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Collection Name EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE

Withdrawer

KDB 9/22/2015

File Folder USSR - GRAIN EMBARGO (2/3/81) (3)

FOIA

F03-002/5

Box Number 20

SKINNER

165

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
169603	CABLE	MOSCOW 1490 (TEXT OF CABLE)	6	2/2/1981	B1
169604	REPORT	RE USSR ECONOMY (INCL. COVER SHEET) PAR 10/11/2010 CREST NLR-748-20-126-2-4	11	1/28/1981	B1
169605	REPORT	RE USSR/GRAIN EMBARGO R 1/13/2012 CREST NLR-748-20-126-3-3	3	2/3/1981	B1
169606	ARTICLE	NEWS ARTICLE R 1/13/2012 CREST NLR-748-20-126-4-2	1	ND	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

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E

THE WHITE HOUSE

WASHINGTON

~~SECRET ATTACHMENT~~

February 3, 1981

UNCLASSIFIED UPON REMOVAL
OF CLASSIFIED ENCLOSURE(S)

9/22/15 COB

MEMORANDUM FOR: SECRETARY OF STATE
SECRETARY OF AGRICULTURE
SECRETARY OF COMMERCE
U.S. TRADE REPRESENTATIVE

SUBJECT: Partial Grain Embargo

Attachment for your information is a cable concerning Embassy Moscow's recommendations on the partial grain embargo.



Richard V. Allen
Assistant to the President
for National Security Affairs

Attachment

~~SECRET ATTACHMENT~~

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THE WHITE HOUSE
WASHINGTON

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UPON REMOVAL
ENCLOSURE(S)
January 29, 1981

9/27/85
EOD

MEMORANDUM FOR: RICHARD V. ALLEN
FROM: JANET COLSON
SUBJECT: Report from CIA

The attached report was LDX'd to the Situation Room last night. A copy has been provided to Ed Meese.

~~SECRET/KEYWORD ATTACHMENT~~

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(Security Classification)

ROUTING			
TO	NAME AND ADDRESS	DATE	INITIALS
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2			
3			
4			
	ACTION	DIRECT REPLY	PREPARE REPLY
	APPROVAL	DISPATCH	RECOMMENDATION
	COMMENT	FILE	RETURN
	CONCURRENCE	INFORMATION	SIGNATURE
REMARKS:			
USSR: Economic Denial Situation Report No. 35			
FROM: NAME, ADDRESS, AND PHONE NO.			DATE
MAURICE C. ERNST Director, Economic Research			

CONTROL NO

[Redacted]

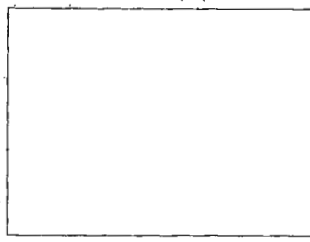
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28 JAN 1981

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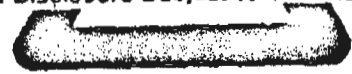
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BY *CN* NARA DATE *1/13/12*

SECRET

(Security Classification)

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**CENTRAL INTELLIGENCE AGENCY
NATIONAL FOREIGN ASSESSMENT CENTER**

169604

28 January 1980

USSR: ECONOMIC DENIAL SITUATION REPORT No. 35

Key Points

Grain: We can confirm Soviet purchases of 450,000 tons of grains from Spain during the past two weeks for delivery to the USSR by 30 September 1981. Also, our estimate of total EC sales has been raised by 300,000 tons to reflect the Community's recent decision to allow shipments of barley previously sold but scheduled for delivery after 30 September. With the changes, our estimate of USSR purchases now stands at 29.8 million tons-- 800,000 tons higher than our previous estimate. (C ~~NP NC~~)

Equipment Negotiations: A \$90-million sale of pipelayers by a US firm to the USSR for the West Siberian gas pipeline project could be interpreted by the Europeans and the Japanese, as US approval of the project. In other matters, West German engineers believe that their firm may have overcommitted itself for the Bayansk aluminum smelter after its US partner withdrew from the project. The engineers now doubt that the plant can begin operations before 1988--4 years behind the original schedule. ~~(C NP NC)~~

Addendum: USSR: Adjusting to the US Grain Embargo

This memorandum was prepared by the Office of Economic Research and was coordinated by the Office of Political Analysis. Comments and queries should be addressed [redacted].

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ERM 81-10035C

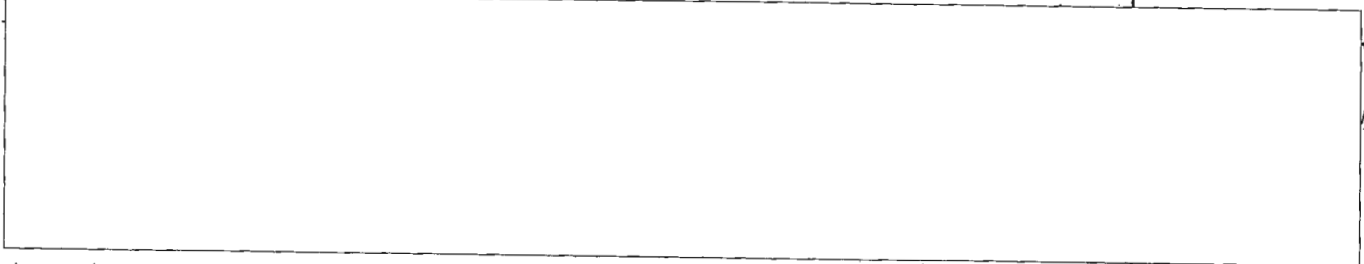
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Grain Activity

We can confirm Soviet purchases during the past two weeks of an additional 450,000 tons of barley and wheat from Spain the total to 1.45 million tons, for delivery to the USSR by 30 September. (Madrid now has sold 1.45 million tons of grain to the USSR.) We have also raised total EC grain sales to the USSR by 300,000 tons to--1.8 million tons--to reflect the Community's recent decision to allow the delivery of barley shipments previously sold to the USSR. These transactions raise total sales to the USSR this LTA year--to 29.8 million tons. Included in the grain totals to date are especially large quantities of wheat flour--1 million tons from the EC and about 300,000 tons from Spain. Moscow is actively scouring the market for an additional 250,000 tons of flour. About 400,000 tons of the quantity already purchased will be shipped to client states. (25X1 NF NC)



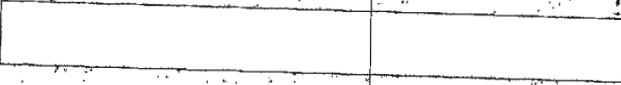
Brazil, which is emerging as a substantial supplier of soybeans and soybean meal to the Soviet Union, has bought 75,000 tons of US soybeans and may buy another 150,000 tons according to a trader. While Brazil has imported US beans in the past, some traders believe Brazil may crush the beans for export to the USSR to help fulfill existing contracts. EC soybean crushers engaged in similar activity last year. [redacted] Soviet purchases of soybean meal/pellets from Brazil as high as 500,000 tons. (C NF NC) (25X1)

Official Farm Output Data

The Soviet economic wrap-up for 1980 announced last week confirms the gloomy preliminary figures for the farm sector released in December. Grain output at 189.2 million tons, almost 50 million tons below plan, although 10 million tons better than the disastrous 1979 harvest: The harvests of sugar beets, sunflower seeds, and potatoes were also disappointing (see tabulation below). In the crucial livestock sector, feed shortages throughout the year resulted in a 3-percent drop in meat and milk output and near stagnation in the growth of herds. (U)

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USSR: Recent Agricultural Performance

	<u>1979</u>	<u>1980</u>	<u>Average Annual 1976-80</u>
Net value of output (percent change)	-5.8	-4.5	1.1
Crops (million tons)			
Grain	179.2	189.2	205.0
Sugar beets	76.2	79.6	83.4
Sunflower seed	5.4	4.6	5.3
Potatoes	91.0	66.9	82.5
Vegetables	27.2	25.9	26.0
Cotton	9.16	9.96	8.93
Livestock (million tons)			
Meat	15.5	15.1	14.9
Milk	93.3	90.7	92.7
Eggs (billion)	65.6	67.7	63.0

Source: Official Soviet Data

Delays at Sayansk

Only months after winning a \$300 million contract for an aluminum complex at Sayansk, engineers at the West German firm Kloeckner are admitting that the firm may have overcommitted itself in rushing to sign the deal after Alcoa withdrew from the project last January. As a result, they doubt the project can be completed before 1988--four years after the original target date. This slippage apparently is the result of unforeseen shortages of trained Kloeckner personnel and likely delays in equipment delivery timetables. Observers familiar with the contract believe that the firm may also have underestimated construction costs, a mistake that could prove troublesome if the Soviets, as expected, try to push additional costs on to Kloeckner during future contract review talks. (C-INT)

Siberian Gas Pipeline Project Still Alive

Recent press reports that the proposed West Siberia-to-Western Europe natural gas pipeline project has been jeopardized by Soviet negotiating tactics appear unfounded. Although negotiations over technical and financial terms are moving slowly

both sides still appear interested in the project. Meanwhile, the signing of a major contract with a US

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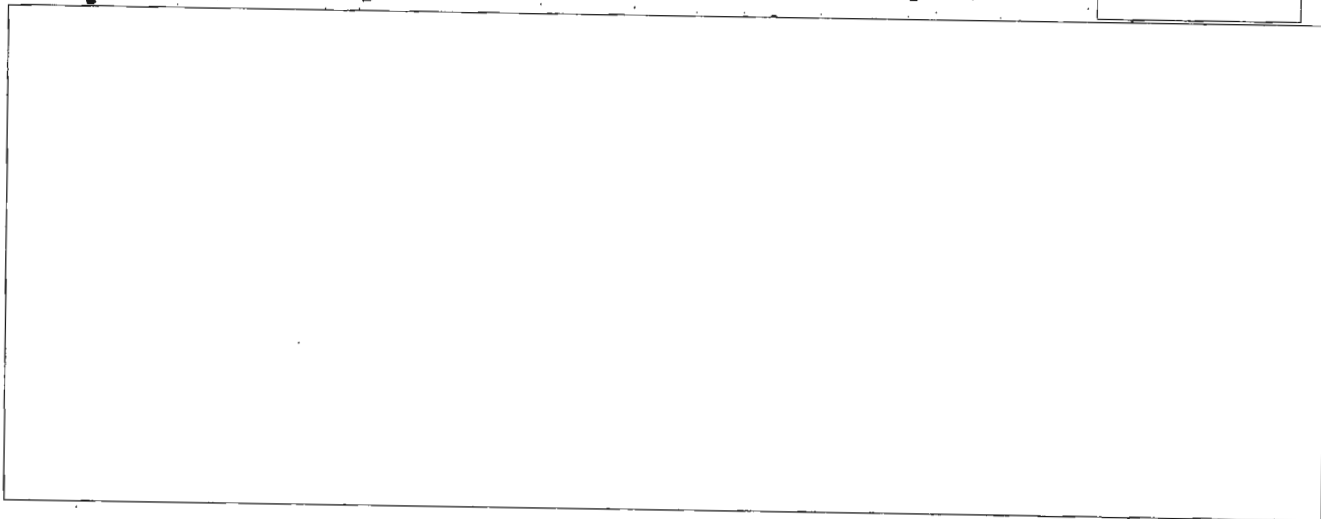


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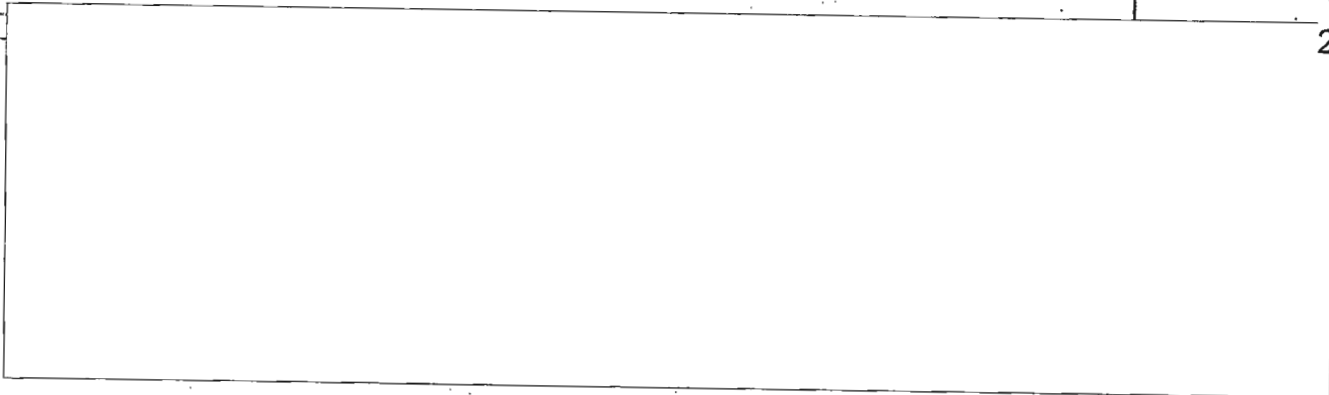
firm--for \$90 million worth of pipelayers with financing at below market rates--could be interpreted by both the Europeans and the Japanese as a signal that the US favors the project.

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Germans Still Negotiating: Negotiations between the German bankers and businessmen and Soviet officials, which resumed Wednesday, are likely to proceed slowly at best, with none of the key issues likely to be resolved. The two sides remain far apart on negotiating priorities. The Soviets are trying to nail down credit terms first while the Germans seemingly are more concerned with resolving gas pricing and equipment purchase issues. (U)

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Project Specs: West German businessmen believe that the Soviets will eventually opt for a twin 75 atmosphere line instead of a single 100 atmosphere line because of technical considerations. According to US experts, the hard currency cost of the project, depending upon the number of lines and their locations, will be roughly \$6-8 billion. This is considerably less than the approximately \$15 billion in Western credits that Moscow is lining up. (C)

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Soviet Indecision Affecting Trade

Outside of the Siberian gas pipeline project, Soviet trade-related activities continue to ebb. Although the current lull partly reflects a wait-and-see attitude by Moscow toward the change in US administrations, it could stem equally from Soviet delays, possible conflicts in decision making, and uncertainty about the future role of trade so evident in the recently published draft guidelines for the 11th Five Year Plan (1981-85). The guidelines suggest strongly, for example, that the Plan remains substantially unformulated beyond 1981 and that difficult problems of choice, priority, and policy have not been resolved in key economic areas. Until some of these more fundamental issues are settled, we would expect trade with the West to remain low keyed. (C)

British to Thaw Trade Ties?

The slow but sure move by the West toward normalizing trade relations with the Soviets is evidenced by this week's visit of a British trade official to Moscow. The British--one of the staunchest supporters of economic denial measures against the USSR--are seeking to resume the meetings of the UK-Soviet Economic Joint Commission, which have been in suspension since the Afghanistan invasion. Although minimizing the significance of the visit, the Department of Trade cited as motivation the languishing of UK-Soviet ties and a desire not to be left behind on USSR trade, a common theme of both the Europeans and the Japanese. In light of declining British competitiveness, the potential for a real spurt in trade appears thin even if UK-USSR trade links are strengthened. (C)

Nine Month Hard Currency Trade Worsens

Substantially higher imports of agricultural products--at premium prices--pushed Soviet hard currency trade deeper in the hole in January-September 1980, when the deficit totalled \$2.8 billion or nearly \$500 million more than in the first nine months of 1979. (U)

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USSR: Hard Currency Trade

Million US \$

	Jan-Sept 1979			Jan-Sept 1980		
	Exports	Imports	Balance	Exports	Imports	Balance
Canada	38	330	-292	33	952	-919
Argentina	31	348	-317	42	1,381	-1,339
Australia	6	345	-339	6	913	-907
France	1,410	1,413	- 3	2,444	1,915	529
West Germany	2,115	2,611	-496	2,851	3,510	-659
Japan	967	1,852	-885	1,108	1,961	-853
Italy	1,298	934	364	2,274	1,004	1,270
U K	1,099	880	219	868	1,128	-260
U S	311	2,620	-2,289	153	1,367	-1,214
Other	5,860	4,132	1,728	6,981	5,415	1,566
<u>Total</u>	13,155	15,465	-2,310	16,760	19,546	-2,786

Source: Official Soviet Statistics

More than one-third of the rise in total Soviet hard currency imports in the first nine months of 1980 was the result of increased purchases of agricultural products and foodstuffs. Although US agricultural sales dropped \$1.5 billion, such imports from other Western countries skyrocketed by roughly \$3 billion. Soviet data show that imports from Argentina, Australia, and Canada alone rose by \$2.2 billion. Western trade data indicate that agricultural deliveries from France and West Germany increased by nearly \$600 million. (U)

Increased Soviet purchases of chemicals--mainly from France, Japan, and West Germany--accounted for another large chunk of the rise in Soviet hard currency imports. Price increases caused roughly half of the growth in chemical imports. Meanwhile, Soviet imports of capital goods appear to have dropped, a trend consistent with declining orders of equipment and machinery since 1977. Imports of steel products (including large-diameter pipe) also fell because of contract delays caused by Western sanctions. (U)

Export performance was dominated as usual by oil sales. Although the volume of sales of crude oil and oil products was down slightly, earnings were up sharply as Moscow benefitted from the run-up in OPEC oil prices. Earnings from natural gas also rose substantially as both amounts delivered and prices increased. Soviet exports of other commodities appears to have increased little if at all. (U)

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Based on the trends to date, we expect trade deficit to total about \$3 billion, as compared with \$2.1 billion in the previous year. The trade results and sharply reduced sales of gold could push the current account surplus down from almost \$4 billion in 1979 to less than \$2 billion in 1980. (U)

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Table 1

USSR: Total Grain Imports for 1976/77-1980/81

The following table shows estimated Soviet grain imports (excluding rice) for the 1976/77 through 1980/81 LTA years.

(million tons)

Exporters	Total LTA Deliveries				1980/81	
	1976/77	1977/78	1978/79	Estimated 1979/80	Forecast	Actual Sales or Agreements to Date
US	6.1	14.8	15.3	8.40	8.0	8.0
Canada	1.5	2.7	1.9	4.30	6.5	6.5
Australia	.5	.3	.6	4.40	3.5	3.3
E C	—	—	.2	1.60	2.1	1.8 ^{1,2}
Argentina	.23 ³	3.2	1.6	6.00	10.0	7.0
E. Europe	.4 ³	.22 ³	.7 ³	1.80	1.8	.8
Thailand	—	—	.02	.10	.4	.4
S. Africa	—	—	—	.10	—	—
Sweden	—	—	—	.30	.6	.4
Turkey	—	—	—	.10	.2	.1
N. Zealand	—	—	—	.04	—	—
Brazil	.06	.16	—	—	—	—
Spain	—	—	—	—	1.0	1.5 ⁵
Total	8.79	21.38	20.32	27.64⁴	34.1	29.8

¹ Includes wheat flour.

² Includes 500,000 tons mixed feed, at least 50 percent of which is grain.

³ Calculated from calendar year statistics.

⁴ Includes an assumed but undocumented 500,000 tons received through diversion.

⁵ Includes wheat flour destined for client states.

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AddendumUSSR: Adjusting to the US Grain Embargo*

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 before 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 stocks--or an amount sufficient to produce 650,000 tons of pork (carcass weight), equal to about 4 percent of meat production in 1979. The Soviets, however, by drawing down stocks were able to hold the drop in grain fed to livestock as well as meat production at 2-3 percent. The combination of low stock levels and last year's mediocre harvest has left Moscow more dependent on grain imports. We estimate that to maintain 1981 livestock production at the 1980 level would require imports of 40 million tons of grain during the 1980/81 LTA year. Such a high level of imports 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 tons US--to match their handling capacity of 34 million tons in the year ending 30 September 1981. Support for the embargo among our Allies has so eroded that 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 of 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 countries. Moscow would then be able to use larger ships to carry grain, reducing shipping costs and easing congestion at Soviet ports. (C-NP)

* The addendum summarizes the major findings of a forthcoming Intelligence Assessment, USSR: Adjusting to the US Grain Embargo.

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Per capita production of meat in calendar 1981 will be down for the third consecutive year. Meat production is forecast to be no more, and possibly less, than last year, when it dropped 3 percent below 1979. Before the embargo we had projected 1980 meat production at the 1979 level. The dominant problem for Soviet meat production in 1981 is the second successive bad harvest of grain and other feeds. Continuing the US partial embargo on grain would have little effect on the livestock sector. (C)

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Office of Economic Research,
CIA

3 February 1981

USSR: Adjusting to the US Grain Embargo

Background

During the 1979/80 LTA (Long Term Agreement) year that ended September 30, 1980, US sanctions limited US grain shipments to 8 million tons and cut off all US soybean shipments to the USSR:

- in part because of the sudden imposition of US embargo part way into the LTA year, the Soviets were able to replace only about half the grain (but most of the soybeans) denied by the US; and
- total Soviet imports of grain and soybeans for the 1979/80 LTA year were therefore only 30 million tons instead of the 38 million tons planned by Moscow.

Although the Soviets' capacity for handling imported grain and soybeans is estimated to be 38-40 million tons, serious difficulties were encountered in handling the 30 million tons of grain and soybeans imported last year:

- the US embargo forced the Soviets to increase imports from Argentina, requiring the use of smaller, shallower-draft vessels; as a result, turnaround time in Soviet ports was slowed and total effective port capacity was reduced to roughly 30 million tons; and
- the poorly managed Soviet internal transportation system has barely enough railroad cars to handle movement of imported grain to internal storage areas; disruption of normal traffic resulted last fall as grain shipments and other priority traffic competed for scarce rolling stock.

The combined effect of the US embargo and the Soviet shortfall in grain and fodder production last year reduced Soviet meat production by 3 percent.

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NLRR *Crest* *NL 748-70-126-33*

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BY *CN* *NARA DATA* *13/12*

A key element in the Soviets' being able to import only 28 million tons of grain in the 1979/80 LTA year was the willingness of other suppliers to cooperate with the US embargo. The spirit of cooperation is, however, flagging badly because of:

- a lessened sense of relevance as events in Afghanistan recede in the consciousness;
- the perception that Moscow can circumvent the embargo to a major degree; and
- Canadian and Australian feelings that the US-China LTA constitutes a breach of the US pledge not to increase sales in their traditional market during the embargo.

Outlook

The USSR will try to import as much grain as possible during the 1980/81 LTA year in order to hold down losses in the livestock sector:

- working stocks of grain must be at very low levels after the disastrous crops of 1979 and 1980 and the 1980 shortfall in grain imports;
- the poor potato crop of 1980 places increased reliance on grain for feeding livestock; and
- the uncertain outlook for the 1981 winter grain crop and Western threats of sanctions relating to possible developments in Poland are a spur to the search for imports.

If the US partial embargo is continued, the Soviets should be able to obtain enough grain in world markets--including 8 million tons under the LTA with the US--to import about 34 million tons in the year ending September 30, 1981. This amount is roughly equal to their current grain-handling capacity:

- support for the US 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; and

~~CONFIDENTIAL~~

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- the USSR should have no difficulty in purchasing 2-3 million tons of soybeans and products (including some of US origin obtained through West European firms).

If the US embargo were lifted, the Soviets would take additional quantities of US corn and soybeans (according to availability) and cancel or defer some shipments from other sources. Such a move would enable Moscow to use larger ships to carry grain coming from US ports, with the result that:

- both purchase costs and shipping costs would be reduced;
- congestion at Soviet ports would be eased and some additional increase in the effective capacity of Soviet ports would be realized;
- overall grain imports would rise by about 2 million tons; and
- most importantly, uncertainty would be eliminated concerning Soviet access to US supplies of grain in years when Canadian, Australian, and Argentine crops are poor.

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GRAIN EMBARGO

BY R. GREGORY NOKES

WASHINGTON (AP) -- FOOD PROVED TO BE AN EFFECTIVE WEAPON IN THE CONFRONTATION WITH THE SOVIET UNION, ACCORDING TO U.S. OFFICIALS WHO SUPERVISE THE EMBARGO OF GRAIN SHIPMENTS. THE EMBARGO, THEY SAY, ACHIEVED ITS LIMITED OBJECTIVE: GUMMING UP -- SLIGHTLY -- THE SOVIET ECONOMY.

ONE OFFICIAL, IN TYPICAL WASHINGTONese, DESCRIBED PART OF THE IMPACT AS 'A DISCOMBOBULATION OF THE LIVESTOCK SECTOR' IN RUSSIA.

THIS WEEK, PRESIDENT REAGAN IS HEADING A CABINET-LEVEL REVIEW OF THE EMBARGO. AT HIS NEWS CONFERENCE LAST THURSDAY, REAGAN SUGGESTED FOR THE FIRST TIME THAT THE EMBARGO COULD BE EXPANDED. 'YOU HAVE TWO CHOICES. YOU EITHER LIFT IT, OR YOU BROADEN IT, AND WE HAVE NOT MADE A DECISION.'

THE CABINET DEBATE MAY GO ALONG THESE LINES:

--END THE EMBARGO: REAGAN PLEDGED DURING HIS ELECTION CAMPAIGN TO LIFT THE EMBARGO TO WOO THE FARM VOTE AND THERE IS PRESSURE ON HIM TO DELIVER ON HIS PROMISE. MOREOVER, THE SAME U.S. OFFICIALS WHO BELIEVE THE EMBARGO HAD A USEFUL IMPACT IN 1980 SAY IT MAY NOT MAKE MUCH OF A DENT IN 1981 BECAUSE THE SOVIETS HAVE FOUND OTHER SOURCES OF SUPPLY, ESPECIALLY FROM ARGENTINA.

--EXPAND OR RETAIN THE EMBARGO: DESPITE THE EMBARRASSING POLITICAL REVERSAL, SOME ADVISERS ARE TELLING REAGAN THAT WITH SOVIET TROOPS MASSES ON THE POLISH BORDER, THIS IS HARDLY THE TIME TO LIFT THE SANCTIONS IMPOSED AFTER THE RED ARMY MOVED INTO AFGHANISTAN. AT THE LEAST, THESE ADVISERS INSIST, REAGAN SHOULD INSIST ON GETTING SOMETHING IN RETURN FROM THE SOVIETS.

NOT ONLY THAT, BUT LIFTING THE EMBARGO WOULD DEplete U.S. GRAIN RESERVES AND PROMPT AN INCREASE IN CONSUMER FOOD PRICES, THEY ADD.

THE EMBARGO WAS IMPOSED BY FORMER PRESIDENT CARTER ON JAN. 4, 1980, FOLLOWING THE SOVIET THRUST INTO AFGHANISTAN. CARTER EXTENDED IT INTO A SECOND YEAR SHORTLY BEFORE HE LEFT OFFICE.

WHILE THE EMBARGO HAS BEEN CRITICIZED AS INEFFECTIVE, A STATE DEPARTMENT OFFICIAL SAID THE CRITICISM SEEMS TO COME FROM PEOPLE WHO THOUGHT ITS PURPOSE WAS TO FORCE THE SOVIETS TO WITHDRAW FROM AFGHANISTAN.

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BY CW NARA DATE 1/13/12

