**The original documents are located in Box C25, folder "Presidential Handwriting, 7/25/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.**

THE WHITE HOUSE

WASHINGTON

The President asked

Mr. Seidman for this -

per Mr. Seidman's office

12:35 7/25

THE PRESIDENT HAS SEEN.

~~CONFIDENTIAL~~ - EYES ONLY

THE WHITE HOUSE

WASHINGTON

July 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: SOVIET GRAIN PURCHASES

The attached memorandum prepared for the EPB Executive Committee by CEA (Paul MacAvoy) gives a detailed review of the grain situation. The main conclusions are:

1. Soviet grain output will be short 30 million tons and they will import about 25 million tons.

2. U.S. production of grain will account for over 90 percent of the increase in world supply of wheat and feed grains this year.

3. There will be no substantial increase in the price of grain due to sales already made to the Soviets.

4. In the opinion of CEA, the price effect of further sales in the area of estimated Soviet need (10 million tons) is uncertain at this time although USDA predicts no material effect.

5. The price uncertainties will be eliminated by harvests of spring wheat and of corn later this summer. If firm commitments can be "phased" over these harvests, rather than taking place all at once, then the price increases might be avoided altogether.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 24, 1975

MEMORANDUM FOR: BILL SEIDMAN

FROM: Paul W. MacAvoy Paul MacAvoy

SUBJECT: Status Report on Soviet Grain Purchases

In recent weeks the Soviets have purchased close to 10 million tons of grain from the United States and 4 million tons from other countries. They probably will need 10 million tons more from this country, as well as some additional supplies from elsewhere. This memorandum reviews the world markets to show the probable effects on prices of providing substantial amounts to the U.S.S.R. beyond present commitments. It begins with forecasts of Soviet demands for the 1975-1976 crop year, then reviews U.S. supplies and the policy positions of the U.S. Government. The conclusion stresses the risks from proceeding with an additional 10 million ton commitment in the next few months. There is much to be gained in domestic price stability by proceeding step-by-step in additional sales as the U.S. crops are harvested.

1. <u>The Present Soviet Position</u>

As of July 24 the Soviets had purchased 13.55 million tons of grain, with 7.95 million tons of that being wheat and 5.6 million tons being feedgrains. Purchases from the United States are now close to 10 million tons, with 4.2 million tons of wheat having been sold and 5.6 million tons of feedgrains already committed.

On July 24, the Soviets have attempted to further increase their imports. They asked the French for 2 million tons of "cereals," but the French would

AMERICAN REVOLUTION BICENTENNIAL 1776-1976 accede to only 1 million tons. This will probably be winter wheat, but could be corn, since the French have supplies available. The Soviets also approached Australia to increase their commitment from .75 million tons to 1.0. The Australians have asked for a "hold" while they evaluate their own grain balance. Given the high probability of the French purchase, but not the Australian, the Soviets have either purchased or attempted to purchase 14.6 million tons (as shown in Table 1.)

Both the CIA and the USDA now estimate Soviet grain output at 185 million tons. This represents a reduction from the previous estimate of 200 million tons by the CIA, and 195 million tons by the USDA. Planned Soviet grain output for this year was 216 million tons. Hence, presently estimated output is 30-31 million tons below target.

Soviet imports are now expected to be in the range of 20-25 million tons, although they could go higher. Targeted consumption for the year has been 205 million tons, and the Soviets have commitments of some 2 million tons of exports to Eastern European countries. With flooding damage reported in Eastern Europe, the Soviets may attempt to help those countries. The domestic consumption target may be reduced, but the political pressures against that are great. Thus, their purchases abroad will likely exceed 20, and may extend to 25 million tons.

2. Supply Conditions in the United States and Elsewhere.

Under the best of conditions, the increased Soviet demands on world markets would be matched by increases in production from larger harvests in other countries. There seems to be a low probability that there will be substantial increases in production in countries other than the United States, however. Although production is forecast to be higher than last year, consumption is expected to increase in each country as well, so that there will be no net additions by other countries to the amounts available for export. According to the USDA the United States will account for 90 percent of

TABLE 1: Grain Sales to the Soviets as of July 24, 1975

| United States | Status |
|---|---|
| 1. Cook | |
| 3 million tons hard winter wheat | Sold |
| 2. Cargill | |
| 1.2 million tons hard winter wheat | Sold |
| 3. Continental | |
| 4.5 million tons corn | Sold |
| 1.1 million tons barley | Sold |
| 5.6 million tons | |
| **Canada** | |
| 3 million tons hard winter wheat | Sold |
| **Australia** | |
| 750,000 tons wheat | Sold |
| **France** | |
| 1 million tons wheat | Offered 7/23 |

Totals

| | Wheat | Feedgrains | Total |
|---|---|---|---|
| Canada | 3.00 | - | 3.00 |
| Australia | .75 | - | .75 |
| France | 1.0 | - | 1.00 |
| United States | 4.2 | 5.6 | 9.80 |
| | | | 14.55 |

the forecast world increase in wheat production and 94 percent of the increase in feedgrains production. Thus, the United States will have to be the supplier of any substantial part of the additional Soviet consumption demands.

The U.S. crop outlook at the present time is for an exceedingly large harvest. Wheat production in 1975 is expected to be 2.19 million bushels -- an increase of 22 percent over last year's recorded output. This is reasonably certain, although the spring wheat crop has not yet been harvested. The first official forecast of 1975 corn production is 6.05 billion bushels, 30 percent more than the short 1974 crop and 7 percent above the previous record crop in 1973. Uncertainty about the corn crop is still relatively great, for we are only about halfway through the growing season.

The expected production should result in ending inventories of corn greater than those this year (estimated to be 9 million tons), even given the sales to the U.S.S.R. to date. The ending inventories in wheat should also be greater than those estimated for the end of this year. These estimates are USDA's most probable forecasts (as shown in Table 2.)

The most probable occurrence is not the only consideration, however. There is some chance that the corn crop will be smaller, and consumption demands greater, than forecast. There are two important possible sources of forecast error:

(a) Forecast errors of 4-5 percent in harvest yield have to be expected at this stage of corn production. If the corn harvest is 6 million tons less than expected, then with low estimated domestic consumption, the inventories would be reduced to 12.4 million tons. This is the level of corn inventories of 1973-1974, and only 3 million tons above the very low levels last year.

(b) Wheat export demands may be high because of crop losses in both Eastern and Western Europe. If exports are at the high end of the USDA forecast, then ending stocks would be 13.6 million tons, again only slightly more than the carryover in 1972-1973.

Table 2 Wheat and Corn Supply-Use Data, 1973-75 Crop Years

| Commodity | 1972/73 | 1973/74 | 1974/75 Estimate | 1975/76 Projected |
|---|---|---|---|---|
| | ------- million tons ------- | | | |
| **Wheat** | | | | |
| Supply 1/ | 65.5 | 58.5 | 55.6 | 67.6 |
| Domestic Use | 21.4 | 20.5 | 19.3 | 22.0-21.4 |
| Exports | 32.3 | 31.3 | 28.3 | 28.6-32.7 2/ |
| Carryover | 11.9 | 6.7 | 8.0 | 17.0-13.6 |
| **Corn** | | | | |
| Supply 1/ | 141.6 | 161.3 | 130.3 | 162.6 |
| Domestic Use | 120.1 | 117.5 | 93.9 | 108.2-113.3 |
| Exports | 34.2 | 31.5 | 27.3 | 33.0-27.9 2/ |
| Carryover | 19.4 | 12.2 | 9.1 | 22.4 |

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1/ Beginning stocks, production and imports.
2/ At the midpoint, includes estimated exports to the U.S.S.R. of 5 million metric tons of wheat and 5 million metric tons of corn.

## The Effects of Additional U.S.S.R. Sales on Prices

The sale of 10 million more tons to the U.S.S.R. from domestic sources would reduce stocks to low levels. If the sale were evenly split between corn and wheat, then ending stocks would be as follows:

| | 1974-75 carryover (millions of tons) | 1975-76 USDA forecast carryover | 1975-76 "worst case" carryover |
|---|---|---|---|
| Wheat | 8.0 | 10.3 | 8.6 |
| Corn | 9.1 | 17.4 | 7.4 |

The USDA forecast or "expected" conditions imply that, even with sales as large as 20 million tons in total, stocks will be greater than last year. But if less favorable conditions prevail, and the "worst case" forecasts hold, then stocks will be at or below 1974-1975 levels.

The USDA forecast stocks would be substantial enough to prevent any major price changes. There would be no overhang, nor would the conditions be so tight that there should be price increases to cut off consumption or exports. But under "worst case" conditions, prices should increase. Price increases will cut off some corn sales for livestock production, and thereby reduce livestock so as to raise meat prices some months later. These changes would maintain stocks above the forecast levels shown for the "worst case" - but at the economy-wide costs of higher prices. Price increases will reduce some exports of wheat, as well, and reduce the use of lower quality wheat as feedgrain. In order to maintain inventories one million tons larger than the "worst case" forecast, prices of wheat would have to increase by $1.00 per bushel, (or 25 percent) and of corn by $.50 per bushel (or 15 percent).

3. Present Policies

In past speeches and messages the President has recognized the importance of agricultural exports in helping to finance our imports of petroleum and raw materials and has recognized the concern expressed by farmers over our restrictions on exports in each of the last two years. The President's veto message of the Emergency Agricultural Act of 1975 best exemplifies these concerns on his part:

> "American farmers have responded magnificently during the past several years to produce food and fiber for this Nation and the world. This has made agriculture our leading source of foreign exchange. This year, despite very trying circumstances, most farmers are again seeking full production. They have my support for a vigorous export policy for their products. I recognize that agricultural exports have been restrained twice in the past two years. We have now eliminated all restrictions on exports and will make every effort not to impose them again. Our farm products must have unfettered access to world markets.
>
> This Administration is determined to act in support of the American farmer and his best interests. It will not act to distort his market. We must hold the budget line if we are all to enjoy the benefits of a prosperous, stable, non-inflationary economy.
>
> For these reasons, I cannot approve this act."

Secretary Butz has also opposed export controls on numerous occasions in recent months. Typical of these was his statement before the Joint Economic Committee of Congress on April 25, 1975:

> "Our export trade in agricultural products is too important to tamper with. Its fate is tied to our ability to purchase essential energy and mineral imports.
>
> We have had two recent experiences with export regulations for agricultural products. One was the limitation on exports of soybeans and other oilseeds and products in the summer of 1973. These limitations were a blow to our reputation as a reliable supplier of farm products. It shocked some of our best customers, and we have still not recovered from this setback.

More recently we had export monitoring systems in effect to assure supplies at home and at the same time to meet as fully as possible the needs of our customers abroad. I'm happy to say that we relaxed these monitoring activities as soon as the supply situation permitted.

If we are to continue to provide farmers the opportunity to use all their production resources at peak efficiency, we must seek every opportunity to continue to expand our export trade. To do otherwise will move us back into a situation of trying to reduce agricultural production in this country. And none of these methods we have tried have been very successful. There is no better or surer way to encourage agricultural production than through the profit motive. Farmers must be permitted to sell whatever they produce wherever they can sell it at the best price."

The 1973 limitation on soybean exports was short-lived but caused Japan to seek to diversify its sources of imports. In 1974 a prior approval system was used on grain exports because of drought-induced shortfalls in U.S. feed grain production. This was widely interpreted as export controls, although its major effect was to limit purchases by the Soviet Union.

We are now closely monitoring exports of major agricultural commodities in order that controls will not be needed again. An informal "target" of 10 million tons has been set on exports to the Soviet Union in order to avoid major disturbances to U.S. and world grain markets. As knowledge of our own crop and of crop conditions in other parts of the world improves, this amount can be increased. A step-by-step approach assures flexibility in responding to what at times can be rapidly changing conditions. It also enables us to protect our traditional customers from possible disruptions of supplies.

4. Conclusion

The forecasts imply that there should be no substantial domestic price increases from the sales that have taken place so far. The 10 million tons committed to the U.S.S.R. have probably helped to firm up U.S. prices to the advantage of U.S. farmers and without serious effect on consumer prices.

The effects of adding another 10 million tons to these sales are uncertain at this time. The USDA forecasts suggest that there would be no price increases from even these large amounts. But they depend critically on crops in the United States (in corn) and elsewhere (in wheat).

Soviet imports of 20 million tons would imply 15 million tons of imports from the United States assuming that crop conditions do not deteriorate in the United States or in other parts of the world. Exports of this magnitude could be handled with minimal risk of price increases from current levels (which in the case of wheat are 20 percent above their late June levels). U.S. sales of 20 million tons to the Soviets would move us into a rather tight supply-demand situation unless crops here and elsewhere were unusually good. This would also limit our capacity to respond to even local shortfalls elsewhere without strong upward pressures on grain prices. U.S. exports of 25 million tons to the U.S.S.R. - a rather unlikely level - could lead to strong upward pressure on prices.

These critical uncertainties will be eliminated by harvests of spring wheat and of corn later this summer. If firm commitments can be "phased" over these harvests, rather than taking place all at once, then the price increases might be avoided altogether.