


The full story of how Amepuka got burned and the Russians got bread

By Joseph Albright

Nov. 25, 1973




Charles Red Plumed
Nikolai G. G. G.

Watching Cap 2.52

This American, dressed in a dark suit and tie, stands next to a large barrel or container. He is looking down at the barrel with a serious expression. The barrel has some text on it, but it is not legible. The background is a simple, light-colored wall.

Made-to-order chests & cabinets, now finished free.



Hinge-Door Cabinets

| Size | Price |
|----------------------------|--------|
| 2-door cabinet, 18" deep | \$85 |
| 2-door cabinet, 24" deep | \$105 |
| 2-door cabinet, 30" deep | \$125 |
| 2-door cabinet, 36" deep | \$145 |
| 2-door cabinet, 42" deep | \$165 |
| 2-door cabinet, 48" deep | \$185 |
| 2-door cabinet, 54" deep | \$205 |
| 2-door cabinet, 60" deep | \$225 |
| 2-door cabinet, 66" deep | \$245 |
| 2-door cabinet, 72" deep | \$265 |
| 2-door cabinet, 78" deep | \$285 |
| 2-door cabinet, 84" deep | \$305 |
| 2-door cabinet, 90" deep | \$325 |
| 2-door cabinet, 96" deep | \$345 |
| 2-door cabinet, 102" deep | \$365 |
| 2-door cabinet, 108" deep | \$385 |
| 2-door cabinet, 114" deep | \$405 |
| 2-door cabinet, 120" deep | \$425 |
| 2-door cabinet, 126" deep | \$445 |
| 2-door cabinet, 132" deep | \$465 |
| 2-door cabinet, 138" deep | \$485 |
| 2-door cabinet, 144" deep | \$505 |
| 2-door cabinet, 150" deep | \$525 |
| 2-door cabinet, 156" deep | \$545 |
| 2-door cabinet, 162" deep | \$565 |
| 2-door cabinet, 168" deep | \$585 |
| 2-door cabinet, 174" deep | \$605 |
| 2-door cabinet, 180" deep | \$625 |
| 2-door cabinet, 186" deep | \$645 |
| 2-door cabinet, 192" deep | \$665 |
| 2-door cabinet, 198" deep | \$685 |
| 2-door cabinet, 204" deep | \$705 |
| 2-door cabinet, 210" deep | \$725 |
| 2-door cabinet, 216" deep | \$745 |
| 2-door cabinet, 222" deep | \$765 |
| 2-door cabinet, 228" deep | \$785 |
| 2-door cabinet, 234" deep | \$805 |
| 2-door cabinet, 240" deep | \$825 |
| 2-door cabinet, 246" deep | \$845 |
| 2-door cabinet, 252" deep | \$865 |
| 2-door cabinet, 258" deep | \$885 |
| 2-door cabinet, 264" deep | \$905 |
| 2-door cabinet, 270" deep | \$925 |
| 2-door cabinet, 276" deep | \$945 |
| 2-door cabinet, 282" deep | \$965 |
| 2-door cabinet, 288" deep | \$985 |
| 2-door cabinet, 294" deep | \$1005 |
| 2-door cabinet, 300" deep | \$1025 |
| 2-door cabinet, 306" deep | \$1045 |
| 2-door cabinet, 312" deep | \$1065 |
| 2-door cabinet, 318" deep | \$1085 |
| 2-door cabinet, 324" deep | \$1105 |
| 2-door cabinet, 330" deep | \$1125 |
| 2-door cabinet, 336" deep | \$1145 |
| 2-door cabinet, 342" deep | \$1165 |
| 2-door cabinet, 348" deep | \$1185 |
| 2-door cabinet, 354" deep | \$1205 |
| 2-door cabinet, 360" deep | \$1225 |
| 2-door cabinet, 366" deep | \$1245 |
| 2-door cabinet, 372" deep | \$1265 |
| 2-door cabinet, 378" deep | \$1285 |
| 2-door cabinet, 384" deep | \$1305 |
| 2-door cabinet, 390" deep | \$1325 |
| 2-door cabinet, 396" deep | \$1345 |
| 2-door cabinet, 402" deep | \$1365 |
| 2-door cabinet, 408" deep | \$1385 |
| 2-door cabinet, 414" deep | \$1405 |
| 2-door cabinet, 420" deep | \$1425 |
| 2-door cabinet, 426" deep | \$1445 |
| 2-door cabinet, 432" deep | \$1465 |
| 2-door cabinet, 438" deep | \$1485 |
| 2-door cabinet, 444" deep | \$1505 |
| 2-door cabinet, 450" deep | \$1525 |
| 2-door cabinet, 456" deep | \$1545 |
| 2-door cabinet, 462" deep | \$1565 |
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| 2-door cabinet, 474" deep | \$1605 |
| 2-door cabinet, 480" deep | \$1625 |
| 2-door cabinet, 486" deep | \$1645 |
| 2-door cabinet, 492" deep | \$1665 |
| 2-door cabinet, 498" deep | \$1685 |
| 2-door cabinet, 504" deep | \$1705 |
| 2-door cabinet, 510" deep | \$1725 |
| 2-door cabinet, 516" deep | \$1745 |
| 2-door cabinet, 522" deep | \$1765 |
| 2-door cabinet, 528" deep | \$1785 |
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| 2-door cabinet, 540" deep | \$1825 |
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| 2-door cabinet, 570" deep | \$1925 |
| 2-door cabinet, 576" deep | \$1945 |
| 2-door cabinet, 582" deep | \$1965 |
| 2-door cabinet, 588" deep | \$1985 |
| 2-door cabinet, 594" deep | \$2005 |
| 2-door cabinet, 600" deep | \$2025 |
| 2-door cabinet, 606" deep | \$2045 |
| 2-door cabinet, 612" deep | \$2065 |
| 2-door cabinet, 618" deep | \$2085 |
| 2-door cabinet, 624" deep | \$2105 |
| 2-door cabinet, 630" deep | \$2125 |
| 2-door cabinet, 636" deep | \$2145 |
| 2-door cabinet, 642" deep | \$2165 |
| 2-door cabinet, 648" deep | \$2185 |
| 2-door cabinet, 654" deep | \$2205 |
| 2-door cabinet, 660" deep | \$2225 |
| 2-door cabinet, 666" deep | \$2245 |
| 2-door cabinet, 672" deep | \$2265 |
| 2-door cabinet, 678" deep | \$2285 |
| 2-door cabinet, 684" deep | \$2305 |
| 2-door cabinet, 690" deep | \$2325 |
| 2-door cabinet, 696" deep | \$2345 |
| 2-door cabinet, 702" deep | \$2365 |
| 2-door cabinet, 708" deep | \$2385 |
| 2-door cabinet, 714" deep | \$2405 |
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| 2-door cabinet, 750" deep | \$2525 |
| 2-door cabinet, 756" deep | \$2545 |
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| 2-door cabinet, 768" deep | \$2585 |
| 2-door cabinet, 774" deep | \$2605 |
| 2-door cabinet, 780" deep | \$2625 |
| 2-door cabinet, 786" deep | \$2645 |
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| 2-door cabinet, 846" deep | \$2845 |
| 2-door cabinet, 852" deep | \$2865 |
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| 2-door cabinet, 1386" deep | \$4645 |
| 2-door cabinet, 1392" deep | \$4665 |
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| 2-door cabinet, 1902" deep | \$6365 |
| 2-door cabinet, 1908" deep | \$6385 |
| 2-door cabinet, 1914" deep | \$6405 |
| 2-door cabinet, 1920" deep | \$6425 |
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| 2-door cabinet, 1968" deep | \$6585 |
| 2-door cabinet, 1974" deep | \$6605 |
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| 2-door cabinet, 2010" deep | \$6725 |
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| 2-door cabinet, 2022" deep | \$6765 |
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| 2-door cabinet, 2088" deep | \$6985 |
| 2-door cabinet, 2094" deep | \$7005 |
| 2-door cabinet, 2100" deep | \$7025 |
| 2-door cabinet, 2106" deep | \$7045 |
| 2-door cabinet, 2112" deep | \$7065 |
| 2-door cabinet, 2118" deep | \$7085 |
| 2-door cabinet, 2124" deep | \$7105 |
| 2-door cabinet, 2130" deep | |

Occasionally the digitization process introduces transcription errors or other problems; we are continuing to work to improve these archived versions.

High over the Volga basin, a gigantic high pressure system stationed itself in early June, 1972, just as the wheat on the collective farms was reaching the middle of a man's calf. As the month wore on, the weather system wound itself up clockwise and began draggles oven-dry air off the Kazakh desert and blowing it across the Caspian Sea, into the Volga basin.

There, in the latitude of Minnesota, the mean temperatures were like Texas. And while farm managets in the Volga region ordinarily get an inch and a half of rain in June, this time only half an inch of rain fell all month long. Toward the end of June, some of the wheat in the Volga basin was already beginning to shrivel, afflicted by "extreme stress." Perhaps as much as 5 per cent of all the grain lands in Russia were now in danger of being ruined.

So it was that on the Fourth of July, 1972, a slender, graying Russian named Nikolai Delouses, received a courtly, adstocntdc American businessman named Michel Fribourg in his suite at the Regency Hotel in New York City. The two were not strangers; Belousov, who is chairman of Expordthleb, the Soviet grain trading corporation, and Fribourg; who is president of the Continental Grain Company, had met 15 years earlier and had renewed their acquaintance about the time of the first Soviet purchases of grain from the United States in 1962. In that encounter with Exportkhleb, Fribourg had figured out a legal way of using the United States Government's agricultural-export subsidy program to give the Russians a bargain on ocean shipping rates for the grain they wanted to buy. And in the intervening years, they bad kept in touch; when the Russians had had their own grain to export, Continental Grain had bought it for resale to others, and as recently as 1971, Fribourg had again devised the most attractive package deal when the Russians had wanted to buy American corn, barley and oats.

But now the capitalist trader and the Communist bureaucrat were up to bigger things. For seveal days, their subordinates had been testing each other's reflexes in preliminary talks about a possible new transaction. When the Continental side grasped what the Russians had in mind, the company's communications center contacted Fribourg in Europe, and he caught the first jet to meet Belousov in New York. Beginning early July 4, they bargained On and off for 36 hours, at the Regency and then downtown at Continental's office at 2 Broadway. At the end they sealed, with a hand shake and a toast in vodka, an agreement by Continental to sell the Russians about \$460-million worth of grain. Fribourg believes the deal was the largest single transaction a private businessman had ever negotiated up to that time.

That was just the beginning. Over the next five weeks, Belousov kept buying, buying, buying—from Fribourg and five other American gain export companies. Suddenly in August, the Japanese, the Europeans and other traditional American grain customers

found themselves in a clammy panic at the thought that there might not be enough American grain to go around. Total United States export transactions rose to such a magnitude that foreign grain sales would later be blamed for food shortages in America and for the dramatic inflation the following year.

The dealings between Belousov and the American grain traders occurred in a context of astonishing nonchalance on the part of United States Government officials, particularly those in the Department of Agriculture. Although at least one key official was getting an unofficial pkty-by-play account of the Russian purchases, this information did not go beyond his office, as far as anyone can tell. For reasons of shortsightedness verging on incompetence, the Government failed to take steps to offset the economic dislocations of the Russia grain deal. And to compound the injury, American tax payers had to pay \$300-million in unnecessary export subsidies for the privilege of having sold too much grain to Russia and other countries. As Treasury Secretary George Shultz would say later on about the grain deal, the United States got “burned.”

The private deal

That is not how the grain deal looked in advance, particularly at the White House. The President had long been aware of the political consequences of low farm prices. He got one early lesson on that subject back in 1960 when Gov. William Stratton of Illinois told him late one night in a hotel room at the Republican convention: “You can say all you want about foreign affairs, but what's really important is the price of hogs in Chicago and St. Louis.” As it turned out that year, the price of hogs in Chicago and St. Louis was low on election day, and perhaps by coincidence, John Kennedy carried Illinois and Missouri by a total of only 19,000 votes and went to the White House. It was an experience Nixon did not forget.

Now, in the summer of 1972, the prospect of selling surplus grain to Russia must have seemed delicious to Nixon. Everyone from the Grain Sorghum Producers Association to the Brookings Institution to George McGovern was in favor of jacking up the level of American farm exports. A successful grain sale would give Nixon a chance—all in one play—to score points with the farmers, to fix up the balance of payments, and to solidify the détente that had become a fixture of recent U.S.-Soviet diplomacy.

Twelve months before the 1972 election, Nixon had brought in Earl L. Butz, Indiana's Warrior from Wawaka, to be the new Secretary of Agriculture, and had given him a mandate to do whatever necessary to raise farm prices and reduce surpluses. As important, he had set in motion a series of high-level diplomatic contacts designed to encourage the sale of American grain to the Soviet Union, the most recent round of negotiations occurring during his visit to Moscow in May, 1972, when he had discussed credit terms with Brezhnev.

Against this backdrop, Belousov and his team of Russian grain traders could count on a decent reception when they stepped off a Moscow-to-New York jet on June 28, 1972. And yet they had every reason to expect a troublesome negotiation, because Their bargaining position was transparently weak. The American Government, as well as the private grain traders, was well aware that Brezhnev had locked himself into a grain-gobbling plan to grow more livestock for the consumers. The Americans also had reason to believe that the Russian granaries were almost empty, and it was no secret here that bad weather had already put the new Russian wheat crop in question.

Given their position, Soviet buyers had to act quickly, before the market caught on to the immensity of the orders they were prepared to place. At the same time, they had to charter hundreds of cargo ships to transport their treasure back to Russia's Black Sea ports. And the actual purchases had to be synchronized with the credit agreement that the higher-ups in the Foreign Trade Ministry were still working out with the United States Government.

Furthermore, the Russians could not count on a simple deal worked out through Government channels. The other big grain-exporting nations, Canada and Australia, had Government grain-trading monopolies that bought from the farmers and sold directly to foreign buyers. And indeed, Soviet Deputy Foreign Trade Minister Vladimir Alkhimov, visiting Washington that spring, had asked United States Agriculture Department negotiators if they could see a way to arrange a direct swap of Russian natural gas for American grain, or perhaps the direct purchase by Russia of grain from American Government surpluses. But in America, the Russians had been told, international grain trading would continue to be left to Government-subsidized capitalists, who were free to sell all the grain they could because there was always a surplus. That is the way the system had worked under Democratic Administrations, and that is how Henry Kissinger had told the Agriculture Department in January, 1972, to handle any grain sales to Russia: The U. S. Government would offer the financing, but the actual sales would be left to private exporters.

Belousov and his party installed themselves in a suite at the Madison Hotel in Washington on June 29 and began to operate. His two principal assistants were Leonid Kalitchenko, the young head of the grain department of Exportkhleb, who spoke English much better than Belousov, and Paul Sakun of the Ministry of Foreign Trade, who was apparently to serve as a watchdog, even though he looked like a portly Santa Claus.

That afternoon calls went out from Belousov's suite to Continental in New York, to Cargill, Inc., outside Minneapolis, to Cook Industries in Memphis and to Bunge Corporation in New York. But it did not take Belousov long to decide to put his problem in the hands of Continental Grain and Fribourg, its 60-year-old president. It would be hard to conceive of a less likely ally for the Communist trader.

Michel Fribourg, for starters, was among the several hundred richest American capitalists, and he lived in the international grand style. In the autumn, he moved into his New York town house, with its Louis XV furniture and Modiglianis. On winter weekends, he drove to a private ski club north of the Catskills. For the spring, he had country place in Connecticut and in June he was usually off to his apartment in Paris. He spent the hot months in the Alps or on the Riviera.

An aristocrat he was, but a playboy he was not. A man with a knack for carrying his business with him, Michel Fribourg had been personally running Continental Grain since he inherited control of it at the age of 31, upon his father's death in 1944. The Fribourgs had been international grain traders since 1813, but under Michel, the family fortunes had their biggest growth in five generations, and Continental Grain has become the largest family-owned corporation in America, with \$3-billion in annual sales.

Belousov and Fribourg could not make a deal, however, without directly involving a third party; his name was Carroll G. Brunthaver, and, he was a 41-year-old Assistant Secretary of Agriculture. It is one of the organizational mysteries of Washington's huge Government agencies that major decisions often wind up being made by minor figures. So it was that President Nixon and his chief advisers had labored mightily over a period of months to persuade Russia to buy a few hundred million dollars a year of American grain on credit, succeeding finally in the summer of 1972, but it fell to Assistant Secretary Brunthaver to decide that it would be all right for Exportkhleb to purchase a vastly bigger quantity of grain than anyone had anticipated, and most of it at an artificially low price. This decision was at the core of the Soviet grain deal as it eventually became a wrenching problem for the American economy.

Carroll Brunthaver did not get his job through any reputation for bold decisiveness. He was known instead for bookish competence and BoyScoutish decency. His résumé was faultless. Raised on his family's grain and livestock farm in Ohio, he joined the 4-H Club, became an Air Force fighter pilot and later wrote his Ph.D. dissertation on the Ohio lamb-marketing structure.

Brunthaver had worked as research director for the National Grain and Feed Association, and then as an associate research director for Cook Industries. Shortly after the Nixon Administration took over in 1969, he was recruited to be associate administrator of the Agricultural Stabilization and Conservation Service, which administers domestic crop & subsidies.

At Agriculture, Brunthaver earned a reputation for administering his subsidies and keeping his mouth shut. When the job of Assistant Secretary of Agriculture for International Affairs was vacated in June, 1972, it was natural that Secretary Butz should elevate Carroll Brunthaver. The Senate confirmed him unanimously, without even holding a hearing on his qualifications.

Brunthaver had been in his new, larger office a week when Butz told him on about June 28 that Soviet First Deputy Foreign Trade Minister Mikhail R. Kuzmin had arrived in Washington to negotiate a credit agreement that would facilitate another grain sale to Russia. Out of the 100,000 employees of the Agriculture Department, Butz says he deliberately restricted that secret to three people: himself, Brunthaver, and Deputy General Counsel Claude Coffman.

In the midst of the Government-to-Government negotiations, Carroll Brunthaver got his first inkling that something was already going on besides credit talks.

July 3, 1972, was a Monday. Brunthaver began the morning with another laborious meeting with Deputy Minister Kuzmin at the Commerce Department. Brunthaver's calendar showed a luncheon date with Butz and the Ambassador from Pakistan. But before the lunch, he had agreed to fit in a meeting with three executives of the Continental Grain Company.

The meeting, according to the Continental executives, began in Brunthaver's office in the Agriculture Administration Building shortly after 11:30 A.M. Since Brunthaver seemed hurried, Bernard Steinweg, a senior vice president of Continental, came right to the point: A Russian grain - buying team, now in New York, had made a stunning proposition. By Steinweg's sworn account, he gave Brunthaver the specifics of it: On wheat, the Russians wanted firm bids on four million tons—as much wheat as 210 million Americans use for bread-baking and other food in 100 days. On corn and other feed grains, Steinweg said the Russians wanted firm bids on something like the same quantity they had bought from Continental in 1971—which was 2.9 million tons.

Anyone in the grain business who heard such figures could take a paper and pencil and calculate that The Russians were talking in terms of at least a \$350-million order from Continental alone, vastly bigger than anything in the history of grain exporting. Just getting it to ports would take more than 100,000 box cars.

Brunthaver remembers not only meeting Steinweg but hearing of the Russian inquiry and translating the prospective sale into dollars. However, the dollar sales figure that sticks in his mind is \$200-million, which would represent the approximate value of the wheat alone. Yet Brunthaver says he was under the impression that \$200-million represented both wheat and corn. There is also uncertainty in Brunthaver's mind about the date of the meeting, although he does not flatly contradict Steinweg's testimony that it was July 3.

The three Continental executives had visited the Agriculture Department that day because they needed to know, before quoting any wheat prices to the Russians, whether the United States Government would continue using export subsidies to keep the world price of wheat frozen at approximately \$60 a ton.*

Steinweg remembers Brunthaver making some rough calculations on a piece of scrap paper and then giving him some tentative figures on the “target price” of each class of wheat. (“Target price” was the terminology for the world price level that the United States Government would use its subsidies to maintain.) For hard winter wheat, according to Steinweg, Brunthaver's proposed target price actually ranged between \$59.50 and \$60.60 a ton. At the end of their conversation, Steinweg recalls Brunthaver saying he would have to think about the target prices before making a commitment, and that he would call back later in the day.

*** The Russian grain deal was transacted in metric tons, not bushels. Although farmers think in bushels, and subsidies are figured in bushels, bushel measurements in this article have been converted into tonnage figures. There are 36.74 bushels of wheat in a metric ton, so that \$60 a ton is the equivalent of \$1.63 a bushel.**

Within the Agriculture Department, export subsidies had been under Carroll Brunthaver for exactly 11 days. When he took office, he had inherited the informal policy set by his predecessor in October, 1971, that the best way to maximize United States wheat exports was to stabilize the wheat price to foreign buyers at about \$60 a ton. The idea was to bring about a mild squeeze in other wheat-growing countries by setting a price low enough to persuade their farmers not to expand their own wheat crops. Since no other countries could consistently export wheat any, cheaper, the Agriculture Department had in effect fixed the world price of wheat.

The mechanism for pricefreezing in wheat was the export subsidy, which had been paid since 1949 in the Agriculture Department at a cumulative cost to the Treasury of \$4 - billion. The idea, as designed by Congress, was to allow American farmers to get a “fair return” through higher domestic prices, while at the same time selling their crops abroad at a price that met the international competition. Under the program, the Government paid exporters the difference between the domestic price and the frozen world price.

Evidently Brunthaver did not see any reason to inquire deeply into whether and how long the world wheat price should be kept at \$60 a ton. He could have raised the question when he saw Secretary Butz that day for lunch, but he says he didn't. Nor did he bring it up at his early afternoon meeting with the agricultural subsidies expert at the Office of Management and Budget. Instead, he made the decision intuitively, by himself, without knowing all the facts. He did not know, for instance, that his own subordinates in the Agriculture Department had just received a cable from the United States agricultural attaché in Moscow that accurately foresaw that the Russian wheat crop would be drastically below earlier forecasts.

Sometime later—probably during a telephone call that shows up on his telephone records at 3:38 that same afternoon—Brunthaver gave Steinweg the department's answer on holding the price of winter wheat.

There is no dispute about what Brunthaver said, and it was exactly what the company wanted to hear. In Brunthaver's words, he gave a “moral obligation or commitment” that the Government would keep on holding the world price of hard winter wheat at about \$60 a ton. It was an open commitment, with no maximum and no cutoff date. When Fribourg got off the plane from Paris later that evening, he learned of Brunthaver's commitment and got ready to meet Belousov at the Regency the next day.

From Belousov's viewpoint, the deal he proceeded to make with Fribourg must have seemed surprisingly alluring, particularly on wheat. On the huge order of 4 million tons, he got a secure price per ton that would not change, even if Fribourg had to bid up the domestic price when he went into the American market to buy the tonnage. Fribourg says that neither he nor any other exporter could have afforded to quote a fixed price on such a vast order without Brunthaver's prior commitment on export subsidies.

In addition, Fribourg was able to offer the wheat at a tremendous discount off the world price of \$60 a ton. His actual selling price, says one Government source, was \$58.90 a ton—well below the lower end of Brunthaver's “target price” range.

Fribourg, looking back now, will acknowledge that he “took a slight countermargin” in the deal, which brought the selling price below the target price, but he won't say how much. Though he won't say how he accomplished this, he apparently did so by playing the game of subsidy trading. An exporter with strong nerves could take advantage of leeway in the Government's then existing subsidy regulations to maximize his profit on a sale; for example, he could collect subsidy for wheat he planned to sell in the future, betting that the amount of the subsidy would go down, or he could delay taking a subsidy for a sale, that it would increase.

On corn, which made up the other half of Continental's sale to Belousov, Fribourg could not quote the Russians a price below the world market rate, since the Government didn't have a corn export subsidy. While Fribourg declines to give any specifics of his pricing system, it is understood from outside sources that he told Belousov that the domestic price of corn would inevitably rise as Continental tried to buy up 4.5 million tons for Exportkhleb. So Fribourg is said to have offered the Russians a price of \$50 a ton, which was at or slightly above the market. “We took precautions to minimize our risks,” says Fribourg.

There was another part of the deal that, to the Russians, may have been the most important: Fribourg agreed that his own ocean chartering company, Stellar Chartering & Brokerage, would serve as the Russian Government's agent in obtaining whatever foreign-flag cargo ships it needed in getting its American grain purchases back to Russia. But of the various clauses of the negotiation, the shipping agreement is the one Fribourg is least willing discuss.

On the morning of July 6, Steinweg says, he spoke with Brunthaver on the telephone to notify him that Continental's sale was "consummated." (However, Brunthaver has testified he doesn't remember a confirmation call, but "I am not necessarily calling Mr. Steinweg a liar." He added: "It is conceivable that Mr. Steinweg called, and I misinterpreted what he said. ... I don't know.")

The public picture

While Brunthaver was hearing reports of the private grain-buying negotiations in New York, he was actually sitting in on the Government-to-Government discussions on credits going on simultaneously in Washington.

The Soviet Government had sent word directly to the White House toward the end of June that it was now willing to accept the credit arrangement that Nixon had spelled out for Brezhnev at the summit on May 28. But despite the agreement in principle, it took eight full days of negotiating to get the details of the two-page agreement settled. Deputy Minister Kuzmin first insisted that the United States should absorb any bank charges in obtaining letters of credit; Commerce Secretary Peter Peterson said no. Then Kuzmin wanted the 6½ per cent interest to be fixed for the life of the agreement, but Butz resisted. If the Russians thought they were getting a good deal, they didn't show it.

The credit agreement was signed and announced on July 8 with full fanfare at two White Houses. In the morning Henry Kissinger briefed the White House press corps at San Clemente on the outlines of the credit agreement. In the afternoon, Butz and Peterson held a more detailed briefing at the Washington White House, with the sound piped to reporters at San Clemente.

"This is," said Butz, "the largest grain deal so far as we know in the history of the world." The Secretary volunteered that his aides had tried that morning to figure out the size of the Biblical grain deal between Josias and the Pharaoh, and had come up with an estimate of 500,000 bushels. This deal "far surpassed" it, Butz said. But he gave no indication that some of the grain had already been sold.

Under terms of the agreement, the Russians contracted to purchase a total of at least \$750-million worth of United States-grown grains from American private exporting companies over the next three years, including at least \$200-million in the first year. The Russians could pick their own assortment of corn, wheat, sorghum, rye, barley and oats. There was nothing in the agreement setting maximum tonnages of any commodity, because it did not occur to the American delegation that the Russians could ever buy too much.

In exchange, the Americans agreed to allow Exportkhleb to buy grain on credit, using an existing Agriculture Department export-promotion program that was open to other grain-purchasing nations. Under its terms, Russia would be able to pay for each grain shipment in three equal annual installments, beginning one year after delivery. Russia

could buy on credit as much grain as it wanted, so long as the cumulative debt stayed within a \$500-million credit ceiling. For all grain shipments made in the first nine months, the Russians agreed to pay a fixed 6½ per cent interest. After nine months, the rate would move up or down in line with other export loans offered by the Agriculture Department.

At the White House press conference, Butz said the bulk of the Russian purchases would be in wheat and corn, which turned out to be true. But he conveyed three other impressions at the briefing that turned out to be misleading.

First, he underestimated the size of the Russian appetite. While offering his own opinion that the Russians would buy more than the \$750-million over three years, he said he was “sure” they would not exceed it in the first year. Second, Butz underestimated the impact on American food prices, saying the Russian purchases “won't have any impact” on the price of bread, and would have “an imperceptible result, if any result at all” on the price of livestock. Third, he gave a false impression of the cost of the grain sales to the United States by assuring reporters it “does not involve subsidy to the Russians.”

To Brunthaver, who was standing behind Butz at the briefing, these remarks must have seemed somewhat surreal. In the recent days following his first meeting with the Continental executives, he had received some indications from other sources that the Russians were already in the process of purchasing much more wheat than the Agriculture Secretary's statements would indicate, and that they intended to purchase a great deal more, and soon.

If Fribourg and the Russians could keep their meetings secret, they could not carry out the transaction in hiding. Indications that it had taken place were already being picked up by other grain exporters, who were growing nervous. For example, Cook's executive vice president, Willard R. Sparks, says that on July 3 he telephoned Brunthaver to inquire about an unsettling development. Why, he asked his one-time employe, was Continental Grain suddenly buying so much wheat and corn on the futures markets? Did this mean the Russians had made a deal with Continental, and if so, how much? Sparks says Brunthaver gave him no information.

A few days later, Cargill picked up another disquieting clue: Continental had suddenly begun to charter a lot of ships. Whether Cargill brought this to Brunthaver's attention or not is unknown, but evidently the company had the opportunity to do so. There were two telephone calls totaling 12 minutes on July 5 between Brunthaver and the headquarters of Cargill in Minnesota, but neither Brunthaver nor Cargill can reconstruct the conversations, or recall if they spoke of the Russian grain sale.

And that very morning, before the Secretary's press conference, Brunthaver had met in his office with an official of Louis Dreyfus Corporation, another large grainexport house with headquarters in New York and Paris. Patrick J. Gardner Jr., a vice president of

Dreyfus, says he met Brunthaver alone and told him the Russians were interested in buying “a large quantity” of wheat.

As Gardner recalled it later, “I asked him whether he could state that the United States would continue its policy of increasing subsidies as the domestic market price increased or decreasing them if such price went down. Dr. Brunthaver replied that it had been the Government's policy to sell wheat abroad at prices competitive with world prices and that the Government intended to follow the same policy in an effort to push United States wheat sales; accordingly, there was no intention to depart from the policy of the last two years of maintaining the world price.”

Brunthaver recalls meeting Gardner that day and giving him that assurance. Two days later, Dreyfus completed a sale to Exportkhleb of 750,000 tons of hard winter wheat.

The next party heard from was Melvin H. Middents, a vice president of Cargill. Although Cargill rivals Continental in total grain exports, it was left with the tag ends of the Russian orders, both in 1963 and 1971. For the first nine days of July, the top men at Cargill were nervously wondering whether Exportkhleb might leave them out of the bidding entirely this time. Finally, on the morning of July 10, the Russian buyers asked for a meeting with Cargill at their hotel suite—by now on the 42d floor of the New York Hilton that same afternoon. Before the night was out, they made a verbal agreement with W. B. (Barney) Saunders, a vice president of Cargill, to buy 1 million tons of hard winter wheat at \$59.50 a ton.

Cargill, like Dreyfus and Continental, couldn't quote a price on wheat without having talked to Carroll Brunthaver. As with the others, Brunthaver assured Cargill that the Government had no plans to change its policy on maintaining the world price of wheat. Cargill's contact man, Middents, has sworn that he consulted with Brunthaver “while these sales were being negotiated and in a period of time following.” Middents says he told Brunthaver that the sales were “large,” but did not give the exact quantities.

During the next 10 days, Belousov kept busy buying wheat. He snapped up 1.5 million tons from Continental. plus 600,000 tons from Cook Industries and 200,000 tons from a smaller exporter, Garnac.

“There was nothing in the agreement setting maximum tonnages of any commodity, because it did not occur to the Americans that the Russians could ever buy too much.”

The Exportkhleb buying team left for Moscow, via Amsterdam, on July 21. Within three weeks they had bought \$705-million worth of American grains —nearly as much as they were obligated to buy over the next three years. While no one in the Agriculture Department knew the precise figures, the fact was that Carroll Brunthaver had been consulted before about \$600-million of the sales. But Brunthaver says now that actually he wasn't sure, as the summer went along, whether the Russians were buying wheat or simply getting bids.

From the way Belousov spoke to the executives at Continental and Cook, he apparently thought his job was done when he left for Moscow. But four days after he got home, he was to head back to New York. No doubt Soviet officials remained nervous over the fact that the Volga basin hadn't had a millimeter of rain in the whole month of July, and that weather reports showed the region to be still in the grip of the same high-pressure system. They also must have been delighted at the news that Belousov could buy, apparently unlimited supplies of wheat at a rate even below the world price of \$60 a ton.

In any case, on either July 31 or Aug. 1, both Melvin Middents of Cargill and Daniel R. Finn of Dreyfus called Brunthaver with a familiar refrain: The Russians wanted more wheat, and in light of everything, would the Agriculture Department still stand behind the world price of \$60 a ton through export subsidies?

Yes, replied Brunthaver, the policy of the United States Government on export subsidies was still the same.

Brunthaver later testified that he had every intention of keeping the world price of wheat at \$60 a ton all through 1972, "to move as much wheat ... as possible." It never occurred to him, he said, that the Russians would buy more than this country could spare. His reasoning went like this: He knew that every one of the grain exporters had a top limit on the capacity of its grain elevators to load grain on ships. He was sure, from his background at Cook and in the Agriculture Department, that the exporters would be smart enough to avoid selling more grain than they had the capacity to export. Unfortunately, the exporters had the capacity to export more grain than the United States had to spare.

In the first days of August, from Continental, Dreyfus, Garnac, Bunge, Cargill and Cook, the team from ExportIchleb bought about \$435-million more — about half in wheat and the rest in soybeans, corn, barley and sorghums. In the two buying trips, they had bought 12 million tons of wheat plus 7 million tons of other grains for \$1.14-billion.

On Aug. 8, 1972, the Russians found themselves guests of Cook Industries, surveying the Atlantic Ocean at Miami Beach. Business was nearly over; they sat down and stayed very quiet for several minutes.

"It's an old Russian custom," Belousov told his hosts. "We do this when we leave a place where there has been much happiness. We think about coming back."

Then the Russians walked to the surf, took some kopeks out of their pockets, and tossed them over their shoulders into the Atlantic.

The impact

For the past 25 years, the problem for all Secretaries of Agriculture had been that American farmers had the capacity to grow much more food than they could sell profitably. To keep up farmers' incomes, the Government paid several billion dollars a

year in subsidies to idle 30 million to 50 million acres of productive land. Even so the crops were usually so abundant that the Government had to store thousands of tons of surpluses. Secretary Butz had been appointed by President Nixon to do something about the huge grain surpluses, and in 1972 he carried this perception of his role to what turned out to be absurd lengths.

Immediately after his Senate confirmation, Butz acted to take an extra five million acres of wheat land out of production for 1972. County agents were told to explain to winter-wheat growers, whose seeds were already in the ground, that the Government would pay them for the wheat they would have harvested, if they would now plow up a portion of their seeded fields. Spring-wheat growers were given special incentives to reduce their planned acreage. In all, 60 million acres of grain lands were held out of production last year.

Even so, at the time Belousov was making his purchases, stocks of grain were near record highs—23 million tons of wheat and 50 million tons of feed grains.

So concerned was Butz about surpluses that a week after his July 8 announcement of the largest grain deal “in the history of the world,” he informed farmers that still another five million acres of wheat land would be subsidized out of production in 1973.

The Cost, of Living Council staff, and later its chairman, George Shultz, tried in September to get Butz to open up the 1973 wheat acreage because of the Russian grain deal. Butz, still confident the supplies would last, refused and made it stick. With the election two months away, politics was part of the reason. As one of Butz's aides put it, “The Secretary did not want to be known as a cheapfood man.” It was not until a few months after the 1972 election, when it was too late for farmers to plant more winter wheat, that Shultz finally won the argument and got some acreage freed for farming. But by that time, the economic consequences of the previous summer's transactions were well apparent.

When the credit arrangement with Russia was announced on July 8, 1972, traders at the Kansas City Board of Trade took a look at the estimated American grain surpluses and decided that another few hundred million dollars in exports would not create a strain on supplies. But on Aug. 2, a trade publication finally learned of the magnitude of the first batch of Russian purchases. The following day, the Reuters commodity wire carried a bullish item: “Russian trade delegates, currently in New York, are placing orders for further substantial quantities of U.S. wheat and feed grains, according to informed sources here. The unexpected return visit of the Soviet officials earlier this week remains shrouded in secrecy. ...”

The domestic price of wheat in Kansas City, which had held almost steady for a month, now jumped the equivalent of \$2.90 a ton on Aug. 3, \$2.50 a ton on Aug. 4 and another \$3.70 a ton on Aug. 10. It was the beginning of a year-long spiral in all grain prices that

would see wheat soaring from less than \$60 up to \$180 a ton.

The Russian sale, in itself, was not big enough to create a food shortage. But it had a shock effect in every other grain-purchasing nation, particularly since both Canada and Australia were very short of exportable wheat. Orders began flowing in from Europe and Japan, as these traditional grain buyers pressed to get in their orders while the United States Agriculture Department was still holding the world price at the low level of \$60 a ton. Then, later in the year, they kept buying to get in their orders while there was any wheat, corn or soybean left at all.

Natural forces accentuated the demand for American raw commodities. In the Pacific Ocean, a change in the Humboldt Current destroyed the Peruvian anchovy catch, and that increased the demand for an alternative protein source, soybeans. In India, early fall monsoon rains were too light for good rice and sorghum crops, and there were disappointing crops in Burma, Thailand and parts of Africa.

Then early in 1973, when the American stockpiles were nearly exhausted, the dollar was once again devalued. Suddenly the price of wheat, in terms of Japanese yen, was 14 per cent lower, and Japanese wheat orders surged. During the 12 months beginning with the \$1.1-billion Russian sale, America's total agricultural exports increased by \$4.8-billion, or 60 per cent, over the previous year.

Initially, it was the farmers who complained loudest about the deal, particularly those in the Southwest who had sold their crops early on assurances from the Agriculture Department that the price of wheat was unlikely to go up. Today, the farmers are generally better off than before, even though many are angry that they did not get a healthier share of the profits. Many wheat farmers who were complaining last year are now thinking about income-tax shelters, Miami vacations and accelerated depreciation on their new combines and tractors. True, cattle or poultry farmers have been squeezed between Government price controls and unbelievable feed bills. But there is no question that the grain deal has brought widespread prosperity in the farm belt. In the year following the arrival of Belousov, the average American farmer's net income rose 14 per cent faster than inflation.

The American grain-exporting companies also came out ahead, but not by as much as they had expected. Although Brunthaver had given them a commitment that the \$60-a-ton target price on wheat would be maintained indefinitely, that commitment was revoked Aug. 25, 1972, on orders from Budget Director Caspar Weinberger. Under Weinberger's directive, the Agriculture Department gave the exporters one week to sign up for all the subsidies they needed to complete their current deals including sales to the Russians. Then, over the next three weeks, the wheat-export subsidy was phased down to zero. As it turned out, the wheat-export subsidy paid during the period of the Russian sales totaled about \$300-million, of which half was for wheat destined for Russia and half for other purchasing countries.

The sudden phase-out of export subsidies caught the exporters before they had accumulated enough wheat to cover their sales to Exportkhleb. Any notions of cushy profits on the Russian deal per se were wiped out, as they scrambled to buy the needed tonnage as quickly as they could. Cargill's accountants later reported that the company actually lost about \$661,000 on the Soviet sale.

Outsiders cannot know exactly what the Russian grain deal did for the Continental Grain Company; it says that its pretax profit on the \$320-million of wheat it eventually sold to Russia was only about \$1.8-million. But that does not count its sale of corn or the shipping contracts, or the profits Continental derived from the higher price of grain in other export sales. There is one clue suggesting that the Fribourgs had a very fat year over-all: Just before the Russian grain deal, Continental Grain took out a \$15-million line of bank credit when it wanted to finance a corporate acquisition of about that size. One year later, when it wanted to finance an \$11-million acquisition, the company said it could do so out of "working capital."

The biggest winners were the Russians. They began the summer of 1972 in a tepid bargaining position, with empty granaries and bad growing weather. Nevertheless, they walked away with contracts for enough grain to offset their own crop shortfall, with enough left over to continue Russian grain exports to Eastern Europe and build a grain stockpile for 1973. Most of their purchase was of wheat, which the United States Agriculture Department promoted for them at a discount below the going world price.

Their credit terms—a \$500-million credit at 6½ per cent interest—turned out to be a second bargain. By the time the Russians began repaying the credit, interest rates in the United States had climbed to the point where the United States Treasury itself was paying better than 6⅞ per cent interest when it borrowed money. And, because of the doubling of the price of gold in London and Zurich, it has turned out that the Russians are paying for their \$1.1-billion of American grain with what are, for them, half-price dollars.

The clear losers in the grain deal were the supermarket shopping, tax-paying American bystanders. On one hand, their combined grocery bills rose perhaps \$5-billion because of it. On the other hand, the Agriculture Department spent \$300-million in export subsidies to hold the price of wheat abroad to a needlessly low price. Over the last year, supermarket food prices have jumped about 20 per cent. Just how much of that rise can be pinned on crop exports is debatable. Barry Bosworth, an economist at the Brookings Institution, estimates that fully 15 points of the 20 percentage-point rise in food prices would not have happened if it had not been for the increase in agricultural exports. At the low extreme, the Agriculture Department has calculated that only 3 percentage points of the 20 per cent domestic food price increase were attributable to increased exports. Gary L. Seevers, the agricultural expert on the President's Council of Economic Advisers, falls

in between. “My feeling,” said Seevers, “is that perhaps half of the acceleration in food prices could be attributed to factors associated with the worldwide boom in export demand.”

Despite the furor over the Russian grain deal in Congress, none of the investigations succeeded in pinning down how much economic impact it actually had. It would be easy to trace the direct results—higher wheat means higher flour means an extra nickel for a loaf of bread. But how to measure all the side effects—for example, the psychological impact of higher corn prices on the farmers who raise corn and hogs? In the early months of 1973, the Agriculture Department expected farmers to breed many more hogs to take advantage of the fabulously high pork prices. But it turned out that many growers simply decided they could make enough money by selling their corn, instead of worrying about breeding more hogs. So pork prices went even higher.

Milk and cheese prices are just recently getting a delayed jolt from higher grain prices. Dairy herds that had been barely profitable with low feed prices were in some cases priced into the slaughterhouse by high feed prices. Beef prices have so far been little touched by the Russian grain sale, but the effects of higher feed costs may show up next year. The shame is that, if handled differently, the Russian grain deal could have been a net plus all around.

The assessment

Ideally, the United States Government should have decided during the spring of 1972 that there was a point beyond which grain export sales should be discouraged. The question should have been put to the Council of Economic Advisers, the Cost of Living Council and the Office of Management and Budget instead of being casually left to a new Assistant Secretary of Agriculture after the Russian traders arrived.

Ideally, the Agriculture Department should have had a formal reporting system to tell its own working-level experts, as well as the farmers and the rest of the Government, how much grain was being sold for export. Instead, the department relied on unofficial calls from the exporters to Assistant Secretary Brunthaver, and he kept the information to himself.

Ideally, Brunthaver and Butz should have recognized that the United States was the only large source of exportable wheat in the world. Therefore, Brunthaver should have avoided promising the exporters that the world wheat price would be kept at \$60 a ton indefinitely. Certainly for the August round of Russian purchases and perhaps from the beginning, Brunthaver should have unfrozen the world wheat price and let it find a new level through supply and demand. Quite possibly, this alone would have cut down the tonnage of the Russian orders enough so that American grain stocks would not have been oversold.

Ideally, the rest of the United States Government should have reacted faster to the first hints in mid-July, 1972, that the Agriculture Department might be pushing too much grain abroad. Even as late as Labor Day, the Agriculture Department could have been forced to call a conference of grain-importing countries to work out a voluntary allocation of the remaining American stocks. And Butz could have been ordered to open up the following year's wheat acreage before the election instead of afterward. In fact, not one Congressman made such suggestions at the time, and the few worriers on the staff of the Cost of Living Council overruled.

How to explain the gap between what everyone should have done and what they did? In post-Watergate Washington, there is a tendency to suspect that any time the Government makes a move, it is because someone was reached with a suitcase full of \$100 bills. However, the bagman theory of history doesn't seem to fit the Russian grain deal. Every investigative reporter in Washington and half a dozen Congressional committees have wondered about the possibility of uncovering evidence of venal motives. Solar, no dollar corruption has been sighted or even hinted, not even by Senator Henry M. Jackson's Senate Permanent Investigations Subcommittee, which has conducted the most thorough inquiry into the grain deal.

In fact, there turns out to have been an inverse ratio between campaign contributions and the direct benefits of the deal. Michel Fribourg, who got most of the Russian business, is not on any known list of Nixon contributors, and he says he was never solicited for a major gift. However, Fribourg did give \$1,000 in May, 1972, to the McGovern campaign. Yet Dwayne Andreas, a Minneapolis grain executive who gave \$139,137 to the Nixon campaign, did not sell a bushel to Belousov. Some executives of Cargill did contribute to the Nixon campaign, but nowhere near the boxcar figures of Andreas. The Russians, one must remember, chose their own trading partners without clearing them at the White House.

Conspiracy theories are always popular. Could the Russian grain deal be the product of an ignoble chumminess between the grain traders and the top officials of the Department of Agriculture? There is no question that some key officials in the Agriculture Department came from the grains-trading fraternity, and that important Agriculture Department officials went to work for grain - trading companies shortly before and during the Russian grain deal.

The most salient case is Assistant Secretary of Agriculture Clarence Palmby. Passed over by Nixon as a possible Secretary of Agriculture, Palmby decided in the spring of 1972 to leave his job in the Agriculture Department to work for Michel Fribourg as a vice president of Continental Grain. Using Fribourg as a financial reference, he bought a \$108,000 cooperative apartment on Sutton Place South in March, 1972. One month later, Palmby flew to Moscow as a United States Government negotiator to handle the Nixon Administration's preliminary bargaining on the grain credits. Palmby left the Agriculture

Department in May and joined Continental Grain on June 8, a few weeks before the Russian delegation arrived to buy grain. In his new role as a Continental executive, he sat in during some of Fribourg's bargaining sessions with Belousov but maintains he contacted nothing. Meanwhile, his job at the Agriculture Department was filled by his old friend and protégé, Carroll Brunthaver, a one-time employe of another grain exporting company, Cook Industries.

All of this has provoked suspicions that Palmby carried valuable inside information on Russian intentions from the private recesses of the Agriculture Department to the corporate boardroom. But whatever impressions Palmby may have brought to Fribourg, they were apparently not specific enough to make Continental Grain get ready for a big sale by buying up wheat futures contracts in advance. In fact, the Russians kept Palmby and everyone else in the Agriculture Department from learning about their real desires to buy wheat until after Palmby had joined Continental Grain.

The best explanation of the mishandling of the grain deal is more prosaic than nefarious. Carroll Brunthaver perceived his responsibility as simply to facilitate the sale of every ton of grain that the exporters could physically move through the elevators. When he saw indications that the Russians were buying much more wheat than the Government had anticipated, he chose to keep the information.. to himself. While it is conceivable that he was acting out of some residual loyalty to the grain trade, it seems much more likely that Brunthaver simply failed to grasp the economic consequences of what he was being told in confidence by the grain traders.

Secretary Butz maintains he did not learn of the huge proportions of the grain deal until mid-September, 1972. If he didn't, clearly he should have done more to find out. But, like every Secretary of Agriculture, Butz had his sights set on pushing up farm prices during an election year. The trouble with Butz was that he had tunnel vision: He did not worry about the grain deal beyond its impact on the farm vote in November.

Someone in the White House should have worried. If, in mid-July, John Ehrlichman, the President's chief domestic adviser, had pressed a few questions about the grain deal upon the Agriculture Department, the Council of Economic Advisers and the Office of Management and Budget, perhaps some limits would have been placed on Brunthaver's commitments- to the grain traders. Unhappily, the White House had a larger preoccupation in the summer of 1972—it was known as Watergate.

IN defense of the grain deal, Butz testified: “It is easy to say now that we might have done it differently. The Federal Government might have stepped in and said no, the Soviets cannot buy here in a free market. ... We might have said, as some are saying now, with benefit of hindsight, that the Russians were in such trouble that they would have to buy from the United States and we should, therefore, in the vernacular of the day, ‘sook it to ‘em.’ We might have followed such a policy of ‘big stick’ economics, but what would it have accomplished? On the one hand, there might have been some saving in export

subsidy funds, which likely would have been canceled out by farm program costs and the continuation of storage charges. It is well to consider that the Russians might not have had to buy from us, at least in such quantities; by revising certain domestic programs they could have survived 1972 and 1973 with a good deal less imported grain than they bought in the United States. And we may ask ourselves the question: What would this have done to the advancement of peace and cooperation in a time when the world desperately needs to get itself together?.

But it still is evident that some lessons had been learned. Wheat export subsidies have been abandoned. There now is a reporting system on crop exports. And the Agriculture Department has been induced by the Cost of Living Council to put all 60 million acres of setaside cropland back into production for the 1974 growing season.

Had the wheat deal experience left any deeper legacy? Had it taught the need for consultation, for perspective, for foresight, even in the face of awkward political facts? That, in a Government of human beings, was a far less certain prospect. ■