

MEMORANDUM

NATIONAL SECURITY COUNCIL

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SECRETState Dept., NSC,
review completedACTION

July 27, 1973

MEMORANDUM FOR: MR. KISSINGER

FROM: CHARLES A. COOPER *Cal*
RICHARD H. SOLOMON *RHS/Pura*

SUBJECT: Continuing PRC Purchases of American Grain

The Chinese continue to make substantial purchases of American food grains that hold the prospect of severely straining our export capabilities. To date they have contracted for nearly 5.5 million tons of wheat and corn for delivery in this fiscal year. In past years, the PRC has ceased purchasing in late May, and reentered the market after the fall harvest. During this June and July, however, they have contracted for an additional 1.6 million tons of grain for immediate delivery. In addition, they continue to make substantial purchases of U. S. cotton, and have contracted for nearly a million tons of soybeans--where the PRC has long been an exporter of this product.

The CIA estimates that these purchases do not represent "panic buying" in the face of agricultural difficulties at home, despite many indications of official PRC concern about the agricultural situation. Rather, they seem to be an indication of shrewd purchasing at favorable terms in advance of either late summer pressure on the grain market, which would drive up prices, or in anticipation of the imposition of export controls by the USG. China's current harvest situation appears to be rather good, but shortfalls in the Szechwan wheat crop or the autumn corn harvest could change the picture, requiring substantial additional buying. PRC Liaison Office Chief Huang Chen affirmed to Secretary Butz in late June that the PRC had made substantial purchases of food grains from the U. S. in the first half of this year. He added that his country might need to buy even more in the second half. Butz asked Huang for an estimate of their total import requirements for the 1973-74 year, and the Ambassador said he would ask Peking for such an estimate. None has been received to date.

Given the pressures we are under, once again we face the question of whether or not to request restraints on the part of the Chinese in the matter of further grain purchases. Such restraint may well be in their own interest since there remains a real likelihood that export controls

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will be imposed which would interfere with delivery of grain already purchased. However, this question is but one of a range of economic issues that must soon be confronted in our dealings with the PRC (textile purchases being another), and it is our preference that we deal with them in a comprehensive manner rather than on a piecemeal basis. We are now preparing a package approach for your consideration. In addition, given current uncertainties in our relations with Peking, and indications that Premier Chou may be under some political pressure, we are reluctant to take actions which would call into question the value for China of our growing relationship.

For these reasons, we request that Secretary Butz (rather than you) send a formal request to the PRC, via their Liaison Office, requesting the information on Chinese import requirements for the 1973-74 crop season which Huang Chen indicated he would seek from Peking. Such a note would not request restraints on PRC purchases at this time, but it would indicate to Chinese authorities in a direct way that we are concerned about pressure on our grain export market. Assuming the Chinese provide such information, it would help us formulate a package approach to dealing with a range of economic issues which you might take up with Chinese leaders during your next trip.

Recommendation:

That you authorize Secretary Butz to send a formal request to the PRC Liaison Office requesting information on Chinese import requirements.

Approve _____ Disapprove _____

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