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02 JUL 1984

MEMORANDUM FOR: (See Distribution List)

FROM:

[Redacted]

Chief, Strategic Resources Division
Office of Global Issues

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SUBJECT:

Eastern Europe's 1984 Grain Crop

[Redacted]

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1. The attached memorandum assesses current grain production prospects in Eastern Europe and the resulting grain trade implications. [Redacted]

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2. This assessment was produced by [Redacted] Agricultural Assessments Branch, Strategic Resources Division, Office of Global Issues. [Redacted]

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3. Comments and questions are welcome and may be addressed to the Chief, Agricultural Assessments Branch, [Redacted]

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[Redacted]

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Attachment:

Eastern Europe: Early Outlook
for Grain Production in 1984

GI M 84-10120, 2 July 1984 [Redacted]

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[Redacted]

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GI M 84-10120

[Redacted]

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SUBJECT: Eastern Europe's 1984 Grain Crop [redacted]

OGI/SRD/AAB/[redacted] (2 July 1984)

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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

02 JUL 1984

Eastern Europe: Early Outlook for Grain Production in 1984

Summary

Based on our analysis of weather data and imagery, we believe East European plans to produce a total of nearly 117 million metric tons of grain are already well beyond reach. Even with favorable weather for the balance of the growing season, production is not likely to reach the 99-million-ton harvest of last year, primarily because sowing shortfalls and drought have reduced winter grain prospects. While the outlook for spring grains is brighter in most countries, only Poland and East Germany have good overall production prospects. [redacted]

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With near-average production, we expect Eastern Europe's grain imports at a minimum to remain near the estimated 8 million tons contracted for in the last marketing year. The availability of credits to finance grain imports has improved and the region needs to rebuild livestock herds. If adverse weather cuts grain production further, increased imports will be likely. We foresee no gain in US grain exports to the region, however, unless more attractive credit terms are offered. [redacted]

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This memorandum was prepared by [redacted] Agricultural Assessments Branch, Strategic Resources Division, Office of Global Issues. Comments may be directed to [redacted] Chief, Strategic Resources Division, [redacted]

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Eastern Europe: Early Outlook for Grain Production in 1984

Introduction

Grain production in Eastern Europe averages about 96 million metric tons per year,¹ but most of the countries do not regularly produce enough grain to attain self-sufficiency. Individual countries differ significantly in climatic conditions, types of grain grown, and degree of self-sufficiency. The grain-importing northern countries--Czechoslovakia, Poland, and East Germany--have a shorter growing season and winter grains provide 60 percent of their total production. Wheat, rye, and barley are the main grain types. The southern countries--Romania, Bulgaria, Hungary, and Yugoslavia--are net grain exporters as a whole, and their more favorable climate allows spring grains, chiefly corn, to account for 60 percent of total production. Winter wheat is the other major grain type. Only Hungary, however, is a consistent net exporter, while the other three countries import varying amounts of grain from year to year as production fluctuates. [redacted]

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The size of Eastern Europe's grain harvest is a key factor in the region's efforts to overcome its economic troubles. In response to the credit squeeze of 1981-82, countries have curbed their reliance on imported feedgrains, reducing annual grain imports from the 17-million-ton average of the early 1980s to an estimated 8 million tons in marketing years (MY) 1982/83 and 1983/84.² They have done so, however, at the cost of stagnating meat production, rising retail food prices, selective rationing, local food shortages, and long lines for consumers. In addition, the southern countries have pushed grain exports at the expense of domestic consumption in order to improve foreign trade balances. US sales of grain to Eastern Europe have fallen sharply in recent years, largely because favorable credit terms have not been offered. Attempts by the regimes to stimulate grain production have been unsuccessful in eliminating import needs however, especially since the northern countries cannot produce some key grain types, chiefly corn. A shortfall in grain production this year would spell increased imports for Eastern Europe, depending on the ability of each country to find financing and on the willingness of regimes to risk unrest by squeezing consumers further. [redacted]

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¹ Throughout this text the term "average production" refers to that achieved during the 1978-82 period. [redacted]

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² 1 July to 30 June. [redacted]

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Production Plans

Press accounts, US embassy reporting, and our analysis suggest that the East European countries plan to produce close to 117 million tons of grain this year on approximately 29 million hectares (Tables 1 and 2). Attainment of such a goal is out of the question, and adverse conditions experienced so far will make it difficult for individual countries to achieve above-average production. [redacted]

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Data on Eastern Europe's planned grain production and hectareage are incomplete, contradictory, and nonuniform. Countries provide information on either total grains, winter and spring grains, or individual grain types such as wheat or corn. The data, however, often omit some grain types or neglect to show what proportions of wheat and barley are winter or spring crops. Production plan data are usually not broken down in the same manner--total, winter and spring, or grain type--as hectareage plan data. Bulgaria discloses the least information, Romania's is the most unreliable, and Hungary's is the most accurate. Czechoslovakia's separate plans for its Czech and Slovak republics rarely coincide with the few reported national-level figures. [redacted]

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We estimate that sown areas in the southern countries this year will not be large enough to achieve their production plan of 73 million tons of grain, which is a sharp rise from their 56-million-ton average. Romania's unrealistic production goal of 29 million tons will not be met with the announced hectareage plans, which are not large enough to provide the necessary boost in output. Bulgaria has kept its 1984 production plan of "over" 10 million tons in line with last year's goal, although this level of output would require increased sown areas, which have not been indicated. Yugoslavia has increased its plan this year to an estimated 19 million tons, a difficult goal despite higher planned hectareage. In contrast, Hungary's current target of 15 million tons is only a slight increase from 1982's record crop, and the country's hectareage plan exceeds sown areas of recent years. [redacted]

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The northern countries' grain production plan of almost 44 million tons is more in line with previous plans and actual achievements. Czechoslovakia's 11-million-ton plan remains the same as last year's fulfilled one, although the hectareage goal appears somewhat small to support another record harvest. Poland's plan of 22.2 million tons seems reasonable in relation to last year's output, and the country's hectareage target tops the area sown in recent years. East Germany's current plan, 10.5 million tons, exceeds the production records set in the past two years, and we believe that the sown area target is not high enough to achieve this goal. [redacted]

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Crop Conditions To Date

Agricultural conditions across Eastern Europe vary dramatically.³ Thus far prospects are best in Poland and East Germany, where bumper crops are still possible, and worst in Romania, where a below-average crop is likely. Problems began last fall when no country met planned planting goals for winter grains, and only East Germany, Poland, and Hungary came close. Persistent drought severely reduced soil moisture in Romania, Bulgaria, Hungary, and Czechoslovakia. Winter grains in these countries remained weak or unevenly developed at the onset of winter. Only in East Germany, Poland and Yugoslavia were crops generally in good condition. [redacted]

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During the winter drought continued in Romania, Bulgaria, Hungary, and Czechoslovakia. On the plus side, temperatures were moderate and winterkill was normal or less in all countries. Winter grain prospects improved in East Germany, Poland, and Yugoslavia, although precipitation in the two northern countries was not plentiful enough to bring soil moisture reserves to optimal levels. [redacted]

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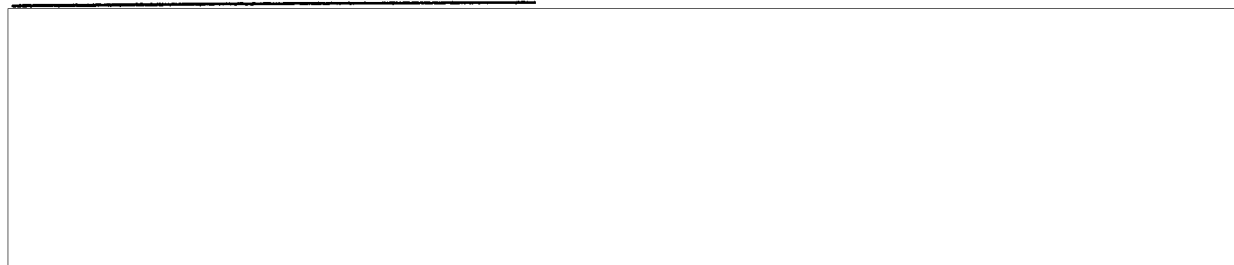
As spring arrived, relief from drought conditions came to Romania and Bulgaria during March in the form of excessive rain, which further damaged some winter grains and put spring grain planting well behind schedule. Dry weather persisted in key grain-producing areas of Hungary and Czechoslovakia until May, when plentiful rainfall halted the deterioration of winter grains. Poland and East Germany also experienced dryness but received rainfall before winter grains could be damaged. Yugoslavia's ample soil moisture further enhanced prospects for winter grains. Spring grain planting progressed well in Hungary, Yugoslavia, Czechoslovakia, Poland, and East Germany, and we estimate that these countries will meet or come close to meeting hectare plans. The improved soil moisture situation by the end of May brightened prospects for spring grains, which emerged well. [redacted]

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Outlook for Winter Grains

As winter grains in Eastern Europe reached the crucial flowering stage of growth, improved soil moisture conditions brightened production prospects. In the north, Poland and East

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Germany can expect bumper harvests, while Czechoslovakia's early season losses will tend to depress production toward average levels. In the south, Romania appears headed toward below-average output as a result of drought followed by water damage. In Bulgaria, where weather extremes were not as great, lighter losses will hold production toward average levels. Early season damage in Hungary and a small sown area in Yugoslavia have made bumper crops unlikely. [redacted]

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Outlook for Spring Grains

It is still too early in the crop season to accurately assess spring grain production, but the outlook is favorable in most countries, which had made substantial progress toward fulfilling sowing plans by late spring. If normal temperatures and precipitation prevail during the summer, Hungary, Yugoslavia, and the northern countries could produce above-average spring grain crops. On the other hand, planting delays in Romania and Bulgaria dimmed prospects for spring grain production, especially in Romania where a serious shortfall in the corn area was shaping up. [redacted]

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Grain Trade Implications

Imports

During the 1981-83 period financial problems forced a major adjustment in Eastern Europe's grain trade with the West. The flow of Western credits to finance agricultural imports slowed to a trickle, and the regimes gave debt repayment a higher priority than domestic consumption. In response to the credit squeeze, Eastern Europe cut hard currency grain and feed imports sharply. [redacted]

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We believe that the adjustment phase in Eastern Europe's agricultural trade with the West is coming to an end. Further reductions in grain imports seem unlikely for most countries, and the region's agricultural trade deficit probably will begin to widen. The level of these imports will depend upon the interaction of several key factors--the size of the domestic harvest, the availability of Western credits, the intensity of consumer discontent and the sensitivity of regimes to such complaints, and competing demands for hard currency. We expect purchases of agricultural commodities to remain at least at the 1982-83 level or, more likely, to increase slightly. [redacted]

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While below-average agricultural performance this year would increase import requirements, good grain harvests probably would not allow for a reduction in imports. Below-average harvests would increase Eastern Europe's need for Western grain dramatically because there is now little "fat" left to cut out of consumption. A continuation of recent (1982/83) above-average harvests, on the other hand, would not allow much leeway for further import reductions, because the regimes must continue

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importing at roughly the 1982-83 rate of 8 million tons simply to stabilize current consumption levels. A decision to increase consumption would require, in turn, a rise in imports. Moreover, the region's grain requirements are likely to rise because of the distressed situation in the livestock sector and the need to rebuild herds. [redacted]

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Credits to purchase agricultural commodities, grain in particular, are now more readily available than in 1981-83, but resumption of large-scale borrowing is unlikely in our view. According to press [redacted] reports, commercial bankers have regained some confidence in the region's creditworthiness and are extending more trade loans. The bankers, however, are reluctant to accept large increases in exposure and are setting tough terms. In addition, Western governments are extending credits and credit guarantees to support sales of agricultural products. [redacted]

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East Germany and Hungary appear to be taking advantage of the improved lending climate. Western banks, including some US banks, have recently shown a greater willingness to extend new loans for grain purchases to East Germany. In early March 1984, Hungary's state-owned agricultural trading company received a \$135 million loan from Western banks to purchase imports needed to produce hard currency agricultural exports. Because of their generally good credit rating, Czechoslovakia and Bulgaria should be able to raise loans needed for agricultural purchases. Poland and Romania, on the other hand, are not likely to see any significant improvement in credit availability. [redacted]

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The reluctance of US banks to extend credits to Eastern Europe and the limited availability of Commodity Credit Corporation (CCC) financing will continue to curtail US agricultural exports to the region. We estimate that US grain sales to Eastern Europe in MY 1983/84 will total only about 1.7 to 2.0 million tons compared with the 7 million ton average of MY 1976-1980. As a result, the US share of the East European grain market is expected to range between 20-25 percent, near last year's level, but well below the 50 percent share of the late 1970s. If indeed grain production is near or above average in 1984, we see little prospect for change. Since CCC credit guarantees are now available only for Yugoslavia and Hungary, the bulk of US sales will be made on a limited commercial credit basis or for cash. [redacted]

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Exports

If Eastern Europe is to afford more imports and sustain improved trade performance, the region must revive exports of food and agricultural raw materials. Though some growth in exports is probable, booming sales seem unlikely. Developed Western economies are beginning to recover, strengthening East Europe's export opportunities. In addition, prices for livestock products, the region's chief hard currency agricultural export, [redacted]

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are expected to rise during 1984. Nonetheless, major obstacles remain to improved export performance. Increasing sales to LDCs, a large growth market of the 1970s, will be most difficult because of their own financial problems, and a reduction of protectionist barriers in the developed West seems unlikely. The southern countries are trying to increase grain exports for hard currency or to barter for hard currency goods, but their success will be limited by the size of their domestic harvests and by fluctuations in grain prices. Although we anticipate some improvement in agricultural exports, increases in imports are likely to outpace export gains in the foreseeable future.

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Table 1

Eastern Europe: Grain Production^a

	Million Metric Tons						Plan 1983	Actual 1983	Plan 1984
	1978-82 Average	1978	Actual Production		1981	1982			
			1979	1980					
Eastern Europe	95.5	96.2	90.9	96.3	92.2	102.1	110.3	99.1	116.7
Southern Countries	56.4	54.0	55.5	54.7	54.2	60.6	67.8	56.0	73.0
Romania	19.1	19.0	19.3	20.2	17.5 ^b	19.7 ^b	25.3	17.6 ^b	29.0
Bulgaria	8.2	7.7	8.5	7.8	8.6	8.6 ^b	10.3	7.5 ^b	10+
Hungary	13.5	13.4	12.1	14.0	12.9	14.9	14.5	13.7	15.0
Yugoslavia	15.6	13.9	15.6	15.7	15.2	17.4	17.7 ^c	17.2	19.0 ^c
Northern Countries	39.1	42.2	35.4	38.6	38.0	41.5	42.5	43.1	43.7
Czechoslovakia	10.1	10.9	9.2	10.7	9.4	10.3	11.0	11.0	11.0
Poland	19.6	21.5	17.3	18.3	19.7	21.2	21.2	22.1	22.2
East Germany	9.4	9.8	8.9	9.6	8.9	10.0	10.3	10.0	10.5

^a Grains include wheat, rye, barley, oats, corn, mixed grains; in the southern countries rice is also included; in Bulgaria, legumes.

^b Announced production figures in 1981 and 1982 were much higher than crop conditions during those years seemed to indicate. Romania and Bulgaria have not announced exact production for 1983.

^c Yugoslavia announces production plans for corn and wheat only. Our estimate of the total annual production plan consists of the corn and wheat plan, plus 1 million tons for other grains.

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Table 2

Eastern Europe: Grain Area

	Thousand Hectares					
	1978-82 Average	1983	1984 Plan	1984 Winter Grain Plan	1984 Winter Grain Sown	1984 Spring Grain Plan
Eastern Europe	28,860	28,230	29,190	16,240	15,810	12,950
Southern Countries	15,810	15,000	15,900	7,950	7,730	7,950
Romania	6,320	5,700	6,290 ^a	3,150 ^a	3,120 ^a	3,140 ^a
Bulgaria	2,280	2,040	2,090 ^a	1,410 ^a	1,370 ^a	680 ^a
Hungary	2,880	2,880	2,980	1,640	1,610	1,340
Yugoslavia	4,330	4,380	4,540 ^a	1,750 ^a	1,630 ^a	2,790
Northern Countries	13,050	13,230	13,290	8,290	8,080	5,000
Czechoslovakia	2,630	2,580	2,520 ^b	1,490	1,390	1,030 ^b
Poland	7,910	8,110	8,200	4,800	4,700	3,400
East Germany	2,510	2,540	2,570	2,000	1,990	570

a [] These countries have not announced complete information on 1984 planned or actual sown areas. []

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b Czechoslovakia's announced spring grain area plan for 1984 may not include corn, which is usually planted on 180,000 to 190,000 hectares. []

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Figure 1
Adverse Crop Conditions in Eastern Europe

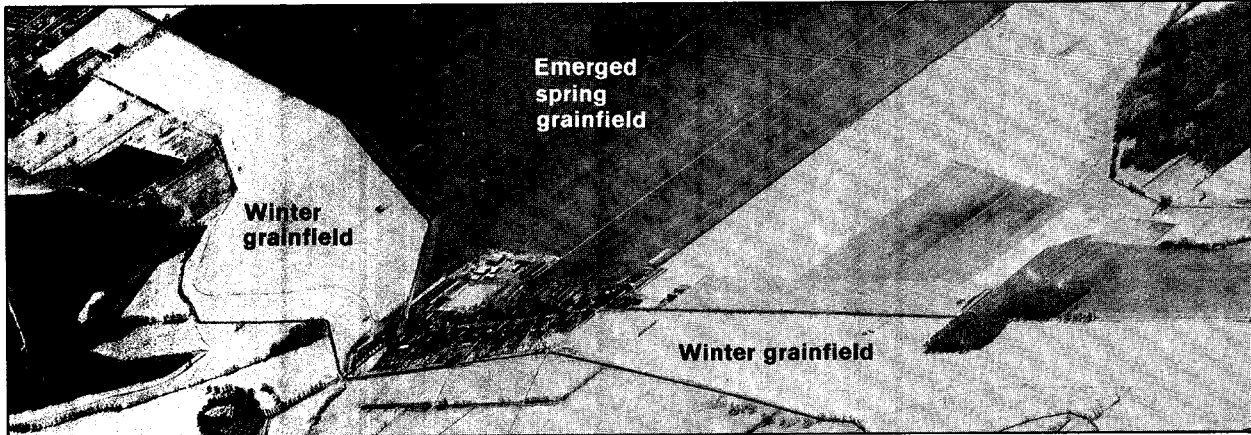


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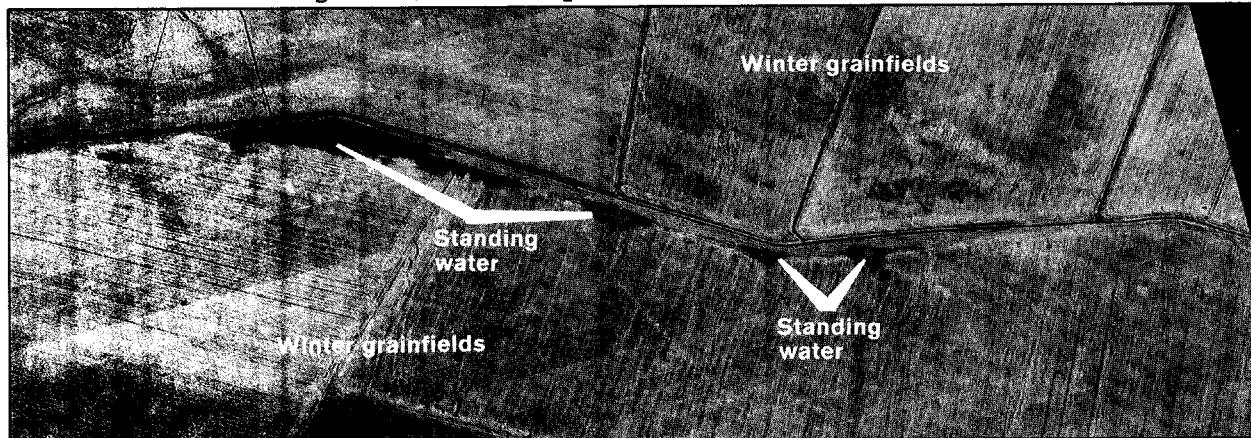
Figure 2
East German and Bulgarian Grainfields

Central East Germany, Late April 1984



Favorable weather has promoted healthy plant development this year in East Germany, as shown by the uniform light tone of the winter grainfields in this photo. The outlook for spring grains is also good, because they were planted on time and received adequate rainfall.

Eastern Bulgaria, Late April 1984



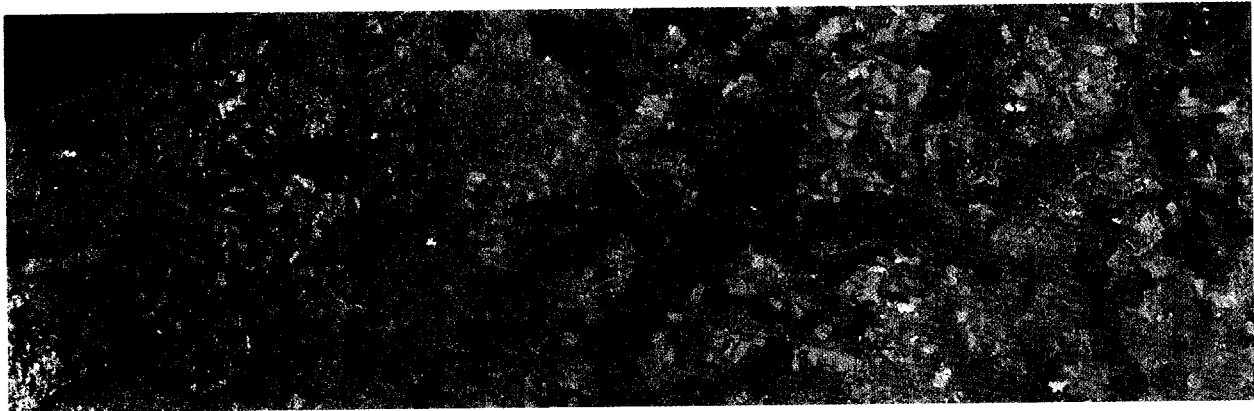
Bulgaria's 1984 crop prospects were reduced first by drought, then by excessive rains. The dark, uneven tones of these winter grainfields indicate a thinly developed crop, which has been further damaged by standing water.



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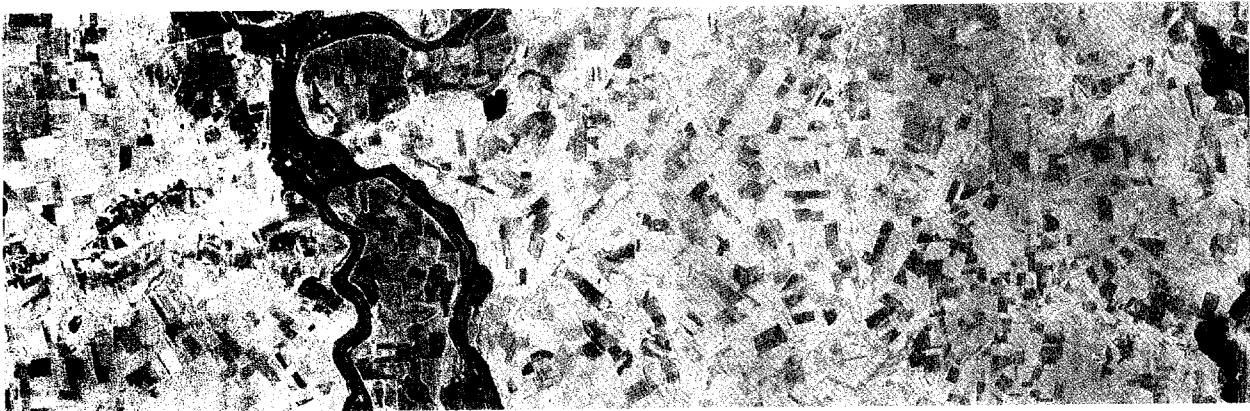
Figure 3
Polish and Romanian Grainfields

Northwest Poland, Mid-May 1984



The outlook for Poland's grain production this year is favorable, because timely spring rainfall maintained soil moisture. In this Landsat photo, the bright red fields indicate healthy grain crops.

Southeast Romania, Mid-May 1984



Romania's drought ended in March, but many of these winter grainfields have failed to regain the bright red color which denotes good crop vigor, as evident in the irrigated fields near the river. Though some winter grains improved, excessive amounts of rain over much of the country fostered weed growth, hindered application of fertilizers and protective chemicals, and seriously delayed planting of the important corn crop.



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