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U.S.S.R. AND GRAIN

A STAFF REPORT

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON MULTINATIONAL
CORPORATIONS

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

WITH

FOREWORD BY SENATOR FRANK CHURCH



APRIL 1976

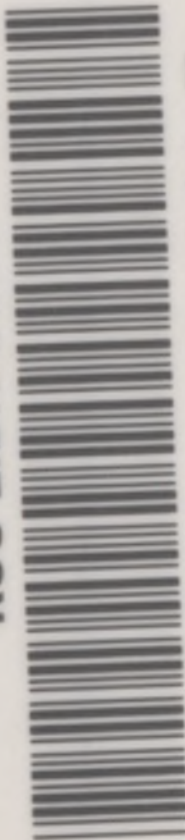
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FOREWORD BY SENATOR FRANK CHURCH

The Soviet Union has emerged in the past four years as a principal customer of U.S. grain. Because of this trend and the momentous political as well as economic impact it has had on the United States, Richard Gilmore of the staff of the Subcommittee on Multinational Corporations visited the Soviet Union November 23–December 1, 1975, for purposes of studying Soviet policies and practices as they relate to grain.

His findings raise numerous questions about the potential success of the recently signed agreement between the U.S. and the USSR for the supply of U.S. grain, and the ability of the U.S. Government to acquire the information necessary to make this agreement enforceable. These are issues of the utmost importance having extended economic and political ramifications for the United States which the Subcommittee will want to consider.

The views and conclusions in this report are those of the author and are not necessarily those of the Subcommittee or any of its members.

FORWORD BY SENATOR FRANK CHURCH

It is a privilege to introduce this book to the people of the United States. The book is a collection of the best of the work of the United States Forest Service, and it is a book that should be read by every citizen of this country. The book is a collection of the best of the work of the United States Forest Service, and it is a book that should be read by every citizen of this country.

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LETTER OF TRANSMITTAL

APRIL 1, 1976.

HON. FRANK CHURCH,
Chairman, Subcommittee on Multinational Corporations of the Committee on Foreign Relations, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: At the request of Senator Dick Clark (D-Iowa) and yourself, I visited the Soviet Union between November 23 and December 1, 1975, on behalf of the Committee to discuss with Soviet officials and academicians matters relating primarily to grain. I also spoke with Soviet officials and knowledgeable observers about other forms of trade between the U.S. and the Soviet Union.

The information transmitted in this report represents my personal accounting of what I was told in interviews, as well as some impressions I received in the course of general discussions.

Some findings in this report are at variance with what has been publicly reported on the subject to date. I, therefore, suggest that the enclosed material and impressions be assessed in an overall context of Soviet objectives in its political, economic and commercial relations with the United States.

Sincerely,

RICHARD GILMORE.

NOTE

Since the writing of this report, the USSR Central Statistical Administration has published figures on grain production for the Soviet Union. For the calendar year 1975 official Soviet figures are now 140 million metric tons. This amount is 22 million tons lower than the lowest estimate I received during my visit and yet there has not been any official upward revision in the expected level of Soviet grain imports. While the extremely low crop production figure is important in itself, equally noteworthy is the fact that the U.S. Government did not indicate any advanced accurate knowledge about Soviet production levels nor has it yet shown any certainty about expected levels of imports, exports and storage for the Soviet Union.

Additional material has come to my attention on other issues raised in this report, primarily regarding commercial practices. This information was acquired after my visit to the Soviet Union and, therefore, will be more fully developed in the course of the Subcommittee on Multinational Corporations' investigation of the grain trade.

(IX)

NOTE

Since the withdrawal of this report, the U.S.S.R. Central Statistical Bureau has published figures on grain production for the Soviet Union. For the calendar year 1973 official Soviet figures are now 340 million metric tons. This amount is 32 million tons less than the figure included in the report, and yet it is the only figure for official upward revision in the expected level of Soviet grain output. While the extremely low grain production figure is important in itself, equally noteworthy is the fact that the U.S. Government did not indicate any adjustment upwards in its estimate of Soviet grain production. It is not clear why it did not do so, although a period back of annual reports and forecasts for the Soviet Union. The official material has come to my attention in other ways. In the U.S.S.R. primarily economic commentators. The information is reported after it is to the Soviet Union and the rest of the world. It is noted in the case of the Soviet Union and the rest of the world. Information is reported in the case of the Soviet Union.

TRIP REPORT

PURPOSE OF STUDY MISSION

The purpose of this staff study tour in the Soviet Union was fourfold:

1. To provide Committee members with background information on the Soviet Government's purchases and sales of U.S. and non-U.S. grain, their present grain production and storage position and plans for the future.
2. To assess Soviet capabilities in handling foreign grain entering their ports.
3. To determine Soviet Government views concerning the political and economic significance of the U.S.-USSR Grain Agreement signed on October 20, 1975.
4. To consider how the Agreement will affect future commercial sales of U.S. grain to the Soviet Union.

U.S.S.R. AND GRAIN

SUMMARY OF FINDINGS

Grain is a highly charged political and economic issue at the present time in the Soviet Union. There is, consequently, no completely consistent statistical reporting of what Soviet crop production for the 1975 harvest will be nor what actual receipt of imported grain from the U.S. and other foreign suppliers has been up through the end of November, 1975. There is extreme reluctance on the part of Soviet officials to identify actual storage capacity or figures for residual stocks within the Soviet Union. Commercial dealings with private grain companies are handled with the utmost secrecy and no official freely volunteered any information about how the Soviet Government intended to implement the Five Year Purchasing Agreement. All Soviet officials and academicians I spoke with applauded the U.S.-USSR grain agreement, each for different reasons, as beneficial to their country.

The Soviets maintained that their country's shortfall for the year August 1, 1975, to August 31, 1976, will be 25 million tons. That is the amount of grain they have indicated they will import which they also equate with the current shortfall. They insist that there will be no additional purchases or deliveries of foreign grain during this 13-month reporting period. One official ventured to give his personal estimate of Soviet crop production for the 1975 harvest at 160-162 million tons.

All Soviet officials agree that there has been a shortfall between planned production levels and the actual 1975 grain harvest. They do not agree on the short term remedies.

One highly qualified official insisted that there had been no unusually high distress slaughtering of cattle or hogs as part of an official effort to conserve supplies. Another official, however, hinted that slaughtering of hogs and poultry had increased recently because of the feed grain shortage. This official confirmed that feedgrain rationing and the relocation of herds away from drought areas has already taken place.

There is considerable disagreement among Soviet officials about the capacity of the ports, railroads, and barges to handle large quantities of grain imported to the Soviet Union. Figures about the maximum unloading capacity vary in the range of 3.2 million tons of grain per month in all Soviet ports. At least one official source described congestion at the ports and railcar shortages.

I was told that the Soviet Union intends to maintain its grain exports and stocks at 1974-1975 levels. At that time exports were estimated to be roughly 8 million tons. No figures on stock holdings in the last year were provided.

Soviet officials expressed little willingness to participate in any international initiative at this time for the establishment of an international grain reserve system or for a UN sponsored effort in food assistance and information sharing.

Regarding other trade issues, two main points emerged from my conversations. Firstly, the Soviet Union is extremely interested in developing forms of joint ventures with American multinational corporations inside and outside the Soviet Union. The Soviets look very favorably on most commercial transactions involving American multinational corporations, whether in cooperation with the parent company or its European or Japanese affiliate. Secondly, it appears Soviet officials are mainly interested in maintaining an upward trend in trade relations with the U.S. They attach considerable political importance to an increase in trade, but they did not emphasize the necessity of heavy U.S. Government credits for this trend to continue.

INTRODUCTION

During the last week of November, officials and bureaucrats in the Soviet Union had already begun to gear up for the 25th Party Congress in February and the announcement of the new five-year plan. Kremlinologists are busy at this time making their best guesses about the lineup within the ranks of Soviet leadership. Who stays and who goes depends to some extent on how convincingly those in positions of power in the ministries and state committees are identified with publicized successes under their regime. The eventual requirement for personal advancement is how convincingly an official conveys the impression of great accomplishment. It is as important to maintain what may actually be an illusion of success before the rest of the world as it is within the Soviet Union.

Designing a new five-year plan is as much a look back as a projection of better times to come. A positive cast must be put on any poor performance to avoid being displaced. Bureaucrats jockey over bigger budget allocations and personnel assignments. Those ministries, state committees and agencies dealing with the Soviet economy doubtlessly understate their capacity to produce in an effort to protect themselves against having to fulfill high growth targets determined through the planning process.

In this kind of hedging operation of Party and bureaucratic gamesmanship, the risks often are very high. Personal power and the growth of the Soviet economy may be directly affected by the outcome. When there is a bad crop year like the one which the Soviet Union is now experiencing, the forces already described are likely to be at play. The stakes are high.

In the period 1971-1975, the agricultural sector received approximately 25 percent of budget outlays. Secretary Brezhnev and his predecessor, Khrushchev, have stressed extensive land reclamation, farm mechanization and livestock building programs as essential elements in the growth of the Soviet economy. With greater emphasis on consumer satisfaction with respect to meat production, demand for grains undoubtedly has increased rapidly. The leadership has chosen, as a result, to link its commitment to improved living standards for Soviet citizens with its ability to provide steadily increasing supplies of grain.

While traditionally an importer of certain agricultural commodities, the Soviet Union is also an exporter of grain, primarily to Eastern European countries. These countries, under the leadership of the Soviet Union, are members of the Council for Economic Mutual Assistance (CEMA). They each have bilateral trade agreements with the Soviet Union and have developed their economies until recently in ways which made them economically dependent upon the U.S.S.R. For the Soviet Union to keep control over its European satellites, it is essential that lines of economic dependency are preserved. Grain exports to these countries have historically been an important part of the equation.

It would also seem logical that Soviet leadership must downplay the significance of having had to import substantial quantities of U.S. grain in 1972 and now again in 1975.¹ Otherwise, heavy agricultural imports become an admission of weakness in other countries eyes. The Soviets are also sensitive to external pressures from developing countries, who have recently expressed their opposition to the Soviet Union's becoming a preferred buyer of grain on the world market, particularly in the United States.

There are, therefore, important political and economic reasons both of an internal and external nature which help explain why Soviet officials may want to misrepresent their own internal needs with respect to grain consumption (depending on whom they are talking to about these delicate matters). As a result, what I was told may be important for its factual content, but, in all likelihood, the greater significance lies in the selection and presentation of information given to me, the sources of material, and the willingness of officials to discuss these sensitive issues with me during this unpredictable period in Soviet politics.

SOVIET GRAIN SUPPLY POSITION

Production

There was considerable disagreement among Soviet officials about USSR's anticipated production for 1975. One official in the Ministry of Agriculture predicted that the Soviet Union would have a grain harvest of roughly 195 million metric tons in 1975. Another in the Ministry of Procurement indicated that his personal estimate of Soviet grain production² for the harvest in calendar year 1975 was 160-162 million metric tons. As late as July 15, the U.S. Department of Agriculture estimated Soviet crop production at 195 million metric tons, then by early August revised downward its estimate to 185 million metric tons. By October 24, The Department had officially adjusted its forecast to 162 million metric tons and as of October 31, USDA submitted yet another preliminary projection for 1975/1976 at 148 million metric tons.³

On December 4, the *New York Times* reported that on the basis of remarks made the previous day before a session of the Supreme Soviet by Grigory I. Vaschenko, Chairman of the Budget and Planning Commission of the Council of the Union and member of the Party's Central Committee, it could be calculated that Soviet production would be as low as 137 million metric tons.

On December 8, a representative of a visiting Soviet delegation from the Ministry of Procurement expressed great surprise over reports in the Western press that Soviet production would be as low as 137 million metric tons. Instead he stuck with the 160-162 million metric tons' estimate provided by one high level official at Procurement, already an admission of a greater shortfall than previously suggested. The Ministry of Procurement reportedly can be counted on to give the lowest crop production figures of all ministries because of its job

¹ 18,260,000 metric tons of wheat, corn, and barley in 1972 and at least 13.2 million metric tons at the time of this writing with an agreed ceiling of 17 million metric tons for all of 1975.

² Winter wheat, winter rye, winter barley, spring wheat, barley, oats, pulses, millet, buckwheat, rice, rye and corn.

³ USDA. *Foreign Agriculture Circular*. FG 13-75. USDA reports on the basis of the crop year beginning July 1. The latest estimate, therefore, would not include supplies existing between January 1 and July 1 so Soviet figures would understandably be higher, particularly since the 1974 harvest was a relatively good one at approximately 196 million metric tons.

assignment. The Ministry of Procurement is responsible for the purchase, storage, and utilization of all state grain resources within the Soviet Union. If shortages occur in one of the sectors where grain is allocated (food, industrial, and livestock feed), procurement would more than likely be held accountable. Any overstatement of production would raise expectations of greater disbursements for which the Ministry of Procurement is responsible. For just the opposite reasons, the Ministry of Agriculture usually is the source of the most optimistic production forecasts. Despite their different objectives and hence, the discrepancies in production figures, no ministerial representative accepted the plausibility of anything lower than 160-162 million metric tons.

The announced goal for 1975 was 215.7 million metric tons and to fulfill the 1971-1975 five-year target, the Soviet Union would have had to produce 208 million metric tons in 1975.⁴ There has not been any official downward revision of these figures, although there have been individual local officials, and now a member of the Party's Central Committee who have spoken out on the subject to a Soviet audience.

Using the current official figures, the shortfall or difference between the annual plan target of 215.7 million metric tons and the low estimate of 160-162 million metric tons would be 53.7-55.7 million metric tons. Applying the more radical calculation would, of course, result in an even greater shortfall of 78 million metric tons. The U.S. Department of Agriculture has indicated that the "estimated grain utilization for the 1974/1975 consumption year" (July 1, 1974-June 30, 1975) is 205 million metric tons and a crop of less than 205 million metric tons poses "serious problems."⁵

Therefore, under any set of expectations, the 1975 shortfall is considerable. Assuming that the Soviets do not intend to cutback drastically on demand for grain, the only way to make up for shortages in the current crop year is to import or draw-down on existing stocks. Local crop production plus imports and existing stocks, therefore, are the other essential parts of any discussion of the current grain supply position in the Soviet Union.

Stocks

No official was prepared to identify what actual residual stocks were or what levels were planned for in 1975.⁶ At the Ministry of Agriculture I was told that it was none of the United States' business to know what the Soviet stock position was at any given point in time. The USSR Government claims that it does not have that kind of information.

The U.S. Government interpretation of Article II of the 1973 U.S.-USSR Agricultural Agreement includes exchange of information on stocks. The Soviets have not as yet provided this material.⁷ Judging from the reaction I received when I raised this question, and comparing it with what other government officials have been told, it would

⁴ USDA, *Foreign Agricultural Circular*, FG 14-75, Nov. 5, 1975.

⁵ USDA, *Foreign Agricultural Circular*, FG 14-75.

⁶ Residual stocks for purposes of this report mean stocks remaining after consumption and exports in a given calendar year.

⁷ See Appendix 3, *List of Economic Information Supplied by the Soviet Union under the Agricultural Agreement*.

appear unlikely that the Soviets would be forthcoming in providing any data on stocks in the near future.

Nonetheless, the United States has through its own resources been able to make some intelligent guesses about Soviet stocks. The Central Intelligence Agency has published an unclassified document on the Soviet grain balance, 1970-73, which contains figures on changes in stocks and losses in the USSR. The sum of residuals in "grain balances" since 1970 is listed as:

Table 1¹

Year:	Million metric tons
1970-----	98. 0
1971-----	88. 0
1972-----	90. 6
1973-----	149. 7

¹ Central Intelligence Agency. "The Soviet Grain Balance, 1970-73," A(ER) 75-68. September, 1975. Unclassified.

After consumption and exports, the annual amount remaining as opposed to the cumulative figure cited in table 1 was estimated to be:

Table 2²

Year:	Million metric tons
1970-----	6. 120
1971-----	5. 202
1972-----	5. 416
1973-----	6. 711

² CIA. "The Soviet Grain Balance."

Figures for the last two years are more difficult to obtain, although there are USDA statistics on stock changes beginning in 1973/74 which would seem to indicate that Soviet stocks remained relatively constant over the last five years.

TABLE 3¹

Year	Million metric tons ²	Production	Net trade	Availability
1972-73-----	0	168	+21	189
1973-74-----	+13	222	+6	228
1974-75-----	-9	196	0	196
1975-76-----	-4	160	+26	186

¹ USDA, Foreign Agriculture Service, statistics on "U.S.S.R., Total Grain Supply Distribution 1964-65-1975-76."

² Minus indicates net exports and a drawdown in stocks.

These findings bear out the Ministry of Procurement's claims that Soviet stocks remained at roughly the same level during the past four years, and would not necessarily be reduced this year, thanks to purchases of U.S. grain. The latest sales, one official said, could be used for replenishing Soviet stocks.

Representatives from the Ministry of Agriculture were reluctant to discuss anything related to storage capacity. At the Ministry of Procurement, on the other hand, I learned that current storage capacity within the Soviet Union was 100 million tons and that an additional 30 million metric tons would be constructed during the 1976-80 five-year plan period. A large part of the expansion program will apparently be for terminal elevators and the improvement of loading/unloading facilities for grain at Soviet ports. Leningrad, for example, has plans according to local city officials to build a new

Imports

A high official at the Ministry of Foreign Trade said the Soviet Union had purchased 25 million metric tons of foreign grain to cover the period August 1, 1975 through August 31, 1976. He emphatically denied rumors that the USSR had already purchased more or would be shopping around for more grain during this time period. This official insisted that as far as he was concerned, the 25 million metric ton figure for foreign purchases was identical to the USSR's grain shortfall during its 13-month statistical calendar year, August 1-August 31. In other words, he thought that any grain deficit his country would have to incur because of a poor harvest could be made up with 25 million metric tons of imported grain.⁸

Thirteen of the 25 million imported metric ton total were purchased from the U.S. according to an official spokesman at Exportkhleb, the organization responsible for importing, selling domestically, and exporting grain, and an official at the Ministry of Foreign Trade was most emphatic in stating that the Soviet Union had no intention of buying more grain from the United States within the August 1-August 31 marketing year.

While no official claimed to know how Soviet purchases were divided by grain type, the Foreign Agriculture Service of USDA on November 11, 1975 estimated the following division.⁹

	Thousand metric tons
Wheat-----	4, 552
Corn-----	8, 643
Oats-----	70
Total-----	13, 265

Sources at the Ministry of Foreign Trade indicated that the remaining 12 million metric tons were non-U.S. origin grain, a portion of which was supplied from Rumania, Hungary, and Bulgaria. Almost all of the non-U.S. origin portion, he maintained, was purchased during the U.S. Government-declared moratorium on sales to the Soviet Union, July 24-October 20, 1975.¹⁰

⁸ Using the 160-162 million metric tons attributed to sources at the Ministry of Procurement, the shortfall is 53.7-55.7 million metric tons, over twice the 1975 shortfall claimed by the Ministry of Foreign Trade.

⁹ USDA, Foreign Agricultural Service, C&F, FCA on November 11, 1975, estimates of Soviet grain purchases.

¹⁰ The USSR, for example, purchased over 1½ million tons of Brazilian maize between April 1 and November 30, 1975. Brazil is also said to have sold substantial quantities of soybeans to the USSR in 1975.

TABLE 4

*Estimated Soviet grain purchases*¹

	<i>Million metric tons</i>
By grain:	
Wheat-----	13,452
Corn-----	10,243
Barley-----	2,330
Oats-----	500
Total-----	26,525
By origin:	
United States:	
Wheat-----	4,552
Corn-----	8,643
Oats-----	70
Total-----	13,265
Canada:	
Wheat-----	4,200
Barley-----	2,000
Oats-----	100
Corn-----	200
Total-----	6,500
Argentina:	
Wheat-----	1,400
Corn-----	1,000
Total-----	2,400
Australia:	
Wheat-----	1,500
Barley-----	100
Oats-----	30
Total-----	1,630
Brazil: Corn-----	400
West Europe:	
Wheat-----	1,000
Barley (Spain)-----	130
Total-----	1,130
East Europe:	
Wheat-----	800
Barley-----	100
Total-----	900
Optional-----	300

¹ USDA, FAS, C&F, FCA November 11, 1975 estimates.

Aside from the fact that U.S. Government figures are slightly higher for Soviet purchases of U.S. grain to date than those provided by the officials with whom I spoke, there are two major discrepancies between publicly reported U.S. projections on overall Soviet import requirements and the final level of their purchases in the U.S. and what Soviet officials indicated to me. In briefings on the Grain Agreement for members of Congress and staff, U.S. officials have indicated

that an understanding was reached with the Soviet Union whereby it agreed not to purchase without consulting the U.S. Government more than 17 million metric tons before the new agreement enters into force on October 1, 1976. Informed American sources think that the Soviets will need every bit of the 17 million ton ceiling, if not more, whereas the Soviets insist they will not buy more than the 13 million they have already purchased. Secondly, USDA predicted on October 24, that Soviet import needs from all foreign sources will be over 30 million metric tons for the 15-month period, July, 1975–September, 1976.¹¹ Officials at the Ministry of Foreign Trade were firm about the 25 million metric ton figure; on the other hand, Viktor I Pershin, Chairman of Exportkhleb, in translated remarks appearing in the Western press, is reported to have said that the Soviets have already purchased 30 million metric tons.

The estimates concerning the import requirements of the Soviet Union in the period August 1, 1975 to September 31, 1976 are, thus, significantly at variance. Any conclusions must be cautiously hedged and may in any event prove worthless.

Exports

Figures for Soviet exports are equally imprecise. Shipments of Soviet grain have in the past gone mostly to CEMA countries and states like North Korea, North Vietnam, and Cuba averaging 6 million metric tons per year. The Western press and other observers of Soviet agriculture have speculated that Soviet exports this year will be cut back drastically because of the shortfall in the Soviet Union. USDA estimates that worldwide Soviet exports for 1975/1976 will not exceed 1 million metric tons. Other U.S. Government officials have suggested higher figures, but they all agree that the amount will be sharply reduced from their estimates of last year's export levels, ranging from 5 million to 8 million metric tons, for the period July 1, 1974–June 30, 1975.

In normal times the Soviet Union exports annually an average of 1½ to 2 million metric tons to Poland of the total 6 million metric tons average level of exports to Eastern Europe. Apparently, the Soviet Union was forced to cancel its contracts with Poland this year because of its own bad harvest, and thus, Poland was forced to buy more on the open market than in past years. Poland was rumored to have been negotiating for as much as 6 million metric tons of grain from the U.S. before U.S. Government officials informally requested on September 10, 1975 that the Polish Ambassador in Washington impose a moratorium on further grain purchases from the United States. If, indeed, Soviet grain deliveries to Poland were cancelled, informed sources think that the pattern was repeated with other Eastern European consumers like East Germany and Czechoslovakia.

Nothing I was told suggests that the USSR will reduce grain exports anywhere other than Poland. Even with respect to Poland, officials were reluctant to admit that there would be any change. A high official at the State Committee for Foreign Economic Relations (this committee oversees all development assistance projects, directs aid programs, and Soviet foreign investment in socialist and non-socialist countries) stated categorically that the Soviet Union will fulfill all

¹¹ USDA News, October 24, 1975.

its long-term food assistance programs. He was referring to the long-term bilateral agreements the USSR has with the other CEMA members, denying that there would be any disruption in the flow of grain from the Soviet Union to these countries. He emphasized that Soviet commodity assistance programs would be maintained irrespective of whether the USSR had a good or a bad crop this year.

At the Ministry of Foreign Affairs, Soviet officials indicated that the USSR would maintain its obligation to its allies, despite the fact that it was a bad year for them. They indicated that exact levels for food assistance would have to be worked out by the State Committee for Foreign Economic Relations and State Planning Committee (GOSPLAN). Their response was more ambiguous than at other government ministries and committees, particularly the State Committee for Foreign Economic Relations and the Ministry of Foreign Trade where officials indicated that the 25 million metric ton import and shortage figure they provided included "supplies to normal countries." In the context of our conversation, I inferred that they meant the Soviet Union's level of imports this year would help satisfy the maintenance of supplies to traditional aid recipient and other importer countries¹² as well as maintain stocks within the USSR at the level of last year.

Regarding Poland, Exportkhleb and Ministry of Foreign Trade sources, indicated that no delivery contracts with Poland have been cancelled. My question was whether or not the Soviet Union cancelled any of its contracts with Poland. I did not use the term "delivery contract" so it is entirely possible that they chose not to answer my question by discussing another entirely different question. The USSR by all reports had to cancel contracts with Poland, but they may not have ever reached the point of concluding delivery contracts with the Poles in which case there would be nothing for them to cancel as far as deliveries are concerned. These officials went on to say that just because the Soviet Union has a grain problem this year, it did not mean that they would have to cancel any contracts with Poland. So as to avoid any definitive response to this question, one official modified what he said earlier by saying that if necessary, the USSR would find "some other solution" for Poland. He may have had in mind newspaper reports that the Soviet Union promised to help finance Polish grain purchases on the open market as a means of fulfilling its contractual obligations.

This key official was, on the other hand, very clear about the purpose of Polish purchases of U.S. grain. He said that Poland was not buying U.S. grain in behalf of the Soviet Union in August and early September, before the moratorium on sales to the USSR was expanded to include Poland as well. As far as he knew, then, their purchases were strictly for Polish consumption.

The most noteworthy aspect of my discussions concerning exports was the impression Soviet officials conveyed of a determination to keep exports at levels not drastically different from earlier years. They were

¹² The U.S. Embassy official who accompanied me to the Ministry of Foreign Trade Interview understood the Soviets to say they plan no grain exports during the 1975/76 crop year beyond commitments to socialist bloc countries. It was my impression that the reference to "normal countries" included other countries as well. (In either case, we would both agree that North Korea and Cuba could be included in this definition.)

indifferent as to whether or not these exports would have to come in part from foreign sources.

SHIPMENTS AND DELIVERIES

With heavy imports ranging from at least 25-30 million metric tons, depending upon whose figures one uses, the next critical problem for the Soviets is how to handle this large-scale influx of foreign supplies. High officials at the Ministry of Merchant Marine indicated that Soviet ports are equipped to unload roughly 3.2 million metric tons of grain per month—an average of 100,000 tons daily, with the rate declining in the winter months. The major receiving ports for U.S. grain are Novorossiysk, Odessa and Illichevsk on the Black Sea and Leningrad on the Baltic Sea. Leningrad officials indicated that in November only 20,000 metric tons per day and slightly less for the Black Sea ports were unloaded. If they are right, Soviet port capacity for receiving imported grain would be less than the 3.2 million metric tons level cited at the Ministry of Merchant Marine. Any figures under 3.2 million would raise some doubts as to whether or not the USSR would be able to import all the grain it has or plans to purchase abroad.

Ministry of Foreign Trade spokesmen said that the proven unloading capacity of Soviet ports was a maximum of 2 million tons, while Merchant Marine officials indicated that a monthly average of 2-2.2 million tons had already been programmed for November. In contrast to these target figures, Foreign Trade officials said that about 4.5 million tons of American grain had been shipped since August 1, with actual deliveries of grain from all sources running at an average of 1 million tons per month and 1.5 million for November. At a minimum the Soviets must unload or take possession of all American grain they have purchased by October 1, 1976, when the Grain Agreement enters into force. This deadline suggests that there will be a build-up of deliveries during the winter months. When asked whether this increase has already strained Soviet ports, the same official at the Ministry of Merchant Marine who claimed that Soviet ports had an unloading capacity of 3.2 million tons, admitted that the 2.2 million tons programmed for November caused considerable congestion in the ports because many of the American vessels booked in October were arriving at the same time as previously scheduled shipments. He did say, however, that despite the temporary congestion, he envisaged no problem for Soviet ports to handle all grain shipments. While the Ministry of Merchant Marine and Ministry of Foreign Trade figures were not identical, officials from both ministries were confident that Soviet ports could handle all the necessary shipments.

The U.S. Merchant Marine Administration reports the following level of shipments leaving the U.S. for delivery to the Soviet Union. (These figures do not represent confirmation of delivery within the Soviet Union, just shipments leaving the U.S. destined for the U.S.S.R.) U.S. information on total shipments correspond to estimates given to me by informed Soviet officials.

TABLE 6¹

[Left the United States (thousand metric tons) 1975]

Flag vessel	July	August	September	October	November	December	Total
United States.....	93,831	28,309	0	609,462	592,373	96,539	1,420,514
Soviet.....	42,268	79,414	106,241	251,795	214,613	17,768	712,099
3d flag.....	115,018	259,797	380,203	1,134,085	961,972	112,413	2,963,488
Total.....	251,117	367,520	486,444	1,995,342	1,768,955	226,720	5,096,101

¹ Maritime Administration and Agriculture vessel inspector reports.

SUMMARY OF GRAIN CARGOES, JAN. 1 TO DEC. 31, 1975 (PROJECTED BASED ON FIXTURES)

	Thousand metric tons	Percent of total shipments
United States.....	1,845.0	22.6
Soviet.....	1,909.9	21.5
3d flag.....	4,388.2	55.9
Total.....	18,143.1	

¹ Projected total metric tons, last crop year and this one.

Source: Based upon actual vessel sailings.

The Ministry of Merchant Marine offered a number of explanations for whatever congestion¹³ existed in the ports during the months of October and November. Officials said that as a result of the moratorium on sales to the Soviet Union, American vessels scheduled for deliveries to the USSR were backed up in the U.S. When shipments finally did resume after the Merchant Marine rate agreement in last September, the Soviets found themselves with 1 million tons scheduled for arrival between mid-October and November (see table 6) over and above the 2.2 million they expected. Secondly, one well-informed Soviet official confessed that the USSR suffers from a "rail transportation problem" on a seasonal basis. It is the harvest season which places the severest strain on the rail system, creating a shortage of rail cars at the ports in October. He thought November would not, however, be as rough as October.

Without adequate storage capacity at the ports, the Soviets rely on their rail system to distribute the grain into the interior of the country. Some ports, particularly the large ones like Novorossiysk in the Black Sea, are better equipped than others. In 1972, it had been reported that the Soviets had to dump grain on the ground at port sites, leaving it exposed and unprotected until it could be picked up for direct consumption or redistributed to points in the interior. As a result, Soviets were faced with a high loss ratio at the time, ranging between 5-10% of total shipments. Today, the storage facilities at the ports are reputed to be considerably better, but in my tour of the port of Leningrad, there was no evidence of any grain storage facility. According to one Leningrad officials, 25,000 of the 30,000 tons unloaded daily in the month of November were picked up by rail cars and routed as far as 4,000 kilometers into the interior of the country. The other 5,000 tons

¹³ I did not see any congestion in the port of Leningrad which was the only port I was able to see. The term was used interchangeably with the "port problem" by the Soviet official.

went onto barges which in summertime go up the Neva River but in winter go to the mouth of the river where their loads are emptied into rail cars. When I was in Leningrad, I was told there were 1,000 rail cars per day loading grain from the ships. Unlike 1972, deliveries this year have come on strong in the winter months when it is virtually impossible to leave vast quantities of grain uncovered. The availability of rail cars during this season is, therefore, of the utmost importance in limiting damage and loss.

Most ports in the Soviet Union can only accommodate ships 250 metres in length and in the 35-40,000 ton range with the exception of Odessa and Novorossiysk, both of which are deep water ports with berths for vessels in the 55-60,000 ton range. (Leningrad supposedly can handle ships up to 60,000 tons but it was not clear whether or not this size vessel could move through the Morskoy Canal from the Gulf of Finland fully loaded to berth or whether a vessel of that size would have to be partially unloaded at sea before passing through the canal to berth). As long as there are enough berths and the proper unloading facilities, shallower ports need not be a deterrent in handling vast quantities of imported grain. It does mean, however, that shippers who have chartered the larger vessels must break shipments up into smaller loads before delivery in the USSR.

Merchant Marine Ministry officials indicated that the Soviet Union was considering negotiating for some storage space in Western Europe, just as had been contemplated in 1972. While these officials did not specify how much storage Soviets might rent or precisely where in Western Europe (the logical points are Rotterdam, Amsterdam, and Hamburg which are the main grain import and distribution centers for the European continent), they said that the purpose of renting these facilities would be to help route some of the imported grain through Europe. The northern ports in Western Europe are ideally suited for transporting grain to Eastern Europe or to smaller ports in the Soviet Union like Riga or Tallinn on the South coast of the Gulf of Finland. Renting storage in Western Europe could also facilitate breaking down large shipments into smaller loads for reshipment to a major Baltic port like Leningrad. There may be other explanations for Soviet rental space in Western Europe to store grain coming from the United States as well as other countries but they were not mentioned by any of the officials.

Aside from the rail car shortage, and the inadequacy of some of the port facilities, two additional explanations have been suggested for the port congestion during the time of my visit. Some informed observers think that there is a labor shortage at some of the ports which has contributed to the back-up of ships. Nothing in my conversations nor anything I saw could substantiate this claim. What was apparent, and openly admitted by a number of Soviet officials, was that adverse weather conditions are a permanent problem in the Soviet Union. I had, for instance, planned to visit the port of Odessa on November 29, but just prior to my departure Odessa had the worst storm it has experienced in the past 100 years. The port was virtually at a standstill and the city was getting its electricity from generators on merchant vessels offshore. Leningrad has to use icebreakers to keep the port open from the middle of November to April and during this time, it is very difficult to accommodate certain kinds of vessel traffic. This year's weather has not been particularly favorable in the Soviet

Union, thereby further contributing to delays in the discharge of grain.

Delays are an extremely important factor from the commercial point of view because the longer a ship has to wait in port, the more expensive it is for the charterer. The ship cannot be used for alternative cargoes; the shipper cannot meet other deliveries nor can the ship be chartered or subchartered to another party; or the charter time may run out before the ship makes its delivery. To protect the shipper, there are demurrage charges paid by the port authority if a ship's delay is caused by the port. Rail car or labor shortage would be subject to demurrage charges but climatic difficulties would not. I was told at the Ministry of Merchant Marine that the Soviet Union will have to pay substantial demurrage charges this year. U.S. vessels are now reporting a thirty to forty day waiting for berth period.¹⁴

Despite these difficulties, Merchant Marine officials were optimistic that the situation would stabilize in December and January when 500,000 tons of U.S. grain are expected to arrive in U.S. bottoms. They thought the Soviet Union would be able to unload all foreign shipments contracted for during the 1975-76 period. U.S. officials at the Merchant Marine Administration have corroborated these conclusions by saying that they have seen nothing to suggest that the USSR would be unable to handle all it bought, at least as far as U.S. grain purchases are concerned, by October 1, 1976, when the new grain agreement is scheduled to be put into effect.

U.S. observers have noted that the Soviets are not rushing their shipments, despite the initial lag in August and September, which may indicate that the Soviets do not intend to buy more grain in the near future. At the rate they are now importing, it would seem that they could import at least 25 million metric tons, particularly if they rent any Western European storage facilities to handle some shipments destined for the USSR.

SHORTFALL COUNTERMEASURES

Whether the shortfall is only 25 million metric tons or whether it is of a much higher magnitude as reported in several papers here, the Soviets I spoke with indicated that certain countermeasures had already been undertaken and that others of a more long-term nature were planned. The greatest difference of opinion among Soviet officials and other expert observers of the Soviet economy lies in the stop-gap measures.

It has been suggested that the Soviets are degrading their bread by using lower quality wheat. An American student at Lenin University in Moscow told me that she had seen a new quote placed on the walls of the Lenin Library cafeteria admonishing students and faculty: "Conserve bread. It's our national treasure." Also apparently, this is the first year that the University has begun to charge students for the bread on the tables, heretofore available without charge. The *New York Times* reported in a story on December 10, 1975, that travelers in Central Russia found bread being rationed in some stores. Just how illustrative these anecdotes are of a concerted government

¹⁴ Appendix III, Letter from Robert J. Blackwell, Assistant Secretary for Maritime Affairs, Department of Commerce, January 1976.

campaign to reduce wheat consumption is impossible for me to determine.

It is certain, however, that the Soviets are importing considerable quantities of wheat. What no one seems able to determine is just what the purposes are for these imports. A high official at the Ministry of Agriculture stated that there would be 44 million metric tons of wheat available in the current year for human consumption. It is not clear whether he was speaking only about domestic production or included imported grain in his determination of the amount of available supply. USDA has concluded, however, that "the quality of the recently purchased wheat indicated that most of it will be used for food while poorer grades of Soviet wheat are shifted to animal food."¹⁵ The U.S. Government does not know, however, what portion of Soviet wheat consumption for human purposes comes from local production and what portion is satisfied by imports. The Soviet Union does publish some general statistics on wheat production and consumption, but again they do not tell us whether the USSR is dependent on imports in any way for its own food or whether there were other reasons for purchasing high grade wheat this year.

TABLE 7.—U.S.S.R. WHEAT PRODUCTION AND CONSUMPTION¹

Wheat (million metric tons)	1974	1975
Total production.....	83.9	63.6
Seed use.....	15	16
Food use.....	46-7	46

¹ Figures for 1974 are derived from the "Soviet Statistical Abstract, 1974" and those for 1975 from the "December Plenum Report".

It is widely reported in the American press that the Soviets have had to resort to distress slaughtering of their livestock herds, particularly hogs and poultry which are more dependent on feedgrains than cattle for their diet. A Ministry of Agriculture spokesman denied that there had been an unusually high slaughter rate for cattle or hogs as part of an official effort to conserve supplies. An official of the Ministry of Procurement, on the other hand, alluded to this possibility, but he added that "it was government policy not to cut back on one single head (cattle and hogs) if at all possible."

Other steps mentioned by the Ministry of Agriculture spokesman were feed rationing for cattle, greater use of sunflower seeds for meal and shifting herds from drought and poor harvest areas to the more fertile, well supplied sections of the country. An official at Gosplan said that the current grain shortage severely affected the Soviet Union's balance of payments and that it would have an impact on the rest of the USSR's foreign trade. He was not more specific than that so no official has openly declared that the Soviet Union will cut back on its imports, step up its search for foreign credits or charge more for its exports like oil to CEMA countries to make up for the current imbalance. The closest admission that this approach could be expected was in the December 2 announcement by Deputy Prime Minister Nikolai K. Baibakov that there would be a lower growth target for the country in the next year.¹⁶

¹⁵ USDA, "U.S. Grain Sales to the U.S.S.R.," October, 1975.

¹⁶ *Wall Street Journal*, December 3, 1975.

Longer term measures appear less disputable on the surface. As one Gosplan official put it, the USSR will just "have to make its agriculture independent of climatic changes" by developing modern agriculture techniques, storage facilities, and greater use of fertilizer. Ministry of Agriculture spokesmen outlined a program of more investment in irrigation and the mechanization of agricultural production. No one mentioned possible Soviet participation in any international reserve system.

COMMERCIAL PRACTICES

Dealings with Grain Exporting Companies

At the Ministry of Foreign Trade it was said that Soviet purchases of foreign grain were made through contracts with the following companies—Continental, Cook, Cargill, Louis Drefus, Toepfer, and Bunge. While stressing that Exportkhleb is guided by normal commercial considerations in deciding on what company it purchases grain from, one high official said that they do try to divide contracts evenly among the major exporting houses. The largest exporting firms are Continental, Cook, and Cargill, listed respectively by order of size in their sales to the USSR. When asked why the Soviet Union has elected to deal consistently with the same companies, this official offered a number of reasons. Firstly, he said they were "the biggest" and "most reliable." Secondly, their size and multinational character enable them to provide a host of connections with suppliers which the Soviets admit they do not have. Thirdly, these companies have established "many years of good relationships" with Soviet officials.

In 1972, the Soviets reportedly signed most of their contracts for U.S. grain with the American parent companies who then purchased directly on the U.S. market. Apparently, the companies were dissatisfied with this arrangement for numerous commercial reasons, and subsequently wrote contracts for United States or optional origin grain (optional origin permits the supplier with the consent of the customer to supply grain from any origin in fulfillment of the contract) through their subsidiaries in Western Europe. I referred to this practice and asked officials at Exportkhleb and the Ministry of Foreign Trade why the Soviet Union signed its contracts with the subsidiaries even when U.S. grain was involved. The answer I received was that the companies prefer this arrangement and as far as Exportkhleb is concerned, it makes no difference whether they buy through the parent or the subsidiary.

The question of optional origin contracts is an important one because it permits the buyer and the seller to take maximum advantage of market conditions to reduce costs and secure deliveries of grain scheduled for shipment. There have been rumors that the companies are extremely interested in using the optional origin clause which they have with the Soviets to allow them to switch from non-U.S. grain they purchased during the moratorium on sales to the Soviet Union to U.S. origin grain in order to provide more rapid delivery at lower prices.

At issue, apparently, is whether the U.S. Government would consider the switchover to U.S. grain as a fulfillment of contracts written before the moratorium or as new sales. One official denied that any company has requested this option but as far as the Soviet Union is concerned, spokesmen for Exportkhleb and the Ministry of Foreign

Trade maintained that any switchover would be considered completion of an old contract, and therefore, not a new sale. At the moment the U.S. reporting system would regard the switchovers as new sales, forcing either the companies or the USSR to change their interpretation of the original contracts if they intend to respect the unwritten 17 million metric ton ceiling.

Little more was disclosed about contracting procedures, except the noteworthy comment at the Ministry of Foreign Trade that the Soviets sign contracts for their grain purchases with the "majors" at fixed prices with no escape clause. The price is an f.o.b. (free on board) quoted price which means that shipping costs are handled separately and the quoted price is for grain ready to be loaded onto ships at ports in the United States.

Finally, I was told that the same companies who are the major sellers of grain to the USSR are also exporters of Soviet grain to other parts of the world. One well-informed official explained that the Soviets resort to using the companies to handle much of their exports because of their "connections with end-consumers." He did not indicate whether there was any relationship between the supply contracts the companies handle for import to the USSR and the Soviet exports to other countries. Another knowledgeable source on these questions said he was certain that the companies handle Soviet exports to CEMA and other socialist countries. Usually these government-to-government contracts are set up on a barter, rather than on a conventional cash and credit basis which leaves unanswered the question as to whether these Soviet export contracts may not be considered partial payment in kind to suppliers for grain delivered to the USSR.

Financing

According to key Soviet officials, Exportkhleb has not received any credits from American companies or banks with or without U.S. Government backing for the express purpose of purchasing grain. They said that the Soviet Government will do "most" of the financing itself. One American correspondent in Moscow suggested that a recently negotiated loan of \$300 million assembled by a consortium of banks in Western Europe under the leadership of First National City Bank (Citicorp) was in all likelihood connected with Soviet payment for its grain imports.¹⁷

Shipping

Sovrakht is the Soviet charter service under the Merchant Marine. It is responsible for everything related to ship chartering. It has a number of "corresponding agencies" which serve as ship brokers for Sovrakht in other countries. Glenas, the ship brokerage house in France, for instance, acted as the chief agent for Sovrakht in chartering the requisite number of ships to cover grain purchases made prior to the July moratorium.

According to one official at the Ministry of Merchant Marine, 70-80 percent of the current USSR contracts for U.S. origin grain were signed on an f.o.b. basis, although even now the companies have

¹⁷ The Chase World Information Publication, *East West Markets* reported in its October 20, 1975, issue that Citicorp International Bank, Ltd. was syndicating with Societe Generale (Paris) a loan of \$300 million at 1.25% over the London rate (LIBOR) to the U.S.S.R. The Bank of International Settlements is referred to as the source for a prediction that the Soviets might borrow 1-2 billion on the Eurodollar market per year.

several contracts written c. & f. (cost and freight) or c.i.f. (cost, insurance, and freight), which means that shipping costs are covered in the overall price of the contract. As explained by sources at the Ministry of Merchant Marine, the shipping market is now depressed because of the number of vessels presently not in use. Oil tankers, for instance are often used to carry grain and before Sovrakht arranged its charters, these tankers were idle, thus reducing their charter costs. This market situation works in favor of the purchaser who is interested in chartering vessels. These same officials said that under the present circumstances the companies would not charter U.S. vessels because they were so much more expensive at \$16 per ton than the going world market rate. Table 6 shows that the Soviets have chartered as of January 1, 1976, 55.1 percent of all shipments in third flag vessels, belonging neither to U.S. companies nor the Soviet Union.

When asked what Sovrakht had done to protect itself about demurrage charges resulting from the delays in unloading grain at the ports, these officials said that generally it was Soviet practice to self-insure. Any savings from having their own insurance program were passed on in the form of lower shipping rates and it was stressed that this factor could explain why charges made that the Soviet Union is dumping its vessels on the market by artificially slashing prices are unfounded.

At the Ministry of Merchant Marine, we also spoke about Soviet complaints against the quality of U.S. grain shipments. I was told there were many complaints in this regard as well as charges of shortweighing. In this case Exportkhleb as the official Soviet importer discounts to its own customers (i.e. millers and farmers) for shortweighing and quality. Exportkhleb, in turn, receives a discount off the original contract price from the companies. In Leningrad, the port authority certifies the weight and quality of the grain as it is loaded into the rail cars. These certificates are transmitted along with other shipping documents to Exportkhleb and Inflat, the government agency service for foreign vessels. If the port certifies that there were no shortages in the shipments, then Exportkhleb can be held responsible for any loss of grain which may occur before or when shipments arrive at their final destination. Some informed sources think the loss rate (the disappearance of grain which remains unaccounted for) in the Soviet Union is as high as 10% of all supplies. One well informed official admitted that there were, at times, significant losses but that in every case he knew of they were resolved by Exportkhleb and its suppliers and customers.

GRAIN AGREEMENT

All Soviet officials I spoke with endorsed the U.S.-USSR Grain Agreement of October 20, 1975,¹⁸ but their reasons differed slightly, reflecting to some extent the views of the individual ministry they were representing.

At the Ministry of Agriculture, one high ranking official said the agreement provides the USSR with supply stability. Secondly, he sees the latest agreement as a logical extension of the Agricultural

¹⁸ Appendix IV, Agreement between the Government of the U.S. and the Government of the U.S.S.R. on the Supply of Grain.

Agreement of 1973, completing what the 1973 accord had left undone. This official was referring to the issue of exchanging specific information on agricultural commodities as set out in Article II of the 1973 agreement. U.S. Department of Agriculture officials and several Congressmen have contended that the Soviets failed to comply with the terms of Article II by not furnishing data on production and trade of grains in particular.

. . . the continuing lack of Soviet response to our requests for current year data (especially forward estimates) on U.S.S.R. production, consumption, and trade of grains and other agricultural commodities.

Since Soviet provision of forward estimates was specifically written into the Agricultural Agreement, the failure to provide such data has caused controversy which detracts from successes with other parts of the Agreement. The U.S. has explained that having such data would improve USDA forecasts on U.S.S.R. trade in grains, oilseeds and oilseed products, and that this greater needed knowledge would facilitate the necessary adjustments and thus be beneficial to both countries.¹⁹

The Soviet official countered by saying the Soviet Union has more than complied in furnishing the requisite information (Refer to Appendix III). Furthermore, the new bilateral agreement for minimum sales and purchases should satisfy any former concerns the U.S. Government had about its inability to gauge what Soviet demands for grain would be in the upcoming year. I got the distinct impression that the Ministry of Agriculture interprets the new agreement as another expression of Soviet good faith in helping bring stability to American grain prices but that the USSR could not be more forthcoming in providing additional information along the lines suggested by USDA. In other words, the official Soviet position is that the 1975 agreement would be an adequate substitute to whatever informational needs American officials claim the USSR has not yet provided under the terms of the 1973 agricultural accord.

Exportkhleb and Ministry of Foreign Trade officials commented very briefly on the 1975 Grain Agreement in noting that it had "practical value and would bring stability." At the Ministry of Merchant Marine, officials emphasized the benefits of the Agreement for shipping. It would provide an opportunity to plan long-term actions on a regular basis, allowing the Soviet Union to schedule ship charters, actual shipments and deliveries from the U.S. more efficiently.

At the Ministry of Foreign Affairs, my questions were directed at the Soviet Union position on participating in an international reserve system, perhaps as an outgrowth of their entering into a bilateral agreement with the U.S. on grain sales and purchases.

The U.S. Government has consistently handled these two issues on parallel tracks. When negotiations began for a bilateral grain agreement, the White House was already preparing finishing touches on a proposal to establish an international grain reserve system. The proposal was a follow-up to the President's UN address in the Fall of 1974, the Secretary of State's address before the 1974 World Food Conference in Rome, and an ad hoc meeting of grain trading countries at the Wheat Council, February 10, 1975. The proposal was finally introduced formally at a preparatory meeting of the International Wheat Council in London, on September 29, 1975. At the same time the Grain Agreement negotiations were moving into an intense phase

¹⁹ USDA, Background Paper on U.S.-U.S.S.R. Agricultural Cooperation Agreement.

as the U.S. extended its moratorium on sales to Poland. American officials close to these negotiations admit that the U.S. team harbored a hope of extracting from the Soviets a willingness to join the Wheat Council talks on international reserves as part of a grain agreement package. The Soviet Foreign Affairs officials said that as early as November, 1974, their government was approached by U.S. officials on this matter and that unofficial talks were resumed in Washington via their embassy. They neither confirmed nor denied that there was any linkage between the signing of the Grain Agreement and their position on participating in the Wheat Council talks on a grain reserve plan. All they did say was that it was their understanding that any discussion of the U.S. proposal would continue in the bilateral context. They indicated that for now their government did not intend to participate in any such reserve system, nor in a UN sponsored effort for food assistance and information sharing.

Regarding the U.S. effort to link Soviet oil deliveries to the U.S. with the Grain Agreement, officials at the Ministry of Trade made what could be interpreted as a passing reference to this question when they said that the oil crisis was a threat or a destabilizing factor to international security. They noted the disparity in the rate of inflation with prices of manufactured goods from the West increasing disproportionately to prices of raw materials which account for the largest portion of the USSR's exports.

At the State Planning Committee (GOSPLAN), one official displayed some sensitivity to the contention that the Soviet Union wound up being favored over the developing countries and charged that there was an organized effort to discredit the Grain Agreement.

Soviet Embassy spokesmen in Washington offered still another view of the benefits of the Grain Agreement for both the U.S. and the USSR. The Soviet Union, he thought, gained access to a secure supply of grain while avoiding American public opposition which his country experienced in 1972; the U.S. gained by Soviet willingness to purchase a fixed amount over a five-year period and by Soviet recognition of the political pressures mounting in the U.S. for an agreement of this kind.

No one I spoke with regarded the Grain Agreement as a mainstay of détente between the United States and the Soviet Union. Moreover, official Soviet reaction ranged from passive acceptance of the agreement to active support on the grounds of its commercial benefits.

CONCLUSIONS

What is most striking is how little is known and how little the Soviets are prepared to disclose about key questions that may affect the successful implementation of the 1975 U.S.-USSR Grain Agreement. From the limited information provided in this report a number of important questions arise which American officials have either chosen to ignore or are unable to answer.

Estimates for Soviet grain production in the 1975 harvest vary widely. Neither U.S. analysts nor Soviet officials can agree on the figures, even at this late date. While not as great, there is also a significant discrepancy between the amount of grain American companies and the U.S. Government report and Soviet officials maintain

they will purchase from foreign suppliers up through August 31, 1976. The U.S. Government has an even more impressionistic idea of how much grain the Soviets will actually import. No one can yet accurately report how much below or above what the Soviets identify as their total foreign purchases covering August 1, 1975–August 31, 1976, will actually be delivered to the Soviet Union. The Soviets refuse to discuss their stock position and U.S. estimates are, at best, complicated guesswork. The Soviets claim that their stocks and exports will stay at the same level as 1974 when the USSR experienced a bumper crop. These claims run directly counter to all American reports. The biggest question mark of all regards Soviet commercial practices—how they handle their grain purchases and sales.

Without a firm assessment of Soviet crop production, carryover stocks, and the level of imports and exports, the U.S. cannot determine the overall supply position for the USSR in the current marketing year.

Notwithstanding any unwritten agreement between the governments of the United States and the USSR about consultations for Soviet purchases of U.S. grain above a ceiling of 17 million metric tons for corn and wheat, the U.S. Government still cannot specify how much U.S. and foreign origin grain the USSR will actually purchase and import before October 1, 1976, when the Grain Agreement enters into force. Furthermore, if American estimates of the 1975 Soviet crop failure are either on the low or high side, the Grain Agreement may serve to lock the U.S. into a supply position which is disadvantageous to its overall economic interests.

If Soviet claims about their stocks and exports are correct, then the United States may find itself in the awkward position of having signed an agreement and accompanying understanding which assists the Soviet Union in stock replenishment and its own export program. By replenishing stocks, the United States could end up protecting Soviet leadership from any public admissions of failure in their own planning and production process. Freeing Soviet supplies for export by means of increased, relatively cheap imports of U.S. grain also may be a boon to the USSR's political and economic standing. Through their own private arrangements with the Soviet Government, American companies may also help to service Soviet grain contracts with Eastern European and other countries. In this way, the United States may be bolstering the Soviet Union's position with its allies by enabling it to maintain its position as a traditional supplier. Given the little we know about the Soviet supply position and Soviet motives for heavy grain purchases this year, it is equally possible that the Soviets are purchasing high premium wheat from the United States because they find that it is cheaper than growing it themselves. The Soviet Union's Pacific Coast is far from domestic grain producing regions so it may be more economical for the Soviets to purchase some grain in foreign markets for domestic food requirements as well as for export commitments. Such normal commercial considerations may do more to explain the recent trend in Soviet foreign purchases than the flood of assessments about a disastrous economic set-back for the USSR as a result of the current shortfall in production. If the Soviet response is largely commercial, then the Grain Agreement may not be the best tool to tie the USSR to the U.S. grain market and stabilize prices.

One explanation for any diversion of U.S. grain shipments, destined for the USSR, to Western Europe may be the inability of Soviet ports to accommodate the larger vessels above 40,000 tons. Another reason may be the quantity of grain imports, making it more expensive for the Soviets to pay for forced delays than to divert the shipments on a temporary basis to Western Europe.

Still another plausible explanation can be suggested for Soviet interest in storing their U.S. grain in Western European elevators. This option offers at least two main advantages for the USSR. It could enable them to buy in excess of any formal commitment to the U.S. Government to limit their purchases of U.S. corn and wheat. Secondly, it could facilitate re-exporting this grain to points outside the Soviet Union in violation of the Grain Agreement.

The U.S. trading system is not foolproof, and it appears that the Soviets are well aware of the loopholes. The U.S. Government cannot accurately determine the level of U.S. grain purchases made by the Soviet Union nor the ultimate destination of U.S. grain shipments. This situation arises from the fact that the Soviet Union knows almost as much about the commercial practices of the major U.S. exporters as the U.S. Government does. If the Soviets are negotiating for storage space in a private American company's subsidiary terminal in a Western European port, it is extremely difficult for the U.S. Government to track U.S. grain shipments with designated delivery to the USSR. Once the grain is deposited in one of these elevators, it is easily transshipped at a later date to other destinations.

In light of the fact that the Soviet Union is planning to build large grain terminals at Soviet ports plus its interest in renting storage space in Western ports, the Soviet Union may be directing more of its attention to becoming a grain merchant. In this case the Grain Agreement might make it easier for the Soviets to become resellers on the world market in competition with the U.S.

Without hard data, there can be no firm and fast conclusions. The alternatives I have outlined remain, therefore, only hypotheses. No matter how the Soviet Union responds, it is likely to act in a way that would maximize its own commercial interests. When it comes to grain, I am left with the impression that the Soviets limit themselves to a pursuit of these objectives and do not confuse them with other trade issues which in their estimation reflect the more general political and economic climate of relations between the USSR and the United States.

The U.S. Government, on the other hand, appears to have placed a high priority on the political value of U.S. exports to the Soviet Union. The question remains, however, whether the U.S. Government has succeeded in achieving even these goals, quite apart from any economic interest when it concluded the 1975 Grain Agreement with the USSR.

GLOSSARY OF USSR GOVERNMENT AGENCIES

- CEMA—Council for Economic Mutual Assistance, the Socialist Eastern European Country economic pact.
- Exportkhleb—Organization under the Ministry of Foreign Trade responsible for the import and export of grains and grain products.
- GOSPLAN—State Planning Committee.
- IMEMO—Institute of World Economics and International Relations.
- INFLOT—Service and enforcement agency for foreign vessels under the Ministry of the Maritime Fleet.
- Sovrakht—Soviet charter service under the Ministry of the Maritime Fleet.

APPENDIX I

PRINCIPAL INTERVIEWS

MONDAY, NOVEMBER 24

Ministry of Foreign Trade

N. V. Zinov'yev, Chief, Administration for Trade with the Countries of the Americas.

A. V. Mel'nikov, Administration for Trade with the Countries of the Americas.

Ministry of Agriculture

Deputy Minister B. A. Runov.

TUESDAY, NOVEMBER 25

Ministry of Foreign Affairs

Lev. N. Astaf'yev, Counselor, Department of International Economic Organizations.

Valentin Shchetinin, Dean, Faculty of International Relations, Institute of International Relations.

Igor P. Sevostyanov, 3rd Secretary, USA Division.

USA-Canada Institute

Ye. S. Shershnev, Deputy Director.

Igor Aremiev, Research Fellow.

WEDNESDAY, NOVEMBER 26

State Committee for Foreign Economic Relations

Deputy Chairman Kul'yev.

Ministry of Foreign Trade

E. M. Kuz'kin, Deputy Chief, Main Administration for the Import of Industrial Raw Materials.

I. F. Mikhailov, Vice President, Exportkhleb.

Agayev, Director of Grain Department, Exportkhleb (served as interpreter).

Ministry of Procurement

Deputy Minister Yu. V. Shilkin.

M. M. Kuznetsov, Chief, Foreign Relations Department.

A. I. Luginin, Deputy Director, Main Administration for Feed Industry.

THURSDAY, NOVEMBER 27

State Committee for Science and Technology

Dr. A. E. Aykazyan, Chief, USA Section.

FRIDAY, NOVEMBER 28

Gosplan

V. V. Mordvinov, Chief of the Section for Economic Cooperation with Foreign (Developed) Countries.

G. N. Bazhenov, Senior Expert.

Ministry of Merchant Marine

I. M. Averin, Chief, Foreign Relations Department.

IMEMO (Institute of World Economy & International Relations)

V. A. Martynov, Deputy Director.

V. A. Morozov.

A. V. Anikin, Chief, USA Section.

V. B. Yakubovksy.

SUNDAY, NOVEMBER 30

Port of Leningrad

Oleg A. Terekhov, General Manager.

APPENDIX II

LIST OF ECONOMIC INFORMATION SUPPLIED BY THE SOVIET UNION UNDER THE AGRICULTURAL AGREEMENT

DEAR MR. GILMORE: In accordance with the agreement expressed by Deputy Minister of Agriculture Boris Runov during his conversation with you, may I refer you to the attached list of economic information regularly supplied by the Soviet Side under the Agricultural Agreement.

Sincerely,

A. KOVALEV.

I. INFORMATION ON AGRICULTURAL ECONOMICS AND PROCESSING AND UTILIZATION OF AGRICULTURAL PRODUCTS

List of information on agriculture, on industries processing agricultural raw materials, and on certain other questions provided by the Soviet Side in response to requests by the American Side.

(1)	(2)	(3)	(4)
AGRICULTURE			
I-1.....	Sown areas for agriculture crops in 1974 (preliminary data).....	Yearly.....	August.
I-2.....	Sown areas of agricultural crops (final data) gross harvest and yield of agricultural crops (preliminary data).	Yearly.....	February.
I-3.....	Gross harvest and yield of major agricultural crops (final data)....	Yearly.....	July of the following year.
I-4.....	Operational data on the harvest of grain and sunflower (size of harvested area according to plan and actually).	4 dates per year.	During harvest.
I-5.....	Production of raw cotton, including data on fine fibered cotton....	Yearly.....	November.
I-6.....	Fertilizer by crops applied per 1 hectare of sown area.....	Yearly.....	March.
I-7.....	Sown area under certified and recommended varieties by Republics.	Yearly.....	February.
LIVESTOCK			
I-8.....	Population of major livestock and poultry on collective and state farms U.S.S.R.	Monthly by the 1st of the month.	Before the 15th.
I-9.....	Number of major livestock and poultry (preliminary data on the census as of Jan. 1).	Yearly.....	February.
I-10.....	Number of livestock and poultry by sex and age groups (final results of census of livestock and poultry as of Jan. 1).	Yearly.....	June.
I-11.....	Livestock and poultry meat production by type (live and slaughter weight, milk, wool, eggs, skins and pelts, fur, down and feathers, raw silk and honey on collective and state farms U.S.S.R. (final data).	Yearly.....	August.
I-12.....	Use of feed: by major feed categories, for all types of livestock and poultry on collective and state farms.	Yearly.....	July.
I-13.....	Number of livestock slaughtered for meat.....	Yearly.....	August.
MARKETING OF AGRICULTURAL PRODUCTS			
I-14.....	Grain sales to the Government in total and by crops in standard/ recalculated weight.	Yearly.....	November.
PROCESSING OF AGRICULTURAL PRODUCTS			
I-15.....	Production of the food industry.....	Yearly.....	June-July.
I-16.....	Production of the food industry current data.....	Monthly.....	Month after the reporting month.
I-17.....	Production of oilcake, oil meal and fish meal.....	Yearly.....	February, April.
FOOD CONSUMPTION			
I-18.....	Consumption of major products per capita: meat and lard, milk and milk products, bread products.	Yearly.....	October.

Note: Economic information (sec. I points I-18) is usually presented for the period of the last 10 yr.

APPENDIX I

Part of Economic Information Submitted by the Soviet Union
Under the Agricultural Agreement

1. The Soviet Union is a country with a vast territory of about 22 million square kilometers. It is a country with a rich natural resources and a highly developed industry. It is a country with a highly developed agriculture and a highly developed livestock husbandry. It is a country with a highly developed science and technology. It is a country with a highly developed culture and education. It is a country with a highly developed economy and a highly developed society.

2. The Soviet Union is a country with a highly developed agriculture and a highly developed livestock husbandry. It is a country with a highly developed science and technology. It is a country with a highly developed culture and education. It is a country with a highly developed economy and a highly developed society.

3. The Soviet Union is a country with a highly developed science and technology. It is a country with a highly developed culture and education. It is a country with a highly developed economy and a highly developed society.

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APPENDIX III

LETTER FROM ROBERT J. BLACKWELL, ASSISTANT SECRETARY FOR
MARITIME AFFAIRS, DEPARTMENT OF COMMERCE

U.S. DEPARTMENT OF COMMERCE,
THE ASSISTANT SECRETARY FOR MARITIME AFFAIRS,
Washington, D.C., January 15, 1976.

Mr. RICHARD GILMORE,
*Professional Staff Member, Foreign Relations Committee,
U.S. Senate, Washington, D.C.*

DEAR MR. GILMORE: Further to our discussions concerning the U.S.-U.S.S.R. Maritime Agreement, I am enclosing a summary indicating the participation of U.S., Soviet and third flag vessels in the carriage of U.S. grain from the inception of the Agreement in 1972 through December 31, 1975.

Contrary to the substantial delays which occurred in U.S. ports in 1973, there have been no significant delays in U.S. ports in connection with the recent grain sales to the Soviet Union. However, with respect to delays in Soviet ports our data indicates that all vessels are still encountering average delays of between 30 to 40 days. While reports from Soviet maritime officials expressed belief that vessel delays would be reduced by January, the most recent information received from U.S. ship owners does not confirm this. The principal reasons for the continued delays in discharging are poor seasonal weather conditions and a lack of an adequate supply of rail cars, vacuvators and labor. Also, the occasional need to fumigate cargoes has contributed to the slow turnarounds.

If I can be of any further assistance to you please feel free to call upon me at any time.

Sincerely,

ROBERT J. BLACKWELL,
*Assistant Secretary,
for Maritime Affairs.*

Enclosure.

UNITED STATES-U.S.S.R. MARITIME AGREEMENT—SUMMARY OF GRAIN CARGOES, JULY 1, 1972 TO DECEMBER 31, 1975 (BASED UPON ACTUAL VESSEL SAILINGS)

[In thousand metric tons]

Accounting period	United States	Soviet	3d flag	Total
July 1, 1972 to December 31, 1973.....	3,502.1	3,236.1	12,843.7	19,581.9
Percent.....	(17.9)	(16.5)	(65.6)	-----
January 1 to December 31, 1974.....	1,474.7	713.8	904.4	3,091.9
Percent.....	(47.7)	(23.1)	(29.1)	-----
January 1 to December 31, 1975 ¹	1,845.0	1,909.9	4,388.2	8,143.1
Percent.....	(22.6)	(21.5)	(55.9)	-----
Cumulative total grain.....	6,821.8	5,859.8	18,135.3	30,816.9
Percent.....	(22.1)	(19.1)	(58.8)	-----

APPENDIX IV

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

(October 20, 1975)

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

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

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

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

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

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

Have agreed as follows:

Article I

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

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

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

Article II

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

Article III

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

Article IV

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

Article V

In any year this Agreement is in force when the total grain supply in the USA, defined as the official United States Department of Agriculture estimates of the carry-in stocks of grain plus the official United States Department of Agriculture forward crop estimates for the coming crop year, falls below 225 million metric tons of all grains, the Government of the USA may reduce the quantity of wheat and corn available for purchase by foreign trade organizations of the USSR under Article I(i).

Article VI

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

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

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

Article VII

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

Article VIII

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

Article IX

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

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

For the Government of the
United States of America:

For the Government of the Union
of Soviet Socialist Republics:

○

Annex A

This Agreement shall enter into force on the day of its signature, and shall remain in force until September 30, 1951, unless extended for a mutually agreed period.

Done at Moscow, this 14th day of October, 1955, in duplicate, in the English and Russian languages, both texts being equally authentic.

For the Government of the
United States of America

