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Withdrawer

JET 5/11/2005

File Folder SOVIET UNION-GRAIN EMBARGO EE 3/4 [1982-1984]

FOIA

F06-114/8

Box Number 27

YARHI-MILO

2708

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
10067	MEMO	MCMINN TO POINDEXTER RE NEGOTIATION OF A NEW LONG TERM GRAIN AGREEMENT (LTA) WITH THE SOVIETS R 9/30/2008 F06-114/8	2	5/17/1983	B1
10073	PAPER	WHITE PAPER ON THE RENEWAL OF THE U.S. GENERALIZED SYSTEM OF PREFERENCES R 9/30/2008 F06-114/8	7	ND	B1
10074	MEMO	LIGHTHIZER RE NEGOTIATION OF A NEW LONG-TERM GRAIN AGREEMENT (LTA) WITH THE USSR R 9/30/2008 F06-114/8	11	ND	B1
10068	MEMO	MCMINN TO CLARK RE U.S.-SOVIET NEGOTIATIONS ON A NEW LONG TERM GRAIN AGREEMENT R 9/30/2008 F06-114/8	2	6/9/1983	B1
10069	MEMO	SAME TEXT AS DOC #10067 R 9/30/2008 F06-114/8	2	5/17/1983	B1
10075	MEMO	SAME TEXT AS DOC #10074 R 9/30/2008 F06-114/8	11	ND	B1
10070	MEMO	MATLOCK TO MCFARLANE RE SOVIET GRAIN PURCHASES R 9/30/2008 F06-114/8	1	7/18/1984	B1

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

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

B-3 Release would violate a Federal statute [(b)(3) of the FOIA]

B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]

B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]

B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]

B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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10071	MEMO	MATLOCK TO MCFARLANE RE SOVIET GRAIN PURCHASES <i>R 9/30/2008 F06-114/8</i>	1	7/18/1984	B1
10072	MEMO	MCFARLANE TO MATLOCK RE SOVIET PURCHASE OF U.S. GRAINS <i>PAR 3/16/2011 F2006-114/8</i>	1	ND	B1 B3
10076	CABLE	281619Z JUL 83 <i>R 9/30/2008 F06-114/8</i>	2	7/28/1983	B1

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

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Lenczowski

MEMORANDUM
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INFORMATION

NATIONAL SECURITY COUNCIL

May 17, 1983

*File
US-Soviet rels
main*

MEMORANDUM FOR JOHN M. POINDEXTER

FROM: DOUGLAS McMINN *DM*

SUBJECT: Negotiation of a New Long-Term Grain Agreement (LTA) with the Soviets

The Soviets have now agreed to negotiate a new LTA. Dobrynin has said that they would be prepared for preliminary discussions on June 1-2, in London. An interagency working group has been meeting for the past three weeks to outline the key issues we will face in negotiating a new agreement with the USSR. The working group, in which I have participated, has developed the attached paper for review (Tab I). The paper will be vetted around town and outstanding issues will be raised to policy levels this week for discussion.

Essentially, there is agreement to use the existing agreement as the basis for negotiation, but two major negotiating issues require decision.

Basic Purchase Levels:

Should we seek to retain the purchasing mechanism of the existing LTA (minimum and maximum purchase levels) or explore a new approach which would tie the basic purchase levels specified in the agreement to trade performance (a sliding scale approach)?

- o Our basic objective in the negotiations is to maximize U.S. sales while avoiding possible market disruption caused by large Soviet purchases.
 - The introduction of a sliding scale approach runs counter to this objective.
 - A sliding scale would encourage the Soviets to buy from suppliers other than the U.S. in years in which they have a very heavy demand for imports (so as to avoid too great an increase in their minimum purchase requirement from the United States in subsequent years.)
- o It's been my experience in negotiating with the Soviets and Eastern Europeans that you have to keep the concepts simple.
 - Introduction of the sliding scale approach would complicate the negotiations enormously and would prove counterproductive to our goals.

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NLRR F06-114/8 #10067
BY *WJ* NARA DATE 9/30/08

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- o State, USTR and USDA all agree that we should retain the purchasing mechanism in the existing agreement, but with increased purchase levels. I concur with this majority view.

Supply Assurances:

Should we seek an extension of the guarantees contained in the existing LTA (Article II) or should we be prepared to provide for additional guarantees?

- o The President has indicated that the U.S. favors mutually beneficial trade with the Soviets, on the basis of regular commercial considerations, i.e., no "special deals."
 - Providing major additional guarantees to the Soviets on supply assurance (over and above those in the existing agreement) runs counter to the President's position.
- o Additional guarantees on supply assurance undercut our desire to increase the minimum purchase level.
 - Language in the existing agreement provides a guarantee to the Soviets on all the grain covered by the minimum purchase level.
 - We want to keep this language as an inducement to the Soviets to increase the minimum purchase level.
 - The higher the minimum purchase level agreed to by the Soviets, the more grain that will be covered by the supply assurance guarantee.

State favors "hanging tough" on the existing supply assurance language. USDA favors having additional guarantees available as bargaining chips, but only as a fall-back. USTR is riding the fence on this question. I believe State's position is the proper one on the supply assurance issue and I have been supporting them.

I will continue to coordinate with Norm Bailey, John Lenczowski and Roger Robinson on this issue.

Attachment

Tab I - Working Group Paper

Tab A - Long-Term Grain Agreement Paper

cc: Norman Bailey
Henry Nau
John Lenczowski
Roger Robinson

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NLRR FOIA-114/8#10073

BY NOJ NARA DATE 9/30/08

WHITE PAPER ON THE RENEWAL
OF THE U.S. GENERALIZED SYSTEM OF PREFERENCES

Statutory authority for the U.S. Generalized System of Preferences (GSP) will expire on January 3, 1985. Now in its eighth year of operation, the GSP has become an integral part of U.S. trade and foreign policy. It has made a contribution to the long-term economic development of many developing countries and has stimulated two-way trade between the United States and these countries. The GSP has become a significant component of U.S. bilateral relations with many beneficiary countries. It is in the interest of the United States to extend the GSP program beyond 1985 in such a way as to strengthen these developments further.

The GSP is a program of tariff preferences granted by the United States to developing countries to assist their economic development by encouraging greater diversification and expansion of their production and exports. At present, the GSP grants duty-free treatment to approximately 3,000 products imported from 140 developing countries and territories. The value of U.S. imports receiving GSP duty-free treatment grew from \$3.0 billion in 1976, the program's first year of operation, to \$8.4 billion in 1982. GSP imports represent 3 percent of total U.S. imports.

In 1968, the United States joined other industrialized countries in supporting the concept of tariff preferences as a means of facilitating development through trade rather than aid. In the early 1970s, nineteen developed countries instituted GSP schemes. The United States implemented its scheme in 1976 following the passage of the Trade Act of 1974, the GSP's authorizing legislation.

Modifications in GSP product coverage and country eligibility have been made on an annual basis. Most of these modifications are required by statute. The Trade Act of 1974 specifies "competitive need" limits, which provide for the automatic exclusion of a beneficiary country from GSP eligibility on a product whenever imports from that country exceed 50 percent of total U.S. imports or a certain dollar value during the preceding calendar year. Over 40 percent of the value of otherwise eligible products from beneficiary countries have been denied duty-free treatment because of these limits.

Other modifications are made at the discretion of the President. The interagency Trade Policy Staff Committee has conducted an annual GSP product review, in which interested parties such as domestic producers, workers, importers, and foreign governments submit petitions requesting modifications in GSP eligibility. Approximately 300 products, valued at \$1.3 billion, have been added to the GSP as a result of these

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procedures, while 25 products, valued at \$0.6 billion, have been removed. Such modifications have been small in comparison with the value of trade excluded from the GSP by the automatic competitive need limits, however, which in 1982 alone amounted to \$7.1 billion.

Since the program's implementation, a limited number of the more advanced beneficiary countries have accounted for the majority of GSP imports. Concerned that the program's benefits were not accruing to those countries most in need and in keeping with the United States' desire to have developing countries assume greater responsibility in the international trade community, the Administration outlined a policy of discretionary graduation in the President's 1980 Report to the Congress on the First Five Year's Operation of the U.S. GSP. Under this policy, seven advanced beneficiaries have been removed, or "graduated," from GSP eligibility on over \$1 billion in trade in various products in which they were found to be highly competitive. In determining whether a country should be graduated from duty-free treatment on a product, three factors have been considered: the country's general level of development; its competitiveness in the specific product; and the overall economic interests of the United States, including the extent to which GSP imports from the beneficiary country may have adversely affected U.S. producers and workers.

As noted earlier, nineteen other industrialized countries also maintain GSP programs. The programs of the European Community (EC), Japan and the United States account for approximately 85 percent of global GSP trade. In 1980, the most recent year for which comparative data are available, GSP imports under the EC's scheme totaled \$9.3 billion, or 2.5 percent of total EC imports; GSP imports under the Japanese scheme totaled \$4.9 billion, or 3.4 percent of total Japanese imports; and U.S. GSP imports totaled \$7.3 billion, or 3.1 percent of total U.S. imports. It should be noted that the EC also maintains a number of trade preference programs outside the structure of its GSP, the largest of which is the Lome Convention. Under this arrangement an additional \$7.5 billion in EC imports from developing countries in Africa, the Caribbean and the Pacific received preferential tariff treatment in 1980.

With the exception of the United States and Canada, GSP donor countries have renewed their programs through 1990 or beyond. Canada is expected to renew its program by July 1984.

In addressing the importance of continuing the U.S. GSP program beyond its scheduled expiration in January 1985, several considerations must be kept in mind:

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- The desire to promote the development of Third World countries, which often need temporary preferential advantages to compete effectively with industrialized countries;
- The recognition that trade, rather than aid, is a more effective and cost-efficient way of promoting broad-based sustained economic development.
- The recognition that developing countries provide the fastest growing markets for U.S. exports and that foreign exchange earned by these countries through the GSP can further stimulate U.S. exports;
- The recognition that there are significant differences among developing countries with respect to their general development and international competitiveness;
- The desire to provide future opportunities for increased trade liberalization, thereby setting an example to be emulated by other industrialized countries;
- The recognition that a large number of developing countries must generate sufficient foreign exchange earnings to meet international debt obligations;
- The desire to create additional opportunities for trade among the developing countries;
- The desire to integrate developing countries into the international trading system with its attendant responsibilities in a manner commensurate with their development; and
- The recognition that many developing countries maintain significant barriers to trade in goods and services and to investment which, if liberalized, would spur U.S. exports.
- The desire to address these concerns in a manner that does not adversely affect U.S. producers and workers.

Taking into account these considerations and taking note of the recent actions by other industrialized countries to extend their GSP programs, the Administration proposes a ten-year extension of the U.S. GSP. The Administration further proposes that the program be modified so as to better serve the interests outlined above.

Description of Proposal

The GSP renewal proposal outlined in the following paragraphs is intended to further the goals of: (1) limiting GSP

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treatment for highly competitive products; (2) assuring U.S. exports greater market access in beneficiary countries; (3) reallocating benefits to the less developed beneficiary countries to the degree possible; and (4) conforming to U.S. international obligations under the GATT.

The proposal requires changes in both the statute and in Administrative procedures. The statutory changes are minor and involve only a ten-year extension of the program and an amendment to the Presidential authority to waive the competitive need limit pursuant to Section 504(c). Administrative procedures will spell out the implementation mechanisms along the lines discussed below.

The proposal's major departure from the current GSP centers on the increased weight the President will give in making GSP decisions to the level of economic development of a beneficiary and to whether that country provides adequate market access to U.S. exports, two factors required to be considered currently under Section 504(a) in deciding whether GSP treatment should be limited. The proposal provides that the President, pursuant to Section 504(a), will review the eligibility of products from advanced developing countries with a view toward lowering the competitive need limits based on an analysis of the factors listed below. Products whose level of trade remains below the lower limits will continue to receive GSP treatment as currently provided. Finally, the proposal gives the President authority to liberalize competitive need as a means to induce beneficiary countries to provide significant market access and to ensure that the least developed beneficiary countries receive the greatest amount of benefits possible under the system.

The proposal would require a phase-in period following the date of enactment during which time the President would conduct a general review of GSP eligible products from advanced beneficiaries for the purposes of determining for each beneficiary which products should be subject to the lower competitive need limits. In determining which products will be subject to lower competitive need limits, the President will consider the various factors currently required under the existing statute and administrative procedures, including:

- 1) the development level of individual beneficiaries;
- 2) the beneficiary country's competitiveness in a particular product;
- 3) the overall interests of the United States;
- 4) the effect such action will have on furthering the economic development of developing countries;

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- 5) whether or not the other major developed countries are extending generalized preferential tariff treatment to such product or products;
- 6) the anticipated impact of such action on United States producers of like or competitive products; and
- 7) the extent to which the beneficiary country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country.

To provide a degree of certainty as to how the program will operate, a three-tier competitive need system will be established administratively. Each tier will correspond to a particular level of beneficiary country development, i.e., advanced, mid-level and least developed. The advanced beneficiary countries will be assigned a competitive need limit of 25 percent of the value of total U.S. imports in a particular product or \$25 million of imports of a product, mid-level beneficiaries will be assigned a competitive need limit of 50 percent of total U.S. imports in a particular product or \$53.3 million of imports in a product, and the least developed beneficiaries would have competitive need waived. In announcing the review, the President would indicate which beneficiary countries fall within each of the three categories.

The President will initiate informal bilateral discussions with those advanced beneficiary countries with products likely to be subject to lower competitive need limits. In these discussions, the United States will seek the elimination or reduction on a non-discriminatory basis of developing country barriers to trade in goods and services and trade-related investment practices. In addition to tariffs and traditional non-tariff barriers such as quotas and licensing, the discussions will include other trade-distorting practices, in particular, performance requirements and inadequate protection of intellectual property rights. The President will consider the results of the discussions, as well as the other factors listed above, in determining the extent to which the lower competitive need limits will apply. The presence or absence of equitable and reasonable market access and the elimination or reduction of trade-distorting practices will be given great weight in this determination.

Although the probable economic effect on U.S. producers and workers will be analyzed before any competitive need limits are liberalized, present safeguard procedures will be maintained. These procedures provide for remedial action in the context of the GSP to ensure that domestic industries and workers are not adversely affected by imports receiving preferential tariff treatment.

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The importance of trade to the economic well-being of both the United States and developing countries has grown considerably over the past decade. Currently, developing countries purchase nearly 40 percent of U.S. exports, which is considerably greater than U.S. exports to the EC and Japan combined, and exports to the developing countries are growing considerably faster than exports to these traditional developed country markets.

For developing countries, trade provides an essential stimulus to efficient production and rapid economic growth. Exporting to world markets enables developing countries to achieve scales of production that could not be reached on the basis of their domestic demand alone. This permits developing countries to employ their human, natural and capital resources in their most productive uses, thereby maximizing output and income from the available resources. Exports also generate the foreign exchange necessary to pay for fuel, intermediate inputs and capital goods imports that are required for their development efforts.

Export growth is essential for developing countries to meet their debt service requirements. The durability of financial support programs for high-debt developing countries arranged by the International Monetary Fund, central banks in developed countries, and commercial banks depends upon these countries' export expansion. A strong export performance also helps to attract additional foreign private investment, which increases a developing country's ability to expand its production capacity as well as its social and physical infrastructure.

On the other hand, competition from imports heightens the incentives for local producers in developing countries to improve their productivity and encourages them to adopt product and production innovations that raise the country's overall level of technology. All of these benefits from trade increase a developing country's ability to employ its people and to provide a higher standard of living for them.

It is in our mutual interest to increase further the bilateral trade flows between the United States and developing countries. The Administration believes the GSP has made an important contribution in this regard since 1976. The GSP has become an integral part of our overall effort to encourage economic development through trade, not aid. The GSP beneficiary countries, many of whom have longstanding and close ties to the United States, look on the program as an important indication of the seriousness with which the United States views its stated policy of encouraging self-sufficient economic development. They attach great importance to this concrete incentive the United States provides for increased domestic production and export of their manufactured, semi-manufactured, and agricultural products. The increased

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export earnings generated by the GSP program permit beneficiary countries to pay for priority imports supporting further economic development. They also help create conditions for the beneficiary countries to expand their purchases of American capital goods and agricultural products.

The nineteen other OECD developed donor countries are committed to a balanced continuation of GSP. Most have already extended their GSP programs for a second decade. The Administration believes the renewal proposal outlined above will reinforce the development goals of the GSP and further support the economic and foreign policy interests of the United States.

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TAB A

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TO:

FROM: Ambassador Robert E. Lighthizer

SUBJECT: Negotiation of a new Long-Term Grain Agreement
(LTA) with the USSR

The Soviets have now accepted our proposal to negotiate a new LTA. Ambassador Dobrynin indicated that the Soviets would be receptive to having preliminary discussions on June 1-2. Therefore, we should move ahead expeditiously with our preparations for these talks. The attached paper, which was developed by an interagency working group, outlines the major issues we will face in negotiating a new agreement. For a few key issues, options are presented as a basis for higher level decision. On most other elements of an agreement, there appears to be broad agreement at the working level and positions are recommended.

I would urge that you review this paper carefully and that we meet for a preliminary discussion of LTA negotiations on _____.

For your convenience, a copy of the existing LTA is also attached.

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NLRR F06-114/8#70074
BY 10J NARA DATE 9/30/08

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U.S.-USSR LONG-TERM AGREEMENT ON GRAINS

1. Basic Objectives

Maximize sales opportunities for the grains trade and, to the extent feasible, for other U.S. agricultural products. Protect against possible market disruption caused by Soviet purchases. Improve knowledge of Soviet purchasing intentions. [Avoid to extent possible arrangements that constitute a "special deal" for the USSR vis-a-vis other purchasers. Proposed by State. USDA questions need for, and possible interpretation of, this statement.]

2. Specific Objectives: Key Decisions Required

A. Basic Purchase Levels

A decision must be taken as to whether to seek only to retain the mechanism of the existing LTA (with increased amounts) or to explore a sliding scale mechanism with the USSR. Another possibility would be to explore the sliding scale approach only if we are unable to reach agreement with the Soviets on increased basic purchase levels within the framework of the existing mechanism.

The simplest approach would, of course, be to seek to maintain the mechanism provided by Article 1 of the existing

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agreement but to raise both the minimum purchase level and the maximum amount without consultations by a significant amount. Initially, the United States might propose 14-16 MMT. While a lower figure might be acceptable, the United States should seek a significant increase above the 6-8 MMT specified in the current agreement. The United States would also want to keep the fork between the minimum purchase and the maximum purchase without consultations (2 MMT under the current agreement) relatively narrow. The prospect of widening the fork might, however, be used to secure a Soviet commitment to higher minimum purchase levels. As a rule of thumb, the United States might insist that the fork should not be more than one-third of the minimum purchase level.

The sliding scale approach would tie the basic purchase levels specified in the agreement to trade performance. For example, the top end of the range might be set as equal to the average level of U.S. grain exports to the USSR in the 3 preceding years; the minimum would be 2-3 million tons below that level -- or fixed as a certain percentage of that level. With this approach, the basic purchase levels of the agreement would tend to track actual Soviet purchases from the United States (which it is hoped will expand under the framework of a new LTA).

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(Paper provided by Burleigh Leonard)

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Attachment I details the advantages and disadvantages of the sliding scale approach. The main advantage of the sliding scale approach is that (assuming a generally upward trend in Soviet imports) it would tend to guarantee ever larger U.S. grain sales to the Soviet market. It might also encourage the Soviets to buy from the United States so as to increase their "rights" to U.S. grain. Conversely, the introduction of a sliding scale might encourage the Soviets to buy from suppliers other than the United States in years of very heavy imports so as to avoid too great an increase in their minimum purchase requirement. Also, if Soviet imports trended down it would result in lower minimum purchase levels. Exploration of the alternative approach would also tend to complicate and, possibly, slow the negotiations -- especially as Soviet negotiating instructions are likely to be rigid.

B. Supply Assurances

The U.S. should be prepared to accept an extension of the guarantees contained in existing agreements, utilizing the same wording as in Article II.

The Soviets may, however, press for additional guarantees and could make such guarantees a precondition for the achievement of certain U.S. negotiating objectives (e.g.,

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a higher minimum). A decision must be taken as to whether any such guarantees might be offered. If so, three possibilities are:

1. Extension of the assurances provided by the Durenberger amendment (which covers 270 days) to 1 year for sales concluded within the framework of the agreement.
2. Apply assurances to all contracts concluded within the framework of the LTA.
3. Apply assurances to trade levels (in excess of basic purchase levels) mutually agreed to at the biannual consultations held under LTA auspices. This would involve a formal Soviet commitment to a level of imports in excess of basic purchase levels -- something they have thus far been unwilling to do.

C. Short-Supply Provision

Both Article I and Article V of the current LTA allow the United States to reduce the amount of grain available to the Soviets under the LTA if the total supply of grain in the United States falls below 225 million tons, a level which would now represent a catastrophic shortage. A decision must be taken as to the nature of the short-supply

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provision we should seek in a new LTA and as to what provisions might be acceptable as fallbacks. The United States has the following options in approaching this issue:

1. Raise the trigger to a more realistic level. This would give protection to the U.S. market and lessen the chance that the United States might ever have to abrogate the agreement. It would also give little cause for the assertion that we are giving the Soviets greater assurances than those given to other customers. The Soviets might, however, resist any increase in the trigger point -- as lessening the guarantees they now enjoy.

2. Develop some alternative formulation. One possibility would be to provide for consultations in the event of short supply (with the possibility of adjusting U.S. obligations under the LTA). Such a provision might parallel Article II of the U.S.-PRC agreement (see Attachment II) which states that any measure applied to grain exports to the PRC will be no less favorable than that applied to other importers. This option would give least ground for the assertion that the LTA gives preferred status to the USSR. However, it might be opposed by the USSR or, alternatively, the Soviets might seek to structure the provision so as to permit a reduction of the USSR's obligations.

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Another possibility, whichever of these two options are followed, would be to continue the short supply exemption with reference only to the forked quantity (now covered in para 2 of Article I) but, as an added bargaining point for obtaining a higher minimum, to offer to eliminate the short supply provision entirely with respect to the basic minimum quantity (Currently, this aspect is dealt with separately under Article V).

D. Timeframe

This seemingly simple decision is complicated by the fact that a 5-year agreement (the length of the existing LTA) would expire in the midst of the 1988 election campaign. A decision must be taken as to which of the following options to pursue:

1. A 5-year agreement;
2. A 5-year agreement with provision for automatic extension, possibly for 1 year at a time, unless either party decides to the contrary. This would probably enable us to avoid renegotiation during a campaign year, although if the Soviets chose not to extend we would essentially be in the first option; or

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3. A 6-year agreement.

E. Specific Objectives - Other Elements of a new LTA

There is broad interagency agreement on the recommended positions described below.

A. Commodity Mix/Other Commodities

A balance between wheat and corn must be maintained in a new LTA. As an initial negotiating position, the United States might push to maintain the requirement that 50 percent of the minimum purchase requirement consist of wheat. While we have some flexibility on this point, we need to obtain some increase above the 3 MMT minimum for wheat in the current agreement.

The United States may explore the possibility of including other grain and feed type products (soybean meal, corn gluten feed, wheat flour, rice) in a new LTA. In the case of wheat flour and corn gluten feed, such inclusion might mean only a provision allowing these commodities to count towards Soviet fulfillment of the minimum purchase requirements (using appropriate coefficients). In the case of rice and soybean meal, the United States should, if the Soviets show any interest, seek the establishment of separate basic purchase levels for these commodities.

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Commodities outside the grain and feed sphere (a considerable number -- including poultry, beef, and tobacco -- have been suggested) should not be considered in the text of a new LTA. However, the United States should explore the possibility of formulating a non-binding side letter encouraging the expansion of U.S.-USSR agricultural trade, which might specify some of these commodities.

Any efforts to promote the export of other U.S. commodities should not be done at the expense of marketing opportunities for U.S. wheat and corn.

B. Spacing Provisions

Article III of the current LTA calls upon the USSR to space grain purchases and shipments as evenly as possible. While we have no problem with this provision, with the improvements in our monitoring system, it is no longer necessary. The U.S. could trade this away if the Soviets seek to eliminate it.

C. Destination

Article IV of the current LTA provides that, unless otherwise agreed, wheat and corn purchased under the

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agreement shall be consumed in the USSR. The U.S. should seek to retain this provision unchanged.

D. Procedures for Additional Purchases

The procedures set forth in Article VI of the current LTA should be maintained without change.

E. Consultations

Retain semi-annual consultations as at present (Article VIII of the current LTA). The United States should also push for wording providing for additional information sharing. The Soviets have typically been uncooperative in providing information on crop prospects and product availability; this attitude is not likely to change in the near future. However, the United States may want to make use of this issue to put the Soviets on the defensive.

F. Maritime Agreement Reference

The language of Article VII of the current LTA, which states only that the LTA should be in accord with the American-Soviet Maritime Agreement, should be retained as is. USG should not open it for discussion as the existing sanction precludes discussion at the present time. The

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present language covers the situation when no agreement exists. We should reject any Soviet efforts to negotiate a maritime agreement in the context of the LTA. (However, pressure to lift the Poland sanction suspending maritime negotiations may arise from the U.S. industry, and the Soviets themselves may raise the question of a new maritime agreement. Either could necessitate a separate review of the issue of negotiating a new maritime agreement.)

L. Calendar Year/Fiscal Year

While the United States prefers to maintain the October/September year, we can accept either.

M. Credit/Countertrade

The United States cannot accept any provisions relating to credit or countertrade. Credit must be arranged by the Soviet government with the private sector.

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January 1, 1981, except as otherwise provided for in Article II, of a total quantity of at least 6 to 8 million metric tons of United States wheat and corn, of which approximately 15 to 20 percent will be corn.

2. The Government of the People's Republic of China agrees to purchase for shipment during each 12-month period beginning January 1, 1981, except as otherwise provided for in Article II, a total quantity of at least 6 to 8 million metric tons of United States wheat and corn, of which approximately 15 to 20 percent will be corn.

3. Purchases/sales of wheat and corn under this agreement will be made at market prices prevailing at the time of purchase/sale and in accordance with normal commercial terms.

ARTICLE II

1. The Government of the United States of America shall endeavor to assure the availability of wheat and corn supplies through advance planning of production and stockbuilding fully to meet the import requirements of the People's Republic of China under the provisions of this agreement. If by virtue of exceptional circumstances necessitating the application of measures limiting the availability of United States wheat and corn in respect to all foreign purchasers of United States grain, it becomes necessary in a particular year to supply less than the quantities specified in Article I, there shall be prior consultations between the two parties as to the amount of such adjustment.

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Any such measure which shall be applied to the exports of United States wheat and corn to the People's Republic of China shall be carried out on a basis no less favorable than to such exports to other foreign purchasers of United States grain.

2. If by virtue of exceptional circumstances making it impossible for the People's Republic of China to accommodate available supplies necessitating the reduction of minimum levels of normal imports from all foreign suppliers it becomes necessary in a particular year to purchase less than the quantities specified in Article I, there shall be prior consultations between the two parties as to the amount of such adjustment. Any such reduction of imports of United States wheat and corn which shall be applied to imports from the United States shall be carried out on a basis no less favorable than to imports from other foreign suppliers.

ARTICLE III

The United States of America expects to supply to the People's Republic of China and encourages the People's Republic of China to meet increased import requirements by purchases of wheat and corn from the United States. Therefore, if during the period that the agreement is in force, the People's Republic of China intends to purchase quantities of United States wheat and corn in excess of the 8 million metric tons specified in Article I by more than 1 million metric tons, there shall be prior notice to the Government of the United States of America. The Government of the United States of America shall promptly inform

GRAINS AGREEMENT

**Between the
UNITED STATES OF AMERICA
and the UNION OF SOVIET
SOCIALIST REPUBLICS**

Signed at Moscow October 20, 1975



NOTE BY THE DEPARTMENT OF STATE

Pursuant to Public Law 89-497, approved July 8, 1966 (80 Stat. 271; 1 U.S.C. 113)—

"... the Treaties and Other International Acts Series issued under the authority of the Secretary of State shall be competent evidence . . . of the treaties, international agreements other than treaties, and proclamations by the President of such treaties and international agreements other than treaties, as the case may be, therein contained, in all the courts of law and equity and of maritime jurisdiction, and in all the tribunals and public offices of the United States, and of the several States, without any further proof or authentication thereof."

UNION OF SOVIET SOCIALIST REPUBLICS

Grains Agreement

*Signed at Moscow October 20, 1975;
Entered into force October 20, 1975.*

AGREEMENT BETWEEN
THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND
THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS
ON THE SUPPLY OF GRAIN

Handwritten notes: "1st copy" with an arrow pointing to the right.

The Government of the United States of America ("USA") and the Government of the Union of Soviet Socialist Republics ("USSR");

Recalling the "Basic Principles of Relations Between the United States of America and the Union of Soviet Socialist Republics" of May 29, 1972;^[1]

Desiring to strengthen long-term cooperation between the two countries on the basis of mutual benefit and equality;

Mindful of the importance which the production of food, particularly grain, has for the peoples of both countries;

Recognizing the need to stabilize trade in grain between the two countries;

Affirming their conviction that cooperation in the field of trade will contribute to overall improvement of relations between the two countries;

Have agreed as follows:

ARTICLE I

The Government of the USA and the Government of the USSR hereby enter into an Agreement for the purchase and sale of wheat and corn for supply to the USSR. To this end, during the period that this Agreement is in force, except as otherwise agreed by the Parties, (i) the foreign trade organizations of the USSR shall purchase from private commercial sources, for shipment in each twelve month period beginning October 1, 1976, six million metric tons of wheat and corn, in approximately equal proportions, grown in the USA; and (ii) the Government of the USA shall employ its good offices to facilitate and encourage such sales by private commercial sources.

¹ Department of State Bulletin, June 26, 1972, p. 898.

The foreign trade organizations of the USSR may increase this quantity without consultations by up to two million metric tons in any twelve month period, beginning October 1, 1976 unless the Government of the USA determines that the USA has a grain supply of less than 225 million metric tons as defined in Article V.

Purchases/sales of wheat and corn under this Agreement will be made at the market price prevailing for these products at the time of purchase/sale and in accordance with normal commercial terms.

ARTICLE II

During the term of this Agreement, except as otherwise agreed by the Parties, the Government of the USA shall not exercise any discretionary authority available to it under United States law to control exports of wheat and corn purchased for supply to the USSR in accordance with Article I.

ARTICLE III

In carrying out their obligations under this Agreement, the foreign trade organizations of the USSR shall endeavor to space their purchases in the USA and shipments to the USSR as evenly as possible over each 12-month period.

ARTICLE IV

The Government of the USSR shall assure that, except as the Parties may otherwise agree, all wheat and corn grown in the USA and purchased by foreign trade organizations of the USSR shall be supplied for consumption in the USSR.

ARTICLE V

In any year this Agreement is in force when the total grain supply in the USA, defined as the official United States Department of Agriculture estimates of the carry-in stocks of grain plus the official United States Department of Agriculture forward crop

estimates for the coming crop year, falls below 225 million metric tons of all grains, the Government of the USA may reduce the quantity of wheat and corn available for purchase by foreign trade organizations of the USSR under Article I(i).

ARTICLE VI

Whenever the Government of the USSR wishes the foreign trade organizations of the USSR to be able to purchase more wheat or corn grown in the USA than the amounts specified in Article I, it shall immediately notify the Government of the USA.

Whenever the Government of the USA wishes private commercial sources to be able to sell more wheat or corn grown in the USA than the amounts specified in Article I, it shall immediately notify the Government of the USSR.

In both instances, the Parties will consult as soon as possible in order to reach agreement on possible quantities of grain to be supplied to the USSR prior to purchase/sale or conclusion of contracts for the purchase/sale of grain in amounts above those specified in Article I.

ARTICLE VII

It is understood that the shipment of wheat and corn from the USA to the USSR under this Agreement shall be in accord with the provisions of the American-Soviet Agreement on Maritime Matters which ^[1] is in force during the period of shipments hereunder.

ARTICLE VIII

The Parties shall hold consultations concerning the implementation of this Agreement and related matters at intervals of six months beginning six months after the date of entry into force of this Agreement, and at any other time at the request of either Party.

¹ TIAS 8186; 26 UST.

ARTICLE IX

This Agreement shall enter into force on execution and shall remain in force until September 30, 1981 unless extended for a mutually agreed period.

DONE at Moscow, this 20th day of October, 1975, in duplicate, in the English and Russian languages, both texts being equally authentic.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

Charles W. Robinson ^[1]

[SEAL]

FOR THE GOVERNMENT OF THE UNION
OF SOVIET SOCIALIST REPUBLICS:

N. Patolichev ^[2]

[SEAL]

¹ Charles W. Robinson
² N. Patolichev

СОГЛАШЕНИЕ

между Правительством Соединенных Штатов Америки и
Правительством Союза Советских Социалистических
Республик о поставках зерна

Правительство Соединенных Штатов Америки и
Правительство Союза Советских Социалистических Республик,
исходя из Основ взаимоотношений между Соединенными Штатами
Аmericи и Союзом Советских Социалистических Республик от
29 мая 1972 года,

желая укреплять долгосрочное сотрудничество между двумя
странами на базе взаимной выгоды и равенства,
учитывая важность производства продуктов питания и, в част-
ности, зерна для народов обеих стран,
признавая необходимость стабилизации торговли зерном между
обеими странами,
подтверждая свое убеждение в том, что сотрудничество в
области торговли будет содействовать общему улучшению отношений
между обеими странами,
согласились о нижеследующем:

Статья I

Правительство США и Правительство СССР настоящим заключают
Соглашение о закупке и продаже пшеницы и кукурузы для поставки
в СССР. В этих целях в течение срока действия настоящего Согла-
шения, за исключением случаев иной договоренности Сторон:
(1) внешнеторговые организации СССР закупят у частных коммерче-
ских фирм с отгрузкой в течение каждого 12-месячного периода,
начиная с 1 октября 1976 года, по 6 миллионов метрических тонн
пшеницы и кукурузы, примерно в равном соотношении, выращенных
в США; (2) Правительство США будет доступными ему средствами
содействовать и поощрять такие запорядки частными коммерческими
фирмами.

Внешнеторговые организации СССР могут увеличить эти количе-
ства без консультаций в размерах до 2 миллионов метрических тонн
в любой 12-месячный период, начиная с 1 октября 1976 года, если
Правительство США не определит, что США имеют зерновые ресурсы в
количествах, меньших чем 225 миллионов метрических тонн, как это
определено в статье У.

Закупки-продажи пшеницы и кукурузы по настоящему Соглашению
будут осуществляться по рыночным ценам, преобладающим на время
закупки-продажи и в соответствии с обычными коммерческими условиями

Статья II

В течение срока действия настоящего Соглашения, за исключе-
нием случаев иной договоренности Сторон, Правительство США не будет
пользоваться какими-либо диспозитивными полномочиями согласно зако-
нам США для установления контроля над экспортом пшеницы и кукурузы,
закупленных для поставки в СССР в соответствии со статьей I.

Статья III

При выполнении обязательств по настоящему Соглашению внешне-
торговые организации СССР будут стараться осуществлять свои закуп-
ки в США и отгрузки в СССР как можно равномерной в течение каждого
12-месячного периода.

Статья IV

Правительство СССР заверяет, что, за исключением случаев
иной договоренности Сторон, вся пшеница и кукуруза, выращенные в
США и закупленные внешнеторговыми организациями СССР, будут постав-
ляться для потребления в СССР.

Статья V

Если в любой год действия настоящего Соглашения общие ресурсы
зерна в США, определяемые по официальной оценке Министерства сель-
ского хозяйства США, исходя из запасов плюс предварительные прогно-
зы урожая на текущий сельскохозяйственный год, окажутся ниже
225 миллионов метрических тонн зерна всех видов, Правительство США
может уменьшить количества пшеницы и кукурузы, которые внешнеторго-
вые организации СССР могут закупать согласно статье I.(I).

Статья VI

В случае, если Правительство СССР пожелает, чтобы внешне-
торговые организации СССР имели возможность закупить большие коли-
чества пшеницы или кукурузы, выращенные в США, чем количества, ука-
занные в статье I, оно незамедлительно сообщит об этом Правительст-
ву США.

В случае, если Правительство США пожелает, чтобы частные коммерческие фирмы имели возможность продать в СССР пшеницу или кукурузу, выращенные в США, сверх количеств, указанных в статье I, оно незамедлительно сообщит об этом Правительству СССР.

В обоих случаях до закупки-продажи или заключения контрактов на закупку-продажу зерна сверх количеств, указанных в статье I, Стороны в возможно короткий срок проведут консультации для достижения договоренности о возможных объемах закупки-продажи зерна для поставки в СССР.

Статья VII

Понимается, что при перевозках пшеницы и кукурузы из США в СССР будут применяться положения американо-советского соглашения по вопросам морского судоходства, которое будет действовать в период перевозки зерна по настоящему Соглашению.

Статья VIII

Стороны будут проводить консультации по выполнению настоящего Соглашения и связанным с ним вопросам каждые 6 месяцев, начав их через 6 месяцев после вступления в силу настоящего Соглашения, а также в любое другое время по требованию каждой из Сторон.

Статья IX

Настоящее Соглашение вступает в силу в день его подписания и будет действовать до 30 сентября 1981 года, если по согласию Сторон оно не будет продлено на дополнительный, взаимно согласованный период.

Совершено в Москве "20" октября 1975 года в двух экземплярах, каждый на английском и русском языках, причем оба текста имеют одинаковую силу.

За Правительство
Соединенных Штатов Америки

Charles W. Robinson

[SEAL]

За Правительство Союза
Советских Социалистических
Республик

И. В. Зорин

[SEAL]

31
 Grain 11:30
 Thursday
 Sit Room

~~SECRET/SENSITIVE~~INFORMATION

June 9, 1983

MEMORANDUM FOR WILLIAM P. CLARK

FROM: DOUGLAS W. McMINN

SUBJECT: U.S.-Soviet Negotiations on a New Long-Term Grain Agreement (LTA)

The initial round of negotiations for a new LTA (June 2, in London) was constructive and non-polemical. While major differences remain on several issues, the Soviets made clear their readiness and desire to conclude a new LTA soon. There was joint agreement to use the existing LTA framework as the basis for negotiations.

With regard to the next round of negotiations, to be held in Moscow June 20-21, the Soviets hinted they would like this to be a major negotiation session with the signing of an agreement some time shortly thereafter. It is open to question whether such an optimistic timetable is possible. The Soviets also made known their desire that a Cabinet-level official sign the agreement and they would like the signing ceremony in Moscow. Our negotiators told the Soviets that no decision had been made on who might sign for the U.S. and where.

Based on the June 2 discussions, the major substantive differences between the Soviets and ourselves are as follows:

Minimum Purchase Levels

Whereas the present agreement has a range of 6-8 million tons for the minimum and maximum purchase levels, the Soviets suggested a range of 6-12 million tons with delivery assurances not only on those amounts, but also on additional amounts offered during regular bilateral consultations (in effect on all Soviet purchases of U.S. grain). The Soviets also want separate USG assurances to intervene in case of longshoremen boycotts, strikes, etc. The U.S. side countered with a minimum purchase range of 16-19 million tons, which the Soviets rejected; the U.S. indicated we were willing to consider a lower number. The U.S. side "hung tough" on the supply assurances issue and offered no more than current Article 2 delivery assurances.

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Declassify on: OADR

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NLRR F06-114/8th 100608

BY W05 NARA DATE 9/30/08

Short Supply

The Soviets reacted negatively to the U.S. proposal that the short supply trigger (permitting the U.S. to reduce deliveries if our crop situation dictated) be raised from 225 million tons to 280. The Soviets want to delete this provision altogether, arguing it makes the LTA imbalanced because it gives the U.S. an "out" whereas the Soviets do not have one.

Quality

The Soviets argued for inclusion of a provision that the USG would guarantee quality levels set in contracts and that the Soviets would be relieved of their purchase obligations if grain were not up to particular quality standards. The U.S. side suggested it would explore a "good offices provision" by the USG, but strongly rejected the notion of a Soviet escape clause from its minimum purchase obligations.

Maritime Agreement

The Soviets argued for negotiation of a new maritime agreement, even though acknowledging that shipments were proceeding smoothly now in the absence of a maritime agreement. They indicated that at a minimum, retention of Article 7 of the present agreement was essential. (We have no problem with retaining Article 7, which merely stipulates that grain shipments be conducted in accord with the maritime agreement in effect at the time, but the U.S. delegation simply noted we were not authorized to negotiate a new maritime agreement).

** In private discussions with our chief negotiators this week, I reaffirmed the President's position that he favors mutually beneficial trade with the Soviets, on the basis of regular commercial considerations, i.e., no "special deals." I emphasized that major additional guarantees to the Soviets on supply assurance (over and above those in the existing agreement) would run counter to the President's position.

cc: Norman Bailey

8315220 FILE USSR 3/3
GRAIN

United States Department of State

Washington, D.C. 20520

May 17, 1983

URGENT

~~CONFIDENTIAL~~

MEMORANDUM FOR MR. WILLIAM P. CLARK
THE WHITE HOUSE

SUBJECT: Press Guidance on LTA for the President's Press Conference

Attached for the President's use at tonight's press conference is press guidance on the issue of the Long-Term Grain Agreement with the Soviets.

Charles Hill
Executive Secretary

*Polkovnik
Corcoran to Lewis*

DECLASSIFIED
Department of State Guidelines, July 21, 1997
By smf NARA, Date 7/24/02

~~CONFIDENTIAL~~
DECL: OADR

34
May 17, 1983

US/SOVIET LONG-TERM GRAIN AGREEMENT

Q: How were the Soviets informed?

A: The Soviets were informed ^{on April 7} here in Washington. They responded May 17.

Q: Why did the Soviets take so long to respond?

A: We don't know. But we are pleased they have now done so.

Q: When will the talks begin?

A: That has not yet been determined.

Q: Who will head our delegation?

A: The U.S. Trade Representative or his designee.

Q: Have the Allies been informed yet?

A: Yes.

Q: Won't the Soviets get the wrong message?

A: We remain concerned about the USSR's behavior--including its military buildup, its geopolitical expansionism and its record of human rights violations. Our agenda for relations with the Soviets will continue to include human rights, arms control and regional issues as well as bilateral issues like trade. We are not stepping back from our strong policy opposing Soviet misbehavior.

Q: Isn't this a change in our economic policy towards the USSR?

A: We believe that economic relations with the USSR should not contribute to the Soviet military buildup or strategic capability, and that trade should be conducted in a prudent manner without preferential treatment. At the same time, it is not our intention to conduct "economic warfare" against the USSR. We do support mutually beneficial, non-strategic trade in such areas as grains.

Q: Why did we lift this sanction? Have the Soviets made some gesture on Poland?

A: This step was taken to reaffirm our reliability as a supplier of grain. The sanction postponing LTA negotiations has already made our political point with the Soviets. Continuation was pointless due to the willingness of Canada, France and Argentina to enter into new or expanded arrangements with the USSR in order to increase their sales of grain.

Q: What about the remaining Poland sanctions? What is their status?

A: Their status remains unchanged.

Q: Will they be reviewed?

A: We're taking a comprehensive look at the situation in Poland and will discuss our conclusions with our Allies.

Q: How much grain did the Soviets buy from us last year? How much grain have they bought this year? What is the current outlook for Soviet grain purchases?

A: The U.S. currently supplies about 20 percent of Soviet grain import needs compared to about 70 percent before the grain embargo. The Soviet purchased about 15 million tons of grain from the U.S. in marketing year 81-82 (a market year runs from July 1 to June 30). So far in marketing year 82-83 they have purchased a little more than 6 million tons of grain. USDA has estimated that the Soviets would import about 34 million tons of grain from all sources in this marketing year, most of which they have already purchased. Nevertheless, we still hope for further Soviet purchases of U.S. grain this marketing year.

Q: Haven't we already given the Soviet adequate delivery assurances?

A: We have laid down a clear policy to establish the US as a reliable grain supplier by announcing stringent conditions for any future embargoes and accepting the agricultural contract sanctity provisions contained in the Durenburger Amendment to the Commodity Futures Trading Commission Act. Our decision to propose negotiation of a new LTA is entirely consistent with that policy.

Q: Won't this step undercut our efforts to reach a new consensus on east-west trade with the Allies?

A: Negotiation of a new LTA in no way contradicts the thrust of the economic policy toward the USSR we are pursuing with the Allies. Our grain sales are on commercial terms and are not made with government-supported credits or guarantees. A new LTA will provide a structure to manage the US-Soviet grain trade and allow us to plan our exports in a prudent fashion. This Administration has never proposed a grain embargo of the USSR; indeed the Allies have also maintained their grain relationship with the USSR.

Q: Was this step taken in retaliation for subsidized EC agricultural sales?

A: This decision was not taken in retaliation for EC agricultural export policy. We remain committed to resolving this difficult question by negotiations.

Q: How long will the new agreement be for, and will it provide for higher minimum Soviet purchases?

A: The answer to these questions of course will be resolved during the negotiations. We don't want to discuss our negotiating strategy now but obviously we hope the agreement will lead to enhanced levels of Soviet purchases of US grain.

Q: Why was this announcement made now?

A: Moving now will provide time to prepare for and conduct the negotiations before the present agreement expires on September 30.

Q: Will a new Maritime Agreement be negotiated at the same time?

A: Negotiations on a new Maritime Agreement were suspended in December, 1981, following the declaration of martial law in Poland. This situation is unchanged.

8315220 Grain 40

United States Department of State

Washington, D.C. 20520

File ✓

May 17, 1983

~~CONFIDENTIAL~~

MEMORANDUM FOR MR. WILLIAM P. CLARK
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URGENT

SUBJECT: Press Guidance on LTA for the President's Press Conference

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Charles Hill
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DECLASSIFIED
Department of State Guidelines, July 21, 1997
By smf NARA, Date 7/24/02

*Lewykowski
Concern to Lewis*

Return to files

~~CONFIDENTIAL~~
DECL: OADR

41
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~~CONFIDENTIAL~~

Grain

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MEMORANDUM
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INFORMATION

NATIONAL SECURITY COUNCIL

May 17, 1983

MEMORANDUM FOR JOHN M. POINDEXTER

FROM: DOUGLAS McMINN *DM*

SUBJECT: Negotiation of a New Long-Term Grain Agreement (LTA) with the Soviets

The Soviets have now agreed to negotiate a new LTA. Dobrynin has said that they would be prepared for preliminary discussions on June 1-2, in London. An interagency working group has been meeting for the past three weeks to outline the key issues we will face in negotiating a new agreement with the USSR. The working group, in which I have participated, has developed the attached paper for review (Tab I). The paper will be vetted around town and outstanding issues will be raised to policy levels this week for discussion.

Essentially, there is agreement to use the existing agreement as the basis for negotiation, but two major negotiating issues require decision.

Basic Purchase Levels:

Should we seek to retain the purchasing mechanism of the existing LTA (minimum and maximum purchase levels) or explore a new approach which would tie the basic purchase levels specified in the agreement to trade performance (a sliding scale approach)?

- o Our basic objective in the negotiations is to maximize U.S. sales while avoiding possible market disruption caused by large Soviet purchases.
 - The introduction of a sliding scale approach runs counter to this objective.
 - A sliding scale would encourage the Soviets to buy from suppliers other than the U.S. in years in which they have a very heavy demand for imports (so as to avoid too great an increase in their minimum purchase requirement from the United States in subsequent years.)
- o It's been my experience in negotiating with the Soviets and Eastern Europeans that you have to keep the concepts simple.
 - Introduction of the sliding scale approach would complicate the negotiations enormously and would prove counterproductive to our goals.

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NLRR F06-114/8410069
BY WJ NARA DATE 9/30/08

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- o State, USTR and USDA all agree that we should retain the purchasing mechanism in the existing agreement, but with increased purchase levels. I concur with this majority view.

Supply Assurances:

Should we seek an extension of the guarantees contained in the existing LTA (Article II) or should we be prepared to provide for additional guarantees?

- o The President has indicated that the U.S. favors mutually beneficial trade with the Soviets, on the basis of regular commercial considerations, i.e., no "special deals."
 - Providing major additional guarantees to the Soviets on supply assurance (over and above those in the existing agreement) runs counter to the President's position.
- o Additional guarantees on supply assurance undercut our desire to increase the minimum purchase level.
 - Language in the existing agreement provides a guarantee to the Soviets on all the grain covered by the minimum purchase level.
 - We want to keep this language as an inducement to the Soviets to increase the minimum purchase level.
 - The higher the minimum purchase level agreed to by the Soviets, the more grain that will be covered by the supply assurance guarantee.

State favors "hanging tough" on the existing supply assurance language. USDA favors having additional guarantees available as bargaining chips, but only as a fall-back. USTR is riding the fence on this question. I believe State's position is the proper one on the supply assurance issue and I have been supporting them.

I will continue to coordinate with Norm Bailey, John Lenczowski and Roger Robinson on this issue.

Attachment

Tab I - Working Group Paper

Tab A - Long-Term Grain Agreement Paper

cc: Norman Bailey
Henry Nau
John Lenczowski
Roger Robinson

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TO:

FROM: Ambassador Robert E. Lighthizer

SUBJECT: Negotiation of a new Long-Term Grain Agreement
(LTA) with the USSR

The Soviets have now accepted our proposal to negotiate a new LTA. Ambassador Dobrynin indicated that the Soviets would be receptive to having preliminary discussions on June 1-2. Therefore, we should move ahead expeditiously with our preparations for these talks. The attached paper, which was developed by an interagency working group, outlines the major issues we will face in negotiating a new agreement. For a few key issues, options are presented as a basis for higher level decision. On most other elements of an agreement, there appears to be broad agreement at the working level and positions are recommended.

I would urge that you review this paper carefully and that we meet for a preliminary discussion of LTA negotiations on _____.

For your convenience, a copy of the existing LTA is also attached.

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BY WJ NARA DATE 9/30/08

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U.S.-USSR LONG-TERM AGREEMENT ON GRAINS

1. Basic Objectives

Maximize sales opportunities for the grains trade and, to the extent feasible, for other U.S. agricultural products. Protect against possible market disruption caused by Soviet purchases. Improve knowledge of Soviet purchasing intentions. [Avoid to extent possible arrangements that constitute a "special deal" for the USSR vis-a-vis other purchasers. Proposed by State. USDA questions need for, and possible interpretation of, this statement.]

2. Specific Objectives: Key Decisions Required

A. Basic Purchase Levels

A decision must be taken as to whether to seek only to retain the mechanism of the existing LTA (with increased amounts) or to explore a sliding scale mechanism with the USSR. Another possibility would be to explore the sliding scale approach only if we are unable to reach agreement with the Soviets on increased basic purchase levels within the framework of the existing mechanism.

The simplest approach would, of course, be to seek to maintain the mechanism provided by Article 1 of the existing

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agreement but to raise both the minimum purchase level and the maximum amount without consultations by a significant amount. Initially, the United States might propose 14-16 MMT. While a lower figure might be acceptable, the United States should seek a significant increase above the 6-8 MMT specified in the current agreement. The United States would also want to keep the fork between the minimum purchase and the maximum purchase without consultations (2 MMT under the current agreement) relatively narrow. The prospect of widening the fork might, however, be used to secure a Soviet commitment to higher minimum purchase levels. As a rule of thumb, the United States might insist that the fork should not be more than one-third of the minimum purchase level.

The sliding scale approach would tie the basic purchase levels specified in the agreement to trade performance. For example, the top end of the range might be set as equal to the average level of U.S. grain exports to the USSR in the 3 preceding years; the minimum would be 2-3 million tons below that level -- or fixed as a certain percentage of that level. With this approach, the basic purchase levels of the agreement would tend to track actual Soviet purchases from the United States (which it is hoped will expand under the framework of a new LTA).

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(Paper provided by
Burchough ⁴ Leonard)
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Attachment I details the advantages and disadvantages of the sliding scale approach. The main advantage of the sliding scale approach is that (assuming a generally upward trend in Soviet imports) it would tend to guarantee ever larger U.S. grain sales to the Soviet market. It might also encourage the Soviets to buy from the United States so as to increase their "rights" to U.S. grain. Conversely, the introduction of a sliding scale might encourage the Soviets to buy from suppliers other than the United States in years of very heavy imports so as to avoid too great an increase in their minimum purchase requirement. Also, if Soviet imports trended down it would result in lower minimum purchase levels. Exploration of the alternative approach would also tend to complicate and, possibly, slow the negotiations -- especially as Soviet negotiating instructions are likely to be rigid.

B. Supply Assurances

The U.S. should be prepared to accept an extension of the guarantees contained in existing agreements, utilizing the same wording as in Article II.

The Soviets may, however, press for additional guarantees and could make such guarantees a precondition for the achievement of certain U.S. negotiating objectives (e.g.,

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a higher minimum). A decision must be taken as to whether any such guarantees might be offered. If so, three possibilities are:

1. Extension of the assurances provided by the Durenberger amendment (which covers 270 days) to 1 year for sales concluded within the framework of the agreement.
2. Apply assurances to all contracts concluded within the framework of the LTA.
3. Apply assurances to trade levels (in excess of basic purchase levels) mutually agreed to at the biannual consultations held under LTA auspices. This would involve a formal Soviet commitment to a level of imports in excess of basic purchase levels -- something they have thus far been unwilling to do.

C. Short-Supply Provision

Both Article I and Article V of the current LTA allow the United States to reduce the amount of grain available to the Soviets under the LTA if the total supply of grain in the United States falls below 225 million tons, a level which would now represent a catastrophic shortage. A decision must be taken as to the nature of the short-supply

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provision we should seek in a new LTA and as to what provisions might be acceptable as fallbacks. The United States has the following options in approaching this issue:

1. Raise the trigger to a more realistic level. This would give protection to the U.S. market and lessen the chance that the United States might ever have to abrogate the agreement. It would also give little cause for the assertion that we are giving the Soviets greater assurances than those given to other customers. The Soviets might, however, resist any increase in the trigger point -- as lessening the guarantees they now enjoy.

2. Develop some alternative formulation. One possibility would be to provide for consultations in the event of short supply (with the possibility of adjusting U.S. obligations under the LTA). Such a provision might parallel Article II of the U.S.-PRC agreement (see Attachment II) which states that any measure applied to grain exports to the PRC will be no less favorable than that applied to other importers. This option would give least ground for the assertion that the LTA gives preferred status to the USSR. However, it might be opposed by the USSR or, alternatively, the Soviets might seek to structure the provision so as to permit a reduction of the USSR's obligations.

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Another possibility, whichever of these two options are followed, would be to continue the short supply exemption with reference only to the forked quantity (now covered in para 2 of Article I) but, as an added bargaining point for obtaining a higher minimum, to offer to eliminate the short supply provision entirely with respect to the basic minimum quantity (Currently, this aspect is dealt with separately under Article V).

D. Timeframe

This seemingly simple decision is complicated by the fact that a 5-year agreement (the length of the existing LTA) would expire in the midst of the 1988 election campaign. A decision must be taken as to which of the following options to pursue:

1. A 5-year agreement;
2. A 5-year agreement with provision for automatic extension, possibly for 1 year at a time, unless either party decides to the contrary. This would probably enable us to avoid renegotiation during a campaign year, although if the Soviets chose not to extend we would essentially be in the first option; or

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3. A 6-year agreement.
- E. Specific Objectives - Other Elements of a new LTA

There is broad interagency agreement on the recommended positions described below.

A. Commodity Mix/Other Commodities

A balance between wheat and corn must be maintained in a new LTA. As an initial negotiating position, the United States might push to maintain the requirement that 50 percent of the minimum purchase requirement consist of wheat. While we have some flexibility on this point, we need to obtain some increase above the 3 MMT minimum for wheat in the current agreement.

The United States may explore the possibility of including other grain and feed type products (soybean meal, corn gluten feed, wheat flour, rice) in a new LTA. In the case of wheat flour and corn gluten feed, such inclusion might mean only a provision allowing these commodities to count towards Soviet fulfillment of the minimum purchase requirements (using appropriate coefficients). In the case of rice and soybean meal, the United States should, if the Soviets show any interest, seek the establishment of separate basic purchase levels for these commodities.

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Commodities outside the grain and feed sphere (a considerable number -- including poultry, beef, and tobacco -- have been suggested) should not be considered in the text of a new LTA. However, the United States should explore the possibility of formulating a non-binding side letter encouraging the expansion of U.S.-USSR agricultural trade, which might specify some of these commodities.

Any efforts to promote the export of other U.S. commodities should not be done at the expense of marketing opportunities for U.S. wheat and corn.

B. Spacing Provisions

Article III of the current LTA calls upon the USSR to space grain purchases and shipments as evenly as possible. While we have no problem with this provision, with the improvements in our monitoring system, it is no longer necessary. The U.S. could trade this away if the Soviets seek to eliminate it.

C. Destination

Article IV of the current LTA provides that, unless otherwise agreed, wheat and corn purchased under the

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agreement shall be consumed in the USSR. The U.S. should seek to retain this provision unchanged.

D. Procedures for Additional Purchases

The procedures set forth in Article VI of the current LTA should be maintained without change.

E. Consultations

Retain semi-annual consultations as at present (Article VIII of the current LTA). The United States should also push for wording providing for additional information sharing. The Soviets have typically been uncooperative in providing information on crop prospects and product availability; this attitude is not likely to change in the near future. However, the United States may want to make use of this issue to put the Soviets on the defensive.

F. Maritime Agreement Reference

The language of Article VII of the current LTA, which states only that the LTA should be in accord with the American-Soviet Maritime Agreement, should be retained as is. USG should not open it for discussion as the existing sanction precludes discussion at the present time. The

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present language covers the situation when no agreement exists. We should reject any Soviet efforts to negotiate a maritime agreement in the context of the LTA. (However, pressure to lift the Poland sanction suspending maritime negotiations may arise from the U.S. industry, and the Soviets themselves may raise the question of a new maritime agreement. Either could necessitate a separate review of the issue of negotiating a new maritime agreement.)

L. Calendar Year/Fiscal Year

While the United States prefers to maintain the October/September year, we can accept either.

M. Credit/Countertrade

The United States cannot accept any provisions relating to credit or countertrade. Credit must be arranged by the Soviet government with the private sector.

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January 1, 1981, except as otherwise provided for in Article II, of a total quantity of at least 6 to 8 million metric tons of United States wheat and corn, of which approximately 15 to 20 percent will be corn.

2. The Government of the People's Republic of China agrees to purchase for shipment during each 12-month period beginning January 1, 1981, except as otherwise provided for in Article II, a total quantity of at least 6 to 8 million metric tons of United States wheat and corn, of which approximately 15 to 20 percent will be corn.

3. Purchases/sales of wheat and corn under this agreement will be made at market prices prevailing at the time of purchase/sale and in accordance with normal commercial terms.

ARTICLE II

1. The Government of the United States of America shall endeavor to assure the availability of wheat and corn supplies through advance planning of production and stockbuilding fully to meet the import requirements of the People's Republic of China under the provisions of this agreement. If by virtue of exceptional circumstances necessitating the application of measures limiting the availability of United States wheat and corn in respect to all foreign purchasers of United States grain, it becomes necessary in a particular year to supply less than the quantities specified in Article I, there shall be prior consultations between the two parties as to the amount of such adjustment.

Any such measure which shall be applied to the exports of United States wheat and corn to the People's Republic of China shall be carried out on a basis no less favorable than to such exports to other foreign purchasers of United States grain.

2. If by virtue of exceptional circumstances making it impossible for the People's Republic of China to accommodate available supplies necessitating the reduction of minimum levels of normal imports from all foreign suppliers it becomes necessary in a particular year to purchase less than the quantities specified in Article I, there shall be prior consultations between the two parties as to the amount of such adjustment. Any such reduction of imports of United States wheat and corn which shall be applied to imports from the United States shall be carried out on a basis no less favorable than to imports from other foreign suppliers.

ARTICLE III

The United States of America expects to supply to the People's Republic of China and encourages the People's Republic of China to meet increased import requirements by purchases of wheat and corn from the United States. Therefore, if during the period that the agreement is in force, the People's Republic of China intends to purchase quantities of United States wheat and corn in excess of the 8 million metric tons specified in Article I by more than 1 million metric tons, there shall be prior notice to the Government of the United States of America. The Government of the United States of America shall promptly inform

GRAINS AGREEMENT

Between the
UNITED STATES OF AMERICA
and the UNION OF SOVIET
SOCIALIST REPUBLICS

Signed at Moscow October 20, 1975



NOTE BY THE DEPARTMENT OF STATE

Pursuant to Public Law 89-497, approved July 8, 1966 (80 Stat. 271; 1 U.S.C. 113)—

"... the Treaties and Other International Acts Series issued under the authority of the Secretary of State shall be competent evidence . . . of the treaties, international agreements other than treaties, and proclamations by the President of such treaties and international agreements other than treaties, as the case may be, therein contained, in all the courts of law and equity and of maritime jurisdiction, and in all the tribunals and public offices of the United States, and of the several States, without any further proof or authentication thereof."

UNION OF SOVIET SOCIALIST REPUBLICS

Grains Agreement

*Signed at Moscow October 20, 1975;
Entered into force October 20, 1975.*

AGREEMENT BETWEEN
THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND
THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS
ON THE SUPPLY OF GRAIN

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The Government of the United States of America ("USA") and the Government of the Union of Soviet Socialist Republics ("USSR");

Recalling the "Basic Principles of Relations Between the United States of America and the Union of Soviet Socialist Republics" of May 29, 1972,^[1]

Desiring to strengthen long-term cooperation between the two countries on the basis of mutual benefit and equality;

Mindful of the importance which the production of food, particularly grain, has for the peoples of both countries;

Recognizing the need to stabilize trade in grain between the two countries;

Affirming their conviction that cooperation in the field of trade will contribute to overall improvement of relations between the two countries;

Have agreed as follows:

ARTICLE I

The Government of the USA and the Government of the USSR hereby enter into an Agreement for the purchase and sale of wheat and corn for supply to the USSR. To this end, during the period that this Agreement is in force, except as otherwise agreed by the Parties, (i) the foreign trade organizations of the USSR shall purchase from private commercial sources, for shipment in each twelve month period beginning October 1, 1976, six million metric tons of wheat and corn, in approximately equal proportions, grown in the USA; and (ii) the Government of the USA shall employ its good offices to facilitate and encourage such sales by private commercial sources.

¹ Department of State Bulletin, June 26, 1972, p. 898.

The foreign trade organizations of the USSR may increase this quantity without consultations by up to two million metric tons in any twelve month period, beginning October 1, 1976 unless the Government of the USA determines that the USA has a grain supply of less than 225 million metric tons as defined in Article V.

Purchases/sales of wheat and corn under this Agreement will be made at the market price prevailing for these products at the time of purchase/sale and in accordance with normal commercial terms.

ARTICLE II

During the term of this Agreement, except as otherwise agreed by the Parties, the Government of the USA shall not exercise any discretionary authority available to it under United States law to control exports of wheat and corn purchased for supply to the USSR in accordance with Article I.

ARTICLE III

In carrying out their obligations under this Agreement, the foreign trade organizations of the USSR shall endeavor to space their purchases in the USA and shipments to the USSR as evenly as possible over each 12-month period.

ARTICLE IV

The Government of the USSR shall assure that, except as the Parties may otherwise agree, all wheat and corn grown in the USA and purchased by foreign trade organizations of the USSR shall be supplied for consumption in the USSR.

ARTICLE V

In any year this Agreement is in force when the total grain supply in the USA, defined as the official United States Department of Agriculture estimates of the carry-in stocks of grain plus the official United States Department of Agriculture forward crop

estimates for the coming crop year, falls below 225 million metric tons of all grains, the Government of the USA may reduce the quantity of wheat and corn available for purchase by foreign trade organizations of the USSR under Article I(i).

ARTICLE VI

Whenever the Government of the USSR wishes the foreign trade organizations of the USSR to be able to purchase more wheat or corn grown in the USA than the amounts specified in Article I, it shall immediately notify the Government of the USA.

Whenever the Government of the USA wishes private commercial sources to be able to sell more wheat or corn grown in the USA than the amounts specified in Article I, it shall immediately notify the Government of the USSR.

In both instances, the Parties will consult as soon as possible in order to reach agreement on possible quantities of grain to be supplied to the USSR prior to purchase/sale or conclusion of contracts for the purchase/sale of grain in amounts above those specified in Article I.

ARTICLE VII

It is understood that the shipment of wheat and corn from the USA to the USSR under this Agreement shall be in accord with the provisions of the American-Soviet Agreement on Maritime Matters which is in force during the period of shipments hereunder.^[1]

ARTICLE VIII

The Parties shall hold consultations concerning the implementation of this Agreement and related matters at intervals of six months beginning six months after the date of entry into force of this Agreement, and at any other time at the request of either Party.

¹ TIAS 8195; 26 UST.

ARTICLE IX

This Agreement shall enter into force on execution and shall remain in force until September 30, 1981 unless extended for a mutually agreed period.

DONE at Moscow, this 20th day of October, 1975,
in duplicate, in the English and Russian languages, both texts being equally authentic.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

Charles W. Robinson ^[1]

[SEAL]

FOR THE GOVERNMENT OF THE UNION
OF SOVIET SOCIALIST REPUBLICS:

N. Patolichev ^[2]

[SEAL]

¹ Charles W. Robinson
² N. Patolichev

С С Г Л А Ш Е Н И Е

между Правительством Соединенных Штатов Америки и
Правительством Союза Советских Социалистических
Республик о поставках зерна

Правительство Соединенных Штатов Америки и
Правительство Союза Советских Социалистических Республик,
исходя из Основ взаимоотношений между Соединенными Штатами
Аmericи и Союзом Советских Социалистических Республик от
29 мая 1972 года,

желая укреплять долгосрочное сотрудничество между двумя
странами на базе взаимной выгоды и равенства,
учитывая важность производства продуктов питания и, в част-
ности, зерна для народов обеих стран,
признавая необходимость стабилизации торговли зерном между
обеими странами,
подтверждая свое убеждение в том, что сотрудничество в
области торговли будет содействовать общему улучшению отношений
между обеими странами,
согласились о нижеследующем:

Статья I

Правительство США и Правительство СССР настоящим заключают
Соглашение о закупке и продаже пшеницы и кукурузы для поставки
в СССР. В этих целях в течение срока действия настоящего Согла-
шения, за исключением случаев иной договоренности Сторон:

(1) внешнеторговые организации СССР закупят у частных коммерче-
ских фирм с отгрузкой в течение каждого 12-месячного периода,
начиная с 1 октября 1976 года, по 6 миллионов метрических тонн
пшеницы и кукурузы, примерно в равном соотношении, выращенных
в США; (2) Правительство США будет доступными ему средствами
содействовать и поощрять такие запорядки частными коммерческими
фирмами.

Внешнеторговые организации СССР могут увеличить эти количе-
ства без консультаций в размерах до 2 миллионов метрических тонн
в любой 12-месячный период, начиная с 1 октября 1976 года, если
Правительство США не определит, что США имеют зерновые ресурсы в
количествах, меньших чем 225 миллионов метрических тонн, как это
определено в статье У.

Закупки-продажи пшеницы и кукурузы по настоящему Соглашению
будут осуществляться по рыночным ценам, преобладающим на время
закупки-продажи и в соответствии с обычными коммерческими условиями

Статья II

В течение срока действия настоящего Соглашения, за исключе-
нием случаев иной договоренности Сторон, Правительство США не будет
пользоваться какими-либо диспозитивными полномочиями согласно зако-
нам США для установления контроля над экспортом пшеницы и кукурузы,
закупленных для поставки в СССР в соответствии со статьей I.

Статья III

При выполнении обязательств по настоящему Соглашению внешне-
торговые организации СССР будут стараться осуществлять свои закуп-
ки в США и отгрузки в СССР как можно равномерней в течение каждого
12-месячного периода.

Статья IV

Правительство СССР заверяет, что, за исключением случаев
иной договоренности Сторон, вся пшеница и кукуруза, выращенные в
США и закупленные внешнеторговыми организациями СССР, будут постав-
ляться для потребления в СССР.

Статья V

Если в любой год действия настоящего Соглашения общие ресурсы
зерна в США, определяемые по официальной оценке Министерства сель-
ского хозяйства США, исходя из запасов плюс предварительные прогно-
зы урожая на текущий сельскохозяйственный год, окажутся ниже
225 миллионов метрических тонн зерна всех видов, Правительство США
может уменьшить количества пшеницы и кукурузы, которые внешнеторго-
вые организации СССР могут закупать согласно статье I.(I).

Статья VI

В случае, если Правительство СССР пожелает, чтобы внешне-
торговые организации СССР имели возможность закупить большие коли-
чества пшеницы и кукурузы, выращенные в США, чем количества, ука-
занные в статье I, оно незамедлительно сообщит об этом Правитель-
ству США.

В случае, если Правительство США пожелает, чтобы частные коммерческие фирмы имели возможность продать в СССР пшеницу или кукурузу, выращенные в США, сверх количеств, указанных в статье I, оно незамедлительно сообщит об этом Правительству СССР.

В обоих случаях до закупки-продажи или заключения контрактов на закупку-продажу зерна сверх количеств, указанных в статье I, Стороны в возможно короткий срок проведут консультации для достижения договоренности о возможных объемах закупки-продажи зерна для поставки в СССР.

Статья УП

Понимается, что при перевозках пшеницы и кукурузы из США в СССР будут применяться положения американско-советского соглашения по вопросам морского судоходства, которое будет действовать в период перевозки зерна по настоящему Соглашению.

Статья УШ

Стороны будут проводить консультации по выполнению настоящего Соглашения и связанным с ним вопросам каждые 6 месяцев, начав их через 6 месяцев после вступления в силу настоящего Соглашения, а также в любое другое время по требованию каждой из Сторон.

Статья IX

Настоящее Соглашение вступает в силу в день его подписания и будет действовать до 30 сентября 1981 года, если по согласию Сторон оно не будет продлено на дополнительный, взаимно согласованный период.

Совершено в Москве "20" октября 1975 года в двух экземплярах, каждый на английском и русском языках, причем оба текста имеют одинаковую силу.

За Правительство
Соединенных Штатов Америки

Charles W. Robinson

[SEAL]

За Правительство Союза
Советских Социалистических
Республик

И. В. Зорин

[SEAL]

CONFIDENTIAL

file USSR Grain 69
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MEMORANDUM

NATIONAL SECURITY COUNCIL

RR

July 18, 1984

~~CONFIDENTIAL~~

~~MATLOCK~~

INFORMATION

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: JACK MATLOCK *SM*

SUBJECT: Soviet Grain Purchases

According to Agriculture's figures the Soviets have now purchased a total of 12,357,800 tons of grain for delivery in the crop year ending September 30, 1984. These purchases were almost equally divided between wheat and corn (6.3 and 6.05 million tons, respectively). In addition, the Soviets have purchased 416,200 tons of soybeans.

Regarding the crop year beginning October 1, 1984, the Soviets purchased 350,000 tons of corn yesterday and there are rumors that they will make substantial purchases of grain (1 to 3 million tons) within the next few days. They are obligated to buy at least 9 million tons of grain in each crop year.

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NLRR F06-114/8 #10070
BY *WJS* NARA DATE 9/30/08

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NATIONAL SECURITY COUNCIL

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July 18, 1984

INFORMATION

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MEMORANDUM

THE WHITE HOUSE
WASHINGTON

Jack White
July 17, 1984
total for year now?
Bred 7/17/84

SITUATION ROOM NOTE

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Soviet Purchase of U.S. Grain

[REDACTED] the USSR purchased approximately one million metric tons (MT) of U.S. hard red winter wheat following seven days of negotiating. Half of the wheat is to be shipped from October to December while the remainder is tentatively scheduled for January to February shipment. The Soviets paid cash.

- o The Soviets also purchased approximately 850,000 MT of U.S. corn earlier in the month with shipment scheduled for October to December. Half of this purchase is being financed by a U.S. firm.
- o During recent negotiations the Soviets also expressed interest in the purchase of 150,000 MT of U.S. barley for October to November delivery. (C)

[REDACTED]

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FOIA(b)(1), (3)

July 18, 1984
about noon

MESSAGE FROM LYNN PESCOE FOR JACK MATLOCK

- 1. Soviet purchase of U.S. grain for 1983/1984, i.e., October 1, 1983 - September 30, 1984:

Wheat	6,307,300 tons
Corn	6,050,500 tons
Total	12,357,800 tons

They have also purchased 416,200 tons of soybeans.

- 2. For 1984/1985, i.e., October 1, 1984 - September 30, 1985:

Yesterday they purchased 350,000 tons of corn and there are many rumors they they will buy one - three million tons of grain in the next few days.

- 3. For the year July 1, 1984 - June 30, 1985, estimates are that they will purchase 35 - 40 million tons of grain. Twenty million of that is covered in various long-term grain agreements, including ours.

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Grain

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SUBJECT: NEW US-SOVIET GRAIN AGREEMENT

1. FOLLOWING IS THE GUIDANCE ON THE NEW US-SOVIET GRAIN AGREEMENT PREPARED FOR THE STATE DEPARTMENT PRESS SPOKESMAN JULY 29:

Q: WHAT ARE THE TERMS OF THE NEW US-SOVIET GRAIN AGREEMENT NEGOTIATED IN VIENNA?

A: AS ANNOUNCED BY SECRETARY BLOK AND AMBASSADOR BROCK JULY 28, UNDER THE NEW AGREEMENT THE USSR WILL PURCHASE AT LEAST 9 MILLION TONS OF WHEAT AND CORN ANNUALLY FROM THE US, WITH THE OPTION TO SUBSTITUTE 500,000 TONS OF SOYBEANS OR SOYBEAN MEAL FOR ONE MILLION TONS OF GRAIN. THE SOVIETS MAY PURCHASE UP TO 12 MILLION TONS ANNUALLY WITHOUT FURTHER CONSULTATIONS WITH THE USG. THESE NEW AMOUNTS COMPARE TO A MINIMUM OF 6 MILLION TONS AND AN OPTIONAL LEVEL OF 8 MILLION TONS UNDER THE ORIGINAL 1975 AGREEMENT. THE GENERAL FRAMEWORK OF THE NEW AGREEMENT FOLLOWS THAT OF THE ORIGINAL.

Q: WHY ARE WE PROMISING TO SELL THE SOVIETS MORE GRAIN WHEN OUR CORN CROP MAY BE REDUCED DUE TO HOT, DRY WEATHER?

A: FOR AN ANALYSIS OF THE STATE OF THE CORN CROP, I MUST REFER YOU TO USDA. HOWEVER, WE UNDERSTAND THAT EVEN AFTER THE PAYMENT-IN-KIND PROGRAM, THE US HAS LARGE STOCKS OF CORN AND THAT TOTAL SUPPLIES WILL BE AMPLE TO MEET ALL OUR DOMESTIC NEEDS AND EXPORT DEMAND.

Q: HOW IS THE AGREEMENT RELATED TO THE SITUATION IN POLAND? DOES IT HAVE ANYTHING TO DO WITH THE LIFTING OF MARTIAL LAW?

A: THE US OFFERED TO NEGOTIATE A NEW GRAIN AGREEMENT WITH THE SOVIET UNION IN APRIL, WELL BEFORE THE RECENT DEVELOPMENTS IN POLAND. THE DECISION WAS BASED ON OUR VIEW THAT GRAIN SALES TO THE USSR CAN BEST TAKE PLACE UNDER THE FRAMEWORK OF A LONG-TERM AGREEMENT.

Q: WHAT WILL THE ALLIES SAY ABOUT THIS EXPANDED AGREEMENT IN LIGHT OF OUR EFFORTS TO REACH A NEW CONSENSUS ON EAST-WEST TRADE WITH THEM?

A: THE NEGOTIATION OF THE AGREEMENT IN NO WAY CONTRADICTS THE THRUST OF THE ECONOMIC POLICY TOWARD THE USSR WE ARE PURSUING WITH THE ALLIES. OUR GRAIN SALES ARE ON COMMERCIAL TERMS AND ARE NOT MADE WITH GOVERNMENT SUPPORT-ED CREDITS OR GUARANTEES. A NEW AGREEMENT WILL PROVIDE A STRUCTURE TO MANAGE THE US-SOVIET GRAIN TRADE. THE ALLIES HAVE ALSO MAINTAINED THEIR GRAIN RELATIONSHIPS WITH THE USSR. CANADA HAS A LONG-TERM AGREEMENT AND FRANCE HAS AN AGRICULTURAL SALES UNDERSTANDING WITH THE USSR AS WELL.

Q: NOW THAT WE HAVE A NEW GRAIN AGREEMENT WILL WE BEGIN MARITIME AGREEMENT NEGOTIATIONS?

A: NEGOTIATIONS ON A NEW MARITIME AGREEMENT WERE SUSPENDED IN DECEMBER 1981. THE SUSPENSION REMAINS IN EFFECT.

Q: HOW WILL THIS AGREEMENT AFFECT OUR SHARE OF THE SOVIET GRAIN MARKET? WILL WE REGAIN THE SHARE WE LOST AS A RESULT OF THE PARTIAL GRAIN EMBARGO?

A: PRIOR TO THE GRAIN EMBARGO THE US HAD ROUGHLY A 70 SHARE OF OF THE SOVIET MARKET. IT APPEARS WE WILL NOT REGAIN THAT POSITION WITH THIS NEW AGREEMENT. WHAT OUR SHARE WILL BE DEPENDS ON TOTAL SOVIET GRAIN PURCHASES;

IF THEIR PURCHASES TOTAL 30 MILLION TONS, FOR INSTANCE, OUR GUARANTEED SHARE WILL BE ALMOST 30 PERCENT INSTEAD OF 20 PERCENT UNDER THE CURRENT LTA.

Q: WHAT IS THE DOLLAR VALUE OF THE NEW AGREEMENT?

A: WE CANNOT CALCULATE THE DOLLAR VALUE OF THE NEW AGREEMENT WITHOUT KNOWING WHAT GRAIN PRICES WILL BE IN THE COMING 5 YEARS. ONE WAY TO CALCULATE THE ANNUAL VALUE WOULD BE TO MULTIPLY THE ADDITIONAL MINIMUM OF 3 MILLION TONS BY A PROJECTED GRAIN PRICE, BUT I HESITATE TO SPECULATE TO THAT EXTENT.

Q: BY SELLING GRAIN TO THE USSR, AREN'T WE JUST FEEDING SOVIET SOLDIERS?

A: THE US IS ONE OF SEVERAL SUPPLIERS OF GRAIN TO THE SOVIET UNION. THIS YEAR OUR MARKET SHARE IS ROUGHLY 20 PERCENT COMPARED TO 70 PERCENT BEFORE THE 1980/81 PARTIAL GRAIN EMBARGO. AS THE PARTIAL EMBARGO DEMONSTRATES, IF THE US DIDN'T SELL GRAIN TO THE SOVIETS, THEY WOULD TURN TO OTHER EXPORTERS TO FILL THE GAP.

GRAIN IMPORTS ENABLE THE SOVIET UNION TO MAINTAIN THE POLITICALLY IMPORTANT LIVESTOCK SECTOR, BUT ARE NOT NECESSARY TO PROVIDE THE POPULATION WITH A MINIMUM DIET. EVEN IN YEARS OF POOR HARVEST

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THE SOVIET UNION IS THE WORLD'S LARGEST PRODUCER OF WHEAT.

IT IS NOT US POLICY TO CONDUCT ECONOMIC WARFARE AGAINST THE SOVIET UNION. WE SUPPORT MUTUALLY ADVANTAGEOUS, UNSUBSIDIZED TRADE WITH THE USSR.

Q: IS THE US GOVERNMENT SENDING A POLITICAL SIGNAL TO THE SOVIET UNION BY APPROVING THIS NEW AGREEMENT?

A: THE SIGNAL WE HAVE SENT ALL ALONG IS THAT AS PART OF OUR STRONG, REALISTIC APPROACH TO THE USSR UNDER THIS ADMINISTRATION, WE WANT TO EXPLORE WITH THE SOVIETS THOSE AREAS WHERE THE TWO COUNTRIES CAN COOPERATE TO MUTUAL BENEFIT, AND TO MAKE AGREEMENTS ON THAT BASIS. GRAINS IS ONE SUCH AREA. THIS ACCORD WAS REACHED BECAUSE IT HAS MUTUAL ECONOMIC BENEFITS FOR

BOTH SIDES.

Q: IS THIS ACCORD A "FIRST STEP" TOWARDS NORMALIZING US-SOVIET RELATIONS? WHAT DOES IT PORTEND FOR THE ARMS NEGOTIATIONS?

A: THERE ARE SERIOUS DIFFERENCES BETWEEN THE US AND THE SOVIET UNION WHICH WILL NOT BE OVERCOME BY AGREEMENTS OF THIS SORT. MOST OF OUR BILATERAL COOPERATIVE AGREEMENTS WITH THE SOVIETS HAVE BEEN RENEWED OR EXTENDED AS THEY EXPIRED; WHERE THIS DID NOT HAPPEN, IT WAS AS A SANCTION AGAINST SOVIET INTERNATIONAL MISCONDUCT; AND EXCEPT WHERE THESE SANCTIONS HAVE BECOME OUTMODED, AS IN THIS CASE, THE PROGRAM REMAINS IN EFFECT. WE REMAIN CONCERNED ABOUT THE USSR'S BEHAVIOR--INCLUDING ITS MILITARY BUILDUP, ITS GEOPOLITICAL EXPANSIONISM AND ITS RECORD OF HUMAN RIGHTS VIOLATIONS--AND WILL CONTINUE TO MAKE CLEAR TO THE SOVIETS THAT THERE CAN BE NO BASIC IMPROVEMENT IN THE RELATIONSHIP UNTIL THEY ARE RESPONSIVE TO OUR CONCERNS ACROSS A BROAD FRONT. THE AGENDA INCLUDES HUMAN RIGHTS, ARMS CONTROL AND REGIONAL ISSUES AS WELL AS BILATERAL ISSUES LIKE TRADE. WE ARE NOT STEPPING BACK FROM OUR STRONG POLICY OPPOSING SOVIET MISBEHAVIOR. WE WELCOME THIS AGREEMENT AS A SMALL, POSITIVE STEP OF BENEFIT TO BOTH SIDES, BUT WE DO NOT YET SEE ANY CHANGE IN SOVIET BEHAVIOR OVERALL, NOR DO WE SEE HOW THE AGREEMENT HAS ANY IMPLICATIONS FOR THE ARMS CONTROL TALKS IN GENEVA.

Q: HOW CAN WE FEED THE SOVIET UNION AT THE SAME TIME WE ARE CONDEMNING THEIR MEDDLING IN CENTRAL AMERICA?

A: THE ADMINISTRATION'S POSITION ON CENTRAL AMERICA IS WELL KNOWN, AND THE SOVIETS HAVE BEEN WELL AWARE OF OUR STRONG VIEWS CONCERNING THEIR APPROACH TO THE TENSIONS IN THAT AREA. I WILL NOT GET INTO THE SUBSTANCE OF OUR DIPLOMATIC EXCHANGES ON THIS TOPIC. BUT WE DO NOT FEEL THAT SIGNING THIS AGREEMENT COULD AFFECT THE SITUATION IN CENTRAL AMERICA ONE WAY OR THE OTHER. GIVEN THE CURRENT OVERSUPPLY OF GRAIN ON WORLD MARKETS, THE SOVIET UNION CAN PROCURE ALL THE GRAIN IT NEEDS FROM OTHER SOURCES. THE ONLY PEOPLE WE WOULD PUNISH BY NOT SELLING GRAIN TO THE SOVIETS WOULD BE AMERICAN FARMERS. SHULTZ

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TAGS: ECON, UR, US
SUBJECT: US-SOVIET NEGOTIATIONS ON NEW LONG TERM GRAINS
AGREEMENT

FILE

1. US AND SOVIET DELEGATIONS HAVE REACHED AGREEMENT IN DRAFT ON A NEW 5 YEAR LTA WHICH PROVIDES FOR A .9 PERCENT INCREASE IN THE SOVIET MINIMUM PURCHASE LEVEL TO 9 MILLION METRIC TONS PER ANNUM. AT SOVIET OPTION, UP TO 1 MILLION TONS OF THE MINIMUM COULD BE SATISFIED BY PURCHASES OF UP TO 500,000 TONS OF SOYBEANS AND/OR MEAL. AT LEAST 8 MILLION TONS MUST BE WHEAT AND CORN. PURCHASES OF CORN AND WHEAT MUST BE IN APPROXIMATELY EQUAL PROPORTION. THE NEW MAXIMUM IS 12. (THE RANGE IN THE CURRENT AGREEMENT IS 6-8.) NO DELIVERY ASSURANCES WERE GIVEN BEYOND THOSE CONTAINED IN ARTICLE 2 OF THE PRESENT LTA. THE BALANCE OF THE AGREEMENT REMAINS LARGELY UNCHANGED. THE SHORT SUPPLY PROVISION, HOWEVER, WAS DROPPED IN VIEW OF THE ADMINISTRATION POLICY ON THIS ISSUE AND THE DURENBURGER AMENDMENT. ALSO AN ARTICLE WAS ADDED RELATING TO USG "GOOD OFFICES" IN DEALING WITH ISSUES RELATED TO QUALITY OF GRAINS.

2. THE DRAFT AGREEMENT ACHIEVES OUR KEY OBJECTIVES OF A SUBSTANTIAL INCREASE IN THE MINIMUM PURCHASE LEVEL, AVOIDING "PREFERENTIAL" TREATMENT OF THE USSR, AND MAINTAINING THE BASIC FRAMEWORK OF THE PRESENT AGREEMENT. THE NEGOTIATIONS WERE FRANK, BUSINESSLIKE AND OCCASIONALLY DIFFICULT. THE SOVIETS, HOWEVER, EXPRESSED THEIR DESIRE AT THE OUTSET TO REACH AGREEMENT IN VIENNA AND AGREED TO INCREASE THE MINIMUM EVEN THOUGH THEY HAD ARGUED DURING THE DISCUSSIONS THAT RAISING THE MINIMUM TO 9 WOULD CAUSE THEM DIFFICULTIES WITH OTHER SUPPLIERS. IN THIS CONNECTION THE SOVIETS STATED THEIR HOPE THIS INCREASED GRAIN TRADE WOULD CONTRIBUTE NOT ONLY TO ECONOMIC RELATIONS BUT TO OVERALL RELATIONS AS WELL. CLEARLY, THE SOVIETS PLACE GREAT ECONOMIC VALUE ON AN LTA WITH THE U. S. AS AN ASSURED SOURCE OF SUPPLY. THEIR WILLINGNESS TO AGREE TO A MINIMUM OF NINE NOW, AFTER ARGUING THROUGH 2 PREVIOUS SESSIONS THE HIGHEST THEY COULD ACCEPT WAS 6, SUGGESTS A POLITICAL DECISION WAS MADE TO DEMONSTRATE WE CAN REACH AGREEMENT ON AN ISSUE OF MUTUAL BENEFIT DESPITE OUR DIFFERENCES ON OTHER

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NLRR Feb-11/8 #10076
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OUTSTANDING ISSUES.

3. THE DRAFT AGREEMENT IS SUBJECT TO FINAL REVIEW BY
GOVERNMENTS ON THE BASIS THAT ANY CHANGES WILL BE
NON-SUBSTANTIVE. VON DAMM
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