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1999

MEMORANDUM FOR:

William N. Morell, Jr.  
Assistant to the Sec.  
for National Security  
Dept. of the Treasury

We have reduced our estimate of the Soviet grain crop to 165 million tons. The attached paper discusses this estimate and its implications.

S-09066

Director  
Economic Research

5 Aug 75

Cc: Simon  
Parsky

(DATE)

Identical Blue Notes to:

- The Hon. Alan Greenspan, CEA
- Mr. Paul W. MacAvoy, CEA
- Mr. J. M. Dunn, CIEP
- The Hon. Winston Lord, State
- The Hon. William G. Hyland, State
- The Hon. Arthur A. Hartman, State
- Ambassador Deane Hinton, State
- Mr. Julius L. Katz, State
- The Hon. Gerald Parsky, Treasury
- The Hon. Richard E. Bell, Agriculture
- Mr. Donald Paarlberg

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DIRECTOR OF CENTRAL INTELLIGENCE

5 August 1975

Memorandum For:

The Honorable Earl L. Butz  
The Secretary of Agriculture

This is to alert you to the fact that we have lowered our estimate of the Soviet grain crop to 165 million tons, slightly below the 1972 level. This indicates that the USSR will be in the international market for any grain it can get but will also be forced to reduce its livestock herds and to make other internal adjustments. The situation is bound to have serious political as well as economic implications in the USSR.

We are giving the attached classified memorandum only very selective dissemination at this time. Wider dissemination will follow later this week. CIA does not intend to make any public announcements.

W. E. Coiby

Attachment

cc: The Honorable Henry A. Kissinger  
The Honorable William E. Simon  
The Honorable Rogers C. B. Morton  
The Honorable L. William Seidman  
The Honorable Charles W. Robinson  
Ambassador Frederick Dent

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WASHINGTON, D.C. 20505

PROSPECTS FOR SOVIET GRAIN OUTPUT

The cumulative effects of the hot, dry weather in the Soviet grain lands have led us to cut our forecast of Soviet grain output to 165 million tons, down 20 million tons from our previous forecast of 185 million tons.

The drought is more severe in the southern and eastern Ukraine, northern Urals, and northern Kazakhstan than previously thought. This year's drought is more widespread than the one in 1972, and in many areas is worse than in 1963 and 1965, the poorest agricultural years in the past 20. Rain fell at the end of July, but this was too late to help the grain crop. The drought has also curtailed forage crops, although recent rains have improved the outlook for potatoes, the other important starchy staple in the Soviet diet.

The total shortfall in Soviet production in relation to expected requirements probably will be in the order of 50 million tons - the equivalent of one-fourth of the total US grain crop and more than one-third of total world grain exports last year. To date the Soviets have contracted for about 13-1/2 million tons of foreign grain, and it now seems certain that Moscow will be back for additional large quantities. Although the Soviets should be able to finance larger imports of grain, available world supplies are nowhere near sufficient to satisfy all Soviet needs without drastic increases in world prices.

Although the eventual volume of Soviet grain imports will be affected by the size of Western grain crops, it is clear in any event that Moscow will have to make substantial domestic adjustments to cope with a substantial part of the shortfall. The Soviets will draw on their small cushion of grain reserves (estimated in the 10-15 million ton range) and will take some combination of the following steps:

- raise milling rates - increasing the amount of flour milled from a ton of grain (as Khrushchev did following the poor 1963 harvest) would reduce the quality of flour but save approximately 4 million tons of grain;

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- slaughter livestock – reduction in livestock inventories to the 1972 level (a 5% cut) would lower the demand for feedgrains by roughly 6 million tons; and
- reduce feed rations per head of livestock – if these were reduced to the 1972 levels, another 13 million tons could be saved but the future output of meat would fall.

Although the Soviet government, with its commitment to raising living standards, will be very reluctant to take such steps, it will have no alternative.

A harvest failure of this magnitude will complicate political life in Moscow and weaken Brezhnev's position in the leadership. The failure will have an impact on a wide range of matters: the consumer program, formulation of the next five-year plan, a program for the Party, Congress in February, and relations with the West. Debate and disagreement are likely to become more heated on many issues.