

Soviet-US Wheat Trade: An Update

Rumors persist that Soviet Union is prepared to honor its commitment in the Long Term Grain Agreement (LTA) if it is granted a subsidy under the Export Enhancement Program (EEP) that will make US wheat prices competitive. In particular, [redacted] [redacted] on the eve of last week's US-Soviet LTA consultations, the Soviet foreign trade official heading the USSR delegation stated the Soviets would purchase the required 4 million tons of wheat if the US offered a subsidy of \$40 per ton. In addition, the official said that Moscow wants to include language in a new LTA--the current agreement expires next year--stipulating that the USSR will be obligated to buy US grain only if terms are as favorable as those offered by other suppliers or as favorable as those offered by the US to its other customers. During the actual consultations on 23-24 February, the US explained how the enhancement program operates. The Soviet participants reportedly made no comment. They did not request the subsidy or suggest any subsidy level that would make US prices attractive to them. [redacted]

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How serious Soviet intentions are to honor the agreement is still not clear. Moscow's purchases of US wheat fell about 1.1 million tons short of the commitment during the 1984/85 LTA (which runs from October to September) and ended up 3.8 million tons short during the 1985/86 LTA. No wheat purchases from the United States have been made so far during the current

1986/87 LTA. The Soviets argue, however, that they are in compliance with a looser interpretation of the agreement if purchases of corn, wheat, and soybeans are combined and not considered separately. For example, combined Soviet purchases during the first three years of the accord were roughly 43 million tons compared with the 27 million tons called for in the agreement. [REDACTED]

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Soviet officials claimed last summer that commitments for wheat purchases would be honored if subsidies were offered, but the USSR stayed clear of US wheat markets, even when the EEP was extended to them for a two-month period that began on 1 August. At that time Moscow argued that cheaper wheat was available elsewhere, while US officials contended that the \$15 per ton subsidy offered was competitive, given the quality of US wheat. However, the Soviets did not need additional wheat then, in view of foreign purchases already in hand as well as domestic supplies. Similar circumstances appear to exist at the moment.

-- Purchases of some 24 million tons of grain in the past eight months, combined with a 1986 domestic grain crop of 210 million tons, provide a supply more than adequate to meet needs for the 1986-87 marketing year. Should the USSR's wheat crop face severe difficulty--for example, the USSR periodically suffers drought during crucial periods in development of winter grains--Moscow may want to come into the US wheat market later in the year, but probably not before May.

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-- An attractive EEP extended to the Soviets--even one with a \$40 per ton subsidy--does not guarantee that US prices would be competitive. Regardless of the size of the subsidy, major US competitors [redacted]

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[redacted] have stated that they will match or undercut the effective price, leaving Moscow the opening to continue claiming that US prices are not competitive. Indeed, Moscow may hope to use US subsidies as leverage to depress further world grain prices. [redacted]

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A Soviet decision to purchase US wheat in the near term could be made for reasons other than price. Should Soviet demands for milling quality wheat unexpectedly increase in the near term, the US remains about the only supplier with sufficient stocks. Moscow may also have some political agenda in mind and hope that token purchases of US wheat will help improve bilateral relations. Moreover, the Soviets may believe that it is in their interest to have a some type of long-term grain agreement in place--even if underutilized--and therefore should make some purchases before the old agreement expires to make sure the US remains interested in striking a new accord. [redacted]

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