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WITHDRAWAL SHEET

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. memo 84	from Steve Farrar to S. Danzansky re: meeting with Continental Grains reps. (1p, partial)	10/6/87	P-5
2. briefing paper	attachment to 10/6/87 memo (4pp)	n.d.	P-1 B1
3. meeting minutes	Policy Review Group (3pp)	9/30/87	P-1 B1
4. memo	from S. Danzansky to C. Powell re: PRG meeting on US/USSR long term Grains agreement (2pp)	9/29/87	P-1, P-5 B1
5. memo	from S. Danzansky to C. Powell re: PRG meeting on US/USSR long term grains agreement (2pp)	9/29/87	P-1, P-5 B1
6. talking points	re: LTA (Grains) (3pp)	n.d.	P-1 B1
7. memo	from S. Danzansky to Frank Carlucci re: grain sales to the Soviets: briefin for the President (1p)	3/26/87	P-1, P-5 B1
8. cable (vax)	re: USSR/grains (2pp)	3/24/87	P-1 B1
9. transmittal sheet	to Stephen Farrar re: paper on Soviet/US wheat trade (1p)	3/6/87	P-1 B1
10. memo	to S. Farrar re: paper on Soviet/US wheat trade (1p)	n.d.	P-1 B1
11. paper	re: Soviet/US wheat trade: an update (3pp)	n.d.	P-1 B1
COLLECTION: DANZANSKY, STEPHEN I.: Files			db
FILE FOLDER: Soviet Union (Grain) [2 of 8] ¹¹ RAC Box 12 Box 91819			11/10/94

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

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

- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].
- C. Closed in accordance with restrictions contained in donor's deed of gift.

*Special Memo.
(Action)*

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

October 9, 1987

MEMORANDUM FOR DANIEL HOWARD
FROM: STEPHEN I. DANZANSKY
SUBJECT: US/USSR Grains Agreement

According to Mike Smith at USTR, the Dow Jones News Service today ran a story alleging that a U.S. delegation in Moscow for agricultural consultations has agreed to begin negotiations on a new US/USSR long-term grains agreement (LTA) early next year. The report is inaccurate. The delegation, headed by Tom Kay of USDA, merely restated the agreement reached during the September Shultz/Shevardnadze meeting to address the question of the future of the LTA by early 1988. No commitment has been made to seek renewal.

The delegation is in Moscow for routine consultations under the current LTA, which expires in September 1988.

cc: Fritz Ermarth
Gene McAllister
Alan Tracy

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

Soviet Union grain

October 6, 1987

MEMORANDUM FOR STEVE DANZANSKY

FROM: STEVE FARRAR *SF*

SUBJECT: Your Meeting with Continental Grains Reps., 10:00 a.m., Wednesday, October 7, 1987

Continental Grains is seeking USG agreement to eliminate restrictions on Soviet shipping from U.S. ports to third-country ports (crosstrading). With access to crosstrading, the Soviets would promise to buy consumer goods from the U.S. in proportion to the foreign exchange earned on these new routes.

I see several problems with the idea. First, it involves USG sanction of a countertrade deal, something we have fought on trade policy grounds. Second, the issue of crosstrading is under negotiation as part of a possible renewal of the U.S./USSR maritime agreement (next negotiating session is October 12). Third, the Soviets have a history of predatory pricing on shipping rates. If granted crosstrading rights, they could be expected to aggressively seek market share.

John Whitehead met with Continental officials and made encouraging sounds. This has created an awkward division within State, since most of the rest of the building dislikes the idea.

Attached at Tab A is a briefing paper provided by State/EB explaining the issue and suggesting some talking points. At Tab B is the correspondence surrounding the meeting with Whitehead.

RECOMMENDATION

That you take the approach outlined in Tab A -- remaining noncommittal, seeking clarification, and deferring the issue for consideration in the maritime negotiations.

Approve _____

Disapprove _____

Attachments

Tab A Briefing paper

B Incoming Correspondence from Laseron to Whitehead

Gram (2048)

Danzansky

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THIS FORM MARKS THE FILE LOCATION OF ITEM NUMBER 2 LISTED ON THE
WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

CONTINENTAL GRAIN COMPANY
GRAIN DIVISION
277 PARK AVENUE
NEW YORK, N. Y. 10017

September 8, 1987

The Honorable
John C. Whitehead
Deputy Secretary
Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Dear Mr. Whitehead:

Continental Grain Company has signed an agreement with an agency of the Soviet Union which can produce a significant new export market for U.S. consumer goods. It is an arrangement whereby Continental Grain has a right to sell specified consumer goods to the Soviet Union essentially equal to the value of hard currency revenue generated by charters for Soviet shipping contracted by Continental Grain.

Realization of the full benefits of this agreement to the U.S. economy will be severely inhibited by the present restrictions imposed upon Soviet vessels calling at U.S. ports for Third Country trade. These restrictions were imposed as one of a series of actions in December 1981, most of which have been rescinded as the reasons for them was removed.

It is requested that the present restrictions on port access for Soviet ships be eased to allow us to take advantage of the new and unusual opportunities presented by the Soviet desire to import consumer goods.

We would be glad to work with you on the details of how changes in the present regulations may be made to allow increased trade which is clearly to the benefit of the U.S. economy.

The details of the arrangement between Continental Grain and the Soviet Union, the effects of the restrictions, and the economic benefits to the United States of the arrangement are discussed in Attachment A. If there are further questions please contact us.

We look forward to working with you to develop a mutually satisfactory approach which will enable the United States to achieve this new export market.

Sincerely,

Myron R. Laserson
Executive Vice President

212-207-5550

MRL/rf
attachment

ATTACHMENT A.

New Opportunities to Export U.S. Consumer Goods

to the Soviet Union

Substantial changes appear to be under way in the domestic economy of the Soviet Union. The new leaders are attempting drastic reforms in order to improve growth and productivity of the Soviet economy. Changes include decentralization of planning, government and party reorganization, and the provision of greater incentives to workers to improve labor productivity.

Consumer goods in the Soviet Union are scarce and notoriously shoddy. Soviet officials are aware of this problem and realize that their efforts to improve individual incentives are unlikely to succeed unless Soviet workers can translate higher earnings into better and more plentiful goods for consumption.

Soviet ability to import consumer goods is hampered by a shortage of hard currency, which is limited by the inaccessibility of the Soviet Union to world markets for export products. However, in one area -- that of bulk ocean carriers -- Soviet services are fully competitive in the world market. The Soviet Union annually provides about 21 million tons of ocean freight shipping on a worldwide basis, competing successfully with freight chartered by Korea, Japan, Hong Kong, and various flags of convenience.

Continental Grain Company is a major charterer of ocean freight in its world-wide business of commodity trading. In mid-1987 officials of the Soviet Union discussed with Continental Grain the possibility of Continental chartering Russian flag vessels.

An agreement has been signed whereby hard currency generated by the charters contracted by Continental Grain for shipments to the Soviet Union will be transferred to a Soviet agency which imports consumer goods -- Raznoexport. That money will be used to buy consumer goods from Continental, which can obtain products from manufacturers anywhere in the world. Continental Grain would like to use this arrangement to expand significantly the Soviet imports of consumer goods, especially from the United States. There is, however, a significant limit upon the probable level of this business.

Prior to December 29, 1981 the Soviet Union had the right to send ships to 40 U.S. ports on the basis of four days advance notice. Thus, Soviet shipping could and did engage in significant cross trade between the U.S. and Third Countries. The President suspended that

right as part of a series of actions taken in response to the imposition of martial law in Poland and the arrest of Solidarity leaders. Starting January 1, 1982 it became necessary for the Soviets to nominate vessels at least 14 days in advance; and a restrictive stance was adopted for vessels engaged in cross trade which has the effect of eliminating it.

By 1987, the sanctions on Poland had been lifted and almost all of the restrictions imposed upon the Soviet Union have been removed. Many of the negotiations which were suspended in 1981 were resumed and several completed -- including a new US-USSR grains agreement. However, this restriction on the use of Soviet vessels in cross trade has remained in effect. It puts a severe limit on the probable charters which can be contracted by Continental Grain and, therefore, upon the ability of Continental Grain to generate exports of U.S. consumer goods for the Soviet market. Under present conditions the maximum revenue generated under the agreement is not likely to exceed \$5 million.

If the restrictions on the U.S. use of Soviet vessels in cross trade could be eased or removed, Continental Grain believes it could generate a significant new export of U.S. manufactured consumer goods to the Soviet Union. To the extent Continental Grain chartered Russian flag vessels for U.S. loading, Continental would be willing to restrict its purchases of consumer goods under the agreement with Raznoexport to U.S. manufactured goods produced in union shops. Under these conditions the revenue applied to purchase U.S. goods could be from ten to twenty times the level now expected.

This agreement can produce significant new exports of U.S. products to a market which does not now exist. It would produce additional employment in several industries, such as clothing and footwear, hard pressed by international competition. And, it would not injure any U.S. economic interests.

The agreement would not increase the worldwide availability of Soviet shipping. It would not displace U.S. shipping, which does not exist in a competitive market. It would replace other foreign flag shipping which now is used in lieu of Soviet vessels because of the U.S. government restrictions. It would shift some hard currency expenditures for shipping from the Japanese, Koreans, and others to the Soviets, who would be committed to use this money to buy U.S. consumer products. Thus, the net U.S. balance of trade would clearly be improved.

It would appear that several approaches could be used to allow this agreement to work to its full advantage. If there are no other reasons for keeping it, an abolition of the restrictions would be the simplest approach. Another might be a relaxation on cross trade to ships nominated under any tied arrangement such as that signed by Continental. There may be other productive approaches.

Just as the U.S Soviet Grains Agreement has been seen as benefitting the U.S. producers and the U.S. economy by supplying food to the Soviet economy, this agreement can have the same beneficial affects for other sectors of the economy . In fact, the Soviets have the rights to use their own vessels to transport all of their grain purchases from the U.S. -- a right which they have not fully exercised because of scheduling difficulties and the timing of purchases.

A modest change in the administration of this specific U.S. regulation could contribute to better trade relations and provide U.S. firms with significant access to the Soviet market for consumer goods.

COPY

THE DEPUTY SECRETARY OF STATE
WASHINGTON

September 18, 1987

Dear Mr. Gaughan:

Mr. Laserson of Continental Grain and Mr. Finley of the Amalgamated Clothing and Textile Workers Union met with me on September 8 to present Continental Grain's enclosed proposal to purchase shipping services from the Soviet Union in return for Soviet purchases of American goods. I found the Continental Grain proposal quite attractive from the standpoint of opening a market for U.S. consumer goods in the USSR. I am aware, however, that the proposal's principal condition -- restoration of Soviet access to U.S. cross trades -- is a major issue in the U.S./Soviet maritime negotiations you will resume next month and therefore suggested in my reply, also enclosed, that Mr. Laserson take this subject up with you.

I wish you every success in Moscow.

Sincerely,



John C. Whitehead

Enclosures:

1. Mr. Laserson's Letter of September 8.
2. Letter to Mr. Laserson.

The Honorable
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Administrator,
Maritime Administration,
Department of Transportation.

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WASHINGTON

September 18, 1987

Dear Mr. Laserson:

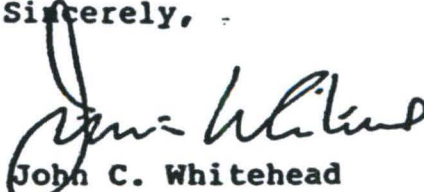
I would like to thank you and Murray Finley for your visit Tuesday and for the interesting and informative presentation you and your group made.

As a businessman turned diplomat, I admire your inventive approach to the expansion of non-strategic trade with the Soviets. Certainly the possibility of a quantum jump in the export of American consumer goods to the Soviet Union is appealing from a number of standpoints. Your forecast of job creation is a most welcome prospect.

The State Department response to your proposal is positive. You will appreciate that other agencies also have an interest in this subject and your proposal must be considered in the context of our broader bilateral maritime relationship. Negotiations with the Soviets concerning a new bilateral maritime agreement are scheduled for mid-October. During the first three rounds of these negotiations the Soviets have made relaxation of our cross trade restrictions one of their principal negotiating objectives. They have, at the same time, resisted our requests to secure participation for American liner and bulk operators in our bilateral trade. If we are to achieve a balanced agreement offering mutual benefits for both sides, we will be looking to the Soviets to give sympathetic consideration to our proposals just as we are prepared to do with respect to theirs.

The Maritime Administration has the lead role in coordinating the United States position for the October negotiations, and its Administrator, John Gaughan, will lead the U.S. delegation. I am therefore sending a copy of your letter to him with the request he give it careful consideration. I suggest that you offer to meet with Mr. Gaughan to give him the same presentation you gave me, and respond to any questions he has.

Sincerely,



John C. Whitehead

Mr. Myron R. Laserson,
Executive Vice President, Grain Division,
Continental Grain Company,
277 Park Avenue,
New York, New York.

THE UNITED STATES
TRADE REPRESENTATIVE
WASHINGTON

10/2

Eric :

The Continental Grain info
we discussed

I appreciate your setting up
a meeting for them with Danzansky.
In terms of setting a time, it may
be easiest to contact them
directly — Dick Goodman or
Rebecca Frailey at 331-1922 —
or I'll be glad to call them.

Either way, do let me know.

Many thanks + best regards,

David Weiss

set for
10 am
Oct. 7

CONTINENTAL GRAIN COMPANY
GRAIN DIVISION
277 PARK AVENUE
NEW YORK, N. Y. 10017

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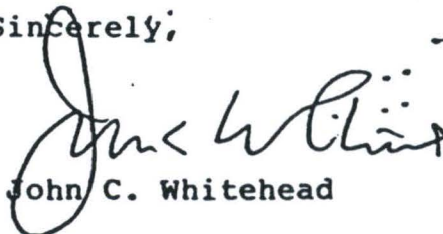
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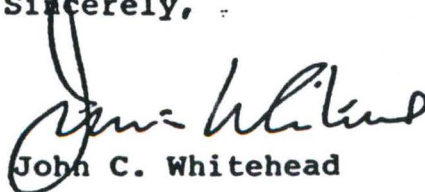
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Gravn (2048)

Danzansky

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POLICY REVIEW GROUP MEETING
Wednesday, September 30, 1987
The Situation Room
1:00 - 2:00 p.m.

US/USSR LONG-TERM GRAINS AGREEMENT

- | | | |
|------|-----------------------------------------|----------------------------|
| I. | Introduction | Gen. Powell
(3 minutes) |
| II. | Status | |
| | Experience Under Current Agreement | USDA
(10 minutes) |
| | Understandings Concerning Renewal | State/USDA
(7 minutes) |
| III. | Grain Crop Projections | USDA/CIA
(10 minutes) |
| | Soviet Union | |
| | U.S. | |
| | World | |
| IV. | Foreign Policy Context | State
(10 minutes) |
| V. | Options | USDA/State
(15 minutes) |
| VI. | Conclusion | Gen. Powell
(5 minutes) |

F. L. S. Sweet
W. W. W.

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Prior to December 29, 1981 the Soviet Union had the right to send ships to 40 U.S. ports on the basis of four days advance notice. Thus, Soviet shipping could and did engage in significant cross trade between the U.S. and Third Countries. The President suspended that

right as part of a series of actions taken in response to the imposition of martial law in Poland and the arrest of Solidarity leaders. Starting January 1, 1982 it became necessary for the Soviets to nominate vessels at least 14 days in advance; and a restrictive stance was adopted for vessels engaged in cross trade which has the effect of eliminating it.

By 1987, the sanctions on Poland had been lifted and almost all of the restrictions imposed upon the Soviet Union have been removed. Many of the negotiations which were suspended in 1981 were resumed and several completed -- including a new US-USSR grains agreement. However, this restriction on the use of Soviet vessels in cross trade has remained in effect. It puts a severe limit on the probable charters which can be contracted by Continental Grain and, therefore, upon the ability of Continental Grain to generate exports of U.S. consumer goods for the Soviet market. Under present conditions the maximum revenue generated under the agreement is not likely to exceed \$5 million.

If the restrictions on the U.S. use of Soviet vessels in cross trade could be eased or removed, Continental Grain believes it could generate a significant new export of U.S. manufactured consumer goods to the Soviet Union. To the extent Continental Grain chartered Russian flag vessels for U.S. loading, Continental would be willing to restrict its purchases of consumer goods under the agreement with Raznoexport to U.S. manufactured goods produced in union shops. Under these conditions the revenue applied to purchase U.S. goods could be from ten to twenty times the level now expected.

This agreement can produce significant new exports of U.S. products to a market which does not now exist. It would produce additional employment in several industries, such as clothing and footwear, hard pressed by international competition. And, it would not injure any U.S. economic interests.

The agreement would not increase the worldwide availability of Soviet shipping. It would not displace U.S. shipping, which does not exist in a competitive market. It would replace other foreign flag shipping which now is used in lieu of Soviet vessels because of the U.S. government restrictions. It would shift some hard currency expenditures for shipping from the Japanese, Koreans, and others to the Soviets, who would be committed to use this money to buy U.S. consumer products. Thus, the net U.S. balance of trade would clearly be improved.

It would appear that several approaches could be used to allow this agreement to work to its full advantage. If there are no other reasons for keeping it, an abolition of the restrictions would be the simplest approach. Another might be a relaxation on cross trade to ships nominated under any tied arrangement such as that signed by Continental. There may be other productive approaches.

Just as the U.S Soviet Grains Agreement has been seen as benefitting the U.S. producers and the U.S. economy by supplying food to the Soviet economy, this agreement can have the same beneficial affects for other sectors of the economy . In fact, the Soviets have the rights to use their own vessels to transport all of their grain purchases from the U.S. -- a right which they have not fully exercised because of scheduling difficulties and the timing of purchases.

A modest change in the administration of this specific U.S. regulation could contribute to better trade relations and provide U.S. firms with significant access to the Soviet market for consumer goods.

COPY

THE DEPUTY SECRETARY OF STATE
WASHINGTON

September 18, 1987

Dear Mr. Laserson:

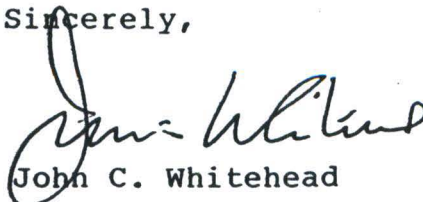
I would like to thank you and Murray Finley for your visit Tuesday and for the interesting and informative presentation you and your group made.

As a businessman turned diplomat, I admire your inventive approach to the expansion of non-strategic trade with the Soviets. Certainly the possibility of a quantum jump in the export of American consumer goods to the Soviet Union is appealing from a number of standpoints. Your forecast of job creation is a most welcome prospect.

The State Department response to your proposal is positive. You will appreciate that other agencies also have an interest in this subject and your proposal must be considered in the context of our broader bilateral maritime relationship. Negotiations with the Soviets concerning a new bilateral maritime agreement are scheduled for mid-October. During the first three rounds of these negotiations the Soviets have made relaxation of our cross trade restrictions one of their principal negotiating objectives. They have, at the same time, resisted our requests to secure participation for American liner and bulk operators in our bilateral trade. If we are to achieve a balanced agreement offering mutual benefits for both sides, we will be looking to the Soviets to give sympathetic consideration to our proposals just as we are prepared to do with respect to theirs.

The Maritime Administration has the lead role in coordinating the United States position for the October negotiations, and its Administrator, John Gaughan, will lead the U.S. delegation. I am therefore sending a copy of your letter to him with the request he give it careful consideration. I suggest that you offer to meet with Mr. Gaughan to give him the same presentation you gave me, and respond to any questions he has.

Sincerely,



John C. Whitehead

Mr. Myron R. Laserson,
Executive Vice President, Grain Division,
Continental Grain Company,
277 Park Avenue,
New York, New York.

COPY

THE DEPUTY SECRETARY OF STATE
WASHINGTON

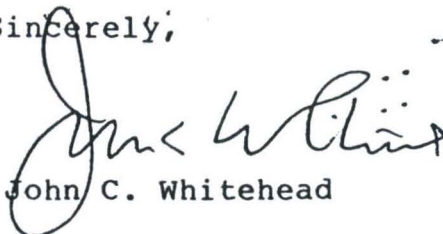
September 18, 1987

Dear Mr. Gaughan:

Mr. Laserson of Continental Grain and Mr. Finley of the Amalgamated Clothing and Textile Workers Union met with me on September 8 to present Continental Grain's enclosed proposal to purchase shipping services from the Soviet Union in return for Soviet purchases of American goods. I found the Continental Grain proposal quite attractive from the standpoint of opening a market for U.S. consumer goods in the USSR. I am aware, however, that the proposal's principal condition -- restoration of Soviet access to U.S. cross trades -- is a major issue in the U.S./Soviet maritime negotiations you will resume next month and therefore suggested in my reply, also enclosed, that Mr. Laserson take this subject up with you.

I wish you every success in Moscow.

Sincerely,



John C. Whitehead

Enclosures:

1. Mr. Laserson's Letter of September 8.
2. Letter to Mr. Laserson.

The Honorable
John Gaughan,
Administrator,
Maritime Administration,
Department of Transportation.

CONTINENTAL GRAIN COMPANY
GRAIN DIVISION
277 PARK AVENUE
NEW YORK, N. Y. 10017

September 29, 1987

The Honorable
John C. Whitehead
Deputy Secretary
Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Dear Mr. Whitehead:

Thank you for your kind letter of September 18, in response to our proposal of September 8. We will, of course, follow your advice, and have scheduled a meeting with Mr. Gaughan.

While I am pleased with the State Department's positive reaction to our proposal, the text of your letter suggests that we may not have been entirely clear in what we believe to be the critical issues.

Since our meeting on September 8, I have been in Moscow and have had another series of meetings with the Soviet freight organization, as well as with the consumer goods agency. I am obliged to report to you two evident problems.

On the issue of a maritime agreement, the Russians have an apparently hardened position. Their views, of course, will be made known to Mr. Gaughan, but to my mind are as deeply entrenched as any I have experienced. I have to conclude that the negotiations for a maritime agreement will be extremely difficult and may take years, unless one side or the other can creatively construct a break-through in positions acceptable to both sides.

Our other partner in the agreement we have, Raznoexport, is putting enormous pressure on us to commence selling to them consumer goods against the freight (non-U.S. loading) we have already chartered. Official Russian estimates suggest that there is today an annual shortfall of 30 billion dollars of available consumer goods, and it is the function of our agreement to begin to reduce that deficit. I am afraid if we do not begin, Raznoexport will pressure the Ministry to conclude other agreements that will bring consumer goods from non-U.S. origins and thus give other supplying countries a strong position in the growing Russian market.

Mr. Secretary, in your letter you referred to yourself as a business man turned diplomat. As a business man, you know that any successful deal has to offer something to both sides. As a diplomat, you know that successful negotiations generally require compromise. We are suggesting that we together with your staff, and that of the maritime administration, work out the details for a temporary initial solution to these problems.

Our proposal, if accepted by U.S. authorities, can be the start of the process. So long as the Russians are willing to pay for the partial removal of cross trade restrictions with the purchase of U.S. consumer goods, we have the break through that offers something to both sides. I believe we can go further and ask the Russians to ship the consumer goods in U.S. container vessels, if they are available... and perhaps in that way initiate a positive negotiation toward a maritime agreement that could enforce the utilization of a bilateral liner service.

Our meeting with Mr. Gaughan is scheduled for October 29. I believe it would be most helpful if the State Department could be part of that meeting.

With kind regards,



Myron R. Laserson
Executive Vice President

201-207-5550

MRL/ald

August 1987

SOVIET GRAIN CROP			
YEAR	ACRES HARVESTED Mil.	AVE. YIELD Bu.	CROP PRODUCTION Bil/Bu.
WHEAT			
1980-86	133.8	22.8	3.05
1986	120.4	28.1	3.39
1987	113.7	25.4	2.88
COARSE GRAINS			
		Tons Per Acre	Million Tons
1980-86	145.2	0.629	91.4
1986	144.7	0.732	105.9
1987	149.0	0.749	111.5
TOTAL GRAIN			
1980-86	300.1	0.620	185.8
1986	287.8	0.728	210.1
1987	286.6	0.716	205.0

THE SOVIET UNION WILL HARVEST ANOTHER BIG GRAIN CROP this fall. This week, USDA set the likely figure at 205 mil. tons, down slightly from the 210 mil. tons the Soviets harvested last year. A crop of 205 mil. tons would be the 5th largest ever. The combined 1986 and 1987 grain crops of 415 mil. tons would be the largest back-to-back Soviet crops since the latter half of the 1970's.

THIS YEAR'S SOVIET WHEAT CROP IS MEDIOCRE. At 2.88 bil. bu, it would be the 5th smallest in the last 13 years. Freeze damage to the winter wheat crop was high. Consequently, the Soviets planted more coarse grain acreage than usual last spring. Yields and production of coarse grains will be the second highest ever.

USDA THINKS THE SOVIET WILL IMPORT MORE WHEAT over the next year than they did in 1986/87 (July-June). USDA expects smaller coarse grain imports. USDA puts the 1987/88 wheat import figure at 19 mil. tons, up from 16.5 mil. in 1986/87, and puts the coarse grain import figure at 11.0 mil. tons., down from 12.5 mil. in 1986/87. Total grain imports for 1987/88 are expected to be just slightly higher than in 1986/87.

HERE IS HOW SOVIET PRODUCTION AND IMPORTS of wheat and feed grain have been running in recent years:

YEARS	WHEAT CROP Mil/T	WHEAT IMPORTS Mil/T	FROM THE U.S. Mil/T	COARSE GR. CROP Mil/T	COARSE IMPORTS Mil/T	FROM THE U.S. Mil/T
1982/83	84	20.8	3.0	92	12.5	3.2
1983/84	78	20.5	4.4	102	11.6	6.0
1984/85	69	28.1	6.1	90	26.9	16.2
1985/86	78	15.7	0.2	100	13.7	6.8
1986/87	92	16.5	0.8	106	12.5	4.1
1987/88	78	19.0	---	112	11.0	---

IF YOU LOOK AT SOVIET GRAIN IMPORTS over a span of a dozen years, it's plain to see that the Soviet Union has turned increasingly to the European Common Market, Canada, and to "others" recently for more of its grain imports. While grain imports from those countries turned up, the U.S. share turned down markedly.

WHERE USSR GETS ITS GRAIN IMPORTS
(July/June Years)

COUNTRY	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
	%	%	%	%	%	%	%	%	%	%	%	%
U.S.	44.2	54.9	73.3	67.9	74.2	50.0	23.5	33.3	18.6	32.4	40.5	23.8
Canada	5.8	17.8	13.9	10.3	13.9	11.2	20.0	19.9	26.4	19.6	15.1	18.4
EC	1.9	2.0	2.0	1.1	1.3	3.0	4.4	5.2	11.1	11.8	16.0	23.1
Argentina	32.7	5.5	3.0	14.7	9.3	16.8	32.9	28.7	28.8	21.5	14.6	6.8
Australia	13.5	7.9	5.0	1.6	0.7	13.2	8.5	5.4	3.0	5.3	5.8	10.9
Other	1.9	11.9	3.0	4.4	0.7	5.9	10.6	7.6	12.0	9.4	8.0	17.0

DID THE 1980 EMBARGO ON FARM EXPORTS to the Soviet Union have something to do with the downturn in imports from the U.S., or is it just happenstance? Well, whatever, take out the 1979/80 and 1980/81 years--the embargo overlapped both of those July/June years--and what do you have? This is how it shapes up for the 5 years preceding July 1979 and for the 6 years following July 1981--including preliminary figures on imports in 1986/87:

SOURCE OF USSR GRAIN IMPORTS BEFORE AND AFTER THE 1980 EMBARGO

COUNTRY	BEFORE	AFTER
	JULY 1979 Ave. %	JULY 1981 Ave. %
United States	63.8	29.5
Canada	13.8	20.5
Common Market	1.6	14.9
Argentina	10.1	18.6
Australia	4.9	5.7
Others	5.8	10.7

USDA REPORTS NEXT WEEK: AgStatBrd: Catfish, Mon.; Eggs, Chickens, & Turkeys, Wed.; Potatoes, Cold Storage, and Livestock Slaughter, Fri. ERS: Agricultural Resources, Mon.; World Agriculture, Wed.; Rice, Fri. FAS: Horticultural Products, Wed.; World Tobacco, Thurs.

USDA SPEAKERS NEXT WEEK: Secy Lyng, World Perspectives Seminar, Cong. Kasich Conf., Headliner Breakfast, & Japan-American Society, Wash., D.C.; A/S Mizell, Regional Rural Development Seminar, Salt Lake City, Utah, and Regional Rural Development Seminar, Fort Worth, Tex.; A/S Wilson, National Agriculture Credit Committee, Chicago, Ill., and World Perspectives Seminar; Adm. Clark, Iowa State Meeting, Des Moines, Iowa; Adm. Hunter, Region IX NRECA Meeting, Spokane, Wash.

USDA VISITORS NEXT WEEK: Minnesota KNOW America Group, Tues.; FFA-BOAC, Fri. Following week: Nebraska KNOW America Group.

USDA EXECUTIVE NOTES is published Friday afternoon by the Office of Public Liaison as a broad review of current topics for the use of the USDA Executive Staff.

FAAS FACT SHEET

United States
Department of
Agriculture
Foreign
Agricultural
Service
Washington, D.C. 20250

U.S./SOVIET GRAIN TRADE

May 29, 1987

The current long-term grain agreement signed by the United States and the Soviet Union on August 25, 1983, commits the Soviet Union to buy 9 million metric tons of U.S. wheat and corn products each agreement year (October 1-September 30), of which 4 million metric tons must be wheat and 4 million metric tons must be corn. The Soviets have the option of satisfying the remaining 1 million tons by purchasing wheat, corn, soybeans or soybean meal, with every ton of soybeans or meal counting as two tons of grain.

During the current agreement year--the fourth year in the current five-year agreement--the Soviet Union has purchased 3.8 million metric tons of U.S. coarse grains and 1 million metric tons of wheat. The 1987 Soviet grain harvest is estimated at 195 million metric tons, 15 million tons below the 1986 crop. The total includes 75 million metric tons of wheat, 106 million tons of coarse grains and 14 million tons of miscellaneous grain and pulses.

Chronological Background of Soviet Grain Trade

- 1960s The Soviet Union ranks as a net exporter of grains, except during 1963/64 and 1965/66 following near-disasters in Soviet grain crops.
- 1972/73 The Soviet Union shifts into a more or less permanent status as a grain importer. A poor crop in 1972 produces the need for very large imports--reaching a total of 22.8 million metric tons--during the 1972/73 marketing year.
- July 8, 1972 The Soviet Union receives \$750 million in credits from USDA's Commodity Credit Corporation to be used to buy U.S. grains during the three-year period of 1972-75. Under the terms of this credit agreement, no more than \$500 million in credits can be outstanding at any one time. Repayment to CCC is guaranteed by commercial banks who handle the transactions. However, in the autumn of 1974 passage of the Jackson-Vanik amendment, which tied the availability of U.S. government credits to a country's emigration policy, makes the Soviet Union ineligible for any further U.S. government credits.
- The Soviet Union uses about \$550 million of credits during the 1972/73 and 1973/74 marketing years. U.S. grain sales during this two-year period average 10.8 million metric tons annually--6.1 million metric tons of wheat and 4.7 million metric tons of coarse grains.

October 20, 1975

In order to prevent extremely large Soviet grain purchases from disrupting the U.S. grain market, the United States and the Soviet Union sign a long-term grain sales agreement to go into effect on October 1 of the following year. That agreement calls for the Soviets to purchase a minimum of 6 million metric tons of U.S. grain annually through September 30, 1981. This amount is to be divided in near equal shares between wheat and corn. An extra 2 million metric tons in any combination can be purchased by the Soviets without any further consultations with the U.S. government. If the Soviets wish to buy more than 8 million metric tons, they must request permission from the U.S. government in advance.

January 4, 1980

In response to the Soviet Union's aggression in Afghanistan, the United States, among other things, suspends all grain shipments to the USSR in excess of the 8 million tons per year committed for sale under the long-term grain sales agreement.

April 24, 1981

The United States lifts the partial embargo on grain shipments to the Soviet Union.

August 5, 1981

The first long-term grain sales agreement, due to expire on September 30, 1981, is extended one year through September 30, 1982.

At the same time, the United States announces that the Soviet Union may buy an additional 15 million metric tons of grain during 1981/82 beyond the 8 million metric tons already provided under the extended agreement. That brings the the total available for purchase by the Soviets to 23 million metric tons.

September 30, 1981

As the first five years under the sales agreement close, U.S. grain sales during the 1976-81 period average 10.7 million metric tons a year--3.3 million metric tons of wheat and 7.4 million metric tons of coarse grains.

August 16, 1982

The U.S.-USSR long-term grain sales agreement is extended a second time. Under this extension, the agreement runs through September 30, 1983.

August 25, 1983

The United States and USSR sign a second 5-year agreement to go into effect October 1, 1983 calling for minimum annual trade of 9 million metric tons. The Soviets must buy at least 4 million metric tons of wheat and 4 million metric tons of corn annually,

while the remaining 1 million metric tons can be satisfied by any combination of wheat, corn, soybeans, or soybean meal. If the Soviets choose to apply soybeans or soybean/meal to the minimum, each ton counts as 2 million metric tons of grain. The Soviets also may buy up to 3 million metric tons of additional wheat or corn without consultation with the U.S. government.

January 25, 1984

During the regular semi-annual consultations with the Soviet Union called for under the long-term grain agreement, the United States offers the USSR an additional 10 million metric tons of grain during the first year of new agreement, bringing the total available during 1983/84 to 22 million metric tons.

September 11, 1984

The United States offers the Soviet Union an additional 10 million metric tons of grain during the second year of the long-term grain sales agreement, bringing availability for the second year to 22 million metric tons.

May 28, 1985

During regular consultations under the grain agreement, the United States offers the Soviets an additional 5 million metric tons of grain, bringing the availability for the second year to 27 million metric tons.

September 30, 1985

Soviet imports of U.S. grain reach a record-high of 18.6 million metric tons during the second agreement year. Of that amount, 15.7 million metric tons are corn and 2.9 million tons are wheat. Soviet purchases of wheat are 1.1 million metric tons short of the 4-million-ton minimum called for under the grain sales agreement.

October 17, 1985

During the regular consultations under the grain sales agreement, the United States offers the USSR an additional 10 million metric tons of grain for the third agreement year, bringing the supply availability for that year to 22 million metric tons.

August 1, 1986

With only two months to go in the 1985/86 agreement year, the Soviets have fallen way behind in their wheat purchases, buying only 152,600 tons of the 4-million-ton agreement minimum.

To increase the competitiveness of U.S. wheat prices and to assist the Soviets in fulfilling the terms of the long-term agreement, USDA announces that a subsidy will be awarded under the Export Enhancement Program to enable U.S. exporters to make U.S. wheat available to the Soviet Union at world market prices. The subsidy will be available only until September 30, 1986, and will apply only on wheat sales up to 4 million tons.

September 30, 1986

The offer of wheat under the Export Enhancement program to the USSR expires unused. Sales of U.S. commodities during the third year of the long-term agreement total 6.8 million metric tons of corn, 1.5 million tons of soybeans, and 152,600 tons of wheat. Soviet purchases of wheat are 3.8 million tons short of the agreement minimum.

Annual averages during the first 3 years of the second long-term sales agreement total 13.2 million tons--3.5 million tons of wheat and 9.7 million tons of coarse grains.

April 30, 1987

USDA announces a new Export Enhancement Initiative for 4 million metric tons of wheat is available to the Soviet Union.

U.S. GRAIN SHIPMENTS TO USSR
October-September Years

	Wheat	Coarse Grains <u>Million metric tons</u>	Total
Second (current) five-year agreement:			
1986/87 sales to date	4.0	3.8	7.8
1985/86	0.2	6.8	7.0
1984/85	2.9	15.7	18.6
1983/84	7.6	6.5	14.1
Extensions of first five-year agreement:			
1982/83	3.0	3.2	6.2
1981/82	6.1	7.8	13.9
First long-term grain agreement:			
1980/81 1/	3.8	5.7	9.5
1979/80 1/	2.2	5.7	7.9
1978/79	4.0	11.5	15.5
1977/78	3.5	11.1	14.6
1976/77	3.1	3.0	6.1
No special agreements in effect:			
1975/76	3.0	11.9	14.9
1974/75	2.2	1.0	3.2
Credit agreement in effect:			
1973/74	1.3	3.2	4.5
1972/73	10.1	4.0	14.1

1/ Restrictions on sales to the Soviet Union in effect during part of this period.

Fals: V (1)

2354

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

DANZANSKY

March 30, 1987

INFORMATION

MEMORANDUM FOR FRANK C. CARLUCCI

Netl Sec Advisor
has seen

FROM: STEPHEN I. DANZANSKY *SIF for*

SUBJECT: The Export Enhancement Program

This memorandum provides background on the Export Enhancement Program (EEP), the mechanism that would be used to provide wheat to the Soviet Union at competitive prices.

The Mechanism

Under the EEP, USDA's Commodity Credit Corporation (CCC) makes available surplus agricultural commodities to U.S. exporters to expand sales. In the typical case, exporters submit bids to USDA containing both a sales price and a bonus request. The winning bidder can obtain CCC stocks equal to that bonus.

From the beginning of the program in May 1985, the Administration has targetted the EEP on third-country markets of countries that subsidize their exports, including the EEC. The Administration has also attempted to avoid cutting into export sales that would occur anyway.

Current law requires that between \$1 billion and \$1.5 billion of CCC stocks be used in the EEP during the three-year period beginning October 1, 1985. About \$650 million of stocks has been used to date. This leaves plenty of room for a wheat sale to the USSR.

As of early March, the EEP had been used for 64 transactions covering 40 countries and 12 commodities -- wheat, wheat flour, rice, poultry, barley malt, etc. Sales have been concentrated in the Middle East -- Algeria, Morocco, Tunisia, Egypt, Jordan, Iraq -- although countries around the world have participated.

Effectiveness

By targetting the EEP on foreign markets of the EEC, the U.S. has increased the cost to the EEC of its farm program and perhaps improved prospects for negotiating an end to export subsidies in the Uruguay Round. However, the EEP has also contributed to the rapid fall in world agricultural prices that reduces the earnings of all suppliers, including debtor countries such as Argentina and Brazil.

Prepared by: *SIF*
Stephen P. Farrar

Grain (2018)
Danzansky

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THIS FORM MARKS THE FILE LOCATION OF ITEM NUMBER 7 LISTED ON THE
WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

USSR IMPORTS OF WHEAT AND COARSE GRAINS BY SOURCE 1974/75-1986/87
 July/June Years
 (Million Metric Tons)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	Prelim. 1980/81	Prelim. 1981/82	Prelim. 1982/83	Prelim. 1983/84	Prelim. 1984/85	Prelim. 1985/86	Projected 1986/87
Wheat													
U.S. 1/	1.0	4.0	2.9	3.3	2.9	3.9	3.0	6.9	3.0	4.4	6.1	.2	--
Canada	--	3.2	1.2	1.7	2.0	2.1	4.5	4.8	7.0	5.8	7.6	4.8	6.0
Australia	.6	1.2	.4	.3	.1	2.7	2.5	2.4	1.0	1.6	2.1	3.2	1.3
Argentina	.6	1.2	.1	1.1	--	2.0	3.0	3.1	4.2	3.6	4.1	.7	.6
EC	--	--	--	--	--	.7	.9	1.7	3.4	3.6	6.1	5.2	5.5
Others	--	.4	--	.2	.1	.6	2.1	1.4	2.2	1.5	2.1	1.6	1.6
TOTAL*	2.5	10.1	4.6	6.7	5.1	12.1	16.0	20.3	20.8	20.5	28.1	15.7	15.0
Coarse Grains													
U.S. 1/	1.3	9.9	4.5	9.2	8.3	11.3	5.0	8.5	3.2	6.0	16.2	6.8	3.0
Canada	--	1.3	.2	.2	.1	1.3	2.3	4.4	1.8	.5	.7	.6	2.4
Australia	.1	.8	.1	--	--	1.3	.4	.1	--	.1	1.1	--	--
Argentina	1.1	.2	.2	1.6	1.4	3.1	8.2	10.2	5.4	3.3	3.9	1.3	1.7
EC	.1	.5	.2	.2	.2	.2	.6	.7	.3	.2	2.7	1.6	1.2
Others	.1	2.6	.3	.6	--	1.2	1.5	2.1	1.8	1.5	2.3	3.4	3.2
TOTAL*	2.7	15.6	5.7	11.7	10.0	18.3	18.0	26.0	12.5	11.6	26.9	13.7	11.5
Total													
U.S. 1/	2.3	13.9	7.4	12.5	11.2	15.2	8.0	15.4	6.2	10.4	22.3	7.0	3.0
Canada	.3	4.5	1.4	1.9	2.1	3.4	6.8	9.2	8.8	6.3	8.3	5.4	8.4
Australia	.7	2.0	.5	.3	.1	4.0	2.9	2.5	1.0	1.7	3.2	3.2	1.3
Argentina	1.7	1.4	.3	2.7	1.4	5.1	11.2	13.3	9.6	6.9	8.0	2.0	2.3
EC	.1	.5	.2	.2	.2	.9	1.5	2.4	3.7	3.8	8.8	6.8	6.7
Others	.1	3.0	.3	.8	.1	1.8	3.6	3.5	4.0	3.0	4.4	5.0	4.8
TOTAL *	5.2	25.7	10.3	18.4	15.1	30.4	34.0	46.3	33.3	32.1	55.0	29.4	26.5

-- Denotes less than 50,000 tons.

* Totals may not add due to rounding. Excludes rice and pulses. Included grain equivalent of flour.

1/ U.S. exports based upon Export Sales data, which normally include transshipments whereas Census data may not.

SOURCE: Based on reports of countries exporting to the USSR.

FAS, Grain and Feed Division
 March 24, 1987
 1276G,pg2

File Soviet Union - Coarse Grains

Grain (Lot 8)
Danzansky

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