

The original documents are located in Box 111, folder “CIEP Executive Committee - International Investment (2)” of the National Security Council Institutional Records at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

1a

C



Future United States Food Aid Programs

Recent tight supplies in P.L. 420 commodities have led to a severe cutback in P.L. 480 programs and to a general evaluation of U.S. food aid policies.

Given general agreement within the Executive Branch and the Congress that food aid should be continued in the future, the broad issue remaining is what kind of food aid program will be most effective, given the interplay of influencing factors.

A decision on this issue must be taken bearing in mind the following factors:

1. The Future World Food Situation - Will the United States have the capacity to give food?

Given the recent changes in the energy environment, we have no reliable projections on commodity availabilities for the coming six years. In the absence of such projections, three possible scenarios may be hypothesized:

- a return to continuing long supplies with excess U.S. productive capacity;
- a continuation of tight supplies;
- cyclical fluctuation between a few years of long supplies and a year of significant production shortfalls.

2. Future LDC Food Aid Requirements - Will they continue to need it?

At current levels of consumption, large numbers in LDC's suffer from malnutrition. Production in LDC's is not expected to expand sufficiently in the near future to offset population growth as well as to overcome malnutrition. Hence, these countries will continue to have a need for food imports and to the extent possible, food aid.

Moreover, LDC's experiencing future disasters will be unable to supply any suddenly increased food requirements on their part, and hence represent a further need for food aid.

3. What will it cost the U.S. to give Food Aid?

In tight supply situations current agricultural policy would give priority to domestic needs and commercial exports. Under these circumstances, food aid would be limited in size if purchased on the open market; the food aid would cost the full amount of the purchase price and would increase the market price of the commodity. If excess capacity exists above domestic and commercial export needs, a choice will be open between:

- land retirement, probably involving payments to farmers not to plant; or



- building stockpiles; and/or
- increasing food aid.

To the extent that the use of excess U.S. agricultural capacity or food aid purchases on the open market would reduce the budget and economic costs of farm programs in periods of excess capacity, food aid would effectively cost less than its purchase price.

4. Why not Dollar Aid instead of Food Aid?

In the abstract, dollar aid is probably more effective than aid-in-kind under most circumstances. However, food aid has the following crucial advantages: It does not face the appropriations limitations of dollar aid; nor is it circumscribed by the many other restrictions placed on dollar aid. Moreover, food aid is basically additional to dollar aid; if we reduced food aid we could not expect from Congress an equivalent increase in dollar aid.

In selecting an option for future U.S. food aid policy, it is first necessary to decide on the following issues:

1. What U.S. objectives should food aid be employed to achieve?

Food aid best serves the following objectives:

- disaster relief;
- helping to fill budget and balance of payments gaps in security-related situations where other funding is limited;
- raising nutritional levels of specific groups of people, although structuring effective programs in this area is difficult.

Food aid is also useful but perhaps less appropriate for:

- promoting economic development;
- meeting broad political objectives.

Food aid can also lead to export market development while serving other objectives. However, food aid programs aimed solely at market development raise questions of cost/effectiveness.

The number of objectives chosen should determine the amount of food aid we provide. Rough estimates of the quantities of grain shipments corresponding to the various objectives are suggested in the options section.

2. Should the United States provide a reasonably constant amount of annual food aid or can food aid levels fluctuate according to availabilities?

- If a constant amount is decided on, there will be a need for some sort of stockpile to ensure constant availabilities even in periods of tight supply.



-- If the U.S. is to provide food aid on the basis of annual availabilities, the cost of a stockpile will be avoided, but the food aid program will be variable and pro-cyclical-- less aid when there is less food available worldwide.

3. Should the United States be prepared to make a commitment at the World Food Conference to maintain a minimum level of food aid annually or should it continue to provide food aid on an ad hoc basis.

-- If the U.S.G. chooses to make a commitment, it will either have to create a stockpile or be prepared to accept the domestic political costs here in times of tight supply of market purchases of food and the resulting higher prices to the U.S. consumer.

-- If the U.S.G. does not choose to make a commitment, it may miss a chance to extract such a commitment from other developed countries and so reduce possible burden sharing.

4. What will U.S. policy on World Food Security be?

The decisions on world food security and commercial stockpiling arising out of CIEPSM 30 will have an important influence on decisions on food aid.

-- If it is decided that the U.S. will support world food security defined as some acceptable minimum annual consumption level or the avoidance of wide price fluctuations, then some sort of commercial stockpile is called for. If such a stockpile is set up, there would be no need for the U.S. to consider a separate stockpile for food aid programs. Commodities would be available in sufficient supply and presumably at reasonably stable prices to meet U.S. food aid needs.

-- If it is decided that the U.S. will support world food security defined as the avoidance of famine or large scale starvation, then food aid policies are clearly the appropriate instrument for meeting that commitment. A decision then must be made whether to establish a separate stockpile for food aid purposes or whether to continue to buy food aid commodities on an ad hoc basis.

Decisions on these general issues will set the stage for a selection of a future U.S. food aid policy from among the following options.

Options

The options below set forth several alternative future strategies for food aid and their relationship to stockpiling options and other foreign aid. Although the size of the various programs is notionally quantified in terms of metric tons of grain, the stress in the options is on the overall approach and the objectives to be served. Option IV would constitute a relatively radical shift from current assistance trends and has not been elaborated in detail.



Option I - A food aid program limited to meeting disaster relief requirements--Shipments of possibly .5-1.5 million tons of grain in most years.

This option would

- probably represent the only feasible course of action under a continuing very tight commodity situation;
- would require small stockpiles at most;
- minimize the potential inflationary impact of food aid;
- would be difficult to maintain in the face of pressures for expansion under an easy supply situation;
- would not permit food aid to serve security/political or development objectives;
- require increased dollar aid to offset reductions in food aid from present levels, particularly for Indochina; such additional dollar aid would be difficult to obtain from Congress.
- be inconsistent with any new U.S. initiatives to meet the world food problem;
- force the United States to withdraw from existing burden sharing arrangements;
- force shutdown of U.S. voluntary agency operations overseas;

Option II - A food aid program limited to disaster relief, the highest priority security assistance requirements, and food donations for high nutritional impact activities. Existing burden sharing obligations would be met, but not increased, and voluntary agency programs would be continued at tight levels--Shipments of 2.5-4.5 million tons of grain annually.

This option would

- focus food aid on activities for which it appears to have the highest utility;
- forego the use of food aid for developmental and broad political objectives even in years of high production;
- be consistent with reasonably tight and cyclical commodity scenarios but would be quite restrictive under continuing long supply;
- require relatively small stockpiles for program continuity;
- limit the inflationary impact of food aid in periods of tight supply;
- not be sufficient to permit a long term U.S. commitment to provide continuing food aid;
- meet with opposition from the farm bloc and the U.S. voluntary agencies if in periods of easy supply set asides were resumed.



Option III - Continue the present multi-purpose food aid program, emphasizing high utility activities but supporting development assistance objectives as well--Shipments ranging around 9 million tons per year.

The option would

- permit the fullest use of food aid to meet a variety of U.S. objectives;
- be consistent with cyclical and long supply scenarios but not short supply;
- require a food aid stockpile or a relatively large commercial stockpile if program continuity is to be maintained;
- allow a long-term U.S. commitment to a fixed level of food aid;
- permit the United States to encourage an increase in burden sharing arrangements;
- tend to encourage long-term country programs aimed at general political objectives;
- involve relatively high budget costs.

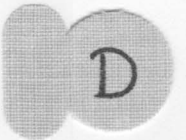


Option IV - Use food aid and dollar aid in a major long-term effort to raise per capita consumption and production levels in LDC's. This approach would flow from the conclusion that low nutritional levels and low growth of per capita agricultural production in the LDC's represent critical social and economic problems for the future. Bilaterally or through a major multilateral effort the United States would consider setting tentative consumption targets for developing countries and the poorest segments within countries. Food aid would be used to increase current consumption together with dollar assistance to encourage population control and to raise food production over the intermediate term.

This option would

- permit major U.S. leadership in attacking world food problems;
- be consistent with a long supply scenario and probably consistent with cyclical conditions;
- be inconsistent with tight supplies;
- require large commercial or food aid stockpiles to ensure continuity;
- require high dollar aid as part of the entire package;
- involve a long term commitment;
- permit a large scale international burden sharing arrangement;
- potentially be very costly.

lc



CIEP/SM 31

FUTURE UNITED STATES FOOD AID PROGRAMS

I. Introduction

This study of U.S. food aid programs was requested by the Executive Director of CIEP in CIEP/SM 31 of December 5, 1973, which in turn drew on the NSSM 197 study of International Cooperation in Agriculture. A parallel study of food stockpiling has been prepared in response to CIEP/SM 30, for joint consideration with this paper.

A. Background

Food aid grants and concessional sales under Public Law 480 have constituted a significant element of U.S. domestic commodity programs and foreign assistance programs for twenty years. During that period, total program costs, net of receipts, have been nearly \$25 billion. Recent annual costs for commodities and ocean transportation, although considerably lower than in the mid-1960's, have normally exceeded \$1 billion.

Probably the most notable aspect of the PL 480 program is its genesis in a domestic problem. Under agricultural programs of the 1950's, farm income was maintained in part through arrangements which caused continuing over-production, leading to the accumulation of large and growing government owned surplus stocks. Food aid shipments under PL 480 were intended to help dispose of surplus production.

In addition to its surplus disposal role, the program was directed at three other objectives abroad:

- expressing concretely the genuine humanitarian concern of America for needy people abroad in line with a long tradition of using food for this purpose
- furthering U.S. political objectives overseas by supporting the economies of recipient countries. (Food aid represented a logical extension of Marshall Plan techniques to the rest of the world at a time when those techniques still were seen



as leading to rapid economic advances by aid recipients which in turn could help reduce the threat of Communist takeover.)

- developing new markets for U.S. agricultural commodities, ultimately establishing higher commercial demand for commodity exports as food aid recipients grew economically stronger.

During the 1960's, P.L. 480 was seen as an important part of the long term U.S. development assistance program, and by the middle of the decade it was viewed as an instrument for promoting agricultural self-help in developing countries.

Recently a conflict has arisen between the domestic and foreign aspects of the P.L. 480 program.

- In 1973/74 the huge commodity surpluses were eliminated because of high commercial export demand following production shortfalls in Russia and elsewhere. As a result, PL 480 was no longer needed as a disposal mechanism. Instead, the additional foreign demand it created caused some further upward pressure on already high prices and contributed to the clamor for export controls. There was a strong domestic economic case for stopping food aid.
- At the same time, the importance of food aid was heightened abroad by the world food shortage and rising prices. Continuation of the program was particularly critical in areas affected by natural disasters such as Sahelian Africa, in the countries of Southeast Asia whose economies are heavily dependent on import financing by the United States, and among recipients of ongoing humanitarian aid, but the value of the program to most other eligible recipients was heightened as well.

The conflict was resolved by cutting 1974 food aid shipments to less than half the average of the preceding four years and focussing it on the critical areas. While this probably represented the best solution at the time, the necessity for such a compromise raised serious questions about the future role of PL 480.

B. Factors Giving Rise to the Study

Given the possibility of continuation or a later recurrence of world food shortages with the resulting conflict between



the domestic agricultural objectives and the foreign policy objectives of PL 480, a careful reassessment of food aid is necessary. The relationship of food aid to the various stockpiling schemes, particularly proposals for stockpiles held in or earmarked for developing nations, must also be examined. Moreover, the worldwide review of the food situation at the November World Food Conference makes a reassessment at this time particularly important.

C. Purpose of the Study

The object of this study is to facilitate decisions on the overall future scope and direction of U.S. food aid and related decisions on the stockpiling proposals in CIEP/SM 30. The material below draws on a series of draft papers which were prepared by personnel of agencies involved in the operation of the PL 480 program, primarily the State Department, the Agency for International Development (AID) and the Department of Agriculture (USDA). It sets forth some factors which will bear on any decision about future food aid and presents some possible program options.

The time frame considered is the next six years -- 1974-1980. The commodity focus is on grain--wheat, feedgrains and rice and their products -- which have comprised, and are likely in the future to comprise, the bulk of U.S. food aid shipments, although vegetable oil, cotton, and limited amounts of tobacco have also been provided annually in the past.

The conclusions drawn about food aid are general in nature. Precise future estimates of world food supply and demand, prices, and U.S. commodity program decisions cannot be made nor can specific future costs and benefits of PL 480 programs be predicted with any certainty. Nevertheless, relative judgments are made and the broad implications of policies and programs are described.



II. The Future Commodity Situation

A. World Prospects

The events of 1973/74 have given emphasis to the fact that the U.S. agricultural economy and our food aid activities will be heavily influenced by the world food situation, particularly during periods of world shortage. Predicting this interaction, even in terms of a reasonable range of outcomes is, of course, difficult. The views of analysts outside the government range from deep pessimism about world food availabilities to cautious optimism. A major exercise to make such projections taking into account the energy situation is being undertaken by the Economic Research Service (ERS) of USDA, but results were not available for this study.

Some perspective on future availabilities and needs for food aid can be obtained from two ERS exercises completed late in 1973. One exercise examined world grain supply and demand trends to 1985, from which 1980 data have been extrapolated for this study. It assumed few radical departures from historical trends of the past 20 years and assumed average weather (eliminating very good and very bad years), mid-range population growth (about 1 percent in developed countries and 2.5 percent in LDC's) and continuation of most current agricultural policies. A variant was projected from this base, assuming greater emphasis on livestock production in the developed countries and higher growth and foreign aid receipts in developing nations, resulting in higher world grain demand. A second exercise looked at the capacity of the U.S. agricultural sector under similar conditions and assuming the availability of adequate production inputs and assuming fair financial returns to farmers.

The studies indicated that under either set of demand assumptions the United States would be likely to have excess production capacity. Although it was not possible to be precise about the amount of excess capacity involved, it can probably be concluded that under these assumptions, the United States would have the capacity to mount food aid programs at least in the range of the 8-10 million tons of grain programmed in the 1969-72 period and possibly somewhat higher.

B. Prospects for Developing Countries

In projecting LDC food requirements ERS built on past trends which dramatically illustrate the problem many of these nations face in their food sectors. Agricultural



production in the LDC's as a group was estimated to rise at nearly 3 percent per year -- about the same as the rate for both developed and developing nations over the past twenty years. On a per capita basis however, most of this gain would be lost to the LDC's assuming the 2.5 percent population growth estimates used. Per capita production would increase at only about one half of one percent per year rendering these countries dependent on increased imports for any significant improvement in per capita consumption. Thus, raising the presently low nutritional levels of many of the poorest LDC citizens could only be achieved by LDC financed food imports (reducing foreign exchange availabilities for other purposes including investment) or through food aid. The magnitude of the malnutrition problem is so great however that U.S. food aid alone could have only a very limited impact if spread among all of the poorer developing countries. A program of 10 million tons of grain, about the level of 1969-72, would add less than 4 percent to the grain consumption of the non-grain exporting LDC's and less than two percent to total caloric consumption.

C. World Commodity Scenarios

Because the projections above do not take into account variations in the weather, possible policy changes, the current energy situation, and other factors, they cannot be regarded as definitive. The current wide range of uncertainty about future world food prospects requires consideration of at least three hypothetical world food scenarios against which to test program and policy options.

Scenario 1 Short supply - Under this pessimistic scenario world stock levels would remain low during most of the next six years and prices would be high. Stockpile building would not be feasible and even small increases in demand or decreases in supply would have a noticeable upward impact on prices. Although this scenario may not be likely, a combination of bad weather and fertilizer shortages might produce such an outcome at least over the next several years.

Scenario 2 Long supply - An optimistic scenario along the lines of the ERS exercises would project a rapid return to high stock levels and excess productive capacity. Land retirement would be called for in the U.S., creating the opportunity to meet commercial demand at reasonable prices and to build stockpiles and/or to mount a large scale food aid program. This option, while attractive and seemingly possible in view of the likely record grain crops this



year and the ERS projections, calls for continuing good weather, readily available inputs and favorable economic incentives for farmers. Its probability is open to some question.

Scenario 3 Cyclical conditions - Under this scenario world grain production would gradually rise over a period of several years to the point where U.S. land retirement could be called for. Nevertheless, during at least one year world production could dip well below trend. While this scenario reflects the variability of weather, other growing conditions and possible limitations on inputs, it too must be regarded as a hypothesis.



III. Food Aid, Dollar Aid, and Stockpiles

Aid in kind in the form of food is, of course, only one of a number of forms of foreign assistance which may be employed in achieving U.S. objectives. Dollar aid, particularly development loans and supporting assistance grants have many similarities to food aid in their economic impact. Concessional stockpiling represents a variant on food aid which must be considered in conjunction with future food aid plans. This section describes briefly the major characteristics and interrelationships of these aid forms.

A. The Existing Food Aid Program

Through the PL 480 program, the United States has provided food mainly to meet current consumption and working stock replenishment needs in developing countries. The law does not preclude food shipments designed to build more substantial LDC stocks, and a few programs to build buffer stocks have been carried out, notably in India.

PL 480 Grain Shipments
(in millions of metric tons
including grain equivalent of products)

<u>Commodity</u>	<u>Fiscal Years</u>						
	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974*</u>
Wheat	10.8	7.0	7.7	6.7	6.4	4.2	1.9
Feedgrains	2.1	1.0	1.4	1.3	1.5	1.5	1.3
Rice	.7	1.0	1.0	.9	1.1	1.0	.6
Total	13.6	9.0	10.1	9.0	9.0	6.7	3.8

* Program Plan

As the table above shows, the amount of grain shipped under the program has gradually decreased from 13.6 million tons in 1968, which included large shipments for South Asia drought relief, to no more than 3.8 million tons this year, reflecting the cutback discussed above. In between, as better weather and the use of improved seed varieties raised LDC grain production, particularly in India, the program held to a grain shipment level of about 9 million



tons a year of which normally 75-80 percent represented Title I sales and the remainder grants under Title II.

Two main characteristics of the PL 480 program differentiate it from other forms of foreign assistance.

First, it has been restricted to the provision of a limited group of agricultural commodities -- those for which government commodity programs have been in effect, mainly grain. Several related characteristics flow from this:

- As pointed out, decisions on the use of PL 480 are and will be heavily influenced by external factors which override normal programming considerations. The current year has demonstrated PL 480 can operate in a procyclical manner with programs being cutback at a time when there is greater need for them.
- PL 480 provides only consumption goods, predominately foods. The program may directly raise food consumption levels in recipient countries to the extent that the commodities provided are in addition to what would otherwise have been imported. Even more specifically, through Title II the program may raise consumption levels of specific groups within a country. To the extent that the commodities provided substitute for what would otherwise have been imported, the impact of PL 480 is less direct. It frees foreign exchange and financial resources for other purposes either consumption or investment, exactly which being difficult to determine because of fungibility. Moreover, whether food aid in fact leads to additional consumption or not cannot be accurately determined. The general presumption has been that Title II has a relatively high degree of additionality and Title I a high substitution content except in time of substantial recipient food shortages.
- Finally, external factors can limit the amount of PL 480 which can be provided to a given recipient despite the budgetary flexibility noted below. The legislation provides that PL 480 be additional to traditional commercial imports, normally calculated on the average of the previous three to five years. While this restriction may be waived in cases of extreme hardship, it is a limiting factor in many countries. The upper limit is represented by the desired consumption level which the recipient wishes to reach above



the usual marketing requirements.

Second, PL 480 is the only foreign assistance program which is relatively free from congressional appropriations restraints. To the extent that annual appropriations are not sufficient to finance a desired program level, the PL 480 program may draw on CCC borrowing authority to provide funds. This authority could provide well over a billion dollars in additional financing in any one year. Subsequent years appropriations reimburse CCC for the expense. This flexibility enables PL 480 to serve as a contingency fund for rapid U.S. response to a variety of requirements including disasters and in meeting budget and balance of payments requirements in key recipient countries.

With those characteristics in mind, certain general conclusions may be drawn about the effects of PL 480.

- Where the benefit to be obtained can be achieved by raising or maintaining food consumption, PL 480 is clearly an appropriate form of assistance.
- Where policy places high priority on the provision of assistance in any form, i.e., in budget or balance of payments support situations, PL 480 is also appropriate and, if other sources of financing are limited, occasionally indispensable.
- Where an increase in overall or sectoral productivity is the desired effect, the impact of PL 480 will be less direct.

B. Dollar Aid

Achieving U.S. objectives through foreign assistance programs not tied to food shipments offers a possible but not probable alternative to PL 480. Specific comparisons are made in the benefits section below.

The main form of food aid which offers substitution possibilities with dollar aid is Title I commercial sales. The two forms of dollar aid to which Title I assistance is most clearly related are supporting assistance grants and development loans. Like the former, Title I sales are a relatively fast disbursing form of aid although they do involve a debt burden inappropriate in countries with relatively poor balance of payments prospects such as Cambodia or Sahelian Africa.



The softest Title I terms are identical with those for development loans and concessional food sales are similar in many respects to program lending. The current development assistance strategy, however, is moving away from program loans toward specific projects aimed at critical development bottlenecks, affecting the poorest groups in the LDC's. Under this approach food aid could substitute only for sector development loans designed to generate local currencies and linked to sectoral policy reforms.

Despite the technical potential for substitution of dollar aid for food aid, such a trade-off has not been feasible in recent years because of deep Congressional cuts in dollar assistance appropriations. Food aid has thus tended to substitute for dollar aid shortfalls. It appears unlikely that dollar aid will be available in large enough amounts in the future to constitute a significant substitute for food aid.

C. Stockpiling Proposals

The establishment of stockpiles earmarked for concessional disposal is one means of avoiding procyclical cutbacks in ongoing food aid programs and making up major crop shortfalls in developing countries in times of world food shortage. The need for such a stockpile is based on the assumptions that

- a major world food shortage is relatively likely in the future
- future procyclical cutbacks in food aid will be unacceptable
- the cost in terms of budget outlays and price increases of buying commodities on the market at such times is also likely to be unacceptable.

Under the current approach to food aid with its requirements for maintaining usual commercial marketings, a concessional stockpile could not directly be used to mitigate the impact on developing nations of the price increases in their commercial imports -- which in some cases could have a greater adverse effect than either crop losses or food aid cutbacks. New legislation and new international rules on the provision of food aid would be needed to address this latter problem.

Two sets of circumstances would diminish the need for concessional stockpiles

- Ongoing food aid programs could be held to a level low enough that program continuity could be maintained even with relatively small world stocks.



- Sufficiently large unearmarked world stocks could build up or be consciously created to protect a relatively large ongoing program.

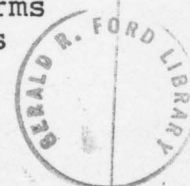
Several other factors affecting a decision on concessional stockpiling should be taken into account

- Advance earmarking of stocks for developing nations will limit future flexibility in overall supply management. It prejudices future choices between domestic, commercial export and food aid needs.
- The cost of carrying a large concessional stockpile could be quite high in a long supply situation or during an extended cyclical upswing.
- Unlike the price mechanism which would govern the release of stocks for general use under unearmarked stockpile schemes, release of concessional stocks owned by the United States or an international body would require difficult judgments about individual country needs, and would be complicated by foreign policy considerations.

These points argue for a cautious approach to earmarked concessional stocks and raise questions of their domestic political acceptability and international negotiability.

In addition to schemes involving international or donor-owned concessional stocks, stockpiles could be established in the developing nations through regular food aid shipments or the LDC's could take ownership of stocks located in exporting countries. It would be difficult, however, to develop any advance worldwide scheme for such arrangements as opposed to ad hoc, country-by-country arrangements. Given continuing pressures on food supplies in the LDC's, the building of buffer stocks would only be feasible during a period of substantial above trend production in the recipient country. Moreover, such stockpiling would need to be part of a well planned agricultural stabilization scheme, and the costs and benefits should be carefully assessed. Establishing buffer stocks in the LDC's would have the disadvantage of limiting the flexibility of total concessional stocks in meeting world disaster relief needs.

CIEP/SM 30 presents preliminary analysis and a set of options including both unearmarked and earmarked concessional stocks, indicating the pros and cons of the various options. The options in this paper are presented in terms of the type of stockpile needed if program continuity is judged to be important.



IV. The Benefits of Food Aid

Under the present short supply situation, the cost of food aid in budgetary and economic terms has risen to the point that food aid is at least as expensive as dollar aid if not more so. The possibility that this situation could continue or recur requires a reexamination of the benefits to be obtained from food aid.

The assessment of the absolute effectiveness of any form of foreign assistance is an extremely difficult task. Only general conclusions can be drawn. In arriving at such conclusions about food aid, this study has examined it in terms of the major categories of objectives it has been deemed to serve.

The task is complicated by the fact that most food aid programs serve several objectives simultaneously. Nevertheless, there is some analytic value in attempting to identify the primary purpose of individual country programs under Title I. The table on the following two pages represents an effort to categorize food aid programs by primary objective over the past five years. While it does not reflect full interagency consensus on the categorization of each individual program, the general trends in program emphasis seem reasonably clear.

As the table shows, there has been gradual increase in the proportion of the total program aimed primarily at security/shorter-term political objectives from about 16 percent in 1970 to 29 percent in 1973. The sharp commodity cutback in 1974 coupled with the high priority accorded to food aid for Southeast Asia preempted most of the limited Title I commodity availabilities, increasing the share of the total program directed at security goals to 57.9%. Conversely programs primarily serving economic/development/longer-term political objectives have declined steadily from 57.6 percent to 14 percent of the total during the period. Apart from the growing emphasis on security objectives, the decline is in part accounted for by the shift in the Korea program from a development orientation (under which it would have been phased out) to large scale shipments in compensation for voluntary textile export restraints. This has led to the creation of a separate category for the program after 1970.

Grant food aid under Title II, all of which is attributed in the table to humanitarian objectives, has ranged from 24 to 37 percent of the total program with much of the fluctuation caused by the rise and fall of emergency and disaster relief shipments. Programs specifically and primarily aimed at agricultural market development have constituted only a small proportion of the program -- 1-3 percent.



LIMITED OFFICIAL USE

13

P.L. 480 Programs By Objective
(Title I programs shown by country)
(Commodity Costs in millions of dollars)

	<u>1970</u>	<u>1971</u>	<u>Actual</u> <u>1972</u>	<u>1973</u>	<u>Program</u> <u>Plan</u> <u>1974</u>
<u>Security/Shorter Term</u>					
<u>Political</u>					
<u>Indochina/Asia</u>					
Cambodia	--	0.9	9.8	29.1	194.2
Thailand	--	--	--	2.9	28.1
Vietnam	124.0	117.2	108.4	176.9	304.2
Subtotal	124.0	118.1	118.2	208.9	526.5
<u>Middle East</u>					
Israel	41.0	50.7	49.8	45.7	39.4
Jordan	--	1.2	1.9	5.8	6.8
Lebanon	--	6.4	6.1	--	--
Subtotal	41.0	58.3	57.8	51.5	46.2
<u>Base Rights</u>					
Iceland	0.6	0.8	0.6	0.7	0.5
Portugal	--	--	--	17.9	10.4
Subtotal	0.6	0.8	0.6	18.6	10.9
<u>Shorter Term Political</u>					
Burma	1.9	--	--	--	--
Guinea	1.9	4.6	5.1	3.2	3.0
Guyana	0.1	0.3	--	0.2	--
Liberia	--	1.0	1.6	--	--
Sierra Leone	--	--	0.5	--	--
Taiwan	--	9.7	5.1	4.5	--
Zaire	2.3	1.1	2.3	0.3	--
Subtotal	6.2	16.7	14.6	8.2	3.0
<u>Total Security/STP</u>	171.8	193.9	191.2	287.2	586.6
<u>% of Total P.L. 480</u>	(15.8)	(17.6)	(17.4)	(29.4)	(57.9)
<u>Commercial/Political</u>					
Korea	--	130.8	151.2	149.4	6.0
<u>% of Total P.L. 480</u>	(--)	(11.9)	(13.7)	(15.3)	(.6)
<u>Humanitarian</u>					
<u>Title II</u>					
Emergency	31.9	46.2	160.8	82.5	58.0
Other	231.1	256.6	242.9	207.5	209.0
<u>Total Humanitarian</u>	263.0	302.8	403.7	290.0	267.0
<u>% of Total P.L. 480</u>	(24.2)	(27.5)	(36.7)	(29.7)	(26.3)

LIMITED OFFICIAL USE



	Actual				Program
	1970	1971	1972	1973	Plan 1974
<u>Economic Development/ Long Term Political</u>					
Afghanistan	3.0	3.0	6.3	1.8	--
Bangladesh	--	--	--	--	38.1
Bolivia	7.2	0.4	3.9	2.7	13.8
Chile	9.2	--	--	--	--
Colombia	5.2	8.1	5.2	3.6	12.1
Dominican Republic	6.2	8.9	12.4	0.1	0.5
Ecuador	2.1	--	4.7	5.6	1.2
Ghana	17.8	11.0	6.5	2.4	--
India	186.8	146.6	33.4	--	--
Indonesia	128.7	126.6	114.9	103.8	10.8
Jamaica	--	--	--	--	0.8
Korea	99.0	--	--	--	--
Morocco	2.9	17.5	24.8	1.2	9.3
Pakistan	85.4	63.6	67.2	70.6	30.1
Paraguay	1.5	2.7	1.6	--	--
Philippines	9.5	9.2	20.4	23.3	7.0
Sri Lanka	7.3	8.1	21.2	10.9	4.4
Sudan	--	--	--	1.1	5.0
Tunisia	16.8	12.1	14.1	3.5	8.6
Turkey	37.1	20.1	3.1	--	--
Total Economic Dev/LTP	625.7	437.9	339.7	230.6	141.7
% of Total P.L. 480	(57.6)	(39.7)	(30.8)	(23.4)	(14.0)
<u>Market Development</u>					
Brazil	22.2	22.6	1.1	--	--
Iran	2.4	12.9	13.6	7.4	7.9
Jamaica	--	--	0.5	0.2	--
Korea	--	--	--	--	4.3
Uruguay	0.3	1.5	--	12.7	--
Total Market Dev.	24.9	37.0	15.2	20.3	12.2
% of Total Title I	(2.3)	(3.4)	(1.4)	(2.1)	(1.2)
TOTAL P.L. 480	1085.4	1102.4	1101.0	977.5	1013.5



A. Security/Shorter Term Political Objectives

Although in a broad sense most food aid programs can be considered as serving political ends, the establishment of this category of objectives represents an effort to be somewhat more specific. The country food aid programs included under this heading in the table above either would not have been carried out or would have been somewhat smaller in size if based solely on developmental and other standard PL 480 criteria. Other country programs, notably the large scale food aid efforts in Indonesia and Pakistan have a high political content also but are provided in the context of a major U.S. development assistance program.

Programs under this heading may be divided into two sub-groups. In one group there are the relatively large scale security-related programs in Southeast Asia and the Middle East along with programs explicitly undertaken to protect base rights. In the second group are programs, usually small in size, frequently aimed at less specific goals such as the maintenance of continuing good relations.

With respect to the security related programs, food aid cannot be judged an inherently more effective form of assistance than the grants of dollar aid which comprise the bulk of U.S. economic assistance designed to achieve such objectives. Dollar grants for general commodity imports can provide recipients with the greater economic flexibility which is normally desirable in security-related budget and balance of payments support situations.

Nevertheless, two aspects of food aid, under current legislation, have made it an effective substitute for dollar grants. First, concessional food sales constitute a fast disbursing form of aid available on soft terms, and unencumbered by the host of economic criteria accompanying development loans -- the other potential substitute. Second, because there is no effective legislative limitation on the size of the annual PL 480 program, food aid can be initiated or increased in a recipient country in the absence of other aid. The main program limitation on security related food aid is the absorptive capacity of recipients for commodities. A second potential limiting factor is the willingness of the Congress to permit food aid to be used on a massive scale for security objectives.

Where priority for assistance is high, where commodity import financing is called for and where other sources of



funding are unavailable, food aid represents an effective form of assistance. As a corollary where security objectives require high levels of food aid, the assurance of program continuity provided by earmarked or relatively large food stockpiles becomes relatively more important.

Where food aid is directed at other political objectives, its value is more doubtful. With respect to those programs intended to maintain good relations or transmit a signal of U.S. interest, the effectiveness of any form of assistance is open to some question. Such programs tend to proliferate and require continuing annual shipments which can put pressure on availabilities for higher priority uses. Because the quantity of assistance needed in such cases is difficult to determine, shipments tend to gravitate toward the level of prior years. Without adequate stockpiles these programs will cut back in times of short supply with adverse political ramifications, yet it is questionable whether stockpiling is warranted to assure their continuity.

Given the difficulty in relating the provision of food aid to political outcomes, as a general rule it would appear that food should be provided only where the objective is relatively specific.

B. Humanitarian Objectives

Food aid grants under Title II, which are normally provided directly to individuals in recipient countries, are broadly justified on the basis of humanitarianism although these grants can also serve developmental and political purposes. The Title II program has been popular with the public and the Congress even during periods of tight food supplies. The importance attached to humanitarian aid led to the continuation of the greater part of the ongoing Title II program in 1974 when other food aid was being sharply reduced except for Southeast Asia. Continuation of the Southeast Asia programs without maintaining humanitarian food aid would undoubtedly have aroused congressional hostilities.

The Title II donation program may be divided into two major segments: emergency/disaster relief and ongoing or regular feeding activities.



Food donations have been very effective in alleviating hardship and preventing starvation in emergency and natural disaster situations in the poorest countries. Food is frequently the largest and most immediate need in these situations. Food aid in donation form is particularly appropriate for the poorest countries, and where specific areas or groups of people have been affected. Concessional Title I sales are more appropriate in other instances.

The relatively unrestricted food aid authority permits rapid and large scale responses to disasters. Except in the case of relatively small disasters which can be met from the limited foreign assistance contingency fund, grant dollar aid to meet emergencies requires congressional authorization and appropriations, normally preventing the immediate response necessary in disaster situations.

Determining the appropriateness of food aid to the ongoing activities under the present Title II program is more difficult. The broad objective of these activities is improving the welfare of the poorer segments of LDC societies by an income transfer -- in these cases through the transfer of food. Grant dollar aid potentially could have the same effect as food aid at somewhat lower administrative costs. A dollar grant welfare program for poor people abroad would not, however, win much acceptance in the United States, in part because dollars are more likely to be diverted from the intended recipients. Food aid grants, on the other hand are accepted as providing a more direct U.S. response to a basic human need abroad.

Given the case for food aid as a means to humanitarian objectives, there remains the complex problem of how it should be programmed. The magnitude of poverty in developing countries makes the need for food aid open ended both in size and duration. The available U.S. resources are hardly sufficient to have a meaningful welfare impact worldwide. One criticism of the Title II program has been that it spread resources thinly among a number of countries and activities. Food aid also has tended to be provided where distribution was easiest rather than where the need was greatest or where the potential nutritional benefits inherent in providing food were greatest.

In recognition of these problems, the Title II program has over time shifted to a high priority emphasis on providing nutritionally significant types and quantities of food to the groups judged most vulnerable to the effects of



malnutrition -- pregnant and lactating mothers and preschool children. Effective programs in this area are difficult to design and require recipient government support if they are to have lasting impact. Thus maternal child health (MCH) programs have only slowly become a larger proportion of ongoing Title II activities, reaching 24 percent in 1974. While future program growth in this area may also be slow, it represents potentially a highly effective means of providing food aid.

Second priority in programming Title II shipments has been assigned to food for work activities, which have replaced the former family feeding projects. Under these programs, which have ranged between 15 and 30 percent of ongoing programs, the assurance of nutritional impact on vulnerable groups is traded off against economic and community development benefits. The importance of aid in the form of food to these activities is not as clear as with MCH. Program effectiveness does depend on careful planning and organization to maximize impact of the small scale, village level projects. Where such a management capability does exist, this type of activity has been judged to be a highly effective means of providing food aid grants.

Nearly 50 percent of ongoing food aid is provided through school feeding programs which are aimed at producing nutritional benefits while improving school attendance and educational performance. Existing organizational mechanisms of the education system can be used to facilitate distributing the food. Nevertheless, because these programs are not specifically targeted at the nutritionally neediest groups, and because they tend to spread nutritional resources thinly, school feeding activities are being assigned a lower priority in the allocation of Title II resources.

C. Economic Development Objectives

In the past a major portion of the concessional food aid sales were provided as part of the U.S. development assistance program in recipient countries. More specifically, in line with the 1966 amendments to PL 480 sales agreements must link food aid to recipient measures to improve agricultural performance.

Much attention was given to these self help conditions during the mid 1960's, reflecting the more interventionist style of the foreign aid program at the time. On several occasions the conclusion of agreements was delayed pending assurances from recipient governments that they would provide increased resources to promote food production.



This approach tended to produce bilateral confrontations with adverse political ramifications.

With the shift to a less interventionist approach in recent years, self-help stipulations have been given little emphasis. Concessional sales have been treated more as general budget/balance of payments support similar to dollar aid program loans.

The relationship of food aid to development is indirect. To the extent that food aid provides long term financing for imports that would otherwise have been made, it does free foreign exchange for other uses including investment in physical production and human resource capacity. Whether productive investment will result from food aid is of course very difficult to determine.

To the extent that concessional food sales result in additional food imports, they are unlikely to produce economic growth and may serve as a disincentive to LDC agricultural production by depressing prices, although this latter outcome is uncertain.

Many arguments for and against the effectiveness of food aid were presented during the course of the study. The value of food aid as a means of non-inflationary budget support was cited as well as its use in restraining excessive food price increases, permitting governments to pursue expansionary economic policies without undue hardship to consumers. Conversely, it was pointed out that food aid may encourage population growth and divert the attention of recipient governments from the needs of their countries' agricultural sectors.

None of these arguments can be very clearly joined outside the context of specific country programs. The effectiveness of food aid in a country context will depend on careful analysis to determine its likely economic impact and, as necessary on the setting of conditions related to its use. This does not, on the whole, appear to have been the pattern in recent years for determining what countries shall receive food aid and in what amounts. Moreover to adopt such an approach may lead to excessive intervention and confrontation. Nevertheless, in the absence of careful programming, P.L. 480 cannot be considered a highly effective economic development instrument.



D. Market Development Objectives

Although relatively few PL 480 programs are undertaken solely for market development purposes, the program as a whole has been viewed as contributing to this goal. Food aid aimed at other objectives can introduce U.S. commodities and suppliers to recipients, promote long term supply relationships and protect traditional U.S. markets for some commodities through tied commercial import requirements from the United States as a condition of PL 480 sales. Evidence of the success of food aid in promoting markets has been found in East Asia where former PL 480 recipients such as Taiwan are now large scale commercial importers of U.S. commodities.

Where PL 480 programs are undertaken with no other aim than market development the question of cost becomes a greater factor. Specific benefits should be apparent before the soft credit terms of PL 480 are employed. The question of the future role of PL 480 in market development is, however, best examined in the context of broad U.S. export promotion policies.

Given continuing congressional interest in the use of PL 480 for market development and the relatively small size of the specifically targeted programs, market development activities could be continued without significant impact on the rest of the food aid program.



V. Costs

When the United States faced surplus production difficulties, the true cost of PL 480 to the budget was considered to be substantially lower than the market price at which commodities were purchased. The differential was accounted for by domestic commodity program costs which would have been incurred if commodities were not shipped overseas under PL 480. A CEA staff analysis indicates that in 1970, for every dollar of food aid shipped about 35 cents was saved in farm program costs. In addition the present value of the loan reflows under Title I (at a 10 percent discount rate) reduced the budget cost by another 33 cents. By 1974 this calculation was no longer valid. Farm program costs affecting PL 480 had dropped to zero, and the program was creating some price pressure.

Under new farm legislation covering most commodities shipped under PL 480, high production including production for food aid, will be a major objective so long as market prices remain above target or minimum price levels. Under these circumstances, food aid costs will equal the market value of the commodities. Should market prices begin to fall below these targets, government payments to farmers are required to make up the difference. Because of the potentially high budget cost of such government payments, farm programs to retire acreage from production are likely to be instituted to maintain prices above targets. If there is a likelihood of large overproduction requiring the retirement of substantial amounts of land, set-aside payments to farmers may be necessary to assure land retirement. To the extent that an increase in food aid would reduce or obviate the need for set-aside payments, the real budget costs could be considered as lower than the market value of the commodity shipped by the amount of the savings in set-aside costs. These costs offsets cannot now be predicted with any accuracy.

The fact that food aid would be relatively cheaper in budgetary terms when it reduces set-aside payments does not necessarily argue for its use. Stockpiling could represent an alternative to food aid for current consumption depending on the costs and benefits of the particular stockpiling scheme. Moreover, there will still be substantial additional costs associated with food aid. From a domestic commercial viewpoint food aid represents the least cost/effective means of dealing with excess capacity.



Several factors affecting the Title II program costs are worth a special note. First, of course, costs are not offset by loan repayments. Second, in addition to the basic commodity costs, food donations involve processing, packaging, and fortification costs of perhaps 20 percent of total commodity value. These costs presumably increase the effectiveness of donations in achieving their humanitarian objectives.

Third, Title II also involves larger freight costs than Title I. The full cost of all commodities shipped is grant-financed under Title II whereas only the differential between U.S. and foreign flag freight rates on bulk shipments is financed as a grant under Title I. As a result, freight costs for Title II shipments amount currently to 36 percent of commodity costs versus about 5 percent for Title I.

Finally, Title II shipments probably involve a high proportion of additional demand with resulting price raising potential. Thus, while food donations appear to be an effective means of achieving certain humanitarian objectives, a careful cost-benefit calculation would be in order for individual programs.



VI. Public and Congressional Attitudes

Public attitudes toward foreign aid are, of course, difficult to gauge except in general terms. There appears to be a continuing broad base of public support for food aid, at least for humanitarian assistance directed at the poor, particularly in disaster situations. High food prices and potential food shortages do not appear to have weakened this sentiment in the short-run, although the long-run impact of continuing tight supplies would be difficult to forecast. Public support for development assistance does not appear especially strong or if so is not effectively registered through the Congress. However, the humanitarian aura surrounding food aid probably tends to make the public more receptive to the use of food to promote development. The use of food for security related purposes arouses the most vocal and specific public opposition, although this has not to date had a significant impact in Congress.

Any decision to stop using food for disaster aid or to eliminate food donation programs would meet with strong public opposition, effectively mobilized by the U.S. voluntary agencies. Beyond this, increases or decreases in food aid are unlikely to attract much public interest. The public might, however, be mobilized behind a major U.S. food aid initiative in response to the world food problem particularly if such an initiative created an image of strong U.S. leadership in the world and involved an international burden sharing arrangement. This support could become quite significant if there were a dramatic threat of starvation abroad and falling food prices at home.

While Congress in general mirrors these public attitudes, the critical viewpoints are in the farm bloc and specifically in the agriculture committees. As long as these committees have jurisdiction over the program, any conflict between U.S. agricultural interests and food aid objectives is likely to be resolved in favor of the former. In this sense, food aid will continue to be a residual program. Removing food aid from agriculture committee jurisdiction, however, would probably also entail a shift in financing to the Foreign Assistance Appropriations Act. In turn, this would probably remove the access of the food aid program to CCC borrowing authority and hence the vital flexibility available to the program would be lost.



Except in short supply situations, where they would probably favor traditional commercial export customers over food aid recipients (aside from the most critical cases), the Agriculture Committees are likely to support large scale food aid. Moreover, they are likely to oppose restrictive amendments on food aid (which tend to be pushed in the foreign affairs/relations committees), provided that the food aid program involves some market development activity, appears responsive to specific commodity interests in its implementation, and is not entirely oriented toward security related activities. The committees will insist on a relatively high ratio of credit sales to grants. Any effort to phase out the food aid program would meet with Agriculture Committee opposition. Congress as a whole is unlikely to override the Agriculture Committees' positions.



VII. Multilateral Aspects

A. Burden Sharing

Since the early 1960's the U.S. has, with some success, encouraged other countries to share the food aid burden; but the U.S. remains by far the largest donor. Our share of total food aid dropped from 95 percent to 76 percent between 1960 and 1972. Two arrangements for burden sharing have been encouraged.

- The UN World Food Program (WFP) which serves as a channel for food aid in which the U.S. share of the \$220 million annual program for each of the next two years will be 32 percent.
- The Food Aid Convention (FAC) of the International Grains Arrangement, a food aid accounting mechanism for wheat and feedgrain shipments, in which the U.S. share is 1.9 million tons or 45% of the 4.2 million ton total.

Although there is no prohibition on attributing grain provided to the WFP against the FAC commitment, the U.S. traditionally has not done so. Thus the total U.S. grain shipment obligation under both arrangements would be about 2.5 million tons, well below the 3.8 million tons to be shipped under P.L. 480 in tight-supply 1974.

In addition to the value of burden sharing itself, FAC and to a lesser extent WFP have been seen by the U.S. as a means of diverting other countries' commodities from commercial channels, enhancing U.S. commercial export prospects. No sacrifice for the U.S. has been involved because, for other reasons, P.L. 480 shipments have been far above the U.S. obligation under the arrangements. While FAC has served the dual purposes of burden sharing and diversion to date, it is not certain that U.S. exports have benefitted significantly thereby. The EEC is now questioning the value of extending it for the future. There is no very good basis for assuming that other donor nations will increase food aid at the potential price of increased dependence on food imports or a reduced share of world commercial markets.



B. Food Aid Commitments

During preparatory discussions on the World Food Conference, the question of a food aid commitment by donor nations has arisen. Secretary Butz has also proposed a commitment scheme although on an annual basis.

One year commitments to a minimum level of food aid, made when reasonably good information is available on upcoming U.S. harvests, would not differ greatly from current programming practices under which an annual budget plan is normally prepared during July or August. The commitment would presumably not be country specific. The main risk in such a commitment would occur if stocks were relatively low. An unanticipated tightening of the supply situation would leave the U.S. obligated to procure commodities at any price, a fact which would not be lost on the trade. An annual commitment would also prevent subsequent budget cutbacks in food aid which might be warranted by changes in U.S. fiscal policy. These risks could be lessened by setting commitment levels somewhat below actual program plans. Even if the full planned amount were committed, however, it seems unlikely that annual commitments would lead to any significant foreign policy benefits for the United States.

A longer term commitment by the United States, for example 3-6 years, might be welcomed by the LDC's, depending on the level. A commitment in the 3.8-4.5 million ton range for grain would probably not have much impact because many past recipients of U.S. food aid have been denied assistance at this level this year. A commitment in the 6-9 million ton range would have greater effect. Such a commitment would require earmarked or large unearmarked stocks. Moreover, the lack of any flexibility to cut annual program levels would call either for setting back-up stocks at conservatively high levels or for deciding in advance that cost increases from possible market purchases in times of commodity tightness would be accepted if stocks were not sufficient. Under either circumstance the cost of such a commitment -- annual shipments plus provision for back-up--could be high, very high under a tight commodity scenario.

A large annual commitment by the United States would improve prospects for food security in the developing countries, where it is needed most, and could promote better economic planning. A U.S. proposal would put pressure on other donor countries for similar commitments. It could be framed



in terms of a multilateral arrangement, possibly involving increased food aid burden sharing by others. Also the foreknowledge of a fixed amount of concessional demand would improve decision making on annual U.S. commodity programs.

The likelihood of other specific benefits from a long-term food aid commitment is less certain. It is not clear, for example, whether the LDC response could be converted into support for the United States on trade, raw materials access and other issues. Without a reasonable assurance of some benefits of this sort, a long-term commitment becomes less attractive. Moreover, while initial reaction to a commitment on the part of developing countries may be highly favorable, the potential leverage from subsequent annual food aid agreements may be diminished as countries begin to view them as filling an obligation.



VIII. Options

The options below set forth several alternative future strategies for food aid and their relationship to stockpiling options and other foreign aid. Although the size of the various programs is notionally quantified in terms of metric tons of grain, the stress in the options is on the overall approach and the objectives to be served. Option IV would constitute a relatively radical shift from current assistance trends and has not been elaborated in detail.

Option I -- Phase down ongoing food aid and provide food only in emergency and disaster situations. Under this option, food aid would be rapidly cut back for all objectives except disaster relief and security programs in Southeast Asia, the latter being phased out more gradually. Disaster aid would be provided from year to year based on assessments of the commodity circumstances and the requirements at the time. In most years possibly .5-1.5M tons of grain would be shipped.

Commodity Scenarios - The approach would fit a continuing very tight supply situation. It would not be consistent with other scenarios.

Stockpiling Options - Under very tight commodity constraints, stockpiling would not be feasible. Under other scenarios there would be no need for major concessional stockpiles.

Dollar Aid - This option would require increased dollar aid to offset reductions in food aid from present levels, particularly for Indochina; such additional dollar aid would be difficult to obtain from the Congress.

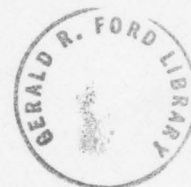
Pro

1. Under a continuing tight supply situation such a program would represent the most reasonable and feasible approach.

Con

1. In anything but a tight supply situation this approach would meet with opposition from LDC's, the American public, and the Congress.

2. Under easier supply scenarios the U.S. would be foregoing significant benefits from food aid.



3. By removing the mainstay of their overseas operations, this approach would seriously injure CARE and Catholic Relief Services.

4. The approach would force the U.S. to abandon its international food aid burden sharing commitments.

Option II -- A program limited to disaster relief, the highest priority security assistance requirements and food donations for high nutritional impact activities. To the extent warranted by the commodity situation this approach would maintain existing U.S. Food Aid Convention and World Food Program obligations and continue voluntary agency programs at minimal levels. The approach might call for shipments of 2.5-4.5 million tons of grain annually.

Commodity Scenarios - This option would fit a reasonably tight continuing situation and a cyclical situation. It would not be consistent with a long supply scenario.

Stockpiling Options - The approach would probably not require large or earmarked stocks to maintain program continuity.

Dollar Aid - The approach would have no particularly strong implications for other foreign aid levels. Dollar aid could be focussed on LDC agricultural production.

Pro

1. The program would be directed at activities in which food aid appears to have the highest utility.

2. The program probably could be continued during all but the tightest world commodity situations avoiding procyclical effects.

3. The approach would be flexible enough to permit continuation of U.S. international commitments, some voluntary agency programs, and limited market development activities, broadening its political acceptability.

4. Although not requiring large stocks in support of food aid, the approach would limit current consumption food aid requirements, permitting larger quantities of food to be stockpiled during high production years.



5. The approach would meet the highest priority objectives at low budget cost and limit potential price pressures from food aid.

Con

1. The United States would forego the use of PL 480 for major political initiatives and for developmental and humanitarian objectives.

2. In cyclical upswings, this option represents less food aid than LDC's would expect, possibly leading to less cooperation by them on a variety of international political and economic issues.

3. The option might be opposed by the farm bloc and the U.S. voluntary agencies, particularly if set-asides were in effect.

4. The United States would probably not obtain significant benefits from pledging the levels of grain implied by this option as a continuing annual food aid commitment.

Option III -- Continue the present multi-purpose program emphasizing disaster relief, security/short-term political objectives and nutrition programs but supporting development assistance objectives as well. The program could range around the 9 million ton grain shipment levels of 1969-72.

Commodity Scenarios - This option would not be consistent with a short supply scenario, but would be consistent with cyclical or long supply conditions.

Stockpiling Options - This option would require concessional stockpiles or a large general stockpile if program continuity is to be maintained.

Dollar Aid - The approach would have no particularly strong implications for other foreign aid levels. Food aid could be programmed in conjunction with dollar aid to achieve developmental objectives.

Pro

1. Would permit the use of food aid to meet a variety of foreign policy objectives and support major political initiatives.



2. Would be broadly acceptable among LDC's, raising prospects of cooperation by the latter on international issues.

3. Would be preferred by the voluntary agencies and the farm bloc.

4. Would imply shipment levels large enough to make possible a long term commitment to annual food aid levels.

Con

1. Would tend to encourage the use of food aid to meet lower priority needs, and remove pressures for careful programming.

2. Could involve relatively high budget costs, particularly if concessional stocks were established to ensure program continuity.

3. Could constitute a disincentive to increased LDC agricultural production, increasing their food dependency.

Option IV - Use food aid and dollar aid in a major long-term effort to raise and underwrite per capita consumption and production levels in LDC's. This approach would flow from the conclusion that low nutritional levels and low growth of per capita agricultural production in the LDC's represent critical social and economic problems for the future. Bilaterally or through a major multilateral effort, the United States would consider setting tentative consumption targets for developing countries and the poorest segments within countries. Food aid would be used to immediately increase consumption. The higher consumption levels would be maintained from stockpiles in tight supply years. Dollar assistance would be focussed on raising food production over the intermediate term and on encouraging population control activities. The program would be undertaken only in developing countries which were willing to increase their own emphasis on the food sector. A bilateral approach could focus on selected countries; a multilateral arrangement might cover a large number of LDC's. The size of the food aid program under this option is difficult to specify but would probably be large. Large stockpiles would be required and dollar development assistance levels would be high. The approach would be consistent with a cyclical commodity scenario assuming large and relatively long-lasting upswings in production over trend or with a long supply scenario.



Pro

1. This option constitutes a dramatic U.S. initiative and assertion of U.S. leadership in attacking the world food problem.

2. The approach focuses U.S. development assistance efforts on a relatively limited set of problems -- food, nutrition and population growth -- where demonstrable results might be obtained over time.

3. The option could assure full or nearly full use of U.S. agricultural capacity over a long time frame.

Con

1. This potentially would be a very costly option.

2. The approach could lead to substantial U.S. entanglement in LDC political and economic affairs.

3. Unless carefully programmed, food aid under this approach could have a distinctive impact on LDC agricultural production.

4. The approach would tend to limit flexibility for using food and dollar aid for security/political purposes.

5. The approach might not be supported by other donor countries.



le

