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August 25, 1975

same Russian grain

Table A.--Estimated U.S. Crop Supply and Use With 10.3^{a/} Million Tons Exports to USSR in 1975/76, Compared to 1973/74 and 1974/75

(Millions of metric tons)

| | 1973/74 | 1974/75 | 1975/76 ^{b/} |
|---------------------------|---------|---------|-----------------------|
| <u>Wheat^{c/}</u> | | | |
| <u>Supply:</u> | | | |
| Beginning Stocks | 11.9 | 6.7 | 8.7 |
| Production | 46.5 | 48.9 | 58.3 |
| Total Supply | 58.5 | 55.6 | 67.1 |
| <u>Use:</u> | | | |
| Domestic Use | 20.5 | 18.6 | 21.5-20.7 |
| Exports | 31.3 | 28.3 | 27.9-33.3 |
| Total Use | 51.8 | 46.9 | 49.4-54.0 |
| <u>Ending Stocks</u> | 6.7 | 8.7 | 17.7-13.1 |
| <u>Corn^{d/}</u> | | | |
| | 1973/74 | 1974/75 | 1975/76 ^{b/} |
| <u>Supply:</u> | | | |
| Beginning Stocks | 18.0 | 12.3 | 8.5 |
| Production | 143.3 | 118.0 | 148.5 |
| Total Supply | 161.3 | 130.3 | 157.0 |
| <u>Use:</u> | | | |
| Domestic Use | 117.5 | 93.9 | 103.9-110.5 |
| Exports | 31.5 | 27.9 | 33.4-28.3 |
| Total Use | 149.1 | 121.8 | 137.3-138.3 |
| <u>Ending Stocks</u> | 12.3 | 8.5 | 19.7-18.2 |

^{a/} Includes 0.5 million ton carryover from last year, plus new sales of 9.8 mmt made up of 4.2 mmt wheat and 5.6 mmt feed grains.

^{b/} USDA forecast as of August 12, 1975 including USSR sales to date.

^{c/} Year beginning July 1.

^{d/} Year beginning October 1.

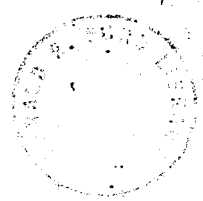


Table B.

U.S. Exports by Country of Destination
(million metric tons)

| | 1971/72 | 72/73 | 73/74 | 74/75 | (estimated) 75/76 |
|-----------------------|---------|-------|-------|-------|----------------------|
| Feed Grains: | | | | | |
| West. Europe | 9.0 | 12.1 | 12.7 | 14.6 | 12.6 |
| East. Europe | 0.9 | 0 | 0.8 | 1.7 | 3.7 |
| West. Hemis. | 1.6 | 1.8 | 2.6 | 3.2 | ** |
| USSR | 2.8 | 3.5 | 4.1 | 1.2 | 6.1*** |
| PRC | 0.0 | 0.8 | 1.8 | 0.0 | 0.0 |
| Japan | 3.8 | 8.4 | 10.2 | 7.2 | 8.0 |
| Other | 3.1 | 8.8 | 11.5 | 6.4 | 9.9 |
| Total | 21.2 | 35.4 | 43.7 | 34.3 | 40.3 |
| Wheat: | | | | | |
| West. Hemis. | 3.4 | 2.5 | 3.8 | 3.1 | ** |
| USSR | 0.0 | 9.4 | 2.7 | 1.0 | 4.2*** |
| India-Pakistan-Bangl. | 2.3 | 2.2 | 2.9 | 5.9 | 4.5 |
| PRC | 0.0 | 0.6 | 3.0 | 1.5 | 0.5 |
| Japan | 2.2 | 3.4 | 3.1 | 3.1 | 3.2 |
| Korea-Taiwan | 2.0 | 2.0 | 2.4 | 2.1 | 2.4 |
| Other | 5.5 | 10.9 | 12.2 | 10.5 | 15.9 |
| Total | 15.4 | 31.0 | 30.1 | 27.2 | 30.7 |
| Soybeans: | | | | | |
| West. Hemis. | 1.0 | 0.5 | 0.3 | 0.4 | 0.5 |
| West. Europe | 6.6 | 7.2 | 7.5 | 5.9 | 7.5 |
| USSR | 0.0 | 0.9 | 0.0 | 0.0 | 0.5 |
| PRC | 0.0 | 0.0 | 0.6 | 0.1 | 0.3 |
| Japan | 3.0 | 3.4 | 2.8 | 2.4 | 3.2 |
| Taiwan | 0.6 | 0.5 | 0.6 | 0.6 | ** |
| Other | 0.5 | 1.3 | 2.3 | 1.6 | 0.5 |
| Total | 11.7 | 13.8 | 14.1 | 11.0 | 12.2 |

* Year beginning July 1.

** included in "other"

*** sales to the U.S.S.R. to date.

August 25, 1975

Table C.--Running Total on Sales to USSR
August 23, 1975

| Source | Quantity |
|----------------|--------------------------------|
| United States | 10.3* million metric tons |
| Canada | 3.8 |
| Australia | 1.0 |
| Argentina | 0.2 |
| Western Europe | 1.3** |
| | <hr/> 16.6 million metric tons |

*Includes 0.5 million carryover from last year.

**Final negotiations not completed; includes 0.9 million tons of wheat and 0.4 million tons of barley.



MEMO TO: RICHARD CHENEY
RON NESSEN

~~XXXX~~

FROM: JOHN G. CARLSON

SUBJECT: SOVIET UNION GRAIN ANNOUNCEMENT
MAJORITY RULE FOR RHODESIA

~~XXXX~~

Announcement by Agriculture

At 3 o'clock today EDT Richard Bell, Assistant Secretary, Department of Agriculture, will announce new grain sales to the Soviet Union by Cook Industries, and ~~Cargill~~ Cargill totalling 1.4 million tons of corn (no wheat).

This includes 900,000 tons of old corn from the current crop year with delivery before September 30, 1976. The remaining 500,000 tons will come from a new corn crop, and will be subject to the new long-term agreement with the Soviet Union.

FYI only: Cook also has been negotiating for further sales with Continental and Dreyfus. End FYI only.

In the past week the Soviets have concluded the purchase of 1 million tons of ~~wheat~~ wheat, from Australia and 2 million tons from Canada.

Majority Rule for Rhodesia

The Callahan plan, which is a British plan which we support, requires majority rule within 2 years following ~~an expedition~~ the expeditious conclusion of the negotiations between the insurgents and Rhodesians.

Priority
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FROM: Paul Mac Avoy
TO: Alen Greenspan
(Uail)

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20506

August 22

More Amoy to Guelaspan

The Soviet Union has suffered a drought that appears comparable to that in the 1972-73 crop year. A grain production shortfall between 40 and 50 million tons is now likely. To meet consumption needs, their import demands may go as high as 25 to 35 million tons of grain.

The Soviets have already purchased approximately 10 million tons of grain from the United States and 5 million tons from other sources. Thus, their additional demands could range from 5 to 15 million tons of grain from the United States and 5 million tons from other sources.

I. The Effects of Additional Sales to the Soviets.

Sales to the Soviets of 5 to 15 million tons more would increase the incomes of grain producers and reward them for responding to the President's request for all-out production. They would also increase our exchange earnings, helping to strengthen the dollar and to pay for imports such as petroleum and other raw materials.

At some point, however, more sales would increase grain prices in the world markets. These price increases could increase the cost of food to the U.S. consumer. The impact on the consumer price index should be carefully assessed, particularly at a time of substantial increases resulting from higher energy and metals prices.



Percent Changes in the Food-at-Home Component of the CPI

| USDA August 21 Forecast | | Schuh/Quintano Forecasts | |
|---------------------------|---------------------------|---------------------------|---------------------------|
| 1975-II (% of 1974-IV) | 1975-IV (% of 1975-II) | 1975-IV (% of 1975-II) | 1976-II (% of 1975-IV) |
| 2.4 | 4.4 | 1.2 | 4.1 |
| Source: USDA | USDA | Schuh | Schuh |

The Schuh/Quintano forecast is for sales to the Soviets of 25 million tons, with 10 million tons sold before July 15, and the remaining 15 million tons sold before October 15, 1976. The lower IV-1975 forecast from the Schuh/Quintano model is because larger sales to the Soviets are expected to cause a sell-off of the cattle herd and lower meat prices. The food-at-home component of the CPI would be expected to actually decline in January and February of 1976, and probably in the third quarter. The Schuh forecast assumes that the futures market has correctly forecast the seasonal pattern.

Paul H. ...



Grain price increases could work hardship on U.S. livestock producers. The livestock sector experienced significant feed price increases this past year, due to our shortfall in feed grain production in the last crop. As a consequence, the hog inventory is at its lowest level in nearly 40 years, and feedlot fattening of cattle has been reduced 20 to 25 percent below last year. Beyond some point, additional sales to the Soviets will preclude the buildup of our hog inventory, and lead to some liquidation of our cattle herd. Although herd liquidation would help dampen inflationary pressures in the short run, it would lead to much higher meat prices sometime next year.

Higher prices cut into or substantially increase the budget expenditures on our food-aid programs. To honor commitments to the program, the Government would have to enter the market when prices are high. Purchases under these conditions could substantially increase budget expenditures.

The increased world trade in grain should have substantial effects on domestic U.S. shipping. Agreements with the Soviets on shipping rates and shares for U.S. flag carriers will be made in the next few weeks. They will be affected by the size of soviet purchases.

This memorandum provides the factual and analytical background to deal with the issue of the level of price changes resulting from larger sales. Part II analyzes recent large increases in prices for the food component of the consumer price index. Part III describes the United States and world grain crop outlook, Soviet production and import needs, and the effect of further sales on livestock inventories and consumer prices.

II. Recent Increases in Food Prices

The food component of the CPI increased 1.7 percent in July on a seasonally adjusted basis. The food at home component increased 1.9 percent, while the food away from home component increased by 0.5 percent.

Food accounts for 25 percent of the total expenditures included in the market basket for urban wage earners and clerical workers -- the basis for the CPI. Of this 25 percent, food at home accounts for 20 percentage points, and food away from home -- 5 percentage points.



It should also be kept in mind that agricultural products make up only 40 percent of what the consumer purchases as food. The rest is made of goods and services added between the farm gate and the consumer.

The increase in July was the second large increase in a row (1.5 percent the previous month), and is on the heels of two successive declines in February and March of this year, and moderate increases (0.4 and 0.5 percent) in April and May. Food prices are now 11.3 percent higher than they were in the same month a year ago, for a slightly larger increase than took place in the entire CPI (9.7 percent).

Increases in prices for the food at home component accounted for 0.4 of a percentage point or one-third of the 1.2 percent increase in the total CPI from June to July. This was a smaller contribution to the total increase than was made from May to June, when the same 0.4 of a percentage point accounted for one-half of the total increase of 0.8 of a percent.

It will be widely alleged that this increase in food prices is the result of grain sales to the Soviet Union. But that is not correct. The reference period for the CPI is early in the month. Although grain prices started to move up in early July, partly in response to a deteriorating Soviet crop, very little of that increase is reflected in July food prices. The effect of larger exports, which are only partly due to the Soviet Union, is still to be felt.

Detail on the food component of the CPI is presented in the table below. The large increases this past month were again due to the meats, poultry and fish component, and to fruits and vegetables. The prices of cereals and bakery products declined for the third month in a row, as did the "other food at home" component.

In the meats, poultry and fish component, the largest increases were by poultry (8.4 percent) and pork (5.6 percent). The price of beef and veal is still increasing (2.9 percent in July), but by a smaller amount than in recent months.

The higher prices for meat products are a reflection of last year's short grain crop, which has impacted especially severely on the pork and poultry sector. Reduced feeding



Seasonally Adjusted Percentage Changes

| | <u>April to May</u> | <u>May to June</u> | <u>June to July</u> |
|------------------------------|-------------------------|------------------------|-------------------------|
| Food at home | 0.6 | 1.9 | 1.9 |
| Cereals & bakery products | -0.9 | -0.4 | -0.3 |
| Meats, poultry & fish | 5.7 | 5.8 | 3.5 |
| Dairy products | -0.7 | 0.1 | 0.5 |
| Fruits & vegetables | -0.4 | 2.4 | 5.6 |
| Other food at home | -2.0 | -1.6 | -0.8 |
| Food away from home | 0.3 | 0.2 | 0.5 |
| Total food | 0.5 | 1.5 | 1.7 |

rates for cattle also have reduced supplies, even though the cattle herd is still at a record level. Many feedlots were closed down and producers fed out a larger share of their cattle on grass and pasture. This lowers output from the same number of animals, and increases the proportion of lower quality meat such as hamburger at the expense of choice and prime grade cuts.

In summary, food prices are now reflecting the 30 million ton reduction in domestic utilization of grain for feed this last year that resulted from our weather-induced crop shortfall.

In the fruits and vegetables component, the major increases were due to increases in the prices of fresh vegetables. The fresh vegetable component alone increased 17.6 percent from June on a seasonally adjusted basis, led by a 44.5 percent increase in the price of potatoes, a 41 percent increase in the price of green peppers, and a 24.8 percent increase in the price of tomatoes. Each of these products have large year-to-year variations in output, with potato production alone experiencing a 13 percent reduction compared to a year ago.



III. U.S. Grain Supply and Demand in the 1975-76 Crop Year.

A. Production and U.S. Demand Forecasts

The U.S. crop is expected to be at record levels this year, but there are still important uncertainties regarding the precise level of total production. The USDA August crop report estimates the wheat crop at 58.3 million tons. This is up 19 percent from last year's record output, but 1.3 million tons or 2 percent below last month's forecast.

Corn production is now expected to be up 26 percent from last year's weather-plagued crop. The current estimate of 148 million tons is down 5 million tons or 3.3 percent from the July estimate, however, as drought has affected the crop in the Western Cornbelt. These production forecasts are shown in Table 1.

The wheat production estimates are reasonably certain, with the bulk of the crop already harvested. The remaining uncertainty concerns the relatively small spring wheat crop. The corn crop estimates, however, are much less certain. Drought conditions in the Western Cornbelt continued through mid-August, and are likely to lower the estimate of corn production in the September crop report by as much as 2.5 million tons.

Uncertainty exists on livestock as well. It is expected that up to 15 million tons more corn will be used to feed livestock in the 1975-76 crop year. But feeding levels are difficult to forecast since they depend on farmers' expectations as to the profitability, after feeding costs, of building up herds over a six to 12 month period. With the cattle inventory now at high levels, there is potential for expanded feeding if price and cost relationships should so dictate. But grain-meat price relatives would have to be held with more assurance before major feeding commitments are made. The 15 million ton increase is a low, but expected, level given the uncertainty.

At present, USDA forecasts the U.S. demands for wheat and corn as shown in Table 1. The demand for wheat is relatively stable, depending mostly on food consumption but including some feed use. The demand for corn is shown as within a 7 million ton range. This range depends on the size of stock inventories farmers choose to build.



TABLE 1
 U.S. CROP SUPPLY AND USE WITH 9.8 MILLION TONS
 EXPORTS TO USSR
 (millions of metric tons)

| | <u>WHEAT</u> | |
|----------------------|--------------|------------------|
| | 1974-75* | 1975-76** |
| <u>Supply:</u> | | |
| Beginning Stocks | 6.7 | 8.7 |
| Production | <u>48.9</u> | <u>58.3</u> |
| Total Supply | 55.6 | 67.1 |
| <u>USE:</u> | | |
| Domestic Use | 18.6 | 21.5-20.7 |
| Exports | 28.3 | 27.9-33.3 |
| Total Use | 46.9 | 49.4-54.0 |
| <u>Ending Stocks</u> | 8.7 | 17.7-13.1 |
| | <u>CORN</u> | |
| | 1974-75*** | 1975-76** |
| <u>Supply:</u> | | |
| Beginning Stocks | 12.3 | 8.5 |
| Production | <u>118.0</u> | <u>148.5</u> |
| Total Supply | 130.3 | 157.0 |
| <u>Use:</u> | | |
| Domestic Use | 93.9 | 103.9-110.5 |
| Exports | <u>27.9</u> | <u>33.4-28.3</u> |
| Total Use | 121.8 | 137.3-138.8 |
| <u>Ending Stocks</u> | 8.5 | 19.7-18.2 |

*Year beginning July.
 **USDA forecast as of August 12, 1975, with exports,
 domestic use, and ending stocks adjusted to include
 only export sales to USSR to date.
 ***Year beginning October 1.

The expected level of exports and ending stocks are also shown in Table 1. Exports include only those sales made to the Soviet Union to date, an amount equal to 9.8 million tons. They also include the forecast level of sales to other countries that are long-established customers.

Under these conditions of "best forecast" production and known Soviet purchases, domestic utilization could increase and there would still be a substantial increase in ending inventories. But there is considerable uncertainty about what our crop will be, and about what import demands will be from other parts of the world.

B. Soviet Crop Production and Imports.

The USDA now estimates the Soviet grain crop at 180 million tons. The current CIA estimate, which has been revealed to the press, is for an output of 165 million tons. Soviet planned output for the year was 216 million tons. Current crop estimates therefore put their shortfall in the range of 36 to 51 million tons. Soviet demands for imports will be strongly affected by this shortfall, but there will not be one-for-one replacement of lost production with imports. Current inventories could be depleted, consumption could be reduced, and livestock herds could also be lowered. Each would reduce import demands.

There is considerable uncertainty about the level of stocks in the Soviet Union. We estimate them to be about 10 to 15 million tons, which suggests that the Soviets could possibly release some 5 million tons for current use. This is an upper limit, however, since stocks from the larger 1973 crop were probably drawn down last year when the Soviets were required to reduce their purchases of feed grains from the United States.

There are a number of steps the Soviets could take to reduce their grain consumption. None of these are very palatable from their standpoint, especially in a key political year, but they could be implemented to reduce grain supplies from abroad. Among the feasible measures are the following:

1. Increase the milling rate on food grains. This would lower the quality of the bread, but could save up to 4 million tons of grain.
2. Reduce feed rations for livestock. This could save up to 13 million tons of grain. It would reduce meat output substantially, however.

3. Slaughter livestock. A 5 percent reduction in livestock inventories (to 1972 levels) would lower feed grain requirements by approximately 6 million tons. This would increase meat supplies in the next few months but reduce them thereafter.

As these factors indicate, the Soviet demands for imports are highly uncertain. The crop shortfall could be as high as 51 million tons, and they could decide they had to replace two-thirds of this loss on the international grain markets. This quite reasonable operating rule would put the Soviets in the market for 36 million tons in the 1975-76 crop year. They have purchased 15.75 million tons of grain as of August 15. Ten million tons (10.3 including 0.5 million of carryover sales from the previous year) have been purchased from the United States, and 5.45 million tons from other sources. They will eventually be able to acquire another 5 million tons from Northern and Southern Hemisphere countries outside the United States. That means that the Soviets could be in the market for up to an additional 15 million tons of grain from the United States, if one accepts the estimate of 36 million tons as the upper limit on their demands.

C. Demands on the United States from Other Parts of the World.

The most important determinant of any increased demands from other countries is the size of their crops. Poor crops would put these other countries into our markets for increased purchases.

The USDA projections of world grain production for 1975-76, as of August 15, 1975, in fact show that wheat production outside the United States and the USSR is expected to be down about 4.5 million tons, compared to 1974-75, while feed grain production is expected to be up by about 7 million tons. A reliable estimate of the 1975-76 rice crop is not available, because it is too early in the crop year.



The most recent information suggests that the Canadian crop will be somewhat lower than originally estimated two months ago. In contrast to a bumper crop, the outlook now is for a "normal" wheat crop of about 16 million tons. The Western European wheat crop is expected to be down 6.3 million tons compared to a year ago, and the feed grain crop is expected to be down slightly (0.5 million tons). This decrease, caused by drought conditions, suggests that imports of feed grains may rise compared to last year.

The Eastern European crop was seriously damaged by flooding earlier in the crop season. Conditions have improved somewhat in recent weeks, but the Eastern European countries will still have to increase their direct imports from the West.

The Australian crop is now expected to be somewhat larger than 15 million tons. Other Southern Hemisphere crops are more uncertain, since planting does not start until late September.

The greatest uncertainty at the present time in the world grain situation is the rice crop in Southeast Asia. So far the crop is about on target, with the monsoon on the South Asian continent off to a good start. However, the level of rainfall will have to be sustained for the required time in order for the expected crop to be realized.

In conclusion, the overall outlook for supplies in other parts of the world is somewhat discouraging. The grain crop in Eastern and Western Europe has been reduced by poor weather conditions. Current estimates of the crop in both Canada and Australia are also about the same as last year. The biggest unknown is the rice crop, especially in Southeast Asia and on the South Asian mainland. So far, the monsoon is off to a good start, which suggests that import requirements may be less than a year ago. But without growth in crops elsewhere, the increased demands from a poor rice crop would all be realized in the U.S. market.

D. The Effect on Grain Prices and Consumer Prices.

During the first half of 1975, grain prices were declining to what many analysts believe are normal levels. Wheat prices in the spot market were slightly above \$3.00 per bushel, corn prices were \$2.50, and soybeans were approximately \$5.00 per bushel. Grain prices have moved up, however, as reports on the Soviet problem were made public and as the Soviets made their initial purchases. Wheat prices are now around \$4.00 per bushel in the spot market, corn is above \$3.00, and soybean prices are close to \$6.00 per bushel.

The key question is the impact on these prices of sales of another 10 to 15 million tons to the Soviets. Table 2 presents the USDA estimate of domestic utilization and exports on the assumption that the Soviets increase their purchases from the United States by another 8 million tons (to 18 million total). Both domestic use and end-of-year carryover stocks are reduced to accommodate these larger sales, with the reductions in domestic utilization largely at the expense of livestock feeding. We estimate that those increased demands would increase the price of wheat by about \$1.00 per bushel on the yearly average, and the price of corn by about 50 cents per bushel. Ending stocks would still be higher than at the end of this past year, but they were at quite low levels at that time.

If additional sales to the Soviets go as high as 15 million tons, the price of wheat could be expected to increase by about \$2.00 per bushel on the year compared to the absence of such sales, and the price of corn by about \$1.00. That is, the increase in average prices for the year from increasing sales from 8 to 15 million tons is \$1.00 on wheat and 50 cents on corn.

The impact of these price increases on the CPI is likely to be different in the short than in the long run. Increases in corn prices should cause a decline in meat prices in the short term because it leads to immediate reduction in livestock inventories. This reduction in inventory leads to higher prices in the future, however, because it lowers the capacity for production at a later date.



Table 2: U.S. Crop Supply and Use With 18 Million Tons
Exports to USSR
(millions of tons)

| <u>WHEAT</u> | | |
|-----------------------|--------------|------------------|
| | 1974-75* | 1975-76** |
| <u>Supply:</u> | | |
| Beginning Stocks | 6.7 | 8.7 |
| Production | <u>48.9</u> | <u>58.3</u> |
| Total Supply | 55.6 | 67.1 |
| <u>Use:</u> | | |
| Domestic Use | 18.6 | 20.0-18.7 |
| Exports | <u>28.3</u> | <u>31.4-36.8</u> |
| Total Use | 46.9 | 51.4-55.5 |
| <u>Ending Stocks:</u> | 8.7 | 15.7-11.6 |
| <u>CORN</u> | | |
| | 1974-75*** | |
| <u>Supply:</u> | | |
| Beginning Stocks | 12.3 | 8.5 |
| Production | <u>118.0</u> | <u>148.5</u> |
| Total Supply | 130.3 | 157.0 |
| <u>Use:</u> | | |
| Domestic Use | 93.9 | 100.6-108.2 |
| Exports | <u>27.9</u> | <u>38.1-33.0</u> |
| Total Use | 121.8 | 138.7-141.2 |
| Ending Stocks | 8.5 | 18.3-15.8 |

*Year beginning July.

**USDA forecast as of August 12, 1975, with exports, domestic use, and ending stocks adjusted to include only export sales to USSR to date.

***Year beginning October 1.

Table 3 shows the predicted effects on consumer prices. The food component of the CPI had been expected to increase by about 6 to 8 percent in calendar year 1975, compared to 1974. Given the price declines that occurred earlier in the year, the price increase at mid-year was expected to come out towards the lower end of this range. However, the USDA estimates that the effect of sales already made to the Soviets will be to increase retail prices of food by 1-1/2 percent. This increase, together with the unexpected mid-year increase in meat prices, is expected to result in an increase for the food component of the CPI of near 9 percent for the year. If no additional sales were made, this would be the total effect and there would be little further impact on food prices in 1976. Moreover, most of the increase would already be behind us.

If sales of an additional 8 million tons of grain were made to the Soviets, the effect on food prices during the remainder of 1975 would be minimal. The higher price of corn would lead to a reduction in the cattle herd, with the result that meat prices could decline. The main effect this year would be from the increased price of wheat, increasing the food at home component of the CPI by 0.4 percent, which would be a 0.1 percent increase in the total CPI. For 1976, the total impact would be larger. The combined effect of the price increases in corn and wheat is expected to be an increase for the year of about 2 percent in the food component of the CPI. This would be a net increase of about 0.4 percent in the CPI. The bulk of this increase would probably come in the period March through June of next year.

The effects of an additional sale of 15 million tons of grain, on the other hand, would be a 4-1/2 to 5 percent increase in the food component of the CPI. This would be expected to lead to a 1 percent or more increase in the total CPI.

These estimated price increases are conservative. The forecasts assume that the August crop report proves to be valid, and that the rice crop in Asia comes out as expected. A 5 million ton loss in the corn crop because of dry conditions, combined with an additional sale to the Soviets of 4 to 5 million tons would increase the CPI by the same amount as a 10 million ton sale.

A reduction in the rice crop in South and Southeast Asia would have somewhat different effects than a shortfall in our corn crop. If the monsoon should weaken, import demands for wheat could increase by 8 to 10 million tons. The

Table 3: Expected Changes in Consumer Prices
from Grain Price Increases

| | <u>% Change in the Food Component of the CPI, through Calendar Year 1976</u> | <u>% Change in the Total CPI, through Calendar Year 1976</u> |
|---|--|--|
| Grain price increases from Soviet sales to date. | 1.5 | 0.3 |
| Grain price increases from 8 million additional sales. | 2.0 | 0.4 |
| Grain price increases from 15 million additional sales. | 4.5-5.0 | 0.9-1.0 |

total effect of this would be comparable to the effect of additional sales of 8 million tons of both corn and wheat to the Soviets. However, the effect in 1975 would be somewhat larger, and the effect in 1976 would be somewhat smaller, since there would be less deleterious effects on livestock inventories. The combined effect of a short-fall in rice production and larger sales to the USSR would again be a rapid escalation of prices as inventories were drawn down to low levels.



RBC

MONDAY MORNING SITUATION IN RUSSIAN GRAIN PURCHASES

Negotiations were held on Sunday in Moscow with Cook on both wheat and feed grains. The USSR wants to buy 2-3 million tons of wheat and as much as 3-1/2 million tons of corn from Cook. This is the first wheat offer, but the corn may be duplicative of the Russian offers of last week. Further discussions begin today with Cook and Cargill, with no information yet available on what the Russians are likely to seek to purchase beyond these amounts.

What are the implications? The amount of wheat is still small. If the corn offer is duplicative, in an attempt to play one dealer off against the other . . . then the total corn purchases are still below 5 million tons. On the other hand, if these are new corn offers, then the Russians are already up to 8 million tons on corn alone and are potentially above 10 million tons on all grains.

My impression is that this is still moving extremely rapidly. We do not have good aggregative information on Russian intentions and the impact their purchases will make on world prices.

Dictated by Paul W. McAvoy
8:49 a. m.
July 14, 1975

DR HAS SEEN



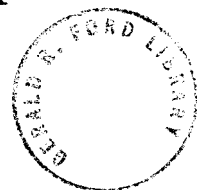
September 5, 1975

Program for Grain

- (1) The purchase by the Soviet Union of wheat and feed grains in the United States has been highly erratic over the years. The following table shows these purchases for recent years, including ~~the~~ purchases to date for ^{the} 1975-76 ~~season~~ season.

| <u>Years</u> | <u>Feed Grains</u> | <u>Wheat</u> | <u>Total</u> |
|-------------------|------------------------------|--------------|--------------|
| | (in millions of metric tons) | | |
| 1971-72 | 2.8 | 0.0 | 2.8 |
| 1972-73 | 3.5 | 9.4 | 12.9 |
| 1973-74 | 4.1 | 2.7 | 6.8 |
| 1974-75 | 1.2 | 1.0 | 2.2 |
| 1975-76 (to date) | 5.6 | 4.2 | 9.8 |

The considerable variation in large bulk purchases by a single state contrasts with the more steady purchases of these grains by such customers as commercial enterprises in Japan and ^WWestern Europe. Because these purchases are highly variable and uncertain, American farmers have not been able to count on this market in their planting intentions to the extent they have on other foreign purchasers. Moreover, highly volatile and unpredictable purchases emerging after the crop planting, tend to contribute to price instability.



- (2) It would contribute materially to the interests of the American farmer, workers in the transportation industries and American consumers, as well as be in the interests of our customers abroad, if we could develop a longer-term and more certain purchase understanding with the Soviet Union, providing among other features for certain minimum purchases.
- (3) It will take some time to explore the possibilities of a long-term agreement. The country must have a new procedure for the sale of feed grains and wheat to such a large bulk purchaser as the Soviet Union. I am sending representatives to the Soviet Union at once. I am also establishing a Food Committee in my office to monitor these developments.
- (4) We have already sold a volume of wheat and feed grains which will take at least four months to ship at maximum rates of transportation operations. Accordingly, there is no immediate necessity to decide about further future purchases at this time, and I am extending the ^{PRESENT} moratorium ^{to the Soviet Union} on sales until mid-October, ~~The October 11 crop report~~ ^{which} ~~will provide~~ additional information on world supplies and



demands *will be available.* This extended period should provide the

opportunity ~~to negotiate~~ to negotiate for ~~the~~
A LONG-TERM
~~longer-term~~ agreement with the Soviet Union.



- (5) Under these circumstances, I am requesting the long-shoremen to resume voluntarily the shipping of American grain while these discussions go forward and the matter can be reassessed in the middle of October.
- (6) It will be necessary to complete the negotiations over shipping rates in order to make it possible for American ships to carry wheat and to assure that at least one-third of the tonnage is carried in American ships, as provided by the agreement with the Soviet Union which expires on December 31, 1975, which is also under renegotiation.





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

September 6, 1975

MEMORANDUM FOR DICK CHENEY

FROM: JAMES L. MITCHELL

Jim Lynn and I thought that it might be helpful for you -- in view of the meeting with the President next week -- to have an overview on what people have been thinking about on the U.S.-Soviet Grain/Maritime/Oil deal.

Attached is a work schedule and check list of how things might fit together and be managed. We are both fearful that a lot of things are falling through the cracks. At the same time, we are both mindful of the need for strict security on the planning.

Our planning is based on two meetings I have attended at State with Messrs. Dunlop, Greenspan, MacAvoy, Porter, Robinson, Hinton and Sonnenfeldt, a certain amount of discreet inquiry I have been able to make through my program area at OMB (I handle both food and oil), and Jim's and my experience during 1972 when we participated in those commercial/grain/maritime/lend lease negotiations.

The attached outline indicates I don't know what's going on on the maritime matters (and that is true); the two items marked with asterisks are the absolute, red hot issues that the President ought to be thinking about right now.

Also attached is a draft agreement which I have done and has been the basis for discussions over at State. To date, we have received no materials from the State Department -- although I understand substantial work has been done there.

Attachments



Work Plan and Check List

What we have been talking about so far.

1. Grain

- long term Soviet purchase commitment
- requirement that Soviets construct off-farm storage facilities, and purchase substantial quantities of U.S. grain handling and storage equipment
- better information on Soviet crop and Soviet assurance they won't go buying U.S. supplies without letting USG know about it

2. Maritime

- seek favorable shipping arrangements for products being sold so as to
 - o increase U.S. participation with ships presently laid up
 - o decrease subsidy liability in U.S. Budget

3. Oil

- long term sales commitment of crude oil at a discount price

What we ought to be doing to see if deal can be worked out.

Pre-negotiation Preparation

1. Grain

- a. Long term purchase commitment -- issues
 - how much? range? pre-planting commitment?
 - threshold point for U.S. exit?
 - soy bean inclusion?
 - what crop information ought to be provided?

(State, Agriculture, CIA, CEA, OMB)



b. Storage-equipment purchase requirements -- issues

- what storage level would make sense in order to level out Soviet market activity? is it to U.S. advantage -- for sales? security-wise?
- what are Soviets currently planning to do about storage?

(State, Agriculture, CIA, CEA, OMB)

- how can Soviet compliance be monitored?

(CIA, State, Agriculture)

- are the Soviets currently purchasing foreign grain handling and storage equipment? does U.S. have advantage here?

(Commerce, Agriculture, State)

c. World-wide grain reserves -- issues

- how will long term bilateral with Soviets mesh with planning on world-wide grain reserves? will it eliminate the need? 75% of the need?
- how will other steady, traditional customers of U.S. grains view a U.S./Soviet bilateral?
- what will the LDCs think?

(State, Agriculture, CIA, CEA, OMB Treasury)

d. On the basis of decision on above issues, prepare

- negotiating instructions
- initial drafts to be tabled
- fall-back positions and tactics planning

(State, Agriculture -- preparers; CEA, OMB reviewers)



- *e. What should be U.S. position on pre-long term agreement sales -- i.e., sales in the near future?

(White House, OMB, CEA, Agriculture, State)

2. Maritime

(Commerce, State, OMB, CEA)

3. Oil

a. Issues

- *-- does a concessional oil deal have to be a part of any grain deal? will consumers sit still for promises that a grain deal alone will even out volatility in the market in view of assurance that U.S. has exportable supplies every year?

-- how much oil? what is a reasonable discount amount?

-- what mechanism can be used which

- o is least likely to result in USG takeover of oil industry
- o would not require Congressional action
- o would be perceived as justifying alleged increased food costs resulting from sales?

stockpiling? barter with tickets? use of oil to fill Jackson strategic reserves? (Bill will be to the President this fall)

(State, FEA, GSA, DOD?, CIA, OMB, CEA)

b. On the basis of decisions on above issue, prepare

-- negotiations instructions

-- initial drafts to be tabled

-- fall-back position and negotiating tactics.

Negotiation

1. Issues

- a. Should teams be developed by subject matter?
Probably need two tracks: (1) an oil and grain



negotiating team; (2) a maritime negotiation team

b. Where? Probably initial negotiation in Moscow in order to reduce press leaks in initial stages; final negotiations should be in Washington.

c. Who?

-- grain and oil negotiations: State/Agriculture

-- maritime negotiations track: State/Commerce

d. When?

-- Grain and oil negotiation track:

| | | | | |
|------------------------|--------------------------------|-----------------------------------|-------------------------------------|--|
| 9/6--- 9/19 | 9/22--- 9/26 | 9/29---10/10 | 10/11 | 10/12---10/26 |
| Initial Preparation | First Negotiation Moscow | Preparation for final round | Crop Report Announce- ment | Final Round <u>Washington</u> Announcement |

-- Maritime negotiation track

???

e. How will public announcement be handled?

-- action forcing crop reports -- 9/11 and 10/11

-- contact -- both publicly and privately -- with groups under f. below

f. Liaison with

-- Unions -- loading problem, interest in long term agreement and increased consumer prices; detente criticism

-- Hill

o farm bloc: wants increased sales with long term agreement

o detente critics; consumer advocates

-- Other foreign customers -- have to have assurance U.S. will continue to take care of their needs

-- Farm community -- wants increased sales and no threat of export controls; wants President to deal with unions

-- Grain traders

Key Points of Draft Agreement

1. U.S.

gets

- an assured market for five years, with escape clause in the case of either U.S. or world crop disasters
- assurance that Soviets are constructing storage so as to level out volatility in world grain prices
- better crop information than at present

gives

- assurance that it will not utilize export controls
- obligation to jawbone producers and labor unions with respect to agreed quantities
- most favored nation treatment with respect to CCC credits

2. USSR

gets

- more corn and wheat from the 1975 crop season
- assured access to U.S. wheat and corn markets, subject only to U.S. and world crop disaster conditions
- most favored nation access to CCC credits

gives

- obligation to purchase minimum amounts even in years when that may not be necessary
- obligation to erect storage facilities
- more detailed crop information
- intention to purchase machinery, plant and equipment related to grain handling and storage facilities



-- obligation not to reexport purchased grain



AGREEMENT

BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS WITH RESPECT TO PURCHASES OF GRAINS BY THE SOVIET UNION IN THE UNITED STATES.

The Government of the USA and the Government of the USSR have agreed as follows:

Article 1

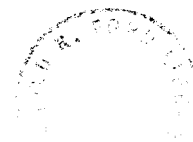
1. The Government of the USA, in accordance with its laws and regulations, will encourage and facilitate the sale from private United States exporters to the Government of the USSR through its foreign trade organizations wheat (including rye) and corn (including barley, sorghum and oats) during such periods and in such amounts, subject to adjustment as provided in Section 3 of this Article 1, as follows:

| <u>Crop Season</u> | <u>Minimum Amount*</u> | | <u>Maximum Amount*</u> | |
|--------------------|------------------------|-------------|------------------------|-------------|
| | <u>Wheat</u> | <u>Corn</u> | <u>Wheat</u> | <u>Corn</u> |
| 76/77 | 4 | 1 | 8 | 4 |
| 77/78 | 4 | 1 | 8 | 4 |
| 78/79 | 4 | 1 | 8 | 4 |
| 79/80 | 4 | 1 | 8 | 4 |
| 80/81 | 4 | 1 | 8 | 4 |

2. The Government of the USSR, in accordance with its laws and regulations, agrees to (i) purchase the minimum amount of grains referred to in Section 1 of this Article 1 for the applicable crop season, subject to adjustment as provided in Section 3 of this Article 1, and (ii) erect off-farm storage facilities for grains in accordance with the following schedule:

| <u>As of June 30</u> | <u>Storage Capacity Started*</u> | <u>Storage Capacity Completed*</u> |
|----------------------|----------------------------------|------------------------------------|
| 1976 | 8 | - |
| 1977 | 10 | 8 |
| 1978 | 10 | 10 |
| 1979 | 10 | 10 |
| 1980 | 10 | 10 |

* Millions of metric tons



3. The following provisions shall apply with respect to the purchases referred to in Section 1 of this Article 1.

3.1 At the option of the Government of the USA, the obligation of the Government of the USA shall not apply, in whole or in part, with respect to any crop season in the event that either

3.1.1 Production of grains does not exceed any of the following amounts during the then preceding crop season:

| | <u>Wheat*</u> | <u>Corn*</u> |
|-----------------------|---------------|--------------|
| Production in the USA | 54 | 125 |
| World Production | 350 | 550 |

3.1.2 The amount of carryover stock of grains does not exceed any of the following amounts on the date indicated then preceding such crop season:

| | <u>Wheat*</u> <u>As of May 31</u> | <u>Corn*</u> <u>As of September 30</u> |
|------------|--------------------------------------|---|
| In the USA | 7 | 9 |
| Worldwide | 55 | 55 |

3.2 In the event that the Government of the USA exercises the option referred to in Subsection 3.1 of this Section 3, (i) the term of this Agreement shall be extended one year for each year such option is exercised, and (ii) the obligation of the Government of the USSR with respect to the year in which such option is exercised shall be postponed until the year next following with respect to which the option is not exercised.

3.3 Prior to September 1 in the case of wheat and February 1 in the case of corn the Government of the USSR will advise the Government of the USA as to any amount of wheat or corn in addition to the minimum amount indicated in Section 1 of this Article 1 that it plans to purchase from production from the then succeeding crop season up to the maximum amount indicated in Section 1 of this Article 1. With respect to such crop season the Government

* Millions of metric tons.



of the USSR shall be obligated to purchase not less than such amount, and the Government of the USA shall not be obligated to encourage and facilitate the sale of any additional amount.

Article 2

1. The Government of the USA and the Government of the USSR will exchange on a regular basis agricultural economic information, including forward estimates of supply and demand, and trade for major agricultural commodities in order to insure the harmonious development and trade of agricultural products.

2. To introduce more stability into commodity markets, the Government of the USA and the Government of the USSR will encourage the conclusion of long term purchase agreements between private United States exporters of agricultural commodities and Soviet foreign trade organizations.

3. The Government of the USA will accord applications for credit to be provided by the Commodity Credit Corporation of the Government of the USA from foreign trade organizations of the Government of the USSR no less favorable treatment than will be accorded to applications from other Socialist countries and developed countries under the criteria then being applied in determining the availability of such credit.

Article 3

1. This Agreement shall enter into force upon the exchange of written notices of acceptance. This Agreement shall remain in force until () unless extended by mutual agreement.

2. Both Governments will work through the Joint US-USSR Commercial Commission established in accordance with the Communique issued in Moscow May 26, 1972, in overseeing and facilitating the implementation of this Agreement in accordance with the terms of reference and rules of procedure of the Commission. To that end, a permanent working group on agricultural trade will be established within the framework of a Joint US-USSR Commercial Commission, and the working group will meet at least once a year to facilitate the exchange of information referred to in Subsection 3.3 of Section 3 of Article 1 and Section 1 of Article 2 of this Agreement.



IN WITNESS WHEREOF, the undersigned, duly authorized, have signed this Agreement on behalf of their respective Governments.

DONE in Washington in duplicate this _____ day of _____, 1975, in the English and Russian languages, each language being equally authentic.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF THE
UNION OF SOVIET SOCIALIST
REPUBLICS:



EXCHANGE OF LETTERS

Washington, D.C.
1975

DEAR MR. MINISTER,

I have the honor to refer to our recent discussions relating to Article 1 of the Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics With Respect to Purchases of Grains by the Soviet Union in the United States to be signed today. In accordance with that provision and our discussions, and consistent with the current United States laws and regulations concerning exports, it is understood that the United States Government will meet its obligations under Article 1 by exercising its authority under the Export Administration Act of 1969, as amended, in a manner so as to reasonably facilitate the purchases contemplated by Article 1. Further, the Government of the United States of America, in accordance with its laws and regulations then in effect, and consistent with the rights of private firms and other organizations*, will seek to assure the availability for foreign trade organizations of the Government of the Union of Soviet Socialist Republics quantities of grain equal to the minimum amounts referred to in Article 1.

I understand that foreign trade organizations of the Government of the USSR expect, during the period of effectiveness of this Agreement, to place substantial orders in the United States of America for machinery and plant and equipment related to the erection of off-farm storage facilities referred to in Section 2 of Article 1 of the Agreement.

I further understand that the Government of the Union of Soviet Socialist Republics will limit or otherwise establish such conditions on exporters as may be necessary to insure that grains purchased under the Agreement are consumed in the Union of Soviet Socialist Republics.

I would appreciate your confirmation of the foregoing understandings on behalf of the Government of the Union of Soviet Socialist Republics.

Please accept, Mr. Minister, the assurances of my highest consideration.

Sincerely yours,

Minister of Foreign Trade of the
Union of Soviet Socialist Republics

* read "Labor Unions"



THE WHITE HOUSE

WASHINGTON

September 8, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *lws*

SUBJECT: ~~Additional Sales of Grain to the Soviet Union~~

Although Soviet purchases of grain from the U.S. have been temporarily suspended, the Soviets have continued to purchase grain from Canada, Australia, and elsewhere in recent weeks. The intensity of the Soviet demands are partially revealed by a reduction in their exports to Eastern European countries. The Eastern Europeans have responded by increasing their purchases in Western markets and by attempting to purchase more from the United States.

The Economic Policy Board Executive Committee and its Food Deputies Group have reviewed these developments. A memorandum outlining Soviet and Eastern European demands, world and U.S. production forecasts, the effect of additional sales to the Soviet Union on U.S. food prices and related policy issues is attached at Tab A. The principal conclusions of this assessment are:

1. The United States is the only significant source of additional supplies of wheat and corn for the Soviets and Eastern Europeans. Soviet and Eastern European needs for 4 to 9 million additional tons are probably quite intense and their "willingness to pay" is likely great. Beyond an additional 4 to 9 million tons, their demands are mostly for livestock or inventory building and are less intense.
2. There is still considerable uncertainty regarding whether additional sales of 4 to 9 million tons to the Soviets can be made from this year's crops without (a) reducing inventories to extremely low levels and/or (b) incurring substantial price increases. The current crop uncertainty will be less only after the October Report.
3. There will be significant price increases in the food CPI in the June 1975 to June 1976 period regardless of additional sales to the Soviets. The expected increases of about 5 percent will likely be blamed on the Soviet sales to date, rightly or wrongly. Additional sales

of up to 6 million tons will likely add 3 percentage points to the food CPI. Sales beyond an additional 6 million tons will raise prices further, perhaps with an exponential effect on the food CPI.

The Administration will likely be pressed to clarify its grain policy following release of the September Crop Report. Three issues are presented for your decision:

Issue #1 - Long-Term Arrangements to Stabilize Grain Exports to the Soviet Union

Recommendation: Authorize the commencement of negotiations with the Soviet Union for a five year agreement for the United States to export a fixed amount of grain to the Soviet Union each year as suggested in Secretary Dunlop's "Program for Grain" paper attached at Tab B.

Approve _____ Disapprove _____

Issue #2 - Policy on Additional Grain Sales to the USSR

- Option A _____ If the September Crop Report is favorable, announce removal of the suspension of sales to the USSR up to a specified amount.
- Option B _____ Continue the current policy of a suspension of additional grain sales to the USSR. Announce that there will be no change in this policy prior to evaluation of the October Crop Report.
- Option C _____ Continue the current policy of a suspension of additional grain sales to the USSR. Announce that there will be no change in this policy until the labor (longshoremen) problem is resolved.
- Option D _____ Continue the current policy of a suspension of additional grain sales to the USSR. Announce that you are sending representatives to the Soviet Union to negotiate a long-term agreement that will reduce the disruptions in international grain markets occasioned by large year-to-year fluctuations in Soviet purchases.



Option E _____ Announce a policy of no further grain sales to the Soviet Union during the remainder of the 1975-76 crop year.

Issue #3 - Should U.S. grain export policy toward Eastern Europe be modified in light of current and anticipated extra demands due to reduced Soviet exports?

Option A _____ Extend the suspension of grain sales to the USSR to include Eastern European countries.

Option B _____ Restrict sales to Eastern European countries to traditional demand levels.

Option C _____ Continue present policy differentiating between USSR and Eastern European sales and approving additional requests by Eastern European countries.



THE WHITE HOUSE
WASHINGTON

September 8, 1975

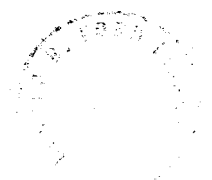
MEMORANDUM FOR THE PRESIDENT

SUBJECT: Additional Sales of Grains to the Soviet Union

Paul W. Mellinger

Soviet purchases of grain in third markets have continued in the last few weeks. They have made purchases from Canada, Australia, Argentina, France, and Germany, but the amounts have been small because of a lack of availability from these sources. By the end of August, the U.S.S.R. had purchased 17.1 million tons of wheat and feed grains worldwide, including 10.3 million tons from the United States. The seriousness of the Soviet shortfall is also revealed by a reduction in their exports of grains to Eastern Europe. As a consequence, the Eastern Europeans have increased their purchases in Western markets. Thus, U.S.S.R. demands have been transformed into Eastern European demands.

The Soviets and Eastern Europeans will most likely seek more grain from other countries in the next few months. They will probably take as much from the United States as is made available at present or slightly higher prices.



This memorandum reviews the most recent information on Soviet demands and on United States supplies. It also reviews recent forecasts of the effects of more U.S. sales to the Soviets on U.S. domestic food prices. In the concluding section, policies related to additional sales are considered in the light of these supply and demand conditions.

1. Soviet and World Production and Import Demands

Soviet Demands for Grain Imports. Early this spring, the Soviet grain crop was expected to exceed the planned 216 million tons because of extraordinarily mild weather conditions during the winter. But a sustained and widespread drought has probably reduced that crop to between 170 and 175 million tons. The shortfall from the original plan therefore may be in the range from 41 to 46 million tons.

Soviet demands for imports are not necessarily in the 41 and 46 million ton range, however. Some of the planned production was designated for building inventories, which can be postponed this year. Also, the Soviets can reduce the quality of bread somewhat and can reduce livestock herds without a significant loss of real incomes. Inventory stringency could reduce their demands for imports by 10 million tons, and reducing the quality of both bread and meat products could, without significant sacrifice, reduce their import demands by another 10 million

tons. Therefore, total Soviet demands for imports from abroad could be as low as 21 to 25 million tons.

The Soviets may not decide to undertake this amount of sacrifice, however. At prevailing world prices, they may prefer to increase purchases of grain from the United States. But it is expected that appreciable price increases or political concessions would cause the Soviets to restrict their imports to the 21-26 million ton level. Given that they have purchased approximately 17 million tons, their "intense demands" for additional amounts are in the range from 4 to 9 million tons. Given that they have reduced their exports to Eastern Europe by 2 to 3 million tons, specific Soviet demands may be as low as 2 to 6 million tons.

Eastern European Demands for Grain Imports. The Eastern European countries have experienced some crop loss in addition to a loss of supplies normally available from the U.S.S.R. Both losses have the effect of increasing demands for grain from the Western suppliers. The CIA forecast of Eastern European demands for wheat has been 1.7 million tons, but this should be increased to 3.0 million if the Eastern European countries are foreclosed from the Soviet market. Corn demand is forecast by the CIA at 2.3 million tons, but also could be 1 to 2 million tons greater if Soviet feed grains are not made available. The USDA forecast of Eastern European demands,

including additional amounts to replace Soviet purchases, is 2.8 million tons of wheat and 4.0 million tons of corn. Thus, total Eastern European demands for United States grains are likely to be 4 million tons plus an additional 3 million tons to replace the traditional sales from the Soviet Union.

World Production. World wheat production available for export will total approximately 70 million tons in 1975-76. This is about 7 million tons more than last year, with most of the increase from the United States and Canada. In most cases, traditional buyers in export markets will take the same or increased amounts at this year's prices. Thus, the additional Soviet and Eastern European demands can be satisfied only by the United States and Canada.

The tightness of supply is even more evident in corn. World corn production available for export is estimated at 48 million tons, of which 34 million tons will come from the United States. Most of the rest has already been committed. Thus, the Soviet Union and Eastern Europe are essentially dependent on the United States for any additional purchases of corn in this crop year.

2. The U.S. Production Outlook

Uncertainties about the U.S. crop for this year still remain. Although the record wheat crop (expected to be up by 19 percent from

last year's record output) is assured, there is still considerable uncertainty attached to the corn crop. The August Crop Report indicated that corn production this year was expected to be 26 percent above last year's weather-plagued crop. But drought conditions in the Western Cornbelt had only begun at the time the data was collected for that report. Drought conditions prevailed through mid-August, and the rains which followed may have come too late to improve on stress conditions.

Uncertainty will still remain after the September Crop Report. Historically (1960 through 1974), the September Report has not provided a better estimate of final output than the August Report. In the past six years, the September estimate has had an average absolute error of 6.7 percent, with the error equally divided between overestimates and underestimates. A 6.7 percent error applied to the August estimate of a 148 million ton crop amounts to 10 million tons. If the error were an overestimate, the crop reduction would wipe out the forecast inventory accumulation, assuming total sales to the Soviet Union of 16 million tons, as shown in Table 1.

Recent weather conditions have added to the uncertainty. Rains, which finally reached the Cornbelt in late August, were in the form of heavy storms which resulted in considerable crop damage. The field samples that are the basis for the September Report will not provide a complete evaluation of the effects of these weather extremes.




Table 1. U.S. Crop Supply and Use With 16. Million Tons
of Exports to the USSR (millions of tons)

| | | <u>Wheat</u> | |
|---------------|----------------------|--------------|-------------------|
| | | 1974-75* | 1975-76** |
| <u>Supply</u> | | | |
| | Beginning Stocks | 6.7 | 8.7 |
| | Production | <u>48.9</u> | <u>58.3</u> |
| | Total Supply | 55.6 | 67.1 |
| <u>Use</u> | | | |
| | Domestic Use | 18.6 | 20.0-18.7 |
| | Exports | <u>28.3</u> | <u>31.4-36.8</u> |
| | Total Use | 46.9 | 51.4-55.5 |
| | <u>Ending Stocks</u> | 8.7 | 15.7-11.6 |
| | | <u>Corn</u> | |
| | | 1974-75*** | 1975-76** |
| <u>Supply</u> | | | |
| | Beginning Stocks | 12.3 | 8.5 |
| | Production | <u>118.0</u> | <u>148.5</u> |
| | Total Supply | 130.3 | 157.0 |
| <u>Use</u> | | | |
| | Domestic Use | 93.9 | 100.6-108.2 |
| | Exports | <u>27.9</u> | <u>38.1- 33.0</u> |
| | Total Use | 121.8 | 138.7-141.2 |
| | <u>Ending Stocks</u> | 8.5 | 18.3- 15.8 |

* Year beginning July.


** USDA forecast as of August 12, 1975

*** Year beginning October 1.

As long as uncertainty prevails on the eventual size of our corn crop and on ultimate export demand, uncertainty will also continue regarding livestock production. Livestock producers sustained heavy losses last year as a result of the crop shortfall in feed grains. Hog inventories were reduced to near 40-year low levels, and many cattle feeding operations were curtailed. Although the cattle inventory is still at a record high level, increased feed prices could prompt a significant reduction in herds this fall, resulting in high meat prices the last half of 1976. Livestock producers will be reluctant to make commitments until a firmer notion of expected feed price-meat price relationships can be determined. Currently profitable price relationships are probably being discounted rather heavily now, and will be until weather and export uncertainties are removed.

3. Forecasts of U.S. Food Prices

The USDA projects substantial increases in retail food prices for the next four quarters, even without additional sales of grain to the Soviets. Before any sales to the Soviets had been made, USDA expected the food component of the CPI to increase by a 5 percent annual rate from the second quarter to the end of 1975. After sales of 10.3 million tons to the Soviets, the forecasts were revised to estimate increases in the lower end of the 6 to 8 percent range. The USDA attributed a 1.5 percent increase in the food component of the CPI to the effects of the additional sales. The USDA now projects a larger increase in retail food prices for the next four quarters based on an assumption



of 16 million tons of grain sold to the Soviet Union. The USDA now estimates an 8 to 8.5 percent increase in the food component of the CPI for the period from June 1975 to June 1976. Thus, food prices will increase by 6 percent without additional sales and will increase by 8 or 8.5 percent with additional sales of 6 million tons. *

These estimated price increases, as shown in Table 2, are probably on the conservative side. They assume increases in profit margins for retailers of 10 percent per year through the remainder of 1975 and of 6 percent during the first half of 1976. They also do not take into account spillover effects such as shifts of demand to nongrain and non-meat items like fruits and vegetables whose prices would therefore rise.

* CEA forecasts, based on slightly different assumptions, assume that prices in grain and cattle futures markets, following the August Crop Report, reflect expectations of current crop size with Soviet sales levels to date (10.3 million metric tons). Inserting the future price for wholesale grain and meat into the corresponding month, the forecast increase in the food component of the CPI from June 1975 to June 1976 is 5 to 5.5 percent, as a result of general inflation and of sales to date to the Soviets.

The CEA has made a second projection using futures prices as of their highs in late August. This yields a food CPI price increase of 5.5 to 6 percent. There is no way to be sure what level of expected sales this represents in the forecasts of those buying and selling in futures markets. If it represents 2 to 3 million tons of additional sales, then these forecasts are roughly the same as those of the USDA.



The quarter-by-quarter consumer price impacts are likely to be quite different under 10 and 16 million ton sales situations. Under high sales (6 million additional tons), as soon as the sales were made known grain prices would increase, probably above their highs in late August when the cash price of wheat rose to \$4.40 and corn to \$3.20 per bushel. These increases, and the prospects of continuing high grain prices through the winter and spring, would induce livestock feeders to sell cattle as forage runs out in September and October. This would have price reducing effects on cattle and meat in late 1975. However, the reduction in cattle would result in higher meat prices in 1976.

4. Conclusions on Soviet and U.S. Market Conditions

Three conclusions important in considering additional sales to the Soviet Union and Eastern Europe are as follows:

- (1) The United States is the only significant source of additional supplies of wheat and corn for the Soviets and Eastern Europeans. Soviet and Eastern European needs for 4 to 9 million additional tons are probably quite intense and their "willingness to pay" is likely great. Beyond an additional 4 to 9 million tons, their demands are mostly for livestock or inventory building and are less intense.
- (2) There is still considerable uncertainty regarding whether additional sales of 4 to 9 million tons to the Soviets can be



made from this year's crops without (a) reducing inventories to extremely low levels and/or (b) incurring substantial price increases. The current crop uncertainty will be less only after the October Report.

- (3) There will be significant price increases in the food CPI in the June 1975 to June 1976 period regardless of additional sales to the Soviets. The expected increases of about 5 percent will likely be blamed on the Soviet sales to date, rightly or wrongly. Additional sales of up to 6 million tons will likely add 3 percentage points to the food CPI. Sales beyond an additional 6 million tons will raise prices further, perhaps with an exponential effect on the food CPI.

5. Policy Issues

A Decision Strategy. Uncertainty about the U.S. corn crop as well as about the rice crop in Southeast Asia suggests the prudence of delaying a decision on additional sales to the Soviet Union. Little additional information will be available on the Asian rice crop by mid-September, and the U.S. September Crop Report is still expected to provide a relatively uncertain estimate of the final corn crop.


At the time the October Crop Report is issued, reasonably firm information should be available on both the Asian rice crop and the U.S.



corn crop. Conditions then may suggest no further sales to the Soviets. Alternatively, they may suggest that additional sales could be made, with the possibility of further sales at a later date, depending on import demands from other countries. Alternatively, fixing an upper limit on sales to the Soviets at that time would help remove uncertainty from the market.

A strategy of spreading out the sales to the Soviets over a longer period of time permits information to be accumulated. More information reduces the risk of large price increases late in the year resulting from a poor rice crop. But it has the disadvantage of extending uncertainty on U.S. policy over a longer period of time.

Long-Term Agreements to Stabilize Exports to the Soviets. Soviet trade in grain has been particularly unstable, and in fact has been the major source of instability in international grain markets. From 1960 to the present they have accounted for 85 percent of the fluctuations in world trade in wheat, and 80 percent of the fluctuations in total trade in grains. Recent experience reveals the magnitude of the shocks imposed by the Soviets on the international grain economy. In the 1972-73 crop year the Soviets reduced their exports by 5 million tons and increased their imports by 13 million tons compared to 1971-72, constituting a net "drain" in international grain markets of 18 million



tons. In 1973-74, they increased their exports by 4 million tons and reduced their imports by 10 million tons compared to the previous year, constituting a net reduction in demand on world markets of 14 million tons. The combined 2-year effect of this 38 million ton turnaround was an enormous shock to the trade markets.

The experience of the 1975-76 crop year may be even more severe. The Soviets exported 5 million tons of grain in 1974-75, and imported an equal amount, breaking "even" on the international market. This year they are currently expected to export no more than 2 million tons, and to seek up to 25 million tons of imports, for a total displacement of supply and demand in world markets of 23 million tons.

Soviet purchases from the United States have been sizeable only in the last three years. Significantly, the United States is the only major country that maintains relatively open trade in agricultural products. Thus, the United States is forced to bear a major share of the adjustments from fluctuations in world trade at a time when reserves are at low levels. As a result, price fluctuations tend to be large, forcing adjustments on the livestock sector with far-reaching consequences.

The U.S. economy could handle grain exports to the Soviet Union much more easily if the quantities were stabilized. Under present conditions U.S. consumers and livestock producers bear the adjustment costs of Soviet agricultural instability. Stabilizing Soviet

Table 3. USSR Imports of Grains, 1965-66 Through 1975-76
(millions of metric tons)

| | <u>Distribution of Imports</u> | |
|-----------|--------------------------------|--------------|
| | <u>Coarse Grain</u> | <u>Wheat</u> |
| 1965-66 | - | 8.5 |
| 1966-67 | 0.2 | 3.1 |
| 1967-68 | 0.4 | 1.5 |
| 1968-69 | 0.5 | 0.2 |
| 1969-70 | 0.1 | 1.1 |
| 1970-71 | 0.3 | 0.5 |
| 1971-72 | 4.3 | 3.4 |
| 1972-73 | 5.9 | 14.9 |
| 1973-74 | 6.1 | 4.4 |
| 1974-75 | 2.5 | 2.5 |
| 1975-76 * | 7.5 | 6.5 |

* Preliminary



purchases, with stockpiling in good crop years, would result in the Soviets bearing some or most of the adjustment costs themselves.

Potential for Expansion of U.S. Output. Long-term commitment of grain exports by the U.S. raises the question of the potential for expanding U.S. grain output. U.S. agriculture was plagued with chronic excess capacity throughout much of the post-World War II period. In the last few years, however, most of that excess capacity has been eliminated. The devaluation of the dollar made U.S. exports more competitive in world markets. Most of the excess labor has been drained out of agriculture. Not least, the productivity growth rate in agriculture during the 1960's was only one-third the rate of the 1950's.

Dramatic changes in available land have also taken place. In 1971 it was generally believed that the United States had some 60 million acres in the land reserve, but only 37 million acres were added to the land under cultivation when acreage restrictions were removed. By 1974, total acreage used for crops represented 93 percent of total cropland available (excluding cropland pasture).

More land could eventually be brought into production but it is marginal quality and will have lower yields than land now in use.

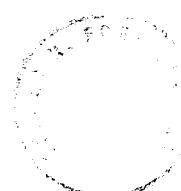
U.S. agricultural output can continue to increase in the years ahead, especially if relative prices remain attractive. However, the large

increases of recent years, which have been associated with the release of the land reserve to production, are not likely to be duplicated. Output expansion will once again be dependent on productivity growth, especially as the level of economic activity increases and unemployment declines.

The implications for policy of large sales to other countries are important. Commitments should be made with the knowledge that productivity increases will not allow rapid output increases. The year-to-year variations due to weather also may be great enough to result in substantial risk of inventory depletion to meet large additional long-term commitments.

A Government Grain Board. One way of dealing with problems of demand variation similar to those experienced during the last three years is by the establishment of a Grain Board responsible for all grain exports. Such a Board would be the sole marketing arm of grain producers. (Producers would be forbidden by law from selling these grains to anyone other than the Board.) Producers instead receive an initial price which effectively amounts to floor price, and a final payment at a later date which is determined by the skill of the Board in marketing the grain.

Such a scheme would be similar to the Canadian Wheat Board. In recent years the Board has maintained a two-price system, with wheat




sold to mills for domestic use at nearly \$2 per bushel less than the Board's export price. This permits the stabilization of domestic prices while extracting rents from the foreign market. Such a system would probably not be viewed with favor by U.S. grain producers, since we export a smaller proportion of our total output. In effect, the system would result in lower prices to producers for domestic sales than they could obtain on world markets.

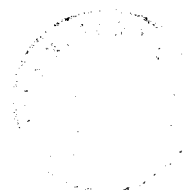
The pooling system used to pay farmers enables all grain producers to share equally in any increase in prices. Offsetting this is the fact that all producers are heavily dependent on the marketing skills of the centralized board. Producers with unusually good marketing skills likely would be unwilling to give up the opportunity to capitalize on those skills.

Producers' marketings under the Canadian system are rigidly controlled. Periodic quotas are established which allow growers to deliver so many bushels per acre planted. There were many years in the past when growers were allowed to deliver only half of their crops. Since even the initial payment is made only when grain is delivered, this means that producers are at the mercy of the Board for their income flow.

Finally, it should be noted that the task of the Canadian Board is much simpler than the corresponding task would be for a U.S. Board.



Given the U.S. predominance in international grain markets, the Canadians can use the U.S. prices as a basis and act accordingly. If the United States were to centralize marketings, the Board in effect would have monopoly power to set world prices. The consequences and the probability of error in Board decisions would be vastly greater.




Program for Grain

- (1) The purchase by the Soviet Union of wheat and feed grains in the United States has been highly erratic over the years. The following table shows these purchases for recent years, including purchases to date for the 1975-76 season.

| <u>Years</u> | <u>Feed Grains</u> | <u>Wheat</u> | <u>Total</u> |
|-------------------|------------------------------|--------------|--------------|
| | (in millions of metric tons) | | |
| 1971-72 | 2.8 | 0.0 | 2.8 |
| 1972-73 | 3.5 | 9.4 | 12.9 |
| 1973-74 | 4.1 | 2.7 | 6.8 |
| 1974-75 | 1.2 | 1.0 | 2.2 |
| 1975-76 (to date) | 5.6 | 4.2 | 9.8 |

The considerable variation in large bulk purchases by a single state contrasts with the more steady purchases of these grains by such customers as commercial enterprises in Japan and Western Europe. Because these purchases are highly variable and uncertain, American farmers have not been able to count on this market in their planting intentions to the extent they have on other foreign purchasers. Moreover, highly volatile and unpredictable purchases emerging from the crop planting tend to contribute to price instability.



- (2) It would contribute materially to the interests of the American farmer, workers in the transportation industries and American consumers, as well as be in the interests of our customers abroad, if we could develop a longer term and more certain purchase understanding with the Soviet Union, providing among other features for certain minimum purchases.
 - (3) It will take some time to explore the possibilities of a long-term agreement. The country must have a new procedure for the sale of feed grains and wheat to such a large bulk purchaser as the Soviet Union. I am sending representatives to the Soviet Union at once. I am also establishing a Food Committee of the Economic Policy Board in my office to monitor these developments.
 - (4) We have already sold a volume of wheat and feed grains which will take at least four months to ship at maximum rates of transportation operations. Accordingly, there is no immediate necessity to decide about further future sales at this time, and I am extending the present moratorium on sales until mid-October when additional information on world supplies and demands is available. This extended period should provide the opportunity to negotiate for a long-term agreement with the Soviet Union.
- 

- (5) Under these circumstances, I am requesting the longshoremen to resume voluntarily the shipping of American grain while these discussions go forward and the matter can be reassessed in the middle of October.
- (6) It will be necessary to complete the negotiations over shipping rates in order to make it possible for American ships to carry wheat and to assure that at least one-third of the tonnage is carried in American ships, as provided by the agreement with the Soviet Union which expires on December 31, 1975, which is also under renegotiation.



September 5, 1975

Program for Grain

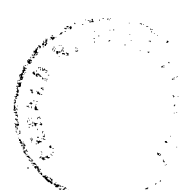
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A LONG-TERM

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Table 2. Expected Changes in Consumer Prices

| | <u>Percent increase in the food component of the CPI, June 1975 to June 1976</u> | <u>Percentage point change in the food component of the CPI, relative to that for sales</u> | <u>Percentage point change in the total CPI, relative to that for no additional sales</u> |
|--|--|---|---|
| Nominal sales to the Soviets (Based on early USDA forecast) | 5.0 to 5.5 | 0 | 0 |
| 10 million ton sales (Based on July USDA forecast) | 6.5 to 7.0 | +1.5 | +0.3 |
| 16 million ton sales (current USDA forecast) | 8.0 to 8.5 | +1.5 to 2.0 | +0.3 to 0.4 |

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06
12

September 5, 1975

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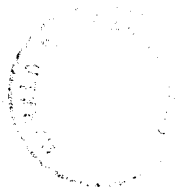


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OCTOBER 20, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

The American people -- our many grain farming communities, our workers, our farmers, and our consumers -- will benefit from the agreement signed in Moscow today providing for regular and orderly sales of wheat and corn to the Soviet Union during the next five years. Under this agreement, the Soviet Union has committed to purchase six million metric tons of grain per year representing \$1 billion in annual export earnings. Accordingly, I am today terminating the temporary suspension of sales of grain to the Soviet Union.

The benefits to the American economy are that we have:

- obtained a stable, long-term foreign market.
- assured a more stable flow of payments from abroad.
- assured the American farmer that the Soviet Union will be a regular buyer for grain at market prices.
- increased incentives for full production by the farmer.
- facilitated the hiring of labor, the purchase of new farming machinery, and the general stimulation of agriculture and business.
- neutralized a great destabilizing factor in recent years.
- provided jobs for American transportation workers and seamen.

The United States during this harvest season can rejoice over the best crop in years.

(MORE)



The favorable economic implications are obvious. We have obtained Soviet commitment that additional purchase of grain in the current crop year will not be so large as to disrupt the U.S. market. I have directed the Department of Agriculture to continue to monitor closely export sales and the Economic Policy Board/National Security Council Food Committee to follow closely grain market price trends and related matters.

The long-term agreement signed in Moscow today promotes American economic stability. It represents a positive step in our relations with the Soviet Union. In this constructive spirit, the two governments have also committed themselves to begin detailed negotiations on mutually beneficial terms for a five year agreement for the purchase of Soviet oil. Negotiations will start this month.

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