

# RADIO FREE EUROPE *Research*

## COMMUNIST AREA

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● USSR: Agriculture

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### DECLINING WHEAT MOUNDS AND SOVIET RESPONSE

The Soviet Union has contracted to purchase 336 million bushels of wheat and flour (9.15 million metric tons) from Canada over the next three years at a cost of 800 million Canadian dollars, it was disclosed simultaneously in Moscow and Ottawa on June 20th.<sup>1</sup> The agreement goes into effect this year on 1 August, with an initial shipment of 112 million bushels during the first year.

Canadian officials said it was the largest sale in history for a fixed quantity of wheat, and exceeded by almost three million tons the amount purchased by the USSR following its disastrous harvest of 1963. However, that deal covered one year.

What issues prompted the Soviet Union to engage in the forward buying of wheat to ensure its supplies for the next three years? Particularly at a time when the 1966 grain harvest looks promising? To date, the winter wheat seedings in European Russia, apart from the north Caucasus, indicate a good harvest; even in the unreliable expanses of new land in Kazakhstan and Siberia, all signs now point to a decisive improvement over the disastrous harvest in 1965. Then too, many of the innovations in agrarian policy enacted since the fall of Khrushchev were expected to yield positive returns in a short time. Why then the decision to engage in forward buying of wheat for a three year term? It comes not wholly unexpectedly as high level Soviet and Canadian trade delegations were exchanged earlier in the month.

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1) UPI, 20 June 1966; NYT, 21 June 1966.

The primary reasons shape up as follows:

- 1) The ever dwindling supplies of wheat in the world. The virtual disappearance of the world surplus of grains is the most significant development in the world's grain economy, according to an FAO announcement.<sup>2</sup> The Kremlin acted rationally to stabilize its wheat supplies at advantageous prices. Besides, Canadian wheat is of the highest quality and supplements the soft Russian wheat.
- 2) The two principal competitors on the free markets are China and the USSR. China has generally operated on the basis of three year contracts for minimal quantities of wheat from Canada and Argentina with the option of raising its quota if desired. To strengthen its buying position vis-a-vis its ideological adversary in the Communist world, the USSR has now considered it essential to base its buying on a three year basis to meet the competition.
- 3) Despite the Kremlin's many innovations to build up its lagging agricultural sector and solve its grain problem, the decision to forward contract wheat purchases is an implied admission that the new leadership lacks confidence in their ability to solve the grain problem within the short run by ensuring adequate amounts for domestic consumption, reserves, and meeting basic trade commitments.

#### World Wheat Stocks

World wheat exports are expected to reach 56 million tons (grain and flour) during 1956/66, of which the United States will furnish about 21 million tons, and along with Canada, will account for 70 percent of the global exports.<sup>3</sup> For the coming trade year, July 1966/June 1967, these levels will rise by five to seven percent, it is estimated. Besides the U.S. and Canada, Argentina and Australia follow in that order as primary exporters. France and Rumania are moderate traders in wheat. Among the world's four leading wheat producers, China and the USSR are hard-pressed to meet domestic requirements and now form a bloc, along with India, of the main importers of wheat. The FAO estimates that at present four-fifths of the world's inhabitants live in food deficit areas. This leads up to the crucial issue -- where are the wheat stocks in the world?

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- 2) FAO release, 18 April 1966.
  - 3) USDA, The Wheat Situation, October 1965.

# Wheat Stocks of Major Exporting Countries<sup>4</sup>

(In millions of metric tons)

	<u>Av. 1954-58</u>	<u>Av. 1959-63</u>	<u>July 1966-Est.</u>
U.S.A.	26.5	35.5	16.0 <sup>5</sup>
Canada	17.3	14.2	9.0
Argentina	1.6	1.5	--
Australia	1.7	1.5	1.0

Thus, the four main wheat exporting countries belong to the free world, and in recent years have supplied over 90 percent of the net world trade. The drop in available supplies has been progressive: since 1959-63 there has been a 52 percent decline in wheat stocks among the four countries. The current carryover stocks in the United States have now reached a point where they no longer are within the "manageable surplus" designation, rather they may be at less than desirable reserve level. With the sustained demand for wheat on the world open market, and the commitments to India and other recipients of special aid programs, the United States has re-examined its wheat cropping program this Spring. As a result, President Johnson has authorized American farmers to plant an additional 3.1 million hectares of diverted cropland to wheat this autumn and next Spring.<sup>6</sup> Since 1961, an average of 23.2 million hectares of land has been withheld from grain production each year under the grain diversion and soil conservation programs. The might of this "soil bank" reserve can best be seen in perspective in that it exceeds the total cultivated cropland of four East European Communist bloc countries.<sup>7</sup>

- 4) State of Food and Agriculture 1965, FAO, p. 227. In wheat trading, the previous year's crop is used for trade. Thus, as the trade year begins in July, it is the stocks on hand at that date that determine the major share of the exportable grain for the year ahead. A new crop is not traded until the following summer, or at best by Spring.
- 5) Based on projections of the USDA, Foreign Agriculture, 25 April 1966, p. 6.
- 6) NYT, 6 May 1966.
- 7) Poland, Czechoslovakia, Hungary and Bulgaria.



With the new Soviet contract, Canada, already bound by its trade commitments to China, other Communist countries, and, in addition, to its regular customers in the free world, will be virtually out of the market for new orders in the next three years. The Canadians will be fully able to meet their commitments, however, unless an unusual drought occurs. Thus, the Soviet contract has practically committed the major stocks of wheat in the world except those of the United States. Argentina, likewise, has no appreciable reserve and the Australian stocks are committed to China, the UAR, and New Zealand. In addition, the U.S. is the only country now able to add substantially to its output of wheat grain. By 1967, under President Johnson's order to expand wheat acreage by 15 percent, an estimated five and a half million tons of wheat will be added to the reserves of the following year. This would represent a 20 percent increase in wheat output in a year's time.

In an emergency, the United States could still plant 20 million hectares of rich land in reserve to wheat and other grains. But it would take several years time to complete the transformation of meadowland to grain fields. Only in the event of a precipitate harvest failure in one or more strategic granaries of the world, would the short-run outlook become critical. In the intermediate run, the U.S. has the resources to provide adequate amounts of wheat to needy areas as well as to maintain its normal trade relations with the free world. These are dynamic factors in the world agricultural and political revolution that cannot fail to be appreciated by the developing nations. The rise of the two Communist ideological adversaries as the principal competitive purchasers of free world grain is an anomaly and an irony that begs a Marxian explanation.

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