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20 SEP 1972

MEMORANDUM FOR: Deputy Director for Intelligence

SUBJECT : Status of US Wheat Sales to the PRC

1. The US agricultural attache in Paris has learned that the 408,000 tons of US wheat purchased by Dreyfus presumably for delivery to the People's Republic of China (PRC) may not be destined for China. Although the application for export listed the PRC as the destination, Dreyfus holds title to the wheat and can sell the wheat to any Far Eastern country except for denied countries designated by the US Department of State.

2. It now appears that the Dreyfus Company may try to ship French rather than US wheat to China. During 1961-70 France exported sizable quantities of grain to the PRC. France did not ship grain to the PRC in 1971 or 1972 presumably because French firms were unable to acquire European Community (EC) restitution payments. The agricultural attache reported that the Dreyfus Company -- possibly with the tacit support of the French government -- may be using the US deal to pry the necessary subsidy from the EC to export French grain.

3. The Dreyfus Company would find itself in a favorable position if EC approval is forthcoming. Dreyfus purchased the US wheat when the market was just beginning its steep rise and has collected the US export subsidy for Asian delivery. One customer for this wheat could be Japan. So far Japan has contracted for the delivery of about 2 million tons for delivery between July and November 1972. Japan suspended the purchasing of wheat between 26 July and 13 September because of high prices. Later in September, dwindling stocks apparently forced Japan to re-enter the world market. Japan is almost certain to purchase sizable quantities of wheat between now and the end of the year. Dreyfus would be in a position to supply US wheat -- purchased prior to 25 August and heavily subsidized -- to Japan at cheaper prices than US exporters.

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Deputy Director  
Economic Research

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