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# Economic Scene | Leonard Silk

## Trade Pressure On the Russians

**T**O the dismay of conservative Republicans, such as the editors of the newspaper Human Events, Ronald Reagan has strongly opposed the United States curtailment of grain shipments to the Soviet Union. And the almost certain Republican nominee has prevailed upon his party's platform committee to adopt a plank calling for the end of the curtailment, which President Carter supports as a means of bringing pressure on the Russians to get out of Afghanistan.

The ardently anti-Communist Mr. Reagan, a proponent of bigger defense spending, has apparently decided that the support of the farmers, who are hurting from lower prices and higher costs, is more important to him politically than the maintenance of ideological purity. The farmers insist that the curtailment is not hurting the Russians much, with Argentina and other grain suppliers filling in for the United States, but is hurting American farmers a great deal.

Politics aside, how much sense does it make to try to punish the Russians economically? Western European governments and industrialists think the United States is making a serious mistake in trying to cut economic relations with the Soviet Union in an effort to bring them to heel.

The Europeans warn that such pressures are likely to be counterproductive. And they are unwilling to trim their own lucrative and growing trade with the Russians.

It is easy to be cynical about the motives of either the Europeans or Mr. Reagan. Earlier Soviet leaders seemed to count on shortsighted capitalist self-interest.

Indeed, in the current issue of Foreign Affairs, the leading Italian industrialist, Giovanni Agnelli, chair-



man of Fiat and former chairman of the Italian Federation of Industry, quotes the declaration of L.B. Kamenev, a former high Soviet official, made in March 1921. He said: "We are convinced that foreign capitalists, who will be obliged to work on the terms we offer them, will dig their own grave. Foreign capital will fulfill the role Marx predicted for it. With every additional shovel of coal, with every additional load of oil that we in Russia obtain, through the help of foreign techniques, capital will be digging its grave." And Lenin said, in a famous remark, that capitalists would even sell Communists the rope with which to hang them.

Nevertheless, Mr. Agnelli disagrees with such emotive pronouncements, which he thinks pro-trade Communist leaders made to silence their hard-line critics. He warns that the United States and the West are facing particularly hard times. "Détente between the superpowers has come to a standstill," he says. "World peace is in jeopardy and mistakes now can be more hazardous than ever before."

Mr. Agnelli does not put all the blame on recent actions of the Carter Administration. On the contrary, he suggests that the most serious mistake was the

decision of the United States and Japan not to cooperate with the Soviet Union in the development of the large potential oil and gas fields of eastern Siberia, especially in the Yakutsk area. The Siberia deal, he notes, hung fire through the mid-1970's but was finally allowed to lapse for fear that it would disturb the growth of ties with China and increase Soviet military potential.

In his moving new book, "Of Blood and Hope," Samuel Pizar, an international lawyer and former United States economic counselor, shares Mr. Agnelli's view that the failure of the United States-Soviet oil and gas deal was a great opportunity lost for world peace. Mr. Pizar, who survived the Nazi murder camps of Treblinka and Auschwitz as a boy, inveighs against the arms race. He is without illusions about the repressive cruelty of the Soviet system. But he says that Soviet trade with the United States and the West, and Soviet economic and technological development, are the only feasible alternatives to the increasing danger of military confrontation.

He contends that the opposite policy of trying to block Soviet economic advance is sharply counter to Western interests. This is particularly true in energy, he says, because such a policy would force the Russians and their satellites to look to the world oil market. That additional pressure on the market, he adds, would aggravate economic conditions in the West. "Any policy that seeks to reduce the Soviet Union's access to energy at home," he says, "practically invites the Red Army to the Persian Gulf and constitutes an added danger to our security and our welfare."

He says that the hope that the United States can outspend, outbuild and outresearch the Russians on military hardware and nuclear technology is both extremely costly to the American economy and vain — likely to create greater Soviet paranoia.

Curiously enough, American electoral politics is having a contradictory effect: exacerbating tensions with the Soviet Union, especially over Afghanistan, but pushing the United States back toward economic détente with the Russians.



# Opposition to Carter Grows in Corn Belt

By WILLIAM ROBBINS  
Special to The New York Times

SPRINGFIELD, Ill., Aug. 12 — A mood of frustration and disappointment bordering on anger pervades the State Fairgrounds here, where farmers and their wives cluster around displays of tractors and combines and watch the cattle, hogs and sheep they have brought to compete for prizes.

Much of that mood reflects obstacles that President Carter must overcome if he is to hold his own in an important segment of the electorate.

Politics, as in other election years, is among the sideshows here at the fair in central Illinois in the heart of the Corn Belt. Democrats and Republicans have set up their tents near places where farmers throng to watch hog races, rooster-crowing contests and livestock and machinery shows.

## Support for Carter Disputed

Senator Charles H. Percy, Republican of Illinois, came here today to hold a hearing promoting production of gasohol from Illinois corn. And Gov. James R. Thompson, who has his own tent on the grounds, came over from the Statehouse to sign a bill freeing farmers from a sales tax on farm machinery.

William Strode, the Democratic vice chairman of Sangamon County, said in a nearby tent that there was strong support for the President from farmers here. But some farmers told a different story.

C. P. Davis, who had dropped in to pick up one of the free shopping bags Mr. Strode was handing out, said: "I'm going to be voting for some Democrats, but Mr. Carter is not one of them."

Outside, on the street leading to the machinery displays where the Governor held his bill-signing ceremony, Lloyd Leach, a farmer waiting with his neighbors, Dorritt and Margaret Sharp, said of Mr. Carter: "I helped put him in there. And now I'm going to help put him out." His neighbors seconded his view.

## Erosion of Blue-Collar Support

Central Illinois has never been strong Democratic country, although Mr. Strode said his party had been making gains here. But some politicians believe that Mr. Carter must hold his own in such

areas of Illinois, which is likely to be a pivotal state, if he is to offset an expected erosion of blue-collar support in Chicago and other Democratic strongholds.

The President faces the electorate in a year in which farmers have been buffeted by more setbacks than they could have imagined last fall, when they were harvesting bumper crops of corn and soybeans. With good prospects for exports, they were looking forward in anticipation to the unusual combination of high prices and big grain yields.

But then came the Soviet invasion of Afghanistan, followed in January by Mr. Carter's cutoff of grain sales to the Russians. The President ordered many export contracts canceled and barred any shipments of corn and wheat above the eight million tons guaranteed in a five-year agreement.

At the same time, Mr. Carter promised to buy grain and take other steps to make sure that farmers would not bear the brunt of his retaliatory move.

## Steps Termed Too Restrained

The Government did buy grain and soybeans, and the Administration encouraged farmers to put their grain into a Government-held reserve in return for price-support loans — in effect, pawning their grain for operating funds. But farmers here contend that such steps were too restrained, and note that, by April, grain prices were off 30 to 40 cents a bushel.

Then came rising interest rates, along with rising costs of supplies. Several farmers here said they were still facing repayment of loans obtained at interest rates of about 16 percent, while costs of fertilizer and fuel, two of their principal cost items, were about 30 percent higher than they were a year ago.

And then they were beset by a drought that has devastated crops on many farms in this area. Although conditions are better in other parts of the state, field after field along the 35-mile stretch between here and Decatur is covered by stubby, barren stalks, many no more than waist high. Normally, in this region of usually reliable rainfall, there would be lush stands of corn.

The farmers do not blame the President for the drought, but neither do they give him credit for a recent rebound in prices. Mr. Carter's recent action in increasing price supports for corn and soybeans, they say, has had little effect because grain prices have already risen above the level of the price supports.

## No Grain Left to Sell

Because of the drought and predictions of a short crop, corn prices are now about \$1 a bushel higher than they were last spring, but many farmers here said they had no grain left to sell. Meanwhile, the drought is expected to curtail future benefits from the price rise.

"That's all very well for farmers with grain to sell," said David Washburn. "I had to sell mine last spring to pay off debts before I could get credit for another year."

In its latest report, issued yesterday, the Agriculture Department projected a national corn harvest of 6.6 billion bushels, down sharply because of the drought from its prediction last month of 7.2 billion bushels.

What farmers here are most bitter about is the embargo on grain sales to the Soviet Union. Many contend that the embargo has hurt them severely but has had little effect on the Soviet Union.

Republicans predictably said they pre-

ferred Ronald Reagan, the Republican Presidential nominee, but Democrats in general were equally opposed to the President. It was an unscientific sampling, but the views of dozens of farmers encountered here varied little.

## 'Don't Like Being Lied to'

"I'm a Democrat and I voted for him," said young Ken Dodd, recalling that Mr. Carter, in a speech in Iowa four years ago, had taken a stand against such embargoes. "But I won't do it again. I don't like being lied to."

"His grain embargo didn't hurt anybody but the farmers," said Merle Ridgely, a farmer from Indiana. "He didn't keep any other country from selling to the Russians like he said. They got all the grain they wanted, but my income is down 30 percent."

Still, it was clear that many of the farmers were not enthusiastic about their alternatives. Most of the dozens interviewed here said they would support Mr. Reagan, but several said they would do so reluctantly.

"I don't like Carter," said Steve Hicks, who grows corn about 50 miles east of here, "but I don't much care for Reagan, either."



### McGovern Advises Carter To Drop Grain Curbs

By the Associated Press

Senator George McGovern has advised President Carter to abandon his curtailment of grain shipments to the Soviet Union as a means of restoring his popularity with farmers, the South Dakota Democrat said yesterday.

Appearing on the CBS News program "Face the Nation," Senator McGovern said that he told Mr. Carter in a telephone

conversation last Wednesday. "It would be a lot easier for those of us running in the agricultural parts of the country, which is an important part of this election, if you would drop that grain embargo."

He said Mr. Carter gave no immediate promise that he would drop the policy, but "he did say he was monitoring it closely and left open the possibility that at some stage he would" cancel it.

The Senator, the unsuccessful Democratic Presidential nominee in 1972, said the export policy, imposed after the Soviet Union sent troops to Afghanistan, "has been a disaster for the farmers of this country, and I don't think it's hurt the Soviets very much."

Mr. McGovern faces a serious challenge from James Abdnor, a Republican, for the Senate seat he has held since 1962.

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# Bergland Finds Carter Gaining Farmer Support

## Record Exports and Loans Said to Offset Embargo

By SETH S. KING  
Special to The New York Times

WASHINGTON, Sept. 12 — Two of President Carter's agricultural programs, the farmer-owned grain reserve and the drive to expand farm-export markets, have been successful enough to offset the political damage Mr. Carter suffered from the embargo on grain sales to the Soviet Union, according to Bob Bergland, the Secretary of Agriculture.

In an interview this week in his office, Mr. Bergland said that Carter tacticians believed the farm vote in five large states, Texas, Missouri, Illinois, Ohio and Michigan, could be shifted to Mr. Carter. That vote would be large enough, he contended, to decide the outcome of a close race with Ronald Reagan, the Republican nominee.

In 11 other states — Iowa, Minnesota, Wisconsin, Arkansas, Oklahoma, Tennessee, Kentucky, North and South Carolina, Alabama and Georgia — there is a rural swing vote that Mr. Bergland said he believed would go to Mr. Carter and would be a decisive factor in the President's favor.

Under Mr. Carter's major agricultural innovation, the grain reserve program, a farmer is given a loan and paid a storage fee to hold wheat and corn off the market until prices rise to prescribed levels. Then he must sell the grain and repay the loan.

### "Super" Rating From Some

"I've talked to farmers in Iowa who think the reserve is super," Mr. Bergland said. "It's enabled them to hold last year's corn and wait until prices have risen before selling it. There are dairy farmers in upstate New York who've told me the reserve has given them the chance to buy feed grains at prices that are higher than last year's but with an assured supply at prices that are not through the ceiling as they now would be without it."

Mr. Bergland acknowledged that the President's curtailment of grain sales to the Soviet Union following the Soviet incursion in Afghanistan last winter had angered many farmers and had hurt Mr. Carter politically.



Bob Bergland

But he noted that farm exports were now setting a record in volume and price as new foreign customers were found to replace the Russians.

Mr. Bergland said that the prices that farmers are now getting for their wheat and corn were at least \$1 per bushel higher, representing an increase of 25 to 30 percent, than they were at the time the embargo was imposed.

Part of this was due to this summer's drought, he acknowledged. But he insisted that the major factor in the grain price rises was the record level of grain exports to other countries that followed the embargo.

"Those export figures, and the prices resulting, are going to offset the antagonism over the embargo," he said.

Recent privately conducted polls among farmers in California and Missouri indicate that more than 55 percent of those questioned now support the President on the embargo question, Mr. Bergland said.

"This may come as a surprise," he added. "The Republicans, I think, have badly misjudged the politics of the issue. The farmers want the President to be firm with the Russians. The Republicans are making a big mistake in trying to keep this issue alive."

Texas was crucial to Mr. Carter's victory in 1976 and it will be again this year, the Agriculture Secretary said.

### Reminder on High Prices

"Certainly there are a lot of conservative farmers in that state," he went on. "But we'll be reminding them that they are enjoying some of the highest prices for their cotton any of them can remember. They know that this is largely due to the big leap in cotton exports and they also know that this is no accident, that this Administration has helped stimulate that export buying."

Mr. Bergland's estimate of the benefits the President might receive from a swing in the farm vote was not shared by those in political circles in Iowa.

The latest Iowa Poll, conducted Aug. 31 by The Des Moines Register and Tribune among farmers and small town businessmen, indicated that the President was running behind Mr. Reagan by 3 to 1. But Glen Roberts, the poll's director, said that margin might be much narrower after a poll is taken later this month.

"It's been pretty fashionable to be opposed to Carter because of the embargo," he said in a telephone interview. "But if corn should get as high as \$4 per bushel, as some farmers think, there could be a change in attitudes. Many Iowa farmers don't like a change from a known factor, like Carter, to the unknown when things are going well." Corn is now selling at more than \$3 a bushel.

Rick Morain, publisher of The Jefferson (Iowa) Bee and Herald, a Greene County Republican official whose family owns lands in this grain-rich area, said he believed that the embargo was dying as an issue among Iowa farmers.

"But that doesn't mean Carter will be helped here," he said. "There's no enthusiasm for him around here. You can count just so far on a farm votes for economic reasons. When conditions are improving for farmers, they'll often be more influenced by other factors and most of them do not like Mr. Carter. The Democrats I've heard from lately are talking about supporting John Anderson."



# Senate Acts to Halt Embargo on Grain

By MARJORIE HUNTER

Special to The New York Times

WASHINGTON, Sept. 26 — The Senate voted today to block funds for President Carter's grain embargo, a measure that would halt the eight-month-old curtailment of grain sales to the Soviet Union.

The action angered President Carter. At a White House briefing late today, his press secretary, Jody Powell, called the step "a clear mistake." He said the embargo was having an effect on the Russians and was not hurting American farmers. "If you want to talk to someone who welcomes the vote, I suggest you speak to a spokesman for the Soviet Embassy," Mr. Powell said.

Senator John Melcher, Democrat of Montana who voted to lift the embargo, termed Mr. Powell's statement "a pious announcement," adding: "Jody can put the best face on it he wants to for President Carter, but the fact is that the embargo hasn't washed with our farmers."

During the debate, Senator Adlai E. Stevenson, Democrat of Illinois, questioned the effectiveness of the embargo. Its real cost, he said, has been "a weak dollar, a chronic trade deficit, inflation and economic stagnation."

However, saying that "one mistake does not deserve another," Mr. Stevenson urged defeat of the move to end the embargo. "It would humiliate the nation and embarrass its President," he said.

With a handful of farm-state Democrats joining a majority of Senate Republicans, the action to halt the embargo was attached to a bill appropriating \$9 billion for the Departments of State, Justice and Commerce.

## Effort Rejected by House

It is unlikely, however, that the restrictive amendment, which would end the embargo, would ever become law. The House in July decisively rejected similar efforts to end it.

The Senate proposal is likely to be dropped in conference. If it is not, Representative Peter A. Peyser, Democrat of Westchester, said that he would seek to have that part of the conference report rejected by the full House.

"We had the votes before, and we can get them again," Mr. Peyser said.

With Congress prepared to recess next Thursday for almost six weeks, it is improbable that a Senate-House conference would be held before then.

The restriction on funding a continuation of the embargo was aimed at the Department of Commerce, which has responsibility for enforcing trade suspensions by withholding export licenses.

While it is unclear exactly how such a restriction would affect the embargo, it would appear to withhold funding for Commerce workers who pass upon export licenses.

## Embargo Ordered in January

The partial embargo on grain sales to the Soviet Union was ordered last Jan. 4 by President Carter to protest the Soviet Union's military intervention in Afghanistan.

Not affected by the embargo were 8 million metric tons of grain guaranteed by a five-year trade agreement between the two countries. The Soviet Union has purchased about half of that amount so far.

Farmers in grain states have complained that the embargo has cost them many millions of dollars in lost sales, despite the Department of Agriculture's expenditure of nearly \$2 billion to take off the market the grain not sent to the Russians.

Furthermore, noting that there is no across-the-board embargo on United States exports to Russia, farmers say they are being singled out to bear the full brunt of American retaliation against the Soviet Union. Republicans, at their national convention in July, included in their platform a demand for an immediate end to the embargo.

The amendment on the embargo was offered in the Senate by Larry Pressler, Republican of South Dakota. It was first rejected by a vote of 41 to 40. However, after a series of procedural maneuvers, the Senate agreed, by 43 to 39, to reconsider the amendment. The Senate then approved the amendment by voice vote.

On the key recorded vote by which the Senate agreed to reconsider, 11 Democrats joined 32 Republicans in voting yes. Voting against were 36 Democrats and three Republicans.

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# The Grain Embargo

By ROBERT L. PAARLBERG

**T**HE urge to teach someone a lesson seldom inspires sound policy. The lessons learned are too often one's own. So it is with President Carter's 1980 grain embargo. Soviet food supplies have been little affected. United States illusions about its own "food power" have been properly dispelled.

The idea of United States food power over the Soviet Union was an inevitable diplomatic byproduct of United States grain sales to the Soviet Union, which had grown very large over the past decade, seemingly in proportion to large and growing Soviet needs. The President finally decided to use this putative power on Jan. 4. . . .

In most respects, circumstances in January 1980 seemed tailor-made for a high measure of success. Because of very dry weather early in 1979, that year's Soviet grain harvest had fallen 48 million tons (21 percent) short of production targets.

To prevent a severe reduction in the size of its livestock herds, the Soviet Union had made plans, in October, to import an all-time record quantity of grain, 35 million tons, in the next 12 months.

By far the largest share of these anticipated grain imports (about 25 million tons, or nearly three-quarters of the total) were to be supplied by the United States, which had just completed a bountiful harvest.

Meanwhile, owing to record demand, a poor harvest and transport bottlenecks throughout much of the rest of the world's grain trading system, major suppliers other than the United States were less prepared than usual to assist in meeting Soviet needs. If the Soviet Union would ever be vulnerable to United States food power, this seemed the time.

Yet a closer look at the situation — and at history — might have suggested that, whenever food exports are manipulated in pursuit of noncommercial objectives, the odds are stacked heavily against success. This is because any effective exercise of food power requires an unbroken chain of favorable developments, in three distinct arenas, all at the same time.

First, *within the political system of the nation seeking to exercise food power* (in this case, the United States),

foreign policy officials must be able to maintain control over the volume and over the direction of their own food exports. This is no simple task in the United States, which has no government grain marketing board, and where powerful producer and trade groups have traditionally resisted government restrictions on overseas sales.

Second, *within the bounds of the international food trading system*, other countries and transnational corporations must be prevented from "leaking" embargoed United States grain into the target nation, through transshipment or deception. Other food-exporting countries must also be dissuaded from expanding or redirecting their own food exports to replace embargoed United States food sales to the target country.

Third, *within the political and economic system of the target nation* (in this case, the Soviet Union), the intended reduction in food imports must be adequate and appropriate to produce the desired effect.

Like a three-linked chain, the President's 1980 grain embargo had to hold at each of these points, if it was to hold over all. An embargo that fails at any one of the three will fail altogether.

As might have been expected, the President's embargo did enjoy some initial success at Point One, when for several months it received broad-based political support within the United States.

But this temporary success was possible only at a growing cost to taxpayers, and also, in part, because the embargo was simultaneously breaking down at Point Two, within the international grain trading system. There the embargo has set off a significant expansion of Soviet grain imports from nations other than the United States.

Speculating a bit, even if the embargo had somehow managed to succeed at both Point One and Two, it would probably have failed at Point Three, within the Soviet Union. ■

Robert L. Paarlberg is assistant professor of political science at Wellesley College, and research associate at the Harvard University Center for International Affairs. The above article was excerpted from the Fall 1980 issue of *Foreign Affairs*. The embargo was lifted by President Carter on Friday.

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# Reagan Suggests Ban on Soviet Trade

By HOWELL RAINES  
Special to The New York Times

COLUMBUS, Miss., Oct. 22 — Even while charging that President Carter has created a "stereotype of him as a war-monger," Ronald Reagan today repeated his pledge to increase military spending and asserted that a total quarantine on trade was "a very viable option" in dealing with the Soviet Union.

The Republican Presidential candidate's remarks reflected the conflict between his national and regional strategies as he campaigned today through three closely contested Southern states in which Reagan campaign strategists believe he can upset Mr. Carter.

Nationally, the Reagan strategy is to shift the campaign dialogue back to Mr. Carter's economic record and away from what Mr. Reagan called the "war and peace" issue and the question of the 52 American hostages in Iran. But Mr. Reagan's political advisers also said they believe that national defense is still a cutting issue in Florida, Mississippi and Louisiana, states in which Mr. Reagan is attempting to make a fatal cut into the President's Southern base.

## Endorsement of Charles Evers

So Mr. Reagan coupled his complaints about Mr. Carter's campaign tactics with some of his most bellicose language in several weeks. At Bossier City, La., this morning, he said, after pledging to cut taxes: "Now let me be completely honest with you. Also included in this program is an increase in spending for national defense to restore our margin of safety. Yes, to build those bombers. Yes, to do the things we have to do in equipment."

Upon arriving here after campaigning in Bossier City, Mr. Reagan was endorsed by Charles Evers, the black mayor of Fayette, Miss. Mr. Evers, a maverick Democrat who refused to sup-

port Mr. Carter in 1976 and once promoted George C. Wallace, the former segregationist Governor of Alabama, as a Vice-Presidential candidate, said he was attracted by Mr. Reagan's economic program.

After receiving the endorsement, Mr. Reagan visited the all-white Mississippi Sheriffs' Boys and Girls Ranch near Columbus. Cletus Metzger, board chairman of the institution for homeless children, said the ranch had a nondiscriminatory policy and planned to build a separate residence for black children. Another official said, however, that there were no such plans.

Lyn Nofziger, Mr. Reagan's press secretary, said he was under the impression that black children lived at the ranch because black children were in the group that greeted Mr. Reagan today.

Despite such developments and the sharpness of Mr. Reagan's attacks on Mr. Carter, the attention of Mr. Reagan's staff has clearly shifted toward his debate with Mr. Carter next Tuesday. Mr. Reagan will return to Washington tomorrow to begin preparing for the meeting that his advisers are convinced will decide the outcome on Nov. 4.

"There's an hour and a half left in the campaign," asserted one top aide, referring to the length of the debate.

## View of Undecided Vote as Frozen

Mr. Reagan's aides said they believed that the announcement of the debate has frozen the undecided vote that, Mr. Reagan said today, represents the "imponderable" element in the contest.

"You look over at that third column, and that's the smoking gun," Mr. Reagan said in an interview with Cable News Network today, a reference to the "undecided" column in the campaign polls.

Reflecting his staff's increasing nervousness about an "October surprise" that

would free the hostages to Mr. Carter's political benefit, Mr. Reagan vowed to quit repeating his standard statement that he has undisclosed ideas about how to resolve the crisis.

He said he had reached this decision because his remarks had been likened "by members of the media to Reagan having a secret plan." He said, "It sounds very reminiscent of Mr. Nixon having a secret plan to end the war in Vietnam, which I don't think he ever said."

## Grain Embargo Assailed as Unfair

Mr. Reagan's suggestion of a total trade embargo against the Soviet Union came as he reaffirmed his standard criticism that Mr. Carter's embargo on grain sales to the Russian was an unfair hardship to the American farmers.

"I think the farmer would be the first one to volunteer," he said, "if, in the interest of national security, we were forced to say some day to the Soviet Union, 'That's all, quarantine, no trade, we're going to have no more trade with you until you do such-and-such or so-and-so.'"

He added that as an alternative to armed force an embargo "could be a very viable option, because I think the Soviet Union has a certain dependence now on things it obtains from this country."

Mr. Reagan said a quarantine might be used in response to "some kind of aggression that threatened our national security, such as a move in the Persian Gulf or something."

"I'll tell you where the idea came from — 1938," Mr. Reagan continued, recalling that President Roosevelt had proposed such a move against Nazi Germany. "And at the time he was blasted that this was somehow warmongering, to suggest such a thing. I think if you look back in hindsight we'd have to say that had we done that there might not have been a World War II."

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## *The Grain Embargo Is Felt*

**T**HIS YEAR could well turn out to be an exceedingly bad one for the world food supply. (Just to keep things from getting too easy, agricultural years coincide with neither the calendar year nor the fiscal year—they run from July to June, so that “this year” ends in June 1981.) The latest evidence comes from an unusually self-critical speech delivered by President Brezhnev to the party’s Central Committee early this week. Without being specific, Brezhnev hinted that the Soviet grain harvest would fall far below its goal of 235 million tons. How far below is not yet known, but the consensus among experts is that the harvest will be bad but not disastrous.

As it happens, the Soviet Union will not be alone in its bad luck. The U.S. harvest will be way down from last year’s. Canada and Australia have also been hit by the drought that damaged U.S. crops. And Argentina is reported to have had such a bad harvest that it has cancelled all its export contracts for the year.

This small group of four countries exhausts the list of major grain-exporting nations. Americans, accustomed to an abundant and reliable domestic food supply, find it hard to remember the extent to which they enjoy a unique situation. Just before World War II every continent except Western Europe exported grain, but today only North America is a net exporter. The United States alone produces 60 per-

cent of the world’s supply of exported grain, dominating the world grain market far more heavily than Saudi Arabia dominates world oil trade.

This control of the market brings with it enormous power. Brezhnev’s speech underscores the point. Despite the assertions to the contrary by everyone from Sen. Kennedy to Gov. Reagan to anxious farm groups in this campaign year, the U.S. grain embargo has had an effect. The Soviets are feeling the pinch and, fearful of a replay of the Polish food riots, the leadership has felt it necessary to try to explain to the Russian people why meat supplies will be short and how high a priority the government attaches to improving the management of its agricultural sector.

The effects of the embargo are proof that a cutoff of U.S. grain supply cannot be made up without drawing down world emergency reserves to dangerously low levels. In bad years, such as this one seems to be, even that option may be closed. It should really have been obvious all along. When the Soviet Union entered the international grain market in 1972, it did not willingly choose to be dependent on its principal adversary; it simply discovered that no other combination of suppliers could fill its needs. In this connection, Mr. Carter—and John Anderson, who has alone among other candidates supported the embargo—was right.

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# In a World Short of Grain, to Have Plenty Is a Mixed Blessing

By SETH S. KING

WASHINGTON — Because 1980 has been a bad year in many large grain producing countries, the world's supply of cereals is now the tightest since 1974. It is a situation that both increases President-elect Ronald Reagan's opportunities for using American food as a diplomatic tool and heightens the risk of doing so.

The Department of Agriculture forecasts that nearly 1.45 billion metric tons of grain will be harvested worldwide this year. Although this is roughly the size of last year's harvest, the world's needs are much greater, especially for feed grains that sustain meat supplies.

The United States, Canada and France, three of only five countries that export wheat in any significant quantities, have produced unusually large crops. But droughts have sharply reduced yields in Australia and Argentina, the other two large-scale wheat exporters.

In the United States, which exports nearly three times as much feed grain as all other exporting countries combined, late summer dryness cut the 1980 corn crop by 17 percent. And this country's crop of soybeans, which yield both food oil and high protein animal feed, was down 22 percent.

For the second consecutive year, heavy rains have impeded grain harvests in the Soviet Union and Eastern Europe. The Russians, who in good years often help offset food deficiencies among their closest neighbors, are now expected to harvest less than 182 million tons. This would be about as bad as last year's crop, the worst since the disastrous weather year of 1974.

In Poland, where food shortages have contributed to the

current unrest among workers, there is no longer enough pork and poultry to export and earn hard currency needed to help pay off the country's debts. The United States Department of Agriculture reported earlier this month that Poland would need to import an additional 8 million tons of grain to feed its own people and maintain its livestock breeding herds.

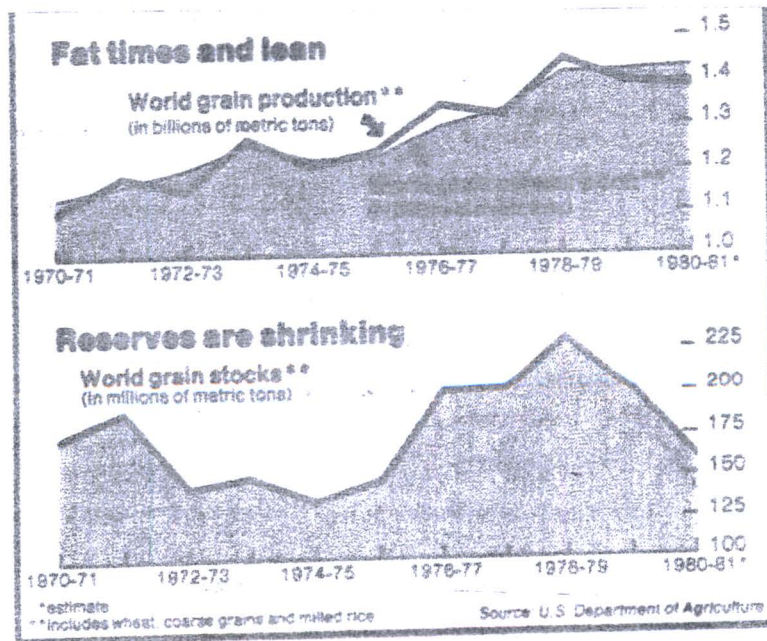
## American Grain for Foreign Larders

And the United Nations Food and Agriculture Organization has warned that before the grain harvests begin next summer, global food stocks would be down to 14 percent of world consumption. "This would be drastically below the 17 to 18 percent that we estimate to be the minimum required for world food security," the agency declared.

The tightness of world grain stocks already has touched off a scramble by importing countries for the available grain. The Agriculture Department noted last week that two-thirds of the wheat the United States expects to export in the 1980-81 crop year had already been ordered or shipped.

Despite its reduced corn and soybean crops, the United States now has enough grain in storage to meet domestic needs and continue to export record amounts. But this comparative plenty poses several questions.

For one, will Mr. Reagan continue or increase credits and special aid available under Public Law 480 to developing countries that desperately need American grain, flour and cooking oil? In the coming year, about \$1 billion has been allocated for Public Law 480 credits and assistance. Egypt, this country's best friend in the Arab world, is due to receive nearly a third of this aid. Other principal benefi-



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aries are Indonesia, Pakistan and South Korea, as well as the Sudan and Bangladesh. Some of these countries could probably buy some other food elsewhere. Some could not. But these allocations are on a dollar basis. With grain prices rising, the recipients cannot buy as much.

Last year, Iran was forced to import nearly 2 million tons of wheat and rice, with most of the wheat coming from Australia. If the American hostages are released and if Iran has no other hard currency with which to buy Australia's scarce exportable wheat, would the United States be willing to again sell grain to Iran?

Poland has asked Washington for credit with which to buy \$900 million worth of American grain. This was a sharp increase over the \$670 million President Carter has said would be available to Warsaw.

Would Mr. Reagan agree to provide all these credits to a Communist country already heavily in debt to the West? Or would he risk denying these funds for food and increase worker unrest that might result in a Soviet crackdown?

Earlier this year, after President Carter cut off further shipments of United States grain to the Soviet Union, the Russians managed to buy, from other exporters, most of the wheat and feed grains they required for meat production. In Ottawa Friday, an official said Canada was dropping out of the American-led grain embargo because it was losing too much export business.

Analysts in the Department of Agriculture now maintain that Russia will not be able to find sufficient feed grain in 1981, even though the United States already has sold the Russians the 8 million tons due in the final year of the bilateral grain trade agreement. Mr. Reagan has said he would end the embargo.

If he does, how much more would he allow the Russians to buy?

### Delicate Balances

The American grain not shipped to Russia this year has been sold to other customers. Which of these would Mr. Reagan risk shorting — and offending — next year to sell more to Russia?

And if he agreed to let the Soviet Union have all it wanted from the United States, would he be willing to risk the Russians buying up and controlling most of this country's remaining grain reserves, with world prices then soaring upward?

In the past Presidents have tried, with mixed results, to make diplomatic points with implied or real threats to withhold American exports. Under an amendment to Public Law 480 that bars food assistance to any country that routinely tramples upon its citizens' human rights, the Carter Administration secured indirect promises of better behavior from Indonesia and Guinea.

During the Nixon and Ford Administrations, Secretary of State Henry Kissinger used Public Law 480 funds to encourage this country's friends to remain faithful allies.

But employing food as a diplomatic or economic weapon can sometimes have political repercussions on the home front. American farmers are almost universally opposed to any attempts by Washington to disrupt sales of their corn, wheat and soybeans abroad.

They have never forgiven Mr. Carter for halting exports to the Soviet Union after the invasion of Afghanistan. (That was one reason farmers voted against him in such overwhelming numbers on Election Day.)

Nor did they ever forgive Presidents Nixon or Ford for halting all shipments of soybeans and corn in 1973 and in 1975, when world shortages of those commodities threatened to exhaust American supplies and push grain prices into the stratosphere.

## The world grain outlook

**Have and have-nots**  
Total cereal grains in 1980-81\* (In millions of metric tons)

Developed countries	Production	Consumption	NET EXPORTS †	
			MINUS	PLUS
United States	263.1	173.2		113.1
Canada	40.2	23.8		16.8
Common Market	118.0	120.5	3.5	
Other Western Europe	39.3	46.9	6.3	
South Africa	11.7	9.4		3.2
Japan	9.8	38.1	24.1	
Australia/New Zealand	18.6	8.7		14.4
<b>Centrally planned economies</b>				
Eastern Europe	95.6	107.6	12.2	
Soviet Union	185.0	215.0	30.0	
China	229.5	243.5	14.0	
<b>Developing countries</b>				
Central America/Mexico	20.2	28.4	8.1	
Venezuela	1.9	3.7	1.8	
Brazil	30.1	36.4	6.3	
Argentina	25.7	11.5		14.3
Other South America	7.7	11.8	3.9	
North Africa/Middle East	53.5	78.7	23.3	
Central Africa	21.9	26.7	4.8	
East Africa	10.8	12.2	1.6	
South Asia	140.8	144.0	3.2	
Southeast Asia	30.2	26.5		3.7
East Asia	39.8	56.7		
Rest of world	5.9	7.5	1.7	

\* estimate  
† difference between imports and exports including drawings on stock



## Reagan to Review His Pledge To End Soviet Grain Embargo

By Dan Morgan  
Washington Post Staff Writer

President-elect Ronald Reagan's campaign pledge to end the partial grain embargo against the Soviet Union won't be redeemed without a careful evaluation.

Before his election last Tuesday, Reagan said that the partial embargo imposed by President Carter last Jan. 4 in retaliation for the Soviet invasion of Afghanistan "should be ended" because it "has hurt farmers and has accomplished little or nothing."

But U.S. grain exports have been running at record levels this year despite the embargo, and some U.S. analysts now say that the partial embargo will have a severe impact on Soviet meat supplies and livestock inventories over the next 12 months.

Reagan advisers say a careful study of the Russian food situation, world grain supplies and political factors would be in line with Reagan's professed desire to acquaint himself with the facts rather than hastily redeem promises made in the heat of the campaign.

The aides decline to be drawn into predictions about what the president-elect will do, and they say there is no indication that he has backed away from his position. But they also deny that the president-elect ever promised any "unilateral concessions," and they acknowledge that a number of specific developments in the world grain markets in recent weeks require evaluation.

These include a major speech by President Leonid I. Brezhnev admitting

See EMBARGO, A4, Col. 1

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### EMBARGO, From A1

that the Soviet Union is facing a severe agricultural crisis, a new long-term American grain agreement with China that will take up some of the slack caused by reduced exports to the Russians, tightening world grain supplies, a poor harvest in Argentina and political developments in Poland related to food problems.

Rep. Peter A. Peyser (D-N.Y.), who has opposed efforts in the House to cut off funds for maintaining the embargo, has called on Reagan to "back off." Peyser said that lifting the partial embargo now would send a message of weakness to the Soviet Union.

Noting that the Carter administration also responded to the invasion of Afghanistan with a bill to require 18-year-olds to register for the draft, Peyser said lifting the grain embargo would "send a message to the young people of this country that while Uncle Sam is ready to send them to war to deter Soviet aggression, all is forgiven if the ducks are there."

The Department of Agriculture's director of economics, Howard W. Hjort,

says "the Soviets are in deep trouble agriculturally." Hjort said that rhetoric suggesting otherwise, put out by Republican politicians and by spokesmen for the grain industry, had been "terrible — almost a disgrace."

Initial U.S. estimates suggesting that the Soviet Union would harvest about 215 million tons of grain this year have been pared to around 180 million tons as a result of extremely wet weather, flooding and a lack of sunshine in Soviet grain-growing regions. Thus, for the second year in a row the Soviet Union will have had a disappointing harvest. Meanwhile, politically troubled Poland has harvested only 19 million tons this year — a 10 percent drop from its record of two years ago.

Argentina, which helped the Soviet Union over the last few months with unusually large exports, recently reported a poor harvest and placed limits on exports.

Grain has been enmeshed in Soviet-American politics since 1963, when President Kennedy and his successor, President Johnson, authorized the first large sales to the Russians. In 1972, ac-

cess to American grain supplies was one of the inducements held out to the Russians by the Nixon administration in the unfolding diplomacy of détente.

In 1976, the Ford administration signed a five-year agreement with the Soviet Union authorizing the Russians to buy a minimum of 8 million tons of grain a year. Agricultural analysts say that the expiration of this agreement in September 1981 could provide the Reagan administration with leverage in any future negotiations with the Soviets over global issues, especially if the Soviet food situation continues to deteriorate. The Soviet Union already has indicated it will buy the maximum 8 million tons allowed in the final year of the agreement.

Reagan said at his news conference in California last Thursday that he believed in "linkage" — in connecting American concessions to the Soviet Union with Soviet concessions in other areas of interest to the United States.

Peyser said recently that he believed Soviet concern over further loss of access to grain markets may have helped deter Soviet intervention during the Polish labor unrest last summer.

Although grain prices in the United States declined sharply after the embargo was first announced, they have climbed steadily over the last few months, partly because of a severe drought that affected the corn crop but did less damage to wheat and barley. This may have diminished some

of the political pressures for a speedy end to the embargo.

A number of analyses of world grain stocks point to shortages and higher prices in 1981 unless harvests are excellent. By mid-1981, world stocks may be some 30 million tons below the levels of mid-1980, when stocks were, in turn, 30 million tons below the levels of mid-1979.

The Soviet Union, these analyses show, was able to use 226 million tons of grain this year, only 2 million tons less than planned, by paying premiums for non-U.S. grain and by using as much as 20 million tons of its own reserves. But as the embargo continues, the Department of Agriculture's Hjort said, the Soviet reserves are bound to dwindle and imports will remain a se-

rious problem. Hjort said there were indications that the Soviets had to slaughter more livestock than they had planned last March through June, while they were waiting for their own grain harvest to come in, and that livestock numbers are still greater than present grain supplies can support.

Since January, grain exporters Canada, Australia and the European Common Market have cooperated with the United States in not boosting their food shipments to the Soviets to take advantage of the American cutback. However, the French government of President Valéry Giscard d'Estaing, which has strong support from farmers, has been pressing for increased exports as a way of unloading a big wheat surplus.



# Canadians End Soviet Grain Curb

OTTAWA, Nov. 28 (AP) — Canada is dropping out of the Washington-led embargo of grain sales to the Soviet Union but will not try to replace the grain being withheld from the Russians by the United States, Senator Hazen Argue, the minister responsible for Canada's Wheat Board, said today.

Mr. Argue's announcement was contained in a news release here of remarks he was to make to the Alberta Wheat Pool in Calgary. He said the Canadian Government had decided to withdraw from the embargo because it was falling behind other exporting countries in grain sales to the Soviet Union and because of American grain sales to other countries, particularly Washington's major deal with China announced in October.

Canada plans to sell the Soviet Union more than 5 million metric tons of wheat and feed grain during the current crop year, up from 3.8 million metric tons during the crop year that ended July 31. A metric ton, 1,000 kilograms, is about 2,205 pounds.

The United States curtailed grain sales to the Soviet Union last January to protest the Russians' military intervention in Afghanistan. In Ottawa the Progressive Conservative Government of Joe Clark, then in office, agreed to limit Canada's sales to the Russians, too. Similar pledges were made by Australia and the nations of Europe's Common Market. Two other major grain exporters, Argentina and Brazil, de-

Continued From First Business Page

clined to join the embargo.

The United States and its allies agreed to limit their grain sales to Moscow to "traditional" levels. The United States allowed the export of 8 million tons already arranged for in existing agreements, but it held back an additional 17 million tons.

Mr. Argue said new sales by Canada "will not go beyond levels which would have been exported in the absence of the partial embargo." He added, "It is not the intention of the Government to take advantage of the export policies of the United States or of other exporters."

He told the Calgary meeting that a Wheat Board delegation arranged in Moscow last week for the sale of 2.1 million tons of wheat and barley to the Russians to be delivered between January and August. It was not disclosed how much the Soviet Union would pay for the shipments, which would bring their purchases for the current crop year to more than 5 million tons.

Mr. Argue has left political colleagues and the international grain trade in confusion since he announced in July that Canada was prepared to sell the Soviet Union 5 million tons of grain during the crop year that began Aug. 1.

Mr. Clark's administration decided the traditional level would be 3.8 million tons after averaging Soviet purchases for the last 10 years, but Mr. Argue said that was too low.

In the Senate this week, he defined traditional sales as being basically how much the Russians were willing to buy and how much Canada could deliver, based on the size of the crop and state of the transportation system.

Continued on Page 30

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January 3, 1981, Saturday, Final Edition

SECTION: First Section; A1

LENGTH: 660 words

HEADLINE: President Extends Embargo on Grain Shipment to Soviets;  
Carter Extends Soviet Grain Embargo; Reagan Undecided About Canceling It

BYLINE: By Lee Lescaze, Washington Post Staff Writer

DATELINE: PALM SPRINGS, Calif., Jan. 2, 1980

## BODY:

President Carter extended the embargo on grain shipments to the Soviet Union today, and President-elect Ronald Reagan indicated that he has not decided whether he will cancel the embargo as he promised during the presidential campaign.

Reagan won farmers' applause with campaign attacks on the embargo, but he said here today that ending the embargo "is something for a great deal of study."

"You have to determine whether we're having as much effect on the Soviet Union or if that's being offset by a worse effect on our own agricultural community," Reagan said.

Although Reagan's aides had indicated since the election that Reagan was having second thoughts about the embargo, this was the first time since he won the presidency that Reagan has discussed the issue.

The Carter administration has argued that the embargo, which covers grain, phosphates for fertilizer, oil and gas equipment and parts for the Soviet Kama River truck plant, is hurting the Soviets and that it continues to be justified by the Soviet presence in Afghanistan.

Carter imposed the embargo in response to the Soviet invasion of Afghanistan, and Commerce Secretary Philip M. Klutznick, in announcing the one-year extension, again cited the Soviet occupation of that country.

If Carter had not ordered the extension, some parts of the embargo would have expired at midnight Wednesday.

The grain embargo is unpopular with farmers who accuse the Carter administration of making them pay an economic price with a measure that is not seriously injuring its target -- the Soviet Union.

Throughout the presidential campaign, the Carter administration attempted, with little apparent success, to convince farmers that the embargo was working and that it was not damaging their efforts to sell their crops.

The Carter administration helped to open new export markets, and farm exports reached record highs last year, but farmers countered that the totals would have

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been even higher without the embargo.

In a brief exchange with reporters at Palm Springs Airport, Reagan also said he has not decided whether to reduce cost-of-living increases in Social Security and other federal benefits as part of his program to balance the budget.

"I think we're looking at everything," Reagan said. He added that he won't know whether benefits will be cut until he has had time to study all the reports that have been prepared by his task forces.

He took a swipe at the Carter administration's economic record by noting that, "We have discovered that the {budget} deficit is going to be double, what it had been estimated. The budget is going to be much bigger than they've been talking about all these past several months of the campaign."

Reagan said he would try to deal with that problem "without penalizing anyone who is dependent for help on the rest of us."

Reagan was asked what else he could trim from the federal budget. As he did often during the campaign, he pointed to the elimination of waste and fraud as a potential way to save money without causing pain to any group of citizens.

"I think there's a great deal of waste and fraud and so forth going on in government that's going to make for some savings, and we're going to look at every program," he said.

The president-elect and Mrs. Reagan flew to Los Angeles after spending a two-day New Year's holiday here as guests of publisher Walter Annenberg.

Reagan plans a quiet weekend at his Los Angeles home before flying to Juarez Monday for a meeting with Mexican President Jose Lopez Portillo.

Monday evening Reagan is scheduled to arrive in Washington for his third post-election visit to the capital.

He is to hold a series of meetings at Blair House with his top aides and some of his newly named Cabinet members before returning to Los Angeles Thursday.



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January 9, 1981, Friday, Final Edition

SECTION: First Section; Op-Ed; A15

LENGTH: 770 words

HEADLINE: Sack the Embargo?

BYLINE: Philip Geyelin

## BODY:

The story of the year-long U.S. grain embargo against the Soviet Union is the story of the Carter administration's life -- of its almost uncanny knack, in foreign affairs, for doing the right thing the wrong way.

The embargo, more so than the other two principal American reprisals to the Soviet invasion of Afghanistan (the Olympics boycott and the cutoff of technology), continues to make its point. Afghanistan, the United States was saying, wasn't its idea of business as usual. And so, in as many as it could contrive short of military force, the United States was going to suspend business as usual.

The problem was with the hype. Even some of the most loyal top administration officials will now admit that. "We created the wrong impression that somehow these measures could bring about the withdrawal of Soviet troops," says one. "They just weren't punitive enough for that."

The American reprisals did not bring an end to what Jimmy Carter, in one of his finer rhetorical flourishes, called "the most serious threat to world peace since the second world war." Thus, it was all the easier for Ronald Reagan to promise, in the heat of the campaign, to end the grain embargo because it "has hurt {American} farmers and has accomplished little or nothing."

That's a promise the president-elect ought to feel free to re-think -- and there are encouraging signs that he is doing just that. From the Reagan transition team there's talk of "reconsideration." The agriculture secretary-designate, John R. Block, who first talked of lifting the embargo "as soon as practical," is now saying it should be done at "the right time."

Not a conclusive shift, perhaps. But enough to provide running room for Reagan, as president, to demonstrate prudent flexibility, the large, strategic "global sense" his advisers promise -- and a willingness to accept realities.

The first reality is that the grain embargo exists. With the Olympic boycott a thing of the past, it remains the single most visible and dramatic expression of American protest -- of toughness, if you will -- in response to what was widely perceived to be a serious Soviet act threatening the peace.

A second reality is that while the embargo undeniably bears down on grain producers to the exclusion of other farmers and most of the rest of the economy, the damage to the American grain trade has been minimal (and is likely to continue to be) while the impact on Soviet food shortages has been severe.



American grain growers complain with some justice that the Soviets have been able to acquire much of the grain they otherwise would have purchased in the United States. But bad harvests have created a worldwide shortage; U.S. grain exports are at record levels. And the Soviets, meanwhile, have still fallen far short of their needs and have been forced to draw down heavily on reserves. Meat consumption in the Soviet Union has dropped off alarmingly.

Soviet President Leonid Brezhnev has publicly admitted to serious food shortages and given top priority to "improvement of the food supply." The incoming Republican chairman of the Senate Foreign Relations Committee, Charles Percy, brought back from Moscow what he regards as convincing evidences that the embargo is having a punishing effect.

"They talk of it as loosening belts," he told me, "but what they mean is that they can't feed their own people."

Which brings us to the third reality: the Russians, a year later, are still struggling to establish their control over Afghanistan. No expert I have talked to believes they will withdraw their forces until they are satisfied that they will leave behind a Marxist, Soviet-oriented government able to maintain security.

While Vietnam is a weak analogy (Afghanistan is contiguous; the insurgents are lightly armed with little outside support), the battle reports have a familiar ring. They speak of "search and destroy" operations with helicopter gunships against elusive, resourceful, determined guerrillas; of whole areas beyond effective Soviet military control, or controllable only during the day.

The grain embargo, in other words, is not going to be decisive in Afghanistan. But then it never could have been. The question is whether, given all the realities, it is something that the United States should unilaterally yield up.

I find it hard to imagine the Reagan administration's cancellation of a valid American protest and throwing away what appears to be a valuable bargaining counter without -- in the spirit of "linkage" -- receiving something in return.



January 12, 1981

Soviet  
Union

## THE SOVIET GRAIN EMBARGO

### INTRODUCTION

On January 4, 1980, using his most potentially effective response to Soviet military action in Afghanistan, President Carter cancelled contracts for the sale of 17 million metric tons (mmt) of U.S. corn, wheat and soybeans to the Soviet Union. Nevertheless, he undermined the effectiveness of the embargo by allowing the delivery of another 8 mmt of U.S. grain which he felt were obligated to the Soviets under the 1975 U.S.-Soviet Grain Agreement. The objectives of such a policy were ambiguous from the outset. The restrictions could not accurately be described as an embargo, but the avowed aim was to strike a blow at Soviet agriculture by depriving the Soviets of grain and other feed for livestock.

This was the first time the United States had used its "food weapon" against the Soviet Union. In doing so, President Carter exercised his authority under the Export Administration Act of 1979, as amended, to curtail U.S. exports for foreign policy and national security reasons. According to that Act, the Executive must receive the consent of the Congress for foreign policy embargoes, but has authority independently to curtail trade when national security is at stake. In this case, he invoked authority for both reasons. In accordance with the Act, Congress had 30 days in which to veto the action, but did not do so, implicitly expressing its support of the "embargo." The policy is to continue indefinitely, or until the Soviets withdraw their troops from Afghanistan, or until the curtailment is rescinded by U.S. policy-makers.

On January 2, 1981, President Carter officially extended the embargo on grain shipments for another year. When asked about this action, President-elect Reagan stated that ending the embargo, as suggested during his campaign, "is something for a great deal



of study." He noted that "You have to determine whether we're having as much effect on the Soviet Union or if that's being offset by a worse effect on our own agricultural community."

In light of the ambiguous nature of the embargo policy, many observers have questioned whether the cancelled grain sales represent a symbolic gesture of disfavor or a substantive policy designed to extract a price from the Soviets for their adventurism in Afghanistan. This question has plagued the Administration since the announcement of its restrictions and has been the focus of much political debate. Some observers hold that the embargo should never have been imposed at all. Others hold that it is an appropriate response to the invasion of Afghanistan, but that it has been ineptly handled. The uppermost question in most observers' minds is whether or not the grain and feed controls should be tightened and continued.

The evidence in this paper indicates that if the U.S. were to tighten its controls significantly and seriously seek cooperation from other suppliers in 1981, Soviet citizens would feel the effects and there would be noticeable repercussions in the Soviet economy. With severe grain shortages and increased prices for corn products forecast for the United States in 1981, the short-term domestic impact of bolstering reserves instead of selling to the Soviets would be generally favorable to the United States. Ultimately, the decision on controls should be based on whether or not this is an appropriate short-term policy for the United States to adopt in response to Soviet incursions into Afghanistan and potential Soviet intervention in Poland.

#### TERMS AND CONDITIONS OF THE EMBARGO: THE GRAIN AGREEMENT

U.S. grain sales to the Soviet Union are subject to the conditions of a five-year bilateral commercial grain agreement, extending from October 1976 to September 30, 1981. The agreement, which commits the Soviet Union to annual purchases of a minimum of 6 mmt of U.S. grain (half wheat, half corn), permits the U.S. grain exporters to sell 2 mmt over this amount without government approval, provided the total U.S. grain harvest in that year is over 225 mmt. All grain sold over the 8 mmt upper limit must be approved or denied by the U.S. government. On October 9, 1979, the U.S. Department of Agriculture (USDA) approved the sale of 17 mmt above this limit for the 1979/80 agreement year (October 1 - September 30).

The agreement was originally designed to protect U.S. consumers and farmers from the market effects of unexpected Soviet purchases of grain, such as those which drove up U.S. bread prices in 1972. In that year, so much grain was sold to the Soviet Union by separate grain companies that grain shortages developed on the U.S. market, driving up domestic prices for grain products.



During the 1979/80 agreement year, the Soviet Union contracted to purchase a greater amount of U.S. grain than ever before. During the first agreement year, which ended in September 1977, the Soviets imported only 6 mmt of wheat and corn. During the second, running from October 1977 to September 1978, they purchased 14.6 mmt (3.5 mmt of wheat and 11.1 mmt of corn). In the third year, Soviet purchases reached 15.3 mmt (11.5 mmt of corn and barley). In October 1979, however, the U.S. government approved the sale of 25 mmt in all, to be delivered during the fourth agreement year, ending October 1980.

### Grain as a Weapon

Even though initially advocating the termination of the grain embargo, the incoming Secretary of Agriculture indicated that food can be used for geo-political purposes. In his confirmation hearings on January 5, John R. Block said:

I believe food is now the great weapon we have for keeping peace in the world. It will continue to be so for the next 20 years, as other countries become more dependent on American farm exports and become reluctant to upset us.

The rising trend in Soviet purchases of U.S. grain over the four-year period of the grain agreement explains why grain has become a potential bargaining lever for the United States in dealing with the Soviet Union. Such a lever theoretically gives U.S. policymakers the ability to affect Soviet behavior by threatening cutoffs of grain exports. For grain cutoffs to influence Soviet behavior, Soviet leaders must be made to believe in the seriousness of any U.S. threat to use its "food weapon," and they must strongly fear the consequences.

The grain weapon, besides being a potential bargaining lever, can be used unilaterally to extract an economic price for Soviet transgressions of international norms. The U.S. grain embargo was intended to do just this. It must be remembered, however, that such a weapon can probably be used only once: within two or three years, the Soviet Union will be able to diversify its grain imports. Thus, every advantage which can be gained from this weapon should be taken at this time.

By depriving the Soviet Union of feedgrains, U.S. policymakers have attempted to reduce the weight of Soviet livestock herds and, ultimately, the consumption of meat in the Soviet diet. (Shortages were expected to develop within six months to a year after imposing the embargo.) At the very least, the embargo is intended to slow down the increase in Soviet meat consumption. It is hoped that forcing the Soviets to pay such a price will make Soviet leaders refrain from further actions in the world community such as the one taken in Afghanistan.



### Loopholes and Longshoremen

In addition to cancelling the 17 mmt of grain sales, the Administration also suspended the sale of: grain sorghum, seeds, soybeans and soybean meal, meat, poultry, dairy products, and some animal fats. These products along with meat substitutes such as shrimp, meat extenders and tallow, were placed on a list requiring validated export licences to be approved jointly by the Departments of Commerce and Agriculture. Although technically these products could be licensed for export to the Soviet Union, there is no intention of doing so, and apparently no licenses have been granted.

At the same time, with the effect of undermining the impact of such controls, the Administration elected to allow shipment to the Soviet Union of 7 million tons of grain which had been ordered in previous agreement years, but had not yet been shipped. This decision was to develop a significant loophole in the embargo which partially neutralized its impact on the Soviet economy. While it did not totally negate the rationale for using the "food weapon," the growing number of loopholes allowed by the Administration strengthened and fueled demands to rescind the so-called grain embargo.

The embargo did strike a political chord of sympathy with many groups in the United States. The American Longshoremen's Union thought the policy should have been stricter, and tried to totally cease loading grain on ships bound for the Soviet Union. Their resistance was so strong that the U.S. government had to offer to purchase grain which was supposed to be shipped, but which was clogging traffic at the docks. On January 28, however, federal administrators ordered the International Longshoremen's Association (ILA) in New Orleans to load vessels with the remaining unembargoed grain, and the District Court upheld the decision. By the end of April, all unaffected grains had been shipped to the Soviet Union.

In total, according to the U.S. Department of Agriculture, the United States halted shipment to the Soviet Union of 13 mmt of corn, 4 mmt of wheat, and about 1.3-2 mmt of soybeans and meal between January 4 and June 30, 1980. The embargo had been set into motion, and it remained to be seen what the impact would be on the Soviet Union.

#### THE BROADER DIMENSION: SUSPENSION OF PHOSPHATE EXPORTS

In addition to the ban on grain and other livestock feed products, on February 25, Commerce Secretary Philip Klutznick announced the suspension of all U.S. sales to the Soviet Union of phosphate rock, concentrates of phosphoric acid, and concentrates of phosphatic fertilizers. These suspensions have been complementary to the grain embargo in that phosphates are important synthetic fertilizers which could reduce Soviet grain yields over the medium term of two-three years.



An embargo on phosphate concentrates could have an impact similar to restrictions on technology exports. Phosphates are synthetic fertilizers and directly affect agricultural productivity. The Soviet long-term goal is to develop a large synthetic fertilizer production capacity itself in order to increase its low grain yields. In the meantime, however, it imports phosphates from the United States, which is still the world's largest exporter of these products. Phosphates, therefore, afford the United States some leverage over the Soviet Union at this time and should be viewed as an important potential instrument of U.S. policy.

Before U.S. leaders decided to place an embargo on phosphate exports, they considered the potential impact on the U.S. economy. The primary U.S. exporter affected by such an embargo was the Occidental Petroleum Company, which holds a twenty-year bilateral agreement with the Soviet Union to sell phosphates in return for anhydrous ammonia. In addition, the U.S. Maritime Administration stood to lose the interest on \$160 million of loan guarantees being held for the construction of U.S. ships for transporting superphosphoric acid to the Soviet Union. In the end, it was decided that the economic price was acceptable in order to impress upon the Soviets how much they depend on the U.S. for these important products.

Another important consideration when evaluating the general impact of the embargo on the Soviet Union is the existence of alternate suppliers. Certain Third World countries are sources for phosphate rock. To close these channels, the Administration negotiated with those states for cooperation in denying the Soviet Union replacements for the embargoed U.S. products. So far, these negotiations have been partially effective.

The East European countries are also potential conduits for transfer of embargoed products to the Soviet Union. The Administration did not place restrictions on U.S. exports of phosphates to these countries in conjunction with its ban on Soviet purchases, which occasioned an exhortation from Senator James McClure (R-Idaho) on February 26, 1980 for the Administration to discontinue exports of superphosphoric acid to Poland and Romania. These exports, however, have not been terminated.

U.S GOVERNMENT MEASURES TO ABSORB DOMESTIC REPERCUSSIONS

To offset the domestic impact of the embargo on businesses and farmers, the Administration immediately instituted measures to assume Soviet contracts and to take affected grain off the U.S. market so as not to lower grain prices by creating an oversupply. These measures, implemented by the Department of Agriculture to cushion the domestic market effects of the controls, were administered in an organized, effective manner. Although it is extremely difficult in this case to ascertain cause and effect in the grain market, and while the embargo certainly caused disrup-



tions and uncertainty, it does not appear to have lowered farm income below what it might have been without the embargo.

### Economic Effects

The principal domestic economic repercussions of the embargo were felt by farmers. Short-term price effects from putting more grain into reserves, from government grain purchases, from the resale of grain company contracts, and from the loss of high-priced sales to the Soviet Union were the principal market effects feared as a result of the controls. Nevertheless, U.S. intelligence sources and the U.S. Department of Agriculture have obtained price data which show that corn, wheat, and soybean prices fell briefly for a few days after the embargo announcement, but quickly regained pre-embargo levels. Although there was disruption in farm activities which should not be overlooked, the basic programs instituted by the Administration to offset adverse price and income effects from the embargo were able to stabilize and even raise farm prices in some instances.

In brief, the Administration program consisted of four measures designed to insulate grain prices on the farm from the immediate and longer term impacts of the embargo:

1. It raised incentives for farmers to participate in the farmer-owned grain reserve program, into which eligible farmers deliver their grain, and from which they sell it, in order to obtain a better price;
2. It permitted the Commodity Credit Corporation (CCC) to assume the contractual obligations of U.S. grain companies to the Soviet Union for wheat, corn, and soybeans affected by the embargo;
3. It instructed the Commodity Credit Corporation to purchase wheat and corn for use in food assistance programs; and
4. It increased levels of federal financing and insurance for U.S. grain exports.

### Farmer-Owned Reserves

Through the Food and Agriculture Act of 1977, the United States adopted the concept of holding a national grain reserve through the accumulation of buffer stocks. The Act authorizes the accumulation of privately-held as well as publicly-held buffer stocks. Buffer stocks are essentially synonymous with carryover stocks and constitute that part of the grain on hand at the end of a crop marketing year which exceeds the amount private interests are willing to hold. Both public and private buffer stocks are maintained in the United States.

Stocks owned by the government are purchased through a CCC loan program. A farmer acquires a loan and agrees to hold a



certain amount of grain off the market until the loan is repaid or matures. He can repay the loan plus interest and regain control of the grain, or he may default at maturity, turning the grain over to the CCC.

The producer-held domestic grain reserve program is different. It encompasses both feed grain reserves (corn, sorghum, oats, and barley) and wheat reserves. The Secretary of Agriculture decides when the program will be open and which crops will be eligible for entry. The program is available for farmers complying with voluntary requirements such as production controls. Participants agree to keep their grain off the market for three years, or until market prices go above designated trigger levels. Penalties discourage early withdrawal of grain. In return, the participants are paid the costs of storing the grain -- recently about \$.25 per bushel. Interest charges on CCC loans under the farmer-owned reserve program are terminated after the grain has been in reserve for one year.

Trigger prices occur at two levels. The lower level (called the release price) is the price at which farmers may begin voluntarily repaying loans and leave the program without penalty. The upper level (known as the call price) is the price at which farmers are required to repay their loans. Storage payments end when market prices stay above the release price for more than a month. If prices later fall, storage payments are resumed.

This year, Secretary Bergland opened the producer-held reserve program to all farmers affected by the 17 mmt embargo. There is a good chance that the 1979 over-production of grain may have required increased participation in this program anyway, but the Administration raised the release and call prices, as well as loan prices in order to encourage participation. The specific price actions put into effect by the Administration on January 8, four days following the embargo, included:

- o increasing the wheat loan price from \$2.35 to \$2.50/bu;
- o increasing the corn loan price from \$2.00 to \$2.10/bu;
- o increasing the corn release price for wheat from \$3.29 to \$3.75/bu., which is 150 percent of the new loan price;
- o increasing the call price for wheat from \$4.11 to \$4.63/bu., which is 185 percent of the new loan price;
- o increasing the release price for corn from \$2.50 to \$2.63/bu. which is 125 percent of the new loan price;
- o increasing the call price for corn from \$2.80 to \$3.05/bu., which is 145 percent of the new loan price;
- o increasing the reserve release and call prices for other feed grains comparable to corn;



- o waiving the first-year interest costs for the first 13 mmt of corn placed in reserve after October 22, 1979;
- o increasing the reserve storage payments from 25 to 26.5 cents/bu. for all reserve commodities except oats, which was increased from 19 to 20 cents/bu.

In addition, because corn comprises the greatest share of the embargoed grain, Secretary Bergland allowed corn farmers who had not been eligible previously to participate in the reserve program to participate on a first-come-first-serve basis until reserves reached 7.5 mmt, or May 15, whichever came first.

### Farmers' Reactions

Farmers' reactions to the producer-held reserve program have been negative. There are two main objections. First, they feel a sense of humiliation in taking their grain off the market in return for a loan from the government. Second, they would rather simply sell the grain to the government at parity prices or prices that would provide the farm sector with purchasing power equivalent to that which existed prior to World War II.

While these may be valid complaints, they do not relate directly to the effects of the embargo. The debate with the government over parity prices has been in progress for years and farmers saw the embargo as an opportunity to renew this debate. However, the producer-held reserve program is relatively new and its use during the embargo to take great amounts of grain off the market has stirred resentment on the part of those who have never accepted or approved of the scheme.

The American Agriculture Movement (AAM) has been particularly outspoken in its objections to the embargo and to the reserve program. In the opinion of its members, the embargo has been a failure, even though it is regarded as a valid foreign policy tool if used properly. Testifying before the Senate Agriculture Committee on February 25, Pamela Frecks from AAM said in her prepared speech:

A partial embargo such as the one we have, improperly used as it has been, has one end result, and that is lower farm prices.<sup>1</sup>

In response to grievances such as this, the Congress passed the Emergency Agriculture Act of 1980. This Act contains many technical provisions to raise loan prices and storage payments in order to help farmers. The Administration maintains that this

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<sup>1</sup> Hearings, Senate Committee on Agriculture, Nutrition, and Forestry, "Emergency Agriculture Act of 1980," February 25, 26, 27 and March 6, 1980, p. 39.



Act was not required to reduce the effects of the embargo, but is a welcome boost for farmers.

### CCC Assumptions of Contractual Obligations

As a result of the embargo, the U.S. Department of Agriculture negotiated an "exporters agreement" with fourteen exporting companies under which the CCC agreed to assume the contracts for grain sales to the Soviet Union if the companies would provide data showing that they were not profiting from the government's purchase of these contracts.

Under this agreement, the CCC assumed the contracts for all 4 mmt of wheat affected by the embargo and about 11 mmt of corn. The CCC originally had intended to place the wheat in a proposed emergency food security reserve, but this program is still awaiting enabling legislation. As an alternative, the contract rights to the wheat have largely been sold on the open domestic market. The corn, on the other hand, has either been delivered to the CCC, or the contracts have been resold on either the domestic or the world market. The CCC has resold the corn contracts only at the average pre-embargo price of \$2.40, or above. This has kept the price of corn on the market from falling below pre-embargo levels.<sup>2</sup>

Some observers, including most prominently the farm community, have viewed the resale on the domestic market of contractual rights for sales to the USSR as a price-depressing action. In point of fact, the CCC resold the rights to 8.8 mmt of corn at a weighted average price of \$3.10 per bushel, and the rights to 3.9 mmt of wheat at a weighted average price of \$4.63 per bushel. Soybean rights were almost all sold by May 28, at a weighted average price of \$6.25 per bushel.

These prices were, for the most part, well above pre-embargo levels. Nevertheless, the CCC has come under attack for selling soybean contracts during the period of April 4 - April 22 at lower than pre-embargo prices. In response, the CCC has promised to purchase on the open market an amount of soybeans equal to the rights sold between those two dates. However, as of October 1, this had not yet happened.

### CCC Direct Purchases of Grain

Despite the fact that the CCC resold the contract rights to embargoed grain only at pre-embargo prices, or higher, USDA recognized the possible price-depressing effects of putting this grain back onto the domestic market. It was therefore arranged for the CCC to purchase certain amounts of grain directly from

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<sup>2</sup> Penney Cate, Congressional Research Service, Issue Brief IB 80025, Update October 1, 1980.



farmers or county elevators, thereby taking grain off the market. This exerted a price-increasing effect in counterbalance to the possible price-depressing effects of adding to market supplies. The intention was to offset any adverse impact from retendering the rights to the contracts affected by the embargo.

By June 24, the CCC had purchased about 4 mmt of corn at an overall average price of \$2.48 per bushel, according to the U.S. Department of Agriculture. These purchases cost the CCC a total of \$396.3 million. By mid-April, the CCC had completed purchases of 4.2 mmt of wheat, which the government would like to put into a proposed strategic reserve for the country. The overall price of these purchases according to USDA statistics was \$3.68 per bushel, at a total cost to the government of \$569.3 million. Direct grain purchases therefore cost the government approximately \$1 billion.

### Other Measures

In addition to the measures taken to stabilize market prices as discussed above, Secretary Bergland has promised that, if necessary, at any time during the course of the embargo, he will institute a paid crop acreage diversion program. This has not yet been found necessary.

The Department of Agriculture has also offered part of its loan budget for building new gasohol distilling capacity. Secretary Bergland has estimated that gasohol could provide a market for up to 3 mmt of grain by the end of 1980. Some feel this projection is far too optimistic, however, as gasohol facilities require from two to three years to become operable. Still, a number of pending legislative measures including tax incentives, loans, and loan guarantees could speed up the expansion of gasohol production by mid-1981 and take some excess grain off the market.

All the above programs, including payment for loans, contracts, interest waivers, storage payment and direct purchases are estimated to have cost the U.S. government about \$3 billion. According to Secretary Bergland as much as half of this could be refunded when loans are repaid and all assumed contracts have been resold.

### IMPACT OF THE EMBARGO ON U.S. GRAIN TRADE

The ultimate effect of the embargo has been a restructuring of the world grain market which has also created new markets for the United States. Tempted by premium Soviet prices, other major grain suppliers partially abandoned traditional customers in order to fill Soviet orders.

As a result of these desertions, the U.S. sharply increased its grain exports to Spain, Italy, Colombia, and Japan -- all traditional markets of Argentina, which had decided not to cooper-



ate with the U.S. embargo. Japan purchased more grain than usual from the U.S. as a gesture of support for the U.S. stand against the invasion of Afghanistan. Ultimately, the United States may be able to develop these markets for permanent grain sales in the future.

One of the positive side-effects of the embargo on the U.S. economy may be a reduction in the potential dependency of the U.S. farm sector on its Soviet market. The redistribution of grain customers between the U.S. and other major grain suppliers in 1980 has given the U.S. possible long-term alternatives to the Soviet market. It remains to be decided by U.S. policymakers, however, whether U.S. grain sales to the Soviet Union ought to be permanently reduced. Likewise, other countries will have to decide whether they will continue to supply greater amounts of grain annually to the USSR.

Exports to other suppliers' traditional customers did not account for the entire increase in 1980 U.S. grain exports. Howard Hjort, chief economist at the U.S. Department of Agriculture, has pointed out that U.S. farmers actually experienced an absolute increase in exports during the embargo period. According to Hjort, world demand for grain was almost 10 million tons higher than expected in 1979/80. Drought in Mexico created one unexpected market for the U.S. In spite of the embargo, total U.S. grain exports for the July-June marketing year came to 107.7 million tons which set a new record and was 15.2 million metric tons over the previous year's total.

#### NEGATIVE IMPACTS OF MODIFICATONS IN THE POLICY

As a result of the January 12 "exporter's agreement" referred to earlier, an understanding was reached between the Administration and U.S. grain companies that these companies' subsidiaries would voluntarily refrain from selling non-U.S. grain to the Soviet Union during the embargo.

After six months, President Carter made a decision which not only threatened to destroy the effect of the partial embargo on the Soviet economy, but also irremediably weakened the credibility of the Administration's objectives in the eyes of Congress and American farmers. On June 20 (without lifting the embargo), the President announced that the grain companies' subsidiaries would be allowed to sell non-U.S. grain to the Soviet Union. The decision produced the impression that the embargo was no longer a reality and that it should be terminated. In reaction to this decision, legislation was immediately introduced in Congress to rescind the embargo (H.R. 7632, H.R. 7635, H.R. 7731, and S. 2855).<sup>3</sup>

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3 Penny Cate, "Impact of the Administration's Decision to Permit U.S. Grain Companies to Sell Non-U.S. Grain to the Soviet Union," Congressional Research Service Occasional Paper.



In testimony before the Senate Agriculture Committee on June 25, Under Secretary of Agriculture for International Affairs, Dale Hathaway, gave three basic reasons for the Administration's decision:

1. The uncommitted grains from the 1979 world crop had already been sold by June 20.
2. Other grain-supplying nations indicated that policies were in place to restrict their grain exports to the USSR to "normal and historic" levels in cooperation with U.S. requests.
3. These nations complained, however, that U.S. grain company subsidiaries, which normally ship much of the Canadian, European Community, and Argentinian grain to the Soviet Union, were not shipping even the permitted "normal" amounts of these countries' grain to the USSR.

The Administration decided that U.S. companies were being unfairly disadvantaged by being prevented from facilitating "normal" sales by other grain producing countries to the Soviet Union. The shortcoming with such rationale was the omission of a definition for what would constitute "normal" deliveries to the Soviet Union in any given year. Canada, for instance, says it would not be breaking its pledge to cooperate with the embargo if it were to decide on annual exports to the USSR of 5 million tons of grain. The only other year in which Canada sent this much grain to the Soviets was in 1972 when the Soviet grain crop was an unparalleled disaster.

By succumbing to the complaints of the other grain producers, the Administration opened up another large source of leakage in the embargo and confused its ultimate objectives even further. Although President Carter claimed the embargo was still in place, the Soviet Union secured substitute grain from many countries which might have been more restrictive had the United States been more steadfast in its policies. Once again, as with his Olympics policy and his embargo on high technologies to the Soviet Union, the President talked tough, but immediately softened his policy before it had a chance to work.

## IMPACT OF THE EMBARGO ON THE SOVIET UNION

### The Soviet Feedgrain-Livestock Complex

The specific impact of the U.S. grain embargo on the Soviet economy has been a matter of some dispute. The Department of Agriculture estimates that planned Soviet grain imports of 37-38 mmt fell short by 8-9 million tons in the October-September agreement year. USDA also estimates that the shortfall in projected purchases of grain during the July-June marketing year (an important period for the livestock economy) was 6 mmt.



It is highly possible that although a shortfall of 8-9 mmt of grain was not as great originally planned, it has had the effect of reducing animal liveweights, slowing down growth in the agricultural sector, and in general aggravating problems with the 1980 harvest. These effects are likely because agriculture is the most vulnerable sector of the Soviet economy. Although the Soviets have essentially solved their grain for food problem, they have not been able to organize and propel forward the grain for feed program announced by Party Secretary Leonid Brezhnev in 1965.

The lack of progress stems from a myriad of problems involving a lack of incentives, the competition of private plots for the energies and attention of workers, a chronic lack of agricultural machinery, an absence of efficiency and responsibility on the farms and a lack of know-how for running a modernized livestock complex.

In the first place, in view of the notorious inefficiencies of the Soviet livestock sector, and the drastic crop results of 1979, it is probable that the Soviets were forced to draw heavily on stocks. The Soviets had been able to build their stocks by adding an estimated 19 million tons following the successful 1978 harvest of 287 million tons of grain. This does not mean, however, that their reserves were ample to pull them through 1979. In the first place, livestock numbers had been increased, raising total feed requirements. Secondly, it is not known how much of the amount put in stocks in 1978 were necessary to replace previous drawdowns from 1977 and to re-establish minimum grain reserves.

The Soviet media reported a 1979 grain harvest of 179 mmt -- a 58 mmt drop from the 1978 level. To maintain livestock inventories and avoid forced slaughtering, the draw-down on stocks to compensate for such a large setback probably reduced reserves to "a bare-bones level" according to Under Secretary Dale Hathaway.<sup>4</sup> Still, it is unlikely that this source would suffice to totally offset the shortage of feedgrain imports. A drawdown in stocks of this magnitude will definitely cause problems for maintaining livestock inventories in 1980 and 1981, in view of the very poor 1980 Soviet harvest, now being estimated at 181 mmt.

Furthermore, the decline in the 1979 harvest was probably even worse than that announced by the Soviets. The Soviets report harvest output in terms of "bunker weight," or gross weight including stones, dirt, moisture, and any rotten grain or other refuse picked up in harvesting, lacking the sophisticated sorting, drying, and weighing technologies used in the West. USDA, therefore, as a rule of thumb, always estimates that at least 10 percent of any Soviet harvest is unusable. In very wet, rainy years such as 1979, this estimate is raised to approximately

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<sup>4</sup> U.S. Senate Hearings, op. cit., p. 45.



13-15 percent. The extent of the disaster with this year's harvest could therefore have been far greater than Soviet officials will ever admit.

Discipline, motivation, and productivity are the greatest problems crippling Soviet agriculture. As long as shortcomings in these areas persist, the Soviet economy will remain vulnerable to disruptions in their grain trade with the West, whether these are partial or full-force.

#### Availability of Grain from Alternate Suppliers

One important question being asked in connection with the grain embargo is how much grain the Soviets have been able to procure from other major grain suppliers. The level of cooperation offered by these producers is perceived as being the key to the success or failure of the embargo. As with every control policy, however, although multilateral cooperation is definitely a factor in its success, success occurs in degrees.

The United States procured assurances from other grain suppliers that they would not replace U.S. orders, but would only deliver normal amounts of grain to the Soviets. One major point to remember is that the 1979 harvest was so poor in the USSR that the probability of obtaining enough substitute grain was low, even given the minimal cooperation with U.S. policy.

The United States negotiated with Canada, Australia, Argentina and the European Community for cooperation with its embargo. All of these countries were sorely tempted by premium prices offered by the Soviet Union to replace the grain denied by the U.S. To expand their exports, some of them drew down surplus stocks in 1980 to meet Soviet needs. In addition, they diverted grain from their traditional customers to the Soviet Union, restructuring world trade patterns in doing so.

Australia, whose sales to the Soviet Union had never before exceeded 2 million tons, has claimed it intends to sell approximately 4 million tons annually to the Soviets after 1980.

Canada, too, in expressing its resentment of the forfeit in profits which export restraints has cost them, have hinted at permanently exporting greater amounts of grain to the Soviets. Canadian exporting organizations estimate their losses this year to be about 50-57 cents per bushel, which makes their reasoning understandable. Nevertheless, the Canadians may have been willing to make tradeoffs if the grain embargo had been carried out in a more determined way.

Argentina, has redirected its normal pattern of trade to a greater extent than any of the other grain exporters in 1979. Pursuing an aggressive marketing strategy after abolishing its Grain Board some time before, the government allowed its companies to replace all the U.S. orders they could. It reduced customary



exports to Italy, Spain, Japan, Chile, and Peru, selling nearly all of its exportable corn and grain sorghum surplus to the Soviet Union. In return, it received prices of almost 25 cents over the American selling price from the desperate Soviet foreign trade organization responsible for grain imports, Export Khleb. In addition, Export Khleb wooed Argentina into an agreement to sell 20 million tons of corn and grain sorghum, and 2.5 million tons of soybeans to the Soviets over the next five years. The Soviet Vice Minister of Foreign Trade even predicted in April a tripling of total trade between the USSR and Argentina in the next few years, possibly to include cooperation in the trade of nuclear fuel.

The following table shows actual shipments of grain and soybeans received by the Soviet Union during the 1979/80 marketing year.

Table 1  
Grain and Soybean Shipments to the Soviet Union  
July 1979 - June 1980  
 (million metric tons)

Supplier	All Grains	Soybeans (estimated)
Argentina	5.1	.6-.7
Australia	3.9	
Canada	3.4	
European Community	.8	
Others*	2.0	
United States**	<u>15.3</u>	<u>.8 (pre-embargo)</u>
Total	30.5	1.2

\*includes Eastern Europe, Finland, and others.

\*\*8 mmt obligated in 1979/80 plus grain ordered in previous agreement years, but not shipped until 1980.

Source: USDA

The table shows clearly that, contrary to impressions given by some accounts, the United States itself has been most responsible for diluting the immediate short-term impact of the so-called "embargo." Other countries may be willing to rush in next year and thereafter, but they lacked the overall capacity to channel



much more than 12-13 mmt of grain to the Soviet Union in 1979. If U.S. restrictions had been stricter, the overall effect of the embargo would have been greatly enhanced.

It is true that in the future other exporters of corn to the Soviet Union, which may include South Africa, Thailand, Brazil, and even India, will have time to develop their resources to export more grain to the Soviets. A forfeit will still have been won from the Soviet Union, however, in terms of the high prices it will have to pay to evade the embargo. These prices have forced the Soviets to use scarce foreign currency earnings which it may have planned to spend on other Western goods and technologies. It is improbable, moreover, that substitute suppliers would have time to develop the resources to meet all Soviet import requirements in 1980-81. It is quite apparent that the United States could cause significant shortages and dislocations in the Soviet agricultural economy by extending the embargo for another year.

#### The Embargo's Impact on Soviet Meat Imports

Experts at the Department of Agriculture expect the grain embargo to have an effect on Soviet meat supplies in 1980 and 1981. In particular, the feedgrain shortage could make it impossible for the the Soviets to meet their overly-optimistic five-year plan for meat production. In 1975, Soviet economic planners called for per capita meat consumption (including poultry) to increase to 63 kilograms (138.6 pounds) by 1980. Actual per capita consumption for 1979 was only 58.9 kilograms (129.6 pounds). In comparison, per capita meat consumption in the United States was 111 kilograms (224.2 pounds) in 1979. Life is not unbearable in the Soviet Union because meat consumption is not as high as in the U.S., but the demand for meat has never been fully satisfied.

As a result of pressures to reduce animal liveweights, average Soviet per capita consumption of meat is not expected to rise, and could decline in 1980. This could have troublesome implications in the Soviet Union, where meat holds great political significance for its leadership. If meat is scarce and prices are high, the USSR could experience uprisings such as the ones which occurred recently in Poland. There have, in fact, been small uprisings in the Soviet Union during the past few years, but these have not received publicity.

A decline in meat consumption could force the Soviet government to import more meat from Western producers. This would significantly raise the cost of feeding the Soviet population. As indicated by the table below, USDA forecasts high Soviet meat imports in 1980.

Such purchases would require the expenditure of scarce foreign currencies (or "hard currency") earned by the Soviets on the world market. Because the ruble is not pegged to world prices and internal Soviet prices bear no relationship to supply



Table 2  
Soviet Meat Imports 1971-1980

(thousand metric tons)

1971	1972	1973	1974	1975	1976	1977	1978	1979	1980 (est.)
224.6	130.6	128.5	515.1	515.2	361.5	616.9	183.7	611.3	650

Source: USDA, Update, "Impact of Agricultural Trade Restrictions on the Soviet Union," July 1980, p. 7.

and demand, the Soviets must earn reserves of foreign currency to pay for imports from the West. Hard currencies are usually spent according to carefully laid plans and anything which upsets these plans can affect the channeling of inputs from abroad to other sectors of the economy. The Soviet Union has difficulty producing goods needed by the West, which means foreign currency earnings are scarce. In fact, the Soviets are many billions of dollars in debt to the West at present, which forces them to weigh cautiously the allocations of hard currency earnings.

There could be far-reaching ramifications in the high prices the Soviets will have to pay for alternative grain supplies and greater imports of meat. U.S. intelligence sources, using price data not usually released by world grain companies, have testified that the Soviets were forced to spend at least \$1 billion more in premium-priced grain than they would have paid for American grain in 1979. Spending this additional hard currency on grain and meat could force the Soviets to forego imports of other goods and technologies, depending on the amounts of credit Western countries extend to the Soviet Union.

Soviet leaders have so far been spared the full force of a total cutoff of U.S. grains. A tough U.S. policy in 1980-81 with even minimal compensation would increase the probability of significant repercussions on the Soviet livestock economy. One of the intangibles is that the Soviets have now been warned and they will undoubtedly seek ways in which to diversify their feed imports and substitute other goods for meat consumption. It would require a few years, however, for such a process to produce stable market conditions.

#### Prospective 1980/81 Soviet Grain Imports

The USDA estimates that the Soviet grain harvest for 1980 will be approximately 181 mmt, bunker weight, with very high moisture content. It is probable that due to unusual amounts of rain over most of the Soviet Union during the harvest, 13 percent or more of the grain crop will be unusable. This will be the



second successive poor harvest for the Soviet Union. It all but guarantees the successful continuation of a U.S. embargo if effectively implemented and coordinated with other grain producers.

Soviet import needs in 1981 will be high because stocks have been drawn down so heavily in 1980, but USDA estimates that the Soviets will not be able to procure more than 20-25 mmt of grain from non-U.S. sources, if that much. Other grain exporters have experienced a wet harvest this year.

The expected Soviet crop of 181 mmt, after adjusting for waste, is possibly under the minimum required to maintain current livestock inventories. A crop this size will undoubtedly be inadequate to meet planned livestock weight increases, or to replenish declines in stocks.

Reports are that meat supplies have already dwindled in certain areas of the Soviet Union in 1980. In some places, beef is available only at very high prices on the kolkhoz or collective farm markets, and not at all in state stores. Observers report that meat appeared in state stores in January and February due to distress slaughtering on farms with very tight feed supplies. However, meat availability dropped again in March, and it now seems inevitable that per capita consumption will decline in 1980.

In sum, the U.S. grain embargo of 1980 was too lenient to have the immediate impact it could have had on the Soviet livestock economy. The Soviets undoubtedly paid a price in shortages of meat in state stores, and in higher prices for substitute grain. There were also inescapable disruptions on Soviet farms and in the grain distribution system.

#### LEGISLATIVE HISTORY AND POLICY RATIONALE

An embargo in peacetime is a non-military instrument of foreign policy which is only used when a country wishes to engage in limited economic warfare. Its major advantages are surprise and initiative. Its effects are short-term because the country against which the embargo is directed is left to regroup, reassess and respond to the initiative of the country imposing the embargo.

By rescinding some U.S. grain sales in 1980, President Carter attempted to deliver a sound blow to the Soviet livestock economy. Using his authority under the Export Administration Act, he utilized the partial embargo to express resolute displeasure and indirect opposition to the Soviet's brash invasion of Afghanistan. But the Carter Administration, clinging to the graduated response theory, did not use the instrument with full force and ended up causing domestic dissatisfaction, reducing U.S. credibility in the world community and severely retarding the usefulness of the embargo in reaching its objective. Because the U.S. ended up sending about 15 mmt of feedgrains to the



Soviet Union under the partial embargo, the result was a rather unclear signal to the Soviet Union that business simply would not be quite as usual for awhile.

There is little doubt that a total denial of U.S. grains and a determined effort to obtain multilateral cooperation could have made the Soviets pay a heavy price for their delinquency in the world community. The Carter Administration made it appear that the objective of the embargo was a heavy price, and Administration spokesmen have confirmed the fact that the aim of the embargo was not only to get the Soviets to pull their forces out of Afghanistan. Even the farm lobby thought this was a tougher policy than it turned out to be, and that the Administration ought to have done what was necessary to show the Soviet Union its appreciation of the dangers Afghanistan represents to national and international security.

Because U.S. objectives were never clearly defined, especially as other trade with the USSR was continued normally, those who were against the use of an embargo from the beginning saw their logic gradually adopted. These people held that the U.S. had only to raise the price of its grain to achieve the same effect as the diluted embargo. They argue that the "embargo" has been a failure and that the United States has merely deprived its grain producers of a good market. They point out that the embargo has only worsened U.S.-Soviet relations, and that the U.S. has received nothing in return.

The question arises whether the United States had the power to effectively use an embargo as a foreign policy tool, and to obtain cooperation from other grain suppliers. The answer to this question is yes. The United States would probably have had the storage capacity to take 25 million tons of grain off the market and put it in reserves, or redirect it to the marketplace. It also could have used economic means to persuade other countries not to trans-ship U.S. grain or send more than a limited tonnage of their own grain to the Soviet Union. Argentina, for example, could have been given a choice between IMF credits or exporting grain that year to the Soviet Union. Australia could have been given a chance to decide whether it would rather receive military spare parts from the U.S. or send more grain than usual to the USSR. Likewise, the Canadians are dependent on U.S. industrial imports. These countries would then have understood that the U.S. was serious about its policy.

The East European countries present a difficult problem. Some observers feel these countries have to be treated separately from the Soviet Union. In many instances in political and economic spheres of international activity, they are given more liberal treatment. Nevertheless, when imposing an embargo, with maximum surprise and initiative, the East European countries would have to be embargoed, too, because they act as conduits for trans-shipments to the Soviet Union. This fact has been observed and verified by intelligence organizations. Likewise, maximum efforts



would have to be made to obtain cooperation from other grain suppliers to keep grain deliveries restricted to East Europe's own use. The tonnage delivered would have to be strictly limited based on real need.

#### RATIONALE FOR AND AGAINST AN EMBARGO

In determining the rationale for the use of an embargo, a policymaker should consider essentially two things. First, he must decide whether the provocation has been sufficient. Second, he must calculate the possible response of the embargoed country.

The Afghan invasion offered a strong provocation. The incursion into Afghanistan is potentially the most serious indication of Soviet intentions toward the West since World War II. For the first time, the Soviets used their own military forces to suppress a nationalist movement outside the Warsaw Pact. Coming during a period of strained, but commercially cooperative relations with the West, Afghanistan carried a shock effect which some have compared to Pearl Harbor. The threat to U.S. oil supplies which transit the Strait of Hormuz daily, with Soviet troops 400 miles closer than before, is menacing to say the least. The national security rationale for a strong response was therefore strong.

Calculating the possible response to an embargo requires a long observation of the other country. A country engaging in economic warfare needs not only to know what capabilities the opponent has for reacting, but which ones he intends to use. The goal is to present the transgressor with a situation for which he is unprepared, for which he does not have the proper tradeoffs, thus giving the embargo a chance to work while he reassesses his position. The United States needs to develop greater capacities for determining the intentions of the Soviet Union in the use of its capabilities against the West.

A grain embargo appeared to be a rational policy instrument which did not require extensive long-term planning. Moreover, the Soviet Union had chosen a particularly poor agricultural year for its Afghan gambit, with crop conditions probably worse than Soviet leaders would admit. Even a partial embargo could be fairly certain to create some problems for the Soviets. In addition, grain is easier to isolate than computers or other high technology items because the U.S. is by far the largest supplier of grain to the Soviet Union, and cooperation is probably more easily obtained with an embargo than with multilateral restrictions on other goods and technologies.

One rationale against using the grain weapon focuses on its transgression of the ethics of international behavior. Nevertheless, given the obviously justified objections on humane principles, especially when speaking of an embargo against a starving nation, this rationale is unconvincing when applied to the Soviet



Union. The effects of a meat shortage in the USSR would be a great frustration on the part of all concerned, but would not be starvation.

For some, the overall economic effects of an embargo in peacetime offer a convincing rationale against its use as an instrument of foreign policy. Contrary to this view, the experience of 1980 has illustrated the flexible way in which the market may be restructured to absorb embargoed grain. Increasing demand for grain to meet rising consumption needs all over the world can even absorb the effects of a coordinated multilateral embargo, if necessary. Indeed, world demand for grain has been rising consistently during the 1970s, and shows no sign of stopping.

The vagaries of weather, of course, also play an important role in market distribution and price determination, as they did this year when the U.S. crop turned out to be lower than expected. This development has had a price-increasing effect on grain, which has largely cancelled out the depressing effects feared by farmers as a result of the 1980 embargo. Furthermore, a large portion of the price depressing effects attributed to the embargo by farmers during congressional hearings in June and July 1980 actually were being generated by expectations of a large U.S. grain crop in the fall. Combined with the embargo, a bumper crop possibly could have caused conditions of oversupply and lower prices. Even this train of logic, however, is tenuous and would be impossible to quantify. The great number of world events contributing to the psychological forces which affect prices on the world market are constantly changing and generating adjustment activities.

In sum, the possible humanitarian and economic arguments against using an embargo as an instrument of foreign policy, when there is adequate provocation, do not appear convincing in the case of the grain trade between the superpowers.

#### CONGRESSIONAL RESPONSE

On Capitol Hill, the 1980 grain embargo has fomented a flurry of foreign policy analysis and legislation to alleviate the perceived distress of the farm community. The general feeling has been one of frustration with the embargo, with pronounced support for lifting the embargo in the Senate.

Coloring perceptions of the embargo are a wide range of views on the subject of trading with the Soviets in general. Senator Strom Thurmond (R-S.C.), labeling the embargo a "halfway measure," has called for a halt to all trade and to the issuance of commercial credits. He has also expressed the opinion that American farmers are absorbing the full effect of the embargo, instead of sharing the sacrifices with manufacturers of high technology items, which supposedly were embargoed but soon were being licensed on a "case-by-case" basis. He pointed out, for



instance, that the Administration sent a high technology oil drilling rig to the Soviet Union in May 1980, during the height of the so-called embargo.

Senator Carl Levin (D-Mich.), on the other hand, has supported the effectiveness of the embargo. On September 26, 1980, he presented a speech in opposition to an amendment offered by Senator Larry Pressler (R-S.Dak.) which would limit funding for the embargo in FY 1981.

Senator Adlai Stevenson (D-Ill.), who from the outset did not agree with the need for an embargo because he believes trade with the Soviet Union is a source of normalcy in U.S.-Soviet relations, has offered a compromise policy. He would entrust the CCC with total authority to sell U.S. grains to the Soviets and to determine the sale price through government-to-government negotiations. Whenever the Soviets take an action which seriously endangers U.S. national security interests, the CCC could raise the price of U.S. grain, according to Senator Stevenson's system.

One problem with this suggestion would be the ability of the Soviet Union to circumvent high-priced grain in the same way it has circumvented the embargo, by purchasing grain from other nations. One of the only reasons the Soviets purchase so much feed grain and wheat from the U.S. is that American grain is cheaper than that on other markets. It is doubtful whether the control of pricing by the CCC would act as a "disincentive to irresponsible conduct," as Senator Stevenson surmises in his September 26 statement on the Senate floor.

Party politics have undoubtedly played a role in congressional assessment of the embargo. On July 3, 1980, Governor Ronald Reagan, then the Republican candidate for President, endorsed the efforts of a group of farm state congressmen and senators to lift the grain embargo. Governor Reagan has said in effect that farmers should not be forced to bear the entire burden of this response to the invasion of Afghanistan. He has pointed out how greatly the Administration weakened the effect of and the justification for the embargo by allowing U.S. subsidiaries to sell the Russians non-U.S. grain, and by delivering substantial amounts of U.S. grain purchased by the Soviets in previous embargo years.

The legislation that Governor Reagan endorsed in July was introduced on the Senate side by Senator Robert Dole (R-Kans.) (S. 2855). On the House side, Congressman James Abnor (R-S.Dak.) and others introduced H.R. 7632, a similar bill designed to rescind the embargo, on June 20, 1980. Since the introduction of this legislation, amendments were offered in both houses to the Appropriations bills for Departments of State, Commerce, and Justice, which would limit funding from any of these agencies for the embargo during FY 1981. The amendment was rejected by a wide margin in the House on July 23, 1980. On the Senate side, Senator Pressler introduced the amendment which was first narrowly defeat-



(SANCTIONS)



## DEPARTMENT OF STATE

Washington, D.C. 20520

Dear Mr. Dorgan:

I have been asked to reply to your letter of December 26 to President Reagan in which you expressed your opposition to a grains embargo against the Soviet Union.

As you know, on December 29 President Reagan announced the imposition of several sanctions against the Soviet Union in response to their role in the current suppression of the Polish people. Among these sanctions was the postponement of negotiations on a new long-term grains agreement with the Soviets. In addition we have been consulting with our Allies. So far they have agreed to examine measures that they could take in response to the present situation in Poland. They also agreed with us to reflect on longer term East-West economic relations, particularly in the areas of agricultural commodities, energy, and technology.

In considering a grains embargo, the U.S. Government must realistically assess the role U.S. grain plays in the Soviet economy and the need for support from our friends and allies if an embargo is to be effective. We are also aware that even in bad years the Soviet Union is still by far the world's largest producer of wheat, almost all of which is consumed domestically. This means that enough grain is grown in the Soviet Union to provide the population with a minimum diet. Grain imports are needed to support the government's important political goal of increased meat consumption, but are not necessary to prevent hunger. In addition, Canada, Argentina, Australia and the European Community also supply significant amounts of grain to the U.S.S.R., and could supply more if the U.S. were to restrict its grain exports. Given this situation it appears unlikely that the Soviets would make any meaningful concessions in return for continued access to U.S. grain.

The idea of charging the Soviet Union a higher price for U.S. grain, though attractive, would not be workable in practice. If the U.S. were to raise its price the Soviets would turn to other suppliers, who would undercut the U.S. price by just enough to maximize their sales. This year in particular the other exporters (Canada, Australia, Argentina and the European Community) have

The Honorable  
Byron L. Dorgan,  
House of Representatives.



large surpluses of grain. Even with the major exporters' cooperation, grain is so fungible internationally that the Soviets could avoid paying a higher price by buying their grain through other importing countries. A complex program of licensing grain exports to all destinations would be needed to limit this kind of circumvention. Such a program would require far-reaching and undesirable government involvement in our private grain marketing system.

The Administration recognizes that the last embargo placed a heavy burden on farmers and has made clear that any future trade sanctions will apply across-the-board to all products. Even so, since about two-thirds of our trade with the Soviet Union is in agricultural products, a trade embargo would hit the U.S. agricultural sector heavily. I am not aware of any current plans to provide additional price protection to farmers in the event of an embargo, but the Department of Agriculture would have primary responsibility for developing and implementing any such plans. Certainly the State Department would not object to measures to offset the impact of any future trade embargo on the U.S. farm sector.

Sincerely,

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Powell A. Moore  
Assistant Secretary for  
Congressional Relations



LEVEL 1 - 1 OF 1 STORY

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January 29, 1981, Thursday, Final Edition

SECTION: Business &amp; Finance; D1

LENGTH: 530 words

HEADLINE: Review Set On Grain Embargo;  
New Agriculture Secretary Pledges A Swift Decision

BYLINE: By Ward Sinclair, Washington Post Staff Writer

## BODY:

Agriculture Secretary John Block said yesterday that President Reagan has called for a Cabinet-level review next week of the partial U.S. grain embargo against the Soviet Union, which both Reagan and Block have criticized in the past.

The embargo was imposed by former president Carter in January 1980 following the Soviet invasion of Afghanistan. The action drew severe criticism from farmers, mostly in the Midwest, who complained they were penalized unduly by the policy move. Carter extended the embargo earlier this month.

Block, an Illinois grain farmer who was among those critics, said he does not believe the new administration will make a decision next week, but he promised that "this will be dealt with swiftly."

At his first news conference since his confirmation as secretary, Block made these other points yesterday:

The administration's budget-cutting review will touch agriculture programs, as well as others throughout the government, with more attention to the costliest. At the USDA those will include the Farmers Home Administration, dairy price supports and nutrition programs, Block said.

Food prices, which USDA economists predict could rise by as much as 15 percent this year, continue to be "a great bargain . . . an inflation-fighter." He said the "trend line" on food prices is lower than that of other basic consumer items, and he will oppose any governmental efforts to target food price increases for curtailment.

The administration will work vigorously to bolster U.S. agricultural exports, notwithstanding some fears that such a policy could lead to higher prices for U.S. consumers.

Much of yesterday's session focused on the grain embargo -- whether and how long it will go on, whether it achieved its purposes and what will happen to U.S.-Soviet grain trade in general.

Block said the embargo was raised at a meeting of the Cabinet on Tuesday, with presidential adviser Edwin Meese III suggesting that a review be conducted by the National Security Council.



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The secretary said that he proposed that the review draw on other agencies' thoughts, as well, and that President Reagan went along with the idea. Block said the issue will be dealt with again next week.

"I have always felt it was doomed to failure," Block said, "but we need to review it." Reagan, sharply critical of the embargo during his presidential campaign, had taken a similar position since the election.

Carter last year cancelled contracts for the sale of 17 million metric tons of corn, soybeans and wheat, an amount beyond that provided for in a 1975 grain-trade agreement between the two countries. After the embargo was invoked, the Carter administration allowed the delivery for another 8 million metric tons that were covered by the 1975 agreement.

The 1975 agreement is scheduled to expire on Sept. 30. Block said he could provide no details on extension of the accord.

Block also said that, should the administration decide at any time in the future to embargo food or grain exports, he expects "to have a full and fair share of influence" with policy makers.



MEMORANDUM

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THE WHITE HOUSE  
WASHINGTON

February 3, 1981

~~SECRET ATTACHMENT~~

INFORMATION

MEMORANDUM FOR: THE PRESIDENT  
FROM: RICHARD ALLEN *Allen*  
SUBJECT: Partial Grain Embargo

Attached for your information is a cable concerning Embassy Moscow's recommendations on the partial grain embargo.

Attachment

cc: The Vice President  
Ed Meese  
Jim Baker

UNCLASSIFIED UPON REMOVAL  
OF CLASSIFIED ENCLOSURE(S)

*smf 4/23/02*

~~SECRET ATTACHMENT~~



THE WHITE HOUSE

WASHINGTON

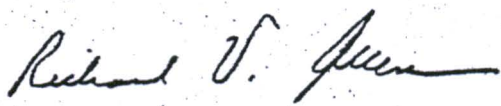
~~SECRET ATTACHMENT~~

February 3, 1981

MEMORANDUM FOR: SECRETARY OF STATE  
SECRETARY OF AGRICULTURE  
SECRETARY OF COMMERCE  
U.S. TRADE REPRESENTATIVE

SUBJECT: Partial Grain Embargo

Attachment for your information is a cable concerning Embassy Moscow's recommendations on the partial grain embargo.



Richard V. Allen  
Assistant to the President  
for National Security Affairs

Attachment

UNCLASSIFIED UPON REMOVAL  
OF CLASSIFIED ENCLOSURE(S)

*smf 2/23/02*

~~SECRET ATTACHMENT~~



~~SECRET~~

DECLASSIFIED

MOSCOW 1490

NLRR File 714/8 #9982  
BY NOJ NARA DATE 9/30/08

February 2, 1981

As a contribution to the current review of the partial grain embargo, I offer the following observations from the perspective of an American observer in the Soviet capital. I do so recognizing that important factors outside the realm of U.S.-Soviet relations must be considered in making a decision, and that some of these may be decisive. Nevertheless, I would hope that the "Moscow perspective" will be given appropriate weight since our decision on this question could have a profound effect on our ability to mount a coherent and effective policy to deal with the USSR.

#### EFFECTIVENESS

Up to now it is clear that denying the Soviets more than the eight million tons of U.S. grain per year guaranteed to them under the long-term grain agreement was not as effective as many initially hoped. It has, however, had a significant (if not completely measurable) impact on the Soviet economy. Not only were the Soviets unable to make up their entire shortfall by purchases elsewhere, but in the scramble to cover as much of their needs as possible, they were forced to pay higher prices, accept less advantageous shipping terms, absorb the inefficiencies of more erratic deliveries, and probably to dip more deeply than they planned into their strategic grain reserves. Even so, meat production declined and the steady growth of livestock herds registered in earlier years was stopped in its track. They emerged from the experience in a weakened position, particularly as regards stocks of feed grains, and now face a tighter supply situation on world markets than they did a year ago.

At the same time, public cynicism that the current regime is incapable of providing a better life for the consumer has

~~SECRET~~



deepened and many Soviet citizens seem to attribute food shortages to the U.S. embargo and thus -- implicitly -- to their government's invasion of Afghanistan. We should, of course, do what we can (e.g., via VOA) to foster this impression since it complicates the task of the Soviet leaders in winning popular support for military adventures abroad.

#### LEVERAGE FOR THE FUTURE

Soviet crops are notoriously hard to predict, but on the average two out of five are poor. A couple of good years would of course alleviate their predicament -- though not in itself solve the feed grain shortage, since they are not self-sufficient in that area even in good years. Still, the Soviets tend to take the long view and it must be apparent to them that, while they may be able to ride out a U.S. embargo for a year or so, they cannot do so indefinitely. When the Soviet crop is poor, only the U.S. provides supplies in magnitudes commensurate with Soviet needs. But hitherto the potential lever this provides the U.S. has had little effect on Soviet actions because the Soviets are confident that the impatience for quick results for which Americans are noted, combined with political pressures, will render any attempt to use the lever of short duration and therefore manageable from the Soviet point of view.

#### THE STRATEGIC DIMENSION

In the Soviet view, grain is a strategic commodity. Conditioned by centuries of history which demonstrate that food supplies are critical to morale and indeed that shortages inevitably bring discontent to the population and extreme shortages open rebellion, an adequate food supply is considered as important to national security as arms and men trained to use them. No secret is guarded more jealously than the size of the nation's strategic grain reserve -- so jealously and effectively, in fact, that U.S. intelligence knows far more about the newest Soviet weapons than



about Soviet grain reserves. Favored by nature and a productive economic system, we Americans have gone to a different school: to us who have never known famine and whose greatest problem in recent decades has been the management of surpluses, food is a "non-political" commodity, one of purely economic, and perhaps moral, significance. In this part of the world such a view doubtless seems naive, but the Soviet leaders must cherish the hope that our traditional attitudes will persist. When Lenin predicted that capitalists would "sell us the rope to hang them with," he doubtless had more in mind than military and industrial equipment.

#### LIMITATIONS ON THE LEVERAGE

By the above, I do not mean to suggest that we have it in our power to starve the Russians to submission or to effect major changes in their system by limiting grain sales to them. Their production is quite adequate to prevent famine or serious malnutrition. What they cannot do in the long run without recourse to the U.S. market is to provide the steady improvement in the Soviet diet which the consumer has come to expect and which is one key to the increased productivity on which continued economic growth in the 80's is significantly dependent. Our leverage is thus at the margin, but is nonetheless potent. The Soviet leaders themselves demonstrate the importance imported food has for the political and economic health of the regime by spending large sums of scarce hard currency for food rather than industrial equipment more directly relevant to their military machine. If they cannot depend upon importing grain when they need it -- and in the quantities they need -- then the Soviet leaders will be forced to increase further their already heavy investment in agriculture, and this will make their resource allocation problems -- including those for the military -- even more acute.

#### POLITICAL CONSIDERATIONS

Aside from the economic and long-term strategic significance



of supplying the Soviets with grain, there is also a political dimension. A decision at this time to eliminate the partial embargo would seriously undermine the overall posture we should be maintaining — that is, one of firmness and of insistence that the Soviets end their expansionism and troublemaking outside their borders if they desire a cooperative relationship with us. Inasmuch as unfettered access to our grain markets is one of the most valuable privileges we can grant them, a decision to confer it in the face of their continued occupation of Afghanistan, threats against Poland, and adventurism elsewhere in the world would suggest that our willingness to act does not match our rhetoric. Irritated as they may be at times by words, the Soviet leaders are realists who judge others by their acts much more than their words. It would be most unfortunate to leave the impression that we are unwilling to match our words with deeds.

#### RELATIONS WITH ALLIES

Though Moscow is not the best vantage point to assess our relations with our allies, it would seem that our decision on grain sales could have a bearing on our ability to maintain allied unity in dealing with the Soviet threat over coming years. Up to now, allied support for economic sanctions has been imperfect, to say the least. Nevertheless, our ability to strengthen allied backbones could be significantly undermined if we resume unrestricted grain sales, since it will appear that we are asking the allies to make sacrifices when we ourselves are unwilling to do the same.

#### OPTIONS

We of course have more choices in regard to our policy on selling grain to the USSR than to embargo or not. Since the long-term grain agreement expires September 30, 1981, we have several broad options in the future:

- A. To drop the partial embargo and allow unlimited sales henceforth;



-- B. To maintain the limited embargo for the time being, but renew the long-term grain agreement, which would ensure Soviet purchases of six million tons a year and permit eight million without USG approval;

-- C. To renegotiate the long-term grain agreement to provide for higher or lower levels of guaranteed sales; or

-- D. To maintain the partial embargo, refuse to extend or renegotiate the long-term agreement, and require prior approval of the U.S. for all Soviet grain purchases in the U.S.

Option A would provide no leverage -- and also no guaranteed sales. Option D would provide maximum leverage in that sales to the Soviets could be rationed in accord with market conditions, their behavior, or other factors. Options B and C would guarantee a significant level of sales for the American farmer, but preserve some leverage during years when Soviet crops are poor. Should we decide to renegotiate the long-term agreement, our negotiating position will obviously be stronger if we have not lifted the partial embargo before hand and have not announced an intention to do so.

RECOMMENDATION

In sum, I strongly recommend -- domestic considerations permitting -- that our grain export policy be considered as an integral part of our overall policy toward the Soviet Union, and that it be consistent with our policy in regard to industrial exports. We should recognize the long-term strategic dimensions of grain exports to the USSR and take account of the fact that the decision to allow, forbid, or limit exports provides one of the most powerful non-military instruments for dealing with the USSR. Both the carrot and the stick are inherent in the policy, but they cannot be employed to full effect unless we can



devise a consistent, long-term approach and convince the Soviet leaders that we are willing to implement the policy over the long haul. As we work out the details of our overall policy in respect to the Soviet Union, there are advantages to leaving the Soviets in doubt regarding our ultimate decision on this question. In particular, advance assurance that we will not in the future attempt to use the "grain weapon" would, in effect, reward bad behavior without any compensating concession on the Soviet part.

Charge Jack Matlock