

SOVIET GRAIN DEAL IS CALLED A COUP

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The Soviet Union's recent purchase of more than \$1-billion worth of American wheat, feed grains and soybeans, the biggest grain deal in history, appears to have been a remarkable coup for the buyers from Moscow.

By using tough bargaining tactics and keeping its over-all intentions secret, the Soviet buying team saved millions of dollars during midsummer buying trips to New York, Washington, Memphis and Minneapolis, among other places.

In two visits to the United States, the Russians bought up about 25 per cent of the total American wheat crop for the year at bargain prices. World and domestic prices have soared by more than 50 per cent since the Soviets started buying.

[In Washington, the wheat sale controversy heated up as questions were raised concerning possible use of inside information and violation of conflict-of-interest laws. Details on Page 30.]

One After Another

The Russian team, led by the seasoned negotiator Nicolai Belousov and operating out of a 42d-floor suite at the New York Hilton hotel, closed one deal after another with United States grain dealers.

"They know our grain market as well as anyone I've ever seen," said Walter B. Saunders, vice president of Cargill, Inc., one of the world's largest grain dealers. "They bought grain like you'd buy a used car." The Russians managed to place virtually their entire requirement before market prices began to rise. American consumers, on the other hand, will be paying higher prices for bread and other grain products in coming months as a result of the massive Soviet buying and increased orders from other countries.

The Russian success has been largely obscured by the political turmoil that has swirled around the grain sale, and it has become a controversial issue in the Presidential campaign.

Democrats have charged that some grain dealers made windfall profits at the farmers' expense, with help from the Nixon Administration. Republicans are defending their handling of the deal.

There has been, however, general agreement that the Russians did a quick and effective job of filling their needs.

The grain business, dominated by privately-owned companies, is secretive by nature. Neither the Russians nor the dealers are volunteering much information about the summer negotiations.

It was possible, however, to reconstruct the chain of events from fragments of Congressional testimony and interviews with Government and corporate officials.

Government Role

The huge deal, which the Russians needed desperately to overcome a wheat shortage in their country, was facilitated by loan arrangements with the United States Government.

Agreement on a \$500-million line of credit was reached by M.R. Kuzmin, a Soviet First Deputy Foreign Trade Minister, and Secretary of Commerce Peter G. Peterson following a series of meetings in Washington that began on June 29 and ended with announcement of the loan by President Nixon on July 8.

Even as the loan was being negotiated, however, a separate team of Russian officials was quietly bargaining with grain company officers, first in Washington, at The Madison, a luxurious downtown hotel, and then in New York.

The buying group was headed by Mr. Belousov, president of Exportkhleb, the Soviet state trading organization. The team also included Leonid Kalitenko, the most fluent English-speaker of the group and its detail-man, and Paul Sakun of the Ministry of Foreign Trade, who was described by one American as “the watchdog from Moscow.”

‘Good Capitalists’

“The Russians were very clever,” said George S. Shanklin, a Department of Agriculture expert on commodity exports, in an interview. “They were able to buy large quantities without bidding the price up. I give them credit for being very good capitalists.”

A more critical look was taken by Representative Neal Smith, an Iowa Democrat, who told a House subcommittee that the Nixon Administration had been duped by the Russians.

At a time when the Russians faced a major shortage of wheat, he said, they “employed an old tactic of diverting attention.

“They talked about buying large amounts of corn, which we have in considerable surplus. They talked of long-term dependence upon us for grain. And 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.” the Representative said.

A New York grain company executive who bargained with the Russians said:

“It was the first time they were dealing on this scale in a free market, and they realized very well that it was a brand new ball game for them—not like Canada or Australia where they deal with one central agency.

“They realized that if the quantities got to be known, it would hurt their chances of getting a good price, so they were constantly fooling around, switching from one item to an other. They would say, ‘We are not buying more than we are ordering from you.’”

An Approach Detailed

The largest single seller to the Russians was the Continental Grain Company, a New York concern that has had extensive prior dealings with the Russians.

Officials of Exportkhleb telephoned Continental in New York City on Thursday, June 29—at the same time that the official Washington negotiations began—and met with the company's officers in Washington the following evening.

Over the weekend, a Continental official took some of the Russians on a sightseeing tour of the city and to lunch in nearby Alexandria, Va.

Then, on Monday negotiations were shifted to the New York Hilton, although they were periodically held in other places as well.

The talks continued until July 5, when Continental signed a preliminary contract for 4 million tons of wheat. That in itself was the biggest single purchase the Russians made from one company in this country and it was later supplemented by another, 1 million ton, contract with the same company.

The United States-Soviet credit was not announced until three days after Continental's first sale.

Price Estimated

The company said its price to the Russians was “very close” to the prevailing market price of \$1.63 to \$1.65 a bushel, although some trade sources said the Russians were shaving market prices a bit at the beginning.

Besides wheat, Continental sold the Russians 4 million tons of corn to be used as feed grain.

During the two weeks following the completion of its major deal with Continental, the Russian team, made additional large purchases of wheat from Cargill, Inc., of Minneapolis; the Louis Dreyfus Corporation of New York; Cook Industries, Inc., of Memphis; and the Garnac Grain Company of New York.

All the purchases apparently were made at levels near the prevailing market price.

Cargill Case

The Russians' secretive style of negotiating was typified in their dealings with Cargill, whose officials met with the Soviet team in Washington on Saturday, July 1. Barley and corn were mentioned by the Russians at the first meeting, according to Cargill, but not

wheat.

On July 10, two days after President Nixon's announcement of the grain credit, Cargill officials again met with the Exportkhleb team, this time in New York.

The discussion turned to wheat, and agreement was made to sell the Russians 1 million tons. A contract was signed two days later.

The Russians continued to meet with other grain companies, and did not leave New York for Moscow until about July 21.

Meanwhile, as the Soviet buying became known in the trade, the domestic market price of wheat rose to \$1.76 a bushel by mid-July and reached \$1.78 by the time the Russians returned to Moscow. It subsequently rose to the \$2.50-a-bushel level when the full extent of the Soviet purchases became apparent.

Return Visit

The Soviet team's return visit, about 10 days later, was a surprise, and led to speculation that the Russians had underestimated their domestic shortfall.

The Russians were able to continue to buy wheat at the prevailing world price of \$1.63 to \$1.65 a bushel because a United States Government subsidy to dealers made up the difference between world and domestic prices. The subsidy was later dropped, but not until the Russians had completed their buying. The world price has subsequently risen to well over \$2 a bushel.

The Soviet team negotiated with grain dealers through the first week of August, and stayed in the United States until Aug. 18, when they again departed for Moscow.

During the second visit, the Russians closed new deals with all the companies in the first round except Continental and added the Bunge Corporation of New York to the list of their suppliers.

"We consider them careful, informed and shrewd," said Carl C. Brasmer, Bunge's vice president for trading. "When Belousov called us the second time, we figured we were just going for a handshake, so we said we were sorry we didn't sell him any [wheat] the first time, that we had just come to say goodbye. He said 'Do not be sorry ... Come on, let's see that American efficiency.'"

Cook Industries, president Edward W. Cook, said that his company got its first call from the Russians on June 29 but that "my guy came back from Washington empty-handed."

"Then we lost them [the Russians], but we finally found out on the 10th that they were at the Hilton in New York," he said. "I called and said I'm coming up to see you.

"On the 11th I got in my airplane at 5 A.M., and got to the Hilton at 9:15 A.M. I cooled my heels until 4:30 P.M. Then I walked into the room, and they said, 'Offer us wheat.'"

It now appears that in addition to over 11 million tons of wheat, value at about \$660-million, and 1 million tons of soybeans, worth about \$130- million, the Russians bought 6 million tons of corn, worth about \$300-million.

Total estimated purchases from United States companies so far: over \$1-billion.

It is believed that the Russians also bought an additional 10 million or 11 million tons of grain in other countries such as Canada, France and Australia during the same period.