

Agriculture Sales and the Making of Détente: The U.S.-Soviet Grain Deal of 1972

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ABSTRACT

The U.S.-Soviet 1972 grain deal grew out of the United States' strategy of détente with the Soviet Union. The Nixon administration estimated the deal would simultaneously bolster the U.S. economy, provide a new market for surplus grain, promote better relations with Moscow, and encourage Soviet dependence on U.S. agriculture. However, the grain deal revealed a flaw in the free market trading order of the West. By September 1972, the Soviets were able to purchase the majority of the U.S. grain reserves at low prices, which resulted in food price increases for the average American consumer in 1973 but not the anticipated Soviet dependency.

INTRODUCTION

In the early 1970s, U.S. President Richard M. Nixon changed American foreign policy toward the Soviet Union from containment to détente in reaction to the stressful, traumatic events and economic pressures of the Cold War up to that point. For the United States, détente was a strategy designed to decrease tensions, promote cooperation, and provide guidelines for foreign policy interaction between the two countries. The U.S.-Soviet 1972 grain deal originated from a joint desire to improve trade relations as a part of détente.¹ The Nixon administration estimated that the sale of U.S. agricultural surpluses would have substantive, measurable benefits for the country's economy, and provide the Soviet Union with greater access to a needed commodity. Furthermore, the new economic relationship was expected to favor the United States through a Soviet dependence on American wheat and grains, which could be leveraged to gain cooperation in matters of foreign policy.

The purpose of this paper is to examine the events that led to the U.S.-Soviet grain deal, the role it played as an economic tool in the implementation of détente, the process of negotiations, and its results. While the grain deal brought benefits to both countries it, became an example of the complicated relationship between the free market economy of the United States and the state-controlled economy of the Soviet Union. After concluding the deal in the summer of 1972, the Nixon administration experienced a political backlash due to the rising U.S. food prices that were an unforeseen result of a massive Soviet purchase. It became evident that the expectations of U.S. policymakers for the grain deal were miscalculated and overestimated, as it failed to foster meaningful cooperation or result in the anticipated Soviet dependence.

¹ The official title of the deal was "The 1972 Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics with Respect to Purchases of Grains by the Soviet Union in the United States and Credit to be Made Available by the United States." It will be referred to as the "grain deal" for brevity throughout this paper. Many sources refer to this transaction as the "wheat deal" as that was the commodity purchased by the Soviets, making up 60 percent the total amount.

Lastly, the grain deal came to show the United States' own domestic and popular sensitivities to economic sanctions and policies that directly affected U.S. agricultural producers.²

This paper relies heavily on primary sources from the U.S. National Archives. It uses internal memorandums and reports produced by the Nixon administration before, during, and after the grain deal in order to understand its significance, negotiation process, conclusion, and immediate results. By examining sources at the granular level, the grain deal can be properly understood as one of the initial agreements that helped facilitate the larger process of trade liberalization as part of efforts to implement détente. For secondary sources, John Lewis Gaddis and Raymond Garthoff are used to provide an overview of détente and the events immediately surrounding the grain deal. These authors also show the long-term consequences of détente and agricultural trade.

In *Strategies of Containment*, John Lewis Gaddis examined U.S.-Soviet relations and argued that Nixon and National Security Adviser Henry Kissinger viewed détente as “yet another in a long series of attempts to ‘contain’ the power and influence of the U.S.S.R., but one based on a new combination of pressures and inducements that would, if successful, convince the Kremlin leaders that it was in their country’s interest to be ‘contained.’”³ Here the grain deal can be viewed as a clear instrument of détente, as one of its purposes was to provide a short-term *quid pro quo* for both sides while fostering a long-term Soviet dependence on U.S. agriculture that could be leveraged to gain Soviet cooperation on other matters of foreign policy. Nixon and Kissinger saw the grain deal as “linkage,” an element in détente strategy that connected progress in one area of U.S.-Soviet relations with progress in another area.⁴

² Raymond Garthoff, *Détente and Confrontation* (Washington D.C.: Brookings Institution, 1985) 307.

³ John Lewis Gaddis, *Strategies of Containment* (Oxford: Oxford University Press, 1982) 287.

⁴ *Ibid.*, 290, 309.

In *Détente and Confrontation*, Raymond Garthoff documented the implementation, conduct, and ultimate abandonment of détente during the 1970s and early 1980s. Garthoff examined events and changes in U.S. foreign policy, but also noted the various conceptions of détente held by the U.S. and U.S.S.R. Détente's failure at the beginning of the 1980s stemmed from the differences in how the United States and Soviet Union viewed it. The U.S. saw it as a continuation of containment, but in a more cooperative manner. The Soviet Union viewed détente as an acquiescence by the U.S. to military parity. For Garthoff, the "decade of détente" was an "ill-starred attempt to build—too rapidly—a structure for peaceful coexistence between powerful adversaries."⁵ The 1972 grain deal was one of the most important initial economic interactions between the United States and Soviet Union during the process of improving diplomatic relations.⁶

Beyond its use as linkage in foreign policy, the grain deal was a small, yet significant, part of implementing détente. Nixon and Kissinger expected the grain deal to promote détente by mobilizing public opinion in its favor.⁷ By selling the Soviets agricultural commodities, the United States could demonstrate a tangible economic benefit of the new strategy by using a peaceful commodity. For the Soviets, the grain deal was a step toward more important economic goals—Most Favored Nation (MFN) status from the U.S. and increasing access to products and technology being the most important.⁸ Détente required the United States and Soviet Union to find common ground in the realm of trade and economic interaction. Each nation had to reap some benefit in order to make an improved relationship realistic and long-lasting.

⁵ Garthoff, *Détente and Confrontation*, 1088.

⁶ *Ibid.*, 25, 305-307.

⁷ Henry Kissinger, *White House Years* (New York: Simon & Schuster, 1979), 1269.

⁸ Charles Percy, to Rogers et al., March 27 1969, Nixon, NSC Files, Country Files, Europe, USSR, Box 709, Vol. II, Folder 1.

The U.S.-Soviet grain deal came out of the Nixon administration's efforts to find a commodity that could be sold to the Soviets in order to foster economic links between the two nations. Initially, the Soviet Union did not have a great need for U.S. grain, which could be bought at cheaper prices from other countries on the global market. However, this changed rapidly in the summer of 1972 following a serious harvest failure. The Soviets were in need of the grain deal and concluded negotiations on U.S. terms without disclosing their own increased demand. The Soviet Union purchased greater quantities than expected and sparked popular backlash in the U.S. after it played a role in the increase of consumer food prices.⁹ U.S.-Soviet agricultural trade continued during the 1970s. But as the era of détente ended and the Cold War re-escalated, U.S. agriculture failed as a form of linkage and did not create a Soviet dependency to effect change. The end of the grain deal effort did not produce the expected outcome; rather, it initiated an economic relationship that overcame tensions without easing them.

U.S.-SOVIET TRADE LIBERALIZATION

President Richard Nixon arrived in office in 1969 with the goal of improving U.S.-Soviet relations, a course of action that most of his advisers supported and that the Soviets themselves acknowledged. The potential for greater economic cooperation with the Soviet Union was an early hope of the administration. Although political obstacles existed, officials recognized that the United States needed trade liberalization as a part of détente. National Security Study Memorandum 35 (NSSM 35) was the administration's assessment of trade with the Soviets and concluded that a change in U.S. trade policies was complicated. Furthermore, NSSM 35 noted

⁹ Garthoff, *Détente and Confrontation*, 305-307; Kissinger, *White House Years*, 1269.

that “Under some conditions, expanded U.S. trade could strengthen the power of existing ruling groups; under other conditions, it might gradually weaken that power.”¹⁰

A specific interest in U.S. agricultural commodities became a prominent factor in potential trade liberalization with the Soviets, brought on by their interest in purchasing U.S. corn in early 1969. National Security Council (NSC) staffers C. Fred Bergsten and Morton Halperin noted: “A positive response to the Soviet request would represent a small but useful step in implementing the President’s efforts to improve relations with the USSR on the basis of mutual advantage. Commercially, the sales would add a small amount now and possibly larger amounts later to U.S. exports...”¹¹ For previous administrations, agricultural trade had generally been a small but consistent component of the U.S.-Soviet economic relationship. In 1964, the Johnson administration approved sales to the Soviet Union of 3.6 million metric tons of wheat flour for \$276.8 million and 50,000 metric tons of rice for \$7.45 million.¹² For Nixon and his advisors, the successes of preceding administrations illustrated the economic benefits that could be reaped from a large sale of agricultural products to the Soviets. These deals were potentially more profitable if a favorable long-term agreement could be negotiated.¹³ Furthermore, such deals lacked the controversy of other forms of trade such as technology or industry. Secretary of

¹⁰ Kissinger, to The Secretary of State, et al., NSSM 35, , March 28 1969, Nixon Presidential Library, Virtual Library, http://www.nixonlibrary.gov/virtuallibrary/documents/nssm/nssm_035.pdf (accessed March 1 2014); Warren Nutter, to Kissinger, May 10 1969, NSSM-35, March 28 1969, Nixon, NSC Files, Box H-142, H-Files, NSSM 35.

¹¹ C. Fred Bergsten and Morton Halperin, to Kissinger, April 17 1969, Nixon, NSC Files, Country Files, Europe, USSR, Box 709, Vol. I, Folder 2.

¹² Dean Rusk, to American Embassy - Moscow, January 16 1964, RG59 Central Foreign Policy Files Economic INCO Wheat-USSR, Box 1236.

¹³ Bergsten and Halperin, to Kissinger, April 17 1969, Nixon, NSC Files, Country Files, Europe, USSR, Box 709, Vol. I Folder 2; George Shultz, to Nixon, April 29 1969, Nixon PM, NSC Files, Box H-145 H-Files, NSSM 35; U.S. Trade Policy Toward Communist Countries (Excluding China, Cuba, and Yugoslavia), NSSM35, May 12 1969, Nixon P. M., NSC Files, Box H-142 H-Files, NSSM 35.

Commerce Maurice Stans noted that agricultural commodities were considered “peaceful U.S. trade.”¹⁴

The U.S.-Soviet grain deal was part of the process of trade liberalization because making agricultural commodities affordable to the Soviets through the negotiation of a long-term deal required a change in the existing trade relationship. Increased trade with its global rival was not a trivial issue for the United States. The administration generally supported trade liberalization, but opinions varied as to its appropriate extent. Responses to NSSM 35 revealed the major issues and possible courses of action available to the United States in its trade policy with the Soviets.¹⁵ Stans, Secretary of State William Rogers, Secretary of Labor George Shultz, and Secretary of Agriculture Clifford Hardin were among those who favored rapid and substantive changes to U.S. trade policy with the Soviet Union. On the other hand, Secretary of Defense Melvin Laird believed in minimal changes to trade policy and only in conjunction with increased Soviet cooperation in other areas.¹⁶

This internal debate showed that the Nixon administration understood the obstacles to increased economic ties with the Soviets and other Eastern European communist countries as early as 1969. One of these obstacles was the Soviet Union’s unresolved Lend-Lease debt to the United States from the Second World War. As the U.S. and the Soviet Union made more efforts

¹⁴ Maurice Stans, to Kissinger, November 19 1970, Nixon, NSC Files, H-Files, Europe, Box H-222, NSDM 99 (March 1971).

¹⁵ Nutter, to Kissinger, May 10 1969, Nixon PM, NSC Files, Box H-142, H Files, NSSM 35.

¹⁶ Stans, to Nixon, May 14 1969, Nixon PM, NSC Files, Box H-142, H Files NSSM 35; Stans, to Kissinger, November 19 1970, Nixon, NSC Files, H-Files Box H-222 NSDM 99 (March 1971); Rogers, to Nixon, December 1 1970, Nixon, NSC Files, H-Files, Box H-222, NSDM 99 (March 1971); Shultz, to Nixon, May 15 1969, Nixon PM, NSC Files, Box H-142, H Files NSSM 35; Clifford Hardin, to Nixon, May 15 1969, Nixon PM, NSC Files Box, H-142, H-Files, NSSM 35; Melvin Laird, to Nixon, May 15 1969, Nixon PM, NSC Files, Box H-142, H Files NSSM 35; Laird, to Kissinger, May 10 1969, Nixon PM, NSC Files, Box H-142, H Files, NSSM 35.

towards détente, Stans reported to Nixon that diplomatic relations were improving between the nations, evidenced by the Soviets' willingness to resolve the Lend-Lease debt.¹⁷

MFN status between the United States and the Soviet Union was another obstacle for trade due to the tense political atmosphere of the late 1960s. MFN meant that the United States would grant the Soviet Union the most favorable trade terms it could, based on relations with other trade partners. The most complicated part of the MFN issue was that it required congressional action to implement. Kissinger saw MFN as an important bargaining tool based on Soviet leaders' interest in attaining this status.¹⁸ Another concession the Soviets needed for trade with the U.S. was access to the Export-Import Bank (EXIM Bank) credit. This access was necessary in order for trade with the United States to be financially viable for the Soviet Union.¹⁹

Of the obstacles to U.S.-Soviet trade liberalization, the shipping of U.S. agricultural products to the Soviet Union was critical. The major issue with shipping was the "Fifty Percent Provision," established during an earlier grain agreement between the United States and the Soviet Union in 1963 and 1964. Under pressure from International Longshoremen's Association (ILA) President Teddy Gleason, President Lyndon Johnson instituted a rule that required fifty percent of all grain exported to the Soviet Union to be carried on U.S.-flagged vessels. This mandate was a problem because shipping via U.S.-flagged vessels was more expensive for the Soviet Union. The rule could be waived, but only if U.S. carriers were unavailable to make the

¹⁷ Stans, to Nixon, January 13 1972, Nixon, WHSF, Peter Flanigan, Box 12, Subject Files, 1969-1974, Folder: "US-USSR Trade Apr 70-Mar 72 Folder 1"; Rogers, to Nixon, March 10 1972, Nixon PM, NSC Files, Box 718, Country Files, Europe, USSR, Vol. 21, April 1972; Flanigan and Kissinger, to Nixon, via Sonnenfeldt and Haig, April 6 1972, Nixon, WHSF Peter Flanigan Box 12, Subject Files, 1969-1974, Folder: "US-USSR Trade, Jan-Sept 1972." Lend-Lease debt refers to the unresolved monetary debt owed to the U.S. by the Soviet Union for military and economic assistance provided during the Second World War.

¹⁸ Flanigan and Kissinger, to Nixon, via Sonnenfeldt and Haig, April 6, 1972, Nixon PM, NSC Files, Box 718 Country File, Europe, USSR, Vol. 21, April 1972, Annex G, pg 3; Percy, to Rogers, et al. March 27 1969. Nixon, NSC Files, Country Files, Europe, USSR, Box 709, vol. II, Folder 1.

¹⁹ Stans, to Nixon, May 14 1969, Nixon PM, NSC Files, Box H-142, H Files NSSM 35; Rogers, to Nixon, May 14 1969, Nixon PM, NSC Files, Box H-142, H Files, NSSM 35; Laird, to Nixon, May 15 1969, Nixon PM, NSC Files, Box H-142, H Files, NSSM 35; Laird, to Nixon, November 21 1970, Nixon, NSC Files, H-Files Box H-222 NSDM 99 (March 1971).

shipments. On the occasions in 1964 when the rule was waived, labor unions initiated widespread protests and the ILA in New Orleans and Houston refused to load the purchased grain onto anything but American ships.²⁰

By early 1971, Kissinger noted the various disagreements and overlap of opinions within the internal debate over U.S.-Soviet trade. He also acknowledged a “general agreement” over three particular points. First, the immediate economic benefits for the United States from trade with the Soviets and other communist countries would be small, even if the most liberalizing measures were implemented. Second, the impact of increased trade with the United States for the Soviets and the Eastern Bloc would be small and affect the Communists’ strategic capability very little in the short term. Third, trade liberalization with the United States would benefit Eastern European countries more than it would the Soviet Union.²¹ These three points made it clear that trade liberalization as a part of détente would be a process rather than a rapid change. The U.S. goal of selling agricultural commodities to the Soviets became a step in that process.

In late 1971, Secretary of Agriculture Earl Butz hosted Soviet Minister of Agriculture Vladimir Matskevich for a tour of the Midwest and Southwest regions of the United States. During the trip, Matskevich expressed interest in possible long-term purchases of corn, soy beans, agriculture technology, and U.S. breeding stock. Obstacles to trade liberalization were not discussed in detail, but the trip left Butz and agricultural officials from the visited regions optimistic about future trade.²² Soviet Deputy Minister of Foreign Trade Alexei Manzhulo underscored Soviet desires for increased agricultural trade again in January 1972. Stans reported

²⁰ Bergsten and Halperin, to Kissinger, April 17 1969, Nixon, NSC Files, Country Files, Europe, USSR, Box 709, Vol. I, Folder 2; Schultz, to Nixon, April 29 1969, Nixon P. M., NSC Files, Box H-145, H-Files, NSSM 35.

²¹ Kissinger, to Nixon, February 9 1971, Nixon, NSC Files, H-Files, Europe, Box H-222, NSDM 99 (March 1971).

²² Kissinger, Memorandum for the Record, January 23 1970, Nixon, NSC Files, Country Files, Europe, USSR, Box 711, Vol. VI, Folder 1; Executive Secretary Theodore Eliot, to Kissinger, August 28 1971, Nixon, NSC Files, Country Files, Europe, USSR, Box 716, “Vol. XV 1-30 Aug Folder 1 ”; Clarence Palmby, to Nixon, December 17 1971, Nixon, NSC Files, Country Files, EUR, USSR, Box 717 “Vol. #17 Nov- 31 Dec. 1971 [2 of 2].”

that Manzhulo indicated the Soviet desire for a five-year agreement for the purchase of U.S. grain in quantities of two or three million tons a year. These Soviet overtures regarding agricultural commodities made U.S. officials more interested in a trade deal and marked the beginning of the U.S.-Soviet engagement in potential agricultural trade, which would result in the 1972 grain deal.²³

In January 1972, NSC staffers formed a review committee called the “Ad hoc Group.” In response to National Security Study Memorandum 145 (NSSM 145), a study of U.S.-Soviet trade relations, the Ad hoc Group provided an in-depth analysis of the various proposals for expanding U.S.-Soviet trade. In February 1972, the group produced a report detailing the potential for U.S.-Soviet economic expansion and assessing various courses of action, including a grain deal with the Soviets.²⁴ This report provided Nixon and Kissinger with a well-ordered assessment of the current state of U.S. and Soviet economic goals for increased trade between the two countries. The top U.S. goal on the list was to increase trade with the Soviet Union overall, and included a direct reference to agricultural sales. The preeminence of such a goal demonstrated the importance that the Nixon administration placed on selling grain and other agricultural products to the Soviets, which even outweighed a potential resolution for the long-standing Lend-Lease debt.²⁵

The Ad hoc Group also estimated what the Soviet Union hoped to gain from trade liberalization. Access to the U.S. EXIM Bank and MFN treatment topped the list of Soviet goals. In contrast to the importance the U.S. placed on trade, the Ad hoc group estimated that the

²³ Stans, to Nixon, January 13 1972, Nixon, WHSF, Peter Flanagan, Subject Files, 1969-1974, Box 12 Folder: “US-USSR Trade Apr 70- Mar 72 Folder1.”

²⁴ National Security Study Memorandum 145, Council on International Economic Policy Study Memorandum 20, February 9 1972, Nixon, WHSF, Peter Flanagan, Box 12, Subject Files, 1964-74, Folder: “US-USSR Trade Apr 70-Mar 72 Folder 2,” pgs 2-3.

²⁵ Ibid., 5.

long-term purchase of U.S. agricultural products on credit was less important to the Soviets. While the Group believed that the Soviets wanted to buy U.S. commodities less than the United States wanted to sell it, they also believed that agricultural products could play a role in opening trade. Agriculture trade was the natural counterpoint to Soviet interests because: “feed grains dovetail well with the Soviet planning priorities.”²⁶

The Ad hoc Group estimated a grain deal could augment the recent decline of U.S. sales made to the European Community and reduce American farm surpluses. This outcome was expected to be popular with farmers and grain traders, and boost support for the administration’s policy of *détente*. In addition to its appeal with politicians from grain-producing states, the grain deal would not support dangerous or destabilizing Soviet activities abroad. The Group also noted obstacles and incompatibilities of U.S. and Soviet trade practices. The Soviets typically purchase agricultural products directly from foreign governments, while the U.S. allowed companies in its private sector to carry out sales and purchases that it negotiated. For the U.S., trade conducted between governments would not benefit U.S. businesses and would not garner support with political groups and American public. The role the U.S. and Soviet government sought to play in their economic relations was a potential roadblock to making and benefiting from the sale and purchase of agricultural commodities.²⁷

The proposal that recommended the start of negotiations with the Soviets for a grain deal using Commodity Credit Corporation (CCC) credits was approved, accompanied by varying degrees of enthusiasm by all of the U.S. federal executive departments. The unanimity was largely due to the uncontroversial and peaceful nature of agricultural products.²⁸ In February 1972, Secretary of Commerce Peter Peterson optimistically stated his belief to Kissinger that a

²⁶ Ibid., 6, 10.

²⁷ Ibid., 10

²⁸ Ibid., Appendix A.

grain deal could be mutually beneficial to both the United States and Soviet Union and that the U.S. could consequently finalize a deal without having to yield or make significant concessions in other areas.²⁹ Three days later Kissinger placed the responsibility for conducting grain deal negotiations in the hands of the Department of Agriculture (USDA) and the State Department.³⁰ Peterson expressed hope that a grain deal would form a Soviet dependence on U.S. agriculture. He believed that the trade relationship between the two countries could result in the Soviets owing billions of dollars to the United States in the coming decade.³¹

GRAIN DEAL NEGOTIATIONS AND AGREEMENT

Grain deal negotiations began in Moscow on April 10, 1972. Secretary of Agriculture Earl Butz and Clarence Palmby of the USDA led the American team. Butz and Palmby met with the Soviet Minister of Agriculture Vladimir Matskevich and the First Deputy Minister of Foreign Trade Mikhail Kuzmin. Butz's goal was to offer an adequate line of credit through the CCC that the Soviets could use to purchase grain from private U.S. companies. In exchange, the United States required the Soviets to commit to purchasing set amounts of wheat and other grains over a defined period of time. The credit itself would be handled through a private exporter and loaned to the Soviet State Trading Company, Exportkhleb. U.S. financing covered only the commodity itself and did not address the issue of loading and shipping through U.S. ports. The shipping issue was important for Butz, as he saw the grain deal as "inoperable" if U.S. maritime unions maintained a policy of discriminating against the vessels with which they worked based on

²⁹ Peterson, to Kissinger, February 11 1972, Nixon, NSC Files, Country Files, Europe, USSR, Box 717, Vol. 19, Feb 1972, Peterson 11 Feb 72.

³⁰ Kissinger, to Rogers et al., February 14 1972, Nixon PM, NSC Files, Box 492, Haig chronological Files, May 7-15 1972, Folder 1.

³¹ Peterson, to Kissinger, March 13 1972, Nixon PM, NSC Files, Box 992, Haig Chronological Files, May 7-15 1972, Folders 1.

national origin.³² By the end of March, the White House officially confirmed negotiation terms for Butz and Palmby to present to the Soviets: a multi-year deal with two years of CCC credits that could be extended to three years, with no more than \$500 million worth of credit taken at a time, and standard CCC interest rates of 6.125 percent.³³

The grain deal negotiations coincided with North Vietnam's Spring Offensive of 1972 against South Vietnam. Although grain deal negotiations were not specifically hindered by the offensive, Kissinger and NSC adviser Hal Sonnenfeldt believed Soviet support for North Vietnam made the credit issue more problematic. Sonnenfeldt articulated the dilemma to Kissinger: "This is perhaps the area that we would be most vulnerable to charges of cynicism—extending credit to the USSR to buy grain while they ship heavy equipment to Hanoi."³⁴ The Soviet Ambassador to the United States, Anatoly Dobrynin, expressed to Kissinger his hope that the escalation of the conflict in Vietnam would not harm the progress made up to that point of improving overall relations. Sonnenfeldt believed Butz and Palmby should not conclude an agreement during the Moscow meetings because of the possible political fallout surrounding the extension of credit to an ally of North Vietnam. Kissinger agreed and directed Butz to defer an agreement. Furthermore, Kissinger and Sonnenfeldt saw stalling negotiations as a potential

³² Palmby, to Nixon, December 17 1971, Nixon, NSC Files, Country Files, Europe, USSR, Box 717, Vol. 17, Nov – Dec 31. 1971, Folder 2; Butz, to Kissinger and Flanagan, February 25 1972, Nixon, WHSF, Peter Flanagan, Subject Files, 1969-74, Box 12, Folder: "US-USSR" Trade Apr 70'-May 72', Folder 2."; Flanagan to Kissinger, via Haig to Sonnenfeldt, March 7 1972, Nixon PM, NSC Files, Box 992, Haig Chronological Files, May 7-15 1972, Folders 1.

³³ Anatoly Dobrynin, to Kissinger, May 9 1972, Nixon PM, NSC Files, Box 493, Presidents Trip Files, Dobrynin, Kissinger Vol. 9 Part 1; Rogers, to Kissinger, March 31 1972, Nixon NSC Files, Kissinger Files, Country Files, Europe, USSR Box 67 Folder: "Sonnenfeldt Papers Folder 1"; Sonnenfeldt, to Kissinger, March 31 1972, Nixon PM, NSC Files, Box 718, Country Files, Europe, USSR Vol. 20 March 1972.

³⁴ Sonnenfeldt, to Kissinger, April 10 1972, Nixon P.M., NSC Files, Box 493, President's Trip Files, Dobrynin/Kissinger, Volume 10, pg. 2.

leveraging point to gain Soviet compliance in other areas, specifically persuading the North Vietnamese to stop the offensive.³⁵

Despite the situation in Vietnam and Kissinger's directive not to reach a final agreement, negotiations in Moscow continued. A second round of talks on April 12th revealed a wide divergence over credit terms. Butz and Palmby reported that the U.S. offer of a shorter-term deal with the standard CCC interest rates was rejected by their Soviet counterparts in favor of a five-to ten-year deal at two percent interest. Butz noted that past Soviet grain purchases from the United States and other countries were made with cash. This explained the problems that U.S. negotiators faced in coming to an agreement that included credit. In their hesitancy, Soviet negotiators revealed an awareness of potential problems created by dependency and debt to the United States.³⁶ During the negotiations, the U.S. delegation also received a visit from the Soviet General Secretary Leonid Brezhnev. This occasion was the first time that Brezhnev spoke directly to an American since he became the Soviet leader in 1963, and it seemed to anticipate a positive outcome for the trade deal. However, initial negotiations in Moscow for a grain deal were ultimately unsuccessful due to the credit issue, and by May 8th, Kissinger reported to the President that discussions had come to a halt.³⁷

May 1972 was a month of significant change in U.S.-Soviet relations. The Moscow Summit brought Richard Nixon and Leonid Brezhnev together and represented the beginning of

³⁵ Kissinger and Dobrynin, Memorandum of Conversation, April 12 1972, Nixon P.M., NSC Files, Box 493, President's Trip Files, Dobrynin/Kissinger, Volume 10; Sonnenfeldt, to Kissinger, April 12 1972, Nixon, NSC Files, Kissinger Files, Country Files, Europe, USSR Box 67 Folder: "Sonnenfeldt Papers 1"; Sonnenfeldt, to Kissinger, April 10 1972, Nixon P.M., NSC Files, Box 493, President's Trip Files, Dobrynin/Kissinger, Volume 10, pg. 2.

³⁶ Sonnenfeldt, to Kissinger, April 14 1972, Nixon PM, NSC Files, Box 718, Country File, Europe, USSR, Vol. 21, April 1972; Butz and Palmby, to Nixon, April 17 1972, Nixon, WHSF, Peter Flanagan, Subject Files, 1969-74, Box 12, Folder: US-USSR Trade Jan-Sept 1972.

³⁷ Butz and Palmby, to Nixon, April 17 1972, Nixon, WHSF, Peter Flanagan, Subject Files, 1969-74, Box 12, Folder: US-USSR Trade Jan-Sept 1972; Sonnenfeldt, to Kissinger, May 8 1972, Nixon PM, NSC Files, Box 719, Country Files, Europe, USSR, Vol. 22, May 1972;

U.S.-Soviet détente.³⁸ The responsibility for finalizing grain deal negotiations fell to Peterson, who was scheduled to meet with Soviet Minister of Foreign Trade Nikolai Patolichev in early May 1972. In a May 11th memorandum, Peterson expressed to Nixon the view that a favorable grain deal, along with a Lend-Lease resolution, represented the most tangible benefits for the United States at that point in U.S.-Soviet relations. By May 15th, a State Department report to Kissinger provided an update on the situation: “The Soviets reiterated their interest in a commitment of one or two years under existing CCC terms.” Although this was not a commitment on the Soviet part, it represented a potential concession to the CCC credit rate of 6.125 percent.³⁹

Peterson believed that the economic situation in May was favorable, and that the grain deal was now something that the Soviets needed as much, if not more, than the United States. He based this assertion on recently announced Soviet meat production goals, which he felt would require U.S. grain to accomplish. On May 19th, Peterson reported that a first-phase agreement was imminent for the largest long-term grain deal in Soviet history, with terms of \$750 million in purchases over a three-year period.⁴⁰

Although Patolichev responded positively to the U.S. proposal in his meeting with Peterson, the Soviet Foreign Trade Minister did not fully commit to an agreement. On May 24th in Moscow, Patolichev indicated to State Secretary Rogers and Peter Flanigan the reasons for Soviet hesitation. First, the Soviet Union had recently taken measures to improve its own agricultural production, and second, the Soviets had never before purchased foreign grain on

³⁸ Garthoff, *Détente and Confrontation*, 289, 298-299.

³⁹ Rogers, to Jacob Beam, May 5 1972, Nixon PM, NSC Files, Box 719, Country Files, Europe, USSR, Vol. 22, May 1972; Kissinger, to Nixon, May 9 1972, Nixon PM, NSC Files, Box 719, Country Files, Europe, USSR, Vol. 22, May 1972; Peterson, to Nixon, May 11 1972, Nixon PM, NSC Files, Box 719, Country Files, Europe, USSR, Vol. 22, May 1972; Rogers, to Kissinger, May 15 1972, Nixon PM, NSC Files, Box 719, Country Files, Europe, USSR, Vol. 22, May 1972.

⁴⁰ Peterson, to Kissinger via Flanigan and Nixon, May 19-20 1972, Nixon, NSC Files, Kissinger Files, Country Files, Europe, USSR, Box 73, Folder:”1972 Summit, Economic commission.”

such credit terms. In contrast to U.S. officials' optimism, Patolichev believed that the two countries remained too far apart over the issue of credit. Rogers and Flanigan brought up the poor Soviet harvest, which the Foreign Minister dismissed as inaccurate. While early harvest losses occurred in the winter, Patolichev asserted that all along the Volga River from the North Caucasus to the Rostov region, losses of winter grains due to drought had been "...put into good shape."⁴¹

Whether Patolichev was being forthright or not, the fact that the Soviet Union had suffered through a bad winter harvest was well known at the time. According to Seymour Hirsch in *The Price of Power*, "The Russian winter wheat crop had been severely damaged and the Soviet need for grain was acute."⁴² The poor Soviet harvest explained the more cooperative and receptive mood on the part of the Soviets throughout the May grain deal negotiations. U.S. officials did not press the matter of the poor Soviet harvest in the final stages of the negotiation process. This lack of understanding and foresight became a matter of controversy later in the year.

The issue of shipment still lingered as well. Just prior to the finalization of the grain deal, Peterson and Butz informed Kissinger of another shipping matter that was tied to credit. National Security Action Memorandum 220 (NSAM 220) of February 5, 1963, restricted credit through the CCC for any cargoes to be shipped on vessels that called at Cuban ports. The restriction was an extension of the United States' national policy of embargo towards Cuba.⁴³ While some in the administration believed that the CCC restriction should be waived, Kissinger told Peterson to press the Soviets to comply with U.S. restrictions. He thought that an exemption

⁴¹ American Embassy - Moscow, to U.S. Department of State, May 24 1972, Nixon PM, NSC Files, Box 719, Country Files, Europe, USSR, Vol. 22, May 1972.

⁴² Seymour Hirsch, *The Price of Power* (New York: Summit Books, 1983), 531.

⁴³ Peterson, Butz, and Johnson, to Nixon, July 7 1972, Nixon PM, NSC Files, Box 235, H-Files, NSDM-179;

for NSAM 220 should be allowed if the Soviets refused to budge, but only after making sufficient attempts to gain acquiescence through negotiation.⁴⁴

The shipping issue continued after the grain deal was concluded and demonstrated the difficult path U.S. officials had to negotiate between foreign policy and domestic sentiment. In August 1972, the issue of shipping began to escalate as the U.S. government turned down “Cuba-tainted” Soviet ships attempting to pick up and load CCC-financed grain bound for the Soviet Union. The White House made this decision in order to preserve the already fragile relationship with Gleason and the ILA, who could fall back to a blanket boycott of all Soviet vessels if antagonized. Negotiations with the Soviets for a maritime agreement continued and remained a top priority for administration officials.⁴⁵

By mid-October 1972, U.S. and Soviet negotiators reached a compromise on the shipping issues. The United States compromised its “Fifty Percent Provision” vessel requirement for a minimum one-third U.S. shipping requirement when the Soviets shipped CCC-financed grain. One-third of the grain would be shipped on U.S. flagged vessels and the rest would be transported on either Soviet or third-party flagged vessels. Furthermore, the compromise complied with NSAM 220 and still restricted CCC-financed grain cargo on vessels that called at Cuba, North Vietnam, and North Korea. In addition, the Soviet Union agreed to pay U.S. vessels higher shipping rates, which *The New York Times* characterized as a victory for the Nixon administration. The maritime unions agreed to the deal after the Soviets acquiesced to higher

⁴⁴ Sonnenfeldt, to Kissinger, July 15 1972, Nixon PM, NSC Files, Box 235, H-Files, NSDM-179; Kissinger, to Rogers, Peterson, and Butz, July 7 1972, Nixon PM, NSC Files, Box 235, H-Files, NSDM-179.; Alexander Haig, to Kissinger, July 27 1972, Nixon PM, NSC Files, Box 720, Country Files, Europe, USSR, Vol. XXIII, (June-July 1972).

⁴⁵ Sonnenfeldt, to Kissinger, August 29 1972, Nixon PM, NSC Files, Box 720, Country Files, Europe, USSR, Vol. XXIV, August 1972; White House, Talking Points – Economic Issues, August 28 1972, Nixon, NSC Files, Kissinger Files, Europe, USSR, Box 74, Folder: “Moscow Trip Economic Talks.”

shipping rates and the Nixon administration announced plans to increase jobs in East and Gulf Coast ports.⁴⁶

On July 8th in Washington, D.C., U.S. and Soviet officials finalized the U.S.-Soviet grain deal of 1972. The Soviets agreed to purchase \$750 million of U.S. grain over the course of three years and committed to purchasing at least \$200 million of grain in the first year. The U.S. agreed to offer \$750 million in credits at commercial interests rates with only \$500 million allowed to be outstanding at a time. This agreement was the largest Soviet purchase of U.S. agricultural products to date. Between July and August 1972, six major U.S. export companies sold 400 million bushels, or 12 million tons, of wheat and grain to the Soviet import agency.⁴⁷ By the end of 1972, the Soviets purchased \$1 billion worth of U.S. agricultural products through a combination of cash and U.S. credit.⁴⁸ The continuation of intense negotiations on shipping, even after the conclusion of the grain deal, showed that détente did not eliminate self-interest or the continued pursuit of the most favorable terms possible. By the end of 1972, the U.S. goal of reaching an agreement to sell its surplus wheat and agricultural products to the Soviet Union had been accomplished and represented an important step towards trade liberalization and détente.

THE GRAIN DEAL'S CONSEQUENCES AND LONGEVITY

The U.S.-Soviet grain deal of 1972 had short- and long-term impacts on U.S. domestic and foreign policies. While the grain deal provided the Soviet Union with a needed commodity and the United States with a market for surplus products, the initial success of the deal was

⁴⁶ U.S. Department of State, *Foreign Relations of the United States, 1969-1976, Volume XV, Soviet Union, June 1972–August 1974*, Document 61; “Moscow Accepts Sea Freight Rise; Signs U.S. Accord,” *The New York Times*, Oct 15, 1972; Blackwell, to Senator John Tower, November 24 1972, RG 40 Dept. of Commerce Office, Exec. Secretariat, Subject Files, 1953-1974, Box 281; Sonnenfeldt, to Kissinger, June 14 1973, Nixon, NSC Files, Kissinger Files, Country Files, Europe, USSR, Box 722, XXIX, May-October 1973.

⁴⁷ One bushel of grain is equivalent to 60 lbs.

⁴⁸ U.S. Department of State, *Foreign Relations of the United States, 1969-1976, Volume XV, Soviet Union, June 1972–August 1974*, Document 7, Editorial Note; Garthoff, *Détente and Confrontation*, 305-306.

swiftly tempered. The Soviet Union's purchases were of an unexpectedly large quantity and occurred in a way that took advantage of a lack of U.S. government oversight and the decentralized nature of the U.S. economy. Furthermore, the Soviet purchase drained the U.S. grain surplus and indirectly drove up food prices for the American public. The long-term result of the grain deal revealed it as a weak form of linkage. It failed to foster Soviet dependence on American agriculture or provide leverage in U.S.-Soviet relations. By the early 1980s, U.S. agriculture proved to be a peaceful commodity so important to both sides that the trade relationship outlasted détente itself.

By the fall of 1972, the United States clearly understood that the Soviet harvest had performed poorly. On October 20th, Deputy National Security Adviser Alexander Haig noted: "It is clear that this year the grain crisis is very severe. We believe the Soviets will be fortunate to harvest 160 million tons of grain, of which only 128 million tons will be usable. This is some 20 million tons short of last year's total..."⁴⁹ This updated assessment corroborated information U.S. officials obtained earlier in the year when the grain deal was still under negotiations.⁵⁰ Soviet awareness of their own harvest situation led to agreement to credit terms in May 1972 that they had rejected a month prior. Soviet agreement resulted from the fact that the summer harvest was also very poor, and agricultural production suffered when a weather system threatened roughly five percent of Soviet wheat-producing lands in the Volga Basin.⁵¹

In late 1972, the American public began to feel the effects of the Soviet purchases, and the grain deal became more controversial. Kissinger's memoir documented the fallout that

⁴⁹ Haig and Paul Warnke, Memorandum of Conversation, October 20 1972, Nixon PM, NSC Files, Haig Chorological Files, Box 996, Folder 3, 01-23 October 1972.

⁵⁰ Joseph Albright, "Some deal: The full story of how Amepnka got burned and the Russians got bread," *New York Times*, November 25, 1973.

⁵¹ Haig and Paul Warnke, Memorandum of Conversation, October 20 1972, Nixon PM, NSC Files, Haig Chorological Files, Box 996, Folder 3, 01-23 October 1972; American Embassy – Moscow, To U.S. Department of State, May 24 1972, Nixon PM, NSC Files, Box 719, Country Files, Europe, USSR, Vol. 22, May 1972; Albright, "Some deal," *New York Times*, November 25, 1973.

occurred, which included accusations by the media and from the public that the Nixon administration negotiated prices for the wheat and grain too favorable to the Soviet Union and subsidized the difference between the domestic price of grain and the global price for U.S. farmers. These accusations suggested the U.S. government spent money to help the Soviets buy grain below its true market value. Kissinger maintained that the disappointing results of the grain deal were attributable to the Soviet Union's state-controlled economy and its ability to work inside the free-market economy. As he wrote, the Soviets "gave us a lesson in the handicaps a market economy has in negotiating with the state trading enterprise."⁵²

In spite of public attitudes toward the grain deal, the scandal did not greatly harm Nixon in the November 1972 presidential election. U.S. farmers and commodity distributors complained about the wheat deal because global prices rose during 1972 and 1973 after the deal's terms had been set. Ironically, this price rise was a market shift that was created by large purchases due to the reduction in supply. Regardless of this animosity, *New York Times* journalist Jason Albright noted in 1973 that "[t]oday, the farmers are generally better off than before, even though many are angry they did not get a healthier share of the profits... there is no question that the grain deal has brought widespread prosperity in the farm belt."⁵³

In early 1973, the White House began to respond to the massive Soviet purchases, as it became clear that the U.S. had little accurate information about Soviet harvests or how much grain, and wheat in particular, the Soviets were purchasing. The Central Intelligence Agency (CIA) responded to the information failure, as reported by Defense Department foreign policy strategist Andrew Marshall: "[The CIA has] taken steps to improve the accuracy and timeliness of reporting by improved weather reporting [sic], beefing up the agricultural attaché staff in the

⁵² Kissinger, *The White House Years*, 1270.

⁵³ Albright, "Some deal," *New York Times*, November 25, 1973

USSR... [The CIA] agreed to undertake a broad study of improved methods (principally photographic) of estimating total harvest yields.”⁵⁴ Kissinger responded to the scandal by authorizing Agriculture Secretary Butz to require U.S. grain distributors to report grain sale amounts for future Soviet purchases.⁵⁵

While the U.S. government adapted to the large Soviet purchases as a bump in the road to détente, the American public had its first negative experience with the new strategy. In 1972 and 1973, it appeared that the American consumer benefited the least from détente and the grain deal. A side effect of such large Soviet grain purchases was the increase in domestic food prices that followed. While the Soviet purchase did not create a food shortage, the severely reduced levels of surplus sent the domestic price of wheat soaring from \$60 dollars a ton to \$180 a ton over the course of 1973. The consequence for the American consumer was clear to Albright, who reported that “[Americans] combined grocery bills rose perhaps \$5 billion because of it [the grain deal].”⁵⁶ The rise in food costs for American consumers was caused by the massive Soviet purchase and vanishing American surplus, which sent the Japanese and European Community scrambling to buy wheat and grain.

The U.S. failure to foresee or follow the Soviet purchases as they were happening became a learning experience for the USDA and the Nixon Administration on how to trade agricultural commodities with the Soviet Union. For Kissinger’s part, he identified and adapted to the United States’ new trade partner: “At best, it can be said that we learned from experience. From then on, all such transactions were treated as foreign policy matters and subjected to interagency

⁵⁴ A.W. Marshall, to Kissinger, March 21 1973, Nixon PM, NSC Files, Country Files, Europe, USSR, Box 721, Vol. XXVIII, January-April 1973.

⁵⁵ Kissinger, to Butz, April 2 1973, Nixon PM, NSC Files, Country Files, Europe, USSR, Box 721, Vol. XXVIII, January-April 1973.

⁵⁶ Federal Reserve Bank of St. Louis, *The Russian Wheat Deal – Hindsight vs. Foresight*, by Clifton Luttrell (October 1973); Albright, “Some deal,” *New York Times*, November 25, 1973.

monitoring.”⁵⁷ Garthoff argued that the immediate effects of the grain deal and ensuing scandal dulled “the luster of the new American-Soviet détente, especially in the commercial field.”

Nonetheless, the Nixon administration remained committed to détente, and by October 1972 the United States and Soviet Union signed a comprehensive trade agreement that, among other things, provided the Soviets with the MFN treatment they desired.⁵⁸

The 1972 grain deal revealed that the U.S. government needed to take a more direct role in overseeing the actual sale of agricultural products in order to benefit from trade with the Soviet Union. In October of 1974, the Ford administration cancelled \$500 million worth of grain contracts that had already been made with the Soviet Union in order to prevent a repeat of the 1972 controversy. The result was an immediate negotiation and resolution between the United States and Soviet Union, in which the Soviets assured the Americans that they would not make purchases the following summer that would deplete U.S. surpluses. This action demonstrated U.S. resolve to use a more state-directed strategy in order to protect its own markets.⁵⁹

In 1975, a new five-year grain deal was signed that required a minimum purchase by the Soviet Union of six million tons of wheat and corn per year. The U.S. guaranteed this amount as a minimum, regardless of other controls or limitations it might implement to protect prices. According to Garthoff, this deal “effectively ended domestic opposition in the United States to the grain trade.” The controversies of the 1972 grain deal, known as the “great grain robbery,” remained in the public consciousness; however, the importance of Soviet markets to the U.S.

⁵⁷ Kissinger, *The White House Years*, 1270.

⁵⁸ Garthoff, *Détente and Confrontation*, 307.

⁵⁹ Garthoff, *Détente and Confrontation*, 456-457; Roger B. Porter, *The U.S.-U.S.S.R. grain agreement* (Cambridge: Cambridge University Press, 1984), 34.

agriculture sector eventually overcame the hesitations and concerns of U.S. officials and the American private sector.⁶⁰

CONCLUSION

The era of détente revealed a Soviet desire to buy U.S. agricultural products and the United States' desire to sell, even as tensions escalated in the late 1970s. This continued interaction ran counter to détente, as U.S. agriculture should have been used to deescalate tension and gain cooperation from the Soviets through linkage. The Nixon, Ford, and Carter administrations overestimated the political weight agriculture carried in the Soviet Union, and underestimated domestic sensitivity to reinstating economic restrictions.⁶¹ Large Soviet grain purchases continued into 1977, even as disagreements over nuclear arms control emerged and tensions in the Middle East escalated. In October 1979, the Carter administration authorized the sale of an additional 25 million tons of wheat and corn to the Soviets, which made that year the largest in U.S.-Soviet trade with \$2.4 billion worth of grain exported to the Soviet Union.⁶²

The Soviet invasion of Afghanistan in December 1979 marked a decisive end to détente as a strategy in U.S.-Soviet relations. In retaliation, the Carter administration levied a grain embargo on the Soviet Union in January 1980. This action had no effect on Soviet actions in Afghanistan and revealed the weakness of U.S. agriculture as a tool of leverage over Soviet behavior. Carter's embargo hurt both countries as the Soviet population lost a major source of food; the loss of a market for U.S. farmers forced the government to subsidize almost \$4 billion worth of unsold commodities. The economic link initiated with the 1972 grain deal overcame

⁶⁰ Garthoff, *Détente and Confrontation*, 463.

⁶¹ Porter, *The U.S.-U.S.S.R. grain agreement*, 92.

⁶² Garthoff, *Détente and Confrontation*, 744.

U.S.-Soviet tensions without actually deescalating them.⁶³ The Reagan administration rejected détente in favor of more confrontational strategies for U.S. foreign policy. Nonetheless, the United States restored agricultural trade with the Soviet Union in 1981 in the midst of the Afghanistan War, basing this decision on the same concept of “peaceful U.S. trade” that rendered trade appealing and justifiable to previous administrations. Economic necessity made agricultural trade more durable than the political forces that promoted détente.⁶⁴

The grain deal of 1972 was an important part of U.S.-Soviet trade liberalization that helped facilitate détente. While the final agreement generally aligned with the U.S. negotiators’ original aims, the process also revealed the ways in which the Soviet state-controlled economy could exploit the decentralization that made the U.S. economy so successful. As a tool of détente, the grain deal failed to provide the Nixon administration and its successors with the substantive linkage they expected to have from Soviet purchases of U.S. commodities. While the grain deal was one of the first tools used to implement détente and represented a key aspect in liberalizing trade between the United States and Soviet Union, the benefits it provided to both sides were only strong enough to weather tensions, not strong enough to defuse them.

⁶³ Garthoff, *Détente and Confrontation*, 970.

⁶⁴ *Ibid.*, 1034.

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