

Russia buys up scarce grain on the world's 'free market'

by William Engdahl and Robert Baker

On Nov. 27, the Soviet Union finally made a new grain agreement with the United States, after eight months of playing "hard to get." Despite repeated demands by Washington for a five-year renewal, at higher minimum Soviet import levels than the old 9 million tons per year of grain or corn or grain equivalent, the final accord simply renewed the old agreement, which expired Sept. 30, for two years until December 1990, with modifications allowing Moscow a discretionary right to large volumes at demand. The U.S. Agriculture Department has agreed to let the Soviets increase corn and wheat purchases in 1989, in order to greatly increase the total volume of U.S. exports to Russia.

On Dec. 23, Richard Goldberg, acting Undersecretary of Agriculture, said that the Soviets will be free to buy as much as 16 million metric tons in the marketing year that began Oct. 1, 1988, without having to consult U.S. officials. Previously, the purchasing ceiling was 12 million metric tons, before special approval had to be sought. The fact that the Soviets sought such latitude indicates that they intend to continue their enormous purchases of U.S. grain.

As the year closed, the Soviets were buying U.S. grain at a frantic rate—and this pace is merely what grain sales are acknowledged by the USDA as "officially confirmed." From Oct. 1, 1988 to Dec. 23, the Soviets purchased 8.8 million metric tons of U.S. corn, and about 1.5 million metric tons of soybeans, soybean meal, and grain sorghum. But during December, there were several announcements of large grain purchases by brokers—up to 5 million metric tons—that were expected to be reserved for the Soviet trade.

Best present estimates from informed European grain industry sources show a Russian grain import need for 1989, fully 50% above that of last year, to 40-45 million tons, for the harvest year ending September 1989. This would make this trade year (1988-89) the second-largest import year in Russian history, exceeded only by the all-time record 55.6 million tons in the 1984-85 harvest year. But there is also a shift in the kinds of grains Moscow is demanding, toward far more protein-rich soybeans and other feed grains for animal consumption than ever before. In fact, soymeal imports from the United States in 1987-88 set a record high.

The 40-45 million ton figure for projected Russian grain imports for 1988-89 is likely conservative, as reports are confirmed that the Russians in recent months have been cov-

ering the globe from Thailand to Brazil, from Minneapolis to Brussels, making secret deals with one after another large supplier of grain, on the proviso that they not divulge the sale is for Russia. That allows Moscow to set a repeat of the infamous "Great Grain Robbery" of the early 1970s, when secretive Russian buyers grabbed an astronomical supply of U.S. wheat before it became public knowledge.

Figure 1 indicates the significance of Russia's dependence on U.S. production for large quantities of grain. According to the Economic Research Service, an agency of the USDA, the United States supplied 79% of total corn imported by the Soviet Union in the 1987-88 trade year, which begins in October and ends in September. Other major grain imports—wheat, soybeans, and soymeal—were largely supplied by the U.S., as 42% of the wheat, 45% of the soybeans, and 44% of the soymeal imported into Russia came from U.S. stocks in the 1987-88 trade year.

Grains and oilseeds have accounted for 95% of U.S. farm sales to the U.S.S.R. since 1970. Despite the rising per unit value of grain imports in 1988, unit values were still lower than earlier this decade.

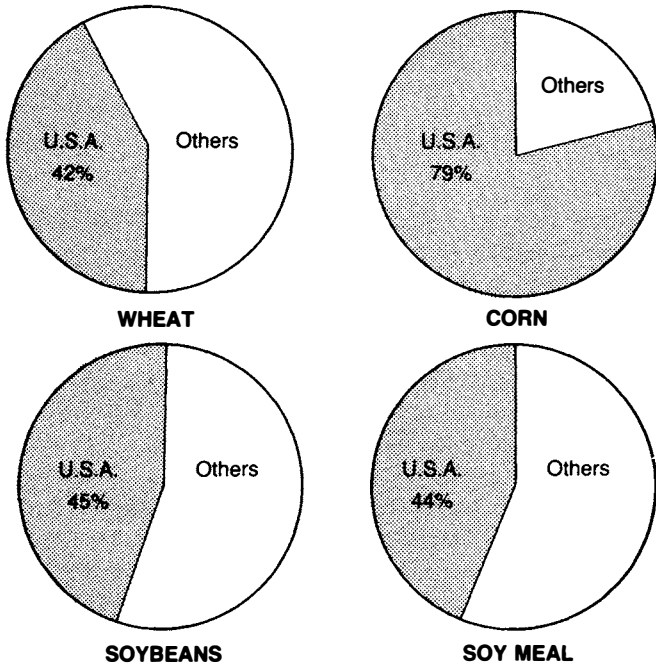
Russia benefits from subsidy war

By exploiting the trade subsidy wars among the U.S., the European Community, and other major exporters, the Soviet Union has become the single largest purchaser and beneficiary of subsidized grain being traded in the world. The U.S. wheat trade rebound from the 13-year low in 1986, coincides with the shipment in 1987 and 1988 of 13 million tons of wheat to the U.S.S.R.—all under the Export Enhancement Program (established under the 1985 farm law), a program in which the USDA compensates the cartel grain companies for selling grain at a discount by giving them government-owned grain to cover the difference between world market prices and higher U.S. prices. In other words, the grain companies (Cargill, Bunge, Continental, Louis Dreyfus, ADM/Toepfer, Garnac/André, and so forth) get free government grain stocks from the Commodity Credit Corp., in order to guarantee their company profits, while they pay farmers at low rates, and offer grain at bargain prices to the Soviets.

In the 1986-87 trade year, all of the 4 million metric tons of U.S. wheat purchased by Russia had an average (EEP) subsidy of \$42 per metric ton, an amazing 37% of the average

FIGURE 1

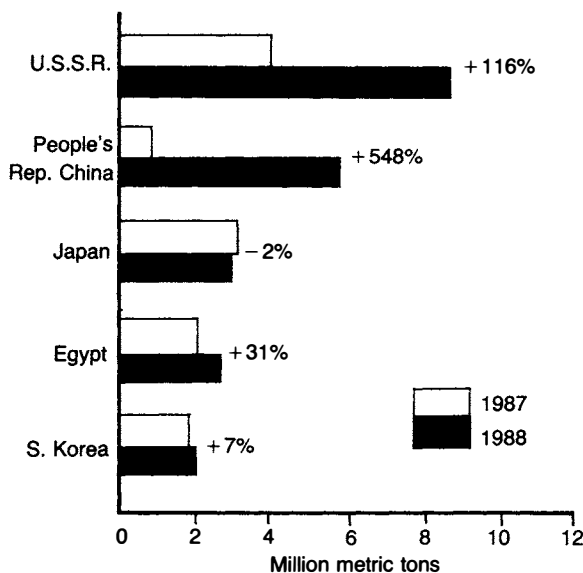
U.S.A. supplies a major portion of Soviet grain imports (1987-88)



Source: USDA

FIGURE 3

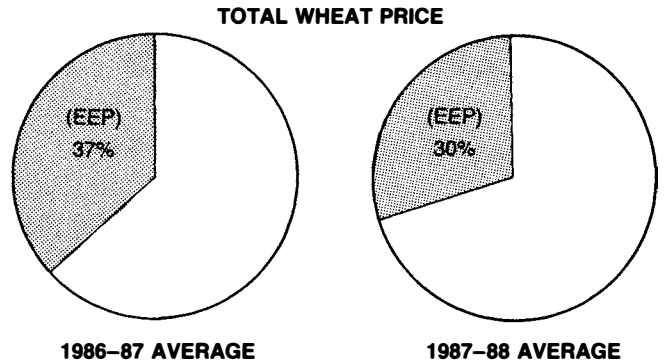
Soviets and Communist China increase wheat imports from U.S.A.



Source: USDA

FIGURE 2

Export enhancement program (EEP) subsidizes wheat to the U.S.S.R.



Source: USDA

TABLE 1

U.S.S.R. grain imports from the U.S.A. increase

(metric tons)

	Oct. 1987–Sept. 1988 (12 months)	Oct. 1988–Dec. 1988 (3 months)	Percent increase
Wheat	9,000,000*	2,000,000	22%
Corn	5,500,000	8,800,000	160%
Soybeans	800,000	800,000	100%
Soy meal	1,300,000*	500,000	38%

* Record high

Source: USDA

TABLE 2

Major importers of total world wheat and coarse grains

(million metric tons)

Country	Five-year avg. (1983–88)	Percent of total
U.S.S.R.	33.5	18.1%
Japan	27.6	14.9%
W. Europe	10.7	5.8%
People's Rep. China	11.0	5.9%
E. Europe	7.16	3.8%
Other	95.14	51.5%
Total	185.1	100%

Source: USDA

sale price of \$115 per ton. (See **Figure 2.**) In the 1987-88 trade year, 9 million metric tons of U.S. wheat were purchased by Russia with a \$35 per metric ton EEP subsidy or 30% of the average sale price of \$115 per ton. In addition, the 1987-88 trade year saw the largest purchase ever of U.S. wheat in one year by Russia.

The average price of \$115 per metric ton of wheat is itself a sweetheart price. However, it is an "open secret" in the grain trade, that whether the Soviets even pay at all for one or another grain delivery, is questionable, because "collections" of accounts receivable from the Soviets are at the political and financial discretion of the grain cartel companies, which do not make the information available.

Soviets on buying spree

According to Undersecretary Goldberg, the Soviets are on a buying spree, which is reminiscent of the early 1970s "when the Soviets really went bananas." On Dec. 23, Goldberg announced that the U.S. will subsidize an initial sale of 2 million metric tons of wheat to the Soviet Union under the EEP. This is the first EEP announcement this trade year. Also, in the first three months of the new trade year (October, November, and December) the Soviets have purchased 160% of the total corn, 100% of the total soybeans, and 38% of the total soybean meal purchased by the Soviet Union from the United States in the entire 12 months of the previous trade year. (See **Table 1.**)

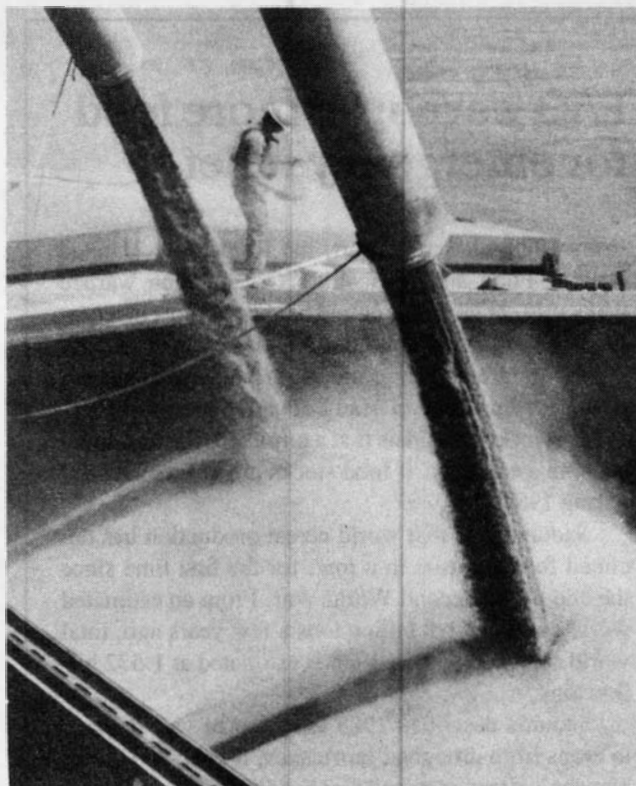
Last year the Soviets purchased a record 1.3 million metric tons of soymeal from the U.S. "This is a good opportunity," said Goldberg. "The Soviets are a major buyer. They're buying a little bit of everything, everywhere."

A new 'great grain robbery'?

Prior to 1972, if a Russian grain harvest were bad, as was most often the case, state policy was to compensate for lack of feed grains by premature slaughterings of valuable livestock herds to "conserve" grains (ironically, a practice forced on American farmers by USDA policy during the recent drought). The result of decades of such idiocy was a predictable worsening of meat availability for the Russian population. In the early 1970s, the policy changed dramatically. Instead of slaughtering to compensate for a bad harvest shortfall of grain, Moscow would import from the very companies historically at the center of the 1922-27 East-West trade, so-called "Trust" arrangements, the Anglo-American grain cartel companies.

Henry Kissinger negotiated the first such deal as Nixon's National Security Adviser and finally as Secretary of State, at the same time that he secured the SALT-ABM treaties. The grain deal was seen as a paradigm of all such future East-West negotiations. Nixon's Secretary of State sits today on the Board of Cargill, the world's largest grain-trading conglomerate.

In the context of the then-developing "East-West détente"



deals being negotiated in the beginning of the 1970s, Moscow entered into Western grain markets for the first time since the 1920s, this time as a buyer. The Russians struck deals of such large size that Western grain companies were reportedly ready to "kill" for a piece of the lucrative U.S. government-guaranteed and subsidized business. Beginning in the early 1970s, Moscow became the single most important importer of Western grains on the world market. While this exposed Moscow to a certain degree, it exposed Western nations as well. There was a transformation of the entire national food production policies in the EC and U.S.A., beginning the mid-1970s, toward what became known as "market-oriented" or "cash crop" export commodity production. The largest customer, Moscow, was increasingly dictating Western grain market policy, the so-called "world market price."

Throughout the entire history of the 1972-88 U.S.-Soviet grain trade dealings, it is clear that maintenance of Western-Soviet grain supply arrangements is a *sine qua non* for continuation of a New Yalta bargaining process between Moscow and Western liberal establishment sources. Never, not even during the 1979 Carter "Afghan" crisis grain embargo, did U.S. grain companies interrupt one iota their traffic with Moscow. Not even during the most intense "Empire of Evil" era of Reagan administration pressure to stop the Siberian gas pipeline deal to Western Europe, were grain exports reduced. Rather the opposite: Reagan moved swiftly to repeal the Carter grain embargo. Simple profit is not the reason.

Grain is at the heart of the entire 30-year "East-West

FAO warns: no more food for emergency relief

In its 1988 year-end report, the Rome-based United Nations Food and Agriculture Organization warned that world cereal grains output has been so low in recent crop seasons that centralized food reserves usually available for emergency situations have been exhausted. According to FAO head Edouard Saouma on Dec. 19, the world food crisis is at a turning point, and could become a calamity, if food stocks are not replenished during 1989.

Saouma said that world cereal production has declined for two years in a row, for the first time since the end of the Second World War. From an estimated world output of 1.8 billion tons a few years ago, total world cereals output in 1988 is estimated at 1.532 billion tons.

Saouma described 1988 as a year of vast damage to crops from droughts, hurricanes, floods, and locust plagues—damage so bad that better harvests in certain parts of Asia, Africa, and the Middle East could not offset the losses. World food stocks, he said, are at the lowest levels since the early 1970s, and are below the minimum required for adequate food security. The African locust plague is now raging to a degree never recorded in history.

According to Saouma, whatever emergency food aid is being given at present, is “hand to mouth.” Many countries urgently needing food imports don’t have the money to pay for them.

Saouma called the situation “grim.” In its monthly reports last fall, the FAO projected a need for increasing world cereals output in 1989 by at least 13%—or about 210 to 240 million tons of grain. At present, there is no national or international mobilization to accomplish this goal.

On Dec. 20, the United Nations International Children’s Education Fund (UNICEF) released a report which surveyed the high death rate among the world’s children from malnutrition and related causes. Released in New Delhi, the report said, “Some 14 million children are still dying each year from common illnesses and undernutrition. . . . The social progress of decades is being brought to a halt, and, in some cases, thrown into reverse.”

The UNICEF Secretariat has called for an international summit conference in early 1989 to address emergency measures to reduce the death toll.

condominium” dealings. For the Russians, they test the Western liberal elites by demanding ever more outrageous terms of concession from Western governments. This is the real reason for that “Grain Robbery,” not the fabrication that in 1972-73 the U.S. government and cartel traders such as Cargill and Continental were “tricked” by clever Russian traders, about how large Russian purchases were. Kissinger and the Anglo-American establishment knew then, and know today, down to the last kernel of corn, what the Russians were and are grabbing from scarce Western reserves.

Figure 3 shows the dramatic percentage increase in Soviet and Chinese imports of U.S. wheat from 1987 to 1988.

Today, the Western world has undergone the largest reduction of grain reserve stocks on record in the current harvest year 1988-89, according to the U.N. Food and Agriculture Organization (FAO) and other estimates. North America, the world’s traditional “reserve” for all grain and grain substitutes such as the vital soybean, has been devastated by the most severe drought in this century, even more severe than the famous drought of the 1932-33 years.

U.S. corn, wheat, and soybean stocks have fallen 66%, 60%, and 66% respectively. Being the world’s number one exporter of grain, this shortfall has a major impact on the availability of food for all food importing nations. Less Developed Countries (LDCs) in Africa and elsewhere, will be severely affected, as many with the largest need for food have been hit by losses in food production from weather calamities and reduced credits from international banks needed to buy imported food. **Table 2** shows the major cereals-importing nations, and the annual tonnage of grain they import as an average of the last five years.

Yet the U.S. government continues to provide massive export subsidy payments to export scarce grain and food supplies to Russia, playing “Russian roulette” with Western world food security. The sinister depths of the deal are further confirmed by the fact that world grain reserves are so short, cereals stocks levels are now estimated now to have fallen below the 17% of use, which the FAO considers the “minimum necessary to safeguard global food security.”

The world’s second most important grain supplier, the European Community, has just decided to impose further crop reductions through price and acreage reduction penalties to reduce the EC harvest in 1989. This is similar to the USDA programs which in 1988 took 80 million acres out of production, 24 million of which will lay idle and not be cropped for 10 years.

EC agriculture policy, like USDA Washington policy, is effectively determined by the establishment that controls the multinational cartel grain trading companies. This “establishment” has decided to prop up Gorbachov at all costs. The Russian leadership, as they did in 1972, has decided to “test” how far the Western elites are prepared to go in this by secretly making deals to further endanger Western food security.