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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
~~#2 report~~	~~summary notes of the 576th NSC meeting~~ confidential ~~2 p~~ open 6-17-87 NLJ 86-178	~~10/11/67~~	~~A~~
~~#2a memo~~	~~to the President from Freeman and Gaud~~ ~~confidential~~ ~~5 p~~ Open 10-27-87 NLJ 87-228	~~10/10/67~~	~~A~~
~~#2b memo~~	~~to the President from Gaud~~ ~~confidential~~ open 3-2-90 NLJ 87-230 ~~4 p~~	~~10/10/67~~	~~A~~
~~#3 memo~~	~~to the President from Walt Rostow~~ ~~confidential~~ ~~2 p~~ open 12-14-89 NLJ 87-231	~~10/10/67~~	~~A~~

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NSC Meetings, Vol. 4 Tab 58, 10/11/67, Discussion of U. S. Food Aid

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E.O. 12356, Sec. 3.4
NLJ 86-178
By cb, NARA, Date 6-17-87

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FOR THE PRESIDENT ONLY

SUMMARY NOTES OF 576th NSC MEETING
October 11, 1967; 12:10 to 12:40 P.M.

U.S. Food Aid

The President: The PL-480 program was initiated as a surplus food program in an attempt to raise the price paid U.S. farmers for their products, principally wheat. It has become an AID problem because we must now substitute bushels of wheat for those dollars which the Congress is not giving us to use in assisting foreign countries economically.

AID Director Gaud: The PL-480 program has gone through three stages. The first stage involved disposal of surplus commodities. Our agreements provided for very easy terms. In the second stage, we made our conditions tougher. In the third stage during which surplusses became shortages, we were unable to do what we wanted to. The present stage involves the usage of the surplusses we have while retaining specific self-help actions we require of countries receiving assistance.

There are four identifiable issues:

1. Do we insist on specific clauses covering marketing requirements or should we be flexible on this point, deciding on a case-by-case basis? It is recommended that we stretch the marketing requirements and keep the clauses covering this issue flexible.

2. Without jeopardizing our long-term objectives, we must decide whether we can increase food aid to fill the gap left because of the reduced AID funds appropriated by Congress. Specific countries involved are Ceylon, Colombia, and Chile.

3. Should we use food aid to build up buffer stocks in the recipient countries?

4. Should we soften the terms and the amount of downpayment now being required in existing agreements? Two countries particularly involved are Brazil and Colombia.

The President: Why doesn't Brazil want our wheat?

AID Director Gaud and Secretary Freeman: Our terms are too high in their opinion. They believe our wheat will cost them too much.

Secretary Freeman: The wheat situation in the U.S. has turned around. Availabilities may well be down if current crop estimates are correct. Food agreements have been tightened up with a view to forcing recipient countries to carry out self-help measures. Our wheat exports dropped because the worldwide harvest is

Secretary Freeman (cont'd.):

good. The wheat market overreacted. We now have checked the downward price trend. The bushel price may be $1.50. Our policy should be to move out PL-480 wheat rather than to force commercial wheat sales.

The present estimate is that we will have to move 400 million bushels to get a domestic price of $1.40 to $1.50 a bushel. Current sales are estimated at 300 million bushels. The only place to sell additional quantities is in India.

The President: If India goes out in the open market to buy wheat, it should buy from us.

Secretary Fowler: The question boils down to the Indian problem. Given the domestic supply situation, if we push wheat sales, we face the prospect of eroding the self-help provisions in our agreements and affecting the commercial market. Among the options listed in the Freeman-Gaud paper (copy attached), an option not listed would provide that the condition of our sale would depend upon agreement of India to purchase 500,000 tons of U.S. wheat. We would insist on other countries matching what we did. In general, we should insist that food aid be included in the total aid picture insofar as matching is concerned. Our present domestic supply problem should be handled in such a way as not to weaken the matching principle in future years.

Walt Rostow: We have a chance to break down zonal restrictions involving the movement of food in India. To do so would be a real plus and is worth a try. When the Indian Consortium is negotiated in November, we should try to get our food aid counted as part of our contribution.

Secretary Rusk: We should ask the Senior Inter-Departmental Group to look at our various food and AID policies.

The President: Recommendations should be sent to me. If food recipient countries must buy wheat in addition to the amounts they are receiving from donors, they should buy from the United States.

Bromley Smith

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OCT 10 1967

MEMORANDUM TO THE PRESIDENT

SUBJECT: Food Aid for India in 1968

Recommendation:

We should take the initiative now -- in October -- to strike a deal with India involving food price and distribution reforms and major programmed grain exports from the United States.

Therefore we recommend that you authorize immediate negotiations with India on the basis of Option III outlined below; offering a 6-month agreement for 3 1/2 million tons of PL 480 grain for 1968. This action:

- -- offers a good chance for a major self-help reform, one for which the U.S. can justly take a major share of credit,
- -- justifies export of enough grain to support required reforms in India, and enough to meet our own PL 480 export target, and
- -- takes into account the expected food aid contributions by countries other than the United States as part of the food aid convention of the Kennedy Round.

It is understood that this offer is conditional upon Indian adoption of a food policy reform package of: major relaxation of zones, firm incentive support prices, buffer stockbuilding and wider authority for the Food Corporation; as well as India making a substantial portion of her commercial purchases in the United States.

Approved: ______________________

Disapproved: ______________________

Orville L. Freeman
Secretary
Department of Agriculture

William S. Gaud
Administrator
Agency for International Development

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The Outstanding Balance of the 1967 Program

Last February you made a conditional offer of 3 million tons of food grains to India. 500,000 tons is still outstanding. It is clear that this amount, for which matching was sought, will not be matched. It is also too late to arrange for additional arrivals to India this year. Accordingly, we propose to focus negotiations exclusively on a comprehensive early 1968 import program with accompanying reforms.

The New Indian Harvest Creates New Problems

To focus now on the negotiation of an early 1968 PL 480 program is appropriate to the present Indian situation.

After two years of drought, India now faces a record crop which might cause wide seasonal and regional swings in food prices. This would reduce farmer incentives to buy fertilizer and new seeds, and pose a serious danger to the success of the new Indian agricultural policies.

A dramatic change in Indian food price and distribution policy is an essential feature of their agricultural development program. India needs a stabilized national grain market -- through the instrumentality of buffer stocks and incentive prices to producers. And it needs to dismantle the cumbersome and inefficient direct controls over food distribution and retail prices.

A successful national food policy would also further one of our political objectives for India -- binding together the states with new ties of interdependence and strengthening the national government.

Indian Food Policy Reforms Needed

The principal reforms required are:

- -- major reforms to achieve as soon as possible the removal of the present 17-state food zone system which prevents private internal food shipment, backs up production -- and depresses prices -- in the best production areas, and reduces grain flows to shortage areas;
- -- effective incentive support prices for producers high enough to give them adequate margin and encourage them to buy and use fertilizers and other modern cash inputs;
- -- deliberate accumulation of buffer stocks in the months ahead, drawn partly from their own crops, to hold against future scarcity and attendant undue price climbs;

-- authorization for the Food Corporation of India to buy foodgrains at market prices, and to stor , ship and sell such grain.

Support of Reform Within India -- and Opposition

Reforms of this general nature find supporters in key places within India's central government, including the Minister of Food and Agriculture and the Minister of Finance. But opposition is deeply rooted. It is particularly strong among state officials who seek low prices for consumers and maximum control of their grain supplies. Advocates of controls also lack confidence in the ability of the free market to protect producers and consumers against extreme price fluctuations and regional maldistribution of food. This position is reinforced by the lack of grain stocks controlled by the central government. The creation of such stocks would weaken the position of those favoring a policy of food zones.

The U.S. Supply Situation -- Our Need to Move Grain

The bumper crop in India coincides with the need to maintain a high level of U.S. grain exports in coming months to strengthen U.S. farm prices.

U.S. Leverage May Be Decisive -- If Applied Now

Availability of U.S. wheat under a new PL 480 agreement would strengthen the hand of reform supporters in the Central Government and could be important to overcoming the opposition of critics, mainly in the states. Thus, we may be able to supply the decisive push by conditioning a major 1968 food aid package on Indian implementation of the above reforms.

Despite the heavy crop, India's central government needs grain. It is most unlikely that sufficient grain can be procured internally to build up central stocks and to achieve the needed reforms. Crop estimates now vary between 92 and 98 million tons, with 95 million a good working assumption. After two years of hardship, demand for foodgrain consumption and replenishment of private stocks is expected to total approximately 100 million tons. To this should be added the need for at least two million tons for a central buffer stock. The gap to be filled on this basis by imports is about seven million tons.

The degree of our influence over Indian food policy is critically related to timing. By the same token, our leverage is both transitory and qualified; it weakens further as India's harvest progresses, and as our need to export grain becomes more obvious.

Immediate action could achieve:

- -- food policy reforms, and
- -- maximum export of U.S. grain, perhaps 6 million tons for CY 1968.

Relation to Food Matching for India

Last year we made a major effort on food matching beyond an initial base of 3.5 million tons for India. We contributed to:

- -- strengthening Indian agricultural performance;
- -- markedly shifting priorities toward fertilizer and other agricultural inputs;
- -- inducing better aid from others, both in flexibility and in terms;
- -- helping pave the way for the International Grains Agreement, thus institutionalizing the matching principle.

We may also have headed off a decline in total aid to India, though this is impossible to know. But in retrospect it is clear that our aim of increased food aid by others on top of continuing development aid has not been realized.

Long-term Food Matching Through the International Grains Agreement

For 1968 and subsequent years the Food Aid Convention of the International Grains Agreement will provide substantial matching of U.S. contributions. Special efforts for additional matching should be limited to emergency situations like India's last year.

For the future, the Food Aid Convention provides for an annual contribution of 2.3 million tons of grain to developing countries by countries other than the U.S. This program is scheduled to begin operation in mid-1968. Together with other contributions it should insure direct food aid to India from other food exporting countries in 1968 of about 1 million tons. This will come primarily from Canada, with lesser amounts from Australia and possibly the USSR. Other donors cannot be counted on for anything but nominal contributions.

Aid budgets are under pressure in all of the major industrial aid donor countries, and none are likely to increase their overall aid programs, either globally or specifically to India.

We Have Three Major Options:

Option I: Full Matching for India. An effort to get full matching of a substantial 1968 U.S. contribution to India is most unlikely to succeed. The Geneva grain talks were, in effect, the negotiations on matching for the period through 1971, barring a new famine emergency. Most important, a requirement of full matching would seriously limit U.S. exports to India in the year ahead -- probably to about one million tons.

Option II: Limited Matching - One Year. This would be a 1-year agreement for up to 5.5 million tons U.S. grain. It would include the base amount of 3½ million tons, the amount we sent to India in 1967 without matching, plus one million tons to be provided for Indian Government stockbuilding. This would be matched by internal procurement of at least 1 million tons. Another 1 million tons would be provided by the U.S., contingent on matching through the Grains Agreement and special arrangements.

This option follows last year's precedent on matching. Unlike Option I, it offers a prospect for moving meaningful quantities of grain -- up to 5½ million tons -- enough to meet India's needs and to achieve policy changes. It would come close to meeting our own needs, but would limit the amount we could ship India in the last half of 1968.

Option III: Limited Matching - Six Months. This would be a 6-month agreement for 3½ million tons through mid-1968 with no firm commitment by the U.S. for the last half of the year. It would exempt from matching a base amount of 3½ million tons as in II, including 1 million tons for Indian Government stockbuilding, to be matched by internal procurement of at least 1 million tons for stocks. We would maintain our flexibility on matching and total shipments for the second half of 1968, when we could make further decisions based on our grain situation, our India policy objectives, and the coming into effect of the International Grains Agreement on July 1.

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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington 25, D. C.

OCT 10 1967

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OFFICE OF
THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

SUBJECT: P. L. 480 Program Possibilities

In our memorandum of September 25 we outlined the prospects for maximizing P. L. 480 shipments for the remainder of this fiscal year. We also indicated that we were undertaking an intensive country-by-country program review to ascertain where P. L. 480 might be substituted for dollar aid.

This memorandum outlines additional possibilities for moving commodities under P. L. 480, and poses for your consideration certain related policy issues. We believe that the adoption of these proposals would greatly increase P. L. 480 shipments over levels that otherwise would occur, and serve the twin objectives of stretching our limited funds that will be available for foreign assistance this year and strengthening domestic commodity prices. We propose two approaches to maximizing Title I, P. L. 480 sales:

1. Accelerate normal P. L. 480 programming for major countries including India and Pakistan.

2. Substitute where possible P. L. 480 for dollar assistance.

Under both approaches the amount of commodities that can be moved will be affected by the policies that are adopted. Under the first we can maximize shipments in the year ahead by (a) relaxing our requirements for matching and (b) providing grain for buffer stocks. As indicated in our earlier memorandum, the possibilities of substituting P. L. 480 for other forms of aid are limited by (a) legislative requirements to protect usual commercial marketings of both the United States and friendly countries, (b) self-help requirements that must be observed, (c) the willingness as well as the capacity of recipient countries to absorb P. L. 480 commodities, and (d) in Latin America trade preferences within LAFTA.

The possibilities of substituting P. L. 480 for other dollar aid can nevertheless be influenced to a certain extent by administrative and policy decisions. Usual marketing requirements are a matter of

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administrative judgment. Also, some countries are uncertain about P. L. 480 because we could not meet all requests last year when grain supplies were short.

We believe these limitations can be mitigated by giving the best possible assurances within the legislation that any P. L. 480 commodities which are programmed will be supplied, and by adopting as a matter of policy the most liberal interpretation possible of usual marketing requirements consistent with the protection of commercial marketing of the United States and friendly countries.

The possible country programs, in light of this approach, are as follows:

India
The new program proposal is contained in a separate memorandum which was forwarded to you today.

Pakistan
By accelerating normal P. L. 480 programming for Pakistan, we can make a major contribution to Pakistan economic policy formulation in the area of agricultural price and import policy. Assurance of supply through the end of calendar year 1968 and a program of building buffers would permit Pakistan to calculate foreign exchange requirements for food in relation to its new import policy to be announced in January 1968 in the knowledge that it could assure stable food prices.

In FY 1968 agreements have been concluded for 1.25 million tons of wheat. The Government of Pakistan has indicated that it requires about an additional 750,000 tons of wheat to meet consumption requirements until the next harvest. Against this requirement the Government of Pakistan has been offered 500,000 tons of Title I wheat and an additional 125,000 tons if this is matched by the purchase of another 125,000 tons commercially. The Pakistan Finance Minister states that Pakistan cannot afford the foreign exchange outlay required to make the additional commercial purchase.

Our tentative estimate of FY 1969 wheat requirements for Pakistan is 1.8 million tons. The amount which can ge programmed under P. L. 480 will be influenced by usual marketing requirements. The UMR for wheat in FY 1968 was set at 200,000 tons. This amount reflects Pakistan's substantial FY 1967 wheat purchases which were occasioned by drought. We do not believe this should be established as the new norm for UMR. From 1960/65 Pakistan's annual average commercial wheat imports were 75,000 tons. A UMR of 125,000 tons would appear to be a reasonable compromise. In view of the fact that the agreement under negotiation if completed would be sufficient to meet Pakistan's consumption requirements until the next harvest, we do not believe it would be advisable to try to negotiate more than the first tranche of FY 1969 consumption requirements in the near future. To this could be added wheat for reserve stocks. Pakistan's reserve stocks currently stand at 250,000 tons, well below the 950,000 tons considered necessary to prevent the pressure on prices that occurred last year. A possibility to consider would be a new P. L. 480 agreement for 1.5 million tons in January 1968 consisting of 1 million tons for FY 1969 consumption and 500,000 tons for stock buildup beginning in the spring of CY 1968. This would be in addition to the proposed 500,000 tons P. L. 480 agreement currently under consideration. The remaining FY 1969 consumption would be programmed at a later date when requirements and U. S. supplies are clearer.

Ceylon

We plan to use P. L. 480 in FYs 1968 and 1969 as a substitute for development lending. There will be a continuing need for food imports even though the Government of Ceylon is in the midst of a significant program of agricultural development. Given current wheat flour consumption patterns, P. L. 480 up to $20 million per year can effectively cover a portion of Ceylon's balance of payments gap permitting Ceylon to release equivalent funds to support its development program.

If we were prepared to alter the usual marketing requirement from the current level of 200,000 tons to a more normal 150,000 tons, we could increase potential P. L. 480 assistance by almost $5 million. The 200,000 ton level was set on the basis of unusually large commercial purchases caused largely by panic buying as a consequence of the rice ration cut which increased wheat consumption.

Korea

Korea presents a somewhat special problem since all its wheat imports are from the United States. Because of the special circumstances that have prevailed, no UMR has been established. In CY 1966 Korea purchased commercially 140,000 tons; and in the first half of CY 1967 about 200,000 tons. Total commercial purchases for CY 1967 are already substantially completed, and may reach 300,000 tons.

We supplied Korea with 175,000 tons of grains under Title I in CY 1967. We had programmed 150,000 tons for CY 1968 and 100,000 for CY 1969, in view of Korea's increasing ability to buy wheat commercially. In CY 1968 Korean requirements are estimated at 550,000 tons. Since there are no formal usual marketing requirements, we could supply this entire amount under P. L. 480 and correspondingly reduce supporting assistance dollars. To the extent we substitute P. L. 480 Title I sales for supporting assistance, however, commercial U. S. wheat sales are reduced, with a resulting adverse impact on the U. S. balance of payments. We believe some move in this direction is justified in light of overall policy considerations.

A compromise position which would give due weight to conflicting policy objectives would be to hold commercial sales in CY 1968 to the CY 1967 level of 300,000 tons and program P. L. 480 at 250,000 tons, rather than 150,000 tons as currently planned. An increase of this amount would provide about $5 million equivalent for Korean military budgetary support, net of U. S. uses and Cooley loans, in part offsetting losses from declining Supporting Assistance availabilities.

Colombia

The Government of Colombia has indicated it is not interested in negotiating a new P. L. 480 sales agreement. The principal reasons are:

(1) It does not believe in long-term dollar financing for food.

(2) It prefers not to be tied down to usual marketing requirements.

(3) It wants to maintain a flexible policy toward food imports, in order to take advantage of special trade opportunities such as compensation agreements and arrangements under LAFTA.

(4) It plans to make a major effort to increase domestic food production and believes a new P. L. 480 agreement would adversely affect prices and thus discourage Colombian farmers from increasing production.

The Mission is being asked to re-open the question with the Government of Colombia. The approximate $9.5 million of wheat and vegetable oil which could be supplied under P. L. 480 would substitute for A.I.D. dollars.

Peru

An FY 1968 Title I sale of 30,000 tons of wheat is authorized for negotiation. This provides for usual marketings of 400,000 tons. Beyond this there appears to be an import gap of about 100,000 tons which might be supplied by P. L. 480 that would substitute for dollar aid. We are investigating this possibility.

Title II Donations

With an adequate supply of commodities now available, programs can be expanded. Circular instructions to this effect are being prepared for inter-agency clearance and will be sent to the field later this week.

William S. Gaud

William S. Gaud

~~CONFIDENTIAL~~ Tuesday, October 10, 1967 -- 7:00 PM

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Agenda for NSC Meeting on Food Aid

You may wish to open by pointing out that we have an urgent need for imaginative thinking on useful ways to expand PL 480 shipments of wheat and food grains:

-- we have a wheat price problem at home.

-- we are taking a beating on the aid bill; we must do all the substitution of wheat for dollars we can manage.

You might then:

-- ask Bill Gaud to lay out the foreign side of the question -- how much wheat can be absorbed by the major customer countries and what decisions are required to get the maximum amount shipped.

-- ask Orville Freeman to comment on Gaud's summary and to discuss the domestic outlook -- what will happen to commodity prices, how they will be affected by various levels of PL 480, etc.

-- ask for comments from the others, particularly Charlie Schultze, who may want to discuss the budgetary implications.

In my view, the following discussion should be pointed toward answering these questions:

1. What kind of food aid agreements should we be shooting for in India and Pakistan? (Gaud and Freeman favor immediate negotiation of a six-month, 4 1/2 million ton agreement for India, and a full-year 1 1/2 million ton agreement for Pakistan.) Can we make proposals covering six months to a year?

2. What sort of matching arrangements will we require for India? (Gaud and Freeman favor no bilateral matching requirement; they would argue that the matching principle is taken care of by the International Grains Agreement, which will come into effect on July 1, 1968. It requires other donors to supply the poor countries with 2.3 million tons of grain per year.)

3. Can't we do more substitution of food for AID dollars than is suggested in the Gaud memorandum (Tab A of the briefing papers)? Have we really applied all the imagination we can?

Rostow Comment

It would go a long way toward moving the bureaucracy if you could end the meeting by giving us some guidance on these questions. I would lean toward the following instructions:

1. Start talking to the Indians about a six-month, 4 1/2 million ton package, finessing the matching question by arguing that the Grains Agreement means no further need for bilateral matching.

2. As soon as Ben Oehlert's present wheat-selling project is over, start talking to the Paks about a full-year 1.5 million ton package covering CY 1968.

3. Send us back to the drawing boards on the substitution question, requesting a final report by the end of next week.

W. W. Rostow

EKHamilton/vmr

LIST OF ATTENDEES, NSC MEETING

Wednesday, October 11, 1967, 12:00 noon

Secretary of Defense McNamara

Secretary of State Rusk
Assistant Secretary of State Anthony Solomon

CIA Director Helms

JCS Acting Chairman General McConnell

Secretary of the Treasury Fowler

Secretary of Agriculture Freeman

OEP Director Daniel

Budget Director Schultze

AID Administrator Gaud

Walt Rostow
George Christian
Bromley Smith
DeVier Pierson
Edward Hamilton