greater significance for slowing Soviet economic development, but the signal of political will in the grain embargo impressed the fickle Europeans far more. (C)

Any decision to lift the embargo, therefore, will have a political effect of greater import than most observers realize. Perhaps President Reagan would not have made the embargo decision at the time, but now he has inherited a situation that is different in context and consequences. To lift the embargo will send a large political signal which will be read by many capitals and businessmen as the end of the "post-Afghanistan" period and a return to "business as usual." Clearly the President does not mean that, and some may argue that his statements thus far on East-West affairs erase any doubt. Those statements, however, will be seen by many as a cover for moving back to "business as usual" whether he desires that or not. (C)

To sum up, it may be possible to lift the embargo and compensate with other tough measures, but the President's policy will have a stronger credibility abroad earlier if he lets the embargo stand for another year. He will also have far more credibility in pressing our COCOM allies to hold the line on technology transfers. Politically, grain and technology are linked. Holding the embargo will help you on technology and trade. (C)

cc: Tim Deal

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[redacted]

USSR: ADJUSTING TO THE US GRAIN EMBARGO

25X1

[redacted]

Office of Economic Research
26 January 1981

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USSR: ADJUSTING TO THE US GRAIN EMBARGO

Introduction

In January 1980 the US and its major allies adopted a package of economic denial measures against the USSR following the Soviet intervention in Afghanistan. The denial measure that shocked the Soviet Union the most and since has been the most controversial was the partial-embargo placed on grain shipments by the US and cooperating exporters. Differences continue to exist in the media and among exporters about the effectiveness of the US sanctions denying the USSR 17 million tons of US grain in the US-USSR Long Term Agreement (LTA) year ending September 1980. (U)

In an effort to clarify the grain embargo's impact, this paper traces our pre-embargo estimate of Soviet grain import intentions through the US post-embargo period and analyzes its effectiveness. It covers the embargo's impact on (1) 1979/80 grain imports for July/June and October/September marketing years, (2) the livestock sector, and (3) port congestion. The probable effects of lifting the US grain sanctions in early 1981 on Soviet grain imports and meat production are also discussed. (C)

Key Findings

The impact of the US grain embargo on the USSR was substantially lessened by Moscow's ability to find alternative sources of grain. Only the United States actually cut back on grain exports; Argentina refused to cooperate and the other exporters sold more grain to the Soviets than projected when the embargo was announced. Consequently, the Soviets were able to replace half of the 17 million tons denied them by the US in the Long-Term Agreement (LTA) year ending 30 September 1980. (C)

The embargo reduced Soviet grain imports in the LTA year 1979/80 from an expected 36 million to 28 million tons, which exacerbated an already tight feed situation. It reduced grain available for feed by roughly 8 percent -- assuming no equivalent drawdown in stock -- or an amount sufficient to produce 650,000 tons of pork (carcass weight), equal to about 4 percent of meat production in 1979. To soften the impact of the sanctions, however, the Soviets by drawing down stocks were able to hold the drops in grain fed to livestock to 2 percent and meat production to 3 percent. The low stock level has left Moscow more dependent on grain imports in 1980/81 following another disastrous grain harvest in 1980. We estimate that to maintain a status quo in 1981 livestock production would require the importation of over 40 million tons of grain during the 1980/81 LTA year. Such a high level of import is not feasible. (C)

Whether or not the US partial embargo is continued, the Soviets should be able to obtain enough grain in world markets --

including 8 million US -- to import during the year ending 30 September 1981 up to their current handling capacity of 34 million tons; 6 million tons more than in 1979/80. Support for the embargo among our Allies has eroded to the point where availability of non-US grain will be less of a problem for Moscow than port congestion. In addition, the Soviets should have no difficulty purchasing 2 to 3 million tons of soybeans and products, including some US origin from West European firms. Should the embargo be lifted, the Soviets would take additional quantities of US corn and soybeans, if offered, and probably defer or cancel delivery on similar quantities from other origins. Such a move would enable Moscow to use larger ships to carry grain, thereby reducing shipping costs and easing congestion at Soviet ports. (C/NF)

Per capita production of meat in CY 1981 will be down for the third consecutive year. Meat production is forecast to be no larger, and possibly smaller, than last year, when it dropped 3 percent below 1979. Prior to the embargo we had projected no drop in 1980 meat production. The dominant problem for Soviet meat production in 1981 is a second successive bad harvest of grain and other feeds. A continuation of the US partial embargo on grain would have little effect. (C)

Soviet Grain Import Needs, 1979/80

In the fall of 1979 Moscow expected to use large grain imports and drawdown of stocks to soften the impact of a poor grain harvest on the livestock sector. A disastrous 179 million ton grain crop and poor forage crops implied a very large deficit (in the 50 to 60 million ton range) relative to requirements to maintain herds and flocks, and fulfill livestock production goals for 1980. Carryover stocks from the 1978 crop were very roughly estimated to be about 20 million tons. (C)

By mid-September trade sources were reporting relatively large Soviet purchases of non-US grain and Soviet interest in being permitted to buy considerably more than 8 million tons of US grain permitted under the upcoming long-term agreement (LTA) year beginning 1 October 1979. The confirmation of Soviet intentions to launch a massive grain import program surfaced at the October US-USSR grain consultations when USDA officials offered them 25 million tons of wheat and corn in the year ending September 1980. Intelligence sources almost immediately indicated the Soviets would take all the US grain offered, plus about 11 million of non-US grain, and 2.5 million tons of soybeans and meal. The total expected purchases of roughly 38 million tons during the year ending 30 September 1980 was near the limit of our estimated Soviet annual port capacity for handling bulk agricultural commodities. (C/NF)

Maximizing imports and drawing down stocks would have softened, but not eliminated the adverse impact of the production

shortfall on livestock goals. Supplies of grain for feed still would have been below requirements. (U)

US Sanctions Imposed 4 January 1980

The unilateral suspension of US agricultural exports to the USSR on 4 January was targeted at the important and highly vulnerable livestock sector of the Soviet economy. It immediately denied the USSR 17 million tons of grain, 1.2 million tons of soybeans and meal, and smaller quantities of poultry scheduled for delivery in the LTA year ending 30 September 1980. The trade sanctions imposed several restrictions on US exporters.

- The remainder of 8 million tons of wheat and corn not shipped as of 4 January had to leave US ports by 1 April 1980.
- Export licenses were required to ship grain to USSR.
- It was illegal to sell Soviets US grain not licensed under the 8 million ton limit through a third country.
- Processed agricultural products made in foreign countries from US raw products could not be sold to the USSR, e.g., soymeal made from US soybeans.
- Non-US grain could not be sold by US traders to the USSR. (This restriction was rescinded last June.) (U)

To make the US embargo effective, US officials after imposing the embargo met with representatives of other major grain exporter nations on 12 January to obtain their cooperation. None of the exporters -- Argentina, Australia, Canada, and the EC -- agreed to cut back grain sales to the

Soviets but stated they would not replace directly or indirectly the 17 million tons of US grain denied. In turn, the US agreed not to increase sales to other exporters' traditional markets. Because commodities other than grain were not discussed, no agreement was reached on sales of oilseeds, meal, and livestock products. Subsequent discussions with the exporter governments concerning their actions to control grain exports to the USSR made it clear that Argentina was not going to cooperate. Moreover, the other exporters could not be pinned down on specific export ceilings, but only "traditional or historic levels." This turned out to mean a level as large as or larger than in any other previous year. (C)

The exporters, including Argentina, agreed to participate in monitoring grain trade to the USSR. They have regularly met with US officials to exchange information on new sales, measures taken to control exports to the USSR, and actual shipping data. The EC has not cooperated in providing transshipping data through north European ports, citing commercial secrets as the reason. (C)

CIA and USDA estimated that in the marketing year ending 30 September 1980, the Soviets could probably replace 12-15 million of the denied 17 million tons without exporter cooperation and 6-9 million tons with cooperation. Considerably less grain was available in the marketing year ending 30 June 1980 because of the shorter time the Soviets had to arrange new chartering and shipping schedules to move large quantities of Argentine corn and soybeans available from the April harvest. (C/NF)

Sanctions Reduced Soviet Grain Imports, 1979/80

We estimate that Soviet grain imports on the 1 October 1979-30 September 1980 year totaled nearly 28 million tons, as shown in Table 1.* This amount fell 8.4 million tons short of pre-embargo expectations. It included 8.4 million of US grain and 19.2 million tons from other origins. Without the suspension we had expected the US to export about 26 million tons and other suppliers 10 million tons to the USSR. Thus, the Soviets have been able to make up only about half of the 17 million tons of US grain embargoed; near the high end of the 6-9 million ton range we estimated last January. (C)

Estimated imports on the 1 July-30 June 1979/80 marketing year (MY 1980) were larger at 31 million tons but still 6 million tons below pre-embargo projections. US exports at 15 million tons were nearly 7 million tons larger, however, than during the October/September year (see Table 2). This reflects the large US grain shipments during July-September 1979, before the LTA year began on 1 October 1979 and the year in which the sanctions applied. (C)

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* The press -- both domestic and foreign -- has contributed to some confusion regarding the effectiveness of the embargo because import statistics differ between the marketing and the LTA years. The usual marketing year for grain begins 1 July and the years under the LTA begin 1 October. It was under the agreement year beginning 1 October 1979 that we denied the Soviets 17 million tons of US grain. Some published reports have incorrectly chosen to use the July/June year statistics to show that US exports greatly exceeded the 8 million tons agreed to under the sanctions. The marketing year ending 30 June is normally used to an [illegible] of grain for livestock feeding.

Table 1

USSR: Total Grain Imports, 1976/77 - 1980/81
October/September Years
(million tons)

Exporters	1976/77	1977/78	1978/79	1979/80 Estimated	1979/80 Pre-Embargo Forecast	1980/81 Forecast	1980/81 Known Purchases or Agreements To Date
US	6.1	14.8	15.3	8.40	25.9	8.0	8.0
Canada	1.5	2.7	1.9	4.30	2.4	6.5	6.5
Australia	.5	.3	.6	4.40	3.0	3.5	3.3
EC	—	—	.2	1.60[1]	.6	2.1	1.5[1,2]
Argentina	.2[3]	3.2	1.6	6.00	3.0	10.0	7.0
E. Europe	.4[3]	.22[3]	.7[3]	1.80	.9	1.8	.8
Thailand	—	—	.02	.10		.4	.4
S. Africa	—	—	—	.10		—	—
Sweden	—	—	—	.30	.2	.6	.4
Turkey	—	—	—	.10		.2	.1
N. Zealand	—	—	—	.04		—	—
Brazil	.06	.16	—	—	—	—	—
Spain	—	—	—	—	—	1.0	1.0
Total[5]	8.79	21.38	20.32	27.64[4]	36.0	34.1	29.0

1. Includes wheat flour.
2. Includes 500,000 tons mixed feed, at least 50 percent of which is grain.
3. Calculated by dividing calendar year statistics by 4 and adding appropriate quarters.
4. Includes estimated 500,000 tons of diverted US grain.
5. Excludes .5 million tons of rice.

Table 2

USSR: Grain Imports, 1978/79 - 1980/81
1 July/30 June Years
(million tons)

	1978/79	1979/80 Preliminary	1980/81 Forecast	1980/81 Sales and Agreements[1]
US	11.1	15.3	8.0	8.0
Canada	2.0	3.4	5.9	5.9
Australia	.1	4.0	3.5	3.9
EC	.2	1.0	1.8	1.3
Argentina	1.4	5.1	8.0	7.0
E. Europe	.2	1.5	1.5	.8
Thailand	—	.1	.4	.6
S. Africa	—	.1	—	—
Sweden	—	.2	.5	.4
Turkey	—	—	.2	.1
Spain	—	—	1.0	1.0
Total[2]	15.1	30.7	30.8	29.0

1. As of 25 January 1981.
2. Excludes .5 million tons of rice.

Circumvention of Embargo

We have no evidence that large amounts of US grain were diverted through third countries to the USSR. Based on incomplete information we estimate that 500,000 tons of US grain could have gone that route --divided between Romania and northern European transshipping operations. Similar quantities ofUS soybeans and meal were probably transshipped through northern Europe ports

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[redacted]

West European reports claiming large amounts of US grain were transshipped through Eastern Europe are exaggerated and unsubstantiated. Larger East European imports were needed to support livestock production goals because of a shortfall in their 1979 harvests. We estimate that less than a million tons out of East Europe's total import of 17 million tons --3 million more than 1978/79 -- were used to replace exports of domestic grain and transshipments to the USSR. (C)

Over 75 percent of the estimated 8.6 million tons of US grain replaced came from Argentina, Canada, and Australia (see Table 1). Shipments to the USSR in 1979/80 were a record for all of the major exporters except Canada. The other 25 percent was imported from a number of exporters, including Sweden, Thailand, Eastern Europe, and France. (C)

Embargo Imposed Logistical Constraints

The US sanctions added to logistical constraints on the quantity of imported grain and oilseeds the USSR could handle in 1979/80. We estimate the throughput capacity of the ports was reduced by several million tons. Thus, even if more non-US grain had been available, it is doubtful the Soviets could have imported more than the estimated 30 million tons (including soybeans) they were able to purchase during the LTA year 1979/80. (C)

Prior to the embargo, CIA estimated the annual Soviet grain handling capacity of its major ports at 36 million tons. Adding 2-4 million tons in minor ports and for imports by rail gives a total of 38-40 million tons.* Suspending shipments of over 18 million tons of US grains, soybeans, and meal, which would have moved in large bulk ocean carriers, forced the Soviets to buy from a larger number of suppliers who were unable to sustain the same scale of grain movements. The shift away from US deep water ports substantially increased the number of smaller ships arriving in Soviet ports. For example, because of draft limits roughly twice as many ships are needed to move the same quantity of grain out of Argentine ports. Congestion existed at most ports during 1980, with berth throughput rates down and turnaround times up. The increased use of transshipment

* This estimate was also supported in October 1979 by trade sources based on their knowledge of known purchases and delivery schedules for grain and oilseeds worked out with the Soviets for 1979/80. See Appendix for discussion of Soviet port and transport capabilities for handling grain.

facilities in Western Europe, which required the use of large numbers of coasters, also added to congestion in Baltic ports. (S/NF)

Impact of Sanctions on Soviet Livestock Sector

The consequences of reducing grain imports from 36 to 28 million tons because of the embargo have fallen most heavily on the livestock sector. Because port capacity limited imports, even without the embargo the poor 1979 grain and forage crops would have forced the Soviets to make adjustments. Meat production in 1980 probably would have shown no increase and a downward adjustment in growth of livestock inventories also would have been needed to match the reduced feed base. However, the embargo worsened the situation by further limiting grain imports. (U)

The 8.4 million tons of grain denied the Soviets by the embargo would have resulted roughly in an 8 percent reduction in grain available for feed, assuming it was not replaced from stocks. Expressed in another way, this was enough to produce roughly 650,000 tons of pork (carcass weight), equivalent to slightly more than 4 percent of meat output in 1979. Because of a large stock drawdown, however, the total grain available for feeding only dropped an estimated 2 percent in 1979/80. The short feedgrain supplies actually impinged on the livestock sector in three ways -- a lower meat and milk output, lower animal weights, and slower growth in herd numbers. (C)

Meat production in 1980 came to 15.1 million tons -- 3 percent less than last year and 5 percent below the sharply

reduced plan of 15.7 million tons. Livestock inventories at yearend 1980 were roughly equal to those of a year earlier because of a determined campaign to sustain herds in the socialized sector. Poultry is the only category that probably showed much increase in numbers and product output over last year. Given official data for egg production, the poultry sector undoubtedly received priority in the distribution of concentrated feed supplies because of its relatively high efficiency in converting feed into products. (C)

Outlook for 1980/81 Soviet Grain Imports

The USSR will try to import as much grain as possible during 1980/81 to hold down losses in the livestock sector following a second successive poor grain harvest. A 1980 grain harvest of 189 million tons will leave the Soviets far short of requirements.* We also believe Soviet dependence on imports is much greater than a year ago because of smaller grain stocks and a poor potato crop. The estimated stock drawdown of roughly 12

* We estimate a deficit of roughly 40 million tons exists if: (1) livestock herds are not reduced, (2) no additions to grain stocks are made, (3) livestock production is maintained at current levels, and (4) no decrease occurs in non-fuel uses of grain.

million tons in 1979/80 has probably reduced operating stocks to a dangerously low level by Soviet standards.* Additional drawdowns this year may be tempered by Moscow's likely concerns over the uncertain outlook for the 1981 winter grain crop and Western threats of new grain embargo action over Poland. (C)

We expect Moscow to import about 34 million tons of grain in the current LTA year ending September 1981, 6 million tons above 1979/80, even if the US partial embargo continues. Imports will be limited more by port and internal transport constraints than Moscow's ability to buy grain in world markets, especially if Argentina has a good coarse grain harvest this spring. Although grain supplies are tight, the willingness of the Soviets to pay premium prices should attract all the non-US grain they can handle. Moscow also should have no difficulty purchasing some 2-3 million tons of soybeans and meal. So far we estimate the Soviets have purchased or agreed to purchase some 29 million tons of grain and 2 million tons of soybeans, soymeal, and manioc. (C/NF)

The continued effectiveness of the partial US embargo on grain exports is being rapidly eroded by increased sales from other exporting countries and by the Soviet ability to circumvent some of the logistical constraints present during the last LTA year. Only Australia and the EC of the major exporters are cooperating with the US to hold exports at last year's level, but

* The USSR holds an unknown quantity of strategic stocks of grain to supply their military forces and civilian consumers in time of war. This is in addition to operating and buffer stocks accumulated or drawn down in years of good and bad harvest, respectively.

both planned to review this policy after 20 January. US diplomatic representations that the embargo was important as a continuing sign of disapproval to the Russians have been undercut by the signing of the US-China grain agreement. Both Canada and Australia regard that agreement as a violation of the US pledge not to increase grain sales to their traditional markets during the embargo. (C)

In the marketing year ending 30 June 1981 (MY 1981), the 12-month period normally used to analyze feed availability, Soviet grain imports will be limited to about 31 million tons plus 2-3 million tons of oilseeds and bulk feeds or roughly the same as MY 1980. This reduced level of grain import compared to the 34 million tons projected for the LTA year ending 30September 1981 reflects the continued adverse impact of January's partial-embargo on both availability of grain from non-US sources and congestion at Soviet ports in the July-December 1980 period.* Despite the logistical constraints we expect Moscow to contract

* During this period we estimate that a total of only 17 million tons of grain, soybeans and meal were unloaded at Soviet ports or transported by rail from Europe. Without the embargo we expected the USSR to import upwards of 20 million tons in this period. Thus another 17 million tons will have to be imported in the first half of 1981 to achieve our total estimate of 33-34 million tons for MY 1981. (C)

We believe the Soviet ports will be hard pressed to handle more than 17 million tons of grain and oilseeds during January-June 1981. This period includes the usual severe winter months of January-March that normally reduces the number of active Baltic ports, slows offloading operations, and disrupts rail transport. For the first time, the Soviets have chartered six grain ships with ice cutters in an apparent effort to maximize imports this winter through Baltic ports. Reliable trade sources also claim there must be no hitches in shipping schedules from the ports of two major western suppliers, Argentina and Canada.

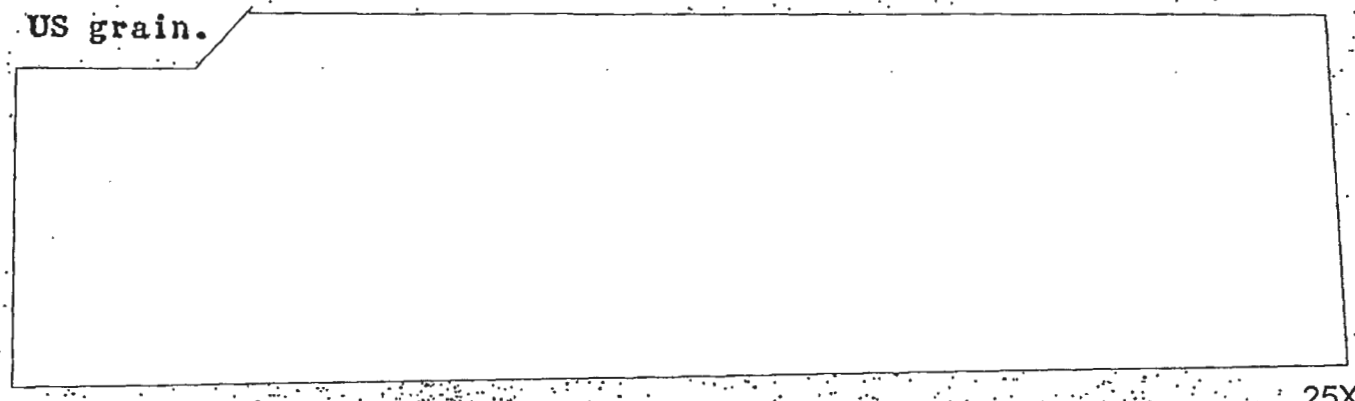
for delivery in MY 1981 for more than 31 million tons of grain to ensure adequate supplies should unforeseen shipping delays by selected exporters develop. The USSR has already purchased over 28 million tons of grain plus 2 million of soybeans and bulk feeds for delivery by 30 June 1981. (C/NF)

Lifting the Embargo

Should the United States lift the partial embargo on grain this month, the Soviets could help ease port congestion by rescheduling larger bottoms to move it and stretch out or reduce deliveries of Argentine grain. For the same reason, if no longer embargoed, US soybean meal would be imported directly rather than transshipped or processed through West European suppliers. These measures would have little impact on total imports in the first half of 1981, but by the third quarter of the year they might ease the port problem enough to raise grain import potential by some 2 million tons. The railroad system hauling grain away from the ports, however, would have to be assigned a higher priority to move the additional grain to interior locations. Problems of rail car shortages at Odessa, the largest Soviet port, indicate that such a priority has yet to be assigned to hauling grain. (S/NF)

Moscow would be interested in additional quantities of US corn rather than wheat. We would expect Moscow to immediately purchase for nearby delivery several million tons of corn, if made available, and cut back or delay shipments of Argentine wheat and possibly sorghum. Shifting to US grain could substantially reduce Moscow's costs by lowering shipping charges

and largely eliminating current high premiums being paid for non-US grain.



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Impact of Continued Embargo on Livestock Sector, 1981

Following a second successive poor grain crop -- estimated at 189 million tons -- the Soviet feed grain problem will be worse this marketing year. The use of grain stocks will be limited by the large drawdown last year necessitated to a large extent by the embargo. Given the level of projected grain imports for 1980/81, as outlined above, and no stock drawdown, we estimate that grain available for feed use could be down roughly 5 percent from a year ago. If the Soviets allow livestock herds to decline, we believe 1981 meat production would roughly equal the 1980 level of 15.1 million tons. Alternatively, should the Soviets attempt to maintain herds on the assumption of a return to normal grain crops in 1981, meat production could drop to 14.5 million tons, or 3 percent. If the US rescinded the partial embargo on grain another 100,000 tons of meat might be produced in 1981 from the net increase in imported grain. (C)

* The Soviet agency responsible for purchasing foreign grain.

Meat shortages will be serious during 1981 with or without an embargo. Moscow can be expected to be active in international markets for large meat imports to help fill the gap. We estimate that Soviet meat imports reached at least 700,000 tons in calendar year 1980 -- a record -- and could approach one million tons this year. (S/NF)

APPENDIX

Transport Constraints on Soviet Grain Imports

In addition to external grain market conditions, the amount of grain that can be imported annually by the USSR is constrained by three key transportation factors:

- the capacity ofSoviet ports to offload grain;
- the limited ability of the internal Soviet transportation network -- primarily the railroads --to haul the grain from the ports to storage areas; and,
- Soviet grain storage capacity. (U)

Soviet Port Capacity

We estimate that Soviet ports could handle as much as 36 million metric tons* of grain imports over 12 months without serious problems. The four main Soviet ports -- Odessa, Leningrad, Ilichevsk, and Novorossiysk -- have a combined annual capacity to import grain in excess of 24 million tons. This rate was observed during 1973, 1975, and recently when grain imports reached historic peaks. We also know of 14 other Soviet ports that have been used to unload grain and these are factored into our total estimate (see Table A-1). (S)

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* To estimate grain handling capacity at selected Soviet ports, the following factors were considered:

- Total number of berths used for grain imports at 18 ports (total of around 70).
- Grain unloading rate (has ranged from 1,500 to 8,000 tons per day.
- Ship turnaround time and average deliveries (current average turnaround of 20.3 days and average load of 17.3 tons).
- Port working hours (assumes two 8-hour shifts).

The task of handling large quantities of grain up to port capacity is difficult. The Soviets have a barely adequate inventory of excess railroad cars to move grain imports inland and have had difficulty in developing efficient transportation schedules from the port to internal storage areas. Moreover, the entire Soviet rail system suffers from poor management. (C)

The USSR major grain ports are currently working the same number of ships as during the peak periods of past lifts, but are operating at reduced efficiency. The maximum number of berths currently used for grain is near historic highs, but the average load delivered is down while turnaround time is up (see Table A-2). There are several factors contributing to this inefficient performance.

- o The US embargo, which has forced Moscow to increase grain imports from Argentina. Such imports must move on smaller ships due to draft restrictions at Argentine grain ports compared to US Gulf ports. This has increased the number of ships that must now be handled at Soviet ports to deliver a given quantity of grain and led, in some cases, to longer turnaround times.
- o Continued problems in the USSR with railcar availability, especially those designed to carry grain.
- o Increased transshipment of grain on Soviet account in Antwerp, Hamburg, and Rotterdam for delivery by small coastal vessels to river and sea ports in the Soviet Baltic area, which has increased congestion there.

- o Ongoing Soviet labor and management problems in coordinating the grain import program.

Internal Transportation Constraints

The Soviet transportation system moves a large volume of grain annually in conjunction with the domestic harvest and the distribution of imported grain. The overwhelming share is transported by rail -- the primary mode of transportation in the Soviet Union; some 93 percent of all grain tonnage was shipped by rail in 1975 while only six percent were transported on the rivers. (U)

Until the early to mid-1970s, when nearly all economic activity was concentrated west of the Urals, railroads were able to handle the increased demand for freight and passenger services along with the growth of the Soviet economy. In recent years, however, the continued growth of the economy, the geographical shift in demand for longer-haul freight services as Soviet dependence on Siberian resources has increased, and the relative neglect of the railroads in the allocation of investment resources have severely strained the capacity and flexibility of the rail system. Shocks to the rail system, such as surges in demand for rail transport services in connection with larger grain imports and transit traffic to Iran have resulted in disruptions, delays, and tempory embargoes. (S)

While the Soviet rail system serving the grain ports has sufficient capacity to handle more than the 36 million tons of grain that the ports can handle, the actual operation of the rail system is stretched so tightly that any additional strain would

lead to further deterioration in performance. The current strains in the system are reflected in several ways.

- o Rail car turnaround time is increasing rapidly, leading to inefficient fleet utilization.
- o Labor productivity on the railroads is declining.
- o Train speeds are slowing.
- o The annual rate of increase in traffic hauled is stagnating.

Only by enhanced rail productivity (decreased turnaround time, increased average loads, shorter average length of haul), improved management (particularly more efficient scheduling and allocation of rail cars and locomotives), and by not moving low-priority items or assigning these to other transport modes can the rail system relax some of its tautness and be able to accept the movement of additional grain. (U)

Moscow must make a decision on economic priorities for this to occur. If the internal grain supply situation becomes critical enough, we feel that the Soviets will divert non-essential trade and allocate the required transport assets to do so. The drawback to such an undertaking, however, would be disruptions to the domestic economy. (U)

Table A-1

USSR: Unloading Capacity at Grain Ports

	Maximum Number of Berths Used for Grain	Average Daily Unloading Rate Per Berth (Tons)	Total Daily Grain Unloading Capacity (Tons)
Black Sea			
Odessa	8	2500	20,000
Novorossiysk	7	2500	17,500
Ilichevsk	7	2500	17,500
Nikolayev	3	1750	5,250
Poti	2	1750	3,500
Tuapse	3	1750	5,250
Batumi	1	1750	1,750
Kherson	3	1750	5,250
Zhednov	2	1750	3,500
Baltic			
Leningrad	8	2500	20,000
Klaipeda	5	1750	8,750
Riga	4	1750	7,000
Ventspils	3	1750	5,250
Talliman	2	1750	3,500
Baltiysk	3	1750	5,250
Kaliningrad	6	1750	10,500
Pacific			
Nakhodka	3	1750	5,250
Vladivostok	3	1750	5,250

150,250 tons/day
x 240 day year
= 36,060,000 tons/year
(S)

Table A-2

Soviet Grain Ports: Average Load and Average Turnaround Time

Annual Average	Load (thousand tons)	Turnaround Time (number of days)	Turnaround (during peak impo
1973	24.7	15.5	22.7
1975	32.0	19.7	35.9
1979	31.1	18.7	--
1980 (Jan-Nov)	18.1	21.4	--

(S)