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Folder Title: USSR-Grain Embargo (02/03/1981) (1 of 3)

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File Folder USSR - GRAIN EMBARGO (2/3/81) (1)

FOIA F03-002/5 SKINNER 163

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
169586	MEMO	J. COLSON TO R. ALLEN RE MATERIALS ON GRAIN EMBARGO ***R 1/13/2012 CREST NLR-748-20-129-1-7***	1	2/3/1981	B1
169587	MEMO	TIM DEAL TO R. ALLEN RE GRAIN EMBARGO	2	2/2/1981	B1
169588	MEMO	TIM DEAL TO R. ALLEN RE GRAIN EMBARGO	2	1/29/1981	B1
169589	MEMO	FROM R.G.H. SEITZ RE INTERAGENCY WORKING GROUP ON GRAIN EMBARGO	2	1/28/1981	B1
169590	REPORT	GRAIN EMBARGO AGAINST THE USSR: OVERVIEW PAPER	9	ND	B1
169591	REPORT	RE U.S. SANCTIONS POLICY	3	ND	B1
169592	REPORT	RE IMPACT OF GRAIN EMBARGO ON USSR	5	ND	B1

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Box Number 20

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
169593	REPORT	RE US-USSR BILATERIAL GRAINS AGREEMENT	3	ND	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]
B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
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MEMORANDUM

THE WHITE HOUSE

WASHINGTON

169586

February 3, 1981

ATTACHED DOCUMENTS CONTAIN CLASSIFIED MATERIALS

MEMORANDUM FOR: RICHARD V. ALLEN

FROM: JANET COLSON

SUBJECT: MATERIALS ON GRAIN EMBARGO

ATTACHED ARE THE FOLLOWING:

TAB A: Two page summary from Tim Deal re: interagency meetings at State Department

TAB B: Briefing papers from the State Department

TAB C: Cabinet Discussion Paper forwarded to Craig Fuller by L. Paul Bremer, III, Executive Secretary, State Department

TAB D: Summary of CIA grain embargo paper (summary prepared by Deal)
Odom memo on CIA grain embargo paper
Full text of CIA grain embargo paper

TAB E: Cable from Charge Matlock re: grain embargo

TAB F: CIA Economic Denial Situation Report

TAB G: Report, from CIA Office of Economic Research (provided tonight by Situation Room per your request)

TAB H: Miscellaneous

PLEASE NOTE: In the interest of time, you have been given originals of several memoranda. When finished, please return book to me, I will make copies for an office file for you; originals will return to the central system. Thanks.

2

A

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ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restric-tions*
169587	MEMO TIM DEAL TO R. ALLEN RE GRAIN EMBARGO	2	2/2/1981	B1

MEMORANDUM

5

THE WHITE HOUSE

WASHINGTON

115
Add On

February 2, 1981

ACTION

MEMORANDUM FOR: BUD NANCE
TIM DEAL

FROM: RICHARD ALLEN

SUBJECT: Grain Embargo Review

Thank you for the 29 January memo on the grain embargo review.

By close of business Monday, 2 February 1981 I'd like a concise summary of findings based on 1500 meeting of same day. I want a quick job--with follow-up by Tuesday morning to furnish time for briefing other White House colleagues.

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ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restric-tions*
169588	MEMO TIM DEAL TO R. ALLEN RE GRAIN EMBARGO	2	1/29/1981	B1

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ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
169589	MEMO FROM R.G.H. SEITZ RE INTERAGENCY WORKING GROUP ON GRAIN EMBARGO	2	1/28/1981	B1

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THE WHITE HOUSE

WASHINGTON

January 28, 1981

MEMORANDUM FOR THE SECRETARY OF COMMERCE
SECRETARY OF AGRICULTURE
SECRETARY OF STATE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

FROM: CRAIG L. FULLER
DIRECTOR
OFFICE OF CABINET ADMINISTRATION

SUBJECT: Grain Embargo Issue

It was determined at the January 27th Cabinet meeting that the Grain Embargo issue should be discussed before the full Cabinet at next week's meeting. To facilitate the discussion, please submit a one or two-page memorandum outlining your analysis of the issue, your views and any recommendations you wish to make. This material will be assembled in the Cabinet binders and will be distributed by this office prior to the Cabinet meeting.

At the present time, the exact date and time of next week's Cabinet meeting ~~has not been~~ en set. It would be appreciated if your comments on the grain embargo issue could be received by 10 a.m., Monday, February 2nd.

RVA: I have asked Tim [illegible] to handle

J

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B

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ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
169590	REPORT GRAIN EMBARGO AGAINST THE USSR: OVERVIEW PAPER	9	ND	B1

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

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ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
169591	REPORT RE U.S. SANCTIONS POLICY	3	ND	B1

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20	163

ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
169592	REPORT RE IMPACT OF GRAIN EMBARGO ON USSR	5	ND	B1

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

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The Soviet Trade Suspension and U.S. Agriculture

Summary

This paper addresses the economic impacts on U.S. agriculture of certain national security and foreign policy actions related to trade with the Soviet Union--namely lifting the current sales suspension or instituting a total trade embargo. The important, possibly overriding, political considerations associated with these trade actions are not discussed in this paper.

During the remainder of the 1980-81 marketing year, a lifting of the Soviet sales suspension is not likely to have any major near term impacts on U.S. agriculture as a whole, but there would be some positive benefits for certain commodity sectors. The Soviet Union would likely purchase additional amounts of oilseed and meat products from the United States and additional corn if permitted under the grains agreement. The Soviets are unlikely, however, to purchase greater q .ties of wheat unless persuaded to do so. The increase in total U.S. exports for most of these products would not be equivalent to the increase in Soviet purchases as reductions would likely occur in some other U.S. markets. Season average prices for corn and soybeans would be up by a small amount--about 5 to 10 cents a bushel; monthly prices for the remainder of the year would be up roughly twice this magnitude. Corn prices could be expected to rise sharply immediately after an announcement of relaxing the suspension. Farm income and farm export earnings would also be up. Livestock output is not likely to be adversely impacted, although some producers may have initial concerns about feed price movements. Higher exports of poultry and pork would strengthen the market situation for these products.

Any lifting of the suspension could also be expected to affect producer's .g planting decisions and ultimately affect the size of 1981 crops.

A total trade embargo commencing in 1981 is not likely to have major near term impacts, unless shipments of the remainder of Soviet grain purchases allowed under the U.S.-USSR Grain Agreement are stopped well before April. About 3.3 million tons remain to be shipped between now and April. If this quantity were not shipped, it would have a price depressing effect on U.S. wheat and corn markets.

A lifting of the suspension would have a greater beneficial impact on U.S. agriculture during the 1981-82 marketing year than would be expected to occur in 1980-81. The size of 1981 U.S. and Soviet crops, which are highly uncertain at this time, will play a significant role in determining how large the impacts of keeping or lifting the suspension are on the United States. Assuming normal crops in the United States and the USSR, U.S. grain exports to the Soviet Union would likely increase from 8 million tons to about 15 to 20 million tons of wheat and corn, with most of the increase being corn. U.S. oilseed and meat exports would also be up. The increase in U.S. exports to the Soviets, however, would not result in an equivalent increase in total exports of these commodities. Compared with a continuation of the current suspension, 1981-82 carryover stock levels would be a bit lower and season average prices would be up about 10 cents a bushel for wheat and from 15 to 30 cents for corn and soybeans. These price increases would enhance farm income and the value of farm exports and are not expected to have any significant impact on U.S. livestock output.

A total trade embargo for 1981-82 would have the opposite effect as discussed above. U.S. exports of corn, wheat, oilseeds and meat products would be somewhat lower compared to lifting the suspension, causing prices, farm income and foreign exchange earnings to decline.

For the long term, either continuing the current suspension or initiating a total trade embargo would cause the Soviets to re-evaluate their plans for domestic crop and livestock production. Increasing the level of self-sufficiency for grains and feed as well as scaling back livestock output would seriously be considered. A total trade embargo would, of course, accelerate this. These ev[illegible] would reduce Soviet import demand for grain and feed and increase the competition of exporting nations in other markets. A lifting of the suspension, on the other hand, could restore the long run growth in Soviet import demand, which would benefit all exporters, particularly the United States.

Finally, the phosphate embargo by the United States is of some importance to both countries. It has been estimated that for each 1 million tons of superphosphates denied the Soviet Union, there is the equivalent of about 7 million tons of grain output lost. Lifting the suspension would be a significant benefit to the USSR. Pressure would be placed on the U.S. phosphate market if the suspension were lifted during the peak spring period, however, there would be less impact if the suspension were lifted beginning about June.

Background

[illegible] January 4, 1980, the United States suspended its grain sales to the Soviet Union for 1979/80 from 25 to 8 million tons. This action was taken under the Export Administration Act for national security and foreign policy reasons. Shipments of soybeans, other animal feeds, meat and phosphate fertilizer were also embargoed. The trade restrictions were directed at the important--but vulnerable--livestock sector of the Soviet Union. The suspension denied the Soviets access to 17 million tons of U.S. grain during the fourth year (October 1979 - September 1980) of the U.S.-USSR Grain Agreement. The Soviets have been able to make up less than 10 million tons of this shortfall from other suppliers. The combination of the sales suspension and the poor 1979/80 Soviet grain harvest resulted in slower growth in livestock inventories and reduced meat supplies. The suspension took on new significance recently with Soviet confirmation of a second poor har[illegible] in 1980/81 of less than 190 million tons.

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Options

Three trade options are analyzed below: 1) a continuation of the current suspension limiting Soviet grain imports to 8 million tons of grain for 1980-81 and 1981-82, 2) a lifting of the suspension sometime during the remainder of 1980-81, and 3) a total trade embargo which could commence during 1980-81 or 1981-82. The first two options assume some type of extension or renegotiation of the U.S.-USSR grains agreement due to expire in September 1981. The following discussion is intended to illustrate the economic impacts on U.S. agriculture of these three national security/foreign policy options. Impacts on grains and soybeans are highlighted, but other agricultural commodities are discussed as well. These impacts are traced for 1980-81 and 1981-82 marketing years. Some longer term implications are also discussed. Finally, there is a discussion of the phosphate embargo.

1980-81 Marketing Year

Current Suspension Continued

A continuation of the suspension for the remainder of 1980-81 would have little impact on either the U.S. or the USSR. The Soviets are expected to import about 36 million tons of grain and about 2.5 million tons of soybeans and soybean meal from the world during 1980-81. Of these imports, the U.S. is supplying 3 million tons of wheat and 5 million of corn and no soybeans or soybean meal. The Soviets have already completed making their purchases of U.S. grain. As of January 15, 1.6 million tons of wheat and 3.1 million tons of corn have been shipped. The remainding 3.3 million tons is expected to be shipped by April.

Given a continuation of the current suspension, total U.S. exports of wheat and corn during 1980-81 are expected to show modest growth over last year's levels because of strong demand in some traditional and emerging markets. Soybean exports, however, are expected to be lower.

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U.S. total wheat exports for 1980-81 are expected to reach 41.5 million tc up 10 percent from 1979/80. U.S. total corn exports are estimated at 66 million tons, up about 7 percent from the previous year. U.S. total soybean exports are estimated at 21.7 million tons, about 10 percent lower than last year. Soybean meal exports are estimated at 6.1 million tons, about 15 percent lower than last year.

The season average wheat price for 1980-81 is currently estimated to range from $3.95 to $4.15 per bushel, with a most likley level of $4.05 per bushel, up about 6 percent from last year. Corn prices are estimated to range between $3.25 to $3.60 per bushel. The most likely level is $3.40 per bushel, up about a third from last year. This higher corn price has resulted from reduced supplies because of lower yields due to drought conditions as well as increased demand here and abroad. Soybean prices have also strengthened from last year because duced production and stronger demand. The season average soybean price is estimated at $7.90 per bushel, up about one-fourth from last year.

A continuation of the current suspension would permit continued trade in some agricultural commodities besides grain and soybeans--inedible tallow, hides and skins, horticultural products, textiles and tobacco products--but would preclude trade in meats, breeding cattle, rice and other oilseed products. U.S. exports to the USSR of inedible tallow--although permitted with a validated license--fell from 100,000 tons in 1979 to 52,000 tons in 1980. Tallow shipments, valued at $28 million, were the leading U.S. agricultural exports (apart from grains and soybeans) to the USSR in 1980. Exports of 100,000 tons of tallow now are forecast for 1981.

Suspension Lifted

Lifting the suspension completely during 1980-81 would likely lead to larger Soviet purchases of U.S. corn, oilseeds and meat products. However, Soviet import capacity will limit the amount that imports can be increased. Estimates of Soviet import capacity range from about 36 to 44 million tons.

With a total relaxation of the suspension, U.S. exports of corn to the Soviet Union would likely increase by about 4 million tons. The Soviets would prefer purchasing more corn from the U.S. rather than buying small lots of minor feed grains and rye from other exporters. If this happened, some of the grain from the other exporters previously destined to the Soviet Union would be diverted to third country markets and would displace some U.S. grain there. As a result, total U.S. exports of corn would likely be up only 2 million tons compared to the levels assumed under a continuation of the suspension. The increase in U.S. corn exports would cause a small reduction in domestic feed use as well as carryover stocks. Season average corn prices for 1980-81 would increase by a modest amount, probably by about 10 cents a bushel. However, corn prices could be expectd to rise sharply immediately after an announcement of relaxing the suspension, but then they should taper off. For season average corn prices to increase by 10 cents, monthly corn prices would have to average 15 to 20 cents higher than already expected for the next nine months.

The increase in corn prices is not likely to have a major impact on the livestock sector. Corn prices would have to rise on the order of 40 to 50 cents a bushel before substantial adjustments in livestock production would occur. Also, the later in the year the feed cost rise occurs, the less impact it is likely to have given that livestock and poultry prices are expected to strengthen in the latter part of 1981. Some livestock producers may get nervous from an initial sudden rise in corn prices and could change production plans. But the overall impact would be small unless the initial run-up in corn prices were perceived as a long term situation.

A relaxation of the suspension <u>without</u> consultations with the Soviets on the composition of grain purchases would likely have no effect on the U.S.

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wheat market. The Soviets prefer to buy corn and would probably not buy more wheat unless the U.S. tied the purchase of more corn to the purchase of more eat. Given our linking of corn purchases to wheat purchases, the Soviets might be persuaded to purchase an additional 1.0 million tons of wheat. Corn exports would then be only 3 million tons higher. If this happened, the season average prices of wheat and corn would each increase by only about 5 cents a bushel. For season average wheat prices to increase by 5 cents, monthly wheat prices would have to average about 15 cents higher than already expected over the next six months.

In the case of soybeans and soybean meal, a relaxation of the suspension would result in greater purchases from the United States.

During 1980-81, assuming the suspension is lifted, total Soviet soybean imports would increase from 1.5 to 2.0 million tons, while their soybean meal imports would increase from 1 to 1.2 million tons. Soviet imports from the U.S. uld no longer be prohibited and could amount to 1.0 million tons for soybeans and 600,000 tons for soybean meal. There would be a shift in origin for soybeans from Brazil and Argentina to the U.S.; for soybean meal there would be a shift from the EC and Brazil to the U.S. Total U.S. exports of soybeans and soybean meal would be up 200,000 tons respectively. Season average soybean prices for 1981 would be up about 10 cents a bushel higher than currently forecast.

A lifting of the suspension would also increase exports of other oilseed and oilseed product exports (in addition to soybeans and soybean meal). Following several years of poor sunflowerseed crops, and a disastrous crop in 1980, the USSR has become a major vegetable oil importer. Beginning in 1981, there are good prospects for substantial USSR imports of U.S. soybean oil, sunflowerseed oil, and perhaps sunflowerseed. The U.S. vegetable protein industry is relatively all, but a large portion of production was exported to the USSR. Lifting of

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the suspension could remove substantial hardships placed on some individual companies.

Exports of poultry meat and pork probably also could be boosted by lifting the current trade suspension. The Soviets had contracted for 65,000 tons of U.S. poultry meat at the time the embargo was imposed in January 1980 and it is likely that they would be in the market for possibly 20,000-50,000 tons of U.S. poultry meat in 1981. These exports could add a slight upward effect on domestic broiler prices which now are forecast to rise in 1981. Similarly, any large pork purchases by the USSR would tend to further boost prices. Tallow exports possibly could increase above the forecast 100,000 tons--perhaps by 15,000-25,000 tons--if the trade suspension were lifted and validated licensing requirements removed. Exports of other agricultural commodities--such as horticultural products--generally would not be expected to increase over levels currently forecast if the suspension were lifted.

For calendar year 1981, U.S. net farm income could increase $500 to $600 million as a result of normalizing trade with the Soviets. The value of U.S. agricultural exports could increase by about $1.0 billion. With slightly higher commodity prices, CCC budget outlays for 1981 commodity programs may be reduced somewhat. The reduction of CCC outlays would be small and would come primarily from somewhat lower CCC loan and inventory activity for wheat due to slightly higher farm prices associated with lifting the suspension. CCC outlays for corn and soybeans are already projected at low levels; hence, there would be little potential for further savings.

Total Trade Embargo

The impact of a total trade embargo for the remainder of 1980-81 primarily depends on timing. As noted previously, the Soviets have purchased the full 8 ..llion tons of grain for 1980-81. Only 1.4 million tons of wheat and 1.9 million tons of corn remain to be shipped. These quantities are expected to be shipped during the next two months. If these shipments were somehow suspended, U.S. grain export levels would be marginally lower. While a decline in exports of this magnitude would indicate that season average prices might decline on the order of 5 to 10 cents a bushel for wheat and corn, there may be a greater impact on markets and prices because of the perception of no trade at all with the Soviets.

Certain horticultural products and inedible tallow would experience the major effects from eliminating remaining U.S. agricultural exports to the USSR. The Soviet Union has been the leading export market for U.S. hops in several recent years. The effect of an embargo on the U.S. hops industry would be significant since the USSR accounts for 15 percent of total U.S. hop and hop product exports. This effect, however, would be tempered by the current strong demand for U.S. hops and products in both the domestic and export market. The USSR also is an important market for almonds and ranked as our third largest market in a recent year. U.S. almond exports to the USSR reached a record $17.4 million in 1980. With the uncertainty of the market in the European Community, the loss of any almond markets would be detrimental. The likely effects of an embargo on lemon growers would include both the immediate lost revenue and the possible permanent loss of the market to suppliers in the East Mediterranean basin. A total embargo would mean lost exports of at least 50,000 tons of inedible tallow, and any remaining unshipped portion of the 50,000 tons already approved for shipment in 1981. A sales loss of 50,000 tons could cause a 10-15 percent drop in domestic tallow prices. With a total embargo, U.S. textile exports to the USSR would drop by about $10 million and tobacco leaf exports would decline by an estimated $3.5 million.

1981-82 Marketing Year

For 1981-82, it is assumed for analytical purposes that U.S. and Soviet grain production would be on or near trend levels. This assumes a Soviet grain crop of about 215 million tons and a U.S. wheat crop of 71 million tons (2.6 billion bushels) and a corn crop of 199 million tons (7.8 billion bushels).

1981 Crop Uncertainties

If growing conditions are above normal, wheat production would be about 10 percent above the 71 million tons trend level. Carryover stocks would then be increased, resulting in an average farm price of wheat about 40 cents lower than under the most likely situation of $4.40 per bushel. If wheat yields are below normal, production could be about 10 percent below the most likely, and carryout would be reduced accordingly. Average farm prices of wheat could reach $5.00.

Above-normal growing conditions for corn are projected to produce a new record crop in 1981/82, about 8 percent above the 199 million tons most likely figure and carryover stocks would increase accordingly. Farm prices of corn would average about $3.15 for the season, well below the most likely projected price of $3.55. Another below-normal year would mean production would be about 8 percent below the most likely figure. Carryover stocks would be reduced to pipeline levels and the season average price would increase to $4.40 under this assumption.

Current projections place 1980/81 ending stocks of corn at a level which will just fill the pipeline. Total corn usage has averaged nearly 7.7 billion bushels a year for the past two crop years. Clearly a 1981/82 crop of at least 7.7 billion bushels will be required to maintain export markets and the domestic livestock industry with no stock rebuilding. This level of production would not support a growing domestic livestock industry or expanded exports. As already indicated, the current projection for 1981-82 is for a corn crop of 7.8 billion bushels so the margin of error is very small. Although potential yields could be greater, there is concern that yields may not rebound to the projected level, given current low soil moisture conditions throughout a large part of the country.

However, in the event of bumper harvests in either the U.S. or the USSR, or both, next year, a continuation of the current trade suspension could tip the scales toward downward pressures on U.S. and world grain prices. The presence or the absence of the current trade suspension will probably make an immediate difference of about 2-5 million tons in the volume of total USSR grain imports next year, but the domestic and world market perceptions of the longer term significance of continuation of the suspension would be a much bigger market factor in a bumper crop atmosphere. It is entirely possible that in this circumstance a continuation of the suspension could cause a substantial decline in U.S. and world grain prices next year (and in immediate subsequent years) than would be the case if the suspension were lifted.

In summary, weather conditions could play a much bigger role in price determination next year than whether or not the Soviet suspension is continued or lifted.

Current Suspension Continued

If it is assumed that the current suspension and grains agreement were continued into 1981-82, the Soviets would be able to purchase 8 million tons of wheat and corn and no soybeans or soybean meal. Based on most likely weather, there would be a modest growth in total U.S. exports of wheat and corn--perhaps an increase of 1 to 2 million tons in wheat and 2 to 3 million tons in corn due to growth in markets other than the Soviet Union. Total 1981 Soviet imports of grain would be slightly below 1980 levels.

Season average prices of wheat, feed grains and soybeans are expected to be up marginally over 1980 levels, due to continued strong demand in some markets and operation of the farmer-owned reserve program which provides producers a special reserve loan with an interest waiver.

A continuation of the current suspension into 1981-82 would permit continued trade in certain exempted products such as inedible tallow, hides and skins,

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horticultural products, textiles and tobacco products.

Suspension Lifted

If the suspension were ended, the Soviets might import as much as 15 to 20 million tons of wheat and corn from the U.S. depending on the degree to which they would try to rebuild depleted stocks and/or expand livestock feed, given the constraints on their import capacity. Soviet total grain imports would probably be about 39 million tons, up 4 million tons compared to levels under a continuation of the suspension.

Again, the Soviets would want to purchase corn and soybeans rather than wheat from the United States. U.S. exports to the Soviets could increase by 2 million tons for wheat, 6 to 10 million tons for corn and 1 million tons each for soybeans and soybean meal compared with continuing the suspension. This increase in exports to the Soviet Union, however, would not result in an equivalent increase in total U.S. exports of these commodities. Total U.S. exports would be up about 1 million tons for wheat and about 3 to 5 million tons for corn. Soybeans and soybean meal exports would be up 300,000 to 400,000 tons, respectively.

Compared with a continuation of the current suspension, 1981/82 carryover levels would be a bit lower and season average prices would be somewhat higher. Wheat prices could be up 10 cents, corn up 15 to 35 cents and soybeans up 20 to 30 cents compared to a continuation of the suspension. This level of price movement is not expected to have a significant adverse impact on the U.S. livestock sector or meat output. The overall level of prices and degree of price impact will, of course, depend on the size of U.S. and world 1981 crops as discussed previously.

A lifting of the suspension would also enhance U.S. exports and the general market situation for minor oilseeds, vegetable oils, poultry meat and pork during 1981-82.

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Total Trade Embargo

If a total trade embargo were imposed, no wheat or corn would be sold to the Soviets during 1981-82. Under these conditions, Soviet total grain imports would drop to about 30 million tons compared with 35 million tons under the current suspension and 39 million tons with the suspension lifted.

With a trade embargo, total U.S. exports of wheat to the world would be 1 million tons lower compared to a continuation of the suspension and 2 million tons lower compared to a lifting of the suspension. Season average wheat prices could be 10 to 20 cents lower under a total embargo compared to the other scenarios.

With a trade embargo, total U.S. exports of corn would be 3 million tons lower compared to a continuation of the current suspension and 6 to 8 million tons lower compared to a lifting of the suspension. Season average corn prices would be 10 to 45 cents lower compared to the other two scenarios.

A total trade suspension would not affect the current status of trade in soybeans, soybean meal and meat products since they are already embargoed.

Longer-Term Implications

The continuation of agricultural trade sanctions against the Soviet Union would have several longer-term effects that could overshadow short-term considerations. Continued trade sanctions would likely force the Soviets to re-examine their livestock production goals and move toward a policy of greater self-sufficiency.

The impact of such a decision on the Soviets, the world market, and the United States would be considerable. While some may argue that the reduced availability of grains and oilseeds resulting from an on-going suspension would cause the Soviets to invest more in domestic agriculture to supply increased meat and livestock product needs, the Soviets would probably reduce their goals in livestock production in an effort to gain greater self-sufficiency. This would entail abandoning a policy goal of increasing the supply of critical consumer goods set and reaffirmed at virtually every major planning session held over the last decade.

The adjustment implied for the world market would also be considerable. Over the last 2-3 years, the Soviets have accounted for as much as 20 percent of world grain trade. A Soviet Union committed to greater self-sufficiency might try to reduce imports 50 to as much as 75 percent and, in turn, reduce the volume of grain moving on the world market by 10 to 15 percent. This would lead to substantially lower world market prices and either the build-up of large stocks concentrated in the major exporting countries or some reversion to farm production control programs.

Given the lead role the U.S. has played in supplying grain to meet recent growth in world trade, the impact of any sustained decrease in imports would be concentrated in the United States. Reduced Soviet purchases combined with a concentration of these purchases from other exporters, such as Argentina, could result in substantially lower growth for U.S. grain exports.

A situation with no embargo or trade restrictions would provide for increased trade levels for the world and the United States. The larger export volume would benefit the United States by providing greater foreign exchange earnings and by strengthening the value of the dollar. American farmers would also benefit from higher prices and higher farm income.

The Phosphate Embargo

Another issue related to the Soviet agricultural trade suspension is phosphate fertilizer. Phosphate has been completely embargoed since February 1980.

The bulk of the agricultural soils in the USSR are acid and of low natural fertilizer; about 55 percent of them are deficient in phosphorus. Consequently, lime and phosphorus fertilizers are the limiting factors in most agricultural areas outside of Kazakhstan.

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In recent years, the USSR has experienced difficulties in mineral fertilizer production and in raising its output of phosphate relative to nitrogen and potash. Some improvement in phosphate deliveries occurred in 1979, while other mineral fertilizers declined, probably because of the new flow of superphosphoric acid (SPA) from the United States. These exports, which were nil in 1978, increased to over 500,000 short tons in 1979, valued at $93 million. They were expected to amount to 1 million tons annually between 1980 and 1997 had they not been brought under the validated export licensing procedure in February 1980.

The Effect on the USSR

Although estimates vary, it appears that if the Soviets were unable to replace the P2/05 equivalent of the embargoed SPA imports, then lost grain output would amount to about 7 million tons annually.

Since the United States is the sole large scale supplier of SPA, the Soviets suffered a serious setback in their liquid fertilizer production goals. During 1980, they countered by making adjustments in their plants to use lower-grade phosphoric acid, and made arrangements to purchase small amounts of SPA (100,000-150,000 tons) from Belgium. During 1981, the Soviets may make additional arrangements to offset the denied U.S. product, but costs are high in both plant reconfiguration and lost output.

The Effect on the United States

In the United States, a decrease in phosphoric acid prices and a decrease in production and sales followed the embargo. The sudden loss of the Soviet market and decreased U.S. demand were both factors. U.S. production of phosphate fertilizers has since increased, partly because of increased exports to other markets, and the need to rebuild inventories.

Continuing the Embargo

The USSR will probably continue its efforts to seek alternative sources of phosphates and SPA substitutes. This will continue to be difficult and costly for

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the Soviets. In the United States, markets have adjusted to the loss of a major customer.

Relaxing the Embargo

The Soviets will benefit significantly from a resumption of SPA sales. They will be able to import a product which is relatively inexpensive due to low transportation costs. They will be spared associated difficulties with trying to increase domestic production of phosphates. Most importantly, they will be able to fully utilize their expensive and high quality liquid fertlizer plants which were built to specifically use imported SPA.

The impact on the U.S. could also be considerable. If the embargo were lifted during the peak spring period of domestic use gets underway, phosphate fertilizer prices would increase significantly, possibly by 25 percent or more. Delaying action on the phosphate embargo until June would avoid the timing problem associated with new exports and seasonal demand.

Over the long run, the USSR would probably honor its commitment to import the full amount of its long-term contract with U.S. firms.

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