

BOB DOLE
1ST DISTRICT, KANSAS

COMMITTEE:
AGRICULTURE

DISTRICT OFFICES:
ROOMS 210-211
FEDERAL BUILDING
HUTCHINSON, KANSAS

BOX 31
RUSSELL, KANSAS

Congress of the United States
House of Representatives
Washington, D. C.

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CLARK	KINGMAN	RICE
CLOUD	KIOWA	ROOKS
COMANCHE	LANE	RUSH
DECATUR	LINCOLN	RUSSELL
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ELLSWORTH	MITCHELL	SEWARD
FINNEY	MORTON	SHERIDAN
FORD	NESS	SHERMAN
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HASKELL		WICHITA

September 27, 1963

MEMORANDUM--(Proposed Russian Wheat Transaction) -- Bob Dole (R-Kansas)

There are a number of advantages and disadvantages to the United States involved in the still somewhat nebulous Russian wheat transaction. The advantages or arguments in support of such a policy include the following:

1. Surplus disposal. The Commodity Credit Corporation now has in its inventory approximately one billion bushels of surplus wheat. This surplus is well beyond our normal carry-over needs and is, of course, expensive to store.
2. Balance of payments. Although the United States enjoys a favorable balance of trade, our country for a number of years has been suffering from an unfavorable balance of payments problem which has created heavy demand upon our limited gold supply by foreigners holding dollars. It is argued that a sale of surplus wheat for either Russian gold or for United States dollars would help alleviate the balance of payments problem.
3. A help in the cold war. It is argued that the communist nations have only a limited amount of export credit and that if this is used by the United States and other western nations in financing agricultural sales, then these communist resources cannot be spent for industrial and other more strategic goods.
4. Strategic value to the United States. If Soviet Russia became dependent on the United States for a significant portion of its food supplies this would give our government a lever in future negotiations with the communists to force diplomatic concessions in other areas.
5. Propaganda value. Russian purchases of United States wheat, it is argued, would prove to the world that communism is much less successful than the free enterprise system in producing agricultural commodities, and would be an admission of failure on behalf of the communist farm system.
6. A step to world peace. It is further argued that the easing of trade restrictions between the two chief nuclear powers of the world will lessen the danger of a war in which millions of people on the earth might perish.
7. Strengthening United States farm prices. It is also argued that substantial sales of United States wheat would have a beneficial effect on market prices received by farmers for their current crop of wheat and that farmers would not be able to understand why our government failed to sell to Russia if wheat should fall to \$1-\$1.25 per bushel range next year.
8. Continuation of present policy not realistic. It is argued that since Canada has agreed to sell Russia its surplus wheat that our refusal to do so injures only ourselves and does not deny the communists the wheat they seek.

The disadvantages and arguments in opposition to such a policy include the following:

1. Bailing out the communists. It has become increasingly evident that there is a shortage of wheat and other grains in the Soviet Union. As Secretary Freeman stated, the Soviet Union has canceled its export commodities to the Scandinavian countries and to the Red Bloc satellites. It is argued that if we now give the Russians the opportunity to accumulate a full inventory of wheat they will be able to more effectively withstand the internal pressures within the Soviet Union for more capitalistic, private ownership type of agriculture.
2. Subsidizing communism. This entire deal is being considered in the context of world prices, which are approximately fifty to sixty cents per bushel lower than United States prices. Although the export subsidy on wheat is designed to protect American producers and is actually paid to American exporters, the final effect would be to allow Russian consumers to purchase American wheat for a substantially lower price than could American consumers. It is, therefore, argued that this proposal would mean a subsidy to communist Russia.

Congress of the United States

3. A dangerous precedent. If a transaction of this nature were consummated, it would, many feel, be a precedent for trade with Red China, North Korea, North Viet Nam, and Cuba. If Russian gold can buy United States wheat, why should not Chinese gold achieve the same result? It is also contended that this precedent would have a very adverse effect on our free world allies whom we are asking to stand firm and make sacrifices in the struggle against communism. Example--South Viet Nam.

4. Not mutually advantageous. Secretary Freeman noted that free world supplies of wheat will be short next year. Thus, the sale to Russia at current world prices might turn out to be an unwise business decision for the United States. If Russia is able to corner the world wheat market with a reserve acquired from the United States and Canada and its current wheat crop, the Soviets would of course also be able to divert some of their internal resources to other uses if they were assured of large amounts of wheat and perhaps other agricultural commodities from Western nations, including the United States.

5. Trading with the enemy. A basic national policy goal is involved in this transaction. Is Russia an enemy of our country and our system, or is she merely a "friendly" competitor? Is our national purpose to eliminate world communism, or is it merely to tolerate it in the hope that it will not spread into the West? At a time when the United States is considering selling wheat to Russia, our defense budget is ostensibly for the purpose of defeating world communism and stands at a record \$50 billion.

6. Legal barriers. P. L. 480 transactions with Soviet Russia are clearly prohibited by law. See Section 107 of that Act. Commercial sales involving an export subsidy are contrary to the policy of Congress as expressed in the Latta Amendment to the Agricultural Act of 1961. See Section 2(c) of that Act. In addition, there are a number of legal difficulties involved in the establishment of a "cartel" of American grain firms to export wheat to the Soviet Union. It is questionable whether all these legal obstacles can be overcome by administrative interpretation, and for proper clarification, the proposal should be submitted to the Congress for its consideration.

CONCLUSION. Based on the statements of Secretary of Agriculture Orville Freeman, Secretary of Commerce Luther Hodges and Assistant Secretary of State for Economic Affairs G. Griffith Johnson, the Administration has not made a formal decision on this matter. The details of the alleged communist offer are not known. The terms of payment and the method of delivery are not decided. Until all these facts are known, it is very difficult to make an intelligent decision as to whether this offer of Soviet trade should be accepted.

A step to world peace. It is further argued that the easing of trade restrictions between the two chief nuclear powers of the world will lessen the danger of a war in which millions of people on the earth might perish.

Strengthening United States farm prices. It is also argued that substantial sales of United States wheat would have a beneficial effect on market prices received by farmers for their current crop of wheat and that farmers would not be able to understand why our government failed to sell to Russia if wheat should fall to \$1-\$1.25 per bushel range next year.

Continuation of present policy not realistic. It is argued that since Canada has agreed to sell Russia its surplus wheat that our refusal to do so injures only ourselves and does not deny the communists the wheat they seek.

The disadvantages and arguments in opposition to such a policy include the following:

1. Selling out the communists. It has become increasingly evident that there is a shortage of wheat and other grains in the Soviet Union. As Secretary Freeman stated, the Soviet Union has canceled its export commodities to the Scandinavian countries and to the Red Bloc countries. It is argued that if we now give the Russians the opportunity to accumulate a full inventory of wheat they will be able to more effectively withstand the internal pressures within the Soviet Union for more capitalistic, private ownership type of agriculture.

2. Subsidizing communism. This entire deal is being considered in the context of world prices, which are approximately fifty to sixty cents per bushel lower than United States prices. Although the export subsidy on wheat is designed to protect American producers and is actually paid to American exporters, the final effect would be to allow Russian consumers to purchase American wheat for a substantially lower price than could American consumers. It is, therefore, argued that this proposal would mean a subsidy to communist Russia.