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U.S. to Keep Embargo on Grain Sales

Wash. Post, 2/15/81, p. A1
Reagan Said to Feel

Now Isn't Time for
Concession to Soviets

By Lou Cannon and Lee Lescaze
Washington Post Staff Writers

President Reagan, impressed by the argument of Secretary of State Alexander M. Haig Jr. that now is not the time to make concessions to the Soviet Union, will keep the Russian grain embargo in place for the foreseeable future, according to White House sources.

The grain embargo was a significant issue in the 1980 presidential campaign. Reagan assailed President Carter for imposing it in retaliation for the Soviet invasion of Afghanistan and said it was hurting American farmers far more than it was the Russians.

But this is not now the case, Reagan was told yesterday in a full-scale discussion of the issue during a Cabinet meeting.

The Soviets face severe grain shortages, he was told, and are using their hard currency to buy grain from Argentina and other countries. This was also one of the central arguments made in a recent report by the Heritage Foundation, a conservative Washington-based research organization that recommended extending the embargo.

At his press conference last week, Reagan said he always thought the embargo, bitterly opposed by some Midwest farm organizations, was "more of a gesture than something real." He said that the only choice he had was to lift the embargo or broaden it.

Broadening it to include some technical products now being sent to the Soviets is still a possibility, according to one well-placed source. This source said that the president was "very impressed" with Haig's argument that, at the very least, now is not the time to

See PRESIDENT, A6, Col. 1

Reagan Reported Set to Keep Grain Embargo

PRESIDENT, From A1
give the Soviets the concession they want most by lifting the embargo.

This is particularly true, the president has been told, in view of the signal he sent the Soviets in his news conference last week when he said that they are bent on world domination and consider it "moral" to lie, cheat and commit crimes toward this end.

Any dealing with the Soviets, Reagan added, should take this into account.

The case for lifting the embargo was made in yesterday's Cabinet meeting by Secretary of Agriculture John Block, who argued that if the Soviets were going to be spending money abroad for grain they should be spending it in the United States. Meeting with reporters earlier in the week, Block described the embargo as "the most ridiculous thing I ever heard of."

Last week Block was successful in persuading Reagan to have the issue considered by the full Cabinet rather

than just by the National Security Council. However, his argument at the Cabinet meeting appears to have been undercut by this year's reduced crops, for which most farmers appear to have adequate export markets. This in effect left a national security argument balanced against a campaign pledge.

The issue is highly sensitive for Reagan because of his repeated promises to lift the embargo if he were elected. But some of his aides argue privately that the situation has changed since he made the pledge, both because of the Soviet threats to Poland and because there has been some accumulation of evidence that the embargo has made the Soviets pay out more of their limited hard currency, perhaps as much as \$1 billion more, than they would have without the embargo.

Carter imposed the embargo on Jan. 4, 1980, with the support of most national farm organizations. His order blocked delivery of 17 million metric tons of wheat, corn and other prod-

ucts, most of it destined for livestock feed.

Carter's support from farm organizations declined along with farm income, which dropped by 22 percent in 1980. There is a dispute among agricultural economists about the embargo's role in this decline, with some placing more of the blame on the glut caused by 1979 bumper crops.

Even though farmers want the embargo lifted, there are some signs that this is a negotiable demand that could be traded for others. Marvin Meek, the president of the American Agriculture Movement, even while calling for a lifting of the embargo yesterday, said that it might be possible to go along with it if price supports are increased.

"It still boils down to what we said last November," the Associated Press quoted Meek as saying. "We're willing to go along with it as long as it doesn't destroy our markets."

However, there is no sign that price supports will be increased. On the contrary, an attempt may be made to

lower them as part of the administration's effort to make substantial cuts in the federal budget.

Well aware of the sensitivity of the issue, the administration imposed a virtual gag order yesterday on White House press secretary James Brady, instructing him to say only that the embargo issue was still under discussion and that the president had not decided whether to retain or lift it.

Brady did as he was told, adding only that he expected the issue to come up at a future Cabinet meeting.

While declining to answer questions about the grain embargo at the daily White House briefing, Brady did provide the information that Reagan had implored his Cabinet yesterday to "go ye forth and seek minorities and women for your appointments."

Vice President Bush made a similar exhortation.

Organizations representing Hispanics, blacks and women have complained that insufficient numbers of their constituencies are getting jobs in the Reagan administration.

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Wash. Post, 2/6/81, Pg. A3

Reagan Undecided on Lifting Soviet Grain Embargo

President Reagan has not decided whether to lift the Soviet grain embargo or to seek decontrol of natural gas by Sept. 30, White House deputy press secretary Larry Speakes said yesterday.

As he left a presidential prayer breakfast Reagan was asked about a Washington Post article saying that the embargo would be continued for the foreseeable future. "No decision has been made," he replied.

Sen. Bob Dole (R-Kan.), a strong opponent of the embargo, said yesterday that he thinks the president will lift it. "In my view, he made a campaign promise to remove it, to lift the embargo," Dole said.

The president has promised Dole and other anti-embargo senators from farm states that he will not make a decision on the embargo at least until after Feb. 17, when he will meet with them and listen to their arguments in favor of ending the embargo, imposed

by former president Carter after the Soviet invasion of Afghanistan.

Senate Majority Leader Howard H. Baker Jr. (R-Tenn.), meanwhile, said that a turnaround on the issue would not embarrass Reagan. Conditions change, Baker said, "It would be foolhardy to say . . . positions you take in the campaign must never be varied."

The grain embargo was discussed during a Wednesday Cabinet meeting and will be discussed further at another Cabinet-level meeting, according

to White House press secretary James S. Brady.

On decontrol of natural gas, Speakes told reporters that "no final decisions have been made and won't be for a number of days."

He indicated, however, that a decision on decontrol of natural gas would be made in the near future.

Baker said he favors decontrol, but would also favor imposition of a windfall profits tax, "at least a temporary one," to accompany decontrol.

PRESERVATION COPY

Stephen S. Rosenfeld

It's Our Grain Deal

The president's decision to keep the Soviet grain embargo in place for a while gives him, the bureaucracy and other politicians time to come to grips with the unnoted fact that events have handed the United States a major strategic opportunity in dealing with Soviet power.

For the issue is not simply whether President Reagan will respect his campaign pledge to lift the embargo President Carter imposed after Moscow invaded Afghanistan, or whether this is not the right time to lift the embargo. It's whether the new administration will realize that a potent new combination of circumstances exists, ready for American exploitation.

These circumstances are:

1) World grain patterns are changing. Such is the increase in domestic and non-Soviet foreign demand, and such are the rising costs of growing more food at home, that no longer do American farmers require the Soviet market to soak up surpluses and keep domestic prices high. The new pattern is analyzed in a comprehensive report that Agriculture Secretary John Block inherited from his predecessor. Block, in an interview, showed himself definitely unsympathetic to this part of the report. I gathered, however, he has not yet fully digested the material in it.

2) The miseries of Soviet agriculture linger. This is an old story. Nor is there the slightest glimmer that the Kremlin will do the one thing—unleash market forces—that could ease its farm problem. That means depending indefinitely on American farmers to make up Soviet shortfalls, as the Kremlin has for 20 years.

3) The Soviet-American grain agreement of 1976, obligating the Soviet Union to buy eight million tons a year and giving the president

the authority to decide whether to sell more, expires in the fall. This gives the new administration the impetus and occasion to make grain policy for years to come.

In brief, we have got the Soviet Union caught between our diminishing need for their market and their large, continuing need for ours, and it's our deal.

Under that 1976 agreement, the Soviets could and did buy eight million tons in 1980. The Carter embargo kept them from buying 17 million additional tons. Most Soviet grain imports are used to feed cattle, so the embargo did not cause hunger by affecting the basic bread ration. But notwithstanding Soviet spot purchases elsewhere, the embargo did affect

“Every time a Soviet family sits down to dinner, the evidence of the Kremlin's failure is on the table. Call it the Afghanistan red plate special.”

the supply of meat in the first year (1980) and it will effect meat even more from this point on as slaughtered herds are not replenished.

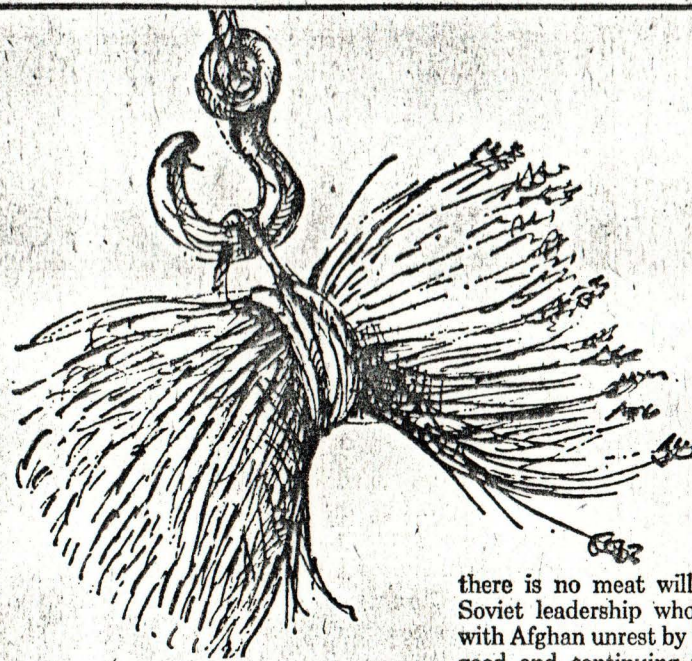
We must keep in mind that the standard of living in the Soviet Union is still so abysmally low that, except for the elite, the quality of diet is the most important thing. Meat is the principal item with which the Soviet leadership has undertaken to improve the diet.

The removal of meat from the dinner table is, then, a blow at the diet, a blow at the standard of living and a blow at the Soviet leadership. It's not stretching to say that every time a Soviet family sits down to dinner, the evidence of the Kremlin's failure is on the table. Call it the Afghanistan red plate special: cab-

bage or potato, and no meat, washed down with vodka.

Public opinion as such may not exist in the Soviet Union. The Soviet people, compared, say, with Poles, are cows, little given to protest. Certainly the Soviet internal apparatus of repression is stronger. But there is reason to believe that events in Poland over the last decade have sensitized Soviet leaders to the impact that changes in the supply and price of food can have on domestic stability. They cannot be happy looking forward to further erosion of public morale, if only for its effect on productivity in the work place.

There is another angle. If a limit is kept on Soviet purchases, the onus of explaining why



there is no meat will lie with those in the Soviet leadership who were keenest to deal with Afghan unrest by tanks. It is the stuff of a good and continuing internal Kremlin argument. Now, with a succession struggle impending, is a particularly good time to nourish that argument. But if the American grain market is again opened wide, the message the United States would be inserting into that argument would be: anything goes.

A decision to make grain an integral and explicit part of American foreign policy sets up certain tasks. Policymakers must determine how to distribute exports among commercial, political and humanitarian/developmental uses. Diplomats will have to head off Soviet end runs in the few other grain-exporting nations. Propagandists must remind foreigners that Soviet adventurism was the cause of it all. The agricultural sector must accept a requirement to institutionalize a new government role in the grain trade. Difficult tasks all, but possible to do.

Will Reagan seize the moment? Surely he will, if he can shed the conviction that government has no business interfering in the market and if he can, instead, think strategically.

NATIONAL SECURITY COUNCIL

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February 11, 1981

MEMORANDUM FOR RICHARD PIPES

FROM Sven Kraemer *SK*

SUBJECT: M. Rashish Paper
on Grain Embargo

Attached, per our discussion, is a copy of the Grain Embargo paper prepared by Meyer Rashish for the President's Interim Foreign Advisory Board. *Policy*

I am also passing a copy on to Henry Nau.

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

DECLASSIFIED

NLRR' FO6-114/8# 9983

BY LOI NARA DATE 9/30/08

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GRAIN EMBARGO 5

December 1980

THE GRAIN EMBARGO

M Rashid

The post-Afghanistan grains embargo against the USSR announced on January 4, 1980, whatever its effectiveness, has been overtaken by a series of events which are likely to dominate U.S. policy toward grain trade with the USSR in 1981:

1. The evolution of the Reagan administration's policies toward the USSR, including trade relations and the question of linkage;
2. The possibility of extensive economic sanctions against the USSR if Poland is invaded, etc.;
3. The expiration of the US-USSR grains agreement on September 30, 1981, covering 8 million tons of grain not affected by the embargo;
4. World grains production, supply and prices and USSR import requirements.

Background

The grain embargo against the USSR of January 4, 1980 was part of a program of economic and other sanctions announced by President Carter following the Soviet invasion of Afghanistan and included limitations of exports of high technology or other strategic items

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and limitations on fishing privileges in U.S. waters. The grain embargo did not affect the base amount of 8 million tons of grain which was contracted for and applied only to the 17 million tons discretionary purchases by the USSR permitted by the US-USSR grain agreement.

The embargo decision had all the earmarks of a hasty action: the affected U.S. industries were not consulted as required by the Export Administration Act of 1979 nor was there prior consultation with U.S. allies. The Carter administration never adequately explained why the embargo did not affect the base amount of 6-8 million tons of grain provided for in the US-USSR agreement of October 20, 1975 which were to be supplied annually for a five-year period starting October 1, 1976. The Carter administration was confident that the embargo would not be circumvented by other grain suppliers. The 17 million tons of embargoed grain (value = \$2.3 billion) was supposed to result in the loss to the USSR of about half of its projected grain imports with a consequent reduction in livestock feed, herd slaughter, and, over the longer term, a substantial reduction in meat production. Attempts were made to secure the cooperation of other grains-exporting countries such as Canada, Australia, the European Community and Argentina. Argentina never agreed to participate in the embargo, Canada accepted to limit grain sales to the USSR to "normal and traditional levels". In the event, there was substantial circumvention of the embargo notably in Argentina, the EC and Canada.

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The USSR has been able to import a record amount of grain in the marketing year 1979-80 (July-June) and estimates indicate a continuation of the trend for 1980-81. The total amount of grain imported by the USSR in 1979-80 was 31.5 million tons, about 20 percent above previous record year of 1975-76 and accounting for 16 percent of total world grain imports. Total grain imports in the 1978-79 year were 15.6 million metric tons.

Estimated total grain imports in 1980-81 are 33.1 million metric tons. The geographic composition of these imports has, however, changed. Comparing July-December 1979 with January-June 1980, one sees a marked reduction of imports from the United States from 12.2 million metric tons (MMT) in the first period to 3.1 MMT in the second period. While the United States accounted for 72% of the Soviet Union's grain imports in 1978-79, the US accounted for only 48% of such imports in 1979-80. Estimates for 1980-81 show dramatically the change in the composition of imports into the USSR: compared with a year earlier, US exports are expected to decline from 15.3 MMT to 8.0 MMT; Canada would increase exports from 3.8 MMT to 5.1; Argentina from 5.5 to 10.0; the European Community from 0.7 to 3.5. Exporting countries have circumvented the embargo shifting sales from traditional markets to the USSR (at premium prices) while leaving traditional markets to US grain exporters. Argentina has been the greatest beneficiary of this diversion and has, in addition, signed on July 10, 1980 a long-term supply agreement with the USSR for 22.5 million tons of grains (corn, sorghum and soy beans) over the next five-year period.

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Effect on the USSR

The effect of the embargo on the USSR is difficult to assess. The USSR had anticipated a total consumption of grain in 1979-80, prior to the embargo, of 228 MMT of which about 35 MMT was to be imported. Of these imports, 25 MMT was to come from the United States. The embargo was designed to reduce these 25 MMT to 8, a reduction of 17 MMT part of which would be offset by imports from other sources with a net loss of imports to the USSR of about 7 MMT; actual net reduction in imports has been less: to the extent the USSR is experiencing a reduction in grain consumption below anticipated levels, the principal cause has been her bad grain harvests in both 1979 and 1980 with production off in each year by about 30 million metric tons. The USSR was able to offset these losses in part by drawing down of stocks of grain and in part by increasing imports of meat.

The diversion of imports from the U.S. to other sources has resulted in higher prices for grain imports into the USSR. With chronic difficulties in agriculture, bad grain harvests in the USSR and a stringent supply situation in the world, the USSR (as other consumers) will be faced with higher grain import prices. In these circumstances, there is at least an appearance that the grain embargo is working in terms of the availability of grain supplies to the USSR and there may in fact be some reduction in shipments to the USSR as a result. Under present circumstances, a curtailment in the 8 million metric tons of grain currently authorized for exportation to the USSR (of which

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5.5 MMT have already been contracted for and, as yet, not shipped), a significant impact on grain supply to the USSR could result. The longer the bad supply situation in the USSR and the world obtains, the greater the prospect that the USSR would have to curtail consumption of meat by its population. In the short term, unavailability of grain as a feedstock would result in the slaughtering of herds resulting in an increase in the availability of meat; over the longer term, the cut-back in herds would result in a substantial decline in meat production and consumption in the USSR.

Effect on U.S. Farmers

The opposition of the U.S. agricultural community to the embargo -- which persists -- was based initially on the expectation that the embargo would result in a substantial depression of grain prices. In fact, grain prices did drop initially but regained their pre-embargo level within a month's time. In recent months, grain prices have been rising smartly. Current stock situations for corn and wheat suggest that U.S. prices will remain relatively strong. The recently concluded four-year grain agreement with the PRC indicates that shipments from the U.S. to the PRC will rise substantially by about 6 MMTs in 1980-81 over 1979-80.

The world has experienced two years of bad agricultural harvests back to back. With world demand rising this has resulted in a run-down in stocks, higher prices and, if U.S. production stands up,

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rising U.S. exports. A world that is increasingly dependent on U.S. agricultural supplies is one in which the U.S. can more effectively than otherwise prosecute an export denial policy. But it should be emphasized that any such policy pursued essentially unilaterally by the United States is bound to have limited effects. The fact that grains are fungible and internationally traded means that substitute supplies can be found if producing countries are not willing to participate in supply restraint arrangements for either political reasons or reasons of economic gain. To assure compliance by other countries, it is necessary that they accept the objectives which the sanctions are designed to serve and this in turn requires, at a minimum, prior consultation with them. Under the best of circumstances, given the nature of the world grains market, compliance will be effective if the objective world supply and demand situation is conducive to compliance.

Options

The options outlined below are applicable in the current situation absent any event, such as an invasion of Poland by the USSR or related action of sufficient gravity to warrant the application of new sanctions. If such an event takes place, clearly the lifting of the embargo by the United States is ruled out and the prospect for the application of new economic sanctions against the USSR in concert with allied countries is substantially enhanced.

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1. Lifting of embargo without preconditions in compliance with President-elect Reagan's campaign statements.

Comment: Under present stringent supply conditions at least for the short term, the lifting of the embargo is not likely to result in any significant increase in U.S. grain exports to the USSR; by the same token, it is not likely to result in any major durable impact on U.S. grain prices which in any case have been rising. This decision appears to come down to the question of accommodating the sentiments of American farmers who are opposed to export controls on agricultural goods as a matter of principle vs. the somewhat ambiguous signal that it would emit to the USSR and our allies under the present strained circumstances of relations with the USSR.

2. Link the lifting of the embargo with some specific action or assurance by the USSR.

Comment: Given the principle of linkage enunciated by President-elect Reagan, suspension of the embargo could be sold for some action by the USSR of fairly modest dimension. Even in this connection, it would carry the implication of regularization of grain trade with the USSR and hence imply that the US-USSR grain agreement would be renegotiated.

3. Remove soy beans only from the embargo list while retaining the embargo with regard to corn and wheat.

Comment: U.S. production of soy beans has dropped and the carry-over reduced so that the amount of additional soy bean exports implied

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by such an action is doubtful. Such a decision would constitute a compromise although its value in terms of bringing the farm community around is probably very limited.

4. Defer decision on the grains embargo pending a renegotiation of the US-USSR grains agreement which expires on September 30, 1981.

Comment: The Reagan administration could open negotiations with the Russians on renewal of the agreement this spring, depending on broader political questions. This would at least serve the purpose of subsuming the grain embargo issue under the larger more important rubric of what kind of arrangements we should enter into with the USSR governing grains trade for the longer term.

5. Defer the renegotiation of the grains agreement and, after it lapses, rely on unilateral U.S. controls to govern grain exports to the USSR.

Comment: The US-USSR grain agreement was designed to introduce a measure of stability into the grains market after the experience of the "great grain robberies." This need persists and may require USSR cooperation in order to be satisfied. However, as an alternative to an agreement, the U.S. government could seek to enforce unilateral controls on shipments of grain to the USSR directly or indirectly. It is unlikely, however, that the U.S. farm community would look kindly on such controls.

M.R.
December 16, 1980

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WORLD GRAIN PRODUCTION, CONSUMPTION AND STOCKS

(July-June year)

(in million metric tons)

	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81 (Est.)</u>
Production.....	1,579	1,521	1,520
Consumption.....	1,549	1,550	1,560
Change in Stocks.....	+30	-29	-40
Year-end stocks.....	231	202	162

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USSR GRAIN IMPORTS

(July-June year)

(in million metric tons)

	<u>1979-80</u>	<u>1980-81 (est.)</u>
United States.....	15.3	8.0
Canada.....	3.8	5.1
Australia.....	3.9	3.5
Argentina.....	5.5	10.0
European Community...	0.7	3.5
Spain.....	0.0	1.0
Others.....	1.3	2.0
	<u>30.5</u>	<u>33.1</u>

Soviets See Pluses in Grain Embargo

By DAVID BRAND

Staff Reporter of THE WALL STREET JOURNAL

MOSCOW. — When President Carter slapped an embargo on U.S. grain exports to the Soviet Union 13 months ago, there was widespread optimism that the Soviets would be made to pay for their adventure in Afghanistan. Advancing tanks would be countered by retreating foodstuffs.

Thirteen months later, the Soviets are asking: Who has hurt whom?

The U.S. government spent \$2.4 billion buying up 14.5 million metric tons of Soviet-bound grain and soybeans, which it then sold at a loss of \$460 million. (A metric ton is equivalent to 36.7 bushels of wheat or soybeans or 39.4 bushels of corn.)

Although the Soviets have been forced to spend heavily on grain supplies from other countries, they claim the embargo has provided them the resolve to become self-sufficient in agricultural production.

"We have enough resources to do without imports," declares Arnold Litvinov, an agribusiness expert at the Institute of U.S. and Canadian Studies in Moscow. He calls agricultural self-sufficiency "a very realistic goal."

Despite such Soviet contentions and strong opposition from U.S. farmers, most observers don't expect President Reagan to lift the embargo any time soon.

That the embargo has stung the Soviets into action is supported by Zhores Medvedev, a Soviet emigre scientist who works at the National Institute for Medical Research in London. The Soviets, he writes in a widely discussed article in *The New Scientist*, a British magazine, are making a major effort to prove their independence from U.S. imports.

"In general," Mr. Medvedev writes, "I find that the U.S. embargo, which was designed to expose the vulnerability of the Soviet Union, has in reality made a rather

positive impact on the Soviet economy, helping to mobilize its resources and potentials."

But many in the West disagree with this assessment. "Yes, the Soviets are potentially capable of becoming self-sufficient, but at great cost," says Everett Jacobs, an American expert on Soviet agriculture who teaches at Sheffield University in England. "It would be so costly that it would be irrational to attempt it." He adds that the capricious Soviet climate makes harvest goals difficult to meet, as was the case in 1979 and 1980.

The Soviets were hit from two directions last year. First came the grain embargo, which meant the loss of 17 million metric tons of U.S. grain that were planned to be imported between October 1979 and September 1980. (The U.S. government bought up 14.5 million metric tons of this

They claim the embargo has provided them the resolve to become self-sufficient.

for resale. The embargo exempted eight million tons a year, which the Soviets bought in the 1980 contract year and have contracted for again this year.) Then bad weather reduced the harvest, targeted at 235 million metric tons, to 189.2 million.

The shortage is acutely affecting Soviet meat supplies because the principal grain imports are for animal feed. These imports are now coming in at a rate of about 35 million metric tons a year from Argentina, Canada and a number of other countries.

The Soviet view—laced with considerable hyperbole—is that a heroic effort is being made to raise production of animal feed. Planners are considering higher yields of everything from alfalfa to rapeseed. "Even potatoes and beets are an important resource for feeding animals," says Mr. Litvinov of the U.S. and Canadian institute. Mr. Litvinov is extremely serious when he tells a reporter: "The grain embargo was a pleasure for our country. Because we had come to rely on imported feed and coarse grain from the U.S., we weren't forced to do anything about increasing the production of high-protein forage and coarse grain in our own country."

Relying Is Dangerous

During the years of detente, he says, it was considered more rational to import additional feed grain than to produce it, thus freeing resources for use elsewhere in the economy. But, as relations between the U.S. and the Soviets have deteriorated, he says, "we now realize that it's very dangerous to rely on international partners."

Exactly how the Soviets could make up their deficiencies in animal-feed production isn't clear. Victor Nazarenko, who directs a Moscow institute of economic research in agriculture, talks somewhat vaguely about improving efficiency through increased investments in irrigation and storage.

But he comes closer to a major reason for the animal-feed shortage when he means the "lack of initiative" shown by state-farm managers. "State farms must become self-sufficient instead of relying on subsidies," he says.

Western experts doubt that the cumbersome Soviet agricultural bureaucracy can be inspired to become more efficient. Nor do they believe that the Soviets will be able to boost production of alfalfa, soybeans and rapeseed for many years. Thus the Soviets must step up efforts to bring more land into production.

In the harsh landscape of the Soviet Union, this largely means reclaiming land from forest and swamp, treating it with large amounts of fertilizer and minerals, and building irrigation systems. Even so, such areas have the least-productive soil, deficient in humus and lime, and the capital investment needed to bring it into production is high. Although more than 11,000 acres of these so-called nonblack lands have been brought into production in the past five years, the total still constitutes only 3% of Soviet arable land.

Costs Less Than Imports

But the cost can be justified, says Mr. Nazarenko. In recent months, the Soviets have been paying as much as \$226 for a metric ton of imported grain, compared with the domestic production cost of \$110 a ton. Even though grain from the nonblack lands is as high as \$200 a ton, it still costs less than the imports.

The Soviet research institute for nonblack lands—located in Minsk, capital of the republic of Byelorussia—is suddenly of major importance in the Soviet effort to increase grain production.

Michail Severnyou, the institute's director, says 48% to 50% of the arable land in nonblack areas is planted to cereal crops. His mission, he says, is to expand that to 60%. But this will make only a minor dent in the Soviet Union's feed-grain needs because the nonblack lands provide only 6% of the nation's grain.

The priority given to Mr. Severnyou's institute can be seen in the facilities at its command. It controls 31 laboratories with 680 scientific workers and 280 scientists and engineers. It has an experimental plant to test prototypes of farm machines and a factory with 400 workers to build the machines.

Mr. Severnyou is convinced that feed production can be increased on nonblack lands with new technology and with minerals and organic fertilizers. "With fertilizer alone," he says, "we can triple our hay production." The problem is that the Soviets have a chronic shortage of fertilizer.

In his article, Mr. Medvedev, the Soviet emigre scientist, says such efforts are part of the "battle attitude" adopted by the Soviets after the U.S. embargo. He writes: "Full self-sufficiency, in production clearly motivated several high-level agricultural-planning decisions taken at the beginning of 1980. And the effect of these decisions will be long lasting, far beyond the limits of 1980."

Wash. Post, 2/28/81 Pg. A8

Carter's Embargo on Grain to Soviet Is Reagan's Now

By Ward Sinclair
Washington Post Staff Writer

There may be times when certain Republicans wish they'd never heard of a grain embargo. Much less campaigned against it.

Jimmy Carter's partial embargo on grain shipments to the Soviet Union, as punishment for the Russians' invasion of Afghanistan, is quickly becoming Ronald Reagan's grain embargo.

Despite campaign promises, despite the opposition of prominent GOP senators, despite a Cabinet-level review and a White House meeting last week, there is no sign that the embargo will be lifted any time soon.

More and more it appears, as Agriculture Secretary John R. Block suggested last week, that the embargo will continue at least until the Soviet Union offers some gesture of conciliation toward the United States.

Block, a strenuous critic of the sales ban and ultrasensitive to Farm Belt displeasure with it, raised another point that may further try the political patience of farmers intent on bolstering U.S. exports: the possibility that the underlying 1975 bilateral grain agreement with the Russians, which the embargo only interrupted, will not be renewed.

"There is great concern on my part," Block told a House Appropriations subcommittee. "Without some change in the embargo situation, it would be difficult to negotiate a new agreement... At some point, the embargo has to come off, but it seems

difficult to think we can have an agreement with the embargo still on."

Afterward, Block said the United States has had no contact with the Soviet Union on renegotiation of the 1975 agreement, which allowed Moscow to purchase American grains in an orderly fashion to prevent the disruption of U.S. domestic markets.

Sen. Walter (Dee) Huddleston (D-Ky.), ranking Democrat on the Senate Agriculture Committee, recently touched on another point that has been lost in the great debate over the merits of the embargo and whether it has hurt the Soviet Union as much as President Carter intended.

"We seem to think the Russians will want to renew the agreement... They have been able to make up most of their shortfall from other world sources," he said.

The Defense Intelligence Agency has estimated that the Russians had to spend an additional \$1 billion last year to obtain the grain, used mostly in livestock. Critics note, however, that the embargo cost the U.S. government about \$3.4 billion; that was the price of taking over the grain that would otherwise have been sold to the Russians.

U.S. Department of Agriculture analysts say the embargo, along with poor harvests, diminished Soviet meat production and slowed agricultural growth. U.S. farmers suffered some short-term losses after the embargo, but the drought and a growing world demand by year's end lifted grain

prices well above their pre-embargo level. And despite the ban, U.S. grain exports last year exceeded 1979 figures.

American farmers greeted the 1975 trade agreement with enthusiasm, since it meant the opening of an important new market on a regularized basis with potential for expansion, as in fact occurred each year after the pact was signed.

Their enthusiasm was dampened after Soviet troops poured into Afghanistan in late December 1979. Within days, using national security powers given him by export law, Carter invoked a ban on the sale of any grain in excess of the 8 million metric tons the United States was committed to sell under the 1975 agreement.

That meant that about 17 million tons of grain were withheld from shipment. The U.S. government agreed to buy the grain to prevent market revival and price depression at home, but farmers were furious — in part because Carter had allowed a continuation of other types of nonagricultural exports.

The ban, most observers agree, cost Carter dearly at the polls in the mid-American grain belt last November. The farmers' hope, of course, was that candidate Reagan would follow through with his promises and lift the embargo once he moved into the White House.

But it hasn't worked that way. Urban members of Congress — mostly Democrats — have kept up

steady pressure for continuation of the embargo. A resolution introduced by Rep. Peter Peyser (D-N.Y.), with 75 cosponsors, expressing congressional intent to maintain the ban is expected to win House committee approval in the next week or so.

"The embargo is not going to be lifted. I'm sure of that," Peyser said last week. "My sources at the State Department indicate that Secretary [Alexander M.] Haig doesn't think this is the time to lift it... To lift the embargo would send signals that would confuse the world and give the Soviets the idea that we are not prepared to deal seriously with their aggressive policies."

Peyser and others, meanwhile, are savoring the delicious political ironies of the situation: here are some of the Republican Party's leading hard-liners on Soviet policy arguing for an end to the ban, even though there is evidence that the embargo has caused problems and extra cost for the Soviets.

"No question about their inconsistencies," Peyser said. "The message is clear at home, too. When agriculture gets involved in these issues, the hard-liners change their tune when the constituents start complaining."

Among the more prominent Senate conservatives who oppose the embargo are Jesse Helms (R-N.C.), chairman of the Agriculture Committee, Armed Services Chairman John Tower (R-Tex.) and Finance Chairman Bob Dole (R-Kan.). All happen to represent large farmer constituencies.

Helms said last week that he hoped

Reagan would lift the embargo because he has a farm constituency "that is willing to work with him. His image is far more important in this country than any image abroad... I said at our meeting that he should lift the Jimmy Carter embargo and say he has a Reagan embargo in his hip pocket and that it will be applied all across the board if it is needed."

Other farm-state Republicans, ordinarily as hard-line as Helms toward the Soviets, tend to echo that view.

Peyser and friends are loving it. "It surely is a contradiction," he said. "Some of these same people supported draft registration as a way of showing the Russians our seriousness. To lift the grain embargo would be a perfectly rotten message for our young people as to how policy-making works in this country."

Office of the Press Secretary

March 9, 1981

INTERVIEW WITH THE PRESIDENT
BY FRANK REYNOLDS
ABC NEWS

The Oval Office

10:00 A.M. EST

MR. REYNOLDS: Mr. President, I'm very grateful to you, sir, for giving this interview today because it's a particularly important day with your message to the Congress, spelling out in detail all of your budget cuts. The Reagan resolution is really going to become quite clear and distinct now. Do you feel, sir, that the honeymoon is perhaps about to come to an end?

THE PRESIDENT: Well, if there has been a honeymoon so far. This could mark a change in it, but Frank, let me just say in addition to answering that, it's great to see you again. It's been too long. We missed you out on the campaign trail.

MR. REYNOLDS: Yes, well I watched you all the time. Watched you all the time. I understand, Mr. President, you've got the budget down now to \$695.3 for Fiscal '82 and \$655.2 for Fiscal '81. You've got a \$55 billion deficit for this year of '81 and a \$45 billion deficit for next year, Fiscal '82. Are those the correct figures?

THE PRESIDENT: Yes, if the entire program is accepted and works out, we believe it would though. I have to point out that \$45 billion next year is less than half of what the deficit would be without the cuts because our total cuts amount to \$48.6 billion.

MR. REYNOLDS: Mr. President, you've coined this phrase, "the safety net" to define those who really need help. I'd like to explore that with you, if I may, and one member of your administration defined the truly needy as those who without government help would probably not survive. How do you define the truly needy?

THE PRESIDENT: Well, I think that is a kind of succinct way that someone put it, but I think it's easy to define. It is those people who would have no other means of subsistence would simply be poplarized without these government programs and it is true that where we are making cuts, it is up in the area where over time the programs have broadened and begun to include people that don't have that real need classification. As in California when we reformed welfare, when we finally were able to actually check, particularly on those people who had some outside income in addition to welfare, in the first 10,000 names we checked, we found over 40 percent of them had understated their outside income for purposes of establishing a better welfare check.

MR. REYNOLDS: Well, Mr. President, I think everybody's interested in the process that you have followed at arriving at the size of these cuts. Let's take the Food Stamp Program which is surely one of those most prominent. Everybody agrees the program has exploded. It now serves, I believe, like 22 million people. It would cost more than \$12 billion next year without your reductions, but how, sir, did you determine that a family of four with an income of \$11,000 a year could get by without the extra \$1400 in Food Stamps?

THE PRESIDENT: Well, the only thing I can say, Frank, in the whole consideration was you started from the end where you thought where expansions of the program that had begun to include people who did not have that real need that we were mentioning before. When we found, for example, that college students without, simply on the basis

MR. REYNOLDS: Mr. President, you're not going to lift the grain embargo, are you? 18

THE PRESIDENT: There again, no decision. I was against it. I thought and still think that if we ever use sanctions of that kind, you don't just make one segment of our society pay the price as we did with the farmers. You go across the board and make it really painful.

I don't think we were successful as we should have been in persuading nations friendly to us not to take over that market and supply the Soviets with grain. We hurt the farmers, I think, worse than we hurt them. But now, having inherited that, in view of the international situation and what has happened, the stepped-up offense in Afghanistan, the threat to Poland and all, we -- this has to be a decision that's based on the whole international situation that we now have found.

MR. REYNOLDS: The Secretary of Defense has indicated, at least so I read him sir, that if the rebels in Afghanistan requested help from the United States, arms from the United States, that we would be quite willing to supply that. What is your view on that? If they ask for aid, are we going to give it to them?

MORE

THE PRESIDENT: I didn't hear that show. I didn't know he-- the context in which he made the remarks. I think certainly this would be very definitely considered by us.

MR. REYNOLDS: You would consider aiding the Afghan rebels?

THE PRESIDENT: Yes, with weapons.

MR. REYNOLDS: And what do you think would be the Soviet reaction to that?

THE PRESIDENT: I don't know that they could really have an objection to that. But I think it is something, as I say, to be considered. And I'm answering this now without --

MR. REYNOLDS: Yes, sir.

THE PRESIDENT: -- having sat down with the Secretary and others and looked at all the ramifications of that.

MR. REYNOLDS: But you would be inclined to supply the Afghan rebels fighting the Soviets with American military assistance?

THE PRESIDENT: Yes, the --

MR. REYNOLDS: Advisers or training teams?

THE PRESIDENT: No, but we've used the term "Afghan rebels." And, sometimes, I think the Soviet Union has been successful in their propoganda with getting us to use terms that semantically are incorrect. Those are freedom fighters. Those are people fighting for their own country and not wanting to become a satellite state of the Soviet Union which came in and established a government of its chosing there without regard to the feelings of the Afghans. And so I think they're freedom fighters, not rebels.

MR. REYNOLDS: Well, they're certainly rebels against the Soviet Union, aren't they?

THE PRESIDENT: Yes.

MR. REYNOLDS: Mr. President, the first major response to what I guess has been termed your tough talk since you've come into office, I mean, you've been pretty firm in discussing your views of the Soviet Union and so forth, the first major response has been an invitation from Brezhnev to come and sit down to talk things over. Why don't you take him up on it?

THE PRESIDENT: We might. We're considering it. I haven't said no to that. I have many times said that I would sit down with him to discuss reduction of strategic nuclear weapons to lower the threshhold of danger. Up 'til now, they've always opposed that. They want to talk what they call "arms limitation" that usually winds up with them somehow being able to continue their military buildup. And the previous administration, if you'll recall, sent someone over to propose the actual discussion of arms reductions and he was on his way home in 24 hours.

MR. REYNOLDS: Yes.

THE PRESIDENT: And, so, no, I haven't ruled any of that out and I do think it's very interesting that in spite of

MORE

MORE

March 13, 1981

Dear Larry:

The President has asked me to thank you for your January correspondence regarding the Soviet grain embargo.

We understand and share your concern about the economic impact of the embargo on the American farmer. We must, however, view this issue in its broadest context, taking into account foreign as well as domestic policy considerations. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. Also, any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations. A decision by the United States, either to lift or to continue the embargo, must logically await completion of this policy review.

The President has not forgotten the commitments on the embargo that he made during the campaign. Secretary of Agriculture John Block has repeatedly pointed out to all of us that, as we approach the 1981 harvest season with a potentially record wheat crop, and as the time is at hand for corn and soybean planting, it is increasingly important that farmers know whether sales will continue in the future. During the past crop year the U.S. sold eight million tons of grain to the Soviets. For these reasons the policy review on this important issue is being given a very high priority.

We appreciate knowing your views on this matter. You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Larry Pressler
United States Senate
Washington, D.C. 20510

MLF:JB:JC:GMP:KIR:asr

cc: Janet Colson - FYI, Dave Wright - FYI, John Block, Sec'y.
of Agriculture - FYI

Handwritten notes at top right: "FYI 22" and "grain embargo". A circled stamp or signature is partially visible.

23
March 13, 1981

Dear Hal:

The President has asked me to thank you for your February 17 correspondence regarding the Soviet grain embargo.

We understand and share your concern about the economic impact of the embargo on the American farmer. We must, however, view this issue in its broadest context, taking into account foreign as well as domestic policy considerations. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. Also, any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations. A decision by the United States, either to lift or to continue the embargo, must logically await completion of this policy review.

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We appreciate knowing your views on this matter. You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Hal Daub
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMF:KIR:asr

cc: Janet Colson - FYI, Dave Wright - FYI, John Block, Sec'y.
of Agriculture - FYI

24
March 13, 1981

Dear Steve:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

We appreciate knowing your position on this important and sensitive issue. As you well know, the President must take into account foreign as well as domestic policy considerations in deciding whether to lift or continue the embargo. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and the domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. We also recognize that any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations.

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You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Stephen J. Solarz
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMP:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson -
FYI; Dave Wright - FYI

25
March 13, 1981

Dear Ben:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

We appreciate knowing your position on this important and sensitive issue. As you well know, the President must take into account foreign as well as domestic policy considerations in deciding whether to lift or continue the embargo. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and the domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. We also recognize that any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations.

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You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Benjamin S. Rosenthal
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMP:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson - FYI; Dave Wright - FYI

26
March 13, 1981

Dear Mr. Lantos:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

We appreciate knowing your position on this important and sensitive issue. As you well know, the President must take into account foreign as well as domestic policy considerations in deciding whether to lift or continue the embargo. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and the domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. We also recognize that any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations.

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You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Tom Lantos
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMP:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson -
FYI; Dave Wright - FYI

March 13, 1981

Dear Olympia:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

We appreciate knowing your position on this important and sensitive issue. As you well know, the President must take into account foreign as well as domestic policy considerations in deciding whether to lift or continue the embargo. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and the domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. We also recognize that any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations.

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You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Olympia Snowe
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMR:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson - FYI; Dave Wright - FYI

28
March 13, 1981

Dear Ed:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

We appreciate knowing your position on this important and sensitive issue. As you well know, the President must take into account foreign as well as domestic policy considerations in deciding whether to lift or continue the embargo. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and the domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. We also recognize that any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations.

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You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Edward J. Derwinski
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMP:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson - FYI; Dave Wright - FYI

29
March 13, 1981

Dear Ben:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

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You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Benjamin A. Gilman
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMF:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson -
FYI; Dave Wright - FYI

March 13, 1981

Dear John:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

We appreciate knowing your position on this important and sensitive issue. As you well know, the President must take into account foreign as well as domestic policy considerations in deciding whether to lift or continue the embargo. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and the domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. We also recognize that any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations.

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You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable John Leboutillier
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMF:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson - FYI; Dave Wright - FYI

March 13, 1981

Dear Jack:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

We appreciate knowing your position on this important and sensitive issue. As you well know, the President must take into account foreign as well as domestic policy considerations in deciding whether to lift or continue the embargo. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and the domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. We also recognize that any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations.

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You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Jonathon Bingham
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMF:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson -

32
March 13, 1981

Dear Mr. Fascell:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

We appreciate knowing your position on this important and sensitive issue. As you well know, the President must take into account foreign as well as domestic policy considerations in deciding whether to lift or continue the embargo. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and the domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. We also recognize that any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations.

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You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Dante Fascell
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMF:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson - FYI; Dave Wright - FYI

33
March 13, 1981

Dear Joel:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

We appreciate knowing your position on this important and sensitive issue. As you well know, the President must take into account foreign as well as domestic policy considerations in deciding whether to lift or continue the embargo. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and the domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. We also recognize that any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations.

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You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Joel Pritchard
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMF:KIR:asr

34
March 13, 1981

Dear Bob:

The President has asked me to thank you for your March 5 letter, cosigned by 12 of your colleagues on the House Foreign Affairs Committee, urging him to continue the Soviet grain embargo.

We appreciate knowing your position on this important and sensitive issue. As you well know, the President must take into account foreign as well as domestic policy considerations in deciding whether to lift or continue the embargo. Therefore, a review has been initiated within the Administration to assess many diverse factors including: the costs of the embargo to American farmers and the domestic economy; the impact on the USSR; the effect on cooperative efforts by our allies and other grain producers; the situation in Afghanistan; and the continuing threat to Poland. We also recognize that any action taken with respect to the embargo will be interpreted at home and abroad as a possible signal of the future course of United States-Soviet relations.

The President has not forgotten the commitments on the embargo that he made during the campaign. Secretary of Agriculture John Block has repeatedly pointed out to all of us that, as we approach the 1981 harvest season with a potentially record wheat crop, and as the time is at hand for corn and soybean planting, it is increasingly important that farmers know whether sales will continue in the future. During the past crop year the U.S. sold eight million tons of grain to the Soviets. For these reasons the policy review on this important issue is being given a very high priority. We appreciate knowing your views on this matter.

You may be assured that we will give them our most careful consideration during the review process.

With cordial regards, I am

Sincerely,

Max L. Friedersdorf
Assistant to the President

The Honorable Robert K. Dornan
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMP:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson - FYI; Dave Wright - FYI

37
March 13, 1981

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Max L. Friedersdorf
Assistant to the President

The Honorable Millicent Fenwick
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMF:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson -
FYI; Dave Wright - FYI

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Max L. Friedersdorf
Assistant to the President

The Honorable Robert J. Lagomarsino
House of Representatives
Washington, D.C. 20515

MLF:JB:JC:CMP:KIR:asr

cc: John Block, Sec'y. of Agriculture - FYI; Janet Colson -
FYI; Dave Wright - FYI

ECONOMIC AFFAIRS / Paul W. MacAvoy

The Leaks in the Grain Embargo

ON Jan. 4, 1980, President Carter imposed an embargo on grain sales to the Soviet Union in reaction to the invasion of Afghanistan. As was the habit of the Carter Administration, economic sanctions were imposed as a diplomatic response. But it is poor logic and bad practice to trade economic apples for diplomatic and strategic oranges. Worse than that, the economic apples may not be any good.

The embargo limited sales to the Soviet Union to 8 million tons of wheat and corn in the 1979-80 crop year, an amount already under contract in a five-year, United States-Soviet trade agreement. Since the Russians were seeking 25 million tons, the embargo was designed to reduce their purchases by 17 million tons. With a poor home crop of feed grains, the Soviet Union would be punished for its Afghanistan venture by reduced supply of bread and meat for home consumers.

The theory is that, along the lines of the Organization of Petroleum Exporting Countries in the oil trade, the United States in grain can raise or lower world supply, thereby affecting prices and sales levels of all exporting nations. Because we are the world's major grain supplier, and our trading partners in Australia, Argentina and Western Europe would voluntarily comply with the embargo, the Soviet Union would not obtain the supplies it wanted. Its demand for 17 million tons would evaporate as our supply was withheld, and the rest of trade would go on as a matter of course.

If demand evaporates and supply is withheld, someone is left with the inventory. American farmers quickly perceived that they were left holding the bag and so the Department of Agriculture promised to purchase grain and carry out storage so as to maintain the market just as if the Soviet demand for 17 million tons had not evaporated.

In fact, however, the Soviet Union refused to be embargoed. Based on a sophisticated understanding of how world commodity markets work, it undertook a series of complicated and indirect transactions. But three of its steps are

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How the Russians Got Their Grain

On Jan. 4, 1980, President Carter announces a partial embargo on grain sales to the Soviet Union, limiting them to 8 million tons in the 1979-80 crop year. That leaves the Soviet Union with an expected shortfall of 17 million tons. In order to protect American farmers from the shrinkage in demand, Washington promises to buy enough grain to offset the lower level of exports to Moscow.

The Soviet Union buys grain from other exporters such as Argentina and Spain. This provides an estimated 11 million tons.

It also cuts its grain exports to Eastern Europe, making up another 3 million tons.

And it imports far more meat, thus helping to compensate for the loss of feed for its own livestock.

Customers of the other grain exporters turn to the United States, thus increasing demand.

Eastern Europe steps up purchases on the world market, further increasing demand.

Washington fulfills its agreement to buy American grain, also increasing demand.

In the United States, with demand so high, prices rise, so American consumers pay more for both grain and meat and the inflation rate goes up. In the Soviet Union, with some grain supplies made up elsewhere and meat imports substituted for other supplies, consumers feel little discomfort.

important and obvious, and should have been anticipated if American diplomats knew anything about how markets operate.

First, the Soviet Union made up a substantial portion of its needs by purchases from other grain-supplying countries. The other suppliers were as a consequence unable to meet the demand of their regular customers, so those customers came to the United States. While Soviet demand for United States grain exports was reduced, demand from elsewhere increased.

Of course those running the embargo were not quite so naïve as to have missed the leakage. The Department of Agriculture acknowledged at the end of the 1979-1980 crop year that 11 million tons of the 17 million-ton embargo had been made up by sales of other exporting nations.

Second, the Soviet Union took advantage of the fact that it is an exporter as well as an importer of grain. Its practice was to export 3 million to 4 million tons each year to Eastern Europe. If it reduced such exports, the Eastern Europeans could simply turn to the

world market. And, indeed, Department of Agriculture trade statistics indicate that purchases of Eastern European countries in world markets increased by 3 million tons while the purchases from the Soviet Union were reduced by 3 million tons. This gambit probably reduced the impact of the embargo to only 3 million tons.

THE third method of evasion is the most direct, and thus the easiest to overlook. Since grain is to be used to feed cattle and hogs, the obvious method for compensating for reduced grain imports is to import more meat. Soviet imports of meat in the 1979-1980 crop year shot up by 425 million tons from the previous year's 185 million tons. If this did not compensate for the last vestiges of the embargo, then it increased the sum total of grain and meat imports to a level higher than that before the embargo began.

Where does this leave the Soviet Union? Certainly the Russians must have been irritated. Given all the trouble we made them go through to work around the embargo, they experienced increases in purchase and transporta-

tion costs. But they were not required to reduce inventories or meat consumption insofar as can be determined.

Their livestock inventories are now higher than ever, while per capita meat consumption has held steady at 1978-79 levels. They are now in the second poor crop year in a row, and their grain inventories are holding while their imports are increasing substantially. Indeed, they have apparently found very helpful trading partners in Argentina and Spain, willing not only to provide additional supplies but also to find long-term trade agreements to keep the supply level much higher than in the last decade.

But we should be much more than irritated by this whole exercise. Recall that the Agriculture Department bought substantial amounts of grain to compensate for the loss of Soviet demand — which did not materialize.

Thus the Federal authorities added \$2 billion to demand in world trade. This raised prices, perhaps by as much as \$1 a bushel, and thus American inflation. This effect may have been transitory, as other countries reduced their stocks in reaction. Even so, American consumers paid more for bread and hamburger for awhile, even though Soviet consumers most probably did not.

The lesson to be learned from theory versus facts is that selective embargoes of specific countries in world commodity trade do not work. This is no surprise to shrewd Soviet traders, or to economic analysts familiar with the history of such embargoes (including the fiasco of the OPEC embargo against the United States in the world oil trade in 1973-1974).

But this is only a lesson in economic affairs. The lesson in diplomatic affairs is serious. It is difficult to trade an economic for a diplomatic initiative, and it is impossible to do so when the economic initiative is ineffective.

My expectation is that the United States is being laughed at for its economic foolishness in diplomatic circles across the world. Not in Argentina and Spain, however. We put pressure on them to make an impossible scheme work, and ended up attaching them even more strongly to the Soviet trading bloc in grain. Squeezing other nations diplomatically to do the economically impossible in place of a diplomatic initiative on Afghanistan is bad political economy. □

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