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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** BAILEY, NORMAN: FILES

**Withdrawer**

SMF 3/8/2010

**File Folder** EAST-WEST TRADE [06/17/1982-06/24/1982]

**FOIA**

F99-078/3

**Box Number** 5

ZUBER

31

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
86687	MEMO	CLARK TO THE PRESIDENT RE NSC MEETING ON SANCTIONS	4	6/18/1982	B1
86688	MEMO	BAILEY TO CLARK RE MAKING EXCEPTIONS TO CONTROLS	3	6/24/1982	B1
86689	TALKING POINTS	FOR MEETING	1	6/25/1982	B1
86690	MEMO	BAILEY TO CLARK RE LONG-TERM GRAIN AGREEMENT WITH SOVIETS	3	6/24/1982	B1
86691	MEMO	BROCK TO BLOCK/CLARK/HAIG	2	6/10/1982	B1
86692	MEMO	BREMER TO CLARK RE GRAIN AGREEMENT	1	6/22/1982	B1

**The above documents were not referred for declassification review at time of processing**

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MEMORANDUM

System II  
90403

NATIONAL SECURITY COUNCIL

June 17, 1982

~~CONFIDENTIAL~~ with  
~~SECRET ATTACHMENT~~

ACTION

*S-W T.*

MEMORANDUM FOR WILLIAM P. CLARK

THROUGH: NORMAN A. BAILEY *NB*

FROM: ROGER W. ROBINSON *RWR*

SUBJECT: NSC Meeting of June 18, 1982  
on the December 30, 1981 Sanctions on  
Oil and Gas Equipment to the Soviet Union

At Tab I is a memorandum from you to the President  
for the June 18 NSC meeting.

At Tab II are suggested talking points for your use  
at the meeting.

RECOMMENDATION:

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

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

Attachments

- Tab I Memo to President
- Tab II Your Talking Points

DECLASSIFIED  
Sec. 3.4(b), E.O. 12958, as amended  
White House Guidelines, Sept. 11, 2006  
BY NARA *Amf*, DATE *3/5/10*

~~CONFIDENTIAL~~ with  
Review June 17, 1988  
~~SECRET ATTACHMENT~~

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June 21, 1982

S-W.T.

MEMORANDUM FOR DISTRIBUTION

FROM: Bo Denisysky  
Deputy Assistant Secretary  
for Export Administration

SUBJECT: Implementing Regulations for Extraterritorial Application  
of Oil and Gas Sanctions

1. The White House has imposed a deadline of COB Monday, June 21, 1982 for submission of implementing regulations for the extraterritorial application of existing oil and gas export control regulations to the Federal Register

2. In order to meet this deadline, draft regulations must be ready for review by the Under Secretary for International Trade by 2:00 p.m. Monday, June 21, 1982. In addition, other aspects of imposing new foreign policy controls must be concluded by 3:00 p.m. Monday, June 21, 1982.

3. Accordingly, the following tasks should be completed by the specified time:

<u>Task</u>	<u>Lead/Participating Agency</u>	<u>Time (6/21/82)</u>	<u>Lead Individual/ Participant</u>
Congressional Consultations	DOC/DOS/NSC	3:00 p.m.	McKiernan/ State Congressional
Industry Consultations	IEP	3:00 p.m.	Vargo
Cost Estimates	IEP	3:00 p.m.	Vargo
Draft Regulations	DOC/DOS/DOD	Noon	Hunt/Cook
Review	DOC/DOS/DOD	4:00 p.m.	DeCain
Submission to Register	OEA	5:00 p.m.	Isadore

4. The lead individuals should submit a report to Vince DeCain, Acting Director, OEA, by COB Tuesday, June 12, 1982 detailing activities.



Distribution List

Lionel H. Olmer  
Under Secretary for International Trade  
Commerce

Fred Ikle  
Under Secretary for Policy  
Defense

Larry Brady  
Assistant Secretary for Trade Administration  
Commerce

Sherman Unger  
General Counsel  
Commerce

Earnest Johnson  
Deputy Assistant Secretary for Economic and  
Business Affairs  
State

Frank Vargo  
Deputy Assistant Secretary for Europe  
Commerce

Gerry McKiernan  
Congressional Relations  
Commerce

Vince DeCain  
Acting Director, OEA  
Commerce

Brenda Forman  
Director, Policy Planning, OEA  
Commerce

Dan Cook  
Deputy Director, Policy Planning, OEA  
Commerce

Norman Bailey  
Director, Planning and Evaluation Cluster  
National Security Council

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86688	MEMO  BAILEY TO CLARK RE MAKING EXCEPTIONS TO CONTROLS	3	6/24/1982	B1

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~~CONFIDENTIAL~~

*Bailey*

MW  
11

MEMORANDUM

4407

NATIONAL SECURITY COUNCIL

CONFIDENTIAL ATTACHMENT

INFORMATION

June 24, 1982

MEMORANDUM FOR WILLIAM P. CLARK

WPC HAS SEEN

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Talking Points for Your Meeting with Secretary Block, June 25, 1982, 3:00 p.m.

Attached at Tab I are talking points for your meeting with Secretary Block on Friday, June 25, 1982, at 3:00 p.m.

*E-W T.*

Attachment

Tab I Talking Points

CONFIDENTIAL ATTACHMENT

DECLASSIFIED  
Sec. 3.4(b), E.O. 12958, as amended  
White House Guidelines, Sept. 11, 2006  
BY NARA *amf*, DATE 3/8/10

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	<i>Document Description</i>	<i>pages</i>		<i>tions</i>
86689	TALKING POINTS FOR MEETING	1	6/25/1982	B1

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*Bailey*

231

National Security Council  
The White House

RECEIVED

Package #

4209

*W.T.*

JUN 24 P 2: 18

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	<u>1</u>	<i>[Signature]</i>	
Bud McFarlane	<u>2</u>	<i>[Signature]</i>	
Jacque Hill	<u>3</u>	<i>[Checkmark]</i>	
Judge Clark	<u>4</u>	<i>[Checkmark]</i>	<i>I</i>
John Poindexter			
Staff Secretary			
Sit Room			

I-Information A-Action R-Retain D-Dispatch

DISTRIBUTION

cc: VP Meese Baker Deaver

Other \_\_\_\_\_

**URGENT**

COMMENTS

**URGENT**

*Mtg. Friday June 25 ~~Friday~~ 3:00 P.M.*

*[Handwritten signature]*

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86690	MEMO  BAILEY TO CLARK RE LONG-TERM GRAIN AGREEMENT WITH SOVIETS	3	6/24/1982	B1

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	<i>Document Description</i>	<i>pages</i>		<i>tions</i>
86691	MEMO	2	6/10/1982	B1
	BROCK TO BLOCK/CLARK/HAIG			

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<i>Document Description</i>				
86692	MEMO	1	6/22/1982	B1
BREMER TO CLARK RE GRAIN AGREEMENT				

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DPH  
SRF

29

MAP  
latest Paper Parts  
draft

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.

2

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.

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.



23

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 crop 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

2A  
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.

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

Exporting Country	Projected Exports to all Destinations	LTA Commitments to USSR	Current Projected Sales to USSR in Excess of LTA Commitments	Balance for other Destinations or Further Sales to USSR
Canada	24.0	4.5	5.5	14.0
Australia	15.6	0	2.5	13.1
Argentina	17.2	4.0	3.5	9.7
EC	19.2	0	2.0	17.2
Thailand	3.2	0.5	-	2.7
Brazil	0.5	0.5	-	-
Other Western Countries (excluding U.S.)	8.2	0	1.0	7.2
Eastern Europe	2.1	1.5	1.0	1.1
<b>Total Exports (excluding US and USSR)</b>	<b>90</b>	<b>11</b>	<b>15.5</b>	<b>63.5</b>

\* 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:

- a. 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.
- e. 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.

78  
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.

21

Talking Points on European  
Economics and the Soviet  
Pipeline

- The European economy is in a severe recession, with stagnant growth, high unemployment and deteriorating industries.
- As a result, the European countries have reacted very negatively to the President's decision of June 18.
- In fact, trade with the Soviet Bloc is a very minor element in Western European trade. Even West Germany's trade with the Bloc is only about 2.5% of the total.
- Industrial trade with the Bloc is carried on under highly artificial conditions of term, interest rates and guarantees. It is not profitable trade, although it may keep some weak companies alive and some people at work.
- European and Japanese support for our Polish and Soviet sanctions has been at best symbolic.
- Our credit initiative was dismissed with cool contempt, as witness Mitterrand's contemptuous past-Versailles statement.
- A web of falsification, lies and deceit has been woven around the sanctions, as witness SODECO, Komatsu and Fiat.
- The Polish situation has improved not at all since December 13, 1981.
- The credibility of the President, the Administration and the country is at stake. Our allies have said they want firm, steady leadership. That is what they're getting.

38

Talking Points on the Long-  
Term Grain Agreement with  
the Soviet Union

- The parallel that is often drawn between U.S. grain sales to the Soviets and Allied sales of machinery and equipment is false and misleading.
- Sale of food to the USSR does not increase its resources, since sales are made on a cash or short-term credit basis on commercial terms.
- Rather than increasing Soviet foreign exchange availability grain purchases reduce the resources the Soviets can devote to military buildup and foreign adventures.
- The Soviets are dependent on the West for foodstuffs. The West Europeans may be liable to Soviet energy and financial blackmail later in the decade. The situations are diametrically opposite.
- Following our imposition of a partial grain embargo following the invasion of Afghanistan none of the other major food producers cooperated.
- In fact, they used the situation to replace the U.S. in the Soviet market. The EC increased food sales to the USSR 400% and became the world's fifth largest grain exporter.
- Grain is fungible, unlike machinery and equipment. There is no way to tell one bushel from another.



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