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JET 5/10/2005

File Folder SOVIET UNION-GRAIN EMBARGO

FOIA

F06-114/8

Box Number 27

YARHI-MILO

2706

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
10034	MEMO	CLARK TO PRESIDENT REAGAN <i>R 9/30/2008 F06-114/8</i>	2	ND	B1
10035	MEMO	CLARK RE POSSIBILITY OF US-USSR GRAIN AGREEMENT <i>R 8/20/2007 NLRRF06-114/8</i>	4	ND	B1
10036	MEMO	PIPES TO CLARK PROPOSED EXTENSION OF U.S.-SOVIET GRAIN <i>R 9/30/2008 F06-114/8</i>	1	7/22/1982	B1
10038	PAPER	ISSUE PAPER U.S.-USSR GRAIN AGREEMENT <i>R 9/30/2008 F06-114/8</i>	9	ND	B1
10037	MEMO	USSR: CONSEQUENCES OF A FOURTH CONSECUTIVE POOR GRAIN CROP	1	ND	B1 B3
10041	CABLE	USSR <i>D 3/16/2011 F2006-114/8</i>	2	8/27/1982	B1 B3
10042	CABLE	191824Z OCT 82 <i>D 3/16/2011 F2006-114/8</i>	1	10/19/1982	B1 B3
10043	CABLE	191731Z OCT 82 <i>D 3/16/2011 F2006-114/8</i>	1	10/19/1982	B1 B3
10040	MEMO	ROBINSON TO CLARK RE SOVIET AND FARM GROUPS REACTION TO GRAIN ANNOUNCEMENT	1	10/19/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

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10044	CABLE	182228Z OCT 82 D 3/16/2011 F2006-114/8	1	10/18/1982	B1	B3
10039	PAPER	USSR: 1982 GRAIN HARVEST UPDATE R 9/30/2008 F06-114/8	1	11/1/1982	B1	

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MEMORANDUM

NATIONAL SECURITY COUNCIL

5130

*US-USSR
grain*

~~SECRET ATTACHMENT~~

ACTION

July 21, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM: ROGER W. ROBINSON *RWR*

SUBJECT: US-USSR Grain Agreement

Attached at Tab I is a memorandum to the President concerning the US-USSR Grain Agreement for your signature.

Bailey, Nau, Rentschler, and Blair concur.

RECOMMENDATION

That you sign the memorandum at Tab I to the President.

Approve _____

Disapprove _____

Attachments

Tab I Memo to the President
 A Interagency Group Memo
 B Issue Paper on Grain Agreement

DECLASSIFIED
White House Guidelines, August 28, 1997
By *snf* NARA, Date *7/23/02*

~~SECRET ATTACHMENT~~

~~SECRET~~

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~~SECRET~~

MEMORANDUM

5130

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK
SUBJECT: US-USSR Grain Agreement (N)

Issue

The timing and substance of your decision concerning how best to proceed on a US-USSR grain accord given the close connection that exists between the Grain Agreement and the Polish and Soviet sanctions. (S)

Facts

At the interagency meeting of July 20, representatives of State, Defense, Agriculture, Commerce, USTR, CIA and NSC met to consider the timing of your announcement concerning the Grain Agreement and the scenario for advance consultations with the allies (Tab A). As any understanding on grain is widely perceived as connected with our sanctions policy, the interagency group recommended that prior to your announcement of a decision the SIG IEP have an opportunity to analyze the measures announced by the Polish authorities today and that we first consult with the allies about the significance of these measures. These consultations will most likely be held at NATO on July 26 or 27. Therefore, it is recommended that the decision not be announced before July 31. This suggested timetable is based on compelling foreign policy considerations, although domestic factors make an early announcement desirable. (S)

Discussion

The foreign policy considerations center on preserving the consistency and credibility of our policy of encouraging the allies to exercise economic restraint toward the USSR and participate in sharing some of the burden of our economic measures of December 1981 (Tab B). Another one-year extension of the LTA with no change in the minimum, under present circumstances, would be generally acceptable to our farmers, Congress, and the allies. The farmers, for instance, are well aware that the Soviets are facing a fourth consecutive poor harvest (perhaps as low as

~~SECRET~~

Review on
July 21, 1988

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NLRR F06-114/8#10034

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BY 105 JARA DATE 9/30/08

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~~SECRET~~

158 mmt) and will need to import at least 40-50 mmt during the year October 1982-September 1983. The Soviets can only get 30 mmt from non-US sources, and US farmers are therefore virtually guaranteed of Soviet purchases well in excess of any likely increased minimum. Soviet demand levels will ensure a firming trend in grain prices with or without an increased minimum. A decision not to request an increase in the minimum would have the added advantage of not requiring negotiations with the Russians (a simple exchange of notes would be sufficient) and would avoid sending a signal to our detractors at home and abroad that the Polish situation has improved enough to permit the interpretation of a return to "business as usual." (S)

Attachments

Tab A Interagency Group Memo
Tab B Issue Paper on Grain Agreement

Prepared by:
Roger Robinson

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DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

SECRETARY

MEMORANDUM FOR: WILLIAM P. CLARK
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS

FROM: Interagency Group

SUBJECT: Possibility of US-USSR Grain Agreement

The representatives from State, Defense, Agriculture, Commerce, USTR, CIA and NSC met at Treasury to consider the timing of any announcement and the scenario for consultations with the allies if a decision is ultimately made to extend in any way the US-USSR Grain Agreement.

The conclusions of the group were:

1. The grain agreement is sufficiently connected with East-West economic issues in general (including sanctions) that no decision on the agreement should be taken until (a) the U.S. Government has had an opportunity to analyze any measures that the Poles announce on July 22, the Polish National Day, and (b) the U.S. Government consults with the allies as to what the reaction to the sanctions should be, i.e., to what extent, if any, do the measures warrant relaxation of sanctions.

2. Consultations with the allies will most probably be at NATO on Monday, July 26. Therefore, a decision on the agreement should not be taken before the end of July.

3. The need for consultations with the allies will to some degree be affected by the extent to which Polish actions call for a relaxation of some sanctions. If Polish action is minimal and the U.S. Government eventually decides on extension of agreement, from a foreign policy point of view we would want to delay the announcement, but from a domestic standpoint the delay should be as short as possible. Before any announcement, or before any approach to the Soviets, the NATO countries and Japan, Australia and New Zealand need to be informed.

DECLASSIFIED

NLRR F06-114/8 #10035

BY CU NARA DATE 8/20/07

A

U.S.- U.S.S.R. GRAIN AGREEMENT

ISSUE

The EC is extremely critical of the U.S. grain sales to the U.S.S.R. while this country presses for cooperation on trade sanctions against the Soviets. The current U.S.-U.S.S.R. Grain Agreement will expire on September 30, 1982 and the Administration must decide soon whether to negotiate a new agreement, extend the current one, or allow it to expire. ✓

I. BACKGROUND

Soviet food policy shifted in the early 1970's from one of living with wide variation in grain supplies and slow growth in production of livestock products to one of raising the trend in livestock output and using grain imports to balance surges and shortfalls in production. The first indication of the new policy came in 1972 when the Soviets purchased 19 million tons of grain in U.S. markets within 3 months. In the wake of continued volatile and largely unpredictable purchases from the U.S., the Ford Administration suspended sales in 1975 until the U.S.-U.S.S.R. long-term grain agreement (LTG) was negotiated. The agreement required minimum Soviet purchases (6 mmt) and allowed them to purchase 2 million additional tons without consultation. The purchases were to be evenly spaced over the year. Purchases above 8 million tons could be made only after consultations with U.S. officials. During 1976-79, when the agreement was in force and before the January 1980 embargo, grain sales were less volatile than previously and the U.S. share of the Soviet market increased. Although the embargo was lifted in April 1981, the Soviets have only purchased U.S. grain residually to other supplies, notably from Argentina, Australia, and Canada. This pattern has been reinforced by the postponement of negotiations on a new agreement in the aftermath of the Polish Declaration of Martial Law. As a result, the U.S. has slipped from supplying a peak of over 70 percent of U.S.S.R. grain imports to around 40 percent. Only a fourth consecutive poor U.S.S.R. crop will prevent the U.S. share from declining even further in 1982/83.

II. DISCUSSION

Soviet Requirements. The U.S.S.R. has imported over 100 mmt of grain since June 1979, and will likely import another 40-45 mmt by July 1983. It now appears that the volatility in grain import requirements is being compounded by chronic failure to meet long term output goals. Total Soviet imports of food items, including e.g., meat, dairy products, sugar, vegetable oil, etc., account for 40 percent of all hard currency imports. In 1982, the total bill for agricultural products will likely increase by \$1 billion up to \$12 billion, but the total will depend on several policy and production related factors.

The Soviets are committed to ambitious food goals through the 1980's, with the intent of relying more heavily on domestic production. Although they have indicated a shift to decreased reliance on capitalist countries as a food source, the consumption goals will be difficult to meet without large-scale imports from the West.

World Grain Trade. The U.S.-U.S.S.R. Agreement is expected to have little impact on grain trading patterns in the next year. In the longer term, however, the lack of an agreement would remove the minimum levels of Soviet purchases from the U.S. Without an LTG, other exporters would likely continue their recent pattern of production expansion, to the detriment of U.S. market share in the U.S.S.R. Since 1980, Argentina and Canada have increased production by roughly 25 percent. Even larger supplies in the future will mean increased competition for non-Soviet grain trade as well.

U.S. Foreign Policy Considerations. The U.S. is pursuing, and encouraging its allies to pursue, a general policy of economic restraint with the U.S.S.R., based upon fair burden sharing in the West. A government-to-government agreement, especially one perceived as newly-negotiated, that promotes grain exports, would be regarded as an exception to that policy. It would provide Moscow with partial insurance against any future changes in grain export policy.

More specifically, negotiations with the Soviets would signal an end to one of the President's measures against the U.S.S.R. in response to the Poland crisis, undercutting the general package of Poland-related sanctions, and implying that the situation there has improved and that the U.S. is prepared to adopt a "business as usual" stance. The Soviets could be expected to promote this interpretation vigorously.

Resuming negotiations would conflict with the decision to extend extraterritorially sanctions on oil and gas equipment and technology. In the absence of real changes in Poland, resuming negotiations would undermine U.S. credibility on burden sharing and U.S. efforts to induce its allies to exercise restraint in credit and trade arrangements with the U.S.S.R.

The EEC heavily criticizes the U.S. for continuing the Grain Agreement while we request them to undertake sanctions against the Soviets. Allowing the Agreement to expire, however, is unlikely to change the Europeans' attitudes. They will see our demand for additional sanctions as unreasonable regardless of the status of the Agreement. Furthermore, even without an agreement, the Soviets are likely to continue purchasing considerable amounts of U.S. grain (at least in the next year); thus, the Europeans would accuse the U.S. of undertaking no real hardship in the near term by letting the Agreement expire. Furthermore, the Europeans seem to use the Agreement as an argumentative point and care little about the substance of grain sales.

Renegotiation of the Agreement, however, (or extension of an amended agreement with a larger minimum) might cause even more rhetoric from the Europeans. They might also refuse to undertake any further sanctions and could even reverse those already imposed.

In the absence of an agreement, the U.S. would have to take drastic action under the Export Administration Act to limit Soviet purchases from the U.S. either through export controls on all foreign customers (because of severe domestic shortages) or through use of the national security and foreign policy provisions of the Act. Thus, continuation of the current agreement would be more effective in regulating U.S.-U.S.S.R. grain trade than letting the agreement expire. Some analysts believe that a new agreement would increase Soviet vulnerability to a new embargo.

On the domestic front, the U.S. farm sector is experiencing serious economic hardships in the face of record grain supplies and low prices, as well as high interest costs and continuing increases in the prices of production items. Relieving these burdens on farmers will require continuation and possibly expansion of farm programs which will require additional budget outlays. The negotiation of a new agreement that guarantees a larger share of the Soviet market for U.S. farmers is virtually the only cost-free, market-oriented step the Administration can take to help the farm community. It is also consistent with the central feature of the Administration's farm policy--increasing agricultural exports. Farmers will regard the decision on the agreement as a test of Administration commitment to agriculture. The U.S. maritime industry also has an interest in a new agreement in order to preserve a share of the U.S.-Soviet grain trade for U.S. shipping.

US-Sov
Grain
8

MEMORANDUM

NATIONAL SECURITY COUNCIL

July 22, 1982

~~SECRET~~INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: RICHARD PIPES *RP*

SUBJECT: Proposed Extension of U.S.-Soviet Grain Purchase Agreement

I understand that consideration is being given to coupling the proposed one-year extension of the U.S.-Soviet grain purchasing agreement with current developments in Poland. Such a step, in my mind, would be a mistake for it would quite needlessly complicate public perceptions of our grain sales policy, especially in Europe. (S)

When the President lifted the grain embargo in the spring of 1981 and later extended the old agreement for one year, he did so without demanding from Moscow any reciprocity. Our justification was that grain is so widely available on world markets that no embargo on grain sales can be effective. This explanation is not water-tight but it does have a rationale and we ought to stick to it for the sake of consistency. (S)

If we were now to say that we are extending the old agreement once again for a year not because it is economically prudent to do so but because the Polish Government has released 1,200 internees we would:

-- Attach a political condition to grain sales which was not previously invoked and do so as a reward for Polish actions which really do not deserve recognition;

-- Leave ourselves open to the suspicion we are looking for a way out of our sanctions and encourage the Europeans to relax their own sanctions against Poland and the USSR; and

-- Expose ourselves to charges of hypocrisy by attaching moral and political pseudo-justifications to actions which are in reality executed for commercial reasons. (S)

The following course seems to me preferable: The President could announce some time next week that the events in Poland do not justify lifting the December 1981 sanctions on negotiating with Moscow for a Long Term Grain Agreement, for which reason we are simply extending the old agreement for yet another year. Such a measure will cause a minimum of ripples, give no excuse to the Europeans to relax their own sanctions, and make us less vulnerable to charges of hypocrisy. (S)

Bailey *MB* Robinson *RR*, Nau *N* and Dobriansky *ND* concur.

~~SECRET~~

Review July 22, 1988.

DECLASSIFIED

NLRR F06-114/8710036

BY *hvj* NARA DATE 9/30/08

ISSUE PAPER
U.S.-U.S.S.R. GRAIN AGREEMENT

SOVIET
UNION - 9
GRAIN
MAP
latest paper
draft
7/82

Issue

The current U.S.-U.S.S.R. Grain Agreement will expire on September 30, 1982. The Administration needs to decide whether it wants a formal arrangement (and, if so, what kind of formal arrangement) to govern U.S.-U.S.S.R. grain trade after September 30.

Background

U.S.-U.S.S.R. Grain Trade Prior to 1975

Agriculture is often called the Achilles' heel of the Soviet Union's economy. A harsh climate, inadequate rainfall, and poor soil make periodic crop shortfalls a virtual certainty. These problems of weather and geography are compounded by backward technology and an extremely inefficient Soviet agricultural sector.

The first sale of U.S. grain to the Soviet Union occurred in 1963 when, as a result of a major crop failure, the Soviets were compelled to import 10.4 million metric tons (mmt) of grain, including 1.8 mmt from the U.S. and 8 mmt from Canada. In the decade that followed, the Soviet Union remained a steady customer of Canadian grain producers as agricultural production in the U.S.S.R. failed to keep pace with domestic needs. The U.S., however, made no further grain sales to the Soviets during the 1960's.

Conditions in the early 1970's rekindled Soviet interest in American grain. The U.S. and the U.S.S.R. were both consciously moving toward detente. The Soviets had committed themselves to upgrading their diet, and the U.S. had ample supplies of grain to export.

In 1971, the Soviet Union purchased 3 mmt of U.S. feed grains principally to help increase their livestock and poultry production.

In 1972, adverse weather conditions caused a significant reduction in the U.S.S.R. grain harvest. Capitalizing on USDA's wheat export subsidy program and on a recently negotiated credit arrangement, the Soviet Union entered the U.S. market and in a 2-3 month period bought 19 mmt of U.S. grain, including almost 12 mmt of wheat, one-fourth of the total U.S. wheat crop.

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NLRR F06-114/8 #10038

BY NOT NARA DATE 9/30/08

10

The Soviet purchases were made confidentially and early in the season before prices adjusted to the sudden increase in demand. At the same time, global food production declined due to poor weather conditions worldwide. The outcome was a major disruption of the American agricultural market with reverberating consequences throughout the economy: grain prices shot up, leading to increases in the cost of food; the rising costs gave a general impetus to inflation; national grain reserves were depleted; and the U.S. Treasury paid large grain companies \$333 million in export subsidies and dispensed over \$46 million in shipping subsidies to help move the grain to the Soviet Union.

The U.S.-U.S.S.R. Grain Agreement

Concerned with reports of a Soviet crop failure and hoping to avoid a repeat of the 1972 scenario, the U.S. suspended grain sales to the Soviet Union in the summer of 1975 and soon thereafter began negotiating a long-term grain agreement with the Soviets. The U.S. had two basic economic objectives in negotiating such an agreement:

- o Preventing Soviet disruption of U.S. domestic markets;
- o Guaranteeing U.S. farmers a reasonable share of the Soviet market.

The negotiations resulted in an agreement that contained the following provisions:

- o The Soviets were required to purchase 6 mmt of U.S. wheat and corn, in approximately equal proportions, during each of the five years covered by the agreement;
- o The Soviets could make additional purchases of up to 2 mmt of grain during any year without consultations;
- o The U.S. guaranteed sales of up to 8 mmt of grain to the Soviet Union;
- o Consultations with the U.S. (to determine a higher supply level) were required before the Soviets could buy more than 8 mmt; however, such sales in excess of 8 mmt were not guaranteed.
- o There was an escape clause for the U.S. in the event of a major U.S. crop shortfall;
- o Purchases of wheat and corn were to be made at prevailing market prices and in accordance with normal commercial terms.

... term agreement, particularly through its provisions for regular consultations, eased the way for major expansion of U.S. grain trade with the Soviets. Moreover, as a result of the agreement, sales of American grain to the U.S.S.R. occurred with more consistency, thus avoiding the uncertainty which had plagued the U.S. market before 1975. ♢

	Total USSR Grain Imports (mmt)	US Grain Exports to USSR (mmt)	US Share of Total USSR Grain Imports (%)
FY 1973	22.5	14.1	63
FY 1974	5.7	4.5	79
FY 1975	7.7	3.2	42
FY 1976	25.6	14.9	58
FY 1977	8.4	6.1	73
FY 1978	22.5	14.6	65
FY 1979	19.6	15.3	78
FY 1980	27.0	8.3	31
FY 1981	38.8	9.5	24
FY 1982 (projected)	44.0	17.8	40

The Soviet Grain Embargo of 1980

On January 4, 1980, in response to the Soviet military invasion of Afghanistan, President Carter cancelled contracts for the sale of 13.5 mmt of U.S. corn and wheat to the Soviet Union. The U.S. also denied the Soviets access to an additional 3.5 mmt of grain which had been offered to but not yet purchased by the Soviets. Finally, shipments of soybeans, broilers, and some other agricultural products were halted.

The Soviets were able to minimize the effects of the embargo by drawing down their grain stocks and by increasing grain, soybean, rice, flour, and meat imports from non-U.S. origins, primarily Argentina, Canada, and Australia.

The Soviets have since entered into new long-term purchasing agreements with Argentina, Brazil, Canada, Hungary, and Thailand in an attempt to diversify their sources of supply and reduce the threat of future embargoes.

In April 1981, the President lifted the Soviet grain embargo. This was followed by an agreement in August to extend the expiring U.S.-U.S.S.R grain accord for an additional year through September 30, 1982. In October 1981, the U.S. offered the Soviets an additional 15 mmt of grain raising to 23 mmt the amount of U.S. grain available to the Soviets during fiscal year 1982. To date, the Soviets have purchased a total of ~~13.9~~ 13.7 mmt of U.S. wheat and corn.

U.S. Sanctions Against the Soviets in Aftermath of the Polish Declaration of Martial Law

Discussions concerning negotiation of a new U.S.-U.S.S.R. long-term grain agreement were underway within the Administration when the Polish government declared a state of martial law in December 1981. When the Soviet Union failed to respond to U.S. urgings to help restore basic human rights in Poland, the President announced a number of sanctions against the Soviets, including postponement of negotiations on a new grain agreement.

Soviet Interest in a New Long-Term Grain Agreement

Soviet grain production has declined sharply during the past three years after more than a decade of steady growth. Following a record drop of 237 mmt in 1978, the harvest fell to 179 mmt in 1979, 189 mmt in 1980, and reportedly to 158 mmt in 1981, nearly one-third below target. To avoid massive shortages, the Soviets have imported more than 100 mmt of grain since June 1979. During the marketing year ending this June, Moscow is expected to import a record 45 mmt. Moreover, last year's crop shortfall was not confined to grain. The output of sugar beets, sunflowers, and potatoes was among the worst of the past two decades.

Soviet hard currency outlays this year for all agricultural commodities -- including grain, other feedstuffs, meat, sugar, and vegetable oil -- will probably reach some \$12 billion, up about \$1 billion from last year and a sharp increase from the roughly \$8 billion spent in 1980. Altogether, food imports now account for roughly 40 percent of total Soviet hard currency purchases.

Even with massive grain imports, Moscow continues to fall further behind in its effort to deal with serious and persistent internal food shortages. Informal rationing has now spread to most parts of the country, and nearly 20 cities currently have formal coupon-rationing schemes for at least some foods. Limits on purchases of many other foodstuffs have also been imposed. The succession of poor grain harvests has had a major impact on the livestock sector by curtailing feed

13
supplies. While the Soviets can now claim more cattle and poultry than ever before, the average slaughter weight for cattle has fallen. Total meat production, which had risen to 15.5 mmt in 1979, fell to 15 mmt in 1980 and 1981. The outlook for dairy products is even gloomier. ~~Despite an increase of~~ some 600,000 cows since January 1, 1979, total milk production has declined almost 7 percent. Butter production has fallen 14 percent since 1978.

Over the short term, the Soviet supply of quality foods will probably worsen or at best stay about the same. Increased meat supplies will occur only if there is substantial distress slaughtering, and the resulting improvement would be temporary. Kremlin officials have been reluctant to order Soviet farmers to reduce herd sizes because rebuilding would take years. Feeding herds from domestic sources, however, appears to be well beyond the ability of the current regime.

Even with a strong recovery in domestic grain production, Moscow will continue to import large amounts of grain. Since last July the U.S.S.R. has purchased a record 44 mmt of grain, much of which has already been delivered. During the next marketing year (July 1982-June 1983), the Soviets will probably import 30-40 mmt of grain, in part to rebuild stocks depleted by the last three years of poor harvests. Moscow is expected to order about 11 mmt of grain for delivery during July-September 1982, with the level of subsequent purchases dependent on:

- o The size of the 1982 Soviet grain crop;
- o Hard currency constraints. Increasing Soviet hard currency constraints or a decision by Western bankers to curtail short-term credits could hamper Moscow's import intentions;
- o U.S.-U.S.S.R. trading relations; and
- o The extent to which the Soviets will allow their dependency on imported grains to grow.

The Soviets can obtain most if not all of next marketing year's grain import requirements from exporters other than the United States. Some 10 million tons of grain from Argentina, Canada, and Hungary are guaranteed to the U.S.S.R. under long-term agreements negotiated following the U.S. grain embargo in 1980. These and other exporting countries have either made commitments or are making plans to sell the Soviets an additional 15.5 mmt of grain during July 1982-June 1983. Excluding the exportable supplies of U.S. grain, there will exist on the world market 63.5 mmt of wheat and coarse grain from which the Soviets could satisfy their remaining import requirements of 5-15 mmt.

14

Wheat and Coarse Grain Exports
July 1982 - June 1983
(mmt)

Exporting Country	Projected Exports to all Destina- tions	LTA Commitments to USSR	Current Projected Sales to USSR in Excess of LTA Com- mitments	Balance for other Destina- tions or Further Sales to USSR
Canada	24.0	4.5	5.5	14.0
Australia	15.6	•	2.5	13.1
Argentina	17.2	4.0	3.5	9.7
EC	19.2	•	2.0	17.2
Thailand	3.2	0.5	-	2.7
Brazil	0.5	0.5	-	-
Other Western Countries (excluding U.S.)	8.2	•	1.0	7.2
Eastern Europe	2.1	1.5	1.0	1.1
Total Exports (excluding US and USSR)	90	11	15.5	63.5

• no LTA with USSR

16

In a May 24 speech announcing the USSR's food program for the 1980's, Soviet President Leonid Brezhnev made specific mention of the need to reduce Soviet imports of foodstuffs from "capitalist countries". Given the limited agricultural export potential of socialist countries and the activity of the Argentines, Canadians, and Australians to arrange new grain sales to the Soviet Union, it would appear that the reference to "capitalist countries" is directed at the United States.

In the same speech, Brezhnev announced a planned increase in the mean annual production of grain to 250-255 mmt for the 12th Five-Year-Plan period (1986-1990) (as compared to the actual annual average of 205 mmt during the 10th Five-Year-Plan period (1976-1980)); for meat -- a planned increase in mean annual production to 20-20.5 mmt (as compared to the actual annual average of 14.8 mmt during the 10th Five-Year-Plan period); and for milk -- a planned increase in mean annual production to 104-106 mmt (as compared to the actual annual average of 92.7 mmt during the 10th Five-Year-Plan period). The historical record of Soviet grain production instability suggests that such production goals would be extremely difficult to attain if the Soviets were to adhere to the announced policy of reducing grain imports from capitalist countries, particularly the United States.

Options

1. Allow the existing U.S.-U.S.S.R. grain agreement to expire without providing for any formal agricultural trading arrangement between the two countries after September 30, 1982.

Advantages:

- o Would be consistent with the President's announced policy of postponing negotiations on a new long-term grain agreement with the Soviets until there were improvements in the Polish situation.
- o Could be presented as the Administration's attempt to reduce governmental intervention in the international marketing of U.S. agricultural products.

Disadvantages:

- o Would lead to disruption of the U.S. grain market if the Soviets were to resume their erratic purchasing behavior of the early 1970's.
- o Would prevent U.S. farmers from maximizing their share of grain sales to the Soviet Union.
- o Would increase federal outlays for agricultural price support and production control programs and would further reduce farm income.
- o Would undermine the President's commitment to help increase agricultural exports.

2. Extend the existing U.S.-U.S.S.R grain agreement for one year.

Advantages:

- o Would maintain a formal trading arrangement that would assure U.S. farmers of some access to the Soviet market and insulate domestic users from increased market disruption.
- o Would continue the status quo, thereby avoiding the charge that the U.S. was making a concession to the Soviets in the absence of an improvement in the Polish situation.
- o Would allow for a more positive trade atmosphere with the Soviets than there would be in the absence of an agreement and thus would leave open the possibility of entering into negotiations on a new long-term grain agreement subsequent to an improvement in the Polish situation.

Disadvantages:

- o Would fail to give needed boost to farm economy.
- o Would undercut the President's commitment to help increase farm exports.
- o Could be perceived as a weakening of U.S. sanctions imposed against the Soviets as a result of the Polish situation.

17
3. Negotiate a new long-term U.S.-U.S.S.R. grain agreement before the current agreement expires. Such an agreement could embody either the framework of the existing agreement amended to provide higher minimum purchase requirements or an entirely new arrangement that would be more compatible with the private U.S. grain marketing system and the Administration's market-oriented philosophy.

Advantages:

- o Would demonstrate the President's commitment to increasing agricultural exports.
- o Would avoid disruption of U.S. grain markets.
- o Would reduce federal outlays for agricultural price support and production control programs and would help bolster sagging farm income.
- o Could promote U.S. foreign policy by increasing Soviet dependency on grain imports from the U.S.

Disadvantages:

- o Would signal U.S. retreat from sanctions imposed in response to the Polish situation and could undercut efforts to secure changes in the policies of the Jaruzelski regime.
- o Would undermine ongoing U.S. efforts to enlist the support of its allies in restricting government export credits to the Soviet bloc.
- o Would provide the Soviets much greater opportunity to press for stronger guarantee provisions.

ITEM RETURNED
TO NSC

SECRETARIAT

IN APRIL 1987

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U.S.-USSR GRAIN AGREEMENT

Q: Was your decision to extend the agreement for one year a response to General Jaruzelski's speech on July 21 concerning the potential easing of martial law?

A: No. As you know, the present agreement expires on September 30 and the issue of extending the U.S.-USSR grain agreement has been before the Administration for the past several weeks. We are currently consulting with our allies on an appropriate collective response to the announcement by Polish authorities on July 21.

Q: But isn't our policy on grain sales to the Soviet Union already linked to events in Poland?

A: Yes. In December I committed not to negotiate a new long-term agreement with the Soviet Union while Soviet-supported repression continues in Poland. I remain committed to that position.

Q: Does the extension call for any change in the minimum purchase requirements?

A: No. We will propose that the agreement be extended for one year without any changes. The minimum Soviet purchase requirement will remain at 6 million tons annually, with the possibility that the Soviets may purchase an additional 2 million tons without consultations with the U.S. Beyond that, the Secretary of Agriculture is authorized to explore the possibility of additional Soviet purchases, in the normal rounds of consultations.

Q: Won't your decision to extend the grain agreement for one year further heighten U.S.-EC tensions and reinforce the Europeans' view of the inconsistency of U.S. grain sales and the sanctions covering their equipment sales for the Siberian pipeline?

A: -- Extension of the grain agreement is consistent with our Poland-related sanctions, including the recent decision on oil and gas equipment.

-- Our sanctions on oil and gas equipment have also resulted in substantial sacrifices for American companies who are sharing the burden of defending our principles.

-- The earlier embargo in connection with Afghanistan proved that there are sufficient suppliers of this widely available commodity to seriously weaken the impact of unilateral U.S. restraint. U.S. companies, however, hold a technological advantage in key components for the pipeline making substitution extremely difficult.

-- Grain sales absorb enormous amounts of precious hard currency while the Siberian pipeline project will generate for the Soviets up to \$10 billion annually in hard currency when completed.

-- We think the Europeans, who also sell grain to the Soviet Union, understand this distinction and recognize it as consistent with U.S. policies on East-West trade.

Q: How much grain have the Soviets bought this year? Do you expect them to buy more soon?

A: So far in the sixth agreement year (October 1981-September 1982), the Soviets have bought close to 14 million tons of U.S. grain. It is hard to predict future

22

Soviet buying intentions, but we expect that new purchases might begin toward the end of the summer.

Q: Have you consulted with the allies on this announcement, and if so, what is the reaction in Europe to this proposal?

A: Yes. This decision is fully consistent with the framework developed by the allied Foreign Ministers during the January 11 meeting of the North American Council.

Q: What will happen if the Soviets refuse to extend the agreement?

A: In that case, the agreement would simply lapse and the Soviets would be free to purchase grain in the U.S. market on the same basis as any other customer, as we told the Soviets during the May 1982 consultations under the present agreement.

Q: Secretary Block has lobbied hard for a new agreement with increased minimum purchase amounts. If the situation in Poland improves, would the U.S. seek a new agreement?

A: We certainly hope that the situation there does improve but the decision today did not address what we would do if the situation in Poland "improves."

Q: Why did the Administration choose to extend the agreement as is, rather than seek an agreement with higher purchase levels?

The decision on the grain agreement was to seek to keep U.S.-Soviet grain trade on the same basis as it is now. The agreement provides for minimum annual Soviet purchases of 6 million tons, and the opportunity exists to sell additional quantities, as we have done in the past.

Prepared by:
Roger W. Robinson

UP041

R W

SOVIET IMPORTING

BY LINDA WERFELMAN

WASHINGTON (UPI) -- THE SOVIET UNION'S INCREASING RELIANCE ON IMPORTED U.S. GRAIN SIGNALS WHAT MAY BE THE MOST IMPORTANT CHANGE IN U.S.-SOVIET RELATIONS SINCE THE COLD WAR BEGAN, A STUDY BY A PRIVATE RESEARCH GROUP SAID FRIDAY.

MOSCOW IS EXPECTED TO IMPORT 46 MILLION TONS OF GRAIN THIS YEAR, MORE THAN ANY COUNTRY IN HISTORY, SAID LESTER BROWN, PRESIDENT OF WORLDWATCH INSTITUTE. THE IMPORTS WILL ACCOUNT FOR ABOUT ONE-FOURTH OF ALL THE GRAIN CONSUMED IN THE SOVIET UNION.

MUCH OF THE GRAIN COMES FROM THE UNITED STATES, WHICH HAS MOVED TO STRENGTHEN DOMESTIC GRAIN PRICES BY INCREASING SALES ABROAD.

"EACH DAY, TWO 20,000-TON FREIGHTERS LOADED WITH GRAIN NOW LEAVE THE UNITED STATES FOR THE SOVIET UNION," BROWN SAID IN THE STUDY. "THIS MASSIVE NEW FOOD CONNECTION MAY REPRESENT THE MOST IMPORTANT CHANGE IN RELATIONS BETWEEN THE TWO COUNTRIES SINCE THE COLD WAR BEGAN.

"IT DEMONSTRATES IN CLEAR ECONOMIC TERMS THAT THE UNITED STATES AND THE SOVIET UNION NEED EACH OTHER,"

THE SOVIET UNION'S PLANNED ECONOMY WAS NEVER INTENDED TO INCLUDE SUCH MASSIVE IMPORTS OF FOOD, BROWN'S STUDY SAID.

HE PREDICTED MOSCOW WILL BE FORCED TO IMPORT EVEN MORE FOOD IN THE FUTURE UNLESS THE SOVIET GOVERNMENT MAKES "FUNDAMENTAL ECONOMIC REFORMS, PERHAPS AS GREAT AS ANY SINCE THE COMMUNIST PARTY CAME TO POWER IN 1917."

IN HIS STUDY, BROWN REJECTED CLAIMS THAT BAD WEATHER IS TO BLAME FOR SOVIET FOOD SHORTAGES. INSTEAD, HE SAID THE REASON WAS A "BROAD-BASED DETERIORATION OF SOVIET AGRICULTURE THAT HAS BEEN DECADES IN THE MAKING."

IN RECENT YEARS, THE SOVIET UNION HAS BECOME THE LARGEST GRAIN IMPORTER IN THE WORLD, WITH PURCHASES FROM ABROAD ABOUT TWICE AS HIGH AS THOSE OF JAPAN, THE WORLD'S SECOND RANKING IMPORTER OF GRAIN, HE SAID.

UPI 10-01-82 11:47 AED

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**WASHFAX RECEIPT
DEPARTMENT OF STATE**

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S/S #

RECEIVED
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SITUATION ROOM

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MESSAGE NO. _____ CLASSIFICATION ~~CONFIDENTIAL~~ No. Pages 3

FROM: L.P. BREMER S/S 22540 7224
(Officer name) (Office symbol) (Extension) (Room number)

MESSAGE DESCRIPTION CABLE TO ALNATO RE PRESIDENTIAL STATEMENT ON
EXPORT SUPPLY ASSURANCES TO THE USSR

TO: (Agency)	DELIVER TO:	Extension	Room No.
NSC	MICHAEL WHEELER	395-3044	
	Bailey		
	Nau		
	Pipes		

FOR: CLEARANCE ☒ INFORMATION ☐ PER REQUEST ☐ COMMENT ☐

REMARKS: FOR CLEARANCE BY COB TONIGHT 10/14

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Department of State Guidelines, July 21, 1997
By smf NARA, Date 7/23/02

S/S Officer: *[Signature]*

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GRAIN~~CONFIDENTIAL~~

EB/OFPP/FPD:MAPETERS/BRFURNESS
 10/13/82-1520PM EXT. 23036
 E:AWALLIS

USDA: WLESHER
 USTR: DNELSON
 EB:RMCCORMACK
 L:JCROOK

EUR:RBURT
 EB/ORF:MCALINGAERT
 EB/ORF/OFPP:DFHARTANGES
 S/S:LPBREMER

IMMEDIATE ALNATO, TOKYO IMMEDIATE, CANBERRA IMMEDIATE,
 WELLINGTON IMMEDIATE
 IMMEDIATE MOSCOW, BEIJING IMMEDIATE, WARSAW IMMEDIATE

ALSO FOR USOECD, USEC

E.O. 12065: DOWNGRADE TO LOU AFTER PRESIDENTIAL
 ANNOUNCEMENT
 TAGS: EAGR, US, UR

SUBJECT: PRESIDENTIAL STATEMENT ON EXPORT SUPPLY
 ASSURANCES TO THE USSR

1. ~~101~~ THE PRESIDENT WILL SOON CLARIFY U.S. INTENTIONS
 TO REMAIN A RELIABLE SUPPLIER OF AGRICULTURAL COMMODITIES
 AND PRODUCTS. THIS WILL BE APPLIED TO THE SOVIET GRAIN
 MARKET BY INDICATING AT THE OCTOBER 28-29 CONSULTATIONS,
 THAT THE SOVIETS MAY PURCHASE UP TO 23 MILLION METRIC
 TONS OF GRAIN DURING THE SEVENTH YEAR OF THE U.S.-SOVIET
 LONG TERM AGREEMENT ON GRAIN, RECENTLY EXTENDED UNTIL
 SEPTEMBER 30, 1983. IN ADDITION TO THE 8 MILLION TONS
 ALREADY COVERED BY ASSURANCES IN THE AGREEMENT, THE U.S.
 WILL PROVIDE SAME ASSURANCES THAT IT WILL NOT USE ITS DIS-
 CRETIONARY LEGAL AUTHORITY TO INTERFERE WITH ADDITIONAL
 GRAIN SALES, PROVIDED THAT THEY ARE CONTRACTED FOR AND
 REGISTERED WITHIN THE MONTH OF NOVEMBER AND SHIPPED
 WITHIN 180 DAYS.

AW
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Department of State Guidelines, July 21, 1997

NARA, Date 7/23/02

~~CONFIDENTIAL~~

12

2. (X) AT THEIR DISCRETION, ACTION ADDRESSEES MAY NOW INFORM HOST GOVERNMENT AUTHORITIES, DRAWING ON THE ABOVE AND THE POINTS BELOW. POSTS SHOULD ASK HOST GOVERNMENTS NOT TO RELEASE THIS INFORMATION PENDING THE PRESIDENT'S ANNOUNCEMENT. THIS MAY ALSO BE USED TO RESPOND TO PUBLIC INQUIRIES FOLLOWING THE PRESIDENT'S ANNOUNCEMENT. PLEASE REPORT REACTION.

3. TALKING POINTS

-- THE U.S. FARM SECTOR IS EXPERIENCING SEVERE ECONOMIC DIFFICULTIES, WITH REAL FARM INCOME AT ITS LOWEST LEVEL IN 50 YEARS. THE ADMINISTRATION IS COMMITTED TO INCREASING U.S. FARM EXPORTS AS ONE LONG-TERM SOLUTION TO THIS PROBLEM.

-- ON MARCH 22, THE PRESIDENT PLEDGED TO CONSIDER FOREIGN POLICY EMBARGOES ON AGRICULTURAL COMMODITIES ONLY UNDER EXTREME CIRCUMSTANCES AND IN THE CONTEXT OF BROAD TRADE CONTROLS AND WITH THE SUPPORT OF OTHER NATIONS. THE PRESIDENT'S ANNOUNCEMENT IS CONSISTENT WITH THE EARLIER STATEMENT, AND REFLECTS THE DIFFICULTY OF OBTAINING THE SUPPORT OF OTHER NATIONS FOR FUTURE EMBARGOES WHICH WOULD CUT ACROSS EXISTING CONTRACTS.

-- THE AMOUNT OF GRAIN TO BE OFFERED TO THE SOVIETS, 23 MILLION TONS, IS THE SAME AMOUNT WE OFFERED LAST YEAR. WE ARE NOT MAKING THE SOVIETS A LARGER OFFER BUT ARE MAINTAINING THE STATUS QUO AS WE DID IN RENEWING THE GRAIN AGREEMENT FOR ONE YEAR RATHER THAN NEGOTIATE A NEW ONE.

-- THE EUROPEAN COMMUNITY AS WELL AS CANADA AND AUSTRALIA ARE ALSO MAJOR SUPPLIERS OF GRAIN TO THE SOVIET UNION. NONE OF US WANTS TO CURTAIL THIS NON-STRATEGIC TRADE AND WE SEE NO REASON TO DO SO.

-- THE PRESIDENT'S STATEMENT WILL REMOVE SOME OF THE UNCERTAINTY, WHICH HAS PERSISTED IN SPITE OF THE LIFTING OF THE GRAIN EMBARGO LAST YEAR, SURROUNDING THE U.S.-SOVIET GRAIN TRADE. THE 1980-81 PARTIAL GRAIN EMBARGO PLAYED AN IMPORTANT ROLE IN REDUCING THE U.S. SHARE OF THE SOVIET GRAIN MARKET, WHICH FELL FROM ABOUT 70% TO ABOUT 30%, WITH OTHER SUPPLIERS MAKING UP THE DIFFERENCE.

-- WHILE THIS STEP DOES NOT BREAK MUCH NEW GROUND, IT WILL ENHANCE THE PERCEPTION OF THE U.S. AS A RELIABLE SUPPLIER OF AGRICULTURAL PRODUCTS. IN PART, THIS MAY COUNTERACT THE DAMAGE DONE TO OUR REPUTATION FOR RELIABILITY BY THE PARTIAL GRAIN EMBARGO AND PREVIOUS CONTROLS ON FARM EXPORTS.

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13

-- (IF ASKED) IN OUR VIEW GRAIN SALES ARE FUNDAMENTALLY DIFFERENT FROM SALES OF STRATEGIC PRODUCTS OR PIPELINE EQUIPMENT AND TECHNOLOGY. GRAIN SALES ARE MADE FOR CASH OR SHORT TERM CREDIT, NOT FOR SUBSIDIZED CREDITS, IN CONTRAST TO PIPELINE SALES. GRAIN IS CONSUMED WITHIN A SHORT TIME OF ITS PURCHASE AND MAKES NO CONTRIBUTION TO THE SOVIET INDUSTRIAL BASE.

-- (IF ASKED) THE PRESIDENT HAS RESPONDED TO THE POLISH SITUATION BY INITIATING STEPS TO SUSPEND MOST-FAVORED NATION (MFN) STATUS. WE ARE MONITORING THE SITUATION CLOSELY AND, AS THE PRESIDENT HAS STATED, ARE PREPARED TO TAKE ADDITIONAL STEPS IF THE REPRESSION INTENSIFIES. INSOFAR AS THE SOVIET UNION IS CONCERNED, WE HAVE A COMPREHENSIVE AND SUSTAINED SET OF SANCTIONS IN PLACE.

4. FYI. CURRENT PLANS ARE FOR THE PRESIDENT TO MAKE THE ANNOUNCEMENT IN A RADIO ADDRESS SCHEDULED FOR 9:15 AM (WASHINGTON TIME) FRIDAY, OCTOBER 15. YY

CONFIDENTIAL

RECEIVED 14 OCT 82 18

TO CLARK FROM DARMAN, R

DOCDATE 14 OCT 82

URGENTFILE
GRAIN

KEYWORDS: GRAINS

EAST WEST ECONOMICS

USSR

MEDIA

SUBJECT: FACT SHEET RE US - SOVIET GRAIN TRADE RELATIONS FOR PRES RADIO TALK
15 OCT

ACTION: **PREPARE MEMO CLARK TO DARMAN DUE: 13 OCT 82 STATUS S FILES

FOR ACTION

FOR CONCURRENCE

FOR INFO

BAILEY

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COMMENTS ** COMMENTS DUE TO MIKE BAROODY 1930 14 OCT **

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WHITE HOUSE STAFFING MEMORANDUM URGENTDATE: Oct. 14, 1982 11:26 AM ACTION/CONCURRENCE/COMMENT DUE BY: 7:30-TonightSUBJECT: Fact Sheet: U.S.-Soviet Grain-Trade Relations

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	FULLER	<input checked="" type="checkbox"/>	<input type="checkbox"/>
MEESE	<input type="checkbox"/>	<input type="checkbox"/>	GERGEN	<input type="checkbox"/>	<input type="checkbox"/>
BAKER	<input type="checkbox"/>	<input type="checkbox"/>	HARPER	<input type="checkbox"/>	<input type="checkbox"/>
DEAVER	<input type="checkbox"/>	<input type="checkbox"/>	JENKINS	<input type="checkbox"/>	<input type="checkbox"/>
STOCKMAN	<input type="checkbox"/>	<input type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input type="checkbox"/>
CLARK	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROLLINS	<input type="checkbox"/>	<input type="checkbox"/>
DARMAN	<input type="checkbox"/> P	<input type="checkbox"/> SS	WILLIAMSON	<input type="checkbox"/>	<input type="checkbox"/>
DOLE	<input type="checkbox"/>	<input type="checkbox"/>	VON DAMM	<input type="checkbox"/>	<input type="checkbox"/>
DUBERSTEIN	<input type="checkbox"/>	<input type="checkbox"/>	BRADY/SPEAKES	<input type="checkbox"/>	<input type="checkbox"/>
FELDSTEIN	<input type="checkbox"/>	<input type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>
FIELDING	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

Remarks: Please provide comments to Mike Baroody by 7:30 tonight. This fact sheet was prepared by the Department of Agriculture and will be used in conjunction with the President's 9:15 radio address tomorrow morning. Also, please provide my office with a copy of your comments.

Thank you.

Richard G. Darman
Assistant to the President
(x2702)

Response:

U.S.-Soviet Agricultural Trade Reviewed:

U.S.-Soviet agricultural trade in the 1950s and 1960s was small due to Cold War tensions and the Soviet drive for self-sufficiency. The Soviets were net grain exporters of about 6 MMT annually.

In 1972, a poor year for Soviet agriculture, the Soviets came into the world market and purchased 13.7 MMT of U.S. grain.

In September 1975, the U.S. began to negotiate a long-term grain agreement (LTA) with the Soviets. On October 20, 1975, a 5-year agreement was signed.²

U.S. grain exports to the USSR rose over the course of the LTA, reaching a high of 15.2 MMT in 1979.

In January 1980, President Carter imposed an embargo on sales of U.S. agricultural products to the USSR.

On April 24, 1981, President Reagan lifted the embargo.

On August 5, 1981, the existing LTA which was due to expire on September 30 of that year, was extended for one year. At that time, the U.S. offered an additional 15 MMT over and above the 8 MMT already "committed" for the sixth year of the LTA.

On March 22, 1982, the President reaffirmed that agricultural exports would not be restricted because of rising domestic prices, nor would they be used as an instrument of foreign policy except in extreme cases when national security is involved. He also announced that world markets must be freed of trade barriers and unfair trade practices.

In March 1982, the Soviets made their last purchase of U.S. corn until the end of September, 1982. At that time, and over the next two weeks, purchases amounted to 1.6 MMT of corn. The last purchase of U.S. wheat was in December 1981; the Soviets have yet to reenter the U.S. wheat market.

In August 1982 the U.S.-USSR LTA was extended for an additional year.

The next U.S.-USSR consultations are scheduled for October 29 and 29, 1982.

¹July-June years.

²Among other things, the agreement called for the USSR to purchase a minimum of 6 MMT of U.S. grain annually, to be split in approximately equal shares between wheat and corn. Additionally, the USSR may purchase 2 MMT of the grains in any combination without government-to-government consultations. Purchases over and above 8 MMT of grain require government-to-government consultations.

34

STEPS THE ADMINISTRATION HAS TAKEN
TO INSURE THAT THE U.S. IS A RELIABLE SUPPLIER
OF AGRICULTURAL PRODUCTS

American farmers are the most productive, efficient, and innovative in the world. Because of this, they now supply all Americans and millions around the world with ample supplies of food and fiber. While the production from 2 out of every 5 acres is exported, we still provide the American consumer with a diet of wholesome foods of which they only spend 17 percent of their disposable income—lower than anywhere else on the face of the earth. The importance of the sector to the overall health of our economy cannot be overstated. About 20 percent of our labor force and Gross National Product are involved in the production, processing and marketing of food and fiber.

To maintain this Nation's most valuable resource and feed the hungry of the world, agricultural exports must continue to grow. This makes economic sense, we can grow it for less than anyone else.

However, some Nations seem reticent to depend on the U.S. for their food because of our past policies of cutting off exports for a variety of reasons. This is most unfortunate for the American farmer and the Nation as a whole. The Reagan Administration has taken a number of steps to assure our customers that we will be a dependable supplier of agricultural products. These steps include:

1. Lifting the Carter embargo with the Soviet Union that caused our export share to that country to drop from 70 percent to about 30 percent;
2. Enacting farm policies that include farmer owned grain reserves, to assure adequate U.S. supplies in the case of crop failure;

35
3. Extending the U.S.-USSR Grain Agreement through October 1, 1983;

4. Announcing the Reagan Doctrine on March 22, 1982, which assures that we will not cut-off food supplies for domestic price considerations; that we will not single out farm exports as a tool of foreign policy; and that we will press hard to make world agricultural trade free from subsidies and other restrictive trade practices. As President Reagan said, "the granary door is open."

It is clear, therefore, that this Administration believes that farmers deserve unfettered access to world markets and have acted accordingly. However, there have been some that still doubt our reliability as a supplier of farm products. The main concern focuses on agricultural trade with the Soviet Union. While these fears are unfounded, the President is announcing a further step to assure farmers and others of our sincerity and commitment to being a reliable supplier.

Under the current U.S.-USSR Grain Agreement, the Soviets are required to purchase between 6 to 8 million metric tons beginning October 1, 1982 through September 30, 1983. In addition, the Agreement provides for consultations for the Soviets to buy more during this time period. Such consultations are scheduled to begin in late October.

Today's announcement authorizes the Secretary of Agriculture to offer a total of up to 23 million metric tons of grain during the Agreement year. That is, 15 million metric tons over and above the 8 million metric ton level. The Soviets are expected to import around 40 million metric tons during the current year. Thus, if the Soviets purchased all of the 23 million metric tons, this would be over 55 percent of their total imports. This compares with about 30 percent of their market since the Carter embargo.

36
In addition, today's announcement provides further supply assurances beyond those contained in Article II of the Agreement. Article II assures that up to 8 million metric tons of wheat and corn will not be restricted. While grain over 8 million tons are protected under the President's agricultural export doctrine, additional supply assurances are announced today to calm the fears of some.

Specifically, any grain contracted for by the Soviets through the month of November, over and above the 8 million metric tons, will be assured of contract sanctity for up to 180 days. This means that the Soviets could contract for and be assured of delivery on the full 23 million metric tons. Thus, this policy should allay the worries that the U.S. will be a dependable supplier of grain to the Soviet Union. It also should encourage the Soviets to buy earlier which should strengthen farm prices following harvest.

1. Why are we announcing our position prior to the scheduled consultation?

-- There has been significant concern expressed by farmers and their representatives that the uncertainties regarding the U.S. position on Soviet grain sales has adversely impacted their markets.

The President's statement should remove that uncertainty, which has persisted in spite of the lifting of the grain embargo last year. The Carter grain embargo played an important role in reducing the U.S. share of the Soviet grain market, which fell from above 70% to about 30%, with other suppliers making up the difference. While this step does not break much new ground, it will enhance the perception of the U.S. as a reliable supplier. In part, this may counteract the damage done to our reputation for reliability by the Carter grain embargo and previous controls on farm exports.

2. U.S. grain supplies are nearly 40 million tons larger than last year. Prices are projected lower and you have implemented larger acreage reduction programs to reduce supplies. Why are we not offering the Soviets larger amounts consistent with our available supplies?

-- The amount of grain to be offered to the Soviets, 23 million metric tons, is the same amount we offered last year. If the Soviets purchased all of the 23 million metric tons, this would be over 55 percent of their anticipated import needs.

3. How do you reconcile this offer of grain to the Soviet with your decision on the pipeline?

-- In our view, grain sales are fundamentally different from sales of strategic products or pipeline equipment and technology. Grain sales are made for cash or short term credit, not for subsidized credits, in contrast to pipeline sales gas revenues go to the Soviet state; grain revenues go to thousands of farmers, dock workers, etc. Grain is consumed within a short time of its purchase and makes no contribution to the Soviet industrial

30.

base. The European Community, as well as Canada and Australia, are also major suppliers of grain to the Soviet Union. None of us wants to curtail this non-strategic trade and we see no reason to do so.

4. How much U.S. grain have the Soviets purchased to date, and what is the largest amount of U.S. grain the Soviets have ever purchased in one month since the agreement has been in effect?

-- The Soviets have purchased 1.6 million tons to date. The largest monthly reported purchase was 5.2 million tons in September, 1979.

However, this is reported U.S. sales and would not include sales on the books of foreign subsidiaries until transferred to U.S. companies.

5. You indicated that we will make available 23 million metric tons of grain for purchase during October 1, 1982 and September 30, 1983. But in clarifying existing policy, why do you indicate assurances will apply only to grain purchased in November and shipped within 180 days? Is this a clarification or a buy-now-or-forget-it policy?

-- In offering the additional tonnage to the Soviets, consistent with the previous year, we are extending assurances under Article II of the existing US-USSR grain agreement to grain purchased through November and shipped within 180 days, U.S. supplies of grain will be most plentiful during this period. After November they will continue to have the assurances afforded under the agricultural export policy I articulated on March 22 of this year. Also, we hope this assurance will help the Soviets be more forthcoming concerning their import requirements from the U.S. This would be very helpful to our farmers in their production plans.

6. Can you contrast the difference between Article II of the U.S.-USSR grain agreement and your agricultural export policy?

-- In principle they are one in the same. The extension of the Article II coverage is designed to clarify uncertainties which may have been a limiting factor on U.S. grain sales to the Soviet Union, and reinforce our posture as a reliable supplier.

7. Don't grain sales to the Soviets actually save them money, since their grain production costs are higher than ours?

— No. If they didn't buy from us, they would simply buy elsewhere.

Farm Groups Skeptical On Grain Offer to Soviet

By WINSTON WILLIAMS

Special to The New York Times

CHICAGO, Oct. 18 — Farm organizations, grain traders and the commodities markets reacted skeptically today to President Reagan's offer on Friday to sell 23 million tons of grain to the Soviet Union. Experts said they did not expect purchases by the Russians to exceed last year's 14.8 million tons.

Noting that the Russians have not bought any American wheat since November 1981, James F. Frahm, director of planning for the United States Wheat Associates, a marketing group, said he doubted that the President's offer would change the picture much.

"This is the Soviet reaction to trade sanctions against Poland," he said. "They're making no secret of the fact that they're going to show the U.S. that they aren't dependent on this country for food and that no sanctions can make them change their actions. In a sense they're employing a reverse embargo, a short-term boycott, against our wheat."

Corn, worldwide sales of which are dominated by American farmers, constituted most of the grain purchased last year by the Soviet Union from the United States. Wheat is available everywhere and the Soviet Union, the world's largest agricultural importer, last week bought 7.6 million tons from Canada. A week earlier, the Soviet Union negotiated an agreement to buy about a million tons of wheat from France.

A spokesman for the Chicago Board of Trade, Gene Podrazik, said of the market reaction: "It rained all over Reagan's announcement on Friday," adding, "The lack of activity on the floor today tells you how insignificant it was." Prices for grain and corn fell considerably on Friday and recovered weakly today.

Agricultural experts said that a provision in the President's offer that requires cash payment from the Russians would be a strong deterrent to Soviet purchases because the country's earnings from mineral and metals exports, particularly gold, have fallen drastically. Credits are available elsewhere, as they were with the recent Canadian and French purchases.

Indeed, financing troubles have depressed American farm exports for

much of the year. Bankers have become shy of lending to the debt-burdened Eastern bloc and the developing countries. Also, the tighter Federal budget has eliminated several export subsidy programs.

In addition, the strong dollar and record crops in many countries have held down American exports of grain and other farm crops this year. For example, Italy and France became net exporters of wheat this year.

In the first 11 months of the fiscal year 1982, which ended Sept. 30, farm exports were down 10 percent, to \$36.7 billion, practically guaranteeing that farm exports would suffer their first year-to-year decline since 1969.

Weak domestic and international prices for everything from grain to livestock to milk in the last three years have created a severe recession in the farm belt. The United States Department of Agriculture estimates that farm income will dip to \$19 billion this year, the lowest since 1933 when adjusted for inflation. Private forecasters predict an even poorer performance.

D. Gale Johnson, head of the economics department at the University of Chicago, said that the picture has seldom been worse of grain exports:

"Markets that were growing are declining. The Soviet Union is about as big as it can get. And the Common Market, instead of being an importer, is pushing all the grain it can out of that backdoor. None of it is good for the American farmer."

According to Cargill, a large privately held grain company, the value of exports to the Eastern bloc, once an important growth market for agricultural products, tumbled 54 percent in the first half of the year. For Latin America and the Caribbean, the de-

cline was 33 percent. In all developing nations, the drop was 18 percent. From 1978 to 1981, United States food exports to the developing countries grew at the rate of 22 percent annually.

Europe's Response

Special to The New York Times

PARIS, Oct. 18 — Western European allies of the United States are questioning the logic of the Reagan Administration's decision to make new grain sales to the Soviet Union, but appear to want to avoid additional sharp exchanges about East-West trade relations.

At a meeting over the weekend of foreign ministers of the Common Market countries, the Danish Foreign Minister, Uffe Ellemann-Jensen, president of the community's ministerial council, said of the American decision: "It is as valid for them to protect their interests as it is for us to protect our interests. It's like that among good friends, isn't it?"

But Mr. Ellemann-Jensen, speaking for the ministers, said they did not find "wholly convincing" the Reagan Administration's argument that the grain sales are good because they drain hard currency from the Soviet Union.

A cabinet-level official in Bonn said in response to a reporter's question that the new Christian Democratic Government had no interest in belaboring the grain sales as a justification for selling equipment to the Soviet Union for the Siberian gas pipeline, against which the Reagan Administration has imposed trade sanctions. Rather, he suggested, the Government was interested in avoiding new arguments about the issue.

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MEMORANDUM

NATIONAL SECURITY COUNCIL

October 19, 1982

CONFIDENTIALINFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: ROGER W. ROBINSON

SUBJECT: Reactions to Grain Announcement

Predictably, there has been an avalanche of harsh criticism in the European media concerning the grain announcement of last week. The domestic press, particularly the New York Times, has also devoted considerable space to playing up the perceived inconsistency and electoral opportunism of the announcement at a time of increased repression in Poland and the sensitive state of U.S.-EC relations concerning our sanctions. Examples of the adverse reactions are provided below:

European MediaUnited KingdomGuardian of London

"Two U.S. Decisions Rub Salt into Wounds" (goes on to describe ITC ruling on steel and grain announcement)

Sunday Times

"Reagan Should Seek Light Under a Kansas Bushel"

Quote: If Reagan really wants to influence the fate of Poland and the down-trodden Soviet citizenry, perhaps he should seek light under a Kansas bushel.

France

Les Echos (one of the only French newspapers sympathetic to our sanctions policy)

"U.S. Grain Sales to USSR: An Election Move"

Liberation

"Grain Sales to USSR -- Grain Politik"

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DECLASSIFIED

White House Guidelines, August 28, 1997

By smf NARA, Date 4/23/02

Le Monde

"Reagan's Grain Argument Still Not Convincing"

Quote: His argument is no more convincing than it was yesterday. It is probably true that the Soviet leaders need hard currency and that the gas contracts help them, but the need to supply their people with food is for them a much more acute problem.

France-Soir

"A Feeling We Are Being Made Fools Of"

Quote: Yesterday, two weeks before the U.S. Congressional elections, we learned that Reagan had authorized the sale of 23 million tons of grain to the USSR. To display their solidarity with the Poles, the Afghans and the Gulag prisoners, French workers must accept unemployment, but U.S. farmers can sell their grain. We have an unpleasant feeling that we are being made fools of.

FRG

Frankfurter Rundschau

"Bitter Example of Reagan's Logic"

Quote: Shultz is and was against punishing the Europeans, we should wait together with him until after November 2. Then Washington's undeniable wish to come to terms with the Europeans could be translated into action.

Frankfurter Allgemeine (conservative, several instances of support for our sanctions policy)

"U.S. About to Abandon Its Hard Line"

Quote: Domestic constraints apparently soften hard foreign policy. Perhaps the obvious inconsistency is beginning to dawn on Washington.

Italy

Corriere della Sera, Milan

"Grain Sale Announcement Can Help Reagan's Policy"

Quote: . . . it would have been logical, especially after the latest events in Poland, to have looked for a wait-and-see attitude on grain sales to the USSR.

La Repubblica, Rome

"Grain Announcement Not in Line with Actions on Pipeline?"

Quote: Whatever the commercial results, President Reagan's announcement on the grain sales does not seem to be in line with the political motivation that inspired sanctions against the European firms on the Soviet gas pipeline.

Domestic Media

Christian Science Monitor

"To Russia with Grain"

Quote: To compound the inconsistency in European eyes, the U.S. grain announcement did not even mention the latest repression in Poland What the U.S. grain announcement says is that there will continue to be inconsistency and muddle in Western trade policy until the allies work out new guidelines for East-West trade.

Washington Post, Tuesday, October 19

"Kissinger Says U.S. Erred on Sale of Grain"

Washington Times

"Reagan's Decision on Grain Puzzling"

Wall Street Journal

"Reagan Offers to Sell More Grain to Russia but Farmers Are Skeptical About Results"

Quote: Mr. Block said he continues to believe that the Russians will buy 18-20 million tons of U.S. grain despite a consensus among analysts that they will buy far less . . .

Quote: But the farm groups wanted more. Many say the President should have guaranteed commodity export contracts whenever they are let. Others called the speech an empty political ploy, as the Russians aren't likely to buy as much grain as the U.S. is offering.

New York Times

"U.S. Gives Allies Soviet Trade Plan"

Quote: Further evidence that the anti-sanctions forces were gaining strength was said to have been detected in President Reagan's announcement Friday The announcement puts the President in the position of hurting European industry . . . while aiding American farmers.

"Reagan Vows to Bite Warsaw, Feed Moscow"

Conclusion

Any further gestures to the U.S. farmers in supporting sales to the Soviet Union would only worsen the already considerable foreign policy damage in this category.

BUREAU OF INTELLIGENCE AND RESEARCH - ANALYSIS - NOVEMBER 1, 1982

1. USSR: 1982 GRAIN HARVEST UPDATE

The USSR will reap its fourth consecutive poor grain harvest this year. Improved forage and seed crops will likely preclude distress slaughtering, but meat and milk yields in the USSR will remain low, stretching out consumer shortages for at least another year. The Soviets, however, appear willing to import less grain than in 1981, including minimal amounts from the US.

* * *

The CIA and USDA estimate the 1982 crop at 165 mmt and 170 mmt, respectively. Their margin of error would allow for a maximum output of 180-185 mmt. Recent estimates from unofficial Soviet sources are in the 170-190 mmt range. At the low end of the estimate, the USSR would require imports of 45 mmt to maintain current consumption patterns. Purchases to date, however, suggest that grain imports may actually total 40 mmt during the July 1982-June 1983 marketing year, down from last year's record of 46 mmt.

Given the availability of grain from non-US sources, the Soviets would have to buy only 8 mmt from the US--an amount provided by the US-USSR Long Term Grain Agreement--to reach a total of 40 mmt. This may explain Moscow's limited purchases of US grain to date and its lack of response to the President's offer to sell an additional 15 mmt. Grain experts believe that the Soviets have nothing to lose and everything to gain by waiting to buy from the US.

Meanwhile, there has been a burst of activity in the grain market outside of the US. Canada sold 7.6 mmt in mid-October, raising its total sales to the USSR to 8.3 mmt; total Canadian sales may exceed 10 mmt this marketing year. At about the same time, the French reached an agreement (though perhaps not binding) to sell 1.5-3 mmt of wheat to the USSR annually over the next three years. Currently, Moscow is negotiating with the Argentines for another 2 mmt of coarse grains for delivery by January 1983.

According to a source in the grain trade, a deal of this size with the Argentines would keep the Soviets out of the US corn market until February. Earlier in October, a Swiss broker sold the Soviets as much as 2 mmt of new crop Argentine corn (from the harvest which begins in April 1983). Reportedly, the contract has a clause allowing for substitution of US corn as a hedge against any short-fall in the Argentine crop.

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NLRR Fol6-114/8#10839

BY WJ NARA DATE 9/30/08

GRAIN-SOVIETS

WASHINGTON (AP) -- THE SOVIET UNION HAS BOUGHT AN ADDITIONAL 775,000 METRIC TONS OF U.S. WHEAT -- ABOUT 28.4 MILLION BUSHELS -- FOR DELIVERY THROUGH NEXT SEPT. 30, THE AGRICULTURE DEPARTMENT SAID THURSDAY.

OFFICIALS SAID THE NEW SALES RAISED TO MORE THAN 4.97 MILLION METRIC TONS -- 1.98 MILLION WHEAT AND ALMOST 3 MILLION CORN -- THE AMOUNT OF U.S. GRAIN THE SOVIETS HAVE BOUGHT FOR 1982-83 DELIVERY.

A METRIC TON IS ABOUT 2,205 POUNDS AND IS EQUAL TO 36.7 BUSHELS OF WHEAT OR 39.4 BUSHELS OF CORN.

UNDER A LONG-TERM AGREEMENT, WHICH ENDS NEXT SEPT. 30, THE SOVIET UNION IS COMMITTED TO BUY AT LEAST SIX MILLION TONS OF WHEAT AND CORN EACH YEAR, WITH AN OPTION OF TWO MILLION ADDITIONAL TONS.

IF MORE THAN EIGHT MILLION TONS ARE WANTED, THE UNITED STATES MUST BE CONSULTED. FOR 1982-83, THE SOVIETS WERE TOLD THEY CAN BUY UP TO 23 MILLION TONS, 15 MILLION MORE THAN GUARANTEED IN THE AGREEMENT.

DURING THE YEAR WHICH ENDED THIS SEPT. 30, THE SOVIET UNION ALSO WAS TOLD IT COULD PURCHASE 23 MILLION TONS. IT ACTUALLY BOUGHT ABOUT 13.9 MILLION METRIC TONS, INCLUDING 6.1 MILLION TONS OF WHEAT AND 7.8 MILLION TONS OF CORN.

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