
Viewpoint

Fats and oils report

Grain Pact— U.S. and U.S.S.R.

The following article was prepared in late August by David Bartholomew, a frequent contributor to JAOCS news. He is manager of the oilseeds department for Merrill Lynch Pierce Fenner & Smith Inc. at the Chicago Board of Trade.

Grain Pact—U.S. and USSR

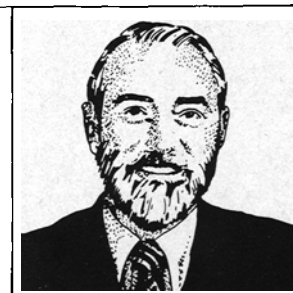
Political leaders in Washington and Moscow finally agreed to meet in early August to discuss a grain pact. This followed the lifting of the U.S. export embargo a number of weeks earlier. The U.S. was eager to see export sales resumed after it became evident that supplies were ample (and prices were depressed). The Soviets were reluctant until it became evident that their crop prospects were poor again and, therefore, large imports would be needed. The magnitude of import needs, especially for corn, would exceed supplies available from non-American origins.

The early August meeting in Vienna was, of course, highly charged with political tension. Neither side was in a conciliatory mood. The Soviets resented the embargo and the Reagan Administration's hard line on military matters and policies. The Americans refused to give a pledge against future embargoes. Consequently, all that could be agreed upon was to continue the old agreement, which would have expired on September 30, 1981, while trying to arrange further meetings for a new agreement.

Therefore, the previous agreement will continue in effect until September 30, 1982. This requires the USSR to buy a minimum of six million tons of grain, about equally split between corn and wheat. It allows the Soviets to purchase eight million tons without consultation. It specifies that purchases exceeding eight million tons must be approved in advance by Washington.

The approval would be granted if Washington calculates that larger purchases would not jeopardize supplies needed for domestic use or traditional foreign customers. At present, larger purchases would be eagerly granted. In fact, the USDA officials have said that an additional 10 million tons would be readily made available, for a total of 16 million. It would not be required that this be split equally between corn and wheat, but an approximate split could be expected.

Later in 1981 and extending into 1982, there will be a series of meetings dealing with a new agreement for subsequent years. At present, it is not possible to predict the conclusions of those talks. The U.S. officials currently do not know that they will propose; probably the Soviets



haven't decided either.

It is known that Moscow wants a guarantee against an embargo that could cancel purchase contracts already made. That will be a major impediment to a new agreement because American officials vigorously oppose such a promise, arguing it would be completely intolerable to be tied to such an arrangement for five years when there may be serious deterioration of the political climate between the two countries. It would be impossible for Washington authorities to explain to the American people the continuance of shipments if certain conditions develop during the period of the agreement.

Some U.S. producer groups want the new agreement to establish a higher minimum of required purchases. Other segments who are not involved in grain production such as livestock feeders, oppose a larger minimum for fear that would force prices too high in the domestic market if the crop is reduced seriously by bad weather or other factors.

Other interest groups want the agreement to include processed goods, such as wheat flour, compound feeds, vegetable oil and oilseed meal. Some also want soybeans to be included. But the American Soybean Association, a producer group, opposes the idea of including soybeans or oil or meal. They prefer a free, open market in trade with the USSR, just as they always have in all marketing aspects.

The possibility exists that it will be impossible to work out a new agreement, due to an impasse on the embargo clause or some other matter. What then? It would not mean a termination of grain trade between the U.S. and the USSR. A formal agreement is not necessary for trading to take place. Trade would continue just as it did before the first pact was signed. There would be no guaranteed minimum purchases. There would be no advance indication of how large purchases might be in those years when Soviet import needs increase.

The reasons for having an agreement in the first place were: (a) to assure American farmers of a constant minimal demand; and (2) to keep Soviet purchases from running up domestic prices in times when U.S. supplies are tight.

Before there was an agreement, it was customary for the Soviets to make no indication that they would be in the market until about July or August, after they saw how their crops were progressing. By that time, it was too late for American farmers to increase acreage for the kinds of grains

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