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MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Possible Sale of UK Grain to the USSR

1. Thank you for your ^{*at least*} letter of 1 March. I see no major difficulties in a grain deal of the kind proposed, and would be happy to see our trade with the Soviet Union, which is in substantial and long-standing deficit, develop in this way. It would be particularly useful, as you say, if we could get a commitment for future years. I see no particular difficulty in making the necessary arrangements with the Commission.

2. I have only two hesitant notes to sound

(i) The Soviet Ambassador has something of a track record of "personal" initiatives. It is difficult to be sure in this case, as in others, how much backing he has from higher up in Moscow. He may have cleared his lines with the party and Gorbachev's office, even if the grain import agency has only later been brought in. You may wish therefore to encourage Ralph French to secure the necessary assurances.

(ii)

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(ii) Public presentation will be crucially important. A grain sale is not the ideal commercial deal to mark the Gorbachev visit from our point of view. Even though we regularly sell grain to the Russians, and I assume this sale would be on normal commercial terms, there may still be some criticism given the involvement of export refunds. Some might seek to compare it to controversial butter sales in the past and claim we are trying to keep Gorbachev sweet (and afloat) by offering him commercial favours. We should be able to deal with such arguments without too much trouble. But this would involve stressing the lack of direct government involvement in such commercial business, a line which would to some extent cut across Zamyatin's wish for high-profile publicity during the visit to underline good official relations.

3. I am copying this to the Prime Minister, David Young, John Major and Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
8 March 1989

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SOVIET UNION: Relations
Pt 12



Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

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c/c

From the Minister

*2.1) Fine Minister
seems possible.
22/3*

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PRIME MINISTER

EXPORTS OF GRAIN TO THE USSR

I mentioned to you yesterday the proposed deal with the USSR for the purchase through trade channels of around 1 million tonnes of UK grain to be announced at the time of Mr Gorbachev's visit. This is complicated by other action we are contemplating.

Given the relatively low UK harvest in 1987 and 1988, there are only limited quantities of UK grain which could be shipped before this year's harvest. We could not comfortably spare any feed wheat, without the risk of creating problems for our own livestock industry. We have, however, been pressing the Commission to facilitate for this deal the sale of over 500 thousand tonnes of UK barley in intervention and supplementary sales of up to 250 thousand tonnes from the free market. We envisaged that the Russians might be persuaded to accept the balance of the supply in the latter half of the year following the harvest. The arrangements for the proposed sale could go to the Cereals Management Committee in April with a view to shipment in the period May/July.

I have, however, been considering whether it is wise to continue to pursue these arrangements in the Community in view of possible other developments which could affect imports of essential supplies for compound animal feeds as well as any grain imports

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which may be necessary to supplement our own end-of-season stocks. This would inevitably put severe pressure on grain supplies and prices. We would lay ourselves open to severe criticism if, in those circumstances, we had agreed to export substantial volumes of barley to the USSR.

I have, therefore, concluded that the best way of proceeding would be not to continue to seek the necessary arrangements in the Community at this stage, but to take stock of the position in the middle of April, when we will have a better idea of the risk of serious problems at the ports. We should, therefore, seek, during Mr Gorbachev's visit, to agree in principle on a further major USSR purchase of grain from the UK, but to make clear that this may need to be met from grain from the 1989 harvest. This would nevertheless constitute an important step towards the agreed target of increasing Anglo/Soviet trade by 40% by 1990.

I am copying this minute to Sir Robin Butler.



JOHN MacGREGOR

Ministry of Agriculture,
Fisheries and Food
22 March 1989

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the department for Enterprise

SPC

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon John MacGregor MP
Minister of Agriculture,
Fisheries and Food
Whitehall Place
London
SW1A 2HH

**Department of
Trade and Industry**

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

ADP o/R

To see

Rec 6

30/3

Direct line 215 5422
Our ref PB6AGD
Your ref
Date 29 March 1989

Dear John,

POSSIBLE SALE OF UK GRAIN TO THE USSR

I have seen your letter of 1 March to Geoffrey Howe and his reply of 8 March about the possibility of the UK supplying 1 million tonnes of grain.

Like Geoffrey, I see no difficulty in principle in marking Mr Gorbachev's visit with a deal of this kind. The Soviet Union needs to import about 35 million tonnes this year, and the UK is in as good a position as other countries to respond. Grain already represents a significant proportion of what we export to the Soviet Union. Such a sale would provide a good headline figure and would certainly help our trade deficit in the short-term, though its benefits would not be lasting.

I believe, however, that it would be more worthwhile for UK trade as a whole if Mr Gorbachev's visit could be marked by the conclusion of longer-term projects such as some of the major capital projects which a number of British companies are pursuing. The latest indications I have from companies are that there could be several ready for signature at the time, and I am making provision in the programme for Mr Kamentsev, the Soviet Deputy Prime Minister for foreign trade, who will be accompanying Mr Gorbachev, for a signing ceremony at Lancaster House.

Mr French is in Moscow at the moment. My officials have heard that he has made contact with the Soviet foreign trade organisation Exportkhleb and that, with the encouragement of the Soviet Ambassador, they do appear to be willing to discuss

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the department for Enterprise

the purchase of grain both now and in the future. Mr French will no doubt report to your officials upon his return next week.

I am copying this to the Prime Minister, Geoffrey Howe, John Major and Sir Robin Butler.

John Major

the
Enterprise
initiative

SOVIET UNION: Relations
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Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Downing Street
London

cc/c ②

Prime Minister
You will want to
be aware of this.
CDP
1/3

1 March 1989

Dear Geoffrey,

POSSIBLE SALE OF UK GRAIN TO USSR

Mr Rafe French, the Chairman of the British/Soviet Chamber of Commerce has passed on to my officials a proposal put to him by the Soviet Ambassador that Mr Gorbachev's visit to this country might be marked by the announcement that the USSR will purchase 1 million tonnes of UK grain. The purpose would be to underline the importance the Soviet authorities attach to achieving the target of a 40% increase in Anglo-Soviet trade by 1990, agreed during the Prime Minister's visit to Moscow.

This is apparently a personal initiative by the Ambassador, by-passing normal channels. He insisted to Mr French that there must be strict confidentiality at this stage, since the official Soviet grain import agency knows nothing about the matter as yet. Nevertheless we must clearly take the approach seriously.

The USSR remains the world's biggest grain importer and buys from all main world suppliers. Within the Community, France is easily the biggest supplier to the USSR and trade has tended to take place under framework deals between the two countries: the most recent was concluded during Mitterand's visit to Moscow last year.

The UK has, of course, been a major grain exporter for a number of years. Amounts going to the USSR have varied considerably from year to year. We have not before been offered a deal of the sort now proposed. Apart from any political significance, I am anxious that we should follow up this approach for commercial reasons, given the importance of the USSR market. It could open the way to additional grain exports in future years, thus minimising expenditure on intervention. I would aim to get some sort of commitment about the future from the Soviet authorities if at all possible.

In the absence so far of any direct contact with the Russians, we do not know over what period they would want the 1 million tonnes to be shipped. Given our relatively low harvests in 1987 and 1988 and the quantities already committed for export in 1988/89, I would on present forecasts need to limit the quantity to be shipped before this year's harvest to some 750,000 tonnes.[†] But the more accurate forecasts that should be available by the time of Gorbachev's visit may allow that quantity to be increased; and, in any event, there is no reason to suppose that they would be unwilling to take the balance of the 1 million tonnes in the autumn.

The EC Commission controls the sale of grain out of intervention (from where the bulk of shipments between now and the 1989 harvest would have to come) and detailed policy on export refunds. They would therefore have to facilitate the deal, just as they have in the case of French deals in the past. It will be necessary to get their assurance on this before taking matters further with the Soviet authorities, and I would therefore aim for my officials to approach them at senior level and in strict confidence. This must be done quickly, before the FEOGA funds allocated for cereals exports in 1988/89 become fully committed.

Before going ahead, I thought that you and David Young should be aware of this approach so that you can let me know if you see any snags. It is clearly important that we move quickly to follow it up.

I am copying this to the Prime Minister, David Young, John Major and Sir Robin Butler.

† We shall have to assess the figures carefully, as we would be subjected to heavy criticism if we left ourselves short; and then on the possible implications which your officials will consider with the Commission and other Departments affected here.

Yours ever,



JOHN MacGREGOR