India Desk
4716 N/S

191a

Mr. Howard A. Cowden
President
International Cooperative Development
Association
1101 Continental Building
1018 14th Street, N. W.
Washington, D. C. 20005

MAY 7 1965

Dear Mr. Cowden:

I have been asked to reply to your letter of April 16 to Mr. David Bell with which you transmitted a copy of a letter to the President concerning the possibility of constructing a fertilizer plant in India on a cooperative basis.

As you know, the U. S. Government is endeavoring to support efforts by the Indian government to accelerate the growth of agricultural production. While the current year promises to be a good one for Indian agriculture - output could well be about 5 - [illegible] over last year's level - considerable efforts will be needed to hold these gains and to provide for even more rapid growth.

We agree that a rapid expansion of the production of fertilizer is one of the pillars on which the Indian attack on its agricultural problem must rest. A number of measures are under way to increase the availability of fertilizer to the Indian farmer, both through rapidly expanding production in India and through increased imports. I could visualize that a cooperatively owned fertilizer plant might make a contribution, if it is effectively managed and if suitable distribution and marketing arrangements can be made.

Before we could consider the allocation of A.I.D. funds for such a project we would have to know more about the proposal which you have been discussing with your Indian counterparts. I would be particularly interested in learning more about the nature of the resources which your organization would be able to devote to this project, the contribution which the Indian cooperatives are expected to make, and the kind of assistance you expect the Indian and U. S. governments to provide.

JUN 4 [illegible]

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As you also know, requests for AID assistance must be initiated by the Indian government and you may also wish to discuss your proposal with the Indian Embassy here in Washington. I would suggest Mr. K. S. Sundara Rajan, the Indian Economic Minister, as a point of contact.

I have taken the liberty of sending a copy of your letter and of my reply to Mr. John P. Lewis, the Director of our Mission in New Delhi, for his information and comment.

If you wish to pursue this proposal further, I would suggest that you arrange to have it discussed with Mr. Walter C. Furst, who is the Officer in Charge of India Affairs in my Bureau.

Sincerely yours,

/s/ William B. Macomber, Jr.

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

Clearances:
cDF
NESA/DP:PFirstenberg (subs)
NEA/SOA:SSober (subs)
TCR/RCD:ELong (subs)
NFMA/SA:CHRees ______________

cc: [illegible]

[illegible] C. Furst:thp NESA/SA

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1916

International Cooperative Development Association

Room 1101 • 1012 Fourteenth Street, N.W. • Washington, D.C. 20005
Telephone (202) 638-4661

May 12, 1965

file

Mr. William B. Macomber, Jr.
Assistant Administrator
Bureau for Near East and South Asia
Department of State, Rm. 6724 (AID)
Washington 25, D.C.

Re: Cooperative Fertilizer Plant for India

Dear Mr. Macomber,

Your letter of May 7, 1965, addressed to our Mr. Cowden at this office, was received just as Mr. Cowden was leaving for Europe.

Mr. Cowden asked us to acknowledge receipt of your letter and to advise you that upon his return in about ten days, we will be pleased to get in touch with Mr. Walter C. Furst, as you have suggested.

Sincerely yours,

Earl H. Brockman
Acting Director

EHB:bs

cc: Mr. Walter C. Furst
NESA/SA/AID

Mr. George Jacobson
MR/ICDS/AID

Mr. Howard Cowden

Herbert C. Fledderjohn, President — Howard A. Cowden, Board Chairman — Homer Darby, Vice Chairman — J. K. Stern, Secretary — Warren A. Ranney, Treasurer

JUN 4 1965

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

JUN 1 1965

Mr. Howard A. Cowden, President
International Cooperative Development Association
1101 Continental Building
1012 14th Street, N. W.
Washington, D. C. 20005

Dear Mr. Cowden:

I have been asked to reply to your telegram to the President, dated May 13, 1965, in which you refer to your letter of April 16 concerning the possibility of constructing a fertilizer plant in India on a cooperative basis.

I would like to draw your attention to my letter of May 7, 1965, to which your office replied on May 12, 1965, indicating that you expected to get in touch with Mr. Furst in the near future. Mr. Furst will be glad to discuss the matter further with you at your convenience.

Sincerely,

William Macomber

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

JUN 4 1965

Sent to Macomber w/ Rust memo 7-21

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India Econ

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Draft cable to Bowles

May 21, 1965

Before your return to U.S., believe it would be desirable if you talk to TTK to get GOI reconsider its decision on Bechtel fertilizer proposal. No doubt you have already used all these arguments, but believe fertilizer proposal, while very important in itself, involves substantial considerations beyond investment opportunity.

1) It is widely recognized that agriculture is India's major task ahead and major area in which development has lagged. Mobilizing all possible resources for agro-industry would help create correct impression in all Consortium countries regarding Indian self-help efforts. Rejection this proposal would do just the reverse, and could only have adverse effect on future decisions in Consortium countries for support of India during years of Fourth Plan.

2) Even more so, acceptance India's additional resources through foreign private investment would have favorable impact on views in donor countries.

3) Acceptance proposal would have favorable influence on potential foreign investors. Despite TTK's verbal declarations, rejection of Bechtel proposal would be interpreted many quarters

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to confirm view that little actually being done to encourage and make it easier for foreign private investment to flow to India. On other hand, if proposal were to go forward this would be perhaps best possible signal for potential foreign investors to consider seriously opportunities in India.

4) Estimated foreign exchange savings to India which would result from proposed fertilizer investment you familiar with. This obvious powerful reenforcing argument to first three points above.

5) In light of above, believe acceptance of proposal would be extremely useful in presentation to Congress -- and its rejection by GOI would be difficult and embarrassing -- and we must look for every possible positive factor in present circumstances.

6) Private [illegible] retaining 50 percent interest in firm should not be such difficult matter for GOI to defend. Much larger foreign ownership accepted in certain circumstances (e.g. IBM) and 50-50 arrangement, we feel, could easily be sold to Indian Parliament and public for such large undertaking in such key area as fertilizer production.

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7. Regarding return on investment, believe Indians should recognize that bank guarantee really provides cheap external financing. If entire bank guarantee portion were to be in form of equity, which Indians probably would not turn down, over-all return would undoubtedly be greater than now being proposed, and this might well be acceptable to GOI. Believe GOI should calculate on the basis of over-all return for private investment resources provided, and in this way find return to investors not excessive.

8. Prospective assistance in improvement fertilizer distribution is very important aspect which would be lost with rejection Bechtel proposal. Believe Indians can ill afford turn down this worthwhile by-product of proposal, apart from its other valuable features.

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RWK:

Here's AID's wrapup of Indian PL480 issues. A good rundown of the technical problems that still have to be ironed out.

H.

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

May 28, 1965

Mr. Harold Saunders
National Security Council
EOB Bldg. Room 37?

Dear Mr. Saunders:

Per telcon this date, attached is a copy of the memo re An Early P. L. 480 Agreement with India.

Sincerely,
/s/ C. Herbert Rees
C. Herbert Rees
NESA/SA

JUN 1 1965

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193a File

DRAFTED: May 21, 1965

INITIALED: MAY 25 1965

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THROUGH: EXSEC /s/ William B. Macomber, Jr.

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

SUBJECT: An Early P. L. 480 Agreement with India

India Econ

Problem: To resolve conflicting policy views within the Executive Branch on a major P.L. 480 Agreement with India and to hold appropriate Congressional consultations within the next two to three weeks so that consultations with other supplying countries and negotiations with India can lead to a sales agreement within four or at the outside six weeks. If, by the second half of June, India does not have an agreement or sufficient assurance that one will eventuate as a basis for arranging for ship charters, there probably will be a hiatus in deliveries in late summer.

Background: The Indian Government has requested a two year P.L. 480 Title I agreement for FY 1966 and 1967 providing for 7 million tons of wheat and 300,000 tons of rice for each of the two years. No request was made at this time for other commodities. These may be requested at a later date as an amendment. The total value of P.L. 480 supplies is estimated to run to \$500-\$600 million each year in FY 1966 and FY 1967. The Country Team strongly supports the proposal on the basis of foodgrain needs, forward planning and a necessity for India to build buffer stocks of foodgrains to encourage domestic price and political stability.

Issues:

1. Duration of Agreement
2. Quantity of Wheat
3. Conversions to Foreign Exchange
4. Local Currency Grants
5. Loan Interest
6. Reservation for U.S. Uses

Discussion: Widely divergent and legitimate views exist on the above issues. NESA, PC, MR, and State/SOA have agreed upon a general approach which represents our judgment as to the best package which can be secured, balancing India's food needs, our desire to press for improvements in Indian performance, Congressional requirements, desire to avoid unnecessary rupee accumulation, U. S. fiscal and balance of payments interests, and the urgency

JUN 1 1965

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of action. We believe that the package can be accepted by Agriculture and by the Advisory Committee. We expect that, although it falls short of their desires, India will acquiesce. The strongest dissents are anticipated on proposed rupee conversion ceilings from Treasury and CU, but we have not yet pressed these to the point of requesting your intervention.

At this time, we request:

(a) your quick review and assent to the package so that we can proceed with conversations with USDA, Treasury and CU, and

(b) your agreement to seek an early meeting of the Advisory Commitee regarding the U.S. uses reservation and the interest questions.

Summary Proposal: Our proposed positions on the six issues are given and discussed in the six numbered paragraphs below. In brief we propose:

- A one year agreement.
- The compromise figure of 6 million tons of wheat.
- Less than 20% reserved for U. S. uses if Congress acquiesces.
- Loan interest at 3/4%, subject to Congressional consultation.
- Holding conversions to foreign exchange to approximately the levels agreed for last year.

Proposals in Detail:

1. The Country Team has strongly endorsed the concept of a two year agreement. The Ambassador believes that this would facilitate appropriate policy improvements by the Indians such as removal of the zonal barriers on the movement of trade and the building of buffer stocks.

We feel that the judgment between a one-year and a two-year period is a close one. While a longer period may facilitate some better planning by the Indians, there is no guarantee that this will happen. A shorter period may be advantageous because the legislative and political climate may be better a year from now. Congressional sentiment is said to militate against a multi-year agreement and this view is shared by many in A.I.D. There is now firm agreement between Washington agencies on a one year agreement.

In the response to Ambassador Bowles cables on the agreement, the White House (Mr. Bundy) cleared the State reply to New Delhi (DEPTEL 2350, May 8, 1965) but included the words, "In any event we shall have to take Congressional soundings on scope and size of program". We believe that the Department of Agriculture is best qualified to take these soundings if you agree this is necessary in addition to talks you will be having with the Advisory Committee. CIS is of the opinion that no soundings should be taken before House action on the Aid Bill on May 24.

2. Quantity of Wheat

The Indians have requested 7 million tons, and Agriculture believes that 6 million tons plus 600,000 tons carry-in could be adequate for consumption requirements and provide an opportunity to build some buffer stocks. Agriculture does not wish to be over-committed. There is general agreement that the rate of shipments could be accelerated if needed to permit accumulation of buffer stocks, and if port facilities can handle the traffic.

In this connection, you should know that on his trip to India last year, Secretary Freeman specifically regretted the failure of the Indian Government to avail themselves of previous opportunities to build adequate buffer stocks and urged them to do so.

3. Conversions to Foreign Exchange

Agreement still hung up on this

There is a statutory requirement that 2% of local currency generations shall be used for agricultural promotion. Last year the Indians agreed to $2 million conversion under 104 (s) and (t) for Treasury conversion for use of tourists, voluntary agencies, freight, etc., and $1.675 million under 104 (h) for CU to finance activities outside of India.

The statutory requirement added last year that India must pay in foreign exchange for the bulk of freight costs of shipments in U. S. bottoms will also be an additional drain on foreign exchange. That item alone on the proposed agreement may cost the Indians as much as $45 million in foreign exchange in a single year. In addition, the Indians are also converting other substantial amounts of local currency for the United States: about $5 million each year to finance international travel of American personnel and of participants under our programs, and also other indirect foreign exchange costs arising out of the expenditure of about $30 million in local currency by the United States.

For this 1965/66 agreement the Treasury is now asking for 2-3% for (s) and (t) uses. CU is asking for 1%. The combination of both of these programs could amount to a foreign exchange loss for India of as much as $15 million if the agreement comes to $500 million.

More importantly, the requirements for conversions run counter to one basic purpose of the P.L. 480 arrangements which is to provide needed agricultural products to nations with foreign exchange problems. Excessive conversions will have the effect of increasing the Indian foreign exchange gap and increasing the requirement for external aid including assistance from A.I.D.

We believe that 104 (s) and (t) conversions and those for CU should be held to last year's dollar levels, namely $2 million and $1.675 million respectively. We propose to press this position strongly, calling on your intervention if necessary.

4. <u>Local Currency Grants</u>

While some relief is desirable and the further accumulation or the acceleration of the accumulation of U. S. use rupees is in the interest neither of the United States nor of India, this is an inappropriate time to tackle the problem by proposing a grant component. We believe that the Indians will show appreciation for our position and will not unduly press us on this matter. If the Foundation proposal is finally accepted, some relief will be provided. If the Foundation or similar proposals are not accepted, obviously some other solution will eventually have to be found.

However, we would not want to approach the Committee with a grant proposal under the new agreement if such an approach could lead to some adverse action on the part of the Committee or its members. On the other hand, we would not want the Committee to believe that our failure to approach them on a grant proposal under the agreement reflects our satisfaction with the legislative provisions now in force. Our reading is that Congressional sentiment is against grants at this time. Consequently we do not think that it would be advisable to approach the Committee on the question of grants under 104 (e) for the new Indian agreement.

5. <u>Loan Interest</u>

All of the obvious arguments about useless accumulation bear on this point and we have reason to believe that the legislative members of the Advisory Committee may be willing and able to acquiesce in a nominal rate in excess countries. While a case could be made for zero, we narrowed our arguments down to 3/4% (following past agreements) vs. 2½% (paralleling the DL rate). Our conclusion was that 2½% was not sufficiently different from the 4 + % rate. Accordingly we recommend that consultation be initiated looking toward agreement on the 3/4% rate.

6. Reservation for U. S. Uses

Of all the accumulating forces on rupees, the retention of a 20% U.S.-use figure for India is the most significant. Retention of anything more than 5% serves no U.S. interest in India - a fact that some or perhaps all of the legislative members of the Advisory Committee do or can recognize. On the other hand, the 20% provision in the law served the purpose of forestalling other more onerous provisions. Therefore, we conclude that it should be undercut in India and other excess currency countries (an action which would necessarily mean less than 20% world-wide) only if the key Congressional leaders believe that they can agree and still protect the legislation from more crippling provisions. We recommend that an approach be made in the above vein.

Recommendation:

1. That you approve the inter-agency agreement on negotiating instructions for one-year agreement for India for 6 million tons of wheat and 300,000 tons of rice, holding conversions to last year's level.

2. That you seek an early meeting of the Advisory Committee to consult on the proposed 3/4% interest rate on the possible lowering of the U.S.-uses reservation to 5% and to advise the Committee generally regarding the size and duration of the program.

3. That you agree that additional Congressional soundings, if any, regarding the scope and size of the program should be undertaken by the Agriculture Department.

Concurrences:

DHarvey, AA/PC (sub.)
NPost, AA/MR (sub.)
SSober, State/SOA (sub.)

CHRees, NESA/SA (sub.)

Approved: /s/ David E. Bell
Disapproved: ______
Date: MAY 26 1965

CSHatton:ifj:NESA/SA 5/21/65

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OUTGOING CABLEGRAM

DEPARTMENT OF STATE

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~~GAYLOR~~
BOWDLER
BOWMAN
CHASE
COOPER
HAYNES
JESSUP
JOHNSON
KEENY
KLEIN
~~KOMER~~
MOODY
REEDY
~~SAUNDERS~~
THOMSON

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AID-125
NEA-5
SS-15
SP-2
E-4
IGA-2
INR-5
164

SENT TO— NEW DELHI AIDTO 2101 PRIORITY

MAY 22 4 22 PM '65 DO NOT TYPE IN THIS SPACE

DECLASSIFIED
E.O. 13292, Sec. 3.4
By jc, NARA, Date 3-30-04

India

SUBJECT— Bechtel Fertilizer Project

REFERENCE— (a) EMBTEL 3266 (b) AIDTO 2047

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TRES

Bechtel Senior and Bridges called on Bell and Macomber this morning to fill them in on most recent negotiations in India and subsequent discussions here with members consortium.

Essence of their statement of situation is that companies have regretfully reached conclusion that GOI will not agree to conditions which consortium regards as essential if private investment in equity by US companies and non-governmental financing is to be possible.

The main problems discussed were marketing risk, 50-50 equity ownership and raw material supply rights. The one which occuppied most attention in discussion was marketing. Bechtel pointed out that risk in this case was far greater than any normal marketing risk because of very great increase in production planned over short period.

DRAFTED BY	OFFICE	PHONE NO.	DATE	APPROVED BY:
CTW JC CTWood:JGChristy/em	A/AID	8058	5/22/65	WBM per CTW W. B. Macomber, Jr. AA/NESA

AID AND OTHER CLEARANCES
PBFirstenberg, NESA/CDF (draft) WCFurst, NESA/SA (draft)
HOFolk, AA/DFPE (draft) SSober, SOA(draft)
DEBell, Administrator (info)

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AID-5-13 (9-62) PRINTED 6-64

increase so great that cannot demonstrate sufficiently possibility that product could be marketed in India during the first five years of production. Banks and insurance companies wish some assurance on this point before being willing finance project. Consortium and financing institutions ready accept normal marketing risks but consortium feels that in this case risks abnormal and require special treatment.

Bridges had hoped crude supply contract which GOI suggested ~~[illegible]~~ (50 to 60 thousand barrels of crude per day) might induce ~~[illegible]~~ oil companies to make concessions in marketing guaranty sought in recent discussions in Delhi. The oil companies, however, have stated this does not change their position. When asked how this possible in view of obvious value of such supply contract, Bridges said oil companies regarded this as usual Indian attempt keep discussions going with intent make further demands and so to continue the bargaining process. Oil companies say that Indians becoming increasingly unreasonable on agreements on crude prices and all outraged at recent action of GOI insisting ~~[illegible]~~ "impartial" arbitrator in ESSO lube plant project be President of India. ~~They report that after Esso agreed on 50-50 equity ownership on condition that disagreements to be settled by arbitrator, GOI subsequently insisted that arbitrator be the President of India.~~

Confidential

There is no question ~~in consortium~~ that an important element in the unwillingness of consortium to continue negotiations is feeling on basis of past experience and this case that it is so difficult to do business with GOI that further efforts are unwarranted.

Bridges said had promised by May 22 to inform GOI, after discussing possible supply contract with oil companies, whether this ~~contract~~ changed picture sufficiently to alter conclusions stated to GOI in Delhi recently - that he saw no possibility of reaching agreement and proceeding with project. He therefore planning send telegram ~~today~~ to Dorman in Delhi instructing him to inform GOI to that effect. Draft this telegram follows:

Quote - First - We must advise that our participants not interested in considering crude supply contract as substitute for other financing requirements.

Second - Therefore, as was fully discussed with GOI, our conclusion is that under existing conditions massive fertilizer program cannot at this time be realized as private enterprise endeavor. End quote.

This draft being sent to consortium members today for their comments and planned send message to Dorman Monday.

Bechtel stated flatly there could be no give in essence of provisions set forth in "framework" which Bridges left with Lanigan. These conditions had been agreed after much discussion and negotiation among members and if attempt were made to open up subject again, even more difficult conditions likely be stipulated. When question was raised whether every item in "framework" would have to stand exactly as set forth, answer was that this was not necessarily so, but that major elements would be required if consortium was to proceed with project and financing to be obtained. We raised point that provision binding GOI to repurchase equity holdings in case of 20% currency depreciation would be wholly unacceptable to GOI, and Bechtel expressed opinion that if all other major obstacles were removed, this might be eliminated. He made no commitment on this, however, and had earlier made statement contradictory to this.

We pointed out that "framework" emphasized GOI rather than private ownership of equity and asked whether consortium would consider latter alternative, Bridges stated that companies feared that setting up project on basis of private Indian ownership would raise innumerable problems and take ~~might be~~ long time. After ~~some~~ further discussion however, he said some of companies ~~might~~ saw ~~many~~ advantages in private ownership and might ~~be~~ consider ~~interested~~ if all other problems solved, which highly unlikely.

Bechtel suggested that it might advance time at which substantial fertilizer production could be obtained in India if, despite abandonment of this particular project, AID and GOI would wish commission and finance continuation of design and engineering work on 200,000 ton plant. This, he said, could be done in such way as to finish first stage of work by end of year and have complete plans and specs., based on most up-to-date developments, ready by end of 1966. This might also have advantage of indicating U.S. not giving up attempt assist Indian fertilizer production entirely and maintained interest in such projects. He estimated cost of $1 million for first stage and $2-1/2 million for total job. Said Bechtel would prefer that somebody else do this job, but if we and GOI wished, they would undertake it on a regular commercial basis such as arrangements they have with own clients with substantial delegation of responsibility to Bechtel. AID not prepared to entertain this proposal.

It is clear consortium not just attempting trade further. Judge they have concluded not able to do this deal and best give it up. Got impression they eager get out of negotiations and would not be happy even if GOI made further substantial concessions. Rightly or wrongly consortium oil companies clearly fed up with attempt do business in India and others seem to be going along. Bechtel has always maintained not ready to attempt patch up consortium if oil companies dropped out.

We therefore conclude that discussion with all members, as suggested in ref. (a) would be of no use. We believe no prospect proposal can be kept alive any longer.

Consortium basically insisting GOI accept framework in toto. Even in unlikely event GOI did so, USG would be unable go along with consortium package in present form. Regret our efforts to improve consortium attitude on key points not successful.

Think Bechtel and perhaps some other companies may be willing consider single plant proposals at later time.

In meantime, concerned about public reaction to abandonment project both in U.S. and India. As for latter, you are better able judge and deal with situation. Here some criticism likely of India and her economic policies in business and Congressional circles. People in consortium sufficiently well known to give considerable impetus to claim that not possible to do business in India.

We do not propose make any public statement now. When information becomes known and we are queried, our present thought is to say only that the particular group of companies could not reach agreement with the GOI., but that we are supporting other private and public fertilizer projects and continue ready consider substantial assistance to additional sound fertilizer projects in India. We would hope on both sides to avoid recriminations that would reflect on people or policies in either country.

If any new developments here will let you know.

Would appreciate any thoughts you may have on the situation, suggestions re handling public information problems and views on where we go from here.

RUSK

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May 20, 1965

MEMORANDUM TO: John A. Schnittker
Director, Agricultural Economics
Dorothy H. Jacobson
Assistant Secretary, International Agricultural Affairs
Nathan M. Koffsky
Administrator, ERS

FROM : Martin E. Abel, ESA
Lester R. Brown, SEG

SUBJECT : The input needs of Indian agriculture during the Fourth Five-Year Plan for rapid economic development

During our recent assignment to AID India, we evaluated the agricultural portion of the Fourth Five-Year Plan (1966-71). We used two basic approaches in our evaluation. First, we estimated expected performance in agriculture during the Fourth Plan period using agricultural investment levels as currently planned by the Government of India. Second, we estimated the level and pattern of investment we thought would be required to achieve a high level of agricultural output and economic growth during the Fourth Plan period. The following is a summary of the more important conclusions reached in this report.

The total demand for food and other agricultural products is expected to grow at a very rapid rate. The growth in demand is dominated by the growth in population. The total population is expected to increase by nearly 67 million people during the Fourth Plan. In addition, projected growth in real per capita income will contribute significantly to the growth in demand. It is estimated that food grain availability will have to increase during the Fourth Plan by (a) 26 million metric tons if income is to continue to grow at past rates, and (b) 35 million metric tons if the rate of income growth were to substantially accelerate. These growths in demand assume constant real prices for food grains, but imply a rise in nominal prices.

Agricultural production in India has seriously lagged behind the growth in demand. Perhaps part of this lag can be explained by bad weather. But more important is the basic change that has taken place in the composition of agricultural inputs. Much of the increase in agricultural production achieved during the 1950's resulted from bringing new land into production. This source of increased output is rapidly disappearing.

Non-land inputs, such as fertilizer, will have to be increased several fold just to maintain past trends in agricultural output. And, substantially more non-land inputs will be required to speed up the rate of increase in agricultural output. This point is not recognized by the GOI.

The job of closing the food gap between food consumption and production will be a large and possibly painful undertaking. It can be done by a combination of (a) increased food prices, (b) increased food imports, and (c) increased domestic food production. Let us look at some of the possibilities. Food grain output is projected, on the basis of planned input levels and past records of achievement of plan targets, to be about 97 million metric tons by 1970-71. Consumption is projected to be 113 million metric tons assuming current levels of real prices and a continuation of past rates of growth in income. This situation means that India would have to import 16 million metric tons of food grains. This is more than double the current rate of imports. It would be equal to one-half of the current level of U.S. wheat production. Under these conditions at least 80 million Indians would be wholly dependent upon imports for their food grain supply. If grain imports were held at the current level of about 7 million metric tons per year, real food prices would rise by about 12 percent over the Fourth Plan period, or better than 2 percent per year. The incidence of malnutrition could increase markedly as real food prices rose. Low income consumers, already spending a very large part of their total income on food, would not be able to expand expenditures sufficiently to offset the rise in prices. Thus, the group which already has the lowest consumption levels would be hardest hit.

Accelerating the rate of development in agriculture is not only necessary to make India more self-sufficient in food, but is also necessary to sustain a higher rate of development in the overall economy. Nearly 80 percent of India's population depends directly or indirectly on agriculture for its livelihood. Also, agriculture accounts for nearly half of the GNP of India. It is the single most important sector of the Indian economy. Thus, rapid rate of development in agriculture is necessary for a rapid overall rate of development. Indian agriculture cannot be treated as something apart from the rest of the economy.

The investments in Indian agriculture and the availability of inputs to achieve a rate of agricultural output sufficiently high to move India toward greater self-sufficiency will have to be much greater than what has been done in the past or what the GOI envisions doing in the future. Because agricultural area cannot be expanded much in the future, India must look to increased yields as its major source of increased food output. And, heavy outlays for both physical and human capital will be required to achieve the needed increases in yields. The available quantities of such inputs as fertilizer, irrigation, improved seed, and pesticides have to be substantially increased. Marketing systems and extension education programs will have to be developed for effective distribution and use of these inputs. These will be very large tasks compared with past performance. Increased attention should be given to policies that encourage participation of foreign private firms in the development of private production and marketing systems, particularly for seed and fertilizer, along with improvements in Government operated enterprises. Also, much reliance will have to be placed on imports for some inputs, particularly fertilizer. India will need over 4.5 million metric tons of fertilizer by 1970-71 to achieve satisfactory levels of agricultural output. It can realistically look forward to producing 0.9 million metric tons of nitrogen domestically. This means that over 3.6 million tons of fertilizer or fertilizer ingredients will have to be imported. And, because India lacks indigenous supply of important fertilizer ingredients, it will have to use ever increasing amounts of foreign exchange to provide the necessary agricultural inputs. This will require over $700 million of foreign exchange annually by 1970-71. Total foreign exchange requirements for all imported inputs, or the capital required to produce the inputs, will run over $750 million annually--a requirement that is about one half of the current level of export earnings. This is just one illustration of the critical problems that face India in the food and agricultural area.

Expanding domestic food production at a more rapid rate is absolutely essential because even if substantially larger quantities of food grain imports were available to India, it might not be physically possible to move them through existing port facilities. At the present time, India is straining to move current grain imports into the country. The current high rate of grain unloadings has been achieved, in part, by deferring nonfood unloadings. This cannot continue for any length of time without serious disruptions in the nonfarm sectors of the economy. In order to import more grain, India will have to quickly invest in expanded port facilities and distribution systems from the ports to interior consumption centers. This is a critical problem because they are now operating at maximum capacity and may have to boost imports in the near future if further increases in output are not forthcoming.

It is very possible that within the next few years the need for imports could be much larger than indicated by the trend projections. Indian agricultural output is heavily subject to the vagaries of the monsoon. Bad weather conditions during the next several years could reduce output sufficiently to cause the need for grain imports to rise dramatically above the currently high levels. If for example, food grain production in 1967-68 were 4 million metric tons below trend, imports would have to be 14 million to prevent a sharp rise in prices and a similarly sharp decline in per capita consumption. Such a level of imports would be nearly equal to half of the current U.S. level of wheat production. If these imports are not available in the world or cannot be moved into the country, severe economic dislocations will occur. Thus, the India food situation is a very precarious one not only from the longer-term point of view but from the point of view of wheat could occur in the very near future.

SEG/LRBrown & MEAbel/ESA:ams 5-20-65

196

(FOLD ON THIS LINE)

TO:

NAME OR TITLE	ORGANIZATION	ROOM NO.	BLDG.	INITIALS	DATE
1. Mr. Komer					
2.					
3.					
4.					
5.					

	APPROVAL		PREPARE REPLY
	COMMENT		SIGNATURE
	NECESSARY ACTION		SEE ME
	INVESTIGATE		AS REQUESTED
	NOTE AND RETURN	✓	FOR YOUR INFORMATION
	INITIAL FOR CLEARANCE		PER CONVERSATION

REMARKS OR ADDITIONAL ROUTING

FROM (Name or Organization)	ROOM NO.	DATE
Paul B. Kittlenberg Assistant Director Office of Capital Development and Finance Bureau for Near East and South Asia	PHONE NO.	10-10-64

AID-5-50 (7-55) ROUTER

U.S. GOVERNMENT PRINTING OFFICE : 1961 O—616149

OCT 13 1964

197

DRAFTED:

INITIALED: OCT 7 1964

India Food

INFORMATION MEMORANDUM FOR THE ADMINISTRATOR

THROUGH: EXSEC

SUBJECT: The Bechtel Corporation fertilizer project in India (Ambassador Bowles' letter to you of September 21, 1964)

The Bechtel Corporation, a leading U.S. engineering firm, is endeavoring to organize a consortium to invest in and construct a complex of five fertilizer factories in India with a combined capacity to produce about a million tons of nitrogenous fertilizer per year.* The NESA bureau has not yet had any direct contact with the Bechtel people, although the Embassy and Mission have discussed this project extensively with Bechtel officials and General Lucius Clay. (Clay, a senior partner in Lehman Bros., has been retained by Bechtel to raise financing from U.S. sources.) I have invited the Bechtel people to come in and explain their project to me and hope to meet with them shortly.

Bechtel tentatively estimates that the five plants would cost about $500 million (excluding initial working capital requirements), about half in foreign exchange. The Bechtel idea is to consolidate the engineering and procurement for all five plants. Bechtel believes that such consolidated engineering and bulk procurement can result in substantial cost savings. According to our best information, Bechtel is thus considering the financing in toto for the plants. No firm decisions have been reached on the ownership of the plants but discussions have revolved around a possible 50-50 split between the private U.S. investors and the GOI or a possible 40-40-20 arrangement with Indian private investors taking the 20%.

About September 18, 1964, Bechtel reached agreement with the GOI on a feasibility study for the project. The final negotiations were conducted on behalf of Bechtel by Stephen Bechtel, Jr., Ralph Dorman, a Bechtel vice president and General Clay. The feasibility study is expected to cost about $400,000, about half in foreign exchange and half in rupees. Bechtel will pay the dollar costs and the GOI the rupee costs.

*The present tentative fertilizer production target for the Fourth Plan is three million tons per annum. The U.S. AID Mission regards this tentative target as too low and feels 5 million tons is the minimum acceptable target.

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OCT 13 1964

The economic aspects of feasibility study will be undertaken by Stanford Research Institute, who, in turn, plan to rely heavily on the Ford Foundation team in India and our Mission. Bechtel would do the engineering portions of the study. The study is intended to examine such questions as the technical problems relating to the location of the plants and the adequacy of existing mechanisms for distributing and marketing fertilizer within India, including the adequacy of available credit facilities. If, as suspected, the existing distribution and marketing mechanisms are not adequate to support a major increase in output,* the study is to recommend proposed reforms.

According to our Embassy, it is hoped that the feasibility study will be completed by late December and that Bechtel and Clay can return to India in January "to complete arrangements."

No firm plan has been announced for raising the required foreign exchange. Extended risk guarantees are being contemplated by Bechtel as one means of raising financing from private U.S. lending institutions. Clay has also advised the Embassy and the Mission that his group is planning on U.S. Government-World Bank loans being part of the financial package. We have no report on how much Clay is contemplating in the way of such loans although Ambassador Bowles' letter would suggest that the sum may be substantial.

Clay also stated in India that $50 million was the maximum amount of equity which he thought could be raised from private U.S. sources. Depending on the ownership pattern finally agreed upon, this would amount to $100 million (50% GOI and 50% U.S. private investors) to $125 million (40% GOI, 40% U.S. private investors and 20% private Indian investors) in equity. This would mean a debt to equity ratio of 4 to 1 ($400 million debt-$100 million equity) or 3 to 1 ($375 million debt-$125 million equity), excluding the funds which will have to be borrowed for working capital.

We are disturbed at the prospect of such ratios. In most of the projects we have financed in India (although none have been as large as the package contemplated here), the debt to equity ratio has generally been in the range of 1.5:1. Only in the case of the Coromandel fertilizer project, the first fertilizer plant in India to be sponsored by private American companies, did we agree to a ratio in excess of 2:1. In the Coromandel case, we were forced to acquiesce in

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*Even the 3 million ton p.a. fertilizer production target presently under consideration for the Fourth Plan is five times the amount of the present production and imports of fertilizer.

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a ratio of 2:45:1, largely due to our failure to object early enough to the proposed financing plan. In contrast, in the case of the fertilizer project in India now being put together by Allied Chemical, the ratio of debt to equity will be 2:1. Thus, I believe there is a chance of improving upon Clay's tentative plan if we make our preference clearly known at an early stage. I have spelled out my thinking on this point (and some other concerns) in greater detail in the* enclosed letter which I am sending to John Lewis.

As for Bechtel and Clay's discussions with the GOI, our Embassy seems pleased with the Government's response. Apparently, Clay and Bechtel reported to the Embassy that in none of their discussions with the GOI did they receive a negative response.

According to Embassy reports, Clay and Bechtel indicated to the GOI that while they preferred ownership control to be held by U.S. and Indian private investors, they were prepared to accept a GOI majority position if the U.S. investors were given a firmly worded management contract including control over prices, distribution and, where necessary, cultivator education. According to the Embassy, the GOI was, tentatively receptive to a fifty-fifty ownership plan between the GOI and the private U.S. investors with the understanding that later both groups might sell off some shares to other investors. The GOI, the Embassy reports, raised no problems with respect to the management proposals.

The Far East Bureau is presently negotiating with several American companies with respect to two proposed fertilizer plants to be established in Korea. I think it is important that the Agency closely coordinate its approach to all such projects.

In addition to the Bechtel efforts to establish fertilizer plants in India, the Commerce Department has been endeavoring to interest various U.S. firms in investing in a fertilizer plant in India. While some encouraging responses have been received by Commerce, no specific proposals have yet evolved from these efforts.

/s/ William B. Macomber, Jr.

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

Clearance: R.B. Wagner, NESA/CDF (draft)
C.H. Rees, NESA/SA (draft)

c.c. W.S. Gaud, AA
R. M. Poats, AA/FE R. Komer
P. Talbot, NEA
P.B. Firstenberg:cmr:NESA/CDF:10-6-64

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* Which should be read in conjunction with this memo.
Handwritten by William B. Macomber, Jr.

197a

OCT 7 1964

Mr. John P. Lewis
Director
US AID to India
c/o American Embassy
New Delhi, India

Dear John:

It undoubtedly is somewhat unfair to be writing you before you have hardly had a chance to get settled in New Delhi. I do, however, want to exchange some ideas with you about the Bechtel proposal for the construction of five fertilizer plants in view of the potential importance of this proposal to our India program.

At the outset, let me say that we fully agree with the priority which the Mission and the Embassy are obviously giving to the proposal. We certainly share the Mission's and Embassy's views as to the potential importance and value of the proposed project. Please be assured that we are prepared to give the proposal the highest priority and we will try to cooperate with the sponsors in any reasonable way.

A.I.D. is, however, called on to play a difficult role here. We must both enthusiastically support Bechtel's efforts to build additional fertilizer plants in India and, at the same time, maintain enough independence to be able to assess realistically the merits of any specific project for which our financial assistance, either in the form of loans or extended risk guarantees, is sought. Given our natural desire to see the proposal implemented as quickly as possible, considerable pressure can be built up which may make it difficult to subject the proposal which is finally worked out to thorough scrutiny and to negotiate properly with the U.S. sponsors. But I am persuaded, particularly because of the potential importance of the proposed project and the American identification with it, that the project as finally evolved should meet our highest standards.

Because of the need to support the promoters' efforts to work out a project, I am also concerned that we avoid giving the impression of making any commitment with respect to any aspect of the proposal until we have thoroughly examined the project. For example, Bechtel apparently believes that substantial cost savings can be

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achieved by engineering all five plants on a consolidated basis and procuring equipment on a bulk basis. This may well be so. But at the same time, we should examine what, if any, advantages can be gained by negotiating the ownership, management and financial arrangements on a plant by plant basis. (Actually, we have had some reports that Bechtel may be willing to proceed in this fashion but this point is not clear.) We also want to keep an open mind toward the proposals which may be developed by other groups.

In my view, then, to avoid any misunderstandings, we should explicitly advise the Bechtel people that until we have completed a review of their feasibility study, we are not in a position to make any commitments and that they should not mistake our general enthusiasm for the basic idea of establishing privately owned fertilizer plants for approval of their proposal or any of its details.

At the same time, it is also important that, as soon as possible, we give the GOI and the prospective U.S. investors an idea of certain basic features which we would clearly prefer to see included in any fertilizer project. Such preferences should be made known before the prospective investors' expectations, or the GOI's attitude, becomes too hardened to change.

When it comes to delineating our preferences we are somewhat handicapped by our scanty knowledge of the Bechtel proposal. We certainly share the Embassy's and the Mission's preference for the maximum possible private participation in the ownership and financing of the fertilizer plants and the minimum possible amount of direct loans from members of the India consortium.

In the same vein, we would strongly prefer that U.S. operating companies experienced in the fertilizer field have substantial equity investments in the project and be vested with management of the plants, at least for a substantial period of time. I am persuaded that vesting management of the plants in operating companies who are dependent on the long run success of the venture to recoup a substantial cash investment will provide us with the best assurance that the project is well conceived and will be well run. Our attitude on this point is the same as that expressed by Bill Gaud in his recent letter to Fred Foy of Koppers concerning the proposed private steel consortium. For your convenience I enclose a copy of Bill's letter.

We also feel strongly that the proposed owners of the plant must finance a fair share of the capital costs through equity investment. And in this connection we would clearly prefer that the equity consist largely of cash from investors and not the transfer of know how, used equipment from the shareholders' own plants, or investment by equipment

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suppliers. I am concerned by some reports that the sponsors are thinking of $100 million to $125 million in equity for a scheme which contemplates a total capital investment of $500 million. In my view there should be a higher ratio of equity to debt for this project and we should let Bechtel know our views on this score right away.

As for what ratio would be acceptable, we have no fixed rule on a ratio of equity to debt. The ratio for any project must ultimately be determined in light of the nature of the industry and risks involved, the amount of cash projected to be available to service debt, the magnitude of capital required and the practical limitations, both in India and the U.S., on raising such capital through the sale of equity, and the projected return to the investors. (Without regard to the magnitude of debt which the project could service, there should be, I believe, a limit on the return which an equity investor can achieve on his investment as a result of the leverage afforded by loans of public funds or government guaranteed loans.) A final judgment on this issue can thus not be made until we know a great deal more about the project. In the case of most of the projects which NESA has financed, however, the ratio of debt to equity has generally been closer to 1 to 1 than 2 to 1. Perhaps the only project in which we agreed to a ratio in excess of 2 to 1 was the Coromandel fertilizer plant. In that case we ultimately had to settle for only 29% of the $68 million total capital cost of the project (excluding working capital) being financed by equity, or a ratio of 2:45 to 1. While the capitalization of the Coromandel project went beyond what we would normally conceive of as appropriate for such a project, our failure to object to such a financing plan during the 2½ years the U.S. sponsors were negotiating the project with GOI made it impossible, as a practical matter, for A.I.D. and the Export Import Bank, when formally approached for loans, to negotiate any increase in the U.S. equity participation.

In contrast, in the case of the $37 million Kothagudem fertilizer project, which is being sponsored by Allied Chemical, the debt to equity ratio will be 2:1. I am told the difference, at least in part, is due to the firm line the IBRD (who will supply the dollar financing) took in its earliest discussions with Allied.

Accordingly, at this point, in the absence of more detailed economic and financial data on the project and further study, I would have difficulty giving much encouragement to any proposal which called for a higher ratio of debt to equity than 2 to 1. It is my understanding, by the way, that the 2 to 1 ratio accords with the Government of India's own rule of thumb on capitalization. I think it important that the GOI be reasonably satisfied with the amount of the proposed U.S. equity

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investment as the Government's reaction to the amount of equity which the U.S. sponsors propose to invest will undoubtedly have an important effect on the GOI's overall attitude toward the project. In the Coromandel case the GOI was apparently quite disturbed by the proposed limited U.S. equity investment. (Indeed after $2\frac{1}{2}$ years of negotiation, the Government advised the sponsors in writing that it considered the terms of its proposal "onerous" and, contrary to its usual procedures, refused to give formal approval to the project until the U.S. Government first agreed to finance it.) We certainly want to avoid the engendering of a similar attitude on the part of the GOI with respect to this project.

As we have not yet had an opportunity to talk with the Bechtel people about their proposal I am going to invite them to come in and meet with me. In this discussion I plan to convey to them, without, I hope, appearing to be negative, the preferences outlined above. Certainly, we will also indicate the priority we attach to the development of fertilizer production in India. Perhaps it might be useful to discuss informally with the GOI its reaction to the Bechtel proposal and such points enumerated above as may be appropriate. In any event, I would certainly like to learn of your reaction to the Bechtel proposal and the points I have raised in this letter.

In closing, I wish to stress again our basic interest in seeing India's utilization of fertilizer increased as fast as possible and to assure you that we will support fully any reasonable efforts to accomplish this end.

Warmest best wishes,

/s/ Bill

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

Clearance:
CHRees, NESA/SA (draft)
RBWagner, NESA/CDF (draft)

c.c. DEBell, AA
WSGaud, AA
RKomer RKomer
SMPeyser, AA/DFPE

PBFirstenberg:cmr:NESA/CDF:10-7-64

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1976

OCT 2 1964

Mr. Fred C. Foy
Chairman of the Board
Koppers Company, Inc.
Pittsburgh 19, Pennsylvania

Dear Fred:

I have given your letter to me of September 16 and your letter to Ambassador Bowles of August 3 a good deal of thought, and believe it would be useful to restate our thinking on the matter raised in these letters.

As we indicated in our various conversations with you and Vance Brand, we would like to see the Government of India not only accept financing for the fifth steel mill project from private U.S. sources, but also permit private equity participation in the mill including a substantial equity investment by an operating steel company. Such an investment would provide, in our view, the best assurance of the feasibility of the mill and of its sound operation once it is constructed.

I take it from Vance's comments at our September meeting and your letters that the consortium members agree with us in principle on this point. Your concern appears to be that it may be premature to approach any operating steel company until the feasibility of the project is more clearly established. How and the time at which an operating company might best be approached to join your consortium is a matter which, of course, the consortium members must decide. However, if the consortium should seek any form of A.I.D. support the Agency is not likely to be very enthusiastic about any steel mill project unless the feasibility study for the proposed mill has been reviewed and accepted by an operating steel company which is prepared to make a genuine and substantial equity investment in the mill and to provide the overall management of the mill for a substantial period of time.

While we do not wish to make more of this issue than is necessary at this time, we also do not want there to be any doubt among the consortium members as to A.I.D.'s position on this point and the very great importance we attach to it.

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I hope that your discussions in India prove fruitful and I look forward to hearing from you on your return.

Sincerely yours,

William S. Gaud
Deputy Administrator

c.c. Honorable Chester A. Bowles
United States Ambassador
to India
c/o American Embassy
New Delhi, India

Mr. John Lewis
Director, US AID to India
c/o American Embassy
New Delhi, India

Franklin D. Roosevelt, Jr.
Undersecretary
Department of Commerce
Washington, D. C.

Harold F. Linder
President & Chairman of the Board
Export Import Bank
Washington, D. C.

Clearance:

C.H. Rees, NESA/SA
R.B. Wagner, NESA/CDF

PBFirstenberg:cmr:NESA/CDF:9-30-64

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197c

DRAFTED:

INITIALED: OCT 7 1964

INFORMATION MEMORANDUM FOR THE ADMINISTRATOR

THROUGH: EXSEC

SUBJECT: Ambassador Bowles' Letter to Secretary Hodges

A separate memorandum sets out the current situation with respect to the Bechtel proposal for establishing five fertilizer plants in India. Also enclosed is a copy of a letter I have written to John Lewis setting forth some of our initial reactions to this proposal.

In your note attached to Ambassador Bowles' letter to Secretary Hodges you have indicated your concern that the U.S. Government's efforts here be coordinated and have asked whether we should hire a special consultant to take the lead.

As indicated in the memorandum on the status of the Bechtel proposal, the Commerce Department has already begun efforts to promote interest among U.S. companies in investing in fertilizer operations in India. Our bureau has been in close contact with the appropriate offices of the Commerce Department concerning these promotional efforts. Paul Firstenberg of NESA/CDF has been designated to coordinate all fertilizer inquiries on behalf of the NESA bureau, at least until such time as an identifiable project is actually submitted. He has established contacts with representatives of the Commerce and State Departments.

I have discussed the idea of retaining a special consultant with the NESA/CDF, NESA/SA and NESA/Engineers and it is our judgment that it would be premature to do so at this time. At present we are in the early promotional phase and we have not yet received any firm, identifiable proposals. Until such a proposal is received, I believe we should continue to proceed under the present arrangements.

/s/ William B. Macomber, Jr.

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

Attachments

Clearance: REWagner, NESA/CDF RBW

c.c. WSGaud, AA
R. Komer

PBFirstenberg:cmr:NESA/CDF:10-7-64

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Before you return Reuter's call 198

India Food

CONFIDENTIAL

RWK: July 27, 1964

Any voluntary press conference statement by LBJ on food aid to India would have to be geared to Congressional deliberations on extending PL 480 (may act next 2-3 weeks). Reuter will have a feel for this. Agriculture has told Bowles (to New Delhi 196) not to say anything about new PL 480 agreements lest he rock the Congressional boat. Bowles is planning a press conference too (New Delhi 228).

To meet the immediate Indian problem, we authorized Shastri and Subramanian to say 24 June that we intended to supply 300,000 tons (about same as this year) of rice from our next crop and to speed up wheat deliveries (though rice is the real problem). Present plan is to sign an interim FY 65 rice agreement as soon as Congress acts and then to work on a new multi-year agreement to succeed the 1960 4-year agreement which just ran out.

India has been our #1 PL 480 recipient--about $2.3 billion (CCC costs are even higher--$3.8 billion). Most of this has been Title I sale (1 billion bushels of wheat, 33 million bushels of feed grains, 31 million bags of rice, 1.6 million bales of cotton). However, we've also given about $200 million worth under Title III to feed 9.9 million people, including school lunches for 8.1 million children. FY 64 program was about $300 million.

H
HHS

Att: New Delhi 228, 7/22/64
To New Delhi 196, 7/25/64

DECLASSIFIED
E.O. 13292, Sec. 3.4
NSC Memo, 1/30/95, State Guidelines
By je, NARA, Date 3-30-04

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198a

INCOMING TELEGRAM *Department of State*

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__SAYRE
__SMITH, WM. Y.

44

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Action

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Control: 18095
Rec'd: JULY 23, 1964
1:34 A.M.

FROM: NEW DELHI

ACTION: SECSTATE 228

DATE: JULY 22, 6 P.M.

AGRICULTURE FOR FREEMAN AND AID FOR BELL FROM AMBASSADOR.

I AM PLANNING TO HOLD PRESS CONFERENCE WITHIN NEXT FEW DAYS WHICH BARRING UNEXPECTED DEVELOPMENTS WILL BE LAST ONE BEFORE U.S. ELECTION THIS FALL. WITH FOOD AND AGRICULTURE IN HEADLINES ALL OVER INDIA I WOULD LIKE EMPHASIZE WHAT U.S. HAS DONE AND AS FAR AS I PROPERLY CAN WHAT WE ARE PLANNING TO DO IN FUTURE TO HELP INDIA SOLVE ITS FOOD PROBLEMS. AREA OF PARTICULAR SIGNIFICANCE AT MOMENT IS FUTURE TITLE I, PL 480 AGREEMENTS WITH INDIA. HERE I WOULD LIKE TO MAKE AS STRONG A STATEMENT AS POSSIBLE WITHOUT, OF COURSE, CREATING PROBLEMS FOR YOU. SOME SPECIFIC POINTS I WOULD LIKE TO BE ABLE DEAL WITH ARE:

1. ARE WE LIKELY TO CONCLUDE ONE OR TWO TITLE I ARRANGEMENTS WITH INDIA DURING NEXT FEW WEEKS? I UNDERSTAND WE MAY SIGN INTERIM ARRANGEMENTS FOR USE FY 1965 FROM FUNDS NOW AVAILABLE TO BE FOLLOWED BY MULTI-YEAR AGREEMENT AFTER CONGRESS ACTS ON NEW PL 480 LEGISLATION.

2. WHAT IS CURRENT THINKING AS TO WHEN CONGRESS MAY ACT ON NEW PL 480 LEGISLATION? WHAT IS PRESENT STATUS OF LEGISLATION? SEEMS THE QUESTION OF GRANTS VERSUS LOANS OF SALES PROCEEDS TO RECIPIENT COUNTRIES IS PARTICULARLY PERTINENT QUESTION HERE IN INDIA. I WONDER WHAT COMMENTS, IF ANY, I CAN SAFELY MAKE ON THIS POINT.

ANY OTHER COMMENTS OR GUIDELINES YOU WISH TO OFFER WHICH I MAY MAKE IN PRESS CONFERENCE WILL BE MOST WELCOME.

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-2- 228, JULY 22, 6 P.M. FROM: NEW DELHI

PL 480 HAS LITERALLY BEEN A LIFE SAVER TO INDIA DURING PAST EIGHT YEARS. WHILE WE ALL THINK SUBRAMANIAM IS OFF TO A GOOD START IN CORRECTING DEFICIENCIES WHICH ARE LIMITING AGRICULTURAL PRODUCTION, IT IS EVIDENT THAT INDIA WILL HAVE TO IMPORT LARGE QUANTITIES OF FOOD GRAINS DURING NEXT SEVERAL YEARS.

APPRECIATE YOUR COMMENTS AS SOON AS POSSIBLE.

BOWLES

HLL/27

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OUTGOING TELEGRAM Department of State

INDICATE: ☐ COLLECT
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ACTION: Amembassy NEW DELHI PRIORITY 196

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FOR AMBASSADOR FROM FREEMAN AND BELL

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YOUR 228

Comments follow on specific points. 1. Shape of possible Title I arrangements with India should emerge within next few weeks as Congress makes progress on extension law. Feel strongly however that it would be unwise to make public statement at this time on new agreements. Recognize fully that we should move on new agreement at least for rice in time for early delivery and we are preparing ground for this action as soon as legislative situation clarifies and in any event in time to be of assistance to India. Suggest we make this decision no later than first week in August. 2. Multi-year agreement with India may be possible within next couple months depending upon form of Congressional extension 480 law. FYI Might however not be in position for new multi-year agreement until next calendar year since annual program limitations still possible which would make it necessary negotiate annual program for wheat, oil as well as rice in order preserve next year ceiling for urgent multi-year programs several countries including India. Should be understood no commitment beyond currently available authorization can be made at this time. End FYI. 3. As indicated above hopeful Congress may act to substantial extent within next couple of weeks. Tempo of legislative action now rapid.

BUNDY-SMITH
ALEXANDER
BATOR
BELK
BRUBECK
CHASE
FORRESTAL
JESSUP
JOHNSON
KEENY
KLEIN
KOMER
MOODY
REEDY
SAUNDERS
SAYRE
SMITH, WM. Y.

Drafted by: T.E.Street, FAS, 7/24/64 ACB	Telegraphic transmission and classification approved by: ~~OC: OC/T F. Horton~~ AGRIC:CRDonovan

Clearances: Cleared with: CEskildsen, Agr. AJB D.Jacobson, OS AVG
Frank Ellis, FFP, AID C.Laise, SOA ACB |WCCl

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FORM 8-63 DS-322

House Agriculture Subcommittee held executive sessions this week and hope will report out bill very shortly. Senate Ag Committee may wait for House action before holding hearings.

Question of grants intimately bound up with Congressional action. Best course would be not mention question of grants until final Congressional action.

Congressional situation very fluid and we most anxious avoid any action which could adversely affect final outcome.

Suggest you might want emphasize keen awareness USG importance food for peace for future development India.

END

RUSK

199
Komer

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

April 27, 1964

India Food

MEMORANDUM

To: The President
The White House

From: Orville L. Freeman
Secretary of Agriculture

Subject: Report on review of Indian Agriculture

I. Concern

Since 1961 when I last visited India I have tried to keep informed on progress of Indian Agriculture. I have been increasingly concerned the last year as it became clear that India was falling behind in her third 5-year plan targets and in my judgment not giving adequate emphasis to agriculture in the planning now under way for the fourth 5-year plan.

The following summary indicates the targets and the lack of achievement which has given me concern:

	Target for 1966	Achievement in early 1964
Food grains Production	Raise from 80 to 100 million tons	Still at 80. For period since 1951, growth has been about 38%, or 2.6% (compound) annually.
All agricultural commodities	Raise from index 140 to 176	Still at index 140
Irrigation	An additional 25 million acres	Additional 11.4 million acres
Fertilizer use (N)	Raise from 230,000 tons to 1 million	450,000 tons
Cooperative membership	Raise from 33% to 60% of rural population	40%

Further India has been the No. 1 recipient of P.L. 480, our having shipped about a billion bushels of wheat (16 million metric tons), 33 million bushels of feed grains, 31 million bags of rice, 1.6 million bales of cotton, at a cost to the Commodity Credit Corporation of $3.8 billion, all for soft currency under Title I, P.L. 480.

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In addition, we have given away under Title III through the voluntary agencies 1.3 billion pounds of food at a cost of some $200 million, and presently we are feeding some 9.9 million people, including 8.1 million children under the school lunch program.

Recently a Title II payment in kind for work program has been successfully initiated in Rajasthan a crop failure disaster area.

There has been considerable criticism in the Congress of some of our P.L. 480 agreements with India. Extension of P.L. 480 is presently under consideration by both the House and Senate Agricultural Committees and the record of Indian agriculture and its prospects is repeatedly reviewed.

The Department of Agriculture is providing more and more personnel and services by way of technical assistance to the AID Agency and as our joint planning and cooperation goes forward the status of Indian agriculture is increasingly important in our joint planning. Accordingly after a review of these matters with Secretary Rusk and Director Dave Bell, I decided that an on the spot review of Indian agriculture was necessary so I could personally evaluate our programming and planning and also possibly assist the AID Agency in advising the Indian Government how to overcome the critical lag they are presently suffering in agriculture.

II. <u>Itinerary</u>

I left Washington as previously reported in my weekly report to you late Friday, April 17, returning late Saturday, April 25. I flew to New Delhi direct, and directly from New Delhi back to Washington. In New Delhi I conferred with agricultural officers, including AID, USDA agriculture attaches, and people from private foundations, primarily Ford and Rockefeller, from India, Pakistan, and Thailand. This gave me both an opportunity for a firsthand report on Pakistan and Thailand and also prevented or at least minimized the criticism for my not visiting other countries in the Far East.

I then made a 3-day intensive tour of Indian agriculture, concentrating on the so-called "Package Districts" where maximum efforts are being made. I drove to Ludhiana in the Punjab visiting an extension training center at Nilokhari enroute. I also interviewed individual cultivators in the fields and stopped at villages along the way, reviewing cultural practices, particularly inquiring about the availability of fertilizer, insecticides, improved seed, and credit.

I spent several hours with the faculty of the new Punjab Agricultural University at Ludhiana and was very impressed with the caliber and drive and dedication of this group, most of whom had doctorate degress, all of whom had extensive training. Incidentally, their salaries had been virtually tripled in the past 2 years, bringing many back from foreign teaching assignments to India. After a brief stop in the new capital of the Punjab, Chandigarh, we flew (in a DC-3) to Calcutta where I toured the slums and discussed the plans of the Ford Foundation group headed by Mr. John T. Robin who previously worked with Dave Lawrence on the Pittsburgh urban renewal and slum clearance program to meet the almost overwhelming problems of Calcutta (slum clearance, transportation, sanitation, and almost every need conceivable). It is impossible to describe in words the poverty, misery and degradation of the some one million refugees in Calcutta. I believe we can by use of P.L. 480 Title I rupees accomplish in Calcutta a dramatic example which will be noted world-wide of what can be done by determination and effective use of resources. One of the criticisms of Title I, P.L. 480, is that the currency which is granted or loaned to the developing country is merged into the overall development plan of the country in question with the result that the identification of its source is lost. I discussed with Ambassador Bowles, and he heartedly agreed, that we could in India select some projects which would be financed from Title I rupees (grants or loans) and clearly identified as a United States financed and supported project. I repeat, Calcutta provides us with a dramatic opportunity to capture world attention and meet the burning needs of literally millions of people at no real cost to the United States (assuming we extend our P.L. 480 agreement with India).

At Calcutta I also had an opportunity to review some of the storage facilities and to personally investigate some of the transportation and handling problems under P.L. 480.

From Calcutta we flew South to the State of Orissa where I visited another intensive agricultural district (package plan), this time Sambalpur. I returned to New Delhi that night late and on Friday held conferences with the Indian Planning Commission and with Ministers from the Food and Agricultural Ministry and also Transportation, Power, Irrigation, Extension, Community Development, and related ministries in the complicated Indian administrative structure. These conferences were designed to impress upon the Indian officials the importance of a new emphasis on agriculture, both administrative concentration and increased allocation of resources with special emphasis on fertilizer.

III. Evaluation of Trip

India's agriculture will move ahead and be able to feed 9 million more mouths a year and increase a very low caloric intake for its almost 500 million people only by making the hard decision to invest more of very limited resources in agriculture. Fertilizer is particularly short and desperately important. It is estimated that one ton of fertilizer is the equivalent of 20 acres of additional rice land. Correspondingly availability and use of insecticides and pesticides and proper use of water all will maximize output. Such an increase of "inputs" is the only possible means of satisfying rapidly expanding needs. The Indian 5-year plan is very carefully prepared and once modified only with great difficulty.

Success of this trip from the standpoint of affecting Indian agricultural production must be measured by the impact made upon the Indian Planning Commission and top Indian officials. I believe that my visit made a very sharp impact and that there is an excellent prospect of a renewed emphasis administratively and also of an increased investment of inputs into agriculture.

The fourth 5-year plan presently calls for 2 million tons of fertilizer a year. At the conclusion of our conference they were seriously considering how it could be increased to 5 million tons. My recommendation was to call in American industrial firms and ask them how it could be done. Further, I urged that they loosen up their economic structure and allow a wider latitude for the free enterprise sector. I pounded home to them that the farmer will use more fertilizer, insecticides, water and apply good practices if it means that he will get an increased return. A farmer doesn't need much education to respond to this as has been proven again and again. Therefore, where the cooperative credit and government credit structure and the current system of distributing fertilizer, seed, and other inputs are not functioning efficiently and well I urged that room be made for free enterprise activity. I pointed out to them that private salesmen, perhaps even more than extension agents, were responsible for the quick expansion of use by American farmers of both improved seed (particularly hybrid corn), fertilizer, and other new inputs into agriculture and that the same could be done in India. Competition between cooperatives, private companies, and the government in both credit and the sale and distribution of inputs ought to be encouraged rather than discouraged was my repeated emphasis. I also urged stronger support prices announced before planting season and a cut in the price of fertilizer and seed.

The Indian Government reaching through the British trained career service has a sort of Fabian Socialist outlook with great suspicion and resulting strict curtailment of the private sector in agriculture. This is understandable in light of the dominance of the money lender who still exploits millions of Indian farmers. However, I think they are beginning to recognize the benefits of loosening up their economy and stimulating it by making more competition from the private sector possible. A visit of a team of some 20 American businessmen several weeks ago had proved quite successful and my emphasis on the private sector in the agriculture sector supplemented this earlier visit very nicely.

I am happy to report that my recommendations were, I believe, well received. Careful follow up is now being organized. If they follow our recommendations I am confident it will mean a significant upturn in Indian agricultural productivity. We are cooperating closely with Dave Bell and the AID people and will make available technical personnel in both production, distribution, and also in pricing techniques.

A new P.L. 480 agreement was also discussed with top Indian officials. It was agreed that some 2 1/2 million tons of wheat not yet delivered under the 4-year agreement now ending would be made available between now and January 1, 1965. In the meantime we will begin negotiations for a 1-year agreement and review together the feasibility and practicality of another long term agreement.

I impressed upon responsible Indian Government officials that with P.L. 480 now pending before the Congress it would be our policy to move carefully and to avoid any controversial decisions which might affect Congressional approval of this critical legislation. This they seemed to understand and indicated their willingness to cooperate in every way possible, including the offer of the new Indian Minister of Agriculture, Swarin Singh, to come to Washington if he could in any way be helpful.

IV. Conclusion

I returned to Washington late Saturday afternoon, April 25, after another 28-hour plane flight about as exhausted as I can ever remember but satisfied that it had been an important, useful and productive week.

RWK 200

Help!

m. [illegible]

New Delhi, February 1, 1964.

India Food

To Kermit Roosevelt w/ RWK Memo of 2/10/64

Ret'd to RWK 2/12/64

Sent to Kermit Gordon 2/12/64

LIMITED OFFICIAL USE

Dear Mac:

I am enclosing a copy of a memorandum to the Secretary on the PL480 situation which I discussed with you on my last visit to Washington.

The present situation which is wholly irrational is difficult to explain and impossible to defend. Here we are with $315 million worth of rupees specifically set up for United States uses while we curtail our administrative operations, reduce our already small travel allowances within India, and forego opportunities for imaginative creative programs which involve no dollar expenditures whatsoever.

I believe that the Bureau of the Budget will have a great deal to say about this, and I will deeply appreciate anything you can do to help me break it loose.

Warmest regards.

Sincerely,

Chester Bowles

Mr. McGeorge Bundy,
Special Assistant to the President,
The White House,
Washington, D. C.

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