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REPORT BY THE
COMPTROLLER GENERAL
OF THE UNITED STATES

Title

(SUSPENSION OF GRAIN SALES
TO SOVIET UNION:)
--MONITORING DIFFICULT
--SHORTFALL SUBSTANTIALLY
OFFSET

D I G E S T

In response to the Soviet Union's invasion of Afghanistan in December 1979, the President on January 4, 1980, announced the suspension of grain shipments to the Soviet Union in excess of the 8 million metric tons of wheat and corn which the United States was committed to export by the U.S.-U.S.S.R. Grain Supply Agreement. The grain sales suspension was intended to have major political and economic implications.

The suspension was directed at the Soviet Union's important feed/livestock sector. Improved domestic availability of meat, milk, and eggs has been a major goal of Soviet planners. The administration estimated that the suspension would have a substantial adverse impact on Soviet feed usage, numbers of livestock, and meat consumption. (See p. 11.)



Several Members of Congress asked GAO to investigate the (1) circumstances surrounding Agriculture's Commodity Credit Corporation's assumption and subsequent retender of \$2.5 billion of grain exporters' contracts with the Soviet Union, (2) effectiveness of any Federal monitoring program to ensure that U.S. grain is not being shipped to the Soviet Union, and (3) propriety of the Corporation's market purchases of wheat and corn.

A report on Agriculture's Commodity Credit Corporation's assumption and retender of the grain exporters' Soviet grain contracts and the Corporation's market purchases of wheat and corn will be issued separately.

In the 1979-80 marketing year (July 1979 through June 1980), the Soviet Union was

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able to substantially offset the suspension's impact by

- increasing grain imports from other countries;
- drawing down its carryover grain stocks;
- increasing imports of non-U.S. soybeans, soybean products, and substitute feeds; and
- increasing meat imports. (See pp. 12 and 14 to 16.)

The Soviet Union may have received some U.S. grain as a result of unauthorized transshipments through Northern European ports. Transshipments occur when a shipment is unloaded at a port and then reloaded on railroad cars, barges, or other carriers for shipment to the importing country.

The Federal Government has set up a monitoring program to identify illegal grain shipments to the Soviet Union. However, it is not feasible to closely monitor for possible unauthorized transshipments because of factors inherent in monitoring any grain suspension. These include the fungibility, or interchangeability, of grain; the relatively widespread availability of transshipment facilities; and limitations in staff resources and U.S. legal jurisdiction. (See pp. 6 to 9.)

Agriculture estimates that, even with the U.S. grain sales suspension, the Soviet Union will import an amount of grain about equal to its maximum import capabilities during the 1980-81 marketing year. Thus, Agriculture believes that any decrease in livestock feed usage or meat consumption will be the result of a poor Soviet grain harvest in the 1979-80 marketing year and low carryover grain stocks. (See pp. 16 and 17.)

GAO recognizes that the suspension was imposed for foreign policy and national security reasons. Thus, GAO has no comment on the continuation of the suspension.

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AGENCY COMMENTS

The Department of Agriculture states that the suspension's impact on the Soviet Union was minimal in the 1979-80 marketing year and will be even less in the 1980-81 marketing year. The Department of State believes that the suspension had a significant impact on Soviet grain imports when measured on the basis of the Grain Supply Agreement year (October 1979 through September 1980). State said that the suspension's impact will be less in the 1980-81 marketing year but believes that the suspension will continue to (1) decrease Soviet port efficiency, (2) increase Soviet grain import costs, and (3) force the Soviets to use a less than optimal livestock feed mix. (See pp. 17 and 18.)

The Departments of Agriculture, Commerce, and State agree that monitoring any grain sales suspension is difficult because of the inherent factors listed above. (See p. 9.)