

Behind the Soviet-U.S. Wheat Deal

The Commissars Took

By Tim Findley

"I think it is a fair statement to say that they (the Russians) were very sharp in their buying practices."

Treasury Secretary George Shultz on the \$1.1 billion sale of U.S. grain to the Soviet Union.

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Spring itself was deceptive in the Soviet Union in April of 1972, and at the time the American agriculture officials visited, it was balmy and dry — perhaps the best of bargaining weather.

The delegation was headed by Agriculture Secretary Earl Butz and included Export Marketing Service General Manager Clifford Pulvemacher and a number of U.S. grain experts.

KEY

But the key figure was quiet, horn-rimmed Assistant Agriculture Secretary Clarence Palmby, an urbane former Minnesota grain farmer himself who headed the U.S. team in discussing credit terms with the Soviets.

Even more than Butz, it was Palmby on whom hopes for arranging this historic Russian grain deal rested, and now, under the warm April sun in Moscow, he was reaching the apex of his career.

Though only a few of his closest associates knew it, this was also to be one of Palmby's last jobs for the government. A lavish new condominium he had recently purchased awaited him in New York City along with a new and lucrative position in private industry.

What was left now was to finish the work that had begun with a memo from Presidential Adviser Henry Kissinger in January 1972.

the Capitalists

TRADE

Kissinger, scouting new ways to secure world peace and to ease America's balance-of-payments problems, advised the cabinet that, "One of the possible areas for increased trade with Russia relates to agricultural products . . . Agriculture should take the lead in a new public discussion."

It had been a cold, dry winter in Moscow. Even though the travel of American diplomats had been restricted, the envoys had begun to report the possibility of crop failures caused by the inadequate snow coverage on Russian grain fields.

The extent of damage was

not known, but it seemed unlikely that the Russians could match their ambitious production demands under a new five-year plan.

The Soviet people were developing new affluence and a larger appetite for grain-fed meat. Their government had promised to deliver.

On Valentine's Day, Kissinger instructed the Secretary of Agriculture to develop a "negotiating scenario" on arranging a grain sale to the Russians.

PALMBY

The job, of course, fell to Palmby, who after at least one meeting with the Russians in Washington pro-

duced an encouraging plan whereby U.S. grain would be sold to the Russians by private U.S. firms backed by three-year credit terms arranged by the federal government.

In March, Palmby advised Undersecretary of Commerce James Lynn that the Soviets could be expected to buy about five million metric-tons of feed grains (mostly corn) in 1972 and that the U.S. could supply about 80 percent of that.

He also estimated that, for the first time since 1964, the U.S. could probably sell some wheat to the Russians.

Despite all these encouraging signs, the talks in

Moscow that April were snagged on credit terms.

CREDIT

The Americans offered a three-year line of credit for \$500 million and an interest rate of 6½ per cent. The Russians wanted 2 per cent.

The Americans returned empty-handed, but still encouraged. On a two-day tour of the Crimea, they had seen for themselves large amounts of Russian grain laid waste by by snowless winter and spring.

SURPLUS

At home, there were still vast stockpiles of grain and pressure was being exerted by farmers and Congress to

reduce the surpluses.

By the time of the Moscow Summit Conference in May of 1972, Palmby had met once again with the Russians in Washington. This time, he produced a memo to his superiors suggesting that the Soviets would buy a minimum of \$750 million in American grain during a three-year period under the U.S. credit terms.

This memo would later prove to be the basis of the agreement.

It is thought, though not known for certain, that the bargain was made at the Moscow Summit. There were vague hints of deals about the Russian role in ending the war in Vietnam and arrangements for imports of gas and oil to the U.S.

Even so, no formal agreement on the grain sale was announced.

CROPS

By June, reports of a Russian crop failure had begun to mount. The U. S. agriculture attache in Moscow estimated that one-third of the Russian winter grain planting — 27 million acres — had been killed.

June was also the month that Clarence Palmby left the government. He moved to his new condominium in New York and took a job as a vice president of Continental Grain Co. at a salary reputed to be \$85,000 a year.

Within months, Export Marketing Service General Manager Clifford Pulvemaker also resigned to take a job with Bunge Grain Co.

The negotiations with the Russians continued into July, with Palmby's successor, Carroll Brunthaver, acting for the U.S. The Soviets became more and more agreeable.

MEETINGS

While these discussions were going on, however, the Soviets were quietly conducting meetings of their own with American grain company officials.

On July 5, the Soviet agents from Exportkhleb executed a contract to purchase more than four million tons of wheat and a similar amount of corn from Continental Grain. The Soviets later bought another million tons of wheat from the same company.

Palmby insists he was not in on the discussions.

Three days later, on July 8, President Nixon announced that the Soviet Union had agreed to buy a minimum of \$750 million in grain from the U.S. during a period of three years. The amount and the terms were as Palmby had outlined them months before.

American officials still publicly assumed that the Soviets would be buying feed grains — mostly corn.

AMOUNT

In 1964, the U.S. had sold the Russians about 65 million bushels of wheat. The Department of Agriculture estimated in August 1972 that the Russian deal would increase wheat exports by

about 258 million bushels more than the total 632 million bushels exported (primarily to Japan) in 1971.

By the time that official estimate was published, the Russians had already bought nearly 400 million bushels of American wheat — one-fourth of the total production of wheat in the U.S.

With other exports, the U.S. ended up 1972 exporting three-fourths of the total production of wheat in the United States.

VICTIMS

American farmers were the first victims. Most of them, guided by the government's own indications, sold their wheat to the grain companies at prevailing prices that late spring and summer of 1972.

Then the price was about \$1.30 a bushel. As the truth of the Soviet grain deal became known, the price of wheat on commodities markets soared. By September, it had hopped to \$2 a bushel.

Many, perhaps most, American farmers recognized they had sold too soon.

(By September 1973 wheat had gone to more than \$5 a bushel — the highest price in history).

The American consumer would soon feel the error also, not only in higher bread prices and threatened shortages, but in the higher price of meat shoved along by soaring grain prices, and even in the higher price of lumber that could not be delivered because rail cars were jammed with grain.

Those who profited were companies like Continental Grain — not so much from the sales themselves, which the Soviets had shrewdly arranged at world prices, but from export subsidies that the U.S. government and the American taxpayer contributed to the deal.

To encourage exports, the federal government pays a subsidy amounting to the difference between the high price that grain companies could get domestically and the lower competitive price they must sell for on foreign markets.

That difference in June and early July of 1972 was five cents a bushel. But as news of the size of the wheat

sale spread rapidly, the markets began jumping.

Between July 3 and August 31, 1972, the price of wheat leaped by an incredible 44 cents on American futures markets.

In three days of August alone, it went up 28 cents. By late August, the government was paying grain companies a subsidy of 38 cents a bushel on export wheat.

END

Finally, the Agriculture Department announced it would end the subsidies and gave exporters one week to sign up for any further payments.

In that last week of subsidies, the government said it would pay 47 cents a bushel. In that one week alone, more than 280 million bushels of wheat were registered for export at a cost to the federal government of \$130 million.

There were charges that an Agriculture official had told the export firms of the impending end of subsidy payments before the official announcement had made the fact known to the wheat producers. The Agriculture Department denied the charge.

COST

The government had anticipated paying about \$67 million in export subsidies in the summer of 1972.

The actual bill came to some \$330 million.

Palmby, Butz and other administration officials had said the Soviets would buy a minimum of \$750 million in grain over three years.

Virtually in one summer alone, they bought \$1.1 billion worth.

And as prices raced higher on American markets, it was clear the Communists had made themselves a hell of a bargain at the expense of the capitalists.

Fires in Sicily

Palermo

Fires raged on the western tip of Sicily yesterday, spurred on by 50-mile-an-hour winds. Three firemen were hospitalized, one in critical condition.

Associated Press