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SC-11009/63-a

10 October 1963

MEMORANDUM FOR: The Honorable W. Averell Harriman
Under Secretary for Political Affairs
Department of State
Washington, D. C.

SUBJECT: Comments on INR Memorandum Entitled "Soviet
Maneuvering on Wheat Deal with US" (RSB-133,
October 2, 1963)

The attached subject comments were prepared before the
President's announcement of the wheat sale yesterday. Never-
theless, I thought they might be of some interest to you.

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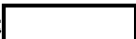


Deputy Assistant Director

Enclosure:
Subject Comments

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OAD/RR:  :wxn/7581 (10 Oct 63)

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SC-11009/63

9 October 1963

MEMORANDUM FOR: Deputy Director (Intelligence)

SUBJECT: Comments on INR Memorandum Entitled "Soviet
Maneuvering on Wheat Deal with US" (RSB-133,
October 2, 1963)

1. Our first concern with the subject memorandum is the implication in the section headed "Current Soviet Tactics" that the Soviets might feel they could use their interest in purchasing US wheat as leverage for bringing about changes in US policy that would result in more general relaxation in US-Soviet trade. We do not believe that the Soviets would make a serious effort to negotiate with the US in this context. They are in a poor bargaining position, although other Free World sources could probably supply some of the additional wheat required in the months ahead, as suggested in the subject memorandum. The Soviets have a better understanding of the problems they face with respect to trade with the United States than they may be given credit for. At the same time, it seems clear that they will not make official overtures until they are advised that the US will sell at acceptable prices, presumably at world market prices. The Soviets are probably able and may be willing to pay cash, even though commercial credit comparable to Canadian terms is said to be available without changes in US legislation. In any event, we would not expect the Soviets to use a wheat deal for obtaining political concessions.

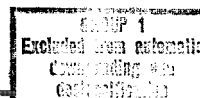
2. We have no direct evidence regarding the degree to which the Soviet wheat reserves have been depleted, but the urgency of Soviet demands for purchases strongly suggests that reserves are very low. We have recently had several Soviet admissions to corroborate our estimates of poor crop prospects this year in the USSR. For example, a Soviet official reported a few days ago that Kuznetsk, heart of the important "New Lands" grain-growing area, would bring in a harvest of less than four bushels of wheat per acre. Last year's Soviet crop was about ten bushels per acre.

3. No question whether the Canadian and Australian wheat deals, as the subject memorandum says, may take care of Soviet requirements for domestic consumption, essential exports, and possibly may provide for some replenishment of reserves. The Soviets have already extricated themselves from delivery contracts

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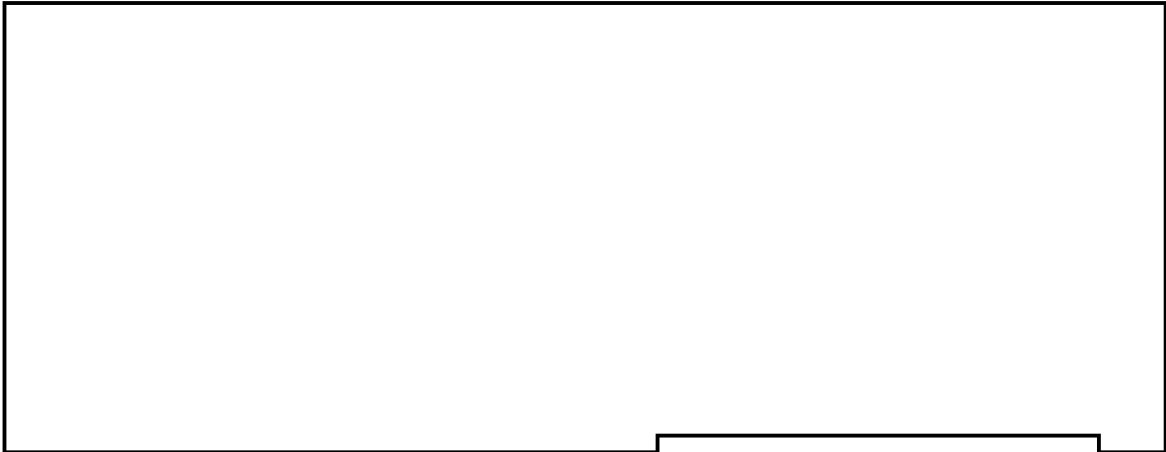
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to Western European countries. We believe that, unless they obtain wheat in the US, the Soviets may find it necessary to reduce wheat exports to the European Satellites, Brazil, India, and Egypt below their present commitments to avoid a shortage in food supplies in the Soviet Union. The leadership is undoubtedly aware that such shortages could lead to new civil disturbances more widespread than those in 1962.



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~~OTTO H. GUTHE~~
Assistant Director
Research and Reports

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<p>Pls note Mr. Cline's request for brief comments.</p> <p><i>Prepared in draft, please DEG</i></p> <p><i>Copies sent 10/24/63 from DAD to Thompson, Hillhouse, Harriman, Trivette</i></p> <p><i>Memo to DD/H, "Comments on" dated 9 Oct (SC 11009/63)</i></p>		
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DEPARTMENT OF STATE
BUREAU OF INTELLIGENCE AND RESEARCH

McClure
McCoy

Research Memorandum
RSB-133, October 2, 1963

TO : The Acting Secretary
THROUGH: S/S
FROM : DNR - Thomas L. Hughes *TH*

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SUBJECT: Soviet Maneuvering on Wheat Deal with US

Despite indications that the Soviets wish to buy large quantities of US wheat, the urgency of their need for additional wheat and the scope of their objectives is unclear. This paper sets forth our view that (a) the Soviets have some leeway in bargaining with the US because their immediate requirements for additional wheat are not urgent, and (b) they will probably try to use the wheat question to gain a more general relaxation in US restrictions on US-Soviet trade.

Estimated Degree of Soviet Need

Our tentative estimate of this year's Soviet wheat crop suggests that present availabilities, including the most recent purchases totaling about 8 million tons from Canada and Australia, should take care of domestic consumption, essential exports, and possibly some replenishment of reserves.

There have been indications, however, that the Soviets are interested in buying additional large quantities of wheat. Soviet negotiators indicated to the Canadians that they might be interested in a total of 10 to 11 million tons. Private US wheat traders who talked to the Soviets in Canada have indicated that the USSR would be interested in buying 3 million tons of wheat from the US.

Any additional wheat sought by the Soviets would probably be used for building up Soviet reserves, for exports to Eastern Europe, and possibly for exports to certain free-world customers. Even if existing commitments to Eastern Europe could be fulfilled with present Soviet supplies, these countries will need additional quantities of grain this year on account of a mediocre crop and the Soviet Union will be under pressure to meet at least part of these additional requirements.

In some instances, wheat exports play a role in Soviet tactics in dealing with free-world countries; the recently concluded Soviet-Brazilian trade agreement, for example, provided that the USSR would step up exports of wheat to Brazil from about 400,000 tons in 1962 to 500,000 tons this

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year and 600,000 tons in 1964. Moscow will probably have to withdraw temporarily as a wheat exporter to the principal West European countries; there have been indications that the Soviets are extricating themselves from delivery contracts in Europe, and UK grain circles report that no Soviet grain is being offered there for the current season. Nevertheless, the Soviets probably wish to continue certain politically desirable wheat exports outside the bloc.

Soviet Alternatives to Purchasing from the US

The foregoing suggests that Soviet requirements for additional wheat may be for export or reserves, and probably not to avoid abnormal food shortages in the urban areas of the USSR.

Furthermore, although at the moment there are no large stocks of wheat (of a magnitude of several million tons) available for purchase anywhere but in the US, the Australian and Argentine crops to be harvested this winter would be available sometime before the 1964 Soviet crop enters consumption channels. (Part of the recent Soviet purchase of Australian wheat will in fact come from this winter's crop.) This would represent a sizeable potential source of supply, since during the 1962-63 season combined Australian and Argentine production, minus domestic consumption, totaled nearly 9 million tons. The Canadians might also be able to supply some additional quantities out of the 1963 crop.

Another possible alternative would be purchases of US wheat using European dealers as intermediaries. The recent Soviet purchase from West Germany of 250,000 tons of wheat flour, which will apparently be ground from US wheat, illustrates yet another possible source of supply.

The Soviets would probably be very reluctant to pay the US a high price for additional wheat either in money terms or in political concessions, even if alternative sources of supply were not available. If necessary, they would probably prefer further to cut back exports or to take a chance on getting by with reduced reserves.

The Soviet feed-grain situation is extremely tight: available supplies will apparently be insufficient to maintain livestock herds at present levels. This may lead the Soviets to seek US feed grains, particularly corn. Although there are no major sources of feed grains other than the US, the USSR would not be forced to buy corn from the US at any cost; a principal alternative would be to cut back the livestock herds by increased slaughtering.

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Current Soviet Actions

Although the Soviets have been hinting that they may need another 3 million tons of wheat, thus far they have refrained from making a concrete proposal. Some disillusionment has been evident on the part of US brokers who have been talking with Soviet representatives in Canada. The joint corporation formed by certain US brokers to deal with the Soviets has apparently broken up, and comments by one major company which withdrew from the negotiations indicate that the Soviet Union is seeking wheat from US Government stocks, possibly on credit. Former Soviet Ambassador to the US Menshikov told a newsman in New York that a first step would be for "Congress to change its regulations," acknowledging that he had in mind the Johnson Act. A Soviet Embassy official in Washington told the press that his government would like to get better terms from the US than it got from Canada.

It seems clear from Soviet actions that Moscow is convinced it holds at least some of the trumps in the wheat game. The Soviets have undoubtedly been taking note of the eager reactions in Congress and in the US press to rumors of a wheat sale to the USSR. It is by no means inconceivable that they may have begun fathering such rumors in part for their effect on US trade policy. They might well feel that they are in a position at one blow to obtain an additional amount of grain to ease their allocations problems and at the same time to bring about changes in US policy on US-Soviet trade. They obviously are reluctant to contract for US wheat within the framework of existing US regulations. Menshikov's comment suggests that Johnson Act restrictions are a prime target. The Soviets may calculate that once they have obtained long-term credits from US businessmen, most-favored-nation tariff status might shortly follow to facilitate repayment of the credits.

In any case, the Soviets probably are fishing for some affirmative Administration action on wheat, preferably steps which would breach the wall of US restrictions and thus strengthen the Soviet bargaining position in any future negotiations on more general trade questions. As a minimum, the Soviets probably want prior assurance of Administration support for a wheat transaction, so that they will not be in the position of being turned down on a formal proposal.

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