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MEMORANDUM FOR: Ambassador Deane Hinton

Deane

I believe the attached memo is responsive to Secretary Kissinger's request.

When the new crop estimate is ready you will be one of the first to get it.

Acting Director ::
Economic Research ::

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Implications of Poor Soviet Grain Harvest

Conclusions: The Soviets already have arranged for large grain imports and have additional options to deal with shortfalls caused by the current poor harvest. They may well face a much more serious problem, however, if the forage crop is extensively damaged, as a variety of indicators now suggest. In this case, they would likely have to reduce meat output by about 5-10% -- back to the 1972 level. They would do this by cutting the feed ration and slaughtering animals before they reached their normal weight. The harvest results pose serious problems for Brezhnev, whose prestige is involved in success in the agricultural sector and steady improvement in the meat supply.

The Problem

The Soviets planned to produce 215 million tons of grain this crop year. A crop of this size would have satisfied domestic requirements -- 200 million tons -- and permitted exports of 5 million tons to Eastern Europe. The extra 10 million tons would have been added to stocks and/or exports. Because of the severe drought, we now estimate the harvest will likely be in the neighborhood of 165 million tons -- 50 million tons below expectations and 40 million tons below actual requirements.* The problem is made worse because considerable damage has also been done to forage crops used to feed livestock.

Some Options

Thus far, Moscow has purchased about 15 million tons of foreign grain, including nearly 10 million from the United States. We think it likely the USSR will be able to buy an additional 5 million tons of grain from non-US suppliers. If so, then roughly 50% of the grain shortfall remains to be made up.

* On 25 August we will issue a revised grain crop estimate based on analysis of evidence being accumulated from human and technical sources.

Impossible to Determine

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The Soviets can also draw from their own grain reserves. We do not know how large these reserves are, but we think that an additional 10 million tons from this source a definite possibility. The Soviets then would have a variety of options left to cope with the remaining shortfall on the order of 10 million tons. These include:

- Import more grain from the United States.
- Reduce the quality of bread (as Khrushchev did following the poor 1963 harvest), with a saving of about 4 million tons of grain.
- Reduce livestock inventories by about 5% (to the 1972 level), with a saving of roughly 6 million tons.
- Reduce feed grain rations per head of livestock to the 1972 level, while maintaining the current livestock inventory. This would save 13 million tons.
- Increase meat imports -- to 1 million tons (double 1974 imports). This quantity, about 7% of total meat supplies, is available outside the United States and would reduce grain demand by 4 million tons.
- Import soybeans to stretch feed grain supplies.

We think the leadership will be reluctant to lower the quality of bread or reduce livestock inventories beyond the culling of herds, choosing instead to import more US grain and some additional meat, to reduce animal feed rations and thus market lighter weight animals, and to buy soybeans.

The Forage Crop Shortfall

While the Soviets can cope with the grain problem, a severe shortfall in forage crops -- primarily hay, ensilage, and fodder roots -- would be quite another matter. We know from a variety of sources that there has been considerable damage to forage crops. We cannot, however, quantify the extent of the loss. Just how serious the fodder shortfall actually is will have to be inferred from Soviet actions. Already, there are suggestions that the damage is extensive.

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In Kazakhstan, for example, office workers have been given quotas for gathering "twigs and reeds for fodder," and school children are being sent to collect vegetation for livestock feed. We suspect this situation is indicative of the forage problem in other livestock areas, and this raises a real possibility that the Soviets would have to reduce meat output (by 5-10%) both by cutting herd sizes and feed rations. Given the leadership's desire to provide a better shake for the consumer, especially during the year of a Party Congress, this could be a serious setback to the regime's consumer program.

Political Implications

The foregoing analysis suggests that the problem, while serious, may be largely manageable, but the political repercussions are nevertheless likely to be sizable. A major crop failure generally overshadows other domestic and foreign developments in its effect on political leaders' prestige and clout.

In the first instance, Agricultural Minister Polyansky and Party Secretary Kulakov will find their careers blighted. Kulakov is a Brezhnev protege, and setbacks to him will tend to weaken the General Secretary's own position. More important, the magnitude of the failure is such that he probably cannot escape a share of personal responsibility.

In seeking to overcome his difficulties, Brezhnev would probably like, among other things, to show that he could cash in on his detente policy. Thus, he may be looking for US governmental help in arranging for a stated minimum of imports over the next several years. A drawdown in Soviet reserves would be more palatable if replenishment were assured in this fashion.