



# The Phyllis Schlafly Report



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## What's Wrong With The Soviet Grain Deal?

In the last four months, the Soviets have bought more than 420,000,000 bushels of U.S. wheat, about 25 per cent of this year's U.S. wheat crop, at the bargain price of \$660,000,000. Let us review the sequence of events.

The tremendous productivity of the American farmer is the crowning achievement of our free enterprise system and the wonder of the world. One U.S. farmer feeds himself and at least 39 others with a high protein diet. One Soviet farmer feeds only himself and four others with a starchy diet. This low productivity in Russia is approximately what prevailed in the United States around 1870. When Khrushchev visited our country in 1959 and was shown some American farms, he asked, "But where are the workers?" He and his entourage refused to believe that one farmer could handle 300 acres.

In order to reduce some of our surpluses, the Department of Agriculture for many years has tried to stimulate exports of agricultural products. But since the world price of wheat is lower than the U.S. domestic price, the Agriculture Department has had a policy of bribing the grain dealers into exporting wheat by paying a cash subsidy (called an export equalization payment) equal to the difference between the lower world price and the higher U.S. price. Thus, if the world price was \$1.63 per bushel and the U.S. price was \$1.65, the grain exporter would be paid a cash subsidy of 2¢ directly from the U.S. Treasury.

The Communist system, on the other hand, is so inefficient and unproductive that, after 55 years of Bolshevism, Russia cannot even feed her own people. To compound Soviet troubles, this year the weather in Russia was exceedingly bad. A very dry, cold winter cut the winter wheat harvest to less than half of the 1971 level. An unusually hot, dry summer reduced the summer grain harvest far below normal.

So the Soviets turned to the United States, and the Nixon Administration sent a special delegation to Moscow headed by Secretary of Agriculture Earl Butz to negotiate. The result of this mission was made public on July 8. A synchronized announcement by President Nixon in the summer White House at San Clemente and by Secretary Butz in Washington released the news that the Soviets would buy \$750,000,000 worth of U.S. grain over three years, of which \$500,000,000 would be paid for by loans generously extended from the American taxpayers.

In making this announcement, Secretary Butz and other Agriculture officials indicated that the Soviets would spend these funds mostly for corn and other feed grains, estimating that only about 50,000,000

bushels of wheat would be involved.

Only later did we learn that, three days before this announcement, the giant international billion-dollar corporation called Continental Grain Company had *already* closed a deal with the Soviets to deliver 187,000,000 bushels of American wheat this year. This was more than Butz indicated would be sold by all companies over a three-year period. Continental Grain, which thus snatched nearly 45 per cent of the total Soviet grain deal, is owned by the billionaire Belgian Michel Fribourg. Known as a man of mystery, he has had close contacts with the Soviets over many years and makes frequent trips to Russia.

Only three days after the Nixon announcement, on July 11, another giant grain exporter, Cargill, Inc., concluded its deal with the Soviets to sell them 76,000,000 bushels of wheat. Obviously, this had been under negotiation prior to the Nixon announcement. The other large grain exporters which moved in quickly for their share of the Soviet deal were the French-owned Louis Dreyfus Corporation, the Argentinian-owned Bunge Corporation, and the Swiss-owned Garnac Grain Company.

The giant grain dealers, who obviously had been working on the deal for many months, moved quickly to buy up all the wheat they could. Acting quietly and without giving any inkling of the size of the projected purchases, they bought vast quantities of wheat from American farmers at prices ranging from \$1.25 to \$1.35 per bushel, averaging \$1.32. The farmers in the early-harvest states, especially Texas and Oklahoma, sold most of their grain at this price.

### The Rising Price of Wheat

When the Soviet wheat-buying delegation first arrived in this country, the domestic price of wheat was \$1.64 per bushel (of which the farmer was paid approximately \$1.32, and the rest went for the costs and profits of the grain dealer). The world wheat price at that time was \$1.63. Thus, when the grain exporter sold the wheat to the Soviet Union for \$1.63, he could collect from the U.S. Treasury a cash subsidy of 1¢ per bushel, the difference between the world price and the U.S. domestic price.

As the big grain dealers kept buying, and buying, and buying, in order to fulfill their secret sales agreements with the Soviets, the market responded and the price of wheat started to climb. While this was going on in July and August, no one really knew what was happening except the Soviet buyers, the international grain dealers, and the top echelon of the Department of Agriculture -- and they weren't telling. Certainly, the farmers, the newsmen and the public did

not realize what was taking place.

Theoretically, the wheat export subsidy was based on the difference between the world price and the domestic price. But in practice, it didn't work out this way. The domestic price rose rather rapidly. The world price rose some, but was kept artificially low because the Department of Agriculture had secretly assured the big grain dealers that all the export subsidies would be based on \$1.63 per bushel as the "world price." The actual world price thus became an irrelevant statistic because the Soviets were paying only \$1.63, and the U.S. Treasury was paying the difference between \$1.63 and the rapidly-climbing U.S. domestic price.

By July 21, the U.S. domestic price of wheat was up to \$1.76 per bushel, which meant that the grain exporters were receiving a subsidy of 13¢. By August 22, the domestic price had risen to \$2.01 per bushel, providing the big grain exporters with a fat 38¢ per bushel subsidy.

There was another joker in the deal which proved to be of immense financial gain to the big international grain exporters. The export subsidy paid on a given bushel of wheat was *not* figured on the day that bushel was bought from the farmer, nor on the date it was sold or delivered to the Soviets, but instead was figured on the date that the sale of the bushel was *registered* with the Department of Agriculture. Thus, the international grain exporters, being privy to the secret knowledge of the tremendous size of their total purchases, and knowing that the price of wheat would be forced up substantially, could buy the wheat from the unsuspecting farmer in early July at \$1.32, sell it to the Soviets anytime during July or August at \$1.63, but wait and register it with the Department in late August when the price had climbed to \$2.01, or higher, thereby claiming a 38¢ or higher subsidy.

#### The One-Week 47¢ Subsidy

By the end of August, even the biased bureaucrats in the Department of Agriculture realized that this export subsidy had reached embarrassing heights. So, they concocted a plan whereby the big international grain dealers would have a final week to score big profits before the door was closed.

On August 25, the Department of Agriculture announced a policy whereby all the wheat already sold, but as yet unregistered, could be registered during the one week from August 25 to September 1, and it would receive a 47¢ per bushel subsidy based on the difference between the \$1.63 price paid by the Soviets and the then domestic U.S. price of \$2.10. The big international grain exporters had millions of bushels of wheat already sold to the Soviets which they had held off registering as they waited for the price to climb higher. Naturally, they rushed in to register all that wheat in the one windfall week. During that one week alone, 280,000,000 bushels were registered for the 47¢ subsidy at a cost to the U.S. taxpayers of \$132,000,000. Continental Grain alone registered 71,000,000 bushels for the 47¢ subsidy, thus drawing \$33,370,000 from the U.S. Treasury in one week.

On September 1, the Department of Agriculture dropped the export subsidy from 47¢ per bushel down to the actual difference between the world price and the U.S. domestic price, which was then 19¢. On September 21, in the face of mounting criticism about the tremendous sums of taxpayers' money paid to the international grain exporters, the Department of Agriculture reduced the subsidy to 14¢, and on September 22, temporarily suspended the export subsidy altogether.

Meanwhile, with the encouragement of the Administration, one of the big foreign-owned grain

dealers moved secretly to help our new "friends," the Red Chinese, to cash in on the wheat deal, too. The French-owned Louis Dreyfus Corporation, which has long been in contact with the Chinese Reds, arranged the sale of 15 million bushels of wheat to Red China. The Department of Agriculture ruled that Dreyfus would get the 47¢ subsidy even though it did not provide verification of the sale until September 11, claiming that the secret deal was closed before 3:30 P.M. on August 24. Under this ruling, Dreyfus got a subsidy of \$5,800,000, roughly twice what it would have gotten under the subsidy in effect in September.

Incidentally, Red China is paying the present world price of about \$1.98, which indicates that the Soviets were certainly just as able to pay this price, if anyone had demanded it.

The international grain dealers, not content with the large subsidies they have already received from the American taxpayers, moved aggressively on September 23 to demand that a tax loophole in the tax law passed in December 1971, called the Domestic International Sales Corporation program, be applied to them. This would enable the grain exporters to *postpone indefinitely* any Federal income taxes on one-half the profits they made on the Soviet grain deal, thus saving them at least \$100,000,000 in income taxes. The U.S. Treasury has tentatively ruled against the exporters but left the door open for reconsideration.

As a result of the 30 per cent rise in the price of domestic wheat, in late August the bakers asked the Price Commission for permission to boost retail bread prices 1¢ to 3¢ per loaf. They identified the large shipments to the Soviet Union as the cause.

#### Rescuing the Soviets from Disaster

Now let us examine some of the many corrupt aspects of this immense grain deal:

1. It was immoral to bail the Soviets out of their agricultural crisis by selling them the wheat -- at the same time that the Soviets are providing 90 per cent of the sophisticated weapons and materiel to kill American boys and our allies in Vietnam, shipping arms to the Middle East, and spending scores of billions of rubles to build nuclear weapons of mass destruction which have only one utility: to destroy or blackmail the United States. Everyone who participated in or profited by this deal is proclaiming to the world that he places a higher value on his personal monetary gain than on the lives of Americans.

2. It was a shocking misuse of tax monies to sell the wheat to the Soviets at a price which was substantially cheaper than Americans have to pay for our own wheat. The Soviets bought the wheat for \$1.63 per bushel, whereas Americans now have to pay prices ranging up to \$2.20 per bushel. The cheap price the Soviets paid was set, in effect, not by the big international grain dealers, but by the Department of Agriculture which quietly told the exporters that the subsidy would be based on the \$1.63 figure even though the world price climbed to \$2.00 a bushel. When the Nixon Administration gave the Soviets this bargain price for U.S. wheat, it constituted a U.S. cash gift to the Soviet Union of nearly \$200,000,000.

3. It was likewise a misuse of tax dollars for the Nixon Administration to grant \$500,000,000 in credit to the Soviets to pay this bargain price. If it had been a legitimate commercial deal by a country with a good credit rating, the Soviets could have borrowed the money from commercial banks; or the multi-billion dollar international grain dealers could have themselves extended easy credit terms. But it was not a legitimate commercial deal; it was a deal extended through the Commodity Credit Corporation from the pockets of

American taxpayers.

#### Serving Special Interests

4. There is abundant evidence to indicate that the Department of Agriculture was excessively solicitous to protect the interests of the big international grain dealers, at the same time that the Department manifested a callous disregard of the interests of the American farmer. The Administration denies that the \$132,000,000 paid to the big grain dealers during the week of the 47¢ subsidy constituted excessive profits to the grain dealers. But if it wasn't a financial windfall to the grain dealers, then it had to be a windfall to the Soviet Union, because in any event it was an unconscionable raid on the U.S. Treasury.

A House Agriculture Subcommittee questioned Secretary Butz and Carroll G. Brunthaver, Assistant Agriculture Secretary for International Affairs, about reports that the six top grain dealers had secretly been given one day's advance notice on August 24 that the export subsidy would no longer be 100 per cent of the difference between foreign and domestic prices. Butz and Brunthaver first denied this, though admitting that such advance notice "would have been helpful."

Meanwhile, however, Charles W. Pence, director of the Grains Division in the Agriculture Department's Export Marketing Service, was telling three reporters (including one from the *New York Times*) that he had personally made the phone calls before noon on August 24 to the six principal companies, and that he had done this on instructions from Brunthaver, as relayed to him by Frank G. McKnight, the second-ranking official in the Export Marketing Service. Upon receiving this information, the big grain dealers began selling off their remaining wheat stocks in foreign markets so the sales would qualify under the deadline for the bonus subsidy. Owen H. Nichols, chairman of the Chicago Board of Trade, stated: "Anybody who didn't have notice was at a disadvantage."

Now, contrast this special solicitude for the financial interests of the multi-billion dollar grain dealers with the Department of Agriculture's failure to give the American farmers the slightest clue as to the size of the Soviet wheat purchases which would have enabled them to get a better price for their wheat. Secretary Butz claims he didn't know how much wheat the Soviets would be buying -- but why didn't he know? Over the years, the Department of Agriculture has cultivated a reputation of careful research and dissemination of information important to farmers.

Yet, Secretary Butz and other officials misled the farmers about the size of the Soviet purchases in their original announcement on July 8, and never did update that information. Congressional investigations have shown that the Department did have substantial information in its possession about the disastrous Soviet winter wheat harvest and need for millions of bushels of American wheat.

The U.S. agriculture attache in Moscow filed reports in June and August which disclosed more about the Soviet grain situation than was known in the U.S. at the time, but the Department didn't release them. An analysis of Soviet crop conditions, completed on August 18 by the Agriculture Department's economic research service, concluded that the outlook for Russian grain production this year had worsened from an earlier estimate, but the study is still suppressed. The Department classified the analysis "confidential" on the ground that it was "too controversial."

Congressman John Melcher stated that the House Agriculture Subcommittee hearings of September 14,

18 and 19 proved that the six grain exporters had "inside information on the Russian requirements, and intention to purchase from the United States, which was withheld from American wheat producers."

One explanation for the Agriculture Department's behavior is that it was so eager for the Soviets to buy large quantities of wheat at bargain prices that it would not let anything interfere with the deal. This would be in line with Henry Kissinger's policy statement: "We believe that this grain agreement... is a major step forward in the conclusion of more comprehensive arrangements in other fields as well." Another explanation was advanced by Congressman Neal Smith, who told a House Subcommittee that the Administration was simply "hoodwinked" by the Russians who "employed an old tactic of diverting attention. They talked about buying large amounts of corn, which we have in considerable surplus. . . . They haggled over credit terms on relatively small amounts of mixed grains while secretly closing cash deals on large amounts of wheat. . . . Apparently [Secretary of Agriculture Earl Butz] fell for their simple game hook, line and sinker."

Because the farmers were kept in the dark about the extent of Soviet wheat purchases, those who sold early in the summer were cheated not only out of the money they might have made on the deal, but even out of the income they would have had if there had been no Soviet grain deal at all. They stand to lose out not only on their original sale of wheat, but also because current farm law will shrink their parity payments as a result of the steep price rise at the end of the summer, making the average 1972 price about \$1.70. The National Farmers Union estimates "this will cost the 'early-harvest' farmers about \$100,000,000 this year." Cleo Duzan, chairman of the United Grain Farmers of America, stated: "The truth of the matter is the American farmers took a beating on this deal."

5. The corrupt nature of the grain deal is further indicated by the hanky-panky between high Agriculture Department officials and the big international grain dealers. House Agriculture Subcommittee chairman Graham Purcell stated that certain officials shuttled back and forth "presumably with great personal benefit to themselves and the companies involved."

For example, Clarence B. Palmby, the Assistant Secretary of Agriculture who went to Moscow with Secretary Butz in April 1972 to arrange the grain loan, resigned on June 8 to become a vice president of Continental Grain. Three days earlier, before the public knew what Palmby and Continental knew, Continental made its sale of 187,000,000 bushels of wheat to Russia. On September 25, Palmby admitted in a letter to the House Agriculture Grains Subcommittee that on April 3, just before his trip to Russia, he had bought a \$100,000 cooperative apartment at 45 Sutton Place in New York City, naming four Continental vice presidents as credit references. He also admitted that Michel Fribourg had offered him the job in March, and that he (Palmby) had decided to accept the offer on May 11.

Another high Agriculture official, Clifford G. Pulvermacher, general manager of the Department's Export Marketing Service, who accompanied Secretary Butz and Assistant Secretary Palmby to Moscow in April, resigned in June to become Washington representative for the Argentinian-owned Bunge Corporation.

Section 207 of Chapter 18, U.S. Code, forbids any former Government official from acting for anyone

other than the United States in connection with a matter in which the United States has an interest and in which he participated personally and substantially as a Government employee.

Also, in what the *Wall Street Journal* called the game of musical chairs, Charles Turnquist, a grain merchandiser for Cargill, Inc. switched jobs in August to become an Agriculture Department consultant while awaiting clearance for appointment as Deputy Administrator for Commodity Operations. Mr. Turnquist's principal assignment was to check with exporters on what further Government actions might be needed to assure their ability to meet their Russian commitments without taking a loss due to higher grain prices.

Finally, George S. Shanklin, a former Bunge representative in Washington, who entered the Agriculture Department last January, was promoted to become assistant general manager of the Export Marketing Service. A month before, William Pearce resigned as a Cargill vice president to become a White House deputy special representative for trade negotiations.

**"Of all sad words of tongue or pen,  
The saddest are these: 'It might have been' "**

For the last ten years, the Soviets have spent every ruble they could squeeze out of a poor economy on weapons in order to achieve nuclear superiority over America. As we surveyed their ominous force of SS-9s, their superiority in nuclear striking power, and the SALT Treaty which guarantees that they can have at least three ICBMs and submarines for every two we have, some Americans have become pessimistic and defeatist about the future. Is it possible to ever regain our lost superiority?

Then, just prior to signing the SALT Treaty, America received a God-given opportunity: the bad weather which brought disaster to Soviet agriculture. Now, the first snow has fallen when only 1/3 of the summer wheat is harvested. The country that built all those missiles and submarines can't produce the bread to feed its own people.

Hungry Russians are queuing up in long lines to stock up on potatoes, and 30,000 Moscow students and workers have been sent into the country to search the soil for "even the smallest potato." Three-fourths of Russia is now closed to tourists to disguise the appalling shortage of food and there is a tight travel ban on newsmen. Soviet newspapers contain stern warnings against wasting bread or feeding it to livestock. Saying that "it is necessary to respect every piece of bread," *Pravda* reported that two Ukrainians had been sentenced to a year in jail for trucking 1,000 loaves of stale and moldy bread to the garbage dump.

And how did the Nixon Administration respond to this Heaven-sent opportunity to ensure American freedom and world peace against the hungry criminals in the Kremlin? The Nixon Administration sent delegations to Moscow on bended knee to beg Brezhnev to please accept American wheat -- to please let us bankroll Soviet wheat purchases by setting the price far less than Americans have to pay -- to please let us send the Soviets the money to pay more than half of even that bargain price. And then to keep this deal secret until it was a *fait accompli*, the Administration paid a juicy commission, called an export subsidy, to the big international grain exporters who brokered the deal.

And what was the *quid pro quo* for this generous offer? Nothing. Just nothing. Look at all the things the Nixon Administration could have asked for, but didn't.

1. We could have demanded that the Soviets pay the U.S. price for the wheat. With our monopoly position, they would have had to pay any price we set. If the Soviets had paid the U.S. price, the U.S. farmers would have received a break for the first time in many years.

2. We could have refused loans to the Soviets and made them pay in gold. This would have helped our balance of payments and replenished our gold supply. This would have forced the Soviets to take money out of building nuclear weapons to destroy us, and put it instead into food. Russia's gold hoard is estimated at 1,865 tons worth \$3,400,000,000 on the free market.

3. We could have gotten a SALT Treaty in which the United States would be allowed three nuclear submarines and missiles for every two the Soviets have -- instead of vice versa.

4. We could have gotten an end to the Vietnam War, for which the Soviets are still supplying 90 per cent of the sophisticated arms and materiel.

5. We could have gotten freedom for Jews and Christians to emigrate from the U.S.S.R.

6. We could have gotten repayment of a significant amount of the \$11,000,000,000 in World War II debts which the Soviets still owe us.

But what did we get? Absolutely nothing! Columnist Joseph Kraft summed up the grain deal like this: "The central fact is that this country bailed the Soviet Union out of the tightest spot it has been in since the Cuba missile crisis. The evidence so far suggests that in return President Nixon and Henry Kissinger got next to nothing."

There are several possible explanations for why the Administration pushed through the Soviet grain deal: (1) President Nixon and Kissinger are incompetent negotiators who didn't realize that we were holding all the aces and could have named our price, and who therefore let the Soviet horse-traders hoodwink us. (2) The Administration deliberately rescued the Kremlin dictators from internal disaster by providing them cheap wheat at the financial expense of the American taxpayers, consumers, and farmers. (3) The Administration was willing to forgo any long-term advantage for America or short-term advantage for the U.S. farmers for the election-year advantage of being invited to Moscow and being entertained by Kremlin leaders with fanfare and publicity.

There may be some who will say that this ugly grain deal should not be reported in an election year. To those we answer in the great words of Abraham Lincoln: "To sin by silence, when they should protest, makes cowards of men."

Phyllis Schlafly is the co-author of three books on nuclear strategy, *The Gravediggers* (1964), *Strike From Space* (1965), and *The Betrayers* (1968), which accurately predicted that the Soviet Union had a program to overtake and surpass the U.S. in nuclear weapons. She has testified repeatedly on national security before the Senate Foreign Relations and Armed Services Committees. She is the news director for a series of interviews with military and nuclear experts aired on 70 television and 50 radio stations. An honors graduate of Washington University and member of Phi Beta Kappa, she has a Master's Degree from Harvard University.

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