

It was agreed that the Government of India will make the following food aid phase-out schedule an integral part of its Fourth Five Year Plan for agriculture.

| <u>YEAR</u> | <u>Cereals surplus (+) or deficit (-)</u> | <u>Import requirements for buffer stocks (in million tons)</u> | <u>Total import requirements</u> |
|-------------|---|--|--------------------------------------|
| 1966-67 | (-) 6.2 | 0.8 | 7.0 <i>- not going to make it</i> |
| 1967-68 | (-) 3.8 | 1.7 | 5.5 |
| 1968-69 | (-) 2.0 | 2.0 | 4.0 |
| 1969-70 | (-) 0.2 | 2.3 | 2.5 |
| 1970-71 | (-) 0.9 | nil | nil |

Orville L. Freeman
Secretary of Agriculture
United States of America

C. Subramaniam
Minister of Food and Agriculture
India

Date November 25, 1965

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TO WHITE HOUSE ATTN MR BUNDY
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~~C O N F I D E N T I A L~~ NOV 26

India Food
152
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Authority: ERUS 6448, 101.25, #253
By: [Signature] NARA, Date: 3-29-04

FOLLOWING SENT ACTION PRIORITY SECSTATE 1381 SECTION ONE OF TWO
SIGNED REINHARDT

QTE
DEPT PASS TEXAS WHITE HOUSE--EYES ONLY FOR PRESIDENT FROM
SECRETARY FREEMAN.

EMBTTEL 1373.

BEGIN TEXT:

TITLE: AGREEMENT BETWEEN SECRETARY OF AGRICULTURE ORVILLE L.
FREEMAN AND MINISTER OF FOOD AND AGRICULTURE C. SUBRAMANIAM
NOVEMBER 1965, ROME, ITALY. END TITLE.

IT WAS AGREED THAT IT WAS VERY MUCH TO THE BENEFIT OF BOTH
INDIA AND THE UNITED STATES TO REVERSE THE DISTURBING DOWNWARD
TREND IN PER CAPITA FOOD PRODUCTION.

IT WAS AGREED THAT THE QUANTITY OF RESOURCES ALLOCATED TO
AGRICULTURE HAS NOT BEEN ADEQUATE IN RECENT YEARS.

IT WAS AGREED THAT:

1. INVESTMENT IN AGRICULTURE DURING THE FOURTH FIVE YEAR PLAN
(1966-67 TO 1970-71) WOULD BE 2,400 CRORE RUPEES (NEARLY 5
BILLION DOLLARS) OR MORE THAN DOUBLE THE INVESTMENT LEVELS DURING
THE THIRD PLAN PERIOD ENDING THIS YEAR.

2. INVESTMENT IN AGRICULTURE DURING THE COMING YEAR (1966-67)
WOULD BE INCREASED BY AT LEAST 40 PERCENT ABOVE THE CURRENT YEAR
EVEN THOUGH THE EMERGENCY MIGHT REQUIRE CUTBACKS IN OTHER AREAS
OF INVESTMENT.

3. INVESTMENT IN AGRICULTURE NEXT YEAR (1966-67) WILL BE 410
CRORE RUPEES AS AGAINST 304 THIS YEAR.

IT WAS AGREED THAT:

1. THE GOVERNMENT OF INDIA WILL PUBLICLY ANNOUNCE AND ENDORSE
THE FERTILIZER CONSUMPTION TARGETS FOR THE NEXT 5 YEARS AGREED TO
BY THE INDIAN MINISTRY OF FOOD AND AGRICULTURE. THESE QUANTITIES
OF FERTILIZER, TO BE MADE AVAILABLE THROUGH IMPORTS, IF DOMESTIC
PRODUCTION IS INADEQUATE, ARE AS FOLLOWS:

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| | N | P2O5 | K2O |
|---------|-----------------------|------|------|
| | ---- | ---- | ---- |
| | (MILLION METRIC TONS) | | |
| 1966-67 | 1.00 | 0.37 | 0.20 |
| 1967-68 | 1.35 | 0.50 | 0.30 |
| 1968-69 | 1.708 | 0.65 | 0.45 |
| 1969-70 | 2.00 | 0.80 | 0.55 |
| 1970-71 | 6-57:34&0 | 1.00 | 0.70 |

2. XIASIC POLICY CHANGES ENCOURAGING FOREIGN PRIVATE INVESTMENT IN THE MANUFACTURE AND DISTRIBUTION OF FERTILIZER WILL BE IMPLEMENTED.

A. THE GOVERNMENT OF INDIA WILL ANNOUNCE A PLAN BEFORE JANUARY 1, 1966 TO PURCHASE ANY FERTILIZER PRODUCED IN EXCESS OF MARKET DEMAND AT WORLD MARKET PRICES.

B. THE GOVERNMENT OF INDIA WILL ANNOUNCE THE REMOVAL OF ANY GEOGRAPHIC CONSTRAINTS ON FERTILIZER MARKETING BEFORE JANUARY 1, 1966 TO TAKE EFFECT AS SOON AS FERTILIZER SUPPLIES ARE ADEQUATE, NOW EXPECTED IN 1968-69.

C. THE GOVERNMENT WILL REDUCE THE ROLE OF THE CENTRAL NITROGEN POOL FROM ITS PRESENT NEAR-MONOPOLY POSITION TO ONE IN WHICH IT HANDLES ONLY A MINOR PART OF THE FERTILIZER SUPPLY. ALL MANUFACTURERS OF NITROGENOUS FERTILIZER WILL BE AUTHORIZED TO ESTABLISH THEIR OWN DISTRIBUTION ARRANGEMENTS.

3. THAT STEPS WOULD BE TAKEN BY THE GOVERNMENT TO OPERATE ITS OWN FERTILIZER PLANTS AT FULL CAPACITY BY ALLOCATING ENOUGH FOREIGN EXCHANGE TO ENSURE ADEQUATE SUPPLIES OF RAW MATERIALS AND SPARE PARTS AND BY CAREFULLY REVIEWING PERIODICALLY THE LEVEL OF MANAGEMENT EFFECTIVENESS.

4. THAT IF MODIFICATIONS IN THE PROCEDURES FOR APPROVING AND LICENSING FOREIGN PRIVATE INVESTMENT IN THE MANUFACTURE AND DISTRIBUTION OF FERTILIZER DO NOT SUFFICIENTLY SHORTEN THE TIME REQUIRED FOR NEGOTIATIONS THAT FURTHER ADMINISTRATIVE AND PROCEDURAL CHANGES WILL BE MADE.

5. A CABINET LEVEL COMMITTEE, NOW CHAIRED BY THE PRIME MINISTER WILL MAKE A CONTINUING EFFORT TO SEE THAT BUREAUCRATIC PROCEDURES DO NOT HINDER OR DISCOURAGE PRIVATE FOREIGN INVESTMENT IN FERTILIZER PRODUCTION AND DISTRIBUTION. IT WILL ALSO PASS JUDGMENT ON BASIC POLICY QUESTIONS WHICH IF UNRESOLVED MIGHT HINDER INVESTMENT.

6. THAT THERE WILL BE NO TIE-IN BETWEEN CREDIT AND DISTRIBUTION. THAT IS, FARMERS WILL BE GIVEN CREDIT REGARDLESS OF WHERE THEY BUY THEIR FERTILIZER.

7. THAT THE GOVERNMENT OF INDIA WILL NOT REQUIRE GOVERNMENT PARTICIPATION IN THE OWNERSHIP OF FERTILIZER PLANTS IN THE PRIVATE SECTOR.

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IT WAS AGREED THAT THE CURRENT SYSTEM OF CREDIT COOPERATIVES WAS NOT ADEQUATE AND THAT THE FOLLOWING ACTIONS WOULD BE TAKEN TO REMEDY THIS:

1. A CABINET LEVEL COMMITTEE ON AGRICULTURAL CREDIT CHAIRED BY THE FOOD AND AGRICULTURE MINISTER WOULD EXPLORE ALTERNATIVE AVENUES OF SUPPLYING CREDIT TO FARMERS.

2. THE GOVERNMENT WILL SYSTEMATICALLY REVIEW AND TEST ALTERNATIVE CREDIT POSSIBILITIES. THE FOLLOWING WILL BE TESTED ON A PILOT BASIS.

A. THE FOOD CORPORATION WILL SUPPLY CREDIT TO FARMERS AGAINST ADVANCES ON THEIR CROPS.

B. CURRENT PRIVATE CREDIT INSTITUTIONS WILL BE URGED TO EXTEND CREDIT AVAILABILITIES AND THE POSSIBLE NEED FOR CREDIT SUBSIDIES WILL BA EVALUATED/

3. THE POSSIBILITY OF AN ALL-INDIA AORICULTURAL CREDIT ORGANI-ZATION TO SUPPLEMENT THE CREDIT SUPPLY OF THE COOPERATIVE SECTOR WILL BE ACTIVELY EXPLORED.

IT WAS AGREED THAT NEW INSTRUMENTALITIES SUCH AS THE AGRICULTURAL PRODUCTION BOARD, A COMMITTEE OF CABINEL MEMBERS AND OTHER KEY OFFICIALS CHAIRED BY THE FOOD AND AGRICULTUREIMINISTER AND VESTED WITH THE AUTHORITY TO MAKE INDING DECISIONS ON MATTERS OF AGRICULTURAL PRODUCTION, WILL BE USED TO ACHIEVE THE NECESSARY ALLOCAZION OF RESOURCES TO INDIAN AGRICULTURE."

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TO WHITE HOUSE ATTN MR BUNDY
STATE GRNC
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Authority FRUS 64-68, vol. 25, #253

By JK, NARA, Date 3-29-04

~~CONFIDENTIAL~~ NOV 26

FOLLOWING SENT ACTION PRIORITY SECSTATE 1381 SECTION TWO OF TWO
SIGNED REINHARDT

QTE
DEPT PASS TEXAS WHITE HOUSE--EYES ONLY FOR PRESIDENT FROM
SECRETARY FREEMAN.

EMBTTEL 1373.

IT WAS AGREED THAT:

1. 32 MILLION ACRES OF THE MOST PRODUCTIVE LAND FARMED BY THE MORE EFFICIENT FARMERS WILL BE DESIGNATED FOR A CRASH PRODUCTION PROGRAM WITH A TARGET OF 25 MILLION TONS OF ADDITIONAL FOOD GRAINS BY 1970 ON THIS SELECTED ACREAGE.

2. THE RESOURCES AND INPUTS NECESSARY WILL HAVE THE NUMBER ONE PRIORITY TO WIT:

A. THE NEW, FERTILIZER RESPONSIVE VARIETIES OF FOOD GRAINS WILL BE PLANTED ON WELL IRRIGATED LAND, APPLYING FROM 100 TO 150 POUNDS OF FERTILIZER PER ACRE AS COMPARED WITH A NATIONAL AVERAGE OF 3 TO 5 POUNDS PER ACRE. THESE NEW VARIETIES, PLANTED ON THE BEST IRRIGATED LAND, WOULD GET THE NECESSARY FERTILIZER EVEN THOUGH THIS MIGHT REQUIRE A CUTBACK ON SOME OTHER LAND IF FERTILIZER WERE IN SHORT SUPPLY.

B. IF THE SEED MULTIPLICATION PROGRAM FOR THE NEW IMPORTED VARIETIES (WHEAT FROM MEXICO AND RICE FROM THE INTERNATIONAL RICE RESEARCH INSTITUTE IN THE PHILIPPINES) FALLS BEHIND SCHEDULE, FOREIGN EXCHANGE WILL BE MADE AVAILABLE FOR THE IMPORT OF ADDITIONAL SUPPLIES OF SUITABLE SEED.

C. NEW IRRIGATION TECHNIQUES, GOING FROM THE TRADITIONAL FLOW METHOD TO CONTROLLED MAXIMUM IRRIGATION, WILL BE SELECTIVELY APPLIED. FOR THIS PURPOSE RESOURCES WILL BE MADE AVAILABLE WHEREVER IT IS DEMONSTRATED PRACTICABLE. IN ADDITION, ADEQUATE RESOURCES WILL BE MADE AVAILABLE TO DEVELOP MINOR IRRIGATION SOURCES TO ATTAIN A WATER BALANCE FOR MULTIPLE CROPPING. WITH THIS NEW INTENSIVE IRRIGATION MORE AND MORE LAND WILL BE MULTIPLE CROPPED.

IT WAS AGREED THAT PRICE POLICIES WILL BE REVIEWED PERIODICALLY TO ENSURE A CONTINUING FAVORABLE RELATIONSHIP BETWEEN THE PRICE OF FOOD GRAINS AND THE PRICE OF PURCHASED INPUTS SUCH AS FERTILIZER.

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IT WAS CONCLUDED THAT THE NEW LEGISLATION ESTABLISHING THE FOOD CORPORATION AND THE RECENT AMENDMENTS TO THE DEFENSE OF INDIA RULES ALONG WITH THE BASIC CONSTITUTIONAL PROVISIONS DID GIVE THE CENTER GOVERNMENT ADEQUATE AUTHORITY TO CONTROL THE MOVEMENT AND DISTRIBUTION OF GRAIN BETWEEN THE STATES. THE MINISTER MADE IT CLEAR THAT THE CENTER GOVERNMENT NOW HAD THE AUTHORITY TO DEVELOP AND IMPLEMENT A RATIONAL FOOD POLICY.

IT WAS AGREED THAT EFFORTS TO DRAMATIZE AND MOBILIZE PUBLIC SENTIMENT TO DEMONSTRATE THE URGENCY OF ACTION IN AGRICULTURE WOULD BE MADE. SUCH ACTIONS AS PUBLIC STATEMENTS BY THE PRESIDENT, PRIME MINISTER AND OTHER LEADING PUBLIC OFFICIALS WILL BE USED EVEN MORE IN THE FUTURE.

IT WAS AGREED THAT:

1. HIGHEST PRIORITY WILL BE GIVEN TO AGRICULTURAL DEVELOPMENT AND ALLIED PROGRAMS IN THE FOURTH FIVE YEAR PLAN. THIS PRIORITY WILL ALSO APPLY TO THE ALLOCATION OF FOREIGN EXCHANGE TO AGRICULTURE. IT IS NOTED THAT THE AGRICULTURAL PROGRAM DETAILED ABOVE WOULD REQUIRE FOREIGN EXCHANGE OF THE ORDER OF 2 BILLION DOLLARS FOR THE FOURTH FIVE YEAR PLAN.

2. TO MEET FOOD PRODUCTION TARGETS THE IMPORT OF 500,000 TONS OF NITROGEN FERTILIZER (IN TERMS OF N) FOR THE 1966-67 CROP IS ESSENTIAL. OUT OF THIS TOTAL QUANTITY NEEDED, ARRANGEMENTS WILL BE MADE TO IMPORT 100,000 TONS FROM AVAILABLE RESOURCES. EVERY EFFORT WILL BE MADE TO FIND THE BALANCE OF THE RESOURCES REQUIRED TO REACH THE TARGET. MINISTER SUBRAMANIAM EMPHASIZED THE CRITICAL IMPORTANCE OF REACHING THIS TARGET, STATING THAT IN VIEW OF THE SEVERE LIMITS ON THE AVAILABILITY OF FOREIGN EXCHANGE THAT IMMEDIATE UNITED STATES AID IS IMPERATIVE.

IT WAS AGREED THAT THE GOVERNMENT OF INDIA WILL MAKE THE FOLLOWING FOOD AID PHASE-OUT SCHEDULE AN INTEGRAL PART OF ITS FOURTH FIVE YEAR PLAN FOR AGRICULTURE.

| YEAR | CEREALS SURPLUS (PLUS) OR DEFICIT (MINUS) | IMPORT REQUIREMENTS FOR BUFFER STOCKS | TOTAL IMPORT REQUIREMENTS |
|-------------------|--|--|------------------------------|
| (IN MILLION TONS) | | | |

| | | | |
|---------|--------------|-----|-----|
| 1966-67 | (MINUS) 6.2 | 8 | 7.0 |
| 1967-68 | (MINUS) 3.8 | 8 | 5.5 |
| 1968-69 | (MINUS) 2.0 | | 4.0 |
| 1969-70 | (MINUS) 70.2 | 2.3 | 2.5 |
| 1970-71 | (MINUS) 0.9 | N L | NIL |

SIGNED ORVILLE L. FREEMAN SECRETARY OF AGRICULTURE UNITED STATES OF AMERICA, C. SUBRAMANIAM MINISTER OF FOOD AND AGRICULTURE INDIA. DATE NOVEMBER 25, 1965. END TEXT.

CC: 8TH PARA 2ND LINE 4TH WORD "MAXIMUM".
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INCOMING TELEGRAM *Department of State*

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SUBJECT: FAILURE OF BECHTEL NEGOTIATIONS

EUR

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THERE HAS BEEN SO MUCH SPECULATION, MUCH OF IT UNINFORMED, CONCERNING THE FAILURE OF THE BECHTEL NEGOTIATIONS THAT I THINK IT IMPORTANT TO BRIEFLY PUT THE MATTER IN PROPER PERSPECTIVE.

USIA

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INR

RESPONSIBILITY FOR THE FAILURE OF THE TRANSACTION LIES WITH BOTH THE GOVERNMENT OF INDIA AND THE US CONSORTIUM. THERE WAS A SERIES OF MISTAKES AND MISUNDERSTANDINGS ON BOTH SIDES WHICH FINALLY CREATED AN IMPOSSIBLE IMPASSE AND MADE FURTHER NEGOTIATIONS IMPOSSIBLE.

CIA

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1. CLAY AND BECHTEL IMPRUDENTLY MADE A PUBLIC ANNOUNCEMENT THAT

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THEY WOULD BUILD THE FIVE PLANTS AFTER A BRIEF INITIAL MEETING WITH THE FINANCE MINISTER IN DELHI. NONE OF THE BASIC ECONOMIC AND TECHNICAL RESEARCH HAD BEEN DONE. NO FEASIBILITY OR MARKET STUDIES HAD BEEN MADE. IN FACT, NO CONSORTIUM EXISTED AT THAT TIME.

RSR

2. THE GOVERNMENT OF INDIA HAVING PROMISED FIVE SITES, INCLUDING MADRAS, TO THE CONSORTIUM PROCEEDED TO GIVE AWAY MADRAS, THE BEST SITE, TO ANOTHER COMPANY WHILE THE BECHTEL STUDIES WERE PROCEEDING.

3. THE CONSORTIUM ADVISED THE GOVT OF INDIA LONG AFTER THE STUDIES HAD BEEN LAUNCHED THAT TWO OF THE PRINCIPAL INVESTORS, US OIL COMPANIES, NOW TOOK THE POSITION THAT THEY WOULD REQUIRE SUBSTANTIAL SUPPLY RIGHTS OF CRUDE. THIS ANNOUNCEMENT SURPRISED AND UPSET THE GOVT OF INDIA AS MUCH AS THE LOSS OF THE MADRAS SITE SURPRISED AND UPSET THE CONSORTIUM. IT ALSO TOOK BECHTEL BY SURPRISE. THESE TWO EVENTS COOLED THE ARDOUR OF BOTH PARTIES ABOUT EQUALLY AND PROBABLY MARKED THE BEGINNING OF THE END OF THE PROJECT.

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-2- 1353, November 24, From: New Delhi

4. THE CONSORTIUM AFTER CONDUCTING ITS MARKET SURVEY CONCLUDED THAT THERE WAS SUBSTANTIAL RISK THAT A MARKETING MECHANISM ADEQUATE TO HANDLE THE OUTPUT OF THE FIVE PLANTS COULD NOT BE DEVELOPED IN LESS THAN FIVE TO SEVEN YEARS. THEREFORE, IT DECIDED THAT IT WOULD NEED A GUARANTEE FROM THE GOVT OF INDIA TO PURCHASE ANY UNSOLD FERTILIZER PRODUCED DURING THE FIRST FIVE YEARS OF OPERATION. THE GOVT OF INDIA FELT THAT IT COULD NOT UNDERTAKE SUCH A COMMITMENT FOR BOTH FINANCIAL AND POLITICAL REASONS.

5. UNTIL THE VERY END OF THE NEGOTIATIONS THE GOVT OF INDIA INSISTED UPON OWNERSHIP OF 51 PERCENT OF THE EQUITY IN THE ENTIRE PROJECT. CLAY AND BECHTEL CHARGED THAT THE FINANCE MINISTER HAD AGREED TO A FIFTY-FIFTY DIVISION OF OWNERSHIP AT THEIR INITIAL MEETING.

6. THE GOVT OF INDIA ULTIMATELY MODIFIED ITS POSITION AND OFFERED TO LET THE CONSORTIUM PUT THE ENTIRE PROJECT IN THE PRIVATE SECTOR. BY THIS TIME, HOWEVER, THE OIL COMPANIES HAD LOST INTEREST IN THE TRANSACTION AND WERE UNWILLING TO PROCEED.

7. AT ABOUT THE TIME THE MADRAS SITE WAS AWARDED ELSEWHERE, THE US PETROLEUM INDUSTRY HAD BECOME DEEPLY DISTURBED ABOUT INTIMATIONS FROM THE GOVT OF INDIA THAT FOREIGN REFINERIES IN INDIA MIGHT BE OBLIGED TO HANDLE SOVIET CRUDE. THIS ALLEGEDLY COOLED THE INTEREST OF TEXACO AND GULF, BOTH MEMBERS OF THE CONSORTIUM, IN INVESTING IN INDIA.

THE ABOVE BRIEFLY SUMMARIZES THE ESSENTIAL AREAS OF DIFFICULTY WHICH AROSE WITH RESPECT TO THE BECHTEL TRANSACTION. HAD CAREFUL PRLIMINARY RESEARCH AND NEGOTIATION BEEN CONDUCTED ON A JOINT BASIS BEFORE ANY PUBLIC ANNOUNCEMENTS WERE MADE, A HAPPIER SOLUTION MIGHT HAVE RESULTED. IT IS THE OBJECTIVE JUDGMENT OF THOSE OF US IN THE MISSION WHO FOLLOWED THIS TRANSACTION CLOSELY THAT THE FAULTS AND THE ERRORS WERE ABOUT EQUALLY DIVIDED. BOTH PARTIES WERE APPREHENSIVE ABOUT A GREAT MANY UNKNOWN FACTORS AND THEREFORE TOOK RIGID POSITIONS WHICH MIGHT HAVE BEEN SOFTENED UPON FURTHER INVESTIGATION AND DISCUSSION. HOWEVER, THE PROJECT WAS SO MUCH IN THE PUBLIC SPOTLIGHT FROM THE BEGINNING THAT NEITHER PARTY FELT IT HAD ROOM FOR MANEUVER OR COMPROMISE ON BASIC POLICY ISSUES.

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-3- 1353, November 24, From: New Delhi

IT IS HOPED THAT THIS ANALYSIS OF THE REASONS FOR THE FAILURE OF THE TRANSACTION WILL TEND TO CORRECT SOME OF THE MISAPPREHENSIONS WHICH HAVE DEVELOPED SINCE THE NEGOTIATIONS COLLAPSED. SOME OF THESE MISAPPREHENSIONS HAVE GAINED WIDE CURRENCY IN CERTAIN US BUSINESS AND GOVERNMENT CIRCLES.

BOWLES

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UNITED STATES GOVERNMENT

Memorandum

To: Mr Macomber

TO : ~~Mr. G. H. Rees, NESA/SA 4716 NS~~ *Rees*

DATE: November 23, 1965

FROM : *C. S. Hatton*
C. S. Hatton, NESA/SA 4716 NS

SUBJECT: Canadian Wheat

154 WFM
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E.J.
Pizz
India Food
USDA says that's not true. Port and rail facilities move more - even though they don't have it.

There appears to be no physical reason why Canada could not supply substantial quantities of wheat to India. The crop varies from 500 million to 700 million bushels each year. Export sales run from 330 million to 595 million bushels. The estimated carryover in 1965 is 465 million bushels or about 13 million tons after deducting estimated sales and domestic consumption. *

Canada appears to appropriate about \$15 million each year to be used for purchases of wheat and flour chiefly for Colombo Plan nations. India in 1965 got about \$1 million of these grants. It is my impression that the special grant of wheat given to India at the time of the U. S. East Coast dock strike was over and above the normal grant funds.

Much of the large sales to Communist countries have been on a concessional basis with payment terms of up to five years. Doesn't this situation offer an additional opportunity for the Indians?

** This is about 3 years domestic consumption, so the carryover can be safely reduced. A million ton figure would not seriously impinge on Canada's stockpile.*

Rees



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

154a

Canada Wheat Production and Export Sales
(All Figures are in Thousands of Bushels)

| | <u>Wheat Production</u> ^{1/} | <u>Export Sales</u> |
|------|---------------------------------------|---------------------|
| 1961 | 283,000 | 358,000 |
| 1962 | 566,000 | 331,000 |
| 1963 | 723,000 | 595,000 |
| 1964 | 600,000 | 398,000 |
| 1965 | 704,000 E | 600,000 |

1965 Wheat Stocks, Sales, Domestic Consumption and Carryover (E)

1,219,000 Stocks on Hand
 755,000 Sales
155,000 Domestic Consumption
 465,000 Carryover

Major Purchasers of Canadian Wheat

| | <u>U.K.</u> | <u>W. G.</u> | <u>Russia</u> | <u>Japan</u> | <u>China</u> | <u>Lux. & Belgium</u> |
|------|-------------|--------------|-------------------------|--------------|--------------|---------------------------|
| 1963 | 88,000 | 36,000 | 208,000 30,000 flour | 48,000 | 37,000 | 16,000 |
| 1964 | 82,000 | 22,000 | 36,000 ^{2/} | 52,000 | 65,000 | |

1/ Great variations in crops is due substantially to the fact that wheat is a spring crop.
2/ Russia also bought 13,000,000 ~~bushels~~ which was shipped directly to Cuba.

154b

Canadian Government Assisted Exports to Colombo Plan Countries
UN RWA and the World Food Program
(Thousand Bushels Wheat Equivalent)

| <u>Destination</u> | <u>Item</u> | <u>1961-62</u> | <u>1962-63</u> | <u>1963-64 E</u> | <u>1964-65</u> ^{1/} |
|----------------------------|------------------|----------------|----------------|------------------|------------------------------|
| India | Wheat | 3541.1 | 703.6 | 720.7 | \$7,000,000 |
| Pakistan | Wheat | 1856.3 | 361.6 | 354.6 | 3,650,000 |
| Burma | Wheat & Flour | 222.0 | - | 154.7 | 350,000 |
| Ceylon | Flour | 515.2 | - | 1040.3 | 1,000,000 |
| Indonesia | Flour | 359.5 | 152.9 | 142.7 | 350,000 |
| Vietnam | Flour | - | 44.6 | 42.7 | 150,000 |
| Colombo Plan Total | | 6494.4 | 1262.7 | 2455.7 | \$12,500,000 |
| UNRWA | Flour | 653.0 | 478.6 | 214.3 | 500,000 |
| WFP | Flour | - | - | 140.2 | 2,000,000 |
| Multilateral Giving, Total | | 653.0 | 478.6 | 354.5 | 2,500,000 |
| Grand Total | | 7147.4 | 1741.3 | 2809.6 | \$15,000,000 |

Source: Grain Division USDA

^{1/} Canadians allocated \$15,000,000 for Food Aid Shipments in Fiscal 1964-65 as shown.

CSHatton:ifj:NESA/SA 11/23/65

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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

NOV 22 1965
J. F. Good

MEMORANDUM FOR MR. ROBERT KOMER
Deputy Special Assistant to the
President for National Security
Affairs
Room 372 Executive Office Building

Attached is, in response to your request, a paper which summarizes our views on the nature of Indian policy changes which are needed to improve output and which discusses some tactics to achieve the necessary policy changes.

WBM

William B. Macomber, Jr.
Assistant Administrator
Bureau for Near East and South Asia

Attachment

*Bob: The PK-470 ^{settle ID} proposition is ^{not an} "official" aid position. We have not talked it over with Dave Bell.
WBM*

NOV 23 1965

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Major Policies Relating to Indian Agriculture

The A.I.D. Mission in New Delhi has identified a series of agricultural policy issues which reflect its own studies and the evaluation of the agricultural sector made last May in India by Martin Abel and Lester Brown of the Department of Agriculture. Our recommendations, which are set forth in some detail in the papers attached at Tabs A and B fall into two broad categories:

a) In some policy areas sufficient research and analysis has been performed to permit us to identify specific targets or conditions to be applied to future assistance. Fertilizer, and to a lesser extent irrigation, fall into this category.

b) In all other areas, although it is clear that previously announced targets have not been achieved and that past financing or provision of inputs has been inadequate, insufficient evidence has been accumulated to warrant quantification and specification of targets. The direction of needed change or further study has been identified in such areas as plant protection, seed improvement, mechanization of farming, farm credit, research and extension, price policies, and institutional problems. For the present we should press for significantly greater action on a number of these fronts, the precise choice and mix to be determined later.

With respect to fertilizer, the paper at Tab B spells out some specific actions required by the Indian government to reach the higher consumption target of 4.6 million tons of nutrient for the 4th Plan, urged by the Mission and by USDA. India should provide for at least a 20% increase in fertilizer availability a year for the next five years, and should give priority foreign exchange allocation to import whatever is needed, with internal production, to provide such increased supplies.

With respect to irrigation, we propose that all aid donors agree to refuse any further financial support to irrigation projects for which the possibility of disciplined irrigation for sustained high yield (instead of protection against drought) has not been carefully examined (see page 4 of Tab A).

With respect to the other policy problems, our requests for Indian action have gained new importance because of the current short rein policy on P.L. 480. The uncertainty regarding future supplies of food grains from the U. S. on concessional terms and the continuing need for high levels of food import have set into motion forces in India which will result in changes in a number of the policy areas in question. Recent speeches by the Prime Minister and the Subramaniam/Freeman letter are the most obvious outward signs that such a process is under way. All observers

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(Including Department of Agriculture staff) are agreed (a) that Indian policies have improved on a number of fronts, that most of the improvement has occurred in areas directly under the control of Subramaniam, (b) that neither we nor the Indians should be satisfied with the progress which has been made, and (c) that it is not possible to quantify the effects of recent policy progress on production of foodgrains.

Just as in our country, major policy changes relating to agriculture affect all sections of the society and economy, requiring a great degree of cooperation between many government ministries and between the government and the public. The formulation and execution of new agricultural policies represent a major test of the leadership and political skill of the Indian government and place great strain on relations between center and state governments.

A plan for increasing Indian agricultural production will be successful only if it is an Indian plan. And development of Indian agriculture must be coordinated with and matched by development of India's economy as a whole. Rather than presenting the Indians with a specific agricultural development plan manufactured by U. S. officials and separate from India's other economic problems, we recommend, therefore, that our insistence upon improved Indian agricultural planning and performance be kept in the context of the World Bank - Consortium insistence on substantial improvements in Indian overall economic policies and performance. Just as India must come up with a satisfactory program of import liberalization, monetary adjustments, export promotion, and encouragement of private enterprise, so must India come up with a plan for increasing agricultural production which is hard hitting, which contains precise measurable targets and benchmarks and which can clearly make India increasingly self-sufficient. The understanding is, and would continue to be, that India must satisfy the World Bank and the principal Consortium members on all of these fronts in order to earn full scale aid at increased or even at present levels.

But to be helpful, we should give India suggestions and insights gained from our own successful agricultural revolution and those acquired in our world-wide aid program. These necessarily will have to be adapted to the Indian environment but we should not be chary in proffering ideas.

While the current P. L. 480 policy has lent more credence to our remonstrances about food policy, the complexity of the problem may

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cause new stagnation in policy formulation and execution unless constant pressure is exercised. This pressure can in part be maintained by the sanction of reduced P.L. 480 quantities when we are unsatisfied as to performance. This approach has its limitations, in that (a) the Indians might discount the possibility that we would in fact reduce food deliveries and (b) the penalty would come after failure to act. There is another approach which has the merit of being a prod to action rather than a penalty for failure to act. We propose shifting a rising percentage of food shipments to Title IV, beginning with say 20% and increasing by that amount each year. The less food the Indians grow the more they will have to import at rising real costs. If announced sufficiently in advance, such a policy would place pressure on the Indian authorities responsible for the allocation of resources (chiefly the Finance Ministry and Planning Commission) to cooperate more fully with the Agriculture Minister.

Such a proposal would result in the cost to India of foodgrains being more comparable to the cost of other imports. The Indians would soon recognize the economic cost of continuing their present bias for importing foodgrains rather than inputs needed for agriculture such as fertilizer.

Attachments:

- A. Agricultural Policy Issues for the Big Push - USAID
- B. Program to Increase India's Fertilizer Consumption - Paul Firstenberg

NESA;SA
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AGRICULTURAL POLICY ISSUES FOR THE B.P.

Possible Policy Issues.

A summary of the areas in which policy issues might arise is as follows:

1. Input supplies:
 - a. fertilizer
 - b. water
 - c. plant protection
 - d. seeds
 - e. implements
 - f. others
2. Farm credit.
3. Research and extension.
4. Input and output prices, price incentives, and buffer stocks.
5. Institutional changes:
 - a. agrarian reform
 - b. co-ops
 - c. community development
 - d. rural works
6. Administration.
7. Town centered supply, marketing and transport services.

General Strategy.

AID and the Consortium ought to be highly selective in identifying required policy changes, for any GOI-Consortium agreement on a big push would be intolerable to the GOI if it generally specified what GOI economic policy was to be during the Fourth Plan. Moreover,

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-2-

as will be shown below, the U.S. is incapable, and the Consortium even more so, of laying down in all fields unambiguous and easily enforceable policy requirements.

Consequently, the general U.S. strategy should be to:

1. Ask the GOI for substantial and conspicuous improvement in agricultural policy in fields in which we do not wish to specify the exact character of the improvement required. (As shown below, this means we would want to ask for one or more great gains, the number depending upon their greatness, in the fields of farm credit, research and extension, institutional changes, or administration, or in a heavier allocation of planned funds to the agricultural sector.)
2. Specify required changes in very few areas (for reasons given below, these areas will be fertilizer and irrigation).

We can now look at each policy area in turn to see what might be done.

Fertilizer.

The GOI and the US are already firmly agreed that substantially greater fertilizer consumption is essential for economic and political stability. For the end of the Fourth Plan, the US consumption target (based on an earlier Mission calculation and confirmed by an independent USDA team alternative calculation) is 4.6 millions of nutrient. The GOI target is 3.5 million tons of nutrient.

Shall we insist on our own target?

Their target differs from ours because reasonable men can differ in these matters. We have evidence, however, that the GOI may have pulled down its target somewhat because it fears it cannot sell as much fertilizer as we target. We think these fears are groundless.

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-3-

We want therefore to insist on a higher target because for fertilizer and agricultural output the GOI needs to add a margin for error, and because of the near certainty that much of the fertilizer targeted for foodgrains will actually go to cash crops, for it dare not fail to hit its foodgrain output target in the Fourth Plan. (We accept their foodgrain output target of 120 million tons.)

Shall we try to hold the GOI to whatever production target they do finally settle on?

There is more danger to foodgrain production in the Fourth Plan in lagging target achievement than in under-targeting fertilizer. We have to push very hard indeed on holding the GOI to a phased attainment of targeted production. Specifically, our policy should be to switch project aid over to fertilizer importation to whatever extent necessary to maintain the GOI's own targeted phased increase in fertilizer consumption. In brief, this would substitute imported fertilizer for any domestic production targeted but actually not achieved.*

*The magnitudes that might be involved are represented in the following table. The table shows the affect on fertilizer import costs of a 60% rate of achievement of Fourth Plan fertilizer production targets. The last column in the table represents the added costs of the 40% shortfall of production.

| | <u>Planned</u> | <u>60 Per Cent</u> | <u>Planned</u> | <u>Deficit</u> | <u>Cost of</u> | <u>Added</u> | <u>Cost of</u> |
|--------|-------------------|--------------------|----------------|----------------|----------------|----------------|----------------|
| | <u>Production</u> | <u>Achievement</u> | <u>Imports</u> | <u>Imports</u> | <u>Imports</u> | <u>Imports</u> | <u>Imports</u> |
| | | 000 tons | | | Mill. \$ | | |
| 1965-6 | 527 | 316 | 432 | 211 | 118 | \$ | 59 |
| 1966-7 | 755 | 453 | 473 | 302 | 131 | | 83 |
| 1967-8 | 944 | 566 | 628 | 375 | 178 | | 106 |
| 1968-9 | 1214 | 728 | 815 | 499 | 233 | | 139 |
| 1969-0 | 1601 | 960 | 1012 | 667 | 296 | | 186 |
| 1970-1 | 1926 | 1115 | 1446 | 811 | 429 | | 240 |

Source for columns 2, 4 and 6: Martin Teel and Dister Brown, "An Evaluation of India's Fourth Five Year Plan--The Agricultural Sector" (USAID/India, May 13, 1965) pp. 27-68.

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-4-

Should we require a mid-Fourth Plan major reconsideration of an upward revision in the fertilizer production target?

Ashoka Mehta and others have indicated that it might be possible in mid-plan to retarget fertilizer production. We can suspect that this kind of talk reflects their concern that their target is too low and would be higher if they had confidence in sales. A case for reconsideration of target and acceptability of a reconsideration both argue for reconsideration; on the other hand, the pattern of planning is rigidly against it. We would make a useful contribution to the planning process, as well as protect our interest in fertilizer production, by insisting on some kind of explicit arrangement for formal reconsideration of the fertilizer target in mid-plan.

On fertilizer distribution, see comments below on pricing, credit, and co-ops.

Irrigation and Water Management.

The all embracing major issue here is whether there is to be sufficient dominance of agricultural considerations and agricultural personnel in the development and administration of water and irrigation. Within the very broad issue, the great and critical issue is between drought relief irrigation and the careful administration of irrigation and drainage for sustained high yield, the latter being a kind of irrigation that calls for a new concept of irrigation in India.

As a minimum, we can see if the Consortium and the Bank will join with the U.S. in its already declared intention to refuse any further financial support to irrigation projects for which the possibilities of disciplined irrigation for sustained high yield have not been carefully examined. (The US policy is not to require that

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drought relief irrigation give way to the newer concept uniformly but that no project overlook the possibilities of the latter.)

Secondly, we could require that the GOI establish a well-financed and staffed, high level prestigious study of the relative merits of the two kinds of irrigation, with special reference to a few upcoming concrete irrigation projects.

Beyond this, we do not see any possibilities for relatively unambiguous and enforceable conditions to be attached to water and irrigation policy, although there is enormous scope for sustained and highly competent nagging and consulting on policy and its implementation with good prospects, considering present ferment on the issues, for great gains in years to come.

Plant Protection.

In pest, weed, rodent and disease controls, Indian programs suffer greatly from the general deficiencies of administration and from scientific backwardness, for these programs are neither administered with vigor nor are they thoroughly up to date in the selection and use of chemicals. While we can identify this field as one in which we would like to see some important moves, AID has not worked in it enough to be able to specify them. Nor do there seem to be any unambiguous and enforceable constraints on policy worth exploring except at such a low technical or administrative level as precludes there being incorporated into any kind of push agreement. (We could, for example, specify which chemicals the Indians were to use; but it would be ridiculous to propose doing so.)

Seed Improvement and Multiplication.

Seed from State and Center seed farms is widely alleged to be no better than the seed otherwise available to Indian farmers and much poorer in quality than seeds developed by the best Indian farmers and sold in small quantities to their neighbors. The acreage presently under seed farms are also far short of acreages planned for the Fourth Plan -- so much so that one can doubt that the expansion targets can ever be achieved or that the attempt will even be made seriously. The program needs a thorough overhauling but, again, there is no simple formula for its reconstruction. And its deficiencies are of course part and parcel of the general deficiencies in Indian administration, so that it can presumably become a good program only as Indian public administration generally improves or as it is isolated as a high priority crash program. We might consider asking the GOI to make seed development a crash program, but it is a request that will be lacking in content.

Hence, it looks as though seed development might best be thrown into the general area of policy with respect to which we ask no more than that something important be done within the area even if we do not specify just what.

Alternatively -- and this we propose for discussion -- the GOI and the Consortium might agree to join in a program of welcome and aid (subsidized credit and/or investment guarantee for both rupees and foreign exchange) to private collaborations on seed production -- both to produce better seed directly and to stimulate through competition the improvement of government seed programs.

Implements.

The issue here is tractors and tillers. A USDA team tells us that a big tractor and tiller program was not appropriate at this stage of agricultural development, and in formal consultations with some of the Bell mission agricultural experts indicate that they, though less dubious, are either inclined to agree or to believe that until the economics of tractor and tiller operation have been more thoroughly explored, the Indians should not be pushed into it. We might urge the GOI to make such an exploration, but we would probably do better to give some of our own AID people such an assignment within the next year before making an issue with the GOI.

Credit.

The overriding need in India is for short-term credit for annual farm inputs in which the security for the loan is the crop not the other assets of the cultivator. Official Indian policy is all on the right side; the difficulties arise in implementation. These difficulties arise partly out of banking and administration conservatism; but we should fully acknowledge the difficulty, if not the impossibility, of extending crop based credit to subsistence farmers who would not intend, even if their output rose substantially, to sell any part of the crop. These farmers are without money income with which to repay a crop loan; likewise they are without a surplus to repay in kind. Their principal prospects for repayment might come from money income from non-agricultural employment, including rural public works.

We can ask the GOI to keep pushing on crop-based credit and competitive sources of credit; but given these difficulties, we cannot lay down any unambiguous and enforceable conditions and in fact can only hope and pray that the application of diligence and intelligence over time will erode the obstacles. We can be useful in technical assistance on modern crop based credit assistance, and the Mission intends, with its new rural credit technician, to make headway. But this is not a good field for specifying conditions on Consortium assistance.

Research and Extension.

Roughly the same line of argument as under Seeds above. To be sure, the Ministry of Food and Agriculture is presently engaged in planning major reorganization of agricultural extension and research, and that would seem to open up special possibilities for our laying down some conditions for increased Consortium assistance. But our new Chief of the Agricultural Division, we believe, wants to have a fresh look at reform of research and extension and the Agricultural Division's position on it. The Mission is therefore not in a good position to rush in and take sides on some of the issues now up for consideration.

But for those who would like to consider further the possibilities of our taking a position, the principal issues are:

1. Converting the VLW's from multi-purpose workers to agricultural extension workers (not, incidentally, general agriculture administrative officers).

2. Tying research to the needs of extension (India has many agricultural research stations, but they are not doing very useful agricultural research.)
3. Creating a specialist technical service in agriculture and agricultural extension and getting the technical people out from under the dominance of the generalist.
4. Generally raising the practical agricultural competence of those engaged in extension, in which connection our agricultural universities program is relevant.
5. Creating an effective line of authority for agricultural extension work, obstructed neither by Center-State conflict nor by lack of coordination between Community Development and Food and Agriculture.
6. Finding an effective way of "retailing" useful information to cultivators (as through salesmen of agricultural supply houses in the US) because agricultural extension officers and VLN's taken together will probably never be sufficiently numerous to go beyond "wholesaling".

Input and Output Prices, Price Incentives, Buffers, and Storage

Our leverage on output prices, buffers and storage is through PL-480 negotiations rather than through dollar aid and the Consortium.

What about prices? On irrigation water rates, possibilities of rate reform to conserve and improve the allocation of water are bound up with the reform of irrigation as discussed above and cannot be dealt with separately.

The only possible input price on which to make an issue is fertilizer. But fertilizer price policy is going to be so bound up with negotiations with foreign governments or foreign private enterprise on new fertilizer capacity as to preclude our making an issue of it here.

Do we not, however, believe we can confidently ask the GOI to lower the price of fertilizer?

Perhaps we should, but the Pakistan experience suggests that it may be more important to provide an incentive to retailers of fertilizer than to cultivators. If so, we might want to push for high retail margins before price reduction.

Agrarian Reform.

The overriding need here is to achieve the gains in output incentives that would follow from secure tenancy and cultivator's ability to claim for himself the increments he achieves in his output. Political resistances to moving ahead vigorously on security of tenure are formidable; and, again, there is no simple formula, apparently no possibility of an unambiguous and enforceable condition to be imposed on aid. We ought to give the GOI a bad conscience on this subject and never remove the accusing finger until the GOI takes care of the problem. For present purposes, this problem should be placed in that general policy area out of which we want something substantial to happen, even if we do not specify what or where. A second issue is consolidation. The movement toward consolidation is weak in most states. Punjab has been vigorous, but consolidation there is not consistent with future needs of irrigation and drainage. Again, can we do any more than trouble the Indian governmental conscience?

Cooperation and Community Development.

Multi-dimensional problems like these do not lend themselves to quid pro quos.

Administration.

The Mission has been of the opinion that it would be fruitless to

attempt any general frontal attack on administrative reform across the board or in such a large area as agricultural and rural development policy. As a question of strategy, we might wish to debate it in the seminars. But if so, relevant considerations run beyond agriculture.

Specific administrative issues in agriculture are those listed above under Research and Extension, among which the generalist-specialist issue is critical for the whole field of agricultural administration. There is also the issue of administrative control of irrigation and water management through agriculture rather than through the Ministry of Irrigation and Power.

We might consider laying down as a requirement that (a) a specialist service be developed in such a way as to permit specialists to rise to the highest positions in the agricultural civil service, and (b) major irrigation be turned over to the Ministry of Food and Agriculture. One of the conspicuous disadvantages of imposing such conditions as these is that the GOI is probably incapable of committing itself. Each of these two reforms would have to be fought out over a long period of time with outcome uncertain.

Town Centered Supply, Marketing and Transport Services

This field is too new to both AID and GOI to permit our asking for Indian performance.

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MEMORANDUM TO:

SUBJECT: Program to Increase India's Fertilizer Consumption

Set forth below is a list of actions and programs which we believe will serve to expand India's utilization of fertilizer and which the Government of India could be reasonably expected to undertake.

The list includes only proposals which are designed to increase the supply and consumption of fertilizers and does not include other possible actions which could affect agricultural output, such as improved irrigation, price supports for farm products, and making available to farmers increased quantities of better quality seeds. This memorandum also does not attempt to formulate a strategy for encouraging the GOI to carry out the substance of the proposed actions and programs.

Attached as Annex "A" is a brief summary of the principal existing bottlenecks to expanding India's consumption of fertilizers. The Annex serves as a background for the attached proposals.

A PROGRAM TO INCREASE INDIA'S FERTILIZER CONSUMPTION

I. Steps to Increase the Availability of Fertilizer

A. The Government of India and relevant state governments at an early date give all approvals, undertakings and assurances required to enable construction to begin on the proposed privately sponsored Birla-Armour fertilizer plant and the joint GOI-Imperial Chemical Industries (a U.K. Company) and GOI-Standard of Indiana Oil Co. fertilizer plants.* The approvals given by the Center and State Governments shall permit substantially all of the output of the three plants to be marketed through private channels and for the joint government-privately sponsored plants to be managed by the private sponsors for a reasonable period of time.

*The Birla Armour project is projected to provide, at capacity, 350,000 tons of nitrogenous fertilizer per annum, the ICI project 200,000 tons of nitrogenous fertilizer per annum and the Standard of Indiana project 200,000 tons of nitrogenous fertilizer and 85,000 tons of phosphatic fertilizer per annum. These three projects are the only new privately sponsored or privately managed projects now in an advanced stage of planning.

B. The GOI actively facilitate the completion of the privately sponsored Coromandel fertilizer plant* now under construction by:

(a) providing such assistance as may be required to enable Coromandel to finance the presently estimated overrun on plant construction costs (about \$10 million in rupee funds), (b) taking all actions necessary to make Coromandel's seeding program effective, including authorizing Coromandel to import the volume of fertilizer required for the program and (c) inducing the relevant Indian authorities to accelerate sufficiently the construction of the ancillary facilities required by the plant to insure that such facilities will be completed when the plant is ready to start operations.

*The Coromandel project, sponsored by California Chemical Co. and International Minerals and Chemicals Corp., two U.S. fertilizer manufacturers, is expected to provide, at capacity, 80,000 tons of nitrogenous fertilizer and 73,000 tons of phosphoric fertilizer per annum.

C. The GOI expedite the development, approval and financing of new fertilizer plants, including at least one major privately controlled plant, capable of producing, as a minimum, an aggregate of 500,000 tons of nitrogen and 280,000 tons of phosphate*. The object should be to complete the construction of such new plants, as well as the Birla-Armour, ICI, and Standard of Indiana plants, by 1968-1969 in order to provide, together with plants now ready for or under construction,** an aggregate additional productive capacity of at least 1.8 million tons

*The goals set out in paragraph (c) appear to be within reach. At present, a loan application has been submitted to A.I.D. to finance a public sector plant at Durgapur which would produce 135,000 tons of nitrogen and 110,000 tons of phosphate. In addition, pre investment studies are in the process of being completed on a proposed public sector plant at Cochin which would produce 200,000 tons of nitrogen and 85,000 tons of phosphate. Two privately sponsored projects are also under study by prospective investors but are in a much less advanced stage than the two public sector projects. However, an ideal sized private sector plant might produce 200,000 tons of nitrogen and 85,000 tons of phosphate (as in the case of the Standard of Indiana project). If such a plant were built in addition to the Durgapur and Cochin plants an aggregate additional capacity of 500,000 tons of nitrogen and 280,000 tons of phosphate would be available.

** Plants now ready for or under construction are expected to produce an aggregate of 500,000 tons of nitrogen and 150,000 tons of phosphate.

of nitrogen and 700,000 tons of phosphate before the end of the Fourth Plan. Assuming all such new plants and all existing plants* operated, after break in, at an average of 90% of capacity, India's domestic production at the end of the Fourth Plan would reach approximately 2 million tons of nitrogen and 700,000 tons of phosphate as opposed to a presently forecasted output of 1.5 million tons of nitrogen and 700,000 tons of phosphate.

D. The GOI establish a first claim on fertilizer imports to provide the fertilizer required for the seeding programs of plants under construction.

E. The GOI give a very high priority in allocating its foreign exchange resources to importing sufficient quantities of fertilizer to supplement domestic production to insure that fertilizer availabilities reach the levels called for by the GOI's Committee on Fertilizer**, whether or not domestic production targets are achieved.

*Plants already in operation have an aggregate rated capacity of 430,000 tons of nitrogen and 256,000 tons of phosphate.

** The Committee on Fertilizer Report calls for a total availability in 1970-71 of 2.4 million tons of nitrogen, 1.0 million tons of phosphate and 0.7 million tons of potash as opposed to the present Fourth Plan targets of 2.0 million tons of nitrogen, 1.0 million tons of phosphate and 0.35 million tons of potash.

II. Institutional and Policy Changes

A. Steps to Improve Distribution

- (1) The GOI eliminate price controls on the sale of fertilizers.
- (2) The GOI eliminate its central nitrogen pool and authorize all manufacturers of nitrogenous fertilizer, whether public sector organizations or private companies, to establish their own distribution arrangements. At a maximum the government should have a right for a limited number of years to buy a small percentage (say 25%) of private manufacturers' output to distribute in the areas which it would be uneconomic for private manufacturers to service.
- (3) In any interim prior to the termination of the Pool, the profits realized by it should be reinvested in expanded efforts to promote the use of fertilizer.
- (4) All distributors of fertilizer, whether public sector organizations, cooperatives or private companies, be authorized to market their products in any geographic area including those now served exclusively by cooperates.

B. Steps to Improve Credit Availability

- (1) An appropriate independent center government agency exercise effective regulatory control over the operations of the cooperative credit societies with the object of inducing the cooperatives to develop simplified procedures, to be more efficient and equitable in the processing of applications, and more effective in supervising credits.

- (2) The GOI establish, with adequate funds and administrative support, an alternative and competitive system to that of the cooperatives for providing credit to finance the purchase of fertilizer. Such alternative system should have access to government sponsored credit on the same terms as the credit the government makes available to cooperative societies. In particular, private distributing companies should be given access to sufficient credit, on the same terms as the GOI sponsored credit provided to co-ops, to enable such distributors to finance directly their retail sales.
- (3) Appropriate steps be taken to induce institutions offering agricultural credit to (i) provide increasingly for credit and repayments in kind, particularly for small cultivators and (ii) provide credit on terms which are compatible with the present structure of land ownership in India and the existence of tenant farming.

C. Steps to Encourage Foreign Investment in Fertilizer Projects

1. Establish a cabinet level inter-ministerial committee as the sole center government agency with whom foreign investors need deal in order to obtain the center government's approval of a fertilizer project. This Committee should have sufficient staff and authority to enable it to coordinate the views of all the GOI Ministries interested in the development of fertilizer projects and to grant all necessary approvals on behalf

of the center government. The Committee should also, to the maximum extent feasible, assist investors in obtaining any necessary approvals from state governments and insuring that the ancillary facilities required for the construction and operation of fertilizer plants are made available as required. The Committee should thus offer a single office of recourse for private investors who are encountering difficulty at any stage in implementing their fertilizer projects.

2. The Committee, on behalf of the GOI, should be authorized to issue a single, blanket license for the approval of privately sponsored fertilizer projects in lieu of the present system of requiring separate approvals of the basic project, the capital equipment to be imported to build the plant, the equity shares to be issued, and the tax exempt status of foreign technicians to be employed in operating the plant. The Committee's approval of the basic scheme should automatically carry with it the final government approval of the project's capital structure (unless a public issue is involved), the import of such capital equipment as the owners of the plant believe is required, and the tax exempt status of such number of foreign technicians as the directors of plant believe it necessary to employ.

3. Establish that once a privately sponsored fertilizer project is approved by the government, the project shall not be subject to any increase in duties which thereafter may be enacted on the import of capital equipment.

4. Authorize and assist privately sponsored fertilizer projects in obtaining directly loans to insure the availability of the foreign exchange required to finance the project's entire seeding program and multi-year raw material import requirements. (A.I.D. should indicate its willingness to provide loans for such purpose.)

5. Adopt a flexible policy toward majority foreign ownership of fertilizer plants.

ANNEX "A"

Rationale for Program

The actions and programs listed in the memorandum to which this Annex is attached are intended to overcome what are widely regarded as the principal bottlenecks to expanding the use of fertilizer in India. These obstacles may be briefly summarized as follows:

1. Insufficient Supply of Fertilizers

India's Third Plan calls for the domestic production of one million tons of nitrogenous fertilizer and 400,000 tons of phosphatic fertilizer by the last year of the plan, April 1, 1965 - March 31, 1966.* (All of India's potash requirements must be imported since there is no known source of this mineral in India.) In 1964-65, the last year for which actual figures are available, India produced 238,000 tons of nitrogenous fertilizers and 126,000 tons of phosphatic fertilizers. Even if production for 1965-66 reaches the anticipated level of 300,000 tons of nitrogen and 167,000 tons of phosphate, India's domestic output will fall far short of its own Third Plan goals.** India's efforts to increase its production of fertilizer have been marred by delays in building plants as well as the construction of a number of poorly conceived, inefficient public sector plants. Presently established government-owned plants are, in the aggregate, operating at about 60% of rated capacity, apparently due to design and other technical defects.***

To meet its food production goals, India must radically increase its production of fertilizers by the end of its Fourth Plan period (1970-71). The total available supply of fertilizers, including imports, in 1964-65 was about 675,000 tons and may reach 900,000 tons in 1965-66.****

* GOI's Committee on Fertilizers, Table 2.

** GOI's Committee on Fertilizers, Table 2. See also Arthur D. Little Market Feasibility Study prepared for Armour and Company, pp. 24 and 34.

*** GOI's Committee on Fertilizers, p. 26, para. 3.01.

**** GOI's Committee on Fertilizers, Table 2.

Targets for consumption of fertilizers in 1970-71 range from a minimum of 3.35 million tons (2.0 million tons of nitrogen, 1.0 million tons of phosphate and 0.35 million tons of potash)* up to 4.7 million tons (2.7 million tons of nitrogen, 1.34 million tons of phosphate and 0.67 million tons of potash).** The India A.I.D. Mission maintains that the lower targets will not result in improving India's per capita intake of food grains and that the higher goals must be achieved if India is to provide an improved dietary level for its population.

To achieve even the lowest target will require the building of substantial number of expensive plants in the next several years as fertilizer plants generally take about three years to complete. If all of the present plans for improving the efficiency of plants and for new plant construction are met, India's domestic production of fertilizers should reach about 2.4 million tons by 1970-71 (1.5 million tons of nitrogen and 700,000 tons of phosphate).*** Even if new plant production is stepped up, substantial increases in imports will also be required if India is to meet its fertilize consumption goals over the next five years.

Estimates of the cumulative foreign exchange cost of fertilizer imports required during the Fourth Plan period to enable India to meet even its conservative consumption goals, assuming its domestic production reaches 2.4 million tons by 1970-71, range as high as \$1.3 billion in foreign exchange. An estimated additional \$337 million in foreign exchange will be needed during this period to finance the rock phosphate and sulphur imports required to support the presently targeted volume of domestic complex fertilizer production.**** Providing foreign exchange in such magnitudes

* Present GOI Fourth Plan Targets. The GOI's Committee on Fertilizers has recommended raising the Plan target to 4.1 million tons (2.4 million tons of nitrogen, 1.0 million tons of phosphate and .7 million tons of potash).

** U.S. A.I.D. Mission Fertilizer Proposal for Increased Agricultural Production, August, 1964, p. 26.

*** Arthur D. Little Market Feasibility Study prepared for Armour & Co., pp. 27, 34 and 35, and the Committee on Fertilizers, Table 7. The rated capacity of plants producing fertilizers during 1965-66 was 435,000 tons of nitrogen and 256,000 tons of phosphate and the projected capacity of plants ready for or under construction are 500,000 tons of nitrogen and 150,000 tons of phosphate. SRI, Preliminary Evaluation of Certain Aspects of a Massive Fertilizer Program for India, Table 9.

**** Committee on Fertilizers, Tables 7 and 8.

as well as the hard currencies required to construct additional plants will represent a substantial drain on India's foreign exchange resources. As one consequence of the foreign exchange problem, the GOI has been hesitant to approve new projects for the production of complex fertilizer. This is particularly unfortunate in view of the present over-emphasis in India's fertilizer program on straight nitrogen fertilizers.

2. Inadequate Distribution System

Consumption is generally thought to be less than demand at present. Indeed, there is evidence of a black market in fertilizers in certain areas. However, while there is a scarcity of fertilizers today, increasing sales to the level of even the minimum target of 3.35 million tons by 1970-71 will require quadrupling the present volume of fertilizer consumption. This cannot be done without major reforms and innovations in India's present system of marketing fertilizers as well as in its credit system, price control regulations and program of promotion and cultivator education. India's present distribution system and price control regulations were primarily designed to make an equitable distribution of limited available supplies of fertilizer to all areas of the country at "fair" prices. Now the situation clearly calls for an intensified effort at promotion and sales thus the GOI must change its policies to encourage such efforts by creating free market conditions under which individual initiative will flourish.

At present, all nitrogenous fertilizers produced or imported into India are purchased from the manufacturers by the Ministry of Food and Agriculture's Central Nitrogen Pool which allocates the available supply, distributing most of it to the states. The states, in turn, distribute the fertilizer almost exclusively through a system of cooperative societies. The estimates of the states' nitrogen requirements are generally made up by state agricultural officials without the participation of the co-ops or other distributors.

In view of the small number of cultivators who belong to cooperatives, restricting the distribution of nitrogenous fertilizers to the co-ops has, per force, limited the sale of such fertilizers. While some co-ops are well thought of, the bulk are regarded as inefficient organizations, generally staffed with poorly paid personnel who lack adequate technical training and information about fertilizers and who are largely "order-takers" rather than salesmen. The profit margins permitted co-ops are also so restricted that the societies have limited economic incentive to expand their sales. Thus the co-ops have generally done little, if anything, to promote the sale of fertilizer. Most co-ops, however, face no competition having a virtual or complete marketing monopoly in their area.

The GOI's Central Nitrogen Pool has also made almost no effort of any kind to promote the sale and use of fertilizer although it has earned considerable profits. The GOI's Committee on Fertilizers has called for the abolition of the pool "when conditions favorable for a competitive market are reached" with nitrogen producers making their own marketing arrangements.

Mixed fertilizers are distributed outside the Pool system, primarily through private distribution channels. The separate marketing systems for nitrogenous and phosphoric fertilizers thus generally prevent the cultivator from going to a single source for all of his fertilizer needs. In addition, under the dual system of distribution, private fertilizer mixers are precluded from buying their nitrogenous fertilizer requirements at bulk wholesale rates, thereby increasing the cost to cultivators of mixed fertilizers.

Efforts to expand the sale of fertilizers have also been hampered by inadequate government agricultural extension services. Most village level extension workers have a wide variety of duties and thus limited time to devote to promoting the use of fertilizers and are generally inadequately trained in the technical aspects of fertilizer use. A further impediment to effective distribution has been the arrival of fertilizer imports after the marketing season due to delays by the GOI in placing orders.

Accordingly, there is a need not merely to increase substantially India's supply of fertilizers but also to establish new and improved methods of distribution, particularly private ones, to make certain that the increased supply actually gets on the ground. A.I.D. has insisted to foreign investors who have approached the Agency for financing for fertilizer projects that the output of such plants be marketed through private channels. We now understand the GOI has agreed with several foreign investors to permit 70% of the nitrogen output of their proposed projects to be marketed through private channels.

3. Price Control

At the present time, the government, through one means or another, fixes the prices at the wholesale and retail levels for all fertilizers. The wholesale, or factory gate price, is fixed to permit a producer a specified return on the total capital employed before taxes and interest. In the case of nitrogenous fertilizers, the rate of return permitted all manufacturers is the same so that the factory gate price paid to the most inefficient nitrogen producer (the public sector plant at Sindri) determines the price at which nitrogen fertilizer is, in turn, made available by the GOI Pool to distributors. Thus the Pool profits from the efficient nitrogen producers' efforts and not the consumer. At the same time, in order to keep retail prices as low as possible, the government has squeezed distributors' margins on all types of fertilizers to the point where distributors presently have too little incentive to expand sales.

The system of price control is of special concern to potential foreign investors. Such investors are extremely reluctant to engage in the lengthy negotiations inevitably required to reach agreement with the GOI on prices or even if such an agreement could be achieved quickly, to accept the risk that the profitability of their investment will be adversely affected by being caught between permanently fixed prices for products and unrestricted, rising costs of production.

Studies indicate that the price of fertilizers in India, although apparently higher than the prices of comparable fertilizers in developed

countries,* is not a present barrier to expanding substantially the sale of fertilizers. There is presently an ample margin between the added cost to the cultivator of purchasing fertilizers and the additional profit which the cultivator will earn from employing fertilizer, to induce cultivators to purchase fertilizers. At some point when fertilizers are more widely in use than they are today, a price reduction may be required to further expand their use. Should such a reduction become necessary, or should the government wish to reduce the cost of fertilizers for other reasons, a subsidy program, such as that used in Pakistan, would be more appropriate than a system of price control. We understand that the GOI has indicated to several private foreign investors a willingness to eliminate price controls by about 1968.

4. Inadequate Credit System

The bulk of the credit made available today to cultivators to purchase fertilizers comes from two principal sources: the village money lender who charges exorbitant rates and cooperative credit societies. The cooperatives meet only a small part of cultivators' needs for credit, providing only an estimated 30% of the loans made to cultivators to purchase fertilizer. These societies are regarded as ^{tax and} inefficient, subject to village favoritism and burdened with cumbersome and inadequate procedures. The cooperatives have apparently been particularly ineffective in meeting needs for credit on the part of small cultivators and tenant cultivators who have difficulty in pledging land or assets other than crops as security. Although the cooperatives receive at least half their funds from the Reserve Bank of India, the Bank exercises very little control over the operations of the societies.

Apart from the co-ops there is no Indian institution which provides agricultural credit on any sizeable scale. Private fertilizer distributors have difficulty in providing credit to cultivators as they do not, unlike the co-ops, have access to government sponsored lines of agricultural credit, but must depend on the commercial banks to provide financing. The commercial banks charge a higher rate of interest than the co-ops pay to the Reserve Bank and for several years now such banks have had limited funds to lend. In any event, the limited profit margins allowed private distributors make it difficult for them to advance credit.

* A study by Vanderbilt University reported that the price per kg. of nitrogenous and phosphatic fertilizers was, respectively, \$37.00 and \$26.00 in India as against \$24.70 and \$21.90 in Japan, and \$26.90 and \$19.70 in the United States. Presumably the price comparisons were made at the official rate of exchange for the Rupee and thus overstate the amount by which Indian prices exceed those in Japan and the United States.

Substantial reforms in the area of agricultural credit are thus required to finance the expansion in fertilizer consumption called for by the Fourth Plan. Foreign firms, in particular, will be wary of investing in a fertilizer plant whose output is to be marketed through private distributors (as it must be if distribution is to be effective) unless such distributors are assured that there is sufficient credit available to finance their sales programs.

5. Special Obstacles Confronting Foreign Investors

The production and distribution of fertilizer in India is an area in which foreign firms, particularly American companies, could play a major role. All of the problems discussed above are of very great concern to those foreign firms which are interested in investing in fertilizer projects in India. Indeed, it is unlikely that any of the privately sponsored ventures now proposed will go forward until the government makes substantial progress in overcoming such problems. In addition, however, there are a number of other factors which tend to inhibit private foreign investment in fertilizer projects. One is inherent in the fact that India's state governments play a very strong and independent role in agriculture. Thus foreign investors must be concerned with reaching and maintaining appropriate understandings with both a national and state government. The problems that can arise from this dual system of authority are illustrated by the experience of the first foreign sponsored private fertilizer project, Coromandel (promoted by two U.S. companies) the progress of which has been impeded by the State of Andhra Pradesh's interference with the market development program approved for the project by the Center Government, and the State's and other local authorities' failure, to date, to meet time schedules for the construction of various ancillary facilities required for the plant's operation.

At the same time, a number of actions, or failures to act, on the part of the Center Government have troubled foreign investors, such as the necessity of proposed investors negotiating with at least three different Ministries to gain approval of a proposed fertilizer project, delays and procrastination in granting basic project licenses, import licenses and other necessary government approvals, applying increases in duties on the import of capital equipment to projects which the government approved, and for which all financing was arranged, prior to the duty increase, the lack of assurance to potential investors with respect to the availability of the foreign exchange necessary to import the fertilizer required to develop a market in advance of production, or the raw materials necessary to manufacture complex fertilizers, and reluctance to permit majority foreign ownership of projects. The Center Government's own apparent uncertainty concerning its future agricultural policies is another problem for potential foreign investors.

Of course, many of these problems stem from India's scarcity of foreign exchange resources, most of them are by no means unique to foreign investment in fertilizer projects, some of the foreign investors' concerns are unfounded, and some of their demands are unreasonable. Nevertheless, India needs the help of foreign capital and know-how,

particularly in the production and marketing of fertilizer, and she should take special steps, a number of which are outlined in the basic memorandum, to obtain such assistance.

~~CONFIDENTIAL~~

154

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

November 22, 1965

Mr. Robert Komer, The White House

Bob:

Attached is a copy of our fertilizer loan paper, which Bill G. tells me you would like to have. It does not yet have Dave Bell's approval. Dave, Bill G. and I think the matter should rest until the Secretary of Agriculture returns from his talks with Subramaniam. At that point, we can take another look at the overall situation.



William B. Macomber, Jr.

~~CONFIDENTIAL~~

DECLASSIFIED

Authority AID Guidelines 10-16-95

NOV 23 1965

By jc, NARA, Date 3-30-04

156a

~~CONFIDENTIAL~~

DECLASSIFIED
E.O. 13292, Sec. 3.4
By ja, NARA, Date 3-30-01

DRAFTED: Nov. 17, 1965

INITIALED: Nov. 17, 1965

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THROUGH: EXSEC

FROM: William E. Macomber, Jr., AA/NESA

India Food
[Signature]

SUBJECT: Fertilizer Loan to India; Steel Loan to Pakistan

1. Attached at Tab A is a memorandum to Acting Secretary Ball recommending that he send a memorandum to the President, Tab B, seeking approval of the above two loans with, in each case, the requirement that there be matching imports financed from the country's own exchange. Secretary Freeman has agreed to the proposed fertilizer loan. NEA supports both loans.

2. You raised the question of super-tying, that is requiring India and Pakistan to spend their matching amounts in the U. S. The facts and probable impact of super-tying in the two cases are as follows:

a. Fertilizer. India has planned to purchase \$63 million of fertilizer in the U. S., mostly fertilizer types of which the U. S. is a net exporter and which are therefore eligible for direct financing. Some of the \$63 million was to finance three way barter transactions to take care of urea imports, since the U. S. is a net importer of urea. Super-tying up to that \$63 million point is not likely to be objectionable.

The \$35.6 million balance was allocated to: (1) urea beyond the amounts covered by feasible barter arrangements, (2) ammonium chloride and ammonium nitrate, with respect to both of which the U. S. is a substantial net importer and likely to continue to be such, and (3) ammonium phosphates which are sold from the U. S. only by a Webb-Pomerene Association. India has already purchased the urea. Super-tying covering ammonium nitrate and ammonium chloride would have no effect on our balance of payments since any exports to India would simply be matched by additional U. S. imports. The Justice Department has informally advised us that a requirement that India buy ammonium phosphate only from the U. S. would raise the same antitrust problems as does AID direct financing of ammonium phosphate on a tied basis.

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GROUP 3
Downgraded at 12 year
intervals; not
automatically declassified

NOV 23 1965

~~CONFIDENTIAL~~

While Germany and Japan do not permit their concessional loans to be used to finance fertilizer and therefore may be said to use their aid to foster exports more aggressively than we do, no country as yet has explicitly super-tied its aid. Germany and Japan would certainly resent super-tying as too vigorous effort to divert trade from their exporters. Such resentment could further damage our already fragile consortium relationships.

We recommend that India be permitted to purchase the \$35.8 million balance of its fertilizer needs from non-U. S. sources. NEA and E strongly concur in this recommendation.

b. Iron and Steel. The types of iron and steel products which Pakistan would import from the U. S. if super-tying were directed range from 5% to 40% higher in price than comparable products from other sources. Pakistan has been importing practically all of its iron and steel requirements from the U. S. for the past several years - running at an annual rate of about \$100 million dollars - so the internal Pakistan market is already attuned to U. S. iron and steel price levels plus transportation, duty and sur-charge. Accordingly, there would be no economic dislocation within Pakistan if a super-tying policy were ordered.

The U. S. is not a net importer of iron and steel and Pakistan has not placed orders for the extra \$25 million worth of iron and steel as yet; nevertheless, super-tying in the iron and steel loan would certainly arouse resentment from European countries and Japan and might create a precedent for trade restrictions ultimately more damaging to the U. S. than any possible short-range balance of payments benefits from this super-tying. In addition this super-tying in Pakistan, with the pricing spread being what it is, could back-fire politically at this delicate time in U. S. - Pakistani relations. We, therefore, recommend that there be no super-tying requirements in connection with the Pakistan loan, but we could instruct our mission to encourage Pakistan officials to treat all Pakistani purchasers alike by making the U. S. the sole source for certain basic iron and steel commodities.

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- 3 -

3. Recommendation:

I recommend against super-tying and recommend that you agree to the proposed memorandum to the President. My reasons for reaching these recommendations are:

- a. The Indian food picture looks grim, and the fertilizer will help,
- b. The provision of a loan to each will help the constructive elements in the two governments, and
- c. Super-tying is likely to be counterproductive of the essentially political aim of the two loans.
- d. We can get an extra \$13 million of fertilizer orders without incurring the onus of formal super-tying.

Approved: _____

Disapproved: _____

Date: _____

ATTACHMENT

~~CONFIDENTIAL~~

WGFarr CHRees:AA/NESA:NESA/SA:11/16/65

156b

~~CONFIDENTIAL~~

MEMORANDUM FOR: The Honorable George W. Ball
Acting Secretary of State
Department of State

SUBJECT: Fertilizer Loan to India; Steel Loan to Pakistan

Attached is a draft memorandum to the President recommending (a) a \$50 million loan to India to finance fertilizer purchases in the U. S. on condition that India immediately purchase an additional \$48.6 million of fertilizer with its own foreign exchange and (b) a commensurate \$25 million loan to Pakistan to finance iron and steel purchases in the U. S. for civilian purposes on condition that Pakistan purchase an additional \$25 million of similar iron and steel products with its own foreign exchange. Secretary Freeman has agreed to the proposed fertilizer loan. NEA supports both loans.

We have considered requiring India and Pakistan to make their matching purchases in the U. S., but we have decided against such a requirement in this case. Any such super-tying of our aid would be deeply resented by our consortium partners, particularly Germany and Japan, and could be counterproductive in India and Pakistan to the political benefits we hope to reap from the two loans. India will purchase over \$13 million of its self-financed fertilizer procurement in the U. S. without any super-tying requirement. The U. S. is a net importer of most of the remaining \$35.6 million of fertilizer products India needs. Requiring India to satisfy those needs by purchases in the U. S. would not help our balance of payments since we would have to import like amounts to replace the fertilizer sold to India.

DECLASSIFIED
E.O. 13292, Sec. 3.4
By jc, NARA, Date 3-30-07

~~CONFIDENTIAL~~

GROUP 3
Downgraded at 12 year
intervals; not
automatically declassified

~~CONFIDENTIAL~~

- 2 -

I recommend that you send the proposed memorandum to the President. The Indian food picture looks grim, and the fertilizer will help. The provision of a loan to each will help the constructive elements in the two governments. At the same time, we will not be giving up our major economic leverage with respect to either India or Pakistan.

David E. Bell

ATTACHMENT

WGFarr/st:bp:AA/NESA:11/17/65

Clearance: WBMacomber, AA/NESA _____

~~CONFIDENTIAL~~

156c

~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Fertilizer Aid to India; Steel Loan to Pakistan

Recommendation:

That you authorize (a) an A.I.D. loan of \$50 million for India for import of fertilizer, provided that India promptly imports with other funds at least \$48.8 million additional fertilizer; and (b) an A.I.D. loan of \$25 million for Pakistan for import of iron and steel, provided that Pakistan promptly imports with other funds at least \$25 million additional iron and steel.

Approve _____ Disapprove _____

David Bell joins me in the above recommendation. Secretary Freeman concurs in that part of the recommendation relating to fertilizer for India. Subject to your concurrence, we will consult with Congressional leaders before proceeding.

The Rationale:

The arguments against any new loan to India at this time are cogent. The reasons for the proposal would not be sufficient, in my judgment, to outweigh the disadvantages except for the fact that

- action does not irrevocably commit us to a course; it leaves us many pressure points for later use, while
- failure to act will have an irreversible affect on India's food production next year, and probably will have an adverse effect beyond next year,
- a fertilizer loan would directly support our pressure on India to grow more food, and underline the economic intent of our month-by-month policy on PL 480,
- a \$50 million loan is likely to result in more than \$63 million procurement of fertilizer from the U.S. during this last quarter of 1965, thus benefiting our balance of payments situation.

GROUP 3

Downgraded at 12 year intervals; not automatically declassified

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DECLASSIFIED

E.O. 13292, Sec. 3.4

State Dept. Guidelines

By ja, NARA, Date 3-30-01

CONFIDENTIAL

- 2 -

I have also concluded that, if the loan is made to India, it would be essential that we take some commensurate action regarding Pakistan. The most appropriate such action would be the provision of a \$25 million loan for import of iron and steel from the U.S., for civilian use, with the understanding that Pakistan would import a like amount using its own foreign exchange. These imports would help sustain at least a minimum level of industrial production and employment.

Background:

India must buy and ship by December any imported fertilizer which it wishes to have in the hands of Indian farmers for next year's major crop, planting for which begins in May. Largely as a result of prodding by the U. S., Indian fertilizer imports increased sharply from about 225,000 tons equivalent of nitrogen for 1964 to about 350,000 tons for 1965. With some increase in internal production, the import of a further 350,000 tons for the next crop year would provide for increased total supplies.

India had planned to finance about two-thirds of the next 350,000 tons under an A.I.D. loan. Their financing plan for fertilizer imports totalled \$98.6 million of which they anticipated A.I.D. loan financing of \$63 million, leaving \$35.6 million to be financed from their own foreign exchange to purchase fertilizer products not appropriate for A.I.D. financing because the U. S. is a net importer or for other reasons.

The Government of India has indicated that in its present tight situation it cannot reallocate its own exchange to finance all or even part of the fertilizer imports that they had planned to assign to the A.I.D. loan. If this position holds, fertilizer imports would drop to less than one-third of last year, and total fertilizer supply to farmers would go down not up. Indian foreign exchange reserves are low. The latest reports show reserves at about \$510 million or only \$90 million above the statutory minimum required as backing for Indian currency.

Pros and Cons:

Con

- Provision of substantial economic aid prior to a firm cease-fire and withdrawal, let alone prior to the beginning of political talks, could weaken our pressure on India to move in a favorable direction.

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- 3 -

- The loan to India would have to be accompanied by a similar, smaller loan for Pakistan or else we run a severe risk of strengthening the position of extremists in the Government of Pakistan.

- Although India's foreign exchange reserves are lower than desirable, (approximately enough to cover four months of imports under normal circumstances) they are over \$500 million and are expected to rise in the next several months. Pakistan has allowed its reserves to fall below the statutory minimum as an emergency step; India could dip into its reserves to purchase fertilizer.

- We are not able to judge India's current balance of payments and import picture with any accuracy because of the fluid situation. India probably will have over a billion dollars of its own earnings in various foreign currencies for the financing of imports in the coming year, after debt service. Undoubtedly India will use some of these funds for imports which we would consider to be a less priority than fertilizer. Increased imports of military equipment and of machinery and raw materials for military production in India are certain, and U. S. financing of fertilizer indirectly helps sustain them.

Pro

- A decline in fertilizer availability will accentuate India's food problems. The proposed \$50 million of fertilizer could yield over 1,500,000 tons of foodgrains. If the fertilizer is not provided, the U. S. will be called on to provide the foodgrains instead. If we should respond favorably, the foodgrains would cost about twice as much as the fertilizer.

- Although a good deal remains to be done, India has taken steps toward tackling its food problem. Positive elements include:

- Improved prospects for three new private fertilizer plants which, with one now under construction, would up India's production 80 per cent.
- Identification of new high yielding seeds which India is importing in increasing amounts and is vigorously multiplying.
- Inauguration of price incentives for producers of wheat, rice, corn and sorghums.
- Forceful public statements by Shastri and other leaders of the need to strive for food self-sufficiency.

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- 4 -

- A hiatus in fertilizer supply would interrupt this momentum toward agricultural improvement. This would be undesirable. It would also hurt Subramaniam, Minister of Food and Agriculture, who is emerging as the most able and most pro-American of the Shastri ministers. Subramaniam has recently stated publicly that U. S. and Indian interests coincide in increasing Indian output.

- The provisions of \$50 million would constitute but a highly limited and selective relaxation of our economic aid position. The United States provided \$265 million of commodity aid in the last Indian fiscal year, and the Indians had been hoping for at least as much this year. The proposed loan would not relieve significantly the pressure on India's foreign exchange, particularly because of the proposed requirement that India match the U. S. financing.

- In the case of both India and Pakistan, the requirement that the U. S. loan amount be matched would act to cut down the use of their own resources to finance military imports.

George W. Ball

WGFarr:bp:AA/NESA:11/17/65

~~CONFIDENTIAL~~

CONFIDENTIAL

November 18, 1965

John *157*

RWK:

Farr says he'll get to us by the weekend an Indian food recommendation for another 500,000 tons. Frankly, since he hasn't yet cleared USDA or State with it, I wonder whether he isn't promising more than the bureaucracy will turn out. But I've asked Carol Laise to speed it out of State. I'll call again in the morning.

While the amount is the same as last month's, Farr hopes to increase it in effect by getting the agreement out sooner, thereby shortening the period it has to cover. He'd also propose going for the next one in three weeks. This is one way of beginning to build against the expected crisis, *and give all for avoiding another cliff-hanger.* However, negotiating every three weeks may just irritate the Indians, so maybe next time we should just think of adding 100,000 tons to begin the buildup. Maybe we should try 600,000.

H.
HHS

DECLASSIFIED
E.O. 12958, Sec. 3.4
NSC Memo, 1/30/25, State Guidelines
By *jc*, NARA, Date 3-30-01

CONFIDENTIAL

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158

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

1. Bundy
→ 2. Kowal

RECEIVED
MR. GEORGE BALL'S OFFICE

OFFICE OF
THE ADMINISTRATOR

DECLASSIFIED

Authority Group 4
By JC NARA, Date 3/30/01

1965 NOV 18 PM 5 46
NOV 1 1965

MEMORANDUM FOR: The Honorable George W. Ball
Acting Secretary
Department of State

In des Food

SUBJECT: Prospective Food Crisis in India

We have an AID/Department of Agriculture/NEA task force working on this problem to collect all available facts, describe alternative courses of action and recommend action and contingency plans.

The crop reports do not look good and suggest that production may be three to six million tons down from last year. Estimates do not suggest that production would fall as low as that of two years ago in absolute terms, but, considering the 20-24 million population increase in the two year interim, there may be a per capita decline. You recall the food riots resulting from the crop of two years ago and the strains these riots imposed on the Indian government.

The crop reports may not be much more precise for some weeks, because the harvest is underway and because December rains are critical to the spring crop. Thus, one of the problems we have to face is that, while the reliability of crop estimates increases with time, the chance of shipping larger tonnage before the crisis, if one occurs, decreases with time.

Our tentative review of field reports, and consultation with a Department of Agriculture officer recently returned from India, leads to a probable grain import requirement for India for the next year of 10 million tons. Only about one million tons of this could be supplied from non-U.S. sources. In the recent past grain imports have been flowing at an annual rate of about seven million tons (of which about six million has been from the U.S.).

We are also exploring the logistical problems involved if imports of 10 million tons were required. The Indian port bottleneck is the tightest constraint, with an apparent maximum annual capacity of 8.5 million tons of grain. Department of Commerce experts looked into the grain handling limitations of India's ports at our request last year. They are again reviewing their findings to come up with recommendations to increase port capacity.

GROUP 4
Downgraded at 3 year
intervals; declassified
after 12 years

DEB
David E. Bell

~~CONFIDENTIAL~~

NOV 19 1965

159

Mr. Komer:

As requested -- the final version as
it went out.

dolores

Dolores Food

NOV 18 1965

~~SECRET~~

Wednesday
November 17, 1965
11:15 a.m.

159a
Cy sent
to Secy
Freeman

MEMORANDUM FOR THE PRESIDENT

1. I spoke to Orville Freeman this morning about getting the Indian Agricultural Minister, Subramaniam, over here. Orville is going to an international agricultural meeting in Rome this week, and will be seeing Subramaniam there. He has undertaken to explore the matter fully, and he strongly supports the basic idea of the Subramaniam visit.
2. Orville pointed out that Subramaniam might find it difficult to come if there were no prospect that he could reach any understanding on help for Indian agriculture -- because for him to go home empty-handed -- as a well-known friend of the United States -- might be politically tough. I told Orville that you were not ready to give any blank checks on this, and that I thought he should make his own estimate in the light of all the evidence as to whether it was likely that Subramaniam's visit would lay a base for a hard-boiled recommendation that limited interim assistance be given in such a matter as, for example, for fertilizer.
3. Orville and I agreed that your own freedom of action should be protected, but I pointed out that you had repeatedly emphasized in the last week that you were looking to the Department of Agriculture for determined efforts to make sure that every single action of the United States in the food aid field was effectively related to agricultural self-help by the receiving country. I said that I thought that since this was your position, you would be prepared to give due weight to a really well-considered and carefully limited recommendation growing out of a Subramaniam visit -- if it had the signature of the Secretary of State for policy, the Secretary of Agriculture for food, the Secretary of the Treasury for dollar drain, and the Directors of AID and the Budget from their points of view. I said that the loans in question had no balance-of-payments import that I could see, so that I thought Freeman himself was the key figure.
4. On this basis, Freeman undertook to have a hard talk with Subramaniam in Rome and make a judgment on the visit at that time. We agreed to report this plan to you in case you had any objection to it.

~~SECRET~~

DECLASSIFIED

Authority: FRS 64-68, vol. 25, #249

By pk NARA. Date 3-29-04

NOV 18 1965

5. I have since talked to Komer about my conversation with Freeman, and he believes that Subramaniam can fairly easily come here for a 'planning' visit without taking any commitments home with him, if it seems better to you when the time comes to play it that way. Moreover, Komer thinks that in the light of the very bad Indian harvest, straight food shipments may turn out to be more important right now, both to the Indians and to us, than fertilizer. So I have agreed again with Freeman that he should be sure to give absolutely no assurance that a visit here would lead to a specific prize for Subramaniam.

6. Meanwhile, a cable is going to Bowles telling him to explain politely to Shastri that while you would like to receive him at any time, and quite understand that he cannot come in December, the dates proposed in the first weeks of January are difficult for the reasons you stated to me yesterday. Bowles is requested to suggest to the Indians that Shastri propose himself for any date that is convenient to him after January 20.

7. We are also going forward to make sure that Ayub knows he will be welcome on agreed dates in December -- if indeed he still wants to come then.

McG. B.

SECRET

INDIA: Agriculture Production, P.L. 480, Population
1957-1965

| | <u>1956/57</u> | <u>1957/58</u> | <u>1958/59</u> | <u>1959/60</u> | <u>1960/61</u> | <u>1961/62</u> | <u>1962/63</u> | <u>1963/64</u> | <u>1964/65</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Agriculture Production ^{a/} (000 Metric tons) | 72.3 | 66.5 | 78.7 | 76.6 | 80.9 | 81.0 | 78.5 | 79.4 | 87.0 |
| P.L. 480 Total ^{b/} | 2.0 | 1.9 | 3.6 | 3.5 | 3.8 | 2.3 | 3.9 | 4.9 | 6.6 |
| Population (Millions) | 406 | 414 | 423 | 433 | 444 | 454 | 466 | 477 | 489 |

Indices 1956/57 = 100

| | | | | | | | | | |
|------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Agriculture Prod | 100 | 93 | 110 | 107 | 112 | 113 | 108 | 109 | 121 |
| P.L. 480 | 100 | 97 | 181 | 175 | 189 | 114 | 194 | 244 | 327 |
| Population | 100 | 102 | 104 | 106 | 109 | 111 | 115 | 117 | 120 |

^{a/} Source: USDA

^{b/} Source: MR/FFP and USDA

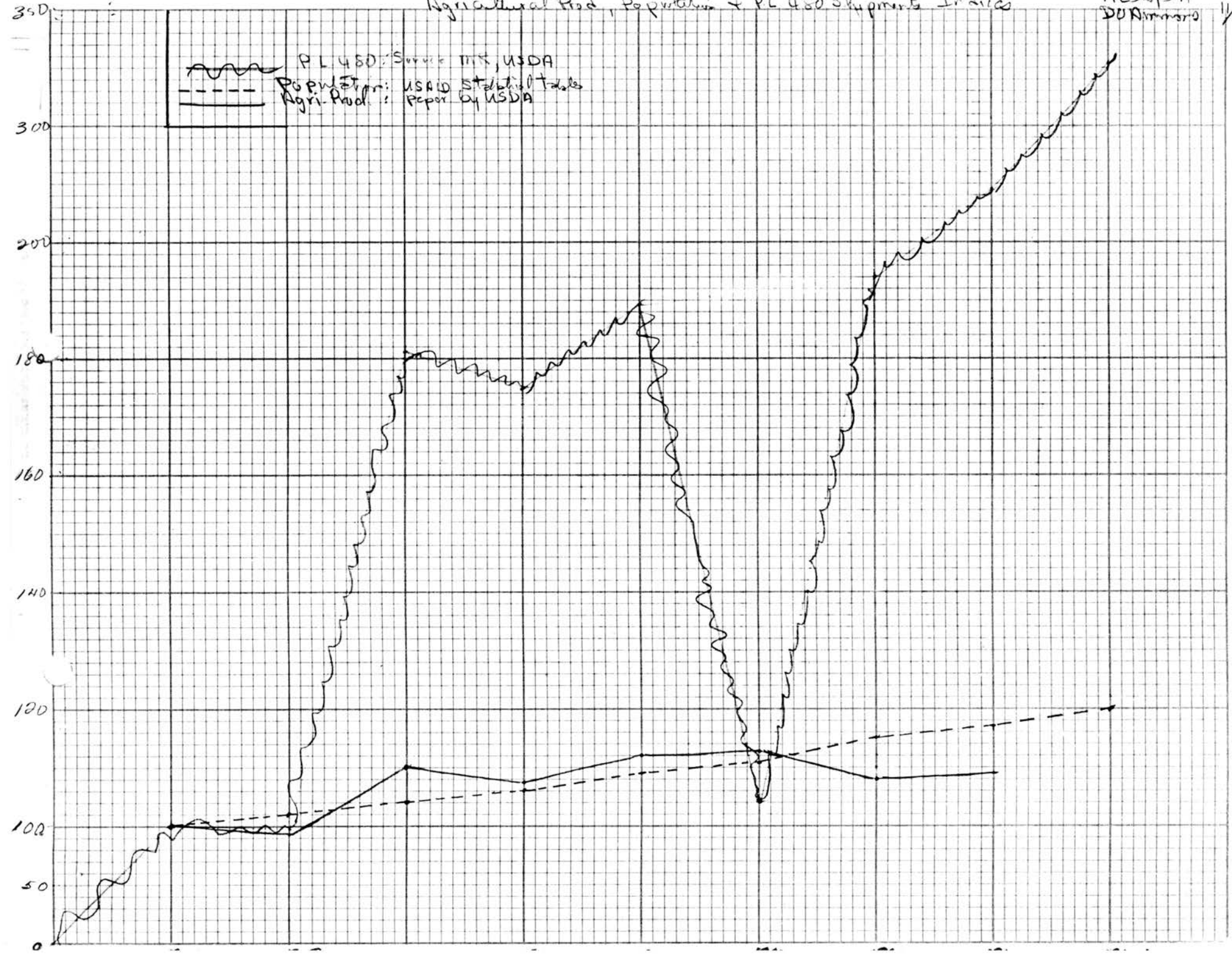
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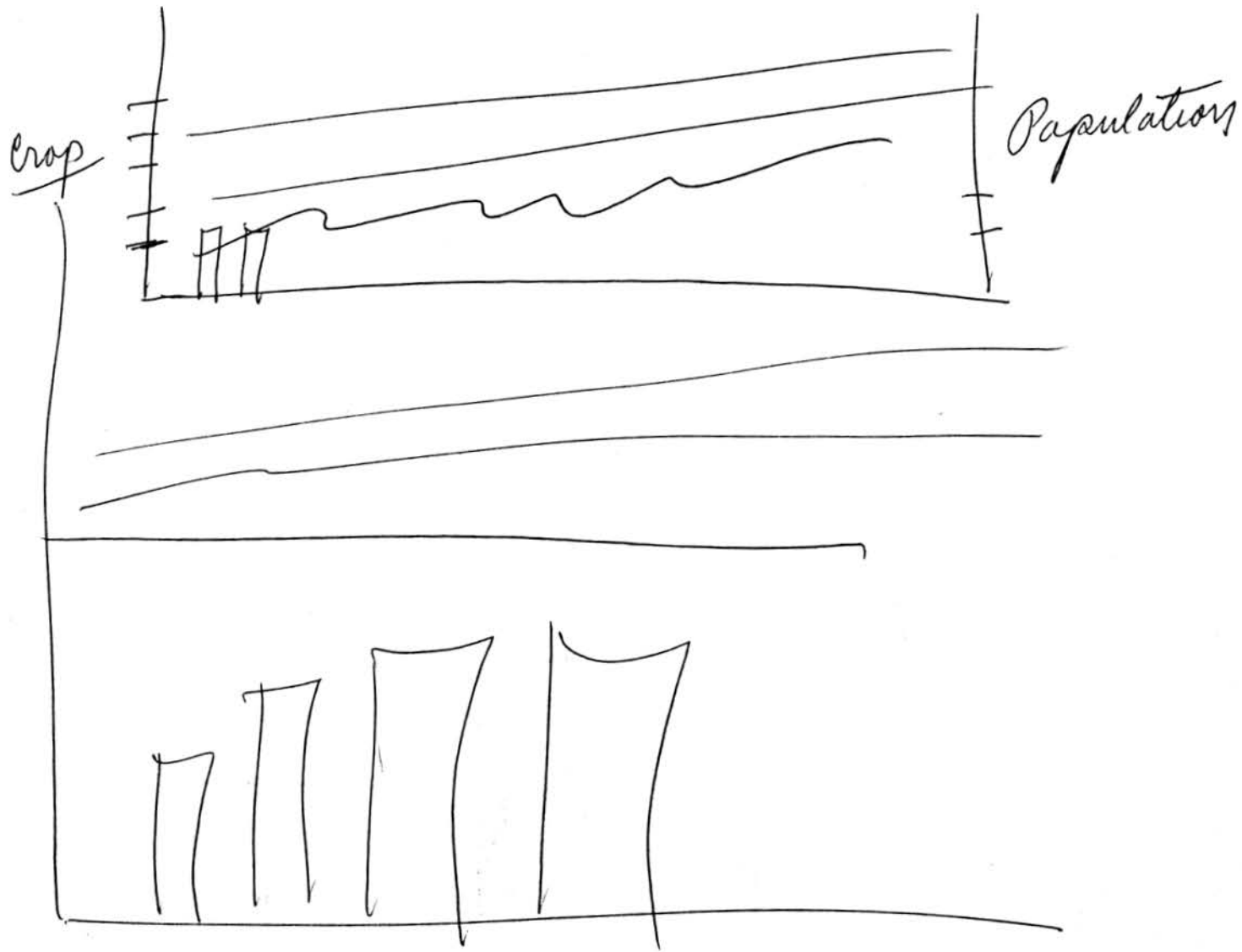
John F. ...

Agricultural Prod, Population + PL 480 Shipments Indices

NESD/SA
DU Rimmario 1/4/65

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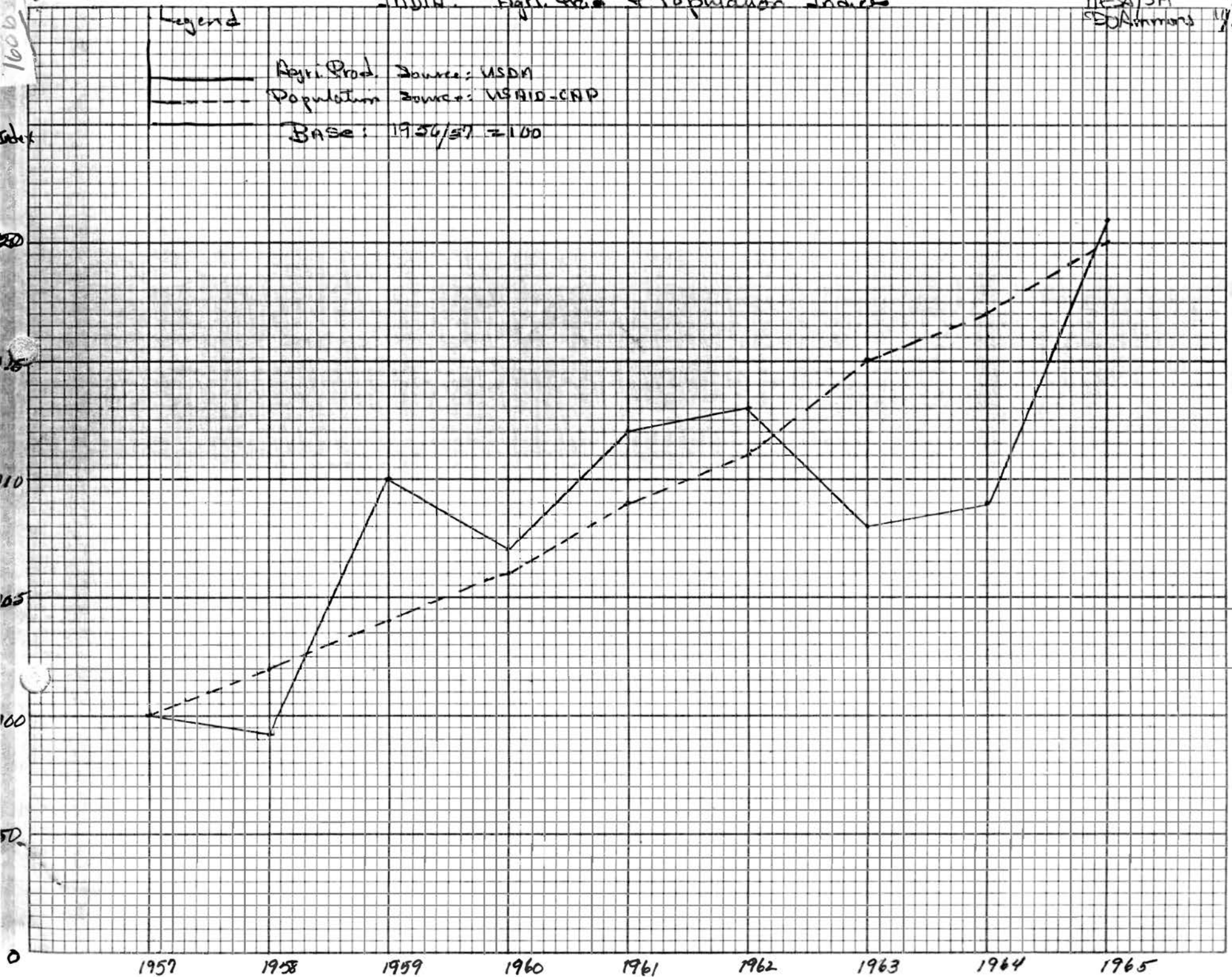
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INDIA: Agri Prod + Population Indices

NEA/SA
E.A. Ammons 11/4/65
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Agri Prod. Source: USDA
Population Source: USAID-CAP
Base: 1956/57 = 100



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INCOMING TELEGRAM Department of State

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- BUNDY-SMITH
- BATOR
- BOWDLER
- BOWMAN
- CHASE
- COOPER
- JESSUP
- JOHNSON
- KEENE
- ROMER
- MOODY

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*Indians
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Authority State Hr. 117/77
 By JLR NARA. Date 3-29-01

1. APPRECIATE BACKGROUND MESSAGE EXPLAINING DELAY IN ESTABLISHING LONGER-TERM PL480 AGREEMENT. WE HAVE BEEN DOING OUR UTMOST TO PERSUADE INDIANS THAT OUR RELUCTANCE TO NEGOTIATE SUCH AN AGREEMENT AT THIS TIME DOES NOT REPRESENT AN EFFORT TO BRING POLITICAL PRESSURES TO BEAR ON INDIA, AND YOU CAN COUNT ON OUR CONTINUED EFFORTS.

2. I WOULD BE LESS THAN CANDID, HOWEVER, IF I DID NOT POINT OUT THAT KNOWLEDGEABLE INDIANS DO NOT FIND THIS LINE OF ARGUMENT

PAGE TWO RUSBAE 305A C O N F I D E N T I A L
 PERSUASIVE, AND THAT WE OURSELVES ARE PERPLEXED BY IT, FOR THE FOLLOWING REASONS:

A. FOR THE LAST TWO YEARS THIS MISSION HAS BEEN EMPHASIZING THAT INCREASED AGRICULTURE OUTPUT IS INDIA'S PRIMARY NEED. OUR EFFORTS INCLUDED A MAJOR FERTILIZER ANALYSIS AND PROPOSAL IN JANUARY 1964 WHICH WAS FOLLOWED BY OUR INVITATION TO SECRETARY FREEMAN TO VISIT INDIA IN APRIL 1964. SUBRAMANIAM'S APPOINTMENT AS FOOD MINISTER SHORTLY THEREAFTER REFLECTED GROWING CONVICTION OF GOI THAT AGRICULTURE DESERVED TOP PRIORITY.

B. SINCE THEN THE INDIANS HAVE TAKEN NUMBER OF VIGOROUS STEPS, MANY OF THEM AT OUR SPECIFIC URGING, TO EXPAND AGRICULTURAL PRODUCTION, PARTICULARLY IN FOOD GRAINS OUTPUT WHICH IN LAST FISCAL YEAR ROSE 10 PERCENT ABOVE PREVIOUS ALL-TIME HIGH. THESE STEPS INCLUDED THE FOLLOWING:

(1) ON NOVEMBER 1, 1964, WITH SPECIFIC HELP FROM US DEPT. AGRICULTURAL TEAM GOI INSTITUTED PRICE SUPPORT PROGRAM FOR WHEAT, RICE, CORN AND SORGHUMS TO PROVIDE INCREASED INCENTIVES FOR PRODUCTION.

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-2-, 1201, November 5, From New Delhi (SECTION ONE OF TWO)

WHILE SUPPORT LEVELS WERE SOMEWHAT LOWER THAN WHAT WE URGED, THEY ARE ALL ABOVE THOSE OF US FOR SAME COMMODITIES. SUPPORT PRICES ON WHEAT WERE PEGGED AT 32 PERCENT ABOVE HIGHEST PREVIOUS LEVELS. PRICES FOR RICE WERE SET JUST ABOVE THE RECENTLY INCREASED AVERAGE MARKET PRICE LEVEL OF LAST THREE SEASONS AND SIGNIFICANTLY HIGHER THAN ANY SUPPORT PRICES PREVIOUSLY OFFERED BY GOI ON THESE KEY COMMODITIES.

PAGE THREE RUSBAE 305A ~~CONFIDENTIAL~~

(2) LAST JANUARY AT OUR SUGGESTION AND WITH OUR HELP GOI ESTABLISHED AN AUTONOMOUS FOOD GRAIN CORPORATION TO IMPLEMENT PRICE SUPPORT PROGRAM, PROVIDE MORE STORAGE, AND MOBILIZE AND DISTRIBUTE AGRICULTURAL COMMODITIES- -T.V. PAI, THE ABLE INDIAN BUSINESSMAN WHO SUBRAMANIAM APPOINTED HEAD OF THIS CORPORATION, AGREED IMMEDIATELY TO GO TO US FOR THREE MONTHS TO STUDY OUR CCC AND MARKETING TECHNIQUES. SINCE HIS RETURN HE HAS BEEN MAKING STEADY PROGRESS IN THE ORDERLY DISTRIBUTION OF DOMESTIC AND IMPORTED GRAIN WITH CONTINUING GUIDANCE PROVIDED BY USDA EXPERTS.

(3) IN RESPONSE TO OUR URGING GOI HAS ALSO AGREED TO GIVE MUCH HIGHER PRIORITY TO FERTILIZER. ITS CURRENT GOAL FOR DOMESTIC PRODUCTION IS A MINIMUM 2.4 MILLION TONS OF NITROGEN BY 1970-71.

ACTUAL INSTALLED FERTILIZER CAPACITY HAS RISEN FROM 250,000 TONS IN 1963 TO 450,000. WITH PLANTS NOW UNDER CONSTRUCTION INSTALLED CAPACITY WILL RISE TO 800,000 TONS BY 1967. IN OTHER WORDS WITH INSTALLED FERTILIZER CAPACITY OF PROJECTS NOW ACTUALLY UNDERWAY INCREASE WILL HAVE BEEN MORE THAN THREE-FOLD.

IN ADDITION NEGOTIATIONS ARE PRESENTLY IN PROCESS FOR THE BUILDING OF ADDITIONAL FERTILIZER PLANTS. THESE INCLUDE ALLIED CHEMICALS AT KHOTAGUDUM, AMERICAN OIL COMPANY AND NATIONAL IRANIAN OIL COMPANY AT MADRAS, IMPERIAL CHEMICAL AT KANPUR, BIRLA-ARMOUR COMPANY FOR GOA (G.D. BIRLA INFORMED ME THIS AFTERNOON THAT THIS ONE IS ALL SET) AND JAPANESE AND AMERICAN FIRMS AT KOTAH. THESE PLANTS AND OTHER UNDER NEGOTIATION WOULD ADD MORE THAN 900,000 TONS IN TERMS OF NITROGEN BY 1970.

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AR RUSBAE 305A ~~CONFIDENTIAL~~
GOI HAD ALSO AGREED TO IMPORT FROM 350,000 TO 400,000 TONS OF FERTILIZER (NITROGEN) IN THE CURRENT FISCAL YEAR, ABOUT 2/3 OF WHICH WOULD BE PAID FOR BY US NON-PROJECT LOANS IN THE FY 66 BUDGET.

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-3-, 1201, November 5, From New Delhi (SECTION ONE OF TWO)

(4) AT SAME TIME, GOI HAS EMBARKED ON EXTENSIVE CRASH PROGRAM OF SEED IMPROVEMENT. DRAWING ON EXTRAORDINARY RESULTS OF THE ROCKEFELLER FOUNDATION EXPERIMENTS AT THE INTERNATIONAL RICE RESEARCH INSTITUTE IN THE PHILIPPINES, THE GOI HAS EMBARKED ON COMPREHENSIVE NEW SEED PROGRAM WHICH ALSO COVERS HYBRID CORN, WHEAT, AND SORGHUM SEED OF HIGH-YIELDING VARIETIES.

ABOUT 3,500 ACRES OF HARDY NEW RICE VARIETIES WHICH HAVE BEEN GIVING BETTER THAN 5,000 POUNDS OF RICE PER ACRE IN THE PHILIPPINES HAVE ALREADY BEEN PLANTED IN INDIA TO PROVIDE SEED FOR NEXT SUMMER'S PLANTING.

BY THE END OF 1970-71 GOI EXPECTS TO INTRODUCE THESE NEW VARIETIES TO SEED APPROXIMATELY 40 MILLION ACRES OF RICE AND 10-11 MILLION ACRES OF WHEAT.

THE INCREASE IN OUTPUT FROM THESE NEW SEED VARIETIES ALONE IS EXPECTED TO PRODUCE ABOUT 25 MILLION TONS, ON ASSUMPTION ADEQUATE FERTILIZER SUPPLY. CREDIT ARRANGEMENTS FOR SEED PRODUCERS ARE ALSO BEING PROVIDED.

(5) GOI HAS ALSO BEEN ENGAGED IN EXTENSIVE PROGRAM FOR FURTHER DEVELOPMENT AND MORE EFFECTIVE UTILIZATION OF WATER RESOURCES.

PAGE FIVE RUSBAE 305A ~~C O N F I D E N T I A L~~
IN LAST FIVE YEARS LAND BROUGHT UNDER IRRIGATION HAS INCREASED FROM 70 MILLION ACRES TO 87 MILLION. BY 1970-71 A FURTHER RISE TO 110 MILLION ACRES HAS BEEN TARGETED.

TO MEET THIS GOAL A LARGE-SCALE PROGRAM IS UNDERWAY FOR CONSTRUCTION OF DAMS, CANALS AND WELLS AND FOR CONSTRUCTION OF IMPROVED DRAINAGE FACILITIES. IN THE STATE OF UTTAR PRADESH ALONE SOME 98,000 WELLS FOR IRRIGATION WERE DUG LAST YEAR. THIS YEAR'S TARGET 128,000 WHICH WILL WATER APPROXIMATELY ONE MILLION ADDITIONAL ACRES.

(6) GOI HAS ALSO INTENSIFIED ITS EFFORTS IN AGRICULTURAL EXTENSION. TWENTY TRAINING CENTERS FOR VILLAGE LEVEL WORKERS (VLW'S) HAVE BEEN UPGRADED TO PROVIDE SPECIALIZED AGRICULTURAL TRAINING FOR HUNDREDS OF VLW'S. ANOTHER 30 CENTERS ARE TO BE UPGRADED DURING COMING YEAR.

DURING THE CURRENT GROWING SEASON A NATIONWIDE PROGRAM OF 500 FOOD PRODUCTION DEMONSTRATIONS HAS BEEN PUT INTO OPERATION THROUGHOUT INDIA. RESEARCH INSTITUTES AND AGRICULTURE COLLEGES ARE DEMONSTRATING TO THOUSANDS OF EXTENSION WORKERS RESULTS OF RESEARCH AND TECHNICAL KNOWLEDGE ALREADY PROVED.
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INCOMING TELEGRAM *Department of State*

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FROM: NEW DELHI
ACTION: SECSTATE PRIORITY 1201
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LONDON 389
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DATE: NOVEMBER 5 (SECTION TWO OF TWO)

AS PART OF THIS MOVEMENT GOI IS ALSO POPULARIZING IDEA OF "TONNAGE CLUBS" WITH SUITABLE REWARDS TO PROGRESSIVE FARMERS WHO ACHIEVE YIELDS OF 2, 3 OR 4 TONS PER ACRE. FOUR ADDITIONAL JAPANESE DEMONSTRATION FARMS WERE LAUNCHED IN 1964-65 TO SHOW INDIAN FARMERS CULTIVATION METHODS EMPLOYED IN JAPAN TO ATTAIN MAXIMUM YIELDS. THERE ARE NOW 8 SUCH FARMS. PLANS ARE UNDERWAY TO EXPAND THE FORD FOUNDATION "PACKAGE DISTRICT" EXPERIMENTS (PRESENTLY 16) TO COVER THE 80 MOST PRODUCTIVE DISTRICTS (THERE ARE 315 DISTRICTS IN ALL).

(7) UNDER SUBRAMANIAM'S ABLE LEADERSHIP GOI IS ALSO SEEKING TO IMPROVE ADMINISTRATION OF AGRICULTURE AND IS REVISING AND STREAMLINING ITS AGRICULTURAL RESEARCH. NUMBER OF DECENTRALIZED COMMODITY RESEARCH AGENCIES HAVE BEEN ABOLISHED AND MORE POWERS HAVE BEEN GRANTED TO INDIAN COUNCIL AGRICULTURAL RESEARCH, WHICH FOR FIRST TIME IS NOW IN CHARGE OF TOP-NOTCH SCIENTIST-ADMINISTRATOR.

3. TWO SPECIAL PROBLEM AREAS WHICH REMAIN ARE INADEQUATE FERTILIZER IMPORTS AND RESTRICTIVE MARKETING ZONES WHICH HAVE BEEN SET UP TO PROVIDE ORDERLY DISTRIBUTION.

A. IN REGARD TO FERTILIZER IMPORTS, THEY ARE BLOCKED BY OUR FREEZE ON NON-PROJECT LOANS. THE \$63 MILLION WHICH WE HAD PLANNED TO MAKE AVAILABLE FOR THIS FISCAL YEAR WOULD HAVE PURCHASED ROUGHLY 250,000 TONS OF NITROGEN WHICH COULD BE EXPECTED TO ADD 2.5

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-2- 1201, NOVEMBER 5 (SECTION TWO OF TWO), FROM NEW DELHI

MILLION ADDITIONAL TONS OF RICE AND WHEAT TO NEXT SUMMER'S CROP.

WITH FOREIGN EXCHANGE RESERVES WELL BELOW DANGER LEVEL, GOI SIMPLY DOESN'T HAVE THE RESOURCES TO PURCHASE THIS FERTILIZER. THAT IS WHY I HAVE RECOMMENDED, AND HEREBY RECOMMEND AGAIN, THAT WE RELEASE THE NECESSARY FUNDS SO THAT INDIANS CAN PROCEED TO DO WHAT WE HAVE BEEN URGING THEM TO DO. UNLESS THIS FERTILIZER IS ORDERED SOON IT WILL NOT BE AVAILABLE FOR THE CROPS THAT WILL BE PLANTED NEXT SPRING.

IT MAY BE ARGUED WITH SOME VALIDITY THAT INDIANS HAVE NOT DONE ALL THEY COULD TO ATTRACT FOREIGN PRIVATE CAPITAL FOR ESTABLISHMENT OF ADDITIONAL DOMESTIC FERTILIZER PLANTS. HOWEVER, THIS SITUATION IS BY NO MEANS BLACK AND WHITE. FOR INSTANCE, THE FAILURE OF THE BECHTEL CONSORTIUM PROPOSAL (WHICH WE STIMULATED) WAS DUE AT LEAST AS MUCH TO UNREASONABLE DEMANDS OF THE TWO OIL COMPANIES AS TO SHORTCOMINGS OF GOI. THIS HAS BEEN FULLY ADMITTED TO US AND TO THE INDIANS BY REPRESENTATIVES OF BECHTEL CONSORTIUM.

B. WE HAVE ALSO BEEN PRESSING GOI TO BUILD UP BUFFER STOCKS SO THAT THEY CAN ELIMINATE PRESENT RESTRICTIONS ON MOVEMENT FOOD GRAINS FROM ONE STATE TO ANOTHER. BUT ONCE AGAIN IT IS OUR OWN UNWILLINGNESS TO MAKE LONG-TERM PL480 COMMITMENTS WHICH HAS BEEN PREVENTING ACHIEVEMENT THESE OBJECTIVES.

LAST SPRING WE HAD WORKED OUT AN AGREEMENT WITH GOI FOR BUILDING UP BUFFER STOCKS AND ELIMINATING ZONAL RESTRICTIONS ON ASSUMPTION THAT LONG-TERM PL480 AGREEMENT WOULD PROVIDE ASSURED SUPPLIES. WHEN THIS LONG-TERM AGREEMENT FELL THROUGH, THE PROSPECT OF ELIMINATING ZONAL RESTRICTIONS WAS FIRST CASUALTY.

SOME HAVE ARGUED THAT GOI CAN AND SHOULD ELIMINATE THESE ZONAL RESTRICTIONS EVEN IN ABSENCE SUBSTANTIAL RESERVE STOCKS TO ASSURE EQUITABLE DISTRIBUTION. BUT ANYONE FAMILIAR WITH REALITIES OF SITUATION HERE MUST AGREE THAT THIS INVOLVES POLITICALLY UNACCEPTABLE RISKS.

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-3- 1201, NOVEMBER 5 (SECTION TWO OF TWO), FROM NEW DELHI

IF THE GAMBLE SHOULD FAIL, AS WE BELIEVE IT WOULD, SUBRAMANIAM, ONE OF THE ABLEST AND MOST PRO-AMERICAN MEMBERS OF SHASTRI GOVERNMENT WOULD BE DESTROYED POLITICALLY. UNDER CIRCUMSTANCES IF SUBRAMANIAM ASKED ME AS A FRIEND WHETHER HE SHOULD TAKE THE RISK WITHOUT ADEQUATE BUFFER STOCKS, I COULD NOT HONESTLY RECOMMEND THAT HE DO SO.

THE INDIAN GOVERNMENT CAN NO MORE IGNORE THE POLITICAL FACTS OF LIFE IN FASHIONING A FARM POLICY THAN WE CAN IN DEVISING A FARM POLICY FOR THE UNITED STATES.

4. IN VIEW OF THIS FACTUAL RECORD INDIANS ARE TOTALLY MYSTIFIED WHEN WE ATTEMPT TO EXPLAIN OUR UNWILLINGNESS TO SIGN LONG-TERM PL480 AGREEMENT ON GROUNDS OF INADEQUACY INDIAN AGRICULTURAL PERFORMANCE.

MINISTER SUBRAMANIAM WANTS TO GO TO THE US TO DISCUSS HIS POLICIES AND TO ANSWER WHATEVER QUESTIONS MAY BE BOTHERING US, BUT THIS SUGGESTION HAS BEEN REJECTED.

SUBRAMANIAM, WHO IS A MAN OF VERY GREAT ABILITY AND DEDICATION, GENUINELY BELIEVES HE CAN MAKE INDIAN AGRICULTURE SELF-SUFFICIENT IN FIVE YEARS AND IS DETERMINED TO DO SO. THROUGHOUT THIS DIFFICULT PERIOD HE HAS ACTED WITH GREAT DIGNITY AND UNDERSTANDING. WE HAVE DONE OUR BEST TO ANSWER HIS QUESTIONS BUT FRANKLY WE ARE NOW RUNNING OUT OF GAS.

5. PARAGRAPH 3 REFTEL INDICATED PREAMBLE AND ARTICLE IV DRAFT SALES AGREEMENT ENCLOSED AIDTO A-1842 (JUNE 18) LISTED MAJOR IMPROVEMENTS WHICH WE BELIEVED TO BE REQUIRED FOR ADEQUATE DEVELOPMENT OF INDIAN AGRICULTURE. MAY WE BE AUTHORIZED TO TELL SUBRAMANIAM THAT IF HE IS PREPARED FULFILL THESE PROVISIONS, UPDATED TO TAKE ACCOUNT DEVELOPMENTS SINCE DRAFT AGREEMENT FORMULATED, WE ARE PREPARED ENTER INTO NEW LONG-TERM PL480 AGREEMENT? IF NOT, PRECISELY WHAT MORE DO WE WANT GO! TO DO BEFORE WE CONCLUDE SUCH AGREEMENT?

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-4- 1201, NOVEMBER 5 (SECTION TWO OF TWO), FROM NEW DELHI

IT IS NO LONGER POSSIBLE FOR US TO TALK IN GENERALITIES ABOUT WHAT WE WANT GOI TO DO. THIS ONLY LEAVES US AND THEM CONFUSED AND CALLS INTO QUESTION INTEGRITY AND SINCERITY OF THE US GOVERNMENT WITH PEOPLE WHO ARE OUR DEDICATED FRIENDS AND SUPPORTERS.

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JOINT STATE/AID/USDA MESSAGE
FOR THE AMBASSADOR

India

~~BUNDY-SMITH~~
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1. In connection conclusion additional month's extension PL 480 agreement for 500,000 tons wheat, we believe desirable press home point that our short-term policy on PL 480 stems from our conviction India needs do more on domestic food front. We have been ~~Handley will be holding~~ ~~background~~ briefing ~~for~~ Indian correspondents here, ~~We hope you will~~ drawing on following rationale. We hope you will ~~be able~~ have similar sessions with Indian press. ~~We plan to draw on~~

2. USG considers problem of hunger and malnutrition among most serious facing world. Some experts estimate that current trends in population increase and agricultural production will, if continued, substantially intensify world food problem in future years. We are convinced that LDC's must make major effort develop their own agricultural sectors. Improvement in agriculture is key element of our policy in contributing to economic development of LDC's. US record in foreign economic aid, and specifically under Food for Peace, speaks for itself, but unless food-short countries do more to increase

Drafted by: NEA:SOA:SSoer:mlb 11/3/65

Telegraphic transmission and classification approved by: NEA - William J. Handley

Clearances:
AA/NESA - Mr. Farr
USDA/FAS - Mr. Eskildsen
MR - Mrs. Bittermann

NEA/P - Mr. Brown
P - Mr. McCloskey

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their own output it is questionable that external aid can fill future gap.

3. On India, outline of our concern sketched out Deptel 659, on which you can draw. Specifics of major improvements required Indian agriculture, as noted preamble and Art. IV draft sales agreement enclosed AIDTO A-1842 and also noted AIDTO 241, are well known to you. Complexity of agricultural economy requires that progress be made simultaneously on variety of fronts, such as increase in ~~availability~~^{availability} and application of fertilizer, use of water resource improved seed to complement country/programs, improvement agricultural extension services, effective administration of price incentives, and on range of measures on food distribution such as building up buffer stocks and increased reliance as feasible on market forces. We inclined attach particular importance to steps by GOI to increase domestic production of fertilizer and to priority to be given formulation and execution agricultural policy under Fourth Five-Year Plan.

4. It is not our intention criticize Shastri Government, which has inherited complex of agricultural problems built up over many years. Indeed, we are impressed by realistic views Food and Agriculture Minister Subramaniam and by recent encouraging signs that GOI recognizes urgency get on with improvements in agriculture. We would expect that this major problem would be broadly recognized as subject of legitimate concern to a friendly country which has been deeply involved in assistance to India's economic development effort, and that our concern would be considered in light of our continuing massive assistance India's current food needs.

SCP-EXEMPT .

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PERSONAL FOR AMBASSADOR FROM SECRETARY

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You will be receiving telegram authorizing you to negotiate thirty-day extension of food shipments to India. I know this will be disappointing to you but I would like you to know that this decision has been made at the highest level and that limited extension is result solely of our grave misgivings regarding past performance and present plans of Government of India for increased food production. The decision to extend food shipments for only thirty days has nothing RPT nothing to do with Kashmir and is not RPT not to be construed in any way as political leverage to force India into a political settlement with Pakistan. It is based on evidence available to the highest authority that a longer term extension, or a new agreement on PL-480, should not be undertaken until such time as the USG has convincing evidence of the GOI's determination to put its food house in order.

GP-3

END

RUSK

Drafted by: NEA:WJHandley:bw 10/29/65
Telegraphic transmission and classification approved by: The Secretary

NEA - Ambassador Hare

S/S - Mr. Thompson

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FORM DS-322

Authority FR 64-68 d. 25, 240

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By: jc NARA, Date 3-29-04

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RECEIVED
 McGEORGE BUNDY'S OFFICE
 DEPARTMENT OF STATE
 Executive Secretariat
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Jadva Egan

October 28, 1965

Date

FOR: Mr. McGeorge Bundy
 The White House

FROM: Benjamin H. Read
 Executive Secretary

RWK
How good is this memo?

For your information and files.

Enclosures:

Cy memo for President from
 John A. Schnittker, Under Secretary
 of Agriculture, 10/23/65

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How good is this memo?

McG B

DEPARTMENT OF AGRICULTURE
OFFICE OF THE UNDER SECRETARY
WASHINGTON 25, D.C.

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October 23, 1965

MEMORANDUM FOR THE PRESIDENT

The attached memorandum presents the case for making further food aid to India contingent on certain actions by the Indian Government.

Briefly it says that:

1. India has failed to live up to a commitment to this Government and to her own people, in failing to reach her food production goals.
2. India has not given fertilizer and food production the attention or the investment promised in her plans and required by her people.
3. India's key failures have been in fertilizer, pesticides, producer incentives, credit, and seed varieties.
4. For the future (and aside from population policy) fertilizer production is the crucial factor. Better performance will require a dramatic approach -- one not at all apparent in India's plans today.
5. The U.S. must use all possible leverage to improve India's performance. Food assistance must be contingent on specific actions which are in the interest of India and the Free World, but which India will not take of her own accord.

This approach is equally applicable to other developing areas, although the urgency and the techniques will vary.

I know that Secretary Freeman, who is on his way to the Midwest Democratic Conference this weekend, is in general accord with this memorandum.

John A. Schnitker
Under Secretary



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STATEMENT ON INDIA

The Government of India has repeatedly stated its intentions to speed agricultural improvement and to become self-sufficient in food production. These good intentions have been a key feature of India's five-year plans. Yet the gap between India's food production and her food needs is widening at a rate which is increasing from year to year.

During the early 1960's the United States shipped only 3 million tons of wheat per year to offset India's food deficit. Last year we shipped 6 million tons of wheat (225 million bushels) — nearly one-fifth of our wheat crop. This requirement was placed upon the United States despite a record grain crop in India last year.

This year India's food import needs will be even greater. Food grain production per person will be below the average of the past 10 years.

The Record

India has made some gains in food production, but the gains must be assessed against her needs and her targets.

Food grain output increased from 78 to 87 million tons per year during the Third Plan period. But the target — and the need — was 100 million tons. The actual increase was less than half the planned increase.

Nitrogen fertilizer production has increased to 300,000 tons per year by the end of the Third Plan. But the target was 800,000 tons. Other failures include production of pesticides at only a fraction of needs; inadequate distribution of improved seed varieties; a lack of enough credit on terms cultivators can afford; and a belated and inadequate improvement in producer incentives.

This record of limited progress these past five years must be assessed as a failure in the light of India's objectives. Yet 6 years ago, in signing a long term agreement to supply India with

some 16 million tons of wheat over 4 years under the Food for Peace program, this Government was assured by the Government of India that the necessary steps would be taken to improve her agriculture and to reduce her dependence on imported food.

India did not deliver on this assurance. And the U.S. did next to nothing to require India to do so.

The Future

If India had been making and were making today an adequate effort to improve her own agriculture, the gap between food needs and food production would be narrowing. Instead, it is widening.

Compassion for the future of the people and the nation of India demands a greater effort as India begins her Fourth Plan next year. We delude ourselves and the people of India if we continue to treat the month-to-month and year-to-year symptoms of India's food problem by shipping ever-growing quantities of food on concessional terms while neglecting the basic causes of these growing food shortages.

The central issue for the future of food production in India is fertilizer production. In the past, lagging fertilizer production has been the dominant factor contributing to the failure to expand food output adequately.

India's nitrogen fertilizer needs to meet food production goals by 1970/71, are 2.6 million tons. This represents a nine-fold increase from 1965 production level. India will not produce more than one million tons by that time -- without dramatic changes in her approach to fertilizer production.

The record of the Indian Government and the Indian economy in managing the fertilizer industry is tragic. It takes chemical engineers to operate a fertilizer industry. India has been operating largely with clerks.

The fertilizer record is one of plants planned but never built; of plants which were built but did not function properly; of a negative attitude toward outside capital; of an unwillingness to provide the incentives required for profitable foreign private investment.

If fertilizer performance does not improve, India will require nitrogen imports of 1.6 million tons per year in 1970/71 to meet food needs. This nitrogen shortfall would be the equivalent of 16 million tons of grain.

Thus, by 1970/71, India would need to import each year, either 1.6 million tons of nitrogenous fertilizer (about 1/3 billion dollars) or 16 million tons of grain (costing \$1 billion), if food needs are to be met. This 16 million tons of grain approaches one-half of the annual U.S. wheat crop.

The foreign exchange required to meet India's total prospective fertilizer import needs by 1970/71, if production of nitrogen fertilizer continues to lag, is staggering. Foreign exchange requirements for all fertilizer and fertilizer raw materials (all phosphate rock, sulfur and potash are imported) could easily range between one-half and three-quarters of a billion dollars by 1970/71. This is one-third to one-half of India's export earnings, which averaged 1.5 billion dollars in recent years.

India's cultivators are asking for 2-3 times as much fertilizer as is available. To meet these demands and her own food needs, India must turn to private foreign investment to do the job.

To date, India has not been willing to create the investment climate required to bring in foreign capital and know-how on the scale needed. The imminent failure of the Bechtel fertilizer consortium is largely the result of India's intransigent attitude--an attitude she cannot afford to maintain in the face of imminent famine. Bechtel does not need India; but India needs Bechtel and the one million tons of nitrogen Bechtel can produce in India by 1970/71.

Food aid, freely given, has bought time in India. But the time has not been well used.

Food aid must be more than famine relief. If we do not use every ounce of leverage it can provide, while improving our overall aid program, the food crisis will deepen, and the political outcome will be increasingly in doubt.

The Policy

On July 2, Secretary Freeman wrote you as follows:

"It seems to me appropriate and necessary to include in the next P.L. 480 agreement with India for fiscal 1966 a condition that India would commit itself to provide specified amounts of fertilizers to farmers at prices which would stimulate greater use. This would be the first step toward helping India in subsequent agreements develop the total package of ingredients for increasing food output faster.

"Over the longer run, we would be in a stronger position to influence India's investments in agricultural development in its overall economic 5-year plan, if we acted in concert with an authority such as the World Bank. We would not like to face alone the consequences of cutting off food aid to hungry people if India failed to carry through on its agreement. Such an arrangement with the World Bank could provide for joint periodic reviews of progress with the Indian authorities which could also be very helpful in influencing India to take the proper actions."

This is the right policy approach. In today's situation it requires that further food shipments to India be contingent upon specific actions by the Indian Government. Only month to month authorizations should be approved until the following actions are taken:

1. India must raise her targets for investment in food production in the Fourth Plan. Investment (input) must be consistent with projected food needs. We are in a position to recommend specific actions in this area.
2. India must improve the climate for foreign private investment, so that foreign capital with its accompanying managerial and technical know-how can supplement India's resources. Ministerial platitudes are not enough. Something must be done so that the bone-crushing bureaucracy of the Indian Government does not stifle the prospects for the future as it has dimmed the hopes of the past. Corporations, consortiums, and individuals are ready to move into a favorable investment climate in India.

3. India must improve her over-all economic performance. If performance in the Fourth Plan is as poor as in the Third, it would represent a free-world catastrophe. We are prepared to recommend specific actions--in population policy, in producer incentives, in education, in agriculture.

No one knows the true value of the leverage of U.S. food aid. Only by trying it out can we see what it can do.

But everyone knows from the record and from today's events, that India will not meet her own needs of her own accord. Hence, we must use every tool at hand to require her to act in her own long-term interest.

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October 27, 1965

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The President approved extension of the present food shipments to India for an additional 30 days. In doing so, however, he emphasized very strongly that we should make it clear to the Indians that we are not satisfied with their performance on their own agricultural program on their previous and existing commitments. He referred to a report he had received from Under Secretary Schmittker of the Department of Agriculture which emphasized that (a) India has failed to live up to a commitment to this Government and to her own people in failing to reach her food production goals (b) India is not giving fertilizer and food production nor the investment promised in her plans and required by her people (c) India's key failures have been in fertilizer, pesticides, producer incentives, credit and seed varieties (d) fertilizer production is the crucial factor and (e) that the U.S. must use all possible leverage to improve India's performance.

The President noted the fact that the U.S. has been sending to India 20% of our wheat production and that India's relative position has been slipping back. These are matters which he will want to have some answers for and on which he believes the Indians should make some commitments with respect to actual performance.

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