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THE U.S.-USSR GRAIN AGREEMENT was recently signed amidst widely divergent views of its appropriateness. Administration spokesmen endorsed the agreement because of the stabilizing aspects it offered for domestic grain markets. Major farm groups, on the other hand, expressed displeasure because the agreement carried implications of an increased government role in exports. Overall, it appears that the agreement offers more positive than negative aspects for U.S. agriculture. Nevertheless, there are some potential pitfalls that could dilute the apparent benefits.

The provisions of the five-year grain agreement are applicable for each of the five 12-month periods between October 1, 1976 and September 30, 1981, unless U.S. grain supplies—production plus carryover—fall below 225 million metric tons. The agreement requires the USSR to import a minimum of 6 million metric tons of U.S. corn and wheat—in roughly equal proportions—during each 12-month period. The Soviets have the option of importing an additional 2 million tons (a total of 8 million tons) during each 12-month period. (It is noteworthy that during the past four crop years, Russian imports of U.S. grain have averaged about 7 million metric tons.) If the USSR desires to import, or the United States desires to export, more than 8 million metric tons in any one year, the agreement specifies that the quantity of such additional shipments must be mutually agreed upon by the governments of both countries.

Other provisions of the agreement include:

- The Soviet purchases will be made through private commercial firms in the United States and spaced as evenly as possible over each 12-month period.
- Purchases will be made at market prices at the time of purchase in accordance with normal commercial terms.
- The U.S. Government will not impose export controls on wheat and corn purchased by the USSR.
- All wheat and corn purchased by the Soviets will be consumed in the USSR.

An evaluation of the grain agreement should be cognizant of the potential pitfalls which might circumvent the intent of the agreement. First, there is nothing legally binding about the agreement. Second, since the agreement covers only wheat and corn, a short crop year in the USSR could generate large purchases of feed grains other than corn. Finally, the escape clause for the United States—total domestic grain supplies of less than 225 million metric tons—reportedly is to be based on July estimates of production and carryover. But, developments that occurred as recently as 1970 (corn blight) and 1974 are sufficient to suggest that actual U.S. grain supplies in any crop year can fall far short of the midyear estimate. However, concern about this point is tempered by the fact that 1974 was

the only year since 1960 that total U.S. grain supplies approached the low level of 225 million metric tons. Nevertheless, this past record of crop abundance has been due primarily to large carryover stocks supplementing annual production. Indeed, 1975 will be only the third time that annual U.S. grain production will have exceeded 225 million metric tons.

Pitfalls aside, most observers contend the major benefit of the grain agreement is the stability it will provide domestic grain markets. It should accomplish this by offsetting some of the swings in world grain demand due to the wide fluctuations in annual grain production in the USSR. It is noteworthy, however, that the agreement in itself does not assure stability. Indeed, a big unknown is what the Soviets will do in bumper crop years. The USSR could break the agreement by not importing U.S. grain. Alternatively, the USSR could boost exports of its own grains by an amount equal to that imported from the United States, a move that would leave annual fluctuations in world demand for U.S. grains effectively unchanged. Finally, the USSR could expand storage and build its own grain stocks during years of bumper production—the only course of action that would provide the stability sought by the agreement.

The view that the grain agreement represents a move toward more government control in world grain trade is perhaps valid. However, inasmuch as the agreement better defines the point which might trigger the imposition of export controls, it would appear to be a better alternative than the ad hoc manner in which export controls have been implemented over the past few years.

It is easier to justify government involvement in a grain agreement with the USSR than with most other major importers of U.S. grain. On the one hand, a centrally planned economy like the USSR is guided more by the goals of its five-year plan than by market price relationships. Moreover, the wide fluctuations in annual USSR grain production render it a far more variable element in world grain demand than other major importing countries. Combined, these two factors make long-range projections of USSR grain demand less tenable than similar projections for most other importing countries.

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