



RETURN TO 419 A.H.

ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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GRAIN EXPORTS TO RUSSIA RESTRICTED

THE LONG ARM OF POLITICS has once again reached into the grain market. The announcement of an embargo on grain shipments to the USSR had immediate and widespread impacts. The Commodity Futures Trading Commission requested that trading in grain futures be suspended for two days following the announcement. In the cash market, bids were not available or were at extremely low levels.

As announced by President Carter, the embargo limits shipments of grain to the minimum of 8 million metric tons established in the 5-year agreement with Russia. The agreement year runs from October through September. USDA sources indicate that since October 1, total U.S. grain shipments to the USSR are already very near 7 million tons. In addition, the embargo would prevent the shipment of 1 million tons of soybeans to the USSR.

USDA analysts had expected the USSR to import a total of 25 million metric tons of U.S. grain by the end of September, 1980. This implies a total of 17 million metric tons that would be available for other purposes. Such an increase in the "supply" would tend to be price-depressing.

The USDA has announced some general measures to try and minimize the price impact. At this writing, no specific proposals had been made; but two types of actions were being considered. One involved additional purchases (perhaps 4 million tons) of grain for PL-480 shipments. The second involved temporarily removing some grain from the market by expanding the farmer-held reserve program. The method of implementing such a program has not been announced.

The effect of increasing the reserve stocks of grain would be temporarily price-supporting. The longer term effect would depend on the strength of the demand for grain in other markets, the duration of the embargo, and supply prospects for 1980.

Although no details were made available, the administration did announce plans to increase the use of grain to produce alcohol for fuel purposes. In addition, there is a possibility of a set-aside or paid diversion program for 1980.

The eventual impact of the embargo of grain shipments to the USSR depends on the duration of the disruption in trade. The administration did not announce the circumstances under which grain trade would be reestablished.

