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MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~Action

August 7, 1973

MEMORANDUM FOR HENRY A. KISSINGER

FROM:

A. W. Marshall *AW**HAK noted. ID*

SUBJECT:

Soviet Grain, an Intelligence Failure?

NSS Review
Completed.Further CommentON-FILE Agriculture RELEASE
INSTRUCTIONS APPLY

In response to your marginalia I would add:

-- While the key CIA analyst probably had a reasonable estimate of Soviet needs and personally drew some of the right conclusions as to Soviet buying, the routine CIA product did not convey a strong, clear alerting message. This is a common failure of the CIA product.

-- He personally communicated his concerns to Agriculture where he knew some people; he did not do so at the NSC because he had not been dealing directly and personally with anyone on the NSC staff. CIA does not positively encourage personal initiative in communication, especially to the NSC. He may not have known Latimer.

-- Therefore, my preliminary diagnosis is that is a primary case of communication failure. In contrast with other areas the failure is often in collection and analysis; they really have nothing to communicate. For example, the persistent inability to provide intellectually interesting explanations of Soviet decisionmaking with respect to their ICBM program.

Question

A case study could address the following issues:

MORI C03319854

-- Was there an intelligence failure?

-- If so, what was the nature of the failure: Collection, Analysis, Communication?

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-- What were the major causes of the failure?

-- What can be done about them?

Its results would shed some light on the performance of the CIA.
How interested are you in this case?

Do you want me to initiate a study of this case?

Yes _____

No _____

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- Agriculture evidently preferred its own sources and analyses to CIA's. Indeed, Butz and Palmby indicated they did not want to receive the CIB and other CIA products when offered to them.

- Moreover, the major strategic intelligence failure is Agriculture's responsibility, for they are the agency tasked to produce worldwide market forecasts. They have not done a good job. They did not forecast the general increase in the market for U.S. grain. They have been so conditioned by the historical experience of potential and actual oversupply that they missed the turnaround in the basic situation, and were psychologically unprepared for the warnings of others.

What really happened is a very complex tale. It illustrates in some of its aspects the range of problems U.S. institutions and society have in dealing with the Soviets. For example, our capabilities to follow their activities here by intelligence or other means are very limited. Prevention of their manipulating the grain market is difficult.

A more comprehensive assessment of the performance of intelligence in the Soviet wheat deal could be undertaken. Do you wish to initiate a study of the problem? If so, I will get it started.

Yes _____

No _____

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ATTACHMENT

Publications Dealing With Soviet Grain
Production and Grain Imports

Publication Number
and Date

Title and Content

IM 71-161
27 Sept 71

The Soviet Grain Supply, 1971*
("Even with a near record grain crop of 140-145 million tons (in 1971) the Soviet Union will be hard pressed in fiscal year (FY) 1972 to meet domestic needs and, at the same time, to continue supplying its client states at the level averaged in recent years. The surge in use of grain as livestock feed in the past year...is expected to continue. More importantly, wheat reserves suitable for consumption as food are believed to be currently near minimum levels...it appears likely that the USSR is in a shaky position... The USSR has already contracted for up to 4 million tons of wheat imports for FY 1972 from Free World suppliers.")

CIWR
17 Sept 71

USSR: Good Harvest but Grain Problems*
("Despite indications that the quantity of grain harvested this year may fall just short of the previous record, insufficient reserves of bread-grains may increase Soviet requirements for grain imports. This situation arises because of a sharp increase in the use of wheat as livestock feed, a higher level of dependence of East European and other client states on Soviet grain, and physical deterioration of some grain reserves...")

CIWR
29 Oct 71

Soviet Economy Dances to Agriculture's Tune*
("Unusually good weather during the recent harvest period improved the prospects for this year's grain crop...Nevertheless, the Soviets are still in the market for Western grain. By September, they had contracted for about 4 million tons of Canadian and Australian wheat worth about \$305 million.")

*Publications received by the US Department of Agriculture.

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S-3916
10 Nov 71

Briefing of Secretary of Commerce Stands
on the Soviet Economy

(Reports Soviet grain purchases and predicts that grain and meat imports will be at least \$600 million between 1 July 71 and the of 1972.)

CIWR
28 Jan 72

Agriculture Slows Economic Growth*

("After a bumper year in 1970 because of unusually good weather, agricultural output last year declined by about 1.5 percent...the Soviets are buying grain and sugar in non-Communist markets to cover domestic requirements and export commitments.")

25X1

CIB Brief
22 Feb 72

USSR

("Party and government leaders of the 15 republics met late last week in Moscow with Brezhnev to assess the damage to winter grains caused by the severe cold...If the winterkill is as extensive as in 1969, the net loss could amount to about four percent of the planned grain crop, or seven million tons--almost as much as the USSR planned to import this year.")

CIWR
25 Feb 72

Cold Hits Soviet, East European Crops*

("Severe cold and scanty snow cover threaten winter crops in the Soviet Union and Eastern Europe...the net loss could amount to about four percent of the planned grain crop, or seven million tons -- almost as much as the USSR has arranged to import this fiscal year. Last week, Soviet foreign trade bank officials admitted that further imports may be necessary.")

S-4228
14 Mar 72

Soviet Indebtedness and the Role of US-Soviet
Trade

(Soviet indebtedness to the West, mainly long-term, has grown rapidly in recent years and apparently exceeded \$2 billion by the end of 1971. Previous estimates of US-Soviet trade growth following the dismantling of trade

barriers put the level of US exports to the USSR at \$400-500 million by 1975 and about \$1 billion by 1980. If a new USDA estimate of Soviet requirements for \$1.95 billion in US agricultural products over the period FY 72/73 to FY 76/77 is correct, however, the level of US exports by 1975 might reach \$800 million.)

IM 72-48
15 Mar 72

Soviet Agriculture in 1971 and the Outlook for 1972

("Even though farm production in 1971 was near the record 1970 level, the Soviet Union spent roughly \$650 million-\$700 million in hard currency to purchase large quantities of grain, sugar, and meat in 1971 and early 1972. Imports of grain are likely to continue and may even increase next year because they are required to support the growth of the Soviet livestock economy so as to provide more meat and milk to the increasingly demanding Soviet consumer.")

CIB Note
16 Mar 72

USSR: Heavy Damage to Winter Grain Crops
("Recent Soviet press reports indicate that unfavorable weather during the first two months of the year killed about one third of the winter grains sown in the Ukraine and Belorussia.")

S-4249
28 Mar 72

Soviet Imports of Corn and Soybean Meal: Substitutes and Complements for Other Feeds in Livestock Rations*

("USSR short of all types of feeds but "shortage of concentrate feeds is most acute". Concludes that, on basis of cost-efficiency, USSR has clear incentive to use more corn and soybeans and that "interim purchases of US corn and soybean meal would be a quick fix approach to the Soviet feed problem" if necessary financial arrangements can be made.)

S-4253
28 Mar 72

Prospects for Soviet Trade with the West and the United States*

("During most of the last two decades, the USSR has been a net importer of agricultural products. While the domestic supply situation is tight for many agricultural products, prospects for, and speculation about, large new purchases center on those commodities for which the Soviet Union paid \$650-\$700 million in hard currency in 1971 and early 1972 -- grain, sugar, and meat. Due to adverse winter weather, the outlook for

the USSR's grain crop in 1972 is uncertain. However, in view of the USSR's grain requirements-- both foreign and domestic -- even if an average grain crop is obtained, it is almost certain that the Soviet Union will purchase more grain in FY 72/3 than the 3.5 million tons already contracted for.")

S-4265
3 April 72

Briefing of Secretary of Agriculture Earl Butz
(Soviet consumer programs are concentrating on the Soviet diet. "The Soviet decision to import \$700 million of grains, meat, and sugar between last July and the end of 1972 shows that they are indeed in a hurry to alleviate the existing shortages.")

IM 72-65
28 Apr 72

The Current State of the Soviet Economy
("The fragility of the USSR's grain and livestock economy has been exposed once again...Even with average weather, the USSR will probably buy more grain in 1972...If the weather this spring and summer turns out to be worse than normal, the possibility of large additional Soviet imports of foreign grain would of course be even greater...A large share of the imports would have to come from the US.")

CIB Note
17 May 72

USSR
("Soviet trade officials have indicated a willingness to accept US Commodity Credit Corporation terms in purchasing US grain, but only for a one- or two-year commitment...Under the short-term commitment, however, annual purchases could reach \$500 million, about twice that suggested in earlier talks.")

Soviet Develop-
ments
6 Jul 72

Soviets Assess 1972 Grain Crop
("During a public lecture in Leningrad a Soviet economist admitted that one third of the 1971-72 winter wheat crop had been destroyed by the severe weather...current estimates are for a grain crop of 'not less than 175 million tons'. Our agricultural attaches estimate that Soviet production will be 171 million tons")

CIB Brief
19 Jul 72

USSR
("Moscow reportedly has purchased for delivery during the next 12 months 1.5 million metric tons of Canadian wheat and 300-400,000 of barley...Unconfirmed reports state that four million tons of wheat and five million tons of corn worth \$500 million have already been bought

under the US pact for delivery by mid-1973. During the next 12 months the USSR should become a large net importer of grains for the first time since the disastrous harvests of 1963 and 1965. Imports may total 15 million tons.")

Soviet Developments
24 Jul 72

USSR: Economy at Mid-Year
("Reportedly, 122.3 million hectares of grain were left from the fall and spring sowings, implying that 11.5 million hectares, or one-third of the total planted in winter grains, had been used for forage or lost to winterkill.")

CIWR
28 July 72

USSR: Economy at Mid-Year*
("Soviet economic growth sagged during the first half of 1972 although industry was still on the 1971-75 plan schedule...As in 1969, agricultural problems threaten the achievement of five-year plan goals...Figures in the mid-year report on sown area imply that one third of the winter bread-grain acreage had been lost to winterkill or used for spring forage...Brezhnev's livestock program requires a grain harvest substantially higher than in 1971.")

Soviet Developments
9 Aug 72

VIP Meeting Reflects Concern for Harvest
("An array of VIPs attended a meeting in the Central Committee headquarters on 8 August to discuss harvest progress and other agricultural problems, indicating unusual concern over this year's harvest. "It is estimated to be about 9-10 percent less than 1970 and 1971, largely because of severe winter weather and summer drought...As a result...the USSR is buying large amounts of foreign grain, mainly wheat, for delivery during the next year.")

CIB Brief
10 Aug 72

USSR
(Same as above)

S-4530
11 Aug 72

Some Implications of the Poor Soviet Grain Harvest *

(Memorandum for Kissinger, Peterson, and Butz: A poor harvest this year (estimated to be about 10% less than in 1970 and 1971) is forcing the Soviets to import record quantities of grain. So far they have bought about 21.6 million tons of grain and soybeans worth almost \$1.4 billion from the US, Canada, and France for delivery in FY 1973.)

Soviet Devel-
opments
11 Aug 72

Grain Purchases

("Confronting poor harvest prospects, the Soviets have contracted to purchase by mid-1973 about 21.6 million tons of grain and soybeans worth almost \$1.4 billion from the US, Canada and France. As a result, their hard currency trade deficit will rise to more than \$800 million in both 1972 and 1973.")

IM 72-124
15 Aug 72

Outlook for the 1972 Soviet Grain Harvest*

("Because of a combination of winterkill, and drought, the preliminary estimate of 1972 Soviet grain prospects is for a decline in the crop to about 135 million metric tons of usable grain, 13 million tons less than the 1971 harvest. To stave off the consequences of this shortfall, the USSR has already bought more than 20 million tons of grain from the West for delivery in fiscal year (FY) 1973, up 12 million tons over imports of the previous year.")

CIWR
18 Aug 72

USSR: The Grain Drain*

("The prospect of a poor harvest this year (more than 10% below 1970 and 1971) is forcing the Soviets to import record quantities of grain. So far, they have bought about 20.6 million tons of grain worth almost \$1.3 billion...and they are negotiating to buy more.")

Soviet Devel-
opments
25 Aug 72

Brezhnev Travels to Wheat Belt

("General Secretary Brezhnev arrived in the Kazakh grain-growing center of Kokchetav on Thursday, presumably to urge farm officials to exert maximum effort in the harvest now underway." The situation is precarious because of a late-ripening crop and the danger of frost.)

Soviet Devel-
opments
28 Aug 72

Soviet Campaign to Save Grain

("For the third time in a decade Soviet leaders are asking consumers to 'save bread.' The campaign began in early August in the Ukraine -- one of the areas most severely affected by this year's poor harvest...Although the large foreign purchases of grain this year will partially offset domestic losses, some additional measures, such as rationing and lowering the quality of bread that were taken in 1963, may have to be employed again.")

CIB Brief
29 Aug 72

USSR
(Same as Soviet Developments, article of 25 August)

CIB Brief
29 Aug 72

USSR
("In an unusual display of concern over the harvest prospects, Party General Secretary Brezhnev has flown out to the key Virgin Lands grain-growing area for conferences with local farm officials." Adverse weather has already damaged the crops in the other major grain growing areas and the situation in the Virgin Lands is precarious because the crop is late in ripening and is in serious danger of being hit by early frosts.)

Soviet Developments
31 Aug 72

More News from the Farm Front.
("Continuing his unusual tour of the Virgin Lands grain-growing area, Brezhnev addressed a meeting of party and economic executives in Novosibirsk on 31 Aug, once again focusing on this year's harvest.")

CIWR
1 Sept 72

USSR: Worrying About the Harvest*
("Brezhnev flew to the Virgin Lands for a round of conferences with local farm officials. The Virgin Lands have produced an above-average stand of wheat but it is in serious danger of being hit by early frosts. Harvesting is hampered by cool and rainy weather.)

Soviet Developments
5 Sept 72

More Soviet Grain Purchases in Prospect
("The president of a large international grain trading firm, Cook Industries, is in Moscow at the invitation of the Soviets to discuss additional grain and soybeans purchases...The Soviets invited Cook to return to Moscow in November, saying that their agricultural plan for 1973 would then be firm...Total Soviet purchases of grain and soybeans for delivery by mid-1973 already top 25 million tons, mainly from the US.")

Soviet Developments
6 Sept 72

Soviet Financing of Hard Currency Needs
("The enormous additional requirements for hard-currency cash associated with recent Soviet grain purchases have evidently led the USSR to seek selective foreign loans.")

IM 72-135
6 Sept 72

Some Aspects of Recent Soviet Grain Purchases*
("This year's poor harvest, a result of severe winter weather and summer drought, is forcing the Soviets to import record quantities of grain. So far they have bought about 25.2 million metric tons of grain and soybeans worth almost US \$1.6 billion, mainly from the US, for delivery in fiscal year 1973...The massive grain imports... also reflect a recent change in agricultural and consumer policy. Brezhnev's livestock program, aimed at improving the Soviet diet, has required large increases in grain supply which have exceeded Soviet grain production, even in good years.")

S-4575
7 Sept 72

The View from the Kremlin Three Months After the Summit

("Because of the poor weather that has plagued the Soviet grain areas this year, the 1972 crop will fall far short of covering both domestic requirements and export commitments...As a result US exports of grain and soybeans should reach \$650-700 million in 1972...Moreover, the delayed ripening of grain in the crucial New Land area of Siberia and Kazakhstan could cause above-normal harvest losses during the coming weeks and could generate a need for further imports.")

CIWR
15 Sept 72

Report on the Soviet Harvest*

("Grain yields reported by the USSR for areas where the harvest has been completed confirm that poor weather severely damaged the crop in the major grain-growing areas of European Russia...that will only be partially offset by a good harvest in the New Lands...The uncertainty surrounding the final verdict on the Soviet harvest apparently has temporarily halted negotiations for additional grain imports... Soviet purchases of grain for delivery by mid-1973 already top 27 million tons...")

Soviet Develop-
opments
19 Sept 72

Leningrad's Questions Concerning the Harvest

("A Leningrad lecturer said that some Western reports put the harvest this year at 20 percent below last year's. It is "known," he said, that the USSR has bought 7-12 million tons of grain from the US, 5 million from Canada, 1-1.5 million from France, and some from Australia and Sweden.")

Soviet Developments
25 Sept 72

Romanian Wheat Too

("Various sources in Moscow and Bucharest report that the Romanians have agreed to supply the Soviets with as much as 500,000 tons of wheat from the successful harvest this year.")

CIB Brief
27 Sept 72

USSR

("Slow progress in grain harvesting threatens additional losses...If this slow pace is maintained the harvest will extend well into October, when conditions usually deteriorate...Thus, harvest prospects have deteriorated further since the last major round of Soviet grain purchases in early August. Recent reports of negotiations for wheat from West Germany and Romania could reflect a reassessment of the country's immediate needs for milling quality wheat. Confirmed Soviet purchases of grain for delivery by mid-1973 now stand at almost 27 million tons...")

Soviet Developments
28 Sept 72

Comment on NY Times Article on Soviet Wheat Harvest

("The New York Times today reports that USDA estimates that the wheat harvest in 1972 will be 75 million tons, 25 percent below last year... primarily a result of winterkill and summer drought...The USDA estimate is virtually the same as the CIA estimate -- 76 million tons...Soviet wheat purchases of 18 million tons for delivery by mid-1973 cover most of this year's losses and will go far to ensure an adequate supply of milling quality wheat.")

Soviet Developments
28 Sept 72

Forced Slaughtering of Herds Reported

(Deputy Minister of RSFSR's Meat and Dairy Industry says the drought in the RSFSR is "the most severe since the 1930s." He adds that even some of basic cow herds are being butchered.)

CIWR
29 Sept 72

Soviet Outlook Gets Dimmer*

("Since the last major round of Soviet grain purchases in early August, harvest prospects have gone on deteriorating. We now estimate that the 1972 crop of usable grain will be roughly 128 million tons -- down 20 million tons for 1971." Total confirmed purchases of grain stand at about 27 million tons worth over \$1.6 billion and there are recent reports of negotiations for more wheat from West Germany and Romania.)

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S-4627
29 Sept 72

Soviet Grain -- Purchases and Prospects*
(Since the last major round of Soviet grain purchases in early August, harvest prospects have deteriorated even further because of poor weather. The 1972 crop of usable grain is now estimated a roughly 128 million tons -- more than 10 percent below 1971 output. Recent reports of negotiations for more grain from West Germany and Romania may reflect a reassessment of the country's immediate needs. Confirmed purchases now total more than 26 million tons worth \$1.7 billion.) }

CIWR
13 Oct 72

Soviet Harvest Problems Persist*
("The grain harvest is still behind schedule. Deteriorating weather conditions jeopardize its completion...They (the Soviets) now say this year's grain crop will be no more than 160-167 million tons compared with the 181 million tons harvested in 1971. We estimate that gross grain production will be 160 million tons...foreign grain purchases stand at about 28 million tons for delivery by mid-1973...")

CIB Brief
18 Oct 72

USSR
("There is a near record lag in completing the grain harvest -- ten percent of all grain still had not been threshed as of 9 October.")

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