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July 21, 1981

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
COUNSELLOR TO THE PRESIDENT
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
THE DIRECTOR OF CENTRAL INTELLIGENCE
CHIEF OF STAFF TO THE PRESIDENT
DEPUTY CHIEF OF STAFF TO THE PRESIDENT

SUBJECT: National Security Planning Group (NSPG)
Meeting Wednesday, July 22, 1981
~~1000~~ - 1030 A.M.
9:30

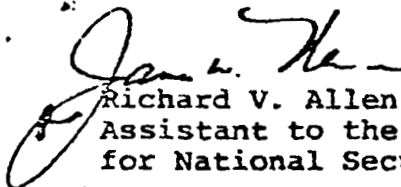
There will be an NSPG Meeting in the Cabinet Room of the White House at ~~1000~~ AM on Wednesday, July 22, 1981. The Agenda will be: 9:30

- a. Grain Agreement with the USSR
- b. Credit Sale of Corn to Poland

The papers for the agenda items are attached.

Principals only will attend

FOR THE PRESIDENT:


Richard V. Allen
Assistant to the President
for National Security Affairs

Attachments

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Review on July 21, 1987

NSC review completed.

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NSC DISCUSSION PAPER

GRAIN AGREEMENT WITH THE USSR

The 5-year US-USSR Long-Term Agreement on Grain Trade (LTA), which expires September 30, 1981, has served US interests by preventing sudden, destabilizing Soviet grain purchases and ensuring minimum annual sales levels for US wheat and corn. We have essentially two alternatives: a new long-term grain agreement or extension of the current agreement for one year (until September 30, 1982).

If we decide to go for a new agreement, two major issues must be decided: (a) whether a new LTA should contain a U.S. guarantee against further embargoes and (b) the amount of grain the Soviets will be permitted to buy without prior USG concurrence. A related matter is the US-USSR maritime agreement, which expires in December, and which in the past was a condition for labor to agree to load grain for the USSR.

Issues for decision

A. Whether to seek a new long-term agreement or to extend the present arrangement

The present LTA expires on September 30. An agreement is preferable because it insures orderly development of the grain trade with the Soviets and guarantees a minimum quantity of grain sales.

The issue is whether to seek to negotiate a new 5-year agreement or to seek extension of the present agreement for one year.

In favor of seeking a new, 5-year agreement:

— Going for a new, 5-year agreement would signal our intention for long-term stability in our relationship with the USSR, likely encouraging an increased level of Soviet purchases from the US and providing U.S. farmers the assurances they need for planning production.

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In favor of seeking to extend the present agreement:

-- A one-year extension would allow us time to observe the evolution of the situation in Poland and elsewhere before committing ourselves to a long-term grain trade relationship.

-- Extension could probably be done quickly, thus advancing the date of return of the Soviets to our grain market.

-- Seeking extension would not preclude a future decision to negotiate a new, long-term agreement.

Approve seeking a new, 5-year agreement

Approve seeking extension of the present agreement

If you approve seeking a new, 5-year agreement, two additional issues must be addressed:

B. US Guarantees Against Future Embargoes

The current LTA provides an explicit guarantee against a USG embargo of the 6-8 million tons of grain specified in the Agreement. Even during the post-Afghanistan embargo, the US honored this commitment, providing 8 million tons of grain per year.

The issue is whether to retain an explicit guarantee against future U.S. embargoes in a new grain agreement with the USSR.

In favor of guaranteed access

-- USDA believes that without guaranteed access it might prove impossible to negotiate any new agreement. Even if a new agreement could be negotiated, lack of guaranteed access could probably discourage Soviet purchases of U.S. grain.

-- Even explicit guarantees could be overcome in extreme circumstances by abrogating the agreement

Against guaranteed access:

-- Guaranteed Soviet access would contradict our linkage strategy and be inconsistent with our overall approach to East-West trade.

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-- In general, guaranteed Soviet access to our grain would be inappropriate in view of the USSR's continued presence in Afghanistan, pressure on Poland and support for leftist guerillas and terrorist movements. Specifically, it is inconsistent with NATO-agreed sanctions to impose a general export embargo in case of a Soviet invasion of Poland.

-- Inclusion of specific guarantees against embargoes reduces the foreign policy flexibility you must have to respond to unacceptable Soviet international behavior and puts you in the position of having to abrogate an agreement you have approved.

-- Abrogation is an act which has serious implications in international relations and which could reflect on the value of guarantees in other international agreements, including arms control.

_____ Approve guaranteed Soviet access to US grain.

_____ Disapprove.

C. Purchase Levels

The current agreement requires the Soviets to purchase 6 million tons of US grain annually (3 million tons each of wheat and corn) and permits them to purchase up to 8 million tons annually without prior approval from the USG.

The issue is whether the purchase levels of 6-8 million tons should be increased.

In favor of increased levels:

-- Increasing the purchase levels would help assure the US a significant share of the large Soviet market, slowing Soviet reliance on other suppliers such as Canada and Argentina (which have made major inroads into that market as a result of the embargo).

-- The US farm sector and key members of Congress see higher purchase levels as a test of Administration sincerity in undoing the "unfair" effects of the embargo.

Against increased levels:

-- Increased amounts would be inconsistent with our overall policy toward the Soviet Union, giving the impression

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that eagerness to sell US grain outweighs strategic considerations.

--- Pushing for increased grain exports would dilute our efforts to get our allies to restrain their exports of high-technology items to the USSR.

 Approve increased purchase levels.

 Disapprove.

US-USSR Maritime Agreement

The current grain agreement specifies that grain must be shipped according to the terms of the US-USSR maritime agreement, which expires in December 1981. US maritime labor would like to see the cargo sharing provisions of the agreement renewed, but this can only be done by making cargo sharing a precondition for the sale of grain or offering Soviet ships the opportunity to carry cargoes between the United States and third countries. The US maritime industry would oppose significant concessions to Soviet shipping interests, and insistence on US-flag carriage would make the grain agreement harder to negotiate. However, the Soviets may be encouraged to agree to cargo sharing by the potential threat of a renewed boycott by the International Longshoremen's Association (ILA) of grain shipments to the USSR. Drew Lewis has formed an interagency group to develop a policy in this area.

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NSC Discussion Paper

Credit Sale of Corn To Poland

The Poles have requested 400,000 tons of corn (value about \$60 million), on easy credit terms, for delivery beginning in September. They need it to avoid a serious decline in meat supply, which could provoke popular unrest. To meet this request would require legislation. To beat the August recess, we would have to take this to the Hill next week. We will have help from Congressmen Derwinski and Zablocki, and Senator Percy.

A decision to move ahead will depend to some extent on whether, as we expect, the Party Congress sustains the reform movement. We will also want to consider the attitude of the Europeans on freeing up existing lines of credit and providing new credits. To maximize our leverage, we must continue to make the point strongly with our allies -- and the Poles -- that providing these credits would further widen the gap between their performance and ours, and that they (and the Soviets) will have to cover further Polish requests for assistance.

If we do decide to move ahead, a number of questions must be addressed quickly: what kind of legislation and how to move it quickly; the terms of the credits to be sought. The timing involved requires a supplemental to the FY'81 budget; this should probably be a separate line item which might be introduced on the floor to a bill under discussion. The Poles' financial condition strongly suggests that a 10 year credit -- with a grace period -- would be in order. This length would also help to avoid trade policy problems with other grain producers. These issues can be worked out at staff levels.

Issue for Decision

Whether or not to extend \$60 million in new credits to the Poles for the purchase of 400,000 MT of corn.

In favor of extending new credits

-- Poland's deteriorating economy is threatening the viability of the renewal process. Meeting this request offers the opportunity of: (1) demonstrating our support for the continuing reform movement; (2) taking tangible action to

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alleviate a serious potential danger (meat shortages) to the reformers this winter; and (3) having another lever to push the Europeans into doing much more.

Our budget is tight, but economic chaos in Poland, which led to Soviet intervention, could cost us far more strategically than this further aid to Poland.

-- Food shortages would, even if chaos did not result, leave Poland more vulnerable and open to Soviet economic blackmail this winter.

-- We can use the prospect of additional U.S. credits for Polish corn purchases as a lever to press for greater West European financial support and the larger credits warranted by their economic and financial ties with Poland.

Against extending new credits

-- The USG has already extended \$585 million in CCC credit guarantees this year and \$70 million worth of surplus dairy products. Neither the West Europeans nor Soviet/CEMA countries have provided their share of additional credits to Poland.

-- Poland is in such bad straits economically that the prospects for repayment of USG corn credits are shaky; it would be difficult to hazard a guess as to Poland's ability to repay 10-year credits.

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