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P. L. 480 FOOD AID TO INDIA†

Among the developing nations, India has received a large quantum of food aid from the United States. The Public Law 480 (Food for Peace) programme of the United States has played a significant role in helping India meet her food needs. The first (P.L. 480) Agreement was signed in 1956. Prior to the enactment of this law in 1954, India received two loans of food aid from the United States in 1951. Between 1956 and 1966, India concluded a total of nine agreements with the U.S. As the legislation had to be renewed every two years after 1964, the U.S. Congress passed legislation in 1966 extending the P.L. 480 Act upto 1968. The amendment effected substantial modifications to the programme. Under the amended law, a new agreement which is the 12th covering food aid, was signed by India on 20th February, 1967 for the import of two million tons of foodgrains from U.S.A. on concessional terms. The total of foodgrains supplied to India by the United States during the period 1951 to 20th February, 1967, amounted to 50 million tons.¹ The P.L. 480 supplies include 40.9 million tons of wheat, 4.3 million tons of maize and milo (sorghum), 1.7 million tons of rice, 3.2 million bales of cotton, 177,000 tons of soybean oil, 80,000 tons of tallow, 7,200 tons of tobacco and 34,000 tons of dairy products. In addition to this, the United States has announced its intention to provide an additional 3 million tons of foodgrains to India during this year.

A fundamental provision of the P.L. 480 legislation is that commodities are sold for rupee payment; convertibility to dollars is strictly limited. Under the terms of the P.L. 480 agreement, the Government of India deposits in the accounts of U.S. Government with the Reserve Bank of India, rupees equivalent to the dollars paid to U.S. suppliers of agricultural commodities.² The total value of commodities provided by the U.S. under the P.L. 480 agreements since 1956 was \$ 3,807.2 million or Rs. 2,855.40 crores at the current rate of exchange (Rs. 7.50 = \$ 1). However, because most of the rupees had been deposited prior to the devaluation of the rupee in June 1966, it is estimated that the total P.L. 480 sales proceeds deposited by the Government of India will amount to approximately Rs. 1,950 crores. The value of total U.S. economic assistance to India including P.L. 480 food aid is estimated at \$ 7,649.7 million or Rs. 5,737.28 crores.

As amended in 1967, the P.L. 480 has four titles. Title I provides for the sale of agricultural commodities on concessional terms. The original Act provided for sales of commodities against payment in currencies of recipient nations, with provision for conversion of a very small portion into dollars for specified purposes. Agreements with India provided for the conversion of 3 per cent of the sales proceeds for certain specified purposes, but in fact less than 0.7 per cent has been converted into foreign exchange. The new amended legislation provides for a transition from sales for foreign currencies to dollar payments to be completed by 1971. Under this provision, the most favourable terms applicable to credit sales

† Source : "U.S. Food Aid to India and the New P.L. 480 Legislation," *Backgrounder*, dated May 8, 1967, United States Information Service, Bombay.

1. Another agreement, which is a supplement to the P.L. 480 agreement signed in February, 1967, was concluded on 12th September, 1967 for the supply of one million tonnes of wheat and milo and an additional 70,000 tonnes of vegetable oil and 30,000 bales of extra-long staple cotton. This brings the amount of U.S. foodgrains supplied to India during 1967 to 6.1 million tonnes, and the total since 1951 to 52 million tonnes. The cost of wheat and other commodities supplied to India under the supplemental agreement will amount to \$ 86.5 million (Rs. 65 crores).

2. Until 1960, the bulk of these funds (about Rs. 338 crores) were deposited with the State Bank of India. All these funds were subsequently transferred to the Reserve Bank of India.

presently are 20 years for dollar repayment including a two-year grace period with an interest rate of 1 per cent per annum during the grace period and 2.5 per cent thereafter, and 40 years for convertible foreign currency repayment including a 10-year grace period with the same rate of interest of 1 and 2.5 per cent per annum. Not less than 5 per cent of the purchase price is to be payable in dollars or convertible currencies. However, the United States has agreed to accept payment in rupees for the supplies made under the February 1967 agreement. The change in the currency of payment reflects a marked shift in the U.S. agricultural situation because of the dwindling food surplus which has been estimated at 10 million tons in July, 1967.

The P.L. 480 programme has enabled India not only to save foreign exchange expenditures of a large magnitude, but also to provide rupee resources for economic development. The new agreement specifies that 87 per cent of the sales proceeds as compared to an average of 75 per cent in previous P.L. 480 agreements should be returned by the U.S. to the Government of India in grants and loans for economic development—22 per cent as grants and 65 per cent as loans. Out of 22 per cent of the rupees generated by the sale of the commodities granted by the United States to the Government of India, 12 per cent is intended for financing economic development projects and the remaining 10 per cent for programmes emphasizing maternal welfare, child health and nutrition, and family planning. This is the first time since the May 1960 agreement that the United States has given a grant to the Government of India from P.L. 480 funds. Although the loan provision closely resembles that in prior P.L. 480 agreements, the new P.L. 480 agreement lays emphasis on agricultural development and food productivity. A sum equivalent to 5 per cent is reserved for "Cooley" loans to Indian-American joint enterprises and Indian affiliates of U.S. firms as against 6.7 per cent in pre-P.L. 480 agreements. The amount reserved for U.S. Government uses in India has been cut severely from 20 per cent in the September 30, 1965 agreement to 8 per cent, the average for all previous P.L. 480 agreements being 13 per cent.

Grants totalling Rs. 316.5 crores from P.L. 480 funds have mainly financed education and health projects. Projects benefited include the eradication of malaria and smallpox, the establishment of health centres in rural areas, the training of teachers for medical colleges, elementary education, the training of craftsmen, technological education, the construction of national highways, soil and water conservation, the expansion of agricultural credit and the building of foodgrain storage facilities. Loans to the Government of India amounting to Rs. 878.9 crores from P.L. 480 sales proceeds have helped in financing 16 river-valley projects generating hydro-electric power and augmenting irrigational facilities, 11 thermal power projects and a fertilizer factory. Cooley loans amounting to Rs. 58.7 crores from P.L. 480 funds have been extended to nearly 50 Indian-American firms engaged in the manufacture of a wide variety of products including fertilizers, tyres, cement, synthetic rubber, automobile parts, pharmaceuticals, chemicals, plastics, machine tools, diesel engines, refrigeration equipment, electric motors and steel tubes and forgings. A substantial part of the U.S. owned rupees is utilized to promote a number of programmes beneficial to India. These include the exchange of Indian and American scholars, the publication of low cost textbooks for college students, the supply of Indian newspapers and periodicals to U.S. libraries, and research in agricultural, medical, educational and social sciences undertaken by a number of universities and other institutions in India.

Titles II and III of the original P.L. 480 legislation provided for donations of agricultural commodities to help meet famine or other urgent or extraordinary relief requirements and for distribution through voluntary agencies. Donations valued at \$ 261.7 million or Rs. 196.27 crores have been given to India under these two titles. The amending Act joined these two titles into new Title II. Under this new Title, the U.S. has agreed to provide through private voluntary agencies an emergency contribution of \$ 25 million (Rs. 18.75 crores) worth of food for free distribution to food-short children and expectant mothers in drought-stricken areas of Bihar and Uttar Pradesh and other distressed areas. This food aid is in addition to a total of roughly Rs. 36.75 crores worth of food commodities granted by the United States which have been distributed in India by U.S. voluntary agencies during the year ending 30th June, 1967.

Title III of the new Food for Peace Act provides mainly for barter of U.S. agricultural commodities for certain types of minerals and other products. The new Title IV includes general provisions such as availability of commodities, authorization to set up a programme of farmer-to-farmer assistance in the U.S. Department of Agriculture and other miscellaneous matters.

Under the recent agreement, the Governments of the U. S. and India recognize "the policy of the exporting country to use its agricultural productivity to combat hunger and malnutrition in the developing countries, to encourage these countries to improve their own agricultural production, and to assist them in their economic development;" and "the determination of the importing country to improve its own production, storage and distribution of food products, including the reduction of waste in all stages of food handling." The agreement sets forth the measures that the two Governments will take individually and collectively in furthering the above mentioned policies and which are indicated in the Draft Outline of the Fourth Five-Year Plan. The U.S. aid programme is assisting India's efforts to become self-sufficient in food by the end of the Fourth Plan. Total United States aid for this purpose has exceeded \$ 282 million (Rs. 211.5 crores) in foreign exchange and Rs. 246 crores in rupees derived from the sale of U.S. agricultural commodities.