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THE WHITE HOUSE

WASHINGTON

October 15, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

L. WILLIAM SEIDMAN

FROM:

JAMES E. CONNOR *JEC*

SUBJECT:

Additional Sales of Grain to the Soviet Union

Confirming phone call to your office this afternoon, the President reviewed your memorandum of October 14 on the above subject and approved the following recommendation:

"The moratorium on grain sales to the Soviet Union be lifted under the conditions outlined in the draft telegram to Under Secretary Robinson."

Please follow-up with appropriate action.

cc: Don Rumsfeld

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

October 14, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

LWS

SUBJECT: Additional Sales of Grain to the Soviet Union

The hold on additional grain sales to the Soviet Union has now entered its third month. Soviet demands remain at high levels, as indicated by their continued purchases of almost every category of feed grains from other producing countries. U.S. supplies also have remained at high levels with the October Crop Report showing slightly higher total forecast feed grain production than the September Crop Report. Within limits, the sale of additional grain is not likely to have substantial effects on consumer prices in the United States.

This memorandum reviews Soviet demands, U.S. supplies, and forecasts of domestic price effects from additional sales.

1. Soviet Demands

If the hold is removed, the amount that the Soviets will demand from U.S. producers will depend on their total grain and meat consumption demands, their production, and their inventories. Each of these is uncertain. There are no official Soviet estimates of production and inventories. The size of consumption demand is politically determined, and five year plan "targets" for per capita consumption of bread and meat could be postponed or even revised because of this year's crop loss.

Estimates by U.S. analysts of Soviet demand, production, and inventories vary widely. The CIA expects that the only constraint on Soviet import demands will be their port capacity which they estimate at 36 million tons over the 12 months of this crop year. Under this assumption, with Soviet purchases to date of roughly 23 million tons, additional Soviet demands will be 13 million tons. The CIA estimates that the Soviets can purchase three to four million tons in third markets without interfering with third market country sales to traditional customers. Thus, the CIA estimates Soviet demands on the United States at ten million tons.

The USDA does not expect that the Soviets will seek more than four to five million tons more from the United States. Analysts in Agriculture forecast a smaller crop loss than the CIA expects and they estimate maximum Soviet port capacity at 30 million tons.

In short, USDA and CIA estimates result in a range of four to ten million tons for total Soviet demands for our crops. The low end of the range is consistent with unofficial Soviet statements that they do not want much more of our supplies. But the rapidity with which they have been adding to shipping capacity and building transshipment suggest that they may extend this demand to ten million tons.

2. U.S. Grain Supply and Demand

The October 10 USDA estimates confirm expectations of record crops of corn and wheat. However, we enter the new crop year with greatly reduced inventories due to last year's short crops. USDA currently estimates total supply for the 1975-76 year at 196 million metric tons of feed grains (corn, grain sorghum, barley, and oats). This is one million tons more than forecast in the September Crop Report. Most private analysts agree that this is a cautious forecast, and that the chances are now somewhat greater that actual production will exceed the forecast.

At this stage in the crop year, the major uncertainty in the U.S. outlook is in the demand for feedgrains. Domestic use of grain for food, which predominates in wheat demand, is relatively stable and easy to forecast. However, the demand for feed for livestock is more difficult to predict. The USDA currently projects a nine percent growth over last year in grains for livestock feeding. However, unexpectedly strong demand for meat could result in substantially greater livestock feeding by mid-1976. With low inventories, this increase in demand would result in higher grain and ultimately higher meat prices.

With low inventories the price effects from much larger additional export sales could be substantial as well. Total grain exports for 1975-76 are currently forecast by USDA to be up 20 percent from those from last year's short crop. These projections include additional sales both to the Soviets and the East Europeans. The amounts to particular countries cannot be specified with precision, because during the hold on U.S. sales the Soviets have been buying from third countries, thereby displacing other customers who as a result have entered American markets.

3. Effects on Consumer Prices of Additional Soviet Sales

The lifting of the hold on additional Soviet sales would add to U.S. domestic demands which, with given available supplies,

should increase prices of grain. The price increases should be small if additional sales to the Soviets and Eastern Europeans do not exceed nine million tons. Consequent meat price increases should also be quite limited, so that increases in the food component of the CPI should be within .4 to .9 percent from June 1975 to June 1976. This increase, if all else remained the same, would result in a higher total CPI of less than .2 percent, which would be indistinguishable from month-to-month.

There could conceivably be substantial price effects from extending sales beyond nine million tons. But this cannot be known now precisely. In fact, the price forecasts for ten or 12 million tons do not exist, since these amounts are probably beyond present market expectations underlying the futures prices that are the basis for the forecasts. There is a substantial probability, however, that sales of 12 million tons would run up futures prices so as to lead to a sell off of cattle inventories. This would raise meat prices much more than expected.

Recommendation

The EPB/NSC Food Committee unanimously recommends that the moratorium on grain sales to the Soviet Union be lifted under the conditions outlined in the draft telegram to Under Secretary Robinson which is attached at Tab A.

Approve

GR 7

Disapprove _____

DRAFT TELEGRAM

SECRET/EXDIS

FOR UNDER SECRETARY ROBINSON

1. As you know, after signature of long-term grain agreement, we plan to lift moratorium. In this connection, you should obtain Soviet assent to our stating at time moratorium is lifted that Soviet Government has informed us that their purchasing plans from the 1975 crop do not envisage purchasing more than additional seven million tons of U.S. grain.

2. We would also announce that Soviets agree that should they subsequently determine that they need amount in excess of 7 million metric tons they would consult with USG.

FYI: Proposed announcement of lifting of moratorium would also state that Department of Agriculture will continue to monitor closely all grain sales to Soviet Union and Eastern Europe. END FYI.

SECRET/EXDIS

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E.O. 12356, Sec. 3.4

NLF MAR 83-5 #19 (St. Hr. 6/7/89)

By NAD NARA, Date 4/29/88