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# Research Memorandum

RSB-69, May 3, 1968

To : The Secretary  
Through: S/S  
From : INR - Thomas L. Hughes *Thomas L. Hughes*  
Subject: Wheat Shipments and a Hard-Currency Loan: Major Elements in Evolving Soviet-Czechoslovak Relations

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In recent days, Western press reports on Czechoslovak-Soviet economic relations have portrayed Moscow's approach to the new Prague regime as alternating between the carrot and the stick. Reports that the USSR had suspended wheat shipments to Czechoslovakia during the first quarter of this year have been followed by reports of a resumption of these deliveries, indeed at an accelerated pace. And negotiations are reportedly currently underway for a Soviet hard-currency loan of \$400 million. Although both Moscow and Prague have categorically denied the reported wheat cancellation (and we have no evidence to corroborate the original story), the latter has made clear its interest in obtaining a major loan from the USSR or elsewhere. In this memorandum we comment on Czechoslovakia's dependence on Soviet wheat supplies and on its prospects of receiving a foreign-exchange credit from the USSR.

\* \* \* \* \*

## Czechoslovakia Heavily Dependent on Soviet Wheat

In recent years between one-third and one-half of Czechoslovakia's wheat consumption requirements have been met through imports, with the USSR supplying almost two-thirds of total Czechoslovak wheat imports (see table). The low figures for Soviet deliveries in 1964 and 1965 reflect

Czechoslovak Wheat Imports  
(1,000 metric tons)

	<u>1960</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Total	1,014	1,365	1,489	924	1,032
USSR	987	1,030	563	487	1,027
Canada	-	119	618	417	2

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the poor wheat harvests of 1963 and 1965 in the USSR. In 1967, for which no figures are as yet available, wheat purchases from the Soviet Union presumably remained at about the same level as in 1966 and again made up the bulk of total Czechoslovak wheat imports.

During the negotiations in 1965 for the 1966-70 long-term agreement between the USSR and Czechoslovakia the question of wheat deliveries was one of the major sources of difficulty. The USSR, presumably because of its own uncertain agricultural prospects, was apparently unwilling to undertake a definite commitment for the five-year period, and the agreement therefore did not contain a quota for Soviet wheat exports. However, following a Brezhnev visit to Prague, a contract was signed in December on Soviet grain deliveries amounting to 1.3 million tons for 1966. The same amount was agreed on for 1967. The Soviet-Czechoslovak trade protocol for 1968, which was signed last December, did not mention wheat among the commodities to be supplied by the USSR this year, but Czechoslovak sources have referred to a contract for 1968 involving 1.1 million tons of wheat. According to Rude Pravo, talks are currently underway on increasing Soviet grain deliveries this year by 100,000 tons, but the report did not specify what portion, if any, will be wheat.

It is worth noting that the USSR even during 1964-66, when it had become a major net importer of wheat involving the expenditure of large amounts of hard currency, continued to supply wheat to its East European allies while discontinuing exports to most free world customers. At present the Soviet supply situation is far more favorable since the outstanding 1966 crop was followed by a good one in 1967. In 1967 the USSR again became a net exporter, with total sales abroad on the order of 5 million tons. So far Moscow has not yet contracted for the full 3 million tons available under its long-term agreement with Canada in the current delivery year (August 1967 to July 1968), presumably reflecting its evaluation of an unstrained supply situation. The USSR was also reported to have sold several hundred thousand tons to the Netherlands, Norway, and Italy earlier this year and has also recently offered 110,000 tons to Brazil.

Czechoslovakia has supplemented Soviet deliveries by purchases from Canada since October 1963, when it concluded a five-year agreement with Canada, providing for Czech wheat purchases of at least 1.24 million tons of wheat, on credit terms of 10 percent cash and the balance in 24, 30, and 36 months. Additional quantities could be purchased for cash. By the end of 1967 Canada had delivered 1.06 million tons under the agreement, plus an additional 130,000 tons outside the agreement, slightly less than half for cash and the remainder on the same credit terms as above. According to Canadian press reports, the Czechs

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are expected  
for a moment



are expected to sign another five-year agreement this autumn, probably for a somewhat smaller amount than the one expiring this year.

Czechoslovak Uses for Foreign Loans

For weeks the Czechoslovak Government has hinted at its interest in obtaining a sizable hard-currency loan, although it has made clear its intention of first applying to the USSR for such a credit before turning to the West. The utility to Prague of such a loan is readily apparent. Although Prague has assets in long-term nonconvertible commodity claims on developing countries and on the USSR and other socialist trading partners, it has incurred very substantial hard-currency liabilities with developed Western countries. Czech sources have stated that the country's debt to the West exceeds \$400 million. (more than \$150 million in government-guaranteed credits is known to have been owed to NATO countries alone as of mid-1967.) To consolidate and finance a portion of its outstanding indebtedness, and to restructure and modernize the economy along the lines now being contemplated, would appear to require an infusion of foreign exchange of at least the magnitude recently suggested by Deputy Premier Ota Sik--about \$500 million.

Although there is no indication of Czechoslovakia's inability to meet its current commitments in the absence of a hard-currency loan (Prague recently took advantage of an improved balance-of-trade position with the West last year to purchase some gold in the West), it is clear that without it the Czechoslovak economy would not be able to undertake the broad new programs it contemplates as quickly as it would prefer. The terms of such a credit, however, have been made quite explicit by Prague. Rude Pravo has asserted that "our economy is not in such a state in which it could not do without a loan," and that any loan it accepts would have to be without "political strings" and be used in a "proper way--that is, that it will help effectively to create means for its repayment."

Although there will undoubtedly be pressure by some reformers to use the foreign exchange for quick acquisition of Western consumer goods to provide a visible "demonstration effect" of the success--and the promise--of the economic reform, there appears to be stronger sentiment that any such loan would not be used "the way the Poles used the Soviet credit after the events of 1956, just to calm the people." A key figure in promoting Czechoslovakia's economic reform reportedly stated that the government had not yet drawn up its shopping list for making use of a Soviet loan, but that the main aim would be to stimulate productivity and profitability. He said that uses under consideration included purchasing licenses for the chemical and metallurgical

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industries and some consumer products. Other projects under consideration were hotels, highway construction equipment, and an expansion of transport and warehousing facilities.

Prague would Welcome Soviet Loan

On balance, we believe Prague would be receptive to a Soviet loan offer--provided Moscow would be willing to offer such a credit and if it demanded no political quid pro quo and imposed no restrictions on its use. Clearly, available opportunities in the West for a loan of about the magnitude discussed are limited. Moreover, Czech planners are evidently concerned about adding substantially to their already sizable Western indebtedness, and a Soviet foreign-exchange credit which required repayment in Czechoslovak goods would certainly ease Prague's debt service burdens. The advantages offered by Czechoslovakia's newly acquired liquidity, in terms of an increased access to Western goods and technology, and an enhanced credit rating in the West would, however, be lessened to the extent that Prague would be required to mortgage a substantial share of its most competitive exports to the USSR for some time to come.

On the other hand, Moscow has taken an increasingly dim view of events in Prague, and it is far from certain that it is prepared to lend Czechoslovakia foreign-exchange in an amount which would equal roughly one-quarter of its gold and foreign-exchange reserves and in the process reduce its capabilities to pay for its own high-priority import requirements from the West. Although there are precedents for Soviet gold and foreign-exchange loans (the USSR has extended more than \$400 million in such credits to socialist countries), there have been none approaching this magnitude. However, if, as is likely to be the case, the sum ultimately agreed upon is less than the \$400 million mentioned in press reports, and if the Soviet credit were phased over several years, it would seem well within Soviet capabilities to extend it. If the Soviets should balk at Czechoslovak requests for hard-currency credits as being too ambitious, Prague will probably increase its efforts to secure Western export credits or industrial cooperation deals.

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