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Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

GRAIN AND OIL TRADE AGREEMENTS WITH THE USSR

The President today announced the signing of an agreement on purchases by the Soviet Union of U.S. grain. The grain agreement relates to five crop years, commencing October 1, 1976 and running to September 30, 1981. A letter of intent was also signed to conclude an agreement on sales of USSR crude petroleum and products to the United States.

BACKGROUND

On September 9, the President announced he would send representatives to the Soviet Union to explore reaching a long-term agreement on sales of grain. Negotiations have been conducted in Moscow by Under Secretary of State for Economic Affairs, Charles W. Robinson, assisted by officials of the Department of Agriculture, the Federal Energy Administration and the Department of State. On October 9, the President indicated that discussions involving the purchase by the United States of Soviet oil were going on at the same time as the grain negotiations.

Largely as a result of climate variation, USSR production and trade in grain currently are two of the most unstable elements in the world grain economy. During the past decade, the USSR accounted for 80 percent of the annual fluctuation in world trade in wheat. Changes in yearly production of wheat in the USSR accounted for 60 percent of the annual fluctuations in world wheat production while annual fluctuations in total USSR grain production accounted for 30 percent of annual changes in overall world grain production.

Variation in Soviet imports of grain has been particularly marked in this decade. In the 1971-72 crop year, total imports by the Soviet Union were eight million tons, of which 2.9 million tons were from the United States. In the following year, total imports were 21 million tons, of which 13.7 were from the United States.

The estimated total supply for the United States for the current crop year is 263.5 million metric tons consisting of 21.4 million tons in stocks and 242.1 million tons in new production.

HIGHLIGHTS OF GRAIN AGREEMENT

1. Commits the Soviet Union to purchase a minimum of six million metric tons of wheat and corn annually.

2. Permits the USSR to purchase an additional two million tons annually without Government to Government consultation.

3. The U.S. Government agrees to facilitate Soviet purchases under the agreement and not to exercise its authority to control shipments of these amounts, except that it may reduce the quantity to be sold in any one crop year if the estimated total U.S. grain supply is less than 225 million tons in that crop year.

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The agreement also provides for consultations by the two Governments in advance of purchases in excess of eight million tons of wheat and corn in any one crop year. Shipment of grain under the agreement is to be in accord with the US-USSR Maritime Agreement.

The Soviets have assured us that their additional purchases of grain in the current crop year will not be in a volume which could disrupt the U.S. market.

Benefits of Grain Agreement

This agreement regularizes Soviet purchases from the United States. In doing so, it provides a number of benefits:

-- Assures U.S. farmers a market in the USSR for six million tons of wheat and corn a year for the next five years.

-- The additional assured demand will assist farmers in making their planting decisions.

-- Reduces fluctuations in world markets by smoothing out Soviet purchases of U.S. grain.

-- Protects U.S. livestock producers and consumers and other foreign customers from large purchases of U.S. grain by the USSR without prior consultation.

-- Provides \$4 to \$5 billion in potential foreign exchange earnings (at prevailing prices) for the U.S. over the next five years.

HIGHLIGHTS OF MARITIME AGREEMENT

U.S. Government representatives concluded negotiations in mid-September on the establishment of a freight rate for U.S.-flag ships participating in the carriage of Soviet grain.

Terms of the agreement include:

-- A minimum U.S. Gulf/Soviet Black Sea grain freight rate of \$16.00 through December 31, 1976. This minimum rate is significantly in excess of the current market price.

-- An index system for determining monthly grain freight rates with a Black Sea freight rates in relation to the index trade (Gulf/Belgium-Holland). This relationship was increased from 1.5 to 1 to approximately 3 to 1.

-- A credit/debit system which in a low market provides for the payment by the Soviets of a freight rate which is higher than the market rate and sufficient to allow a significant number of U.S.-flag vessels to participate in the trade; and in a strong market provides for an offset. When the credit is eliminated, the rates received by U.S.-flag carriers will be determined under the new index system.

-- A higher minimum demurrage rate for U.S.-flag vessels.

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Since the implementation of the new freight rate on September 22, 1975, 23 U.S.-flag tankers have been fixed to carry approximately 873,500 tons of U.S. grain to the Soviet Union during the month of October and additional fixtures have been made for November.

OIL AGREEMENT

The letter of intent on crude oil and refined products contemplates annual sales by the USSR of up to ten million metric tons (equivalent to about 200,000 barrels per day). Prices are to be agreed upon.

Under the contemplated agreement, the United States would have an option to purchase crude oil and products. The prices for this oil will be mutually agreed at levels which will satisfy the interests of both countries.

The USSR is the world's largest oil producer. Soviet production currently averages about 9.5 million barrels per day. Soviet exports are about 2.3 million barrels of oil per day, including some 1.4 million barrels to Eastern Europe and approximately 750,000 barrels a day to Western Europe. The USSR also imports a small quantity of oil, about 100,000 barrels a day, largely from Iraq.

The 200,000 barrels a day we could purchase from the Soviets under this agreement is relatively small when compared to our current daily consumption of nearly 17 million barrels and imports of some 6.5 million barrels per day. It would, however, represent a further diversification of the sources of U.S. oil imports.

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