

Windfall Profits

Nixon Orders Wheat Probe

By William J. Eaton

WASHINGTON — (CDN) — The super-secret world of international wheat trading began to crack yesterday when it was revealed that President Nixon had ordered an FBI investigation into the \$750 million sale of American wheat to the Soviet Union.

At issue are Democratic charges that administration officials tipped off major grain exporters, causing smaller farmers and dealers to sell their crops early at a depressed price while the big dealers made a windfall profit.

The disclosure of the FBI investigation was made by Vice President Spiro Agnew in Minneapolis.

An investigation by a House subcommittee has disclosed the following:

- Continental Grain Co. made a secret deal early in July to sell the Soviets 183 million bushels of wheat for cash, a fact that remained unknown to the U.S. government and others in the wheat business until this week.

- The Continental sale was concluded at least three days before the White House announced a \$750 million grain deal with Moscow that involved a much smaller quantity of wheat on a credit basis.

- Unaware of the enormous demand from the Soviets, farmers in the winter wheat belt of Texas and Oklahoma sold their crop for about \$1.20 to \$1.30 a bushel in July — nearly \$1 a bushel less than wheat sold for in September.

- Although it eventually will pay scores of millions of dollars of export subsidies to help swing the Soviet grain transactions, the Agriculture Department still cannot get detailed information from

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some grain dealers on what types of wheat and the quantities to be sold.

• The Kremlin's negotiators apparently got a bargain price of \$1.63 a bushel for the American wheat while the size of their purchase sent the cost well over \$2 for bakeries and other large customers in the United States.

• Despite reports of drought in major wheat-growing areas of the Soviet Union, the U.S. Agriculture Department as late as Aug. 8 did not predict the 400 million-bushel purchase of U.S. wheat. The forecast for record-breaking export sales was made last Friday — more than a month after it became "common knowledge" in the grain trade.

Clarence Palmby, who was the chief U.S. negotiator on grain sales in Moscow last April, resigned in June to become a vice president of Continental. The Justice Department is checking to

see if Palmby's switch violated conflict-of-interest laws affecting federal employees. Palmby said he did not negotiate the Moscow-Continental wheat deal but was consulted by his fellow executives on the matter.

Sen. George McGovern, the Democratic nominee for president, charged that an agreement was concluded in April but word of it was withheld by the Nixon administration until July to allow grain exporters to gain an advantage over wheat farmers.

Palmby, a red-faced man with shaggy black eyebrows, appeared before the House Livestock and Grains subcommittee to deny that allegation.

The critics note that another top U.S. official involved with grain exports, Clifford Pulvermacher, left the government at the end of June to join another major grain dealer, Bugey Born.

Palmby's successor, Carroll Brunthaver, came to his

government post from yet another major grain trader, Cook Grain Co.

Such shifts — together with Brunthaver's testimony that he gave private, verbal assurances to executives of four grain firms that the department would protect them against losses on export sales — has given rise to a great deal of cynicism.

For nearly three years, the U.S. government has tried to stabilize the world price of wheat at \$1.63-\$1.65 a bushel at Gulf Coast ports. To do this, they set an export subsidy based on the price of wheat plus the transportation cost to the Gulf, varying daily as the price fluctuated.

According to Barton's testimony, the subsidy was 9 cents on July 10, but climbed rapidly, along with wheat prices, as word of the big Soviet buy became known in early August. By Aug. 24 the subsidy was up to 38 cents a bushel.

By its private assurance

that it would protect the \$1.63 price for export, the Agriculture Department had to pay higher subsidies to protect exporters against loss on foreign transactions.

On Aug. 24, however, the department decided not to follow the sharply climbing domestic price to preserve the \$1.63-\$1.65 export price — increasingly unrealistic in view of the surging demand originated in Moscow.

Instead, it decided to grant a special 47-cent subsidy — the difference between the selling price of \$2.12 and \$1.65 — and let traders claim it on all export sales concluded before Aug. 24.

During that week, subsidies were claimed on 280 million bushels at a cost of \$131.6 million — more than half of the cost of all wheat export subsidies in 1972.

Barton explained how a company might make a windfall this way: Assume that company X bought 50 million bushels of wheat on Aug. 1, when the export sub-

sidy was 16 cents. If the firm stored the grain at the port and delayed claiming subsidies until Aug. 26, the export payment would have been 47 cents — a windfall profit of 31 cents per bushel, minus storage costs.

Palmby, denying that Continental made any "excess" profits, said this kind of calculation made him smile because such risk-taking never

would be approved by banks that loan capital to the grain traders.

And, he said, Continental was forced to buy 70 million bushels of wheat in the week following Aug. 24, when the price was \$2.10 or more, and thus wiped out any benefit from the 47-cent subsidy on cash transactions since the sale price was about \$1.63 a bushel.

But 113 million bushels of wheat for Continental's sale to the Soviets were bought in July and August — before the price had climbed so high — and Palmby did not say exactly how much was paid for them or the subsidy rate the company will enjoy.

It was during Palmby's testimony yesterday that the extent of secrecy in the

grain trade became apparent.

Kremlin emissaries approached Continental late in June, he said, and the sale of 4 million tons of wheat was worked out during intensive Washington-New York negotiations by July 5. By July 11, the sale of another 1 million tons was negotiated — all without any public announcement.