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The Shadowy World of Grain Trade

By Dan Morgan

Between July 5 and Aug. 9, 1972, the Soviet Union secretly contracted to buy 16.45 million metric tons of wheat, corn, barley and soybeans from six multinational grain companies.

Details of the transaction—probably the largest commodity deal in history —were not made public by the U.S. government at the time. Senior U.S. officials testified subsequently that they did not possess the information.

However, these assertions of the government's ignorance of what was happening in the markets are contradicated by declassified documents of the Central Intelligence Agency.

The grain sales helped spur the fastest rise in food prices since the Civil War. U.S. grain stocks were depleted. In 1974, American food assistance to developing countries was reduced because of concern over the availability of grain for flour millers and farmers at home. Sen. Henry M. Jackson (D-Wash.) nicknamed the episode "the great grain robbery."

Secretary of Agriculture Earl L. Butz was to testify later that he did not know the magnitude of the transactions until they were disclosed by a senior official of Continental Grain Co. at a House Agriculture subcommittee hearing Sept. 19, 1972.

In a report issued July 9, 1973, the Government Accounting Office accepted the view that the Department of Agriculture did not know the volumes committed to the Russians.

"Early in September (1972), Agriculture was still unaware of the quantities involved," the 1973 GAO report said.

Officials of the Department of Agriculture also cited their lack of information to explain why they waited until Sept. 1, 1972—nearly four weeks after the sales were completed—to discontinue paying subsidies to companies that exported U.S. wheat. (The subsidy program was devised to promote U.S. grain exports during the long period of sluggish commercial demand after World War II.)

Yet by Sept. 1, 1972, the USDA had received two reports from the CIA's office of economic research leaving no doubt about the magnitude of the transactions that had taken place.

A CIA memorandum to the USDA dated Aug. 11 stated:

"In July and August, the Soviet Union negotiated further purchases of unprecedented quantities of grain from U.S. companies. These new contracts, taken together with additional orders for Canadian and French grain, place total purchases for fiscal 1973 at more than 20 million tons."

On Aug. 31, an even more detailed report, this one stamped "secret," was transmitted to Assistant Secretary of Agriculture Carroll G. Brunthaver:

"Total (Soviet) contracts with all countries for delivery during FY 1973 now total 24.2 million tons worth almost $1.5 billion, three times the quantities imported in FY 1972 and more than twice the amount bought after the disastrous harvests of 1963 and 1965 . . . . These imports of grain will be largely from the United States—17.5 million tons—with the remainder from Canada, France, Australia and Sweden."

The CIA had obtained the details of the trading from the grain companies through its "domestic collections branch." But the details were not conveyed to farmers, flour millers and food processors for whom grain prices and grain supplies are crucial.

Seven years after the events of the summer of 1972, the grain trade is still one of the most mysterious of all businesses, and the multinational grain companies still are shadowy.

Since 1972, the government has instituted some modest controls over the activities of the companies. The Department of Agriculture now requires companies to report their sales of U.S. grain to foreign contries, and the department publishes this information weekly.

A new, independent agency—the Commodity Futures Trading Commission—oversees the exchanges where grain futures are traded. A new Federal Grain Inspection Service—established following indictments and disclosures of corruption and conflict of interest in the former mixed public/private system—certifies the quality of grain destined for customers abroad.

Yet the major international grain companies continue to operate with broad freedom and flexibility at the center of the global food system.

Information about the companies is as fragmentary as data on the global maneuverings of the major oil firms. As in oil, the grain houses know more than governments about the price of commodities at hundreds of locations, supply and demand for crops, and the loopholes in the myriad of local and federal regulations at home and abroad.

They are prototypes of the far-flung multinationals that are integral components of the world's economic power structure.

"The impression that governments are running the system is false," an official of the Organization for Economic Cooperation and Development said of the grain companies.

In the case of the grain multinationals, a uniquely private, closely held structure of ownership and control further complicates the task of policymakers and regulators.

Only two of the leading five grain multinationals—Cargill of Minneapolis and Continental of New York City—have their headquarters in the United States.

Andre, which operates grain and other businesses in the United States, is based in Lausanne, Switzerland.

Louis Dreyfus, which handles between 5 percent and 10 percent of U.S. grain exports, oversees a vast empire of shipping and banking from a blue-tinted glass headquarters a few blocks from the Arc de Triomphe.

Bunge, which was believed at one time to be the largest privately owned company in the world, was based in Buenos Aires until two of its executives were seized by guerillas in 1974 and released for a reported $60 million ransom. Today, Bunge's high command is said to reside in Madrid and Sao Paulo.

In 1978, a sixth large grain firm, Cook Industries of Memphis, sold its major grain depots and upstream elevators to the huge Japanese trading house Mitsui—thereby giving Japan a crucial foothold in the U.S. grain system.

Several years ago, Cargill sold Swiss Credit Bank a 50 percent interest in its major overseas grain trading subsidiary, a Geneva-based company called Tradax Export.

These developments have put foreign companies in control of much of the global grain trading system—a fact that complicates the task of U.S. regulators, tax collecters, information gatherers and policymakers.

To this problem is added the structure of family control of the companies—a relic of old-style entrepeneurism that has survived into the era when other baronial capitalists with

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