



# WEEKLY OUTLOOK

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## A NEW TRADE AGREEMENT WITH THE USSR

THE U.S. DEPARTMENT OF AGRICULTURE REVEALED ON JULY 28 that a new long-term trade agreement has been reached with the Soviet Union. While the agreement will reportedly not be signed until late August, some of the provisions of the agreement have been released.

The agreement calls for the USSR to buy a minimum of 9 million metric tons of wheat and corn per year for the next five years, beginning on October 1, 1983. The first 8 million tons are to be divided approximately equally between corn and wheat. The final one million tons can be satisfied with any combination of wheat or corn or with 500 thousand tons of soybeans or soybean meal. An additional 3 million tons of any combination of corn or wheat can be purchased each year without prior consultation.

The previous agreement with the USSR called for a minimum annual purchase of 6 million tons, with an additional 2 million tons available without prior consultation. The increase in the current agreement is in line with market expectations.

Secretary of Agriculture John Block has indicated that the "escape clause" of the previous agreement has likely not been included in the current agreement. Under that clause, the United States retained the right to supply less than the minimum in any year when the U.S. grain supply (carry-over plus production) was less than 225 million tons. Provisions relating to quality are also thought to be included in the agreement. Neither of these last two provisions has been confirmed.

Under the new agreement, the USSR can apparently purchase between 4 and 8 million tons (157.5 to 315 million bushels) of corn, 4 to 8 million tons (147 to 294 million bushels) of wheat, and one-half million tons (18.4 million bushels) of soybeans or one-half million tons of soybean meal each year for the next five years.

Over the last eight marketing years (June through May), the USSR has purchased an average of 3.66 million tons of U.S. wheat per year. The range has been from 2.6 million tons in 1978-79 to a high of 6.3 million in 1981-82. Purchases for the year completed on May 31, 1983, totaled 3.4 million tons. Purchases by the USSR have accounted for about 10 percent of total U.S. wheat exports over the last 8 years.

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During the last seven marketing years (October through September), the USSR has purchased an average of 7.6 million tons of U.S. corn per year. The range has been from 2.9 million tons in 1978-79 to 10.5 million tons in both 1975-76 and 1978-79. For the current year, corn shipments to the USSR (through mid-July) have totaled 3.2 million tons. Purchases by the USSR have accounted for about 15 percent of total U.S. corn exports over the last 7 years. The range has been from 7 to 24 percent annually.

Last year, the USSR purchased about 710 thousand tons of U.S. soybeans. So far this year, purchases have totaled only about 200 thousand tons. Russian purchases accounted for less than 3 percent of U.S. soybean sales last year and less than 1 percent so far this year.

The new agreement will result in increased grain sales to the USSR when compared with the current year. However, annual sales to Russia will not likely exceed the average of recent years. The current agreement must be kept in perspective. Expanding exports is not the complete solution to the perennial U.S. grain surplus problem. Our production capacity still exceeds demand at profitable prices. The market, not government programs, will have to be relied upon to a greater extent to bring supply and demand into equilibrium.

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