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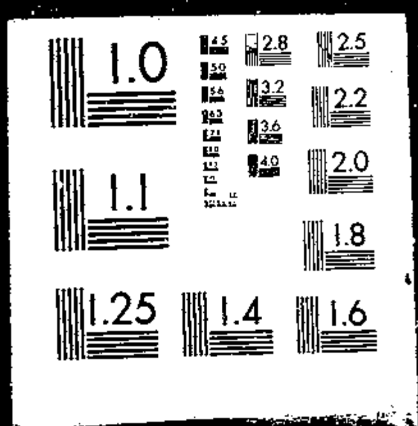

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Foreign Agricultural Economic Report No. 142

P.L. 480 CONCESSIONAL SALES

- History
- Procedures
- Negotiating and Implementing Agreements

ECONOMIC RESEARCH SERVICE U.S. DEPARTMENT OF AGRICULTURE

P.L. 480 CONCESSIONAL SALES--HISTORY, PROCEDURES, NEGOTIATING AND IMPLEMENTING AGREEMENTS. By Amalia Vellianitis-Fidas and Eileen Marsar Manfredi, Foreign Demand and Competition Division, Economic Research Service, U.S. Department of Agriculture. Foreign Agricultural Economic Report No. 142.

ABSTRACT

This report includes (1) the origin and history of Public Law (P.L.) 480, (2) general and specific considerations in negotiating P.L. 480 agreements, and (3) procedures for implementing the agreements. The glossary lists P.L. 480 terminology. The report revises two previous reports--FAER-17 published in 1964 and FAER-65 published in 1970.

Keywords: Public Law 480; concessional sales.

Washington, D.C. 20250 December 1977

PREFACE

This report revises and updates "P.L. 480 Concessional Sales-History, Procedures, Negotiating and Implementing Agreements" Foreign Agricultural Economic Report, FAER No. 65, 1970, and "Financial Procedures Under Public Law 480" FAER No. 17, 1964, both published by the Economic Research Service, USDA. Since the 1970 report the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) has been further amended. Some of the recent amendments have effected changes in the financial and related procedures of the P.L. 480 program as well as in the criteria used for assisting countries which have persistent food shortages.

The purpose of this report is to describe the P.L. 480 program in general and the most recent changes in the act in particular.

This report describes (1) the origin and history of P.L. 480 and recent amendments to it, (2) the payment arrangements authorized for concessional sales, and (3) general and specific considerations in negotiating sales agreements between the United States and recipients of P.L. 480 commodities.

The information in this report was compiled specifically to aid U.S. Government officials associated with the P.L. 480 program (especially those in the Departments of State, Treasury, Defense, Commerce, and Agriculture) and for officials of nations that receive aid through this program or that may expect to do so. It should also help private U.S. exporters who wish to enter the program, U.S. and foreign private entities that might receive loans of foreign currencies under conditions specified in the law, and U.S. and foreign banks engaging in international financial transactions. This report may also interest economists, farmers, educators, students, and those concerned with helping alleviate food shortages wherever and whenever they occur and with expanding U.S. markets for agricultural products.

Much of the information concerning the description of the act, the steps in negotiating agreements, and P.L. 480 terminology has in the opinion of the present authors withstood the test of time. Accordingly the authors borrowed heavily for these sections from FAER No. 65 by O.H. Goolsby, G. R. Kruer and C. Santmyer.

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SUMMARY

The U.S. food aid program is based on Public Law (P.L.) 480, passed in 1954, and its subsequent amendments. This publication, a review of the history of food aid under the program and a description of how it operates, is designed for those who participate in the program and those who want to learn about U.S. foreign food assistance.

Present authorization for P.L. 480 was renewed for another 4 years through the Food and Agriculture Act of 1977 and the International Development and Food Assistance Act of 1977. The most recent changes, passed in 1974 and 1975 and amended in 1977, made selection of recipient countries dependent on per capita income. This was done to help those countries which had been adversely affected by the grain and oil crisis in 1972-74. This revision of the report reflects these changes.

As enacted in 1954, the P.L. 480 program had been designed to reduce U.S. grain surpluses and expand our export markets, as well as to aid foreign countries. In 1966, it was amended following a decline in U.S. grain stocks and a sharp drop in grain production in India, to place an emphasis on combatting hunger and increasing agricultural production in recipient countries. A shift in the United States from surpluses to shortages of supplies in the early seventies stimulated the most recent amendments. P.L. 480 goals now include U.S. commodity supply management, development of export markets, meeting of humanitarian food needs, long-term agricultural and economic development in recipient countries, and use of food aid as a foreign policy instrument.

P.L. 480 shipments include concessional sales, grants, and, formerly, barter arrangements. This report is almost exclusively concerned with Title I, which encompasses all concessional sales agreements.

Under Title I, the United States finances the sale and export of commodities, with the actual sales made by private U.S. suppliers to foreign importers, government agencies, or private trade entities. The commodities are then usually resold in the recipient countries (or used to build stocks) and the local currency proceeds are used by the recipient government for the purposes specified in the sales agreement. Repayments to the United States by the recipient government will be made in subsequent years, as specified in the sales agreement. The total value of Title I sales through fiscal year 1976 was almost $17.9 billion, or 71 percent of total P.L. 480 exports. Over two-thirds of these sales came from sales for local currencies.

Title I originally permitted recipient countries to pay for concessional sales with foreign currencies. However, this provision was terminated, and no new sales for foreign currencies were made after 1971. Sales for convertible local currency credit were instituted as a transition to sales for dollar credit. These two methods provide for repayment in U.S. dollars on a deferred payment basis, subject to minimum and maximum repayment terms, as specified by Congress. Repayment terms are longer under convertible local currency credit than under dollar credit.

The request for a P.L. 480 program goes through many steps before a Title I sales agreement is signed. The request is initiated by the foreign nation, acted on by the USDA through the Office of the General Sales Manager, and approved or rejected by the Interagency Staff Committee (ISC). After clearance by other interested parties, the U.S. officials in the recipient country negotiate and then sign the agreement with officials of the recipient country. The steps taken to execute the actual sale and shipment are detailed in this report.

Aside from the Title I sales agreements, P.L. 480 authorized grants and barter agreements. Title II includes all grants of P.L. 480 commodities given to recipient countries for emergencies and for ongoing programs. Between fiscal years 1955 and 1976, these grants equaled $5.5 billion, or 22 percent of the value of all P.L. 480 exports. The grants are given either directly to the recipient government as a bilateral agreement with the United States, through nonprofit voluntary U.S. agencies, or through the World Food Program of the United Nations.

The barter program under Title III of P.L. 480, which was suspended in 1973, was carried out by private U.S. firms under contract. The purpose of the barter program was to acquire foreign-produced strategic materials for U.S. Government stockpiles and to procure goods and services for U.S. Government agencies overseas.

The main recipients of total P.L. 480 assistance since 1954 have been India, Pakistan, South Korea, South Vietnam, Egypt, Indonesia, and Yugoslavia. Recipients benefit from the program through savings of hard currency spent on imports, immediate budgetary support from the domestic sale of the commodities, and the substantial grant element realized in paying for the Title I sales, in periods of up to 40 years, at low interest rates.

The United States derives important benefits from the program. P.L. 480 has increased foreign demand for U.S. agricultural exports, expanded commercial markets, aided U.S. balance of payments by use of accumulated local currencies for official obligations, and aided economic development and foreign policy goals. The principal agricultural commodities shipped under P.L. 480 have been wheat, rice, feed grains, cotton, tobacco, and dairy products.

The P.L. 480 legislation provides for stipulations to assure that various U.S. goals are met in the operations of the program. Whenever practicable, the recipient country makes an initial payment of at least 5 percent. A payment in local currency can be stipulated in the sales agreement if needed by the United States for use in the recipient country. In compliance with the Cargo Preference Act, at least 50 percent of the quantity of the P.L. 480 commodities must be shipped on U.S. flag vessels.

Several requirements of the P.L. 480 program are stipulated in order to avoid displacement of commercial exports from the United States and friendly foreign nations from concessional sales. Usual marketing requirements establish a quantity, based on past commercial imports, that must be imported commercially by the recipient country. Other requirements of the law bar the transshipment of P.L. 480 commodities by the recipient, or the exporting of similar commodities without specific U.S. approval. Third-country consultations are held with other friendly exporting nations to avoid market disruptions.

Foreign policy considerations include meeting food needs abroad and encouraging agricultural production through the self-help measures spelled out in each agreement. These measures are to be undertaken with the proceeds from the sale of the commodity in the recipient country. The law precludes sales agreements with certain groups of countries, such as those considered as unfriendly or aggressive to the United States.

There are many steps taken after the negotiation and signing of a Title I agreement. They include the contractual arrangements involved in the sales and shipping of the commodities and the financial arrangements through various banks. These steps from the issuing of a purchase authorization through the distribution of commodities in the recipient countries are described in detail in the report.

P.L. 480 CONCESSIONAL SALES--HISTORY PROCEDURES, NEGOTIATING AND IMPLEMENTING AGREEMENTS

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BACKGROUND

Basic Objectives of P.L. 480

Public Law (P.L.) 480, 83rd Congress, Agricultural Trade Development and Assistance Act of 1954, as amended, states that it is U.S. policy "to expand international trade; to develop and expand export markets for U.S. agricultural commodities; to use the abundant agricultural productivity of the United States to combat hunger and malnutrition and to encourage economic development in the developing countries, with particular emphasis on assistance to those countries that are determined to improve their own agricultural production; and to promote in other ways the foreign policy of the United States."

Through the years, some objectives of the act have undergone changes to meet the needs that have arisen under changing U.S. and world food supply and demand situations. The following section attempts to describe the historic background and setting of P.L. 480.

Historical Setting

With respect to agricultural trade, two important threads have run throughout U.S. history. The first has been frequent periods of agricultural surpluses which have depressed farmers' prices and income. The second has been the continuing importance attached to the maintenance and expansion of export markets for U.S. agricultural commodities.

As a young nation, the United States was largely an exporter of agricultural goods and an importer of industrial goods and equipment. In Colonial times, 75 percent of all exports were agricultural.

During the period from 1869 to 1900, foreign markets absorbed 18 percent of all U.S. farm products sold, and U.S. farm exports constituted about three-quarters of all exports. During both world wars, the United States was the major source of food and fiber commodities for our European allies. Soon after World War I, however, decreased foreign demand caused severely deteriorating farm prices. Farmers and farm leaders advanced various plans including export subsidies, to restore depressed farm incomes. In 1921-22 and 1930, tariff bills were passed which included import duties on a long list of agricultural commodities. Farm exports were even more actively encouraged with the formation of the Grain Stabilization Board in 1931. The Board was empowered to make sales to foreign governments, to give price concessions, and even to provide gifts. Other acts were also passed in the thirties to help the farm sector through export subsidies.

Several laws were passed during World War II authorizing the sale of surplus stocks to foreign countries for food reserves and the exchange of agricultural surplus commodities for strategic and critical materials from abroad. For example, in 1940 and 1941, Congress authorized an appropriation of $100 million worth of U.S. agricultural products to be distributed to war refugees. During the war and for several years after, price stabilization and maintainance of adequate prices for farmers were not difficult to achieve. Price supports and production restrictions were generally not required. In fact, after the war prices rose sharply as a result of increased domestic and foreign (primarily relief) demand and the removal of price ceilings.

By 1948 farm prices and income began to decline again, and Congress passed the Agricultural Acts of 1948 and 1949 to support farm prices. Under these laws loans to farmers increased and inventories accumulated.

Farm surpluses accumulated in these years and the early fifties at great cost to the U.S. Government. The Korean War gave temporary respite to this situation. As the conflict grew, Europeans in particular began purchasing in international markets in order to stockpile against possible food shortages. By 1953, however, agricultural exports returned to more normal levels and in that year the net stocks of farm commodities increased significantly. Although acreage allotments and marketing quotas were reemployed, within the legal limits set in the thirties's, they proved inadequate in the face of steady increases in yields.

Parallel to these wartime and postwar events in the agricultural sector was the growing awareness within the U.S. Government and the private sector, as well as on the part of the individual citizen, of the interdependence of this country's political and economic goals with those of the rest of the world. World War II was a watershed in U.S. isolationist attitudes. During the postwar period, a strong willingness was indicated on the part of the United States to contribute to the reconstruction of Western Europe and to assist in the development of low-income countries not controlled by Communist governments. Acceptance and enthusiasm for the Marshall Plan, the formation of the United Nations, and the Truman Doctrine are all examples of this willingness. The farmer was aware that his highest income had occurred at times when foreign demand for his products was high, particularly during wartime.

At the peak of U.S. foreign aid programs in 1948-49, 60 percent of agricultural exports were financed by U.S. foreign aid programs. 1/ As European agriculture recovered and relief programs declined, these subsidized agricultural exports also declined considerably. During the Korean War, only 15 percent of farm exports were aid-financed. In 1953, world agricultural output was nearly equal to prewar output.

1/ Robertson, Ross M., History of the American Economy, p. 455.

Although agriculture had recovered in most European countries, all other indicators of economic growth had not. One particular bottleneck in economic expansion for Europe and in the less developed countries was a shortage of foreign exchange with which to buy needed capital goods.

It was in this context that P.L. 480 was enacted in 1954. This combination of public willingness to continue aid efforts to Europe and the less developed countries, the growing costs of stockpiling farm surpluses, and the lack of foreign exchange on the part of U.S. trade partners which curtailed their demand appear to have been the three most important factors in creating P.L. 480. At the time of its enactment, recipient countries paid for U.S. agricultural commodities with their own nonconvertible currencies. These currencies, owned by the United States, almost always stayed in the recipient country and were spent as the United States and the recipient country agreed. Thus, the United States saved foreign currency it otherwise would have needed to spend in the recipient country. Furthermore, the recipient country saved foreign exchange which it could divert to buy other needed imports.

Amendments and Changes in Emphasis Since Enactment

Reflecting these factors, P.L. 480 in 1954 stated, among other things, that it was, "the policy of Congress, ... to make maximum efficient use of surplus agricultural commodities in furtherance of the foreign policy of the United States ... by providing a means whereby surplus agricultural commodities in excess of the usual marketings of such commodities may be sold through private trade channels ..." Upon signing the law, the President of the United States issued a statement expressing his pleasure with legislation "designed to check the accumulation of surpluses." He also recommended "... that the burdensome stocks which had already accumulated be liquidated over a period of time..." Grain surpluses, particularly wheat, were of major concern.

Despite the magnitude of the P.L. 480 program, usually exceeding $1 billion per year, stocks of wheat continued to grow with few exceptions until the mid-sixties. In 1966 the grain harvest in India was reduced drastically due to bad weather. The Indian population was increasing by an estimated 12 million a year and Indian food stocks were low. Mass starvation was a real possibility. The United States felt strongly obligated to assist India and other countries with similar problems, even though our own stocks were relatively low. This drastic change in circumstances precipitated a change in policy. Amendments to P.L. 480 in that year deleted reference to U.S. surpluses and it became U.S. policy to use this country's abundant, though not unlimited, agricultural productivity to combat hunger and malnutrition. In addition, it became a part of U.S. policy to use its agricultural capacity to assist countries that were determined to improve their own agricultural production (the self-help program).

As previously discussed it has long been an objective of the United States to expand agricultural trade through the use of various programs, including P.L. 480, in order to maintain a healthy domestic agriculture and balance of trade. However, another problem arose in the late fifties. In 1958, U.S. gold reserves declined by more than $2 billion, and concern over our overall balance of payments increased. As a result, the need to use P.L. 480 as a means of improving our balance of payments position intensified. Through the years, amendments to the law were passed which increased the possible uses of local currencies generated by P.L. 480 agreements. Typically, these uses were tailored to reduce the necessity of obtaining local currencies with dollars in the process of executing official U.S. Government business. In 1959, dollar credit (DC) sales with long-term repayment periods were provided for in Title IV of the act and in 1962, provisions were added for U.S. and foreign private trade enterprises to enter into DC sales agreements. In 1966, provision for both types of DC sales was transferred to Title I.

The amendments in 1966 represented a turning point in the history of P.L. 480. In addition to the policy changes incorporated into the law, the structure of the law was also revised considerably so that the program would make a stronger contribution to the U.S. balance of payments position. An amendment to the Act in 1966 required that the President take steps to assure a progressive transition from sales for foreign currencies to DC sales, or for those countries not capable of going directly to DC sales, to a new type of sales agreement called "convertible local currency credit" (CLCC) which was added to Title I. In accordance with the 1966 amendment, that transition was completed by the end of 1971. After that, no new local currency sales agreements were signed.

After the Food for Peace Act of 1966, U.S. food aid policy evolved from one with primary emphasis on shipping agricultural surpluses to one aimed at feeding hungry people, encouraging agricultural and overall economic development abroad, building commercial markets for our products, and supporting U.S. foreign policies. As a step toward eventual conversion to commercial sales, legislation stated that, where possible, countries should make an initial payment of 5 percent of the value of all commodities purchased under a sales agreement. To further emphasize self-help measures, recipient governments' use of local currency proceeds generated by the in-country resale of commodities was linked to specific self-help measures described in the sales agreements.

In the early seventies, the U.S. food reserve position shifted and affected world prices of grains. The 1972 shortfalls in grain in many countries, including the USSR, and heavy purchases from the United States, caused grain reserves to plummet and world prices to soar. The volume of agricultural products exported under the P.L. 480 program fell to its lowest level ever in fiscal years 1973 and 1974 due to domestic supply considerations. At the end of 1973 the Organization of Petroleum Exporting Countries (OPEC) quadrupled its prices for petroleum. With oil and food as major imports of most developing countries, the balance of payments deficits of these nations mounted. In recognition of the needs of the poorest countries, the International Development and Food Assistance Act of 1975 (P.L. 94-161, which amended P.L. 480) included new criteria for selecting P.L. 480 recipient countries. The law required that at least 75 percent of Title I sales go to countries with an annual per capita gross national product of $300 or less and affected by an inability to secure sufficent food for their immediate requirements through their own production or through commercial purchase from abroad.

Many of the other provisions of P.L 94-161 reflect the desire of the United States to contribute to the goals of the World Food Conference of November 1974. The Conference established an annual goal of 10 million tons of aid in grains from all sources. Because the United States is the major world food aid contributor, its action is vital to meeting this goal. The 1975 Act required that a minimum level of 1.3 million tons of food assistance be distributed annually under Title II of P.L. 480 as grants. This is the first minimum level ever enacted. Another new provision is the requirement of a semi-annual global assessment of food production and needs to be submitted by the President to Congress. The United States is thus attempting to assess and respond to world food needs while safeguarding an adequate level of domestic supplies.

The 1975 Act stressed the economic development aspects of the P.L. 480 program. In addition to linking the use of local currencies to closer farmer-to-farmer assistance, especially through the land-grant colleges, the new Act emphasized the importance of increasing agricultural production within the developing countries. The Act instructed the President to "relate United States assistance to efforts by aid-receiving countries to increase their own agricultural production, with emphasis on development of small, family farm agriculture, and improve their facilities for transportation, storage, and distribution of food commodities." A provision allowed the use of local currencies generated by sales of food in the recipient countries to be considered as repayments for a portion of the value of the agreement, if they are used for approved agricultural and certain other development projects.

The 1977 legislation changes the eligibility requirement so that 75 percent of Title I P.L. 480 assistance is to go to countries which meet the minimum per capita GNP level for lending by the International Development Association of the World Bank group ($550 in 1976 dollars). This requirement can be waived if it is determined that 75 percent of the food aid cannot be used effectively to carry out the humanitarian or development purposes of Title I. In addition, no Title I agreement can be made with any country which engages in a consistent pattern of human rights violations, unless it is determined that the aid that commodities or proceeds provide from their sales will be used for programs which will directly benefit the needy people of the country. The Act provides for increased minimum tonnages of commodities to be shipped. For fiscal years 1978 through 1980 the minimum tonnage shipped under Title II shall be 1.6 million metric tons, of which not less than 1.3 million metric tons shall be distributed through nonprofit voluntary agencies and the World Food Program. For subsequent fiscal years, higher minimums are set.

In addition, the 1977 legislation enlarges the scope and emphasis of the provisions for using revenues generated from Title I sales for development projects.

Thus, the objectives of meeting humanitarian food needs and encouraging long-term agricultural and economic development have become major objectives of the P.L. 480 program. At the same time, the goals of building commercial markets and maintaining markets for U.S. agricultural commodities remain important to the program. Food aid has been, and remains, an important tool of foreign policy as well.

Brief Description of the Present Act

There are four titles to P.L. 480 as amended and in general the titles cover the following aspects:

Title I	Concessional sales
Title II	Donations and disaster relief
Title III	Food for development and barter
Title IV	General provisions

Title I is by far the most important in terms of the value of commodities exported under the P.L. 480 program. Over 71 percent of the value of all commodities shipped from July 1954 through the end of June 1976 was financed under this title. Title I includes all concessional sales--that is sales, made at terms more favorable to the recipient country than to the commercial buyer. They are currently made either as DC sales to foreign governments or private trade entities (PTE's) or as convertible local currency credit (CLCC) sales. Local currency sales made under agreements signed prior to December 31, 1971, are also included in Title I.

Under Title I, the United States, through the Commodity Credit Corporation (CCC) finances the sale and export of commodities, with the actual sales made by private U.S. suppliers to foreign importers, government agencies, or private trade entities. The commodities are then usually resold in the recipient countries (or used to build stocks), and the local currency proceeds are used by the recipient government or PTE for the purposes specified in the sales agreement. Specific requirements of Title I agreements and negotiating and implementing procedures are discussed in the following sections.

Title II encompasses all grants of agricultural commodities under the P.L. 480 program carried out by cooperating sponsors. These sponsors include friendly governments operating under bilateral agreements with the United States, nonprofit voluntary U.S. agencies such as CARE (Cooperative for American Relief Everywhere) and CRS (Catholic Relief Services), international organizations such as UNICEF (United Nations International Children's Emergency Fund), and the World Food Program, a multilateral organization set up by the United Nations and the Food and Agriculture Organization (FAO). These grants support regular ongoing programs such as school feeding, maternal/child health programs, and food-for-work community development projects, as well as emergency disaster relief activities. The law requires that the President utilize only those nonprofit voluntary agencies registered with and approved by the Advisory Committee on Voluntary Foreign Aid in distributing commodities under this title. The administration of Title II is the joint responsibility of the USDA and the Agency for International Development (AID).

All commodities furnished under Title II must be clearly identified as being furnished by the people of the United States. For commodities shipped under this title, the CCC can pay for—in addition to the cost of acquisition--the packing, enrichment, preservation, processing, transportation, and other incidental costs.

Title III describes the new Food for Development Program. Its objective is to establish a relationship between U.S. food assistance under Title I and the efforts of developing countries to increase the availability of food for the poor and improve the quality of life for the poor. This goal is to be met by permitting the funds accumulated from the local sale of P.L. 480 Title I commodities to be applied against the repayment obligations of these countries to the United States, if these funds are used for programs of agricultural development, rural development, nutrition, health services, and population planning.

These programs may also include assistance to small farmers, sharecroppers, and landless farm laborers to increase their productivity. Countries must meet certain requirements to be eligible for this program. These requirements include a need for external resources to improve food production, marketing, distribution, and storage systems.

In addition, Title III retains the provisions of the barter arrangements of the Commodity Credit Corporation. These provisions describe the barter or exchange of CCC-owned agricultural commodities for strategic materials or offshore construction programs. The barter program was suspended in July 1973.

Barter activities were carried out by private U.S. firms under contracts signed by the CCC. Private contractors delivered materials to U.S. ports for the General Services Administration (GSA) to transport to stockpile locations. The contractors received agricultural commodities from CCC inventories and shipped them abroad, in accordance with their contracts.

Until 1962 barter transactions were primarily carried out to acquire foreign-produced strategic materials for U.S. Government stockpiles. After 1963, the barter program emphasized the use of U.S. commodities for procuring materials, goods, and services for U.S. Government agencies overseas. Since 1963, barter transactions for overseas procurement have been reclassified as commercial exports. The last strategic material contract was signed in 1967 and all material deliveries were completed by 1971. Procurement of goods and services for other Government agencies continued until the end of fiscal year 1973, when relatively tight supplies of some major agricultural commodities resulted in the suspension of the program.

Title IV covers a number of general aspects of P.L. 480. It includes an availability criteria which requires that the Secretary of Agriculture consider productive capacity, domestic requirements, farm and consumer price levels, commercial exports, and adequate carryover before determining which commodities and what quantity can be made available for disposition under the P.L. 480 program. Legislative changes in 1977 allow the Secretary of Agriculture to waive the availability criteria if he determines that some part of the U.S. supply should be used to carry out urgent humanitarian purposes of the Act. It reaffirms the U.S. humanitarian and national interest objectives of the P.L. 480 program as well as its aim of assisting friendly countries trying to increase their food self-reliance and in resolving their population growth problems. Other provisions of this title include a definition of agricultural products and the exclusion of alcoholic beverages, and, for Title II, the exclusion of tobacco or products from the program. The United States is also prohibited from aiding a country which has expropriated U.S. property without due compensation. Financing for the P.L. 480 program comes from Congressional appropriations as well as reimbursements from principal and interest inflows and sales of foreign currencies. Carryover of unused authorization levels is also permitted.

In addition, Title IV provides a farmer-to-farmer assistance program. Provisions allow for contracts with land-grant colleges to recruit people to train farmers in other countries, as well as in the United States, and to conduct research in tropical and subtropical agriculture. The President is required to present to Congress a global assessment of food production and needs, self-help steps being taken by food-short countries, steps being taken to encourage other countries to increase their participation in food assistance or its financing and the relationship between food assistance provided to each country under this Act and other foreign assistance provided by the United States and other donors. Also, an annual report of activities carried out under the Act is presented to Congress.

Under the 1977 amendments to Title IV, no commodity will be financed or otherwise made available unless it is determined that adequate storage facilities are available in the recipient countries at the time of exportation to prevent spoilage or waste. It must be determined that the distribution of the commodity will not result in a substantial disincentive to domestic production in recipient countries. Beginning in October 1978, and at 5-year intervals, comparative cross-country evaluations will be made of programs under Titles II and III. The Secretary of Agriculture is required to appoint a task force to review all P.L. 480 operations and report to Congress within 18 months following enactment of the bill.

Magnitude of the Act

Total exports under P.L. 480--from the inception of the law in July 1954 through the end of June 1976--had an export market value of almost $25.1 billion, 14 percent of total U.S. agricultural exports in that period (table 1). Of total P.L. 480 exports, sales for local currencies accounted for $12.3 billion (49 percent); long-term dollar credit and convertible local currency credit sales, $5.6 billion (22 percent); grants and donations, $5.5 billion (22 percent); and barter for strategic materials and government procurement, $1.7 billion (7 percent). Since the end of 1971, the only new P.L. 480 agreements have been the long-term credit sales (Title I) and grants and donations (Title II).

Exports under local currency agreements reached a peak of over $1.1 billion in fiscal year 1965, declined thereafter, and were phased out as

Table 1--U.S. agricultural exports under the P.L. 480 program by type of agreement, and total agricultural exports: Value, fiscal years 1955-76 1/

Year	Sales for local currency	Long-term dollar and convertible credit sales	Donations 2/	Barter for strategic materials 3/	Total P.L. 480	Total agricultural exports
			Million dollars			
1955	73	--	187	125	385	3,144
1956	439	--	247	298	984	3,496
1957	908	--	216	401	1,525	4,728
1958	657	--	224	100	981	4,003
1959	724	--	161	132	1,017	3,719
1960	824	--	143	149	1,116	4,519
1961	951	--	221	144	1,316	4,946
1962	1,030	19	248	198	1,495	5,142
1963	1,088	57	263	48	1,456	5,078
1964	1,056	48	270	43	1,417	6,068
1965	1,142	158	238	32	1,570	6,097
1966	866	181	267	32	1,346	6,747
1967	803	178	267	23	1,271	6,821
1968	723	300	250	6	1,279	6,383
1969	346	427	265	1	1,039	5,826
1970	309	506	241	--	1,056	6,718
1971	204	539	280	--	1,023	7,753
1972	143	535	380	--	1,058	8,046
1973	6	661	287	--	954	12,902
1974	--	575	292	--	867	21,293
1975	--	762	339	--	1,101	21,578
1976	--	615	216	--	831	22,147
Total, 1955-76	12,292	5,561	5,502	1,732	25,087	177,154

1/ These are July 1-June 30 fiscal years.
2/ Includes government-to-government donations for disaster relief and donations through voluntary agencies and the World Food Program.
3/ Before 1963 includes some shipments under authorization other than P.L. 480.

Source: Foreign Agricultural Trade of the United States, October 1976, ERS, USDA.

required by the 1966 extension of P.L. 480. However, by the end of 1971, 452 agreements--providing for local currency sales totaling $12.3 billion had been signed with 53 countries. This amount was almost half of all P.L. 480 exports through fiscal year 1976. 2/

Exports under credit sales rose fairly steadily from fiscal year 1972 through fiscal year 1973. In fiscal year 1974, the value of such exports dropped because of supply constraints in the United States. However, in fiscal year 1975 exports under Title I jumped by 33 percent to $762 million, surpassing any previous year. At the end of 1976, 53 countries still had outstanding credits from Title I sales totalling $4.8 billion. As stated earlier, the original credit program was for DC sales only. Beginning January 1, 1967, CLCC sales were added as a type of credit for countries that could not go directly from local currency sales to dollar credit sales. CLCC sales accounted for the bulk of the agreements signed in recent years and almost two-thirds of the value of all sales agreements in 1974, 1975 and 1976. In accordance with the legislation, an initial payment of at least 5 percent was required wherever practicable. Most agreements have provided for the maximum legal length of repayment and minimum interest rates, except for those countries with more favorable external financial positions and prospects.

Donations have not shown a similar upward trend over time, but have fluctuated from year to year. Title II shipments have averaged $250 million annually since the beginning of the program. The 1975 law requires that a minimum of 1.3 million tons of agricultural commodities on a grain equivalent basis be distributed under Title II annually, of which the minimum distributed through nonprofit voluntary agencies and the World Food Program shall be one million tons. An example of the success of the program is the Brazilian school lunch program begun in 1962 and completely taken over by the Brazilian Government in 1975.

The barter program has not operated since mid-1973 and has not been a significant part of the P.L. 480 program since the late fifties and early sixties.

Since its inception in 1954, P.L. 480 aid has been extended to virtually all countries (except most Communist countries) (table 2). Roughly 80 percent of the cumulative value of these concessional shipments has gone to countries now considered to be developing countries, with the remainder sent largely to European countries and Japan in the earlier years of the program. The P.L. 480 program is an important source of aid for developing countries, and it has accounted for almost 30 percent of total U.S. direct concessional economic aid to them during fiscal years 1954-75. The United States provided virtually all of the world's food aid in the early sixties and it continues to send over half of the world's total food aid.

2/ The figures cited in the text and in Table 1 refer to exports when shipped. There is a lag between the time the sales agreement is signed and when the commodities are exported. Thus there were still shipments of goods being made in fiscal years 1972 and 1973 under previously signed local currency sales agreements.

Table 2 --Major recipients of P.L. 480 aid, Title I, Title II, and total, fiscal years 1955-76 1/

Country	1955-64	1965-74	1975-76	1955-76 Title I	1955-76 Title II	Total 2/
	Million dollars					
India	2,084	2,933	301	4,406	836	5,318
Pakistan	736	906	175	1,688	129	1,817
South Korea	493	1,034	128	1,339	310	1,655
South Vietnam	130	1,307	27	1,308	156	1,464
Egypt	690	222	220	976	143	1,132
Indonesia	212	757	56	940	83	1,025
Yugoslavia	783	238	--	848	153	1,021
Brazil	501	385	7	607	224	893
Israel	289	375	24	621	21	688
Turkey	452	218	4	550	106	674
Spain	604	18	--	474	117	622
Poland	535	33	--	498	60	568
Bangladesh	--	66	364	378	52	430
Italy	403	3	--	140	232	406
Republic of China	237	158	--	293	86	395
Morocco	97	264	24	155	226	385
United Kingdom	342	11	--	48	--	353
Chile	128	112	110	238	107	350
Tunisia	96	200	12	166	141	308
Khmer Republic	--	207	91	295	3	298
Philippines	89	167	25	134	132	281
Colombia	118	131	18	110	142	267
Greece	202	43	--	144	88	245
West Germany	212	3	--	1	66	215
World total	11,692	11,463	1,932	17,853	5,502	25,087

1/ Includes all countries which directly received over $200 million under all titles of P.L. 480--sales, grants, and barter--during fiscal years 1955-76.

2/ The residual between the total and the sum of Titles I (local currency, dollar credit and convertible local currency credit sales) and II (grants and donations) is Title III (barter).

Source: 1974 Annual Report on Public Law 480; Foreign Agricultural Trade of the United States, October 1976; 12 Years of Achievement under Public Law 480, ERS Foreign Report No. 202 1967; and U.S. Agricultural Exports under Public Law 480, 1974, ERS Foreign Report No. 395.

During fiscal years 1955-76 3/ the countries receiving the greatest value of goods under all P.L. 480 titles were India, $5.3 billion; Pakistan, $1.8 billion; South Korea, $1.7 billion; South Vietnam, $1.5 billion; Egypt, $1.1 billion; and Indonesia, $1.0 billion and Yugoslavia, $1.0 billion. The recipient country benefits from the P.L. 480 program in several ways. There is first a savings in the outlay of hard currency which allows spending for other priority imports. Also, the recipient government receives immediate budgetary support from the sale of P.L. 480 Title I commodities to its populace for local currencies. It can then use these currencies for specific economic development projects. In addition, most agreements contain a grace period, during which payment of principal is deferred. Even with eventual full repayment to the United States for commodities purchased under a Title I sales agreement, the recipient government will have received a substantial grant element in the loan due to the length of the repayment period, the grace period, and low interest rates compared to the terms of commercial financing. The grant element, a measure of the concessionality of a CLCC sales agreement, with the most lenient repayment terms, is roughly 60 percent.

Many countries that formerly imported food under P.L. 480 have progressed economically to the point where such imports are no longer necessary. Japan is the best example of market expansion benefits to the United States from the P.L. 480 program. Japan has gone from being a Title I recipient during the fifties to being the number one commercial market for U.S. agricultural products. China (Taiwan) and Brazil are other examples of developing countries which have graduated from being P.L. 480 Title I recipients to being the 11th and 13th major commercial markets respectively, for U.S. agricultural exports in fiscal year 1976. Thus, the P.L. 480 market development goal--of converting countries from dependence upon food aid to buying commercially from the United States--has been fulfilled in many countries.

P.L. 480 shipments have also made a positive contribution to the U.S. balance of payments. From the beginning of the program through the end of June 1976, the balance of payments benefits from P.L. 480 shipments amounted to $4.9 billion. These benefits come from principal and interest payments on P.L. 480 loans and from foreign currencies used by U.S. agencies. Their contribution in fiscal year 1976 equalled $337 million.

As with other foreign assistance programs there have been some disadvantages of the P.L. 480 program. There are many difficulties inherent in determining the most productive uses to which generated local currencies should be put to further economic development. The additional supply of food commodities on the domestic market may act as a disincentive to local production if, as a result, prices received by farmers are depressed. The pattern of physical distribution the recipient country establishes at its own discretion may result in proportionately more food distribution to urban versus rural areas than was available before the inception of the P.L. 480 program.

3/ The fiscal year used in these figures is July 1 through June 30 and not the fiscal year begun in 1976 of October 1 through September 30.

Yet some of these disadvantages can be viewed as advantages. For example, prices in the recipient country may benefit consumers in both urban and rural areas by helping to lower the cost of living.

In sum, the problem of assessing the advantages and disadvantages of the P.L. 480 program(direct and indirect) is difficult, complex and depends on the perspective taken--that of donor or recipient country.

From July 1954 through the end of June 1976, $25.1 billion worth of commodities were shipped under P.L. 480. Two-thirds, by value, of these commodities were food and feedgrains, including wheat valued at $12.1 billion (178 mmt shipped) 4/; rice valued at $2.6 billion (14 mmt), and feedgrains valued at $2.4 billion (41 mmt). Other major exports included cotton valued at $2.6 billion (4 mmt) and tobacco valued at $0.7 billion (0.4 mmt). Some other exported commodities include dairy products and cottonseed oil and soy oil. In recent years, blended foods, which are high protein sources fortified with vitamins (mainly corn-soya milk and wheat-soya flour), have become increasingly important.

The P.L. 480 program has been important to U.S. producers, especially those of grains. For the first decade of the P.L. 480 program almost half of all U.S. rice and 60 percent of all wheat exports were shipped under the P.L. 480 program, and from the mid-sixties through fiscal year 1973, over 40 percent of the total exports of both rice and wheat were shipped out under it. Volumes shipped in fiscal years 1974 and 1975 were down due to supply constraints in the United States. However, during fiscal years 1971-75 P.L. 480 rice exports accounted for 29 percent of the total U.S. rice production and P.L. 480 wheat exports for 10 percent of total U.S. wheat production.

GENERAL AND SPECIFIC CONSIDERATIONS IN SALES AGREEMENTS

Steps in Negotiating an Agreement

A Title I P.L. 480 government-to-government agreement is usually initiated by a request from a foreign nation to the U.S. Embassy in that country.

The foreign government's request, with U.S. Embassy recommendations, is forwarded to Washington, and all appropriate U.S. agencies are notified. In taking action on the request, USDA has the responsibility of developing, researching, and initiating Title I proposals for interagency consideration. Position meetings within the Department are organized and conducted by a program coordinator in the Office of the General Sales Manager. In these meetings, all the factors involved in the P.L. 480 program and discussed in this report are considered. The proposal developed by USDA is presented to the Interagency Staff Committee on P.L. 480 (ISC), which USDA chairs. Other members of the ISC are the Departments of the Treasury, Commerce, State, Defense, Aid, and the Office of Management and Budget (OMB). Prior to

4/ mmt = million metric tons.

developing a proposal and presenting it to ISC, USDA often confers with other members of ISC to explain the proposal and to avert potential problems, thereby expediting the development of a program. From time to time, other concerned agencies, such as the National Security Council (NSC) and the Council on International Economic Policy (CIEP) may attend the ISC meetings to give their views on overall program direction.

ISC members have areas of primary responsibility, in addition to approving the overall program. USDA is responsible for financing sales of agricultural commodities to foreign markets and is concerned with the effects of P.L. 480 shipments on commercial markets. AID is concerned with the effects of P.L. 480 programs on the recipient country's political, economic, and social development. The Department of State concerns itself with the economic and political foreign policy implications of P.L. 480. State consults with, and gives opportunity for comment to, countries that have established trade interests in commodities included in the proposed agreements. All agencies--especially OMB and Treasury Department--are concerned with the consequent budgetary and financial effects on the United States of such a program.

The Committee considers such factors as (1) legislative requirements and objectives, (2) import requirements of a country in relation to domestic production, (3) usual marketings of the United States and their effects on traditional suppliers, (4) the effect of the program upon the U.S. balance of payments and budget, (5) U.S. needs for local currency in the recipient country, and (6) the relationship of the proposed program to the overall foreign aid program and U.S. foreign policy. Information on the recipient country's internal and external financial position is made available to ISC members by USDA. This information is used in determining repayment terms for the financing of the proposed P.L. 480 program.

The proposal is analyzed, modified, and accepted or rejected by the ISC. Notice of the proposal is then sent to the National Advisory Council on International Monetary and Financial Policies (NAC), and its views are requested.

After ISC clearance, negotiating instructions are prepared. Next follows NAC review, completion of third-country consultations, and clearance by all interested U.S. Government agencies. The negotiating instructions are then transmitted by the Department of State to the appropriate U.S. Embassy. The ambassador or his designees, such as the agricultural attaché and AID officials, meet with officials of the host government and negotiate the terms of a sales agreement. Any changes in an agreement proposal which develop during negotiations must be authorized by Washington. When agreement between the United States and the foreign country has been reached, the U.S. Embassy is usually requested to give 72 hours advance notice (not including weekends and holidays) to Washington before the agreement can be signed. As soon as notice is received, both the House and Senate Committees on Agriculture are notified. When the agreement is signed, a press release is issued.

Types of Sales Agreements

Many economic, financial, commercial, and foreign policy factors must be considered before a concessional sales agreement can be signed between the United States and a foreign nation. Consideration is required by law for some of these factors; it is required by national policy or administrative procedure for others. It usually takes weeks to collect and analyze all pertinent information, and for all concerned agencies--and the country involved--to reach agreement on all points. Negotiations may be so complex that it takes months to reach agreement, and, in a few cases, no agreement is reached. However, circumstances sometimes require that P.L. 480 government-to-government agreements be signed promptly. This section of the report presents, in nontechnical terms, the major factors which require consideration.

One objective of concessional sales programs is to provide a method whereby countries with foreign exchange shortages can purchase U.S. agricultural commodities. The P.L. 480 program can also be used as a means of improving the U.S. balance of payments. P.L. 480 concessional sales programs will result in financial benefits, accruing in varying proportions to the United States and to the recipient country according to what payment terms are agreed upon. The two types of credit now being extended are DC and CLCC. The type of credit extended--DC or CLCC--depends to some extent, upon the recipient country's external financial position.

A third type of repayment formerly used was payment on delivery in the currency of the recipient country, or local currency (LC) sales. Agreements providing for use of this method ended by law as of December 31, 1971. Local currencies accrued from this method of payment are still on deposit in some countries, for authorized use by the United States.

The types of credit discussed in this section apply to the purchase of commodities. Financial procedures with regard to covering the cost of ocean transportation are covered, as are several other financial considerations that are now incorporated into P.L. 480.

Dollar credit sales, government-to-government.--This type of agreement--payment of principal and interest in dollars--was added to P.L. 480 in 1959, first under Title IV and, since 1966, under Title I. The maximum credit period extended is 20 years, including a maximum allowable 2-year grace period before the first principal installment is made. When a grace period of more than 1 year is provided, the rate of interest charged during the grace period is usually lower than the rate charged during the principal repayment period. Within these maximum limits for repayment and grace periods, the actual limits set for any program are negotiable considerations. These periods are timed from the date of the last delivery in any calendar year. Thus, if commodities are delivered in 2 calendar years under 1 agreement, 2 repayment schedules are necessary. (Dollar payments are made to the CCC.)

In practice, payments of principal are usually made in equal annual installments, with interest calculated on the unpaid balance. The minimum

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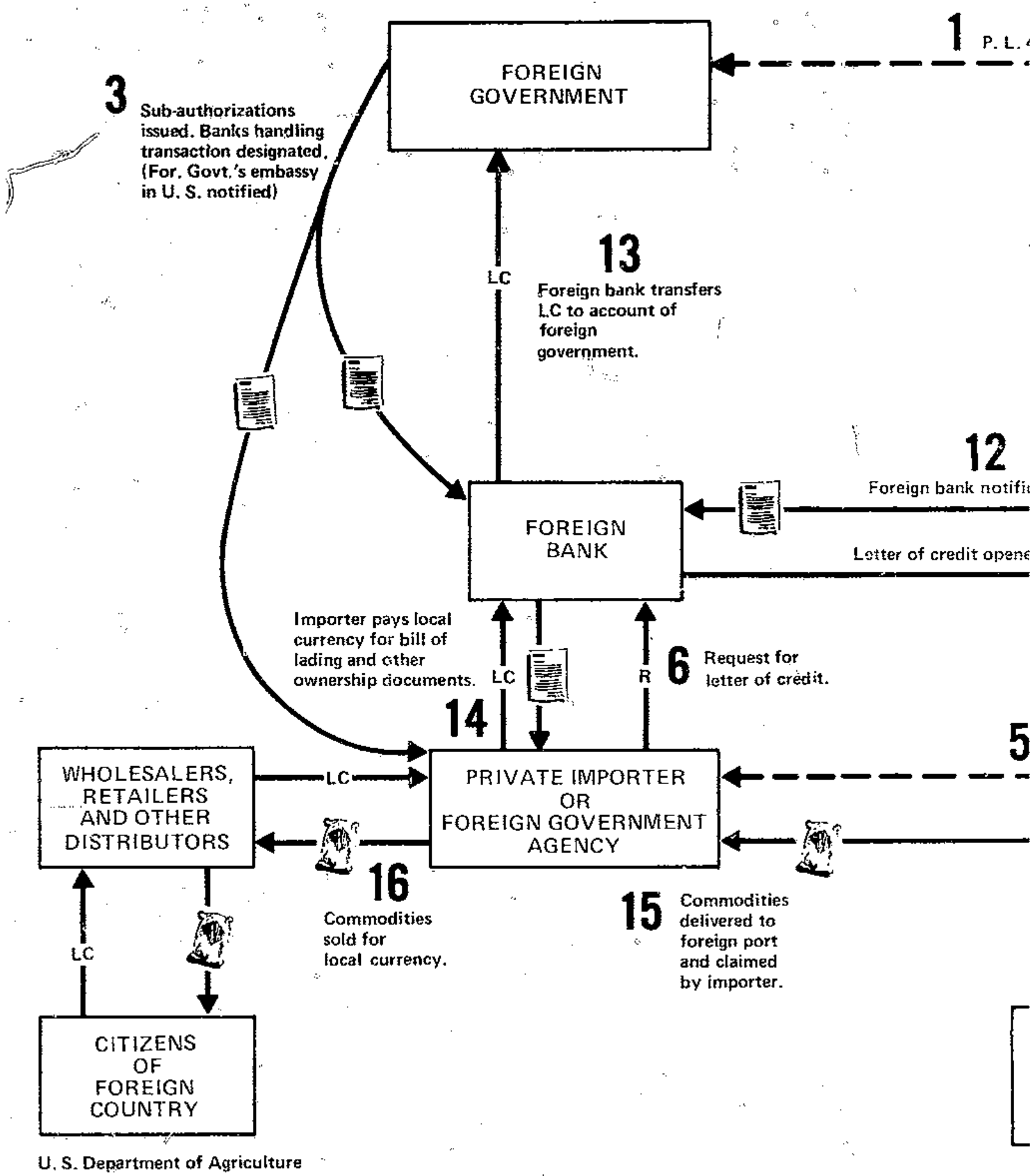
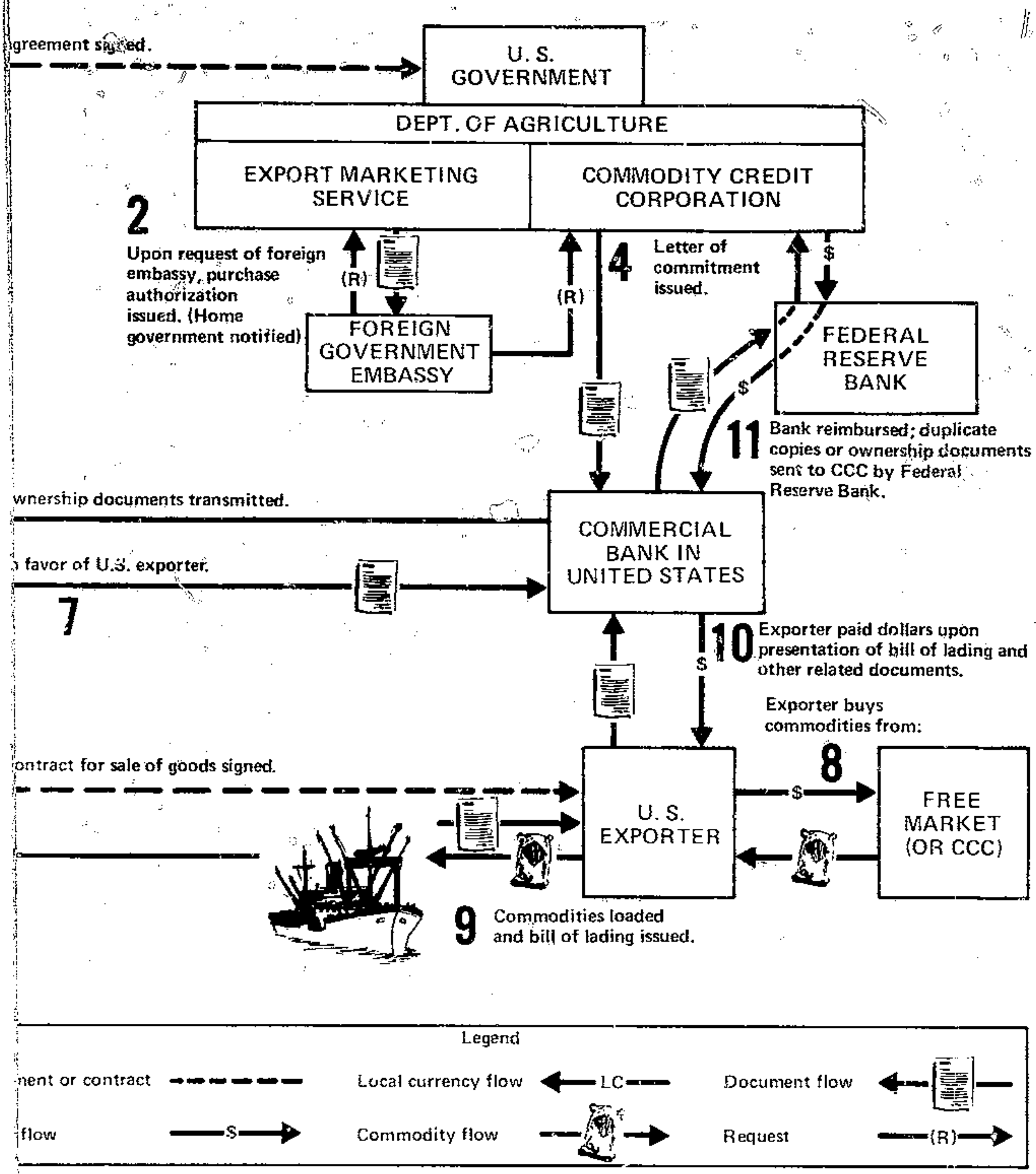


Figure 1. See text, page 25.

ANCIAL OPERATIONS



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interest rates are not less than those required by the Foreign Assistance Act of 1961, as amended; currently, this is 2 percent during the grace period (the initial interest rate) and 3 percent thereafter (the continuing interest rate). Interest is computed from the date of last delivery in each calendar year. Within these limits, the terms are as favorable to the United States as the economy of the recipient country will permit.

Convertible local currency credit sales.--In the 1966 amendments to the law, it was specified that a transition be made from local currency sales to DC sales by the end of 1971. It also specified, however, that to the extent that a transition to DC sales was not possible, a transition could be made to credit sales for foreign currencies which could be converted into dollars. The United States exercises this option of convertibility. Therefore, from the viewpoint of the United States and the recipient country, the payments are considered payable in dollars. In this respect, CLCC loans do not differ from DC loans.

The credit terms for this repayment arrangement are to be no less favorable than those for development loans made under the Foreign Assistance Act of 1961, as amended. Currently, loans made under this act are for a maximum credit period of 40 years, with a grace period not to exceed 10 years. As with DC sales, a minimum interest rate of 2 percent applies during the grace period and a rate of 3 percent during the remainder of the credit period. Unlike DC sales, interest charges start from the date on which each disbursement of funds by CCC is made. Depending on the external financial position of the recipient country, the terms in any agreement may be less lenient than the maximum terms.

Local currency sales.--The original P.L. 480 law, passed in 1954, provided only for local currency sales, which meant payment on commodity delivery by the recipient country in its own local currency. In addition, the United States and the recipient country were to agree on the use to which the currencies would be put in the recipient country. From 1955 to December 1971, 59 percent of all P.L. 480 shipments were local currency sales and 82 percent of all concessional sales were under local currency agreements. Consequently, there still remain available to the United States in some of these countries a great many local currency deposits.

When local currency sales were negotiated, there were several provisions that earmarked funds for specific purposes such as (1) helping develop new markets for U.S. agricultural commodities, (2) overall developing of markets by the United States, (3) making funds available as loans or grants for economic development, or (4) financing educational and cultural exchange programs. A discussion of the various purposes to which local currencies are directed is found at the end of this report.

Private trade credit sales agreements.--In addition to government-to-government agreements, P.L. 480 also provides for Title I (sales) agreements between the U.S. Government and private trade entities (PTE), commonly referred to as private trade agreements (PTA). These agreements are generally negotiated in Washington by USDA officials and the requesting organizations.

The PTE obtains commodities from the open market and the CCC provides financing in approximately the same manner as do government-to-government agreements. The interest rate charged on PTA is equivalent, as nearly as practicable, to the average cost of funds to the U.S. Treasury on certain outstanding marketable U.S. securities. These are securities which have maturities comparable to those of the credits extended in the PTE agreements. However, in no event is the rate less than the minimum rate specified for government-to-government DC agreements. Payments must be guaranteed by assurers (guarantors) acceptable to CCC. The guarantee of payment is in the form of an irrevocable commitment issued by an acceptable financial institution in the United States or in a foreign country. This includes, but is not limited to, central banks or governmental financial agencies or the governments of friendly foreign nations.

The raison d'etre of PTE agreements involves the use to which the PTE directs the funds gained from the sale of the financed commodity. The agreement between the CCC and the PTE specifies precisely the use to which the commodity sale proceeds to the specified recipient country will be put. Consequently, the repayment periods are keyed to the time needed to complete the project, and have usually ranged from 6 to 15 years. These agreements are for projects aimed at improving the storage and marketing of agricultural commodities, to help develop foreign commercial markets. Under this program, grain terminals, mixed feedgrain plants, and pier facilities have been built. Another example of a PTE agreement is a poultry raising operation in South Korea, which has provided that country with a source of protein and the United States with an enlarged market for feedgrains.

This section of Title I has not been used very much in recent years, as U.S. commodity supplies have become tighter, and government-to-government requests have been considered more vital. It remains, however, an available tool for market development.

Special Payment Provisions

The following is an exploration of special provisions in P.L. 480 designed to protect the interests of the U.S. Treasury, U.S. markets abroad, or U.S. foreign policy. In addition, there may be provisions and requirements in other laws on foreign policy, shipping, etc., that apply to the shipments of P.L. 480 commodities as well. The following provisions apply to all forms of payment--credit as well as cash and private as well as government-to-government--unless otherwise noted.

Initial payment.--P.L. 480 requires that, whenever practicable, not less than 5 percent of the purchase price of commodities sold under Title I be payable in dollars or other convertible currencies upon delivery of the commodities. This requirement represented a hardening of P.L. 480 terms and was instituted to aid the U.S. balance of payments. The size of the initial payment usually depends on the financial position of the recipient country, and those with the severest financial problems make no initial payment. A typical 5 percent payment would be made in the following manner: CCC would finance, through the letter of commitment, 95 percent of the value of the commodity purchased under the sales agreement. The importer must then arrange for payment of the remaining 5 percent to the supplier in the United States, not later than at time of delivery at U.S. ports.

Currency use payments.--As the shift from LC sales to credit sales progressed after 1966, the United States no longer acquired enough local currencies in some countries to meet its current obligations. Under DC agreements, the United States does not acquire local currencies. Under CLCC agreements, the repayment in foreign currencies is at the option of the United States, but in any case is not immediate, because of the long grace period normally extended. During the grace period (up to 10 years for CLCC payments), the United States receives only interest payments and these, typically, are relatively small. In past years, if local currencies were needed by the United States but were not available from P.L. 480 or from other local currency accounts, they were purchased from commercial sources with dollars. This adversely affected the U.S. balance of payments. In the 1968 and subsequent amendments to P.L. 480, Congress added the proviso that, except where the President determined that it would be inconsistent with the objectives of the act, he shall determine the amount of local currencies needed for specified uses. The P.L. 480 agreements shall provide for payment of such amounts upon delivery of the agricultural commodities. A local currency payment under this arrangement has come to be known as a "currency use payment" (CUP), and credit sales agreements now provide for such payments if they are deemed necessary for U.S. needs. In practice, the payments are to be made upon demand by the United States during the period of delivery under the agreement.

A CUP may be considered as an advance payment of the earlier installments of principal and interest. These installments, payable in dollars, may be foregone until their value equals that of the CUP. The amount of local currencies to be paid as a CUP are stated as a percentage of the total value of the agreements, not as an actual dollar value. The percentage rate is applied to the amount of credit extended; that is, the commodity values, minus any initial payment made. Currency use payments are not normally needed, and therefore are not included in agreements with countries where the United States owns more foreign currencies than will be needed in the next 2 years. These countries are designated as "excess currency countries" by the Treasury Department.

Exchange rates.--In Title I agreements with countries that maintain multiple exchange rates, the problem of which rate to use in P.L. 480 transactions has been a dfficult one. To obtain the highest rate to be used in depositing local currencies to the account of the United States--or in converting local currencies to dollars or third-country currencies--current legislation specifies that the President shall "obtain rates of exchange applicable to the sale of commodities under such agreements which are not less favorable than the highest of exchange rates legally obtainable in the respective countries and which are not less favorable than the highest of exchange rates obtainable by any other nation". No such problem arises in countries that maintain a unitary exchange rate.

Ocean transportation.--The Cargo Preference Act (Public Law 664, 83rd Congress, which amended the Merchant Marine Act of 1936) requires that at least 50 percent of the quantity of all products exported under certain U.S. Government programs, including P.L. 480 concessional sales, be shipped on U.S. flag vessels. This applies only to the extent that these vessels are available at fair and reasonable rates for commercial U.S. flag vessels.

Because freight rates on U.S. flag vessels on some trade routes are almost always higher than foreign flag vessels on the same route, CCC reimburses the importer for the additional cost of the tonnage required to be carried in U.S. flag vessels. This payment is referred to as the "ocean freight differential," the existence and magnitude of which is subject to determination by CCC. Its cost, through September 1976, was almost $1.1 billion.

Except for the differential, the cost of transporting commodities must be paid by the importer.

The 1977 legislation instructs the President to make a comprehensive study of payment of ocean freight differentials. This study shall also recommend possible changes in the method of reimbursement now borne by CCC. It is to be completed 6 months after enactment of the 1977 legislation.

Commercial Factors

Since the concept of concessional sales was first introduced, many people have been concerned that such sales would displace commercial exports, not only those of the United States, but of friendly foreign nations as well. Such is not the intention of the United States. In accordance with this policy, P.L. 480 requires that precautions be taken to safeguard the usual commercial markets of the United States, and to assure that concessional sales will not unduly disrupt world prices of agricultural commodities, or normal patterns of commercial trade with friendly countries.

Usual marketing requirement (UMR).--In conformity with the law, Title I sales agreements require that recipient countries continue their normal commercial imports of commodities included in an agreement, when commercial import trends have been established. The specified quantity required to be purchased is normally based on the actual quantity actually imported commercially in recent years, but this can be adjusted according to the country's current ability to import. Only imports from friendly countries are considered in establishing UMR. The UMR is stated on a global basis; that is, imports from particular countries are not stated in the agreement. An exception is that for some commodity groups where commercial purchases from the United States are established, a UMR for commodity purchases from the United States may be required. Reports are submitted quarterly to the USDA by the importing governments providing information on fulfillment of UMR.

Transshipment.--P.L. 480 states that commodities will not be imported by the recipient country on a concessional basis and subsequently exported without specific U.S. approval. Since the recipient country purchased the commodities on a less than commercial basis, it would be possible for it to undersell the world price and thereby disrupt the world market. Transshipment would also be contrary to the principle of a "need for the commodity" in the recipient country, an underlying principle of P.L. 480.

Exporting similar commodities.--To protect normal commercial patterns, the prohibition on transshipments is reinforced with limitations on the export of commodities considered to be the same as, or like, the commodities included in a particular agreement. Without such a requirement, a nation might import one commodity under P.L. 480, and substitute for it on the world market a commodity which it produces domestically and has traditionally consumed. Thus, the concept of "same as, or like," has been defined broadly. For example, corn is classified as being the same as, or like, grain sorghum; textiles made from cotton the same as, or like, cotton; and semolina products the same as, or like, wheat or wheat flour. Each Title I agreement specifically defines the same-or-like commodities.

Export limitations are meant to assure that the commodities supplied by the United States under the agreement fill the gap between production, commerical imports, and total consumption of the commodities.

Each agreement also specifies an export limitation period, during which the "same-or-like" commodities cannot be exported by the recipient country without specific U.S. approval. The period is usually the same as the supply period for which commodities are furnished under the agreement, plus any subsequent comparable period in which the commodities may be imported and utilized.

Third-country consultations.--In assuring that commercial patterns and world prices will not be disrupted, the U.S. Government consults with friendly foreign nations that are historically either large exporters of the commodities involved, or exporters of such commodities to the particular nation for which a P.L. 480 agreement is proposed. These consultations are held to permit friendly governments to comment on what effects, if any, future Title I shipments might have.

Fair share.—The law requires that the President shall "take steps to assure that the United States obtains a fair share of any increase in commercial purchases of agricultural commodities" by P.L. 480 recipients. This subject is discussed during negotiations with the recipient country.

Foreign Policy Considerations

A number of considerations in implementing P.L. 480 have become more important through the years, as different world food needs have arisen, as different effects of P.L. 480 have been observed, and as P.L. 480 has become more recognized as a multifaceted tool that can help further U.S. foreign policy goals.

Many of these considerations and goals are stated succinctly in the preamble to the law. Through the years, they have been elaborated and more precisely specified in the body of the law. The law should be reviewed for a definitive statement on each provision or restriction.

Meeting food needs abroad.--In furnishing food aid, priority shall be given to meeting urgent food needs abroad and to making available the maximum feasible volume of food commodities required by those countries most seriously affected by food shortages and by the inability to meet immediate food requirements on a normal commercial basis. Other aspects of meeting these needs include encouraging other countries to increase or begin food donations and relating U.S. aid to efforts by recipient countries to increase their own agricultural production.

The 1974 and 1975 legislation directed that specified percentages of Title I commodities be sent to countries with low incomes and food shortages. These restrictions emphasize the humanitarian aspects of the program in contrast to its political uses. Thus the share of Title I commodities which can go to higher-income countries for political purposes is limited. The 1977 legislation requires that at least 75 percent of all Title I sales go to countries with a per capita income of $550 (1976 dollars) or less and affected by an inability to secure sufficient food for their immediate requirements through their own production or commercial purchase from abroad.

Also added in 1975 was a requirement for a semi-annual global assessment of food production and needs, which reflects the desire to make food aid distribution relevant to other countries' needs, as reported by available data analyzed by USDA economists.

Self-help provisions--Since 1966, many self-help provisions have been added to the law. The term "self-help" means measures that countries undertake to help the development of their own economies, primarily in agriculture, but also in other sectors.

In the present law, one major provision concerns consideration of what self-help measures are being presently undertaken before entering into an agreement. Another provision requires that P.L. 480 agreements "shall include provisions to assure that proceeds from the sale of the commodities in the recipient country are used for such economic development purposes as are agreed upon in the sales agreement or any amendment thereto...The United States shall emphasize the use of such proceeds for purposes which directly improve the lives of the poorest of their people and their capacity to participate in the development of their countries."

A third provision states that whenever excess foreign currencies owned by the United States from the repayment of past P.L. 480 programs exist they too shall be used, to any extent practicable, for self-help measures.

Before entering into agreements with developing countries, the President shall consider the extent to which the recipient country is undertaking self-help measures, whenever practical. The types of measures which should increase per capita food production and improve the means for storage and distribution of agricultural commodities include:

(1) devoting land resources to the production of needed food, rather than to the production of nonfood crops;

(2) developing of agricultural inputs and infrastructure;

(3) training and instructing farmers in agricultural methods;

(4) constructing storage facilities;

(5) improving marketing and distribution systems;

(6) creating a favorable environment for private enterprise and investment;

(7) establishing and maintaining government policies to insure adequate incentives to producers;

(8) establishing or expanding institutions for agricultural research;

(9) allocating for these purposes sufficient monetary resources; and

(10) carrying out voluntary programs to control population growth.

The second provision cited above has resulted in a separate self-help section written into each agreement spelling out what measures are to be undertaken with the proceeds from the sale of the commodities in the recipient country. Priority shall be given to those countries which agree to use the proceeds from the resale of Title I commodities for the purpose of increasing the access of the recipient country's poor to an adequate, nutritious, and stable food supply. The use of local currencies for self-help measures is discussed in the last section of this report.

Specific provisions of the 1977 legislation include the Food for Development program, which permits use of local currencies generated by the sale of P.L. 480 commodities for approved projects in lieu of repayments to the United States. The goal of the program is to increase the well-being of the poor in the recipient countries by stressing assistance to agricultural and rural development, nutrition, health services and population planning.

Assistance to friendly countries and exclusion of unfriendly or aggressive countries.—P.L. 480 programs help countries friendly to the United States. The determination of friendly country status is made by the Department of State, acting on behalf of the President. To be eligible for P.L. 480 Title I aid, a country must have diplomatic relations with the United States; the law eliminates from eligibility those countries or areas dominated or controlled by a foreign government or organization controlling a world communist movement. It also eliminates any country dominated by a communist government. The President may waive these considerations if he determines that such a waiver is in the national interest, and he reports this decision to Congress. Also, no concessional sales can be made to a country using military aggression against the United States or to other countries receiving aid from the United States.

Excess military spending by recipient.--Before permitting sales to be made, the President is to take into account: (1) the percentage of the recipient country's budget devoted to military purposes; (2) the degree to which the purchasing country is using its foreign exchange resources to acquire military equipment; and (3) the amount spent for the purchase of "sophisticated" weapons. The President must report annually to Congress on his actions in carrying out this program.

Expropriation of U.S. private property.--Termination of P.L. 480 assistance is required for any country which has expropriated U.S. private property without taking appropriate steps for payment, or arrangement for payment, of adequate compensation within a reasonable period of time. P.L. 480 aid may also be terminated if a country fails to take adequate measures to prevent damage to U.S. property by mob action.

Dangerous drug provision.--Title I sales are prohibited to any country which has not taken adequate steps to control the illicit production of, trafficking in, and abuse of dangerous drugs.

Human rights provision--No Title I agreement can be made with any country which engages in a consistent pattern of gross violations of internationally recognized human rights, unless it is determined that such an agreement will directly benefit the needy people in such a country.

High protein foods provision--Countries entering into Title I sales agreements for high protein blended or fortified foods (including enriched flour and peanut products) can waive payment equivalent to the processing cost of the food if it is determined that the countries have a reasonable potential for transition from food aid to commercial purchases of such food and the benefits of the waiver will be passed on to the recipients of the food aid.

IMPLEMENTATION OF SALES AGREEMENTS

This section gives the sequence of events in the implementation of a P.L. 480 sales agreement under Title I, government-to-government agreements. Numbered paragraphs correspond to numbers shown on figure 1. For the most part, the following procedures also apply to private trade credit agreements. When the procedure for a PTE is significantly different, this difference is noted.

1. Signing the agreement.--The first step in the implementation of a sales agreement under Title I of P.L. 480 is the negotiation of the agreement among agencies and between the U.S. Government and the recipient country, incorporating items discussed above. Following agreement and approval of the two governments, a final version of the agreement is signed by representatives of the two countries and it has treaty status.

2. Purchase authorization.--The government of the importing country applies (usually through its embassy in the United States) to USDA's Office of the General Sales Manager for authorization to purchase agricultural commodities. When the embassy of the purchasing country receives a purchase authorization (PA), it notifies its home government, so that appropriate action in the recipient country can be taken.

The PA is a document which specifies the particular grade or type of commodity to be purchased; the approximate quantity; the maximum dollar amount to be spent for it; the period during which contracts between importers and (U.S.) exporters may be entered into, the amount of initial payment required; and the timespan during which deliveries must be made. The PA is more specific and limiting than is the P.L. 480 sales agreement. For example, a P.L. 480 sales agreement may describe the import merely as "rice," while the PA may stipulate "Milled rice in...bags ...U.S. No. 5 or better, containing not more than 20 percent broken kernels except that the milled rice shall be well milled or reasonably well milled." Each PA receives a number which must appear on all further documents concerning the transactions.

PA's are usually issued for only a part of the total amount of one of the commodities called for in the agreement. They are not issued if P.L. 480 shipments could conceivably disrupt world prices of agricultural commodities and normal commercial trade. Such considerations as the availability of port facilities and ocean shipping are carefully reviewed. PA's may be withheld if a review of the program indicates that the recipient country is not abiding by the terms of the agreement, or if general economic, political, or commodity supply conditions change so greatly that a reconsideration of the entire program is deemed necessary. USDA issues a public announcement each time a PA is issued.

For private trade sales agreements, PA's are also timed to coincide with the needs of the project that was specified in the agreement.

Under government-to-government agreements, the commodity PA also outlines the conditions under which CCC financing may be made available for authorized ocean transportation costs. For most such agreements signed after July 1969, CCC financing of ocean freight is limited to payment of ocean freight differential, if there is any.

3. <u>Subauthorization.</u>--The government of the importing country may issue a subauthorization to a private importer (or importers) to purchase commodities pursuant to the provisions of P.L. 480 regulations and the PA. If private importers are not used, an agency of the country's government may act as the importer.

The recipient country's government designates a bank or other agency in that country as "approved applicant" and a bank (or banks) in the United States to handle all transactions. The approved applicant (foreign bank) may be the central bank or a commercial bank; if a commercial bank is chosen, it usually has a correspondent relationship with the designated U.S. bank. Sometimes the government of the importing country will appoint one of its own agencies rather than a bank as the approved applicant. These agencies are sometimes located in the United States and, in such cases, the U.S. bank can contact them quickly and easily when necessary. For simplicity, however, it is assumed in the remainder of this section that a foreign bank is the approved applicant.

4. <u>Letter of commitment.</u>--The importing country, through its embassy in the United States, requests CCC to issue a letter of commitment to each

U.S. bank designated to handle transactions. The letter of commitment names the approved applicant, the U.S. commercial bank, and the Federal Reserve Bank which is to act as the agent of CCC. It constitutes a firm commitment by CCC to reimburse the U.S. bank for payments made, or drafts accepted, under letters of credit issued by the foreign bank. The letter of commitment stipulates that the U.S. bank must submit to CCC the appropriate documents required by P.L. 480 regulations, and by the PA. After the U.S. bank accepts the letter of commitment, a copy is forwarded by CCC to the foreign government's embassy.

5. Sales contract.--The designated importer contracts with a U.S. exporter or exporters for purchase of the commodity. Importers usually select suppliers through public tenders (invitations for bids) which specify that the transaction is taking place under P.L. 480. The contract price, mutually agreed upon by the importer and supplier, must be submitted to USDA for approval, and must not exceed the prevailing range of export market prices. For all commodities, the exporter is required to register the sale with USDA immediately upon making a firm sale. The notice of sale is reviewed by USDA for price and conformity to the terms of the PA. As indicated in step 10 following, the exporter must present the signed price approval notice, along with other required documents, to the U.S. bank in order to receive payment.

6. Request for letter of credit.--The importer applies to the designated bank in his country for a letter of credit in favor of his chosen supplier in the United States. A letter of credit is a financial document issued by a bank which agrees to honor drafts drawn upon it by a specified person, usually the exporter, under certain stated conditions (e.g., in exchange for a bill of lading and other documents.)

7. Letter of credit issued.--The letter of credit is issued by the foreign bank and confirmed or advised by the U.S. bank. A "confirmed" letter of credit constitutes a commitment of both the issuing bank and the confirming bank that payment will be made if the terms of the credit are met. An "advised" letter of credit constitutes a commitment by the issuing bank only. Both types of credit must be irrevocable and as such cannot be canceled or altered prior to their expiration dates without the consent of the beneficiary. Regardless of the type of credit, CCC is committed to reimburse the U.S. bank for eligible payments made under the credit agreement. CCC will not reimburse the U.S. bank for the portion of the sale covered by the initial payment.

After a letter of credit has been confirmed or advised by the U.S. bank, the bank notifies the exporter that he may draw upon an account established for this purpose, if he does so under the conditions stated in the document.

8. Purchase of commodities.--The exporter buys the commodity from regular commercial sources or from CCC.

9. Loading and shipping commodities.--The importer arranges for ocean shipping if commodities are to be shipped on an f.o.b. or f.a.s. (free on board; free along side) basis. If the shipment is to go c. and f. or

c.i.f. (cost and freight; cost, insurance, freight), the vessel is booked by the U.S. supplier. In any case, the shipping company delivers a bill of lading to the exporter when the items are loaded.

A bill of lading is a receipt for the commodities loaded on board, signed by the ship's master or other duly authorized person. It is a document of title of ownership to the goods described in the bill. This document subsequently passes from one entity to another, as described below. It may serve as evidence of the terms of carriage agreed upon.

The Cargo Preference Act applies to P.L. 480 shipments.

10. Exporter paid.—The exporter presents the bill of lading, weight and inspection certificates, and other documents required by the letter of credit to the U.S. bank. He receives payment, in dollars, at the price agreed upon in the sales contract, and within the terms of the letter of credit previously received.

11. U.S. bank transactions.—The U.S. bank presents the documents required by the CCC to the Federal Reserve Bank named in the letter of commitment. The Federal Reserve Bank, acting as the agent of the CCC, pays dollars to the U.S. bank, or credits its reserve account.

12. Foreign bank notified.--The U.S. bank notifies the foreign bank of the transaction and transmits the original negotiable bill of lading and other documents.

13. and 14. Foreign bank and importer transactions.—Upon receipt of the bill of lading, the foreign bank notifies the importer. From step 1 to this point the procedures as stated above are the procedures followed, regardless of the type of sales agreement. However, in these two steps, the procedure depends upon the type of sales agreement signed.

Under an agreement where the terms are government-to-government dollar credit or convertible local currency credit, the importer pays local currency to his government through the designated bank. The bank transfers these funds to the account of the recipient government. (These are counterpart funds, since they do not belong to the United States. The bank used by the recipient government may or may not be the approved applicant.) The government must then pay dollars in subsequent years as required by the sales agreement, or, in the case of a CLCC agreement, local currencies if the United States so desires.

The procedure for a credit sales agreement that contains provisions for a currency use payment is the same, with one exception. Immediately upon delivery of the commodities, the foreign government may be requested by the U.S. Treasury to make available to the U.S. Government local currencies equal to the CUP percentage of the disbursement.

Under a private trade dollar credit sales agreement, the PTE obtains the bill of lading without delivery of local currency to the bank, since it incurs a debt obligation directly to the U.S. Government in dollars. In this case, the foreign bank issues the letter of credit which governs the financing, and it examines all documents received for conformity to the terms of its letter of credit.

15. Importer claims commodities.--Upon receipt of the bill of lading, the importer uses it to claim the goods when they arrive from the United States.

16. Distribution of commodities.--The importer makes final sale of the commodity within the recipient country through normal commercial channels. If the importer is a Government agency or a State trading corporation (as is often the case), it may decide to stockpile the commodities for eventual distribution in time of need.

LOCAL CURRENCIES

The emphasis on, and use of, local currencies in P.L. 480 Title I agreements has changed considerably since the elimination of local currency sales agreements. Exports under local currency agreements declined continually after the high point reached in 1964, by 1969, the value of Title I exports under long-term credit sales exceeded the value of exports under local currency sales. Thus, U.S. accumulation of local currencies slowed down. However, large amounts of local currencies from previous agreements are still available (in a small number of countries) for U.S. use. The United States continues to be involved in the uses of local currency by recipient countries from their domestic sales of P.L. 480 commodities.

Local currencies generated for P.L. 480 sales fall into different categories. U.S.-owned currencies are those which have been deposited in an interest-bearing account for the U.S. Government in a bank in the recipient country. Originally, these currencies were immediate payments for Title I sales under local currency agreements. In recent years, the only new additions to these accounts have come from CUP's, based on anticipated U.S. needs, and repayments of principal and interest on earlier loans to private enterprise (Cooley loans), and for economic development made to the recipient country from the U.S. account. The U.S.-owned currencies are further broken down into restricted and nonrestricted uses. The restricted ones, as the name implies, can be used only for specific programs agreed to by both the United States and the recipient government, even though these funds are owned by the United States. These U.S.-owned local currencies, which are restricted to expenditure for loans or grants for economic development within the recipient country are called "country use currencies." All other U.S.-owned local currencies, whether restricted or not, are called U.S.-use currencies. U.S.-owned local currencies which are nonrestricted are used for various purposes, such as payment of official U.S. obligations in the recipient country.

Under local currency sales agreements all funds generated by sales of P.L. 480 commodities were U.S.-owned. However, under credit sales there is a delay (the grace period) before repayments to the United States begin. Thus, the proceeds from the domestic sale of P.L. 480 commodities accrue immediately to the recipient government. The local currencies are owned and held by the recipient country. These counterpart funds are no longer generally required to be held in special accounts. However, their disposition must be according to the provisions of the sales agreement, which specifies self-help measures to be undertaken.

The Department of the Treasury accounts for all foreign currencies acquired by the U.S. Government and the P.L. 480 program is a major source of U.S. owned nonpurchased foreign currencies. Use of such P.L. 480-generated currencies by other government agencies must be reimbursed to the CCC. The Treasury Department also designates which countries are excess currency countries, near excess currency countries and nonexcess currency countries. These designations are used in deciding whether to include a CUP in the P.L. 480 sales agreements. Excess currency countries are those where the supply of a nonrestricted currency is great enough to more than meet U.S. requirements for the next 2 years. For 1977, excess currency countries were: Burma, Egypt, Guinea, India, and Pakistan. Near excess currency countries, where U.S. supplies of local currency exceed immediate needs of the U.S. Government, in 1977 were: Morocco, Poland, Sri Lanka, Sudan, Tunisia and Yugoslavia. All other countries were classified as nonexcess currency countries.

U.S.-owned local currencies serve many purposes of the U.S. Government. The nonrestricted U.S.-owned local currencies are a balance of payments benefit since they can be used to pay for official obligations in lieu of direct purchase with dollars of such currencies. Even restricted country-use funds serve U.S. purposes in that they finance local development projects which are approved by U.S. officials. The use of counterpart funds by the recipient country is guided by the sales agreement, which encourages agricultural and overall economic development especially to benefit the poor majority in these countries. Under the 1975 changes in the law, local currencies generated by sales of food in the recipient countries—if used for agricultural and certain other development projects—specifically defined and agreed upon in advance, can be considered as payments of the long-term credit debt for up to 15 percent of the value of Title I agreements for that year.

Specific uses of local currencies have changed over time, but some of the major ones in the current legislation are: payments of U.S. obligations; market development and research; scientific, medical, cultural, and educational activities; buildings and military housing; loans to private enterprise; and economic development. From the beginning of the P.L. 480 program through the end of June 1975, about $165 million worth of local currencies has been spent on market development and research. The Department of State coordinated educational and cultural activities financed by P.L. 480 local currencies. Through the end of June 1975 an equivalent of $179 million had been spent. Various other agencies such as the National Science Foundation, the Departments of Health, Education and Welfare, Commerce, Agriculture, the Smithsonian Institution, the Environmental Protection Agency and others, use local currency funds for research into nutrition, natural sciences, and the environment as well as for the translation and dissemination of technical publications.

Local currency funds have also been used by the State Department for diplomatic buildings and by the Department of Defense for military housing. A major use of local currencies has been for Cooley loans or loans to private enterprise. Such loans which equaled $416 million through the end of June 1975, were aimed at expanding the trade of U.S. firms and at increasing the consumption abroad of U.S. agricultural products. Another important category of uses for local currencies is economic development in the recipient countries. Funds were lent or granted back to the recipient government to be used for projects; such uses are now made from accumulated local currency accounts from earlier agreements. An earlier and major use of local currency funds was to provide military support for common defense purposes in recipient countries. That authority was curtailed in 1974 and repealed in 1975. In excess currency countries, local currencies can be sold to American tourists.

In many cases, recipient countries benefited substantially from local currency payments. Under the earlier local currency sales agreements, the nonconvertibility of many of the local currencies and the requirement that they be used in the recipient country meant that these P.L. 480 sales were, in actuality, grants. The U.S. benefited from these sales through the furtherance of its foreign policy goals.

The United States did receive balance of payments benefits in many of the uses of U..S-owned local currencies. Spending of accumulated local currencies for normal and ongoing U.S. official obligations substituted for the conversion of dollars for these local currencies. Also, Cooley loans allowed U.S. businesses to operate abroad with little or no outlay of dollars. Thus, the P.L. 480 program benefited the U.S. balance of payments for each activity which would have been carried on anyway, and which used accumulated local currencies, instead of exchanging dollars. There is no way to estimate accurately how much this balance of payments support has been worth.

Finally, the U.S. has benefited from the P.L. 480 program by assisting humanitarian needs, stimulating long-term economic development, and furthering U.S. foreign policy goals.

APPENDIX: GLOSSARY

This glossary has been prepared to give a working knowledge of the concepts and terminology that have evolved over the years in implementing the P.L. 480 program. Definitions are as brief as possible, and therefore may not provide a sufficent reference from a legal point of view. All definitions were constructed in the context of the P.L. 480 program, and hence they may not be accurate in some other context.

1. Barter sales.--Title III authorizes the exchange of CCC-owned agricultural commodities for strategic materials and for goods and services for U.S. agencies abroad. The program was suspended in mid-1973.

2. Cargo preference.--In 1954, the Cargo Preference Act (P.L. 83-664) added section 901 (b) to the Merchant Marine Act of 1936. This amendment required that at least 50 percent of the volume of P.L. 480 commodities be shipped in U.S. flag vessels, if such vessels are available at reasonable rates. This law applies to concessional sales financed under certain other Government programs as well.

3. Compliance.--The status of a P.L. 480 recipient country with regard to meeting its reporting and payments commitments under signed agreements. For example, a country is in compliance as to convertibility and payment requirements if it has been timely in meeting the convertibility and payment provisions specified in agreements. A country is in compliance as to usual marketing requirements if it has imported the quantity of the commodities specified by such agreements as part of its normal commercial imports.

4. Commodity Credit Corporation,(CCC).--A corporate body and a U.S. Government agency within the U.S. Department of Agriculture. It was created for the purpose of (1) stabilizing, supporting, and protecting farm income and prices; (2) assisting in the maintenance of balanced and adequate supplies; and (3) facilitating orderly distribution of commodities. The CCC, therefore, engages in a number of agricultural export activities under its charter authority. It finances the sale and export of commodities under P.L. 480.

5. CCC Cost.--The gross cost to the Commodity Credit Corporation of financing the sale and export of U.S. agricultural commodities under Title I, P.L. 480. This gross cost includes that portion of the cost of the commodities financed by the CCC, plus the ocean transportation differential.

6. Concessional sale.--A sale in which the buyer is allowed payment terms which are more favorable than those obtainable on the open market. Under P.L. 480, the concession is the percentage of the initial payment, the length of the total repayment and grace periods, and the relatively low interest rates charged.

7. Convertible local currency credit sales(CLCC).--A credit sale in which installments can be paid either in dollars, or, at the option of the United States, in currencies that can be converted into dollars. The payment period can extend to a maximum of 40 years, with a maximum grace period of 10 years. Minimum interest rates are 2 percent during the grace period and 3 percent thereafter.

8. Country-use currencies.--U.S.-owned foreign currencies accrued from past P.L. 480 local currency sales which were lent or granted to the recipient country. They were classified as country-use because they were administered by the recipient country at the point where they were used to purchase goods and services.

9. Currency use payments (CUP).--The provision in credit sales agreements that local currencies be made available for U.S. use at the time of commodity delivery or on demand. The need for local currency is based on anticipated U.S. needs. These payments may be considered advance payments of the earliest installments (of dollars) due under the agreement.

10. Dollar credit sale (DC).--A credit sale to be paid in dollars over a maximum of 20 years. A grace period of a maximum of 2 years is allowed. Minimum interest rates are 2 percent during the grace period, and 3 percent thereafter.

11. Donations (grants).--Grants of agricultural commodities by the U.S. Government--either bilaterally, multilaterally, or through voluntary

agencies--are under Title II. They are given for emergency disaster-relief and for ongoing humanitarian programs.

12. Excess-currency country.--A country in which the United States owns local currency, in excess of its expected normal requirements, in that country for 2 years following the year the determination is made.

13. Exchange rate, highest legally obtainable.--The highest legal exchange rate of dollars for local currency in the country with which the United States has a P.L. 480 agreement. This rate must be no less favorable than that afforded any other country.

14. Export limitation.--A provision that limits the recipient country's volume of exports of commodities that are the same as, or like, the commodities being furnished by the United States under a P.L. 480 agreement. The export of the actual commodities financed is also prohibited, with the latter prohibition being termed an export restriction.

15. Export limitation period.--The period during which the recipient country must restrict exports of commodities which are considered to be the same as, or like, those supplied under P.L. 480.

16. Export market value, total.--The market value of the commodity, based upon world prices.

17. Fair share.--The requirement that the United States should benefit equitably from any increase in commercial purchases of agricultural commodities by the recipient country.

18. Food for Development--Under the 1977 Act in Title III, countries receiving commodities under Title I which meet certain eligibility requirements may use the proceeds from the domestic sale of commodities for programs of rural and agricultural development. The expenditures that are used for the specified programs will be considered as repayment to the United States. The value of agreements authorized under this provision shall be at least 5 percent of the value of all Title I agreements in fiscal 1978, a minimum of 10 percent in fiscal 1979, and at least 15 percent of the total in each succeeding year. This requirement may be waived if there is an insufficient number of eligible projects.

19. Government-to-government agreement.--An agreement between the U.S. Government and a foreign government, as distinguished from an agreement between the U.S. Government and a private trade entity.

20. Grant Element.--The face value of the loan, less the discounted present value of total repayments, as a percentage of the original loan.

21. Initial payment.--A payment to be paid by the importing nation in dollars, or currencies easily convertible into dollars, at the time of delivery.

22. Interagency Staff Committee on P.L. 480 (ISC).--The committee which considers and approves all proposed P.L. 480 programs and related negotiating

instructions, which are subsequently transmitted to the appropriate U.S. ambassador. ISC is chaired by USDA, and members include representatives of the Departments of the Treasury, Commerce, State, Defense, AID, and OMB. Title I programs are developed and proposed to ISC by USDA; Title II programs are developed and proposed by AID.

23. Letter of conditional reimbursement.--A letter issued by the Department of Agriculture making a conditional commitment to finance the procurement of U.S. commodities by a recipient country. Initially, payment for the commodities must be made from that country's own monetary resources. The U.S. commitment is made in advance of executing an agreement. The commitment letter obligates the United States for reimbursement to the importing country, or its assignee. It also requires that procurement be accomplished subsequent to the letter but prior to the agreement, providing that (1) the pending P.L. 480 sales agreement is eventually signed, and (2) all requirements established by the letter of conditional reimbursement are met. To allow for the possibility that the sales agreement may require an initial payment, the letter further limits the reimbursement to the percentage of the total value approved for financing in the agreement.

24. Loans to private enterprise (Cooley loans).--Loans made from P.L. 480 local currencies in recipient countries to (1) U.S. firms (including their branches, affiliates, and subsidiaries) for business development, trade expansion, and private home construction, or loans to (2) domestic or foreign firms for the establishment of foreign facilities to aid the utilization, the distribution, or the increased consumption of, and market for, U.S. agricultural products. These loans may be repaid in foreign currencies, and usually bear interest at the current rate found in the foreign nation where the loan is made. This program is administered by the Overseas Private Investment Corporation (OPIC).

25. Local currency sale (LC).--A P.L. 480 sale in which payment was made to the United States in the recipient country's own currency at the time of delivery. No new agreements for this type of sale have been signed since December 31, 1971.

26. National Advisory Council on International Monetary and Financial Policies (NAC).--An interdepartmental committee established by executive order, and whose members are representatives of the Departments of Treasury, State, and Commerce, the Federal Reserve System, and the Export-Import Bank. Among other functions, it coordinates the policies of all government agencies to the extent that they make foreign loans or engage in foreign monetary tranactions. Thus, it reviews proposed P.L. 480 credit sales agreements.

27. Near-excess currency country.--A country in which the U.S. Government holds currency in excess of the immediate needs of the U.S. Government in that country, but by amounts not great enough to be declared "excess."

28. Negotiating instructions.--Instructions drafted by USDA, cleared with interested U.S. agencies, and transmitted by the Department of State-AID to the appropriate U.S. Embassy. They guide the Ambassador, or his designees, in negotiating a particular P.L. 480 sales agreement.

29. Ocean freight differential (OFD).--The amount by which the cost of the ocean freight bill for the portion of commodities required to be carried on U.S. flag vessels exceeds the cost of carrying the same amount on foreign flag vessels. This amount is paid by CCC, usually by the reimbursement method.

30. Private trade agreement (PTA).--A P.L. 480 agreement negotiated between the U.S. Government (USDA) and a private trade entity (PTE), either U.S. or foreign. The agreement provides that the PTE will import certain commodities into a particular country, and execute projects in that country, which will improve the storage or marketing of agricultural commodities or will expand private economic enterprise. Financing of these agreements is restricted to dollar credit. They are negotiated in Washington, D.C.

31. Private Trade Entity (PTE).--The private trader with whom the U.S. Government (USDA) directly negotiates a private trade agreement.

32. Purchase authorization (PA).--A document issued by USDA after a P.L. 480 agreement has been signed. It authorizes the importing government, through its importers or agents, or a PTE, to procure certain P.L. 480 commodities from U.S. sources. The PA specifies the grade and type, approximate quantity, and maximum value of the commodities. It also states the time span for their purchase and delivery, the method of their financing, and certain other provisions and limitations. An individual PA can be issued for the total value of one of the commodities in an agreement, or for part of the commodity total. Procurement of ocean transportation to be financed by CCC may be authorized in the commodity PA or in a separate ocean transportation PA.

33. Same as, or like, commodities.--Some commodities, including certain processed products containing them, which are approximately the equivalent of commodities included in P.L. 480 agreements, and which the recipient nation may be restricted from exporting. The "export limitation" and "export limitation period" apply to these commodities.

34. Self-help provision.--The provisions contained in each P.L. 480 agreement which describe the steps of a program the recipient country is undertaking--or agrees to undertake--to improve the production, storage, and distribution of its agricultural commodities. An agreement may be terminated whenever the President determines that the self-help program is not being adequately developed. This is also used as a criterion in determining which countries receive P.L. 480 programs.

35. Seventy-five/twenty-five ratio--A minimum of 75 percent of the food aid commodities allocated under Title I in any fiscal year shall go to countries which meet the minimum per capita GNP level for lending by the International Development Association ($550 in 1976 dollars) and are also unable to secure sufficient food through their own production or commercial imports. This poverty requirement can be waived if it is determined that 75 percent of the food aid cannot be used effectively to carry out the purposes of Title I.

36. Third-country consultations.--A notification of a Title I program proposed by the U.S. Government to governments of countries which either normally export commercially to the proposed P.L. 480 recipient, or have available for export the same or similar commodities as those being considered for inclusion in an agreement. The purpose of the consultation is to permit the exporting countries to comment on the commodity impact of a Title I program proposal.

37. Title I sales.--Sales made under Title I of P.L. 480, which includes DC and CLCC sales. Prior to 1967 the term "Title I" meant local currency sales, since only this type of sale was included under this title.

38. Title II agreements.--Grants and donations of agricultural commodities for emergency needs or for on-going humanitarian programs. These involve no repayment.

39. Title III.--Food for development and barter sales.

40. U.S.-use currencies.--Foreign currencies accrued from previous local currency sales under P.L. 480 agreements and owned by the U.S. They may be restricted to specific program uses or nonrestricted and available for use to pay for official obligations and for other purposes.

41. Usual marketing requirement (UMR).--The amount of a commodity which the P.L. 480 agreement requires the recipient nation to import on a commercial basis. This amount is normally based on the country's historical commercial imports of the commodity from countries friendly to the United States.

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