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THE SOVIET FEED GRAIN PURCHASE

Summary: A bumper corn crop in the US -- 28 per cent increase over 1970 -- has made the world price of this major livestock feed so attractive that the Soviet Union has contracted to buy 136 million dollars of feed grains. Other importing Comecon countries may well follow suit, so that in the immediate future, the outlook for the critical consumer food -- meat -- looks distinctly favorable. After that the Classical law of the corn-hog cycle will become operative and fluctuations will probably reappear.

The Soviet Union has negotiated purchases of nearly \$136 million of corn and other feed grains from the United States, according to announcements in Washington. (1)

The shipments are to begin immediately from Great Lakes ports and extend to 30 June 1972. (2) They consist of

2,032,000	metric tons	<u>corn</u>	(80 million bushels)
609,560	"	" <u>barley</u>	(28 million bushels)
304,490	"	" <u>oats</u>	(21 million bushels)

Both in tonnage and in value the shipments exceed the level the Soviets bought from the USA in 1964, following the grain disaster of 1963. At that time about \$100 million of wheat was shipped to the Soviet Union. This time the order is wholly for feed grains.

The feed grains will be principally utilized as feed for pigs and poultry, animals with the highest rate of returns in relation to feed inputs. The purchase implements the decision of the current plan to raise the living standard by supplying more consumer goods of which meat stands high on the list.

What prompted the Soviets to buy feed grains in such a volume? Apart from carrying out the decision to improve the supply of meat, the primary reason appears to have been the attractive price inducement. The world corn price is now at a tempting level for the buyer: there has been a 36 cent drop in the price of a bushel of corn as against a year ago. An all-time harvest was posted in the USA--134 million metric tons this year. Corn is the main grain of the USA, accounting for over 60 per cent of the total grain harvested annually. Almost three-fourths of all grains is fed to livestock, and a minor portion is used industrially. The government lifted the planting restriction last year because of the fear of reduced yields due to corn blight. The corn disease was, however, readily brought under control through the breeding of resistant hybrid strains. A super-crop resulted, and the domestic price fell by 38 per cent.

The Soviets may also supply its Comecon partners with some of the feed grains, or substitutes. It is unlikely that any will have corn to sell to the importing countries in the bloc: Poland, GDR, and Czechoslovakia. The demand for feed grains far exceeds that for cereals. The cereal grain problem has been resolved fairly well, save for the deficient countries, Czechoslovakia and the GDR. An ever expanding demand for livestock products, particularly meat, has shifted the attention from cereals to feed grains. Practically all of Europe, East and West, is short of feed grains and the upsurge of the export trade in feed is a universal European phenomenon.

The Soviet Union has solved its cereal problem, but a hard task lies ahead to provide more feed grains. Only 22 per cent of the grain output consists of feed grains (corn and barley), just the reverse of the US crop structure.

While the Soviets have been the principal supplier of all types of grain to the importing Comecon countries, Poland, GDR and Czechoslovakia have also purchased grains and oilcake from the US, Canada, and France. The bumper corn crop in the US has made purchases particularly attractive because of the low price, and it is rather certain that other Comecon countries will follow the Soviet example and enter the feed grain market. This is because the thrust of agricultural development in the immediate and mid term future, as in all Comecon countries, is precisely in the livestock sector, and livestock is synonymous with feedstuffs, particularly where they can be grown advantageously, or alternatively, imported at bargain prices.

It is significant that while the corn price dropped by 38 per cent from that of last year, there has been virtually no change in the price of wheat and cereal grains from that of a year ago. This is a result of several countries exporting large quantities of wheat (Canada, USA, Argentina, Australia, USSR and France), while in the corn trade the USA is sole major shipper. Thus a super-crop in the US would naturally drive down the international corn price, which in turn attracts buyers. It is doubtful that the Soviet purchaser would have contracted for such large shipments if last year's prices still prevailed.

US Department of Agriculture officials are quoted as saying that the present transaction is only a first step in anticipated expanded feed grain and soybean shipments to the Soviet Union. They observed that the Soviets would be unable to make their own feed grain output keep pace with demands of domestic meat and poultry production. The trade outlook is linked to the political question of whether the Kremlin leaders will be bound by their promises to improve the diets of their people, USDA experts stated. (3)

It seems rather certain that with the prevailing bargain price in corn other communist countries will soon enter the market. It is particularly advantageous for Poland, which enjoys the privilege of the US Commodity Credit Corporation loans on surplus commodities. Such purchases would have a beneficial effect on altering the input shortage in the Polish meat problem.

Thus the bumper corn crop in the USA will redound to the benefit of importing countries and contribute to the improvement in the meat supplies of most East European countries. It is part of the classical corn-hog cycle that has ruled major feed producing nations: when the price of corn drops, pork supplies become more abundant, then vice-versa. In all Europe the immediate meat outlook for the next year is distinctly favorable. Later it may reverse itself.

- (1) New York Times, 5 November 1971.
- (2) Wall St. Journal, 8 November 1971.
- (3) Ibid.