

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
OF THE HOUSE COMMITTEE ON AGRICULTURE
WITH REGARD TO P. L. 480,
THE AGRICULTURAL TRADE DEVELOPMENT ACT

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We appreciate this opportunity to present Farm Bureau's views with regard to P. L. 480, the Agricultural Trade Development Act. Under current law, Title I (authority for sales of surplus farm products for foreign currency) and Title II (authority for foreign grants of agricultural surpluses) expire December 31, 1964. Since there is no bill presently before the Congress, our comments of necessity are somewhat general and our recommendations are limited to these two titles of the law.

Farm Bureau is an organization of 1,628,295 farm and ranch families in 49 states and Puerto Rico. Our extensive policy development program provides every member, individually and through his elected representatives, an opportunity to study, discuss and take action at thousands of meetings each year.

In 1954 Farm Bureau took a leading role in developing legislation, which became P. L. 480, authorizing an export program for surplus agricultural products designed to move them into consumption and establish the basis for long-term commercial sales in the future. You will recall that this was to be a temporary program. At the time, international trade in farm products was being restricted because of several factors. One of the chief factors was a "dollar shortage" which was almost world-wide. Today that situation has changed dramatically. When P. L. 480 was being considered by Congress in 1954, it was looked upon as a means of moving surpluses out of storage and into consumption. Our agricultural surpluses at the time amounted to a little over \$6 billion. At the end of fiscal year 1963--and after nine years of P. L. 480--our agricultural surpluses amount to some \$7.2 billion. So in light of the many changes that have occurred, we think it is appropriate that this program be reviewed at this time.

The Current Situation

To a very large degree, as is indicated by the continued build-up in Commodity Credit stocks, P. L. 480 shipments have come out of current production, and perhaps these export movements have given the impression that some of our domestic agricultural programs have been working better than they actually are.

The program has moved a tremendous amount of surplus agricultural products to many nations which would not have been able to obtain them through normal purchases. Agricultural products valued at over \$20 billion have moved since the enactment of this law.

Title I foreign currency sales have accounted for the export of \$14 billion worth of farm products. Title II donations have amounted to \$1.5 billion; foreign and domestic relief shipments under Title III have exceeded \$3 billion; and barter contracts account for over \$1.5 billion. Less than \$200 million of farm products has been sold under the long-term credit arrangements of Title IV.

Foreign currency sales under Title I have accounted for nearly 2.8 billion bushels of wheat, 83 million bags of rice, 417 million bushels of feed grains, 7.6 billion pounds of fats and oils, 8.1 million bales of cotton, and large quantities of other farm products. Since U. S. agriculture has a vital stake in the export market, present and future, we must be concerned over the persistent percentage of our exports that moves under the government programs of P. L. 480.

In fiscal year 1963--

Wheat exports represented 58 percent of U. S. production;
76 percent of these exports moved under P. L. 480.

Rice exports were 54 percent of U. S. production; 58 percent of these exports moved under P. L. 480.

Drastically reduced cotton exports still represented 25 percent of U. S. production; the percentage that moved under P. L. 480 increased to 33 percent.

Soybean oil and cottonseed oil exports represented over 40 percent of U. S. production of these oils; 40 percent of these exports moved under P. L. 480.

The above agricultural products represented 40 percent of our agricultural exports last year. On a total value basis, 60 percent of them moved under P. L. 480. Can any industry hope to build solid markets if it continues indefinitely to base such a substantial part of its marketing on government programmed exports for non-convertible currency?

Foreign Currency Sales

Farm Bureau 1964 policies in regard to P. L. 480 state:

"The law should be extended for not more than three years with authorization to use existing surpluses in a constructive manner, moving them into consumption where nations are unable to pay in dollars. These export movements should not replace dollar sales. It is not consistent with the purpose and intent of the law to embark on a program of encouraging production to expand government financed movements or to attempt to justify unrealistic domestic programs by citing the availability of foreign currency sales as a means of exporting the surplus production."

In our opinion, the purpose of Title I foreign currency sales has been widely misunderstood. This program was not designed to be--it never has been--a direct relief program in which food was given to the people of the recipient country. Other titles of P. L. 480 and the foreign aid program were designed to serve that function. Under Title I, the recipient country is supposed to make payment for the product received. The food and fiber is sold through normal commercial channels, and the individual consumers in the recipient countries pay their local currency for these products. Such a program provides the recipient country with two direct benefits.

It (a) is a means of accumulating capital for economic development and (b) permits the importation of food in cases where foreign exchange is not available to pay for it. When P. L. 480 was enacted, and a dollar shortage existed throughout the world, foreign currency transactions were viewed as a transitional program

which would lead to normal commercial trade as foreign exchange became available.

In the current situation P. L. 480 appears to be operated primarily in the interest of the economic development of less developed countries. There have been instances in the past when this program was used to develop some solid markets for U. S. agricultural products; however, we question whether it is achieving this objective currently.

For example, wheat shipped to Japan under P. L. 480 has developed a continuing market which probably would not have reached its present magnitude without the program. Over six years ago, soybean oil sales to Spain were initiated under P. L. 480. Spain has now emerged as the largest U. S. cash market for edible oils. However, continued unrestricted programming to countries such as India, Pakistan, the United Arab Republic, etc. will not bring about commercial markets. It may very well prevent them from developing.

The international dollar shortage of 1954 has been reversed in 1964. The persistent balance of payments deficit of the United States has built up tremendous dollar and gold reserves outside of this country. With a deficit in our balance of payments which has averaged around \$3 billion over the past several years, a policy of programming \$1.5 billion worth of farm products for foreign currency should be subjected to the closest scrutiny.

The extent to which many underdeveloped countries can benefit from additional accumulation of local currency under P. L. 480 is subject to serious question. The billions of dollars worth of foreign currency accumulated under P. L. 480 has become in many instances more of an embarrassment than an asset. The Budget Bureau has indicated that the United States today holds "excess currency in Poland, India, Burma, Israel, Pakistan, the United Arab Republic, and Yugoslavia." We have accumulated sufficient foreign currency in some countries to attain the unenviable position of being capable of wrecking the foreign country's economy. The fact is that some foreign countries have little motivation to "draw down" foreign currency generated by P. L. 480 for economic development projects. There is some indication

that, given the choice, some foreign countries prefer to pay for projects with "new money" rather than to borrow foreign currency from the P. L. 480 account. The effect upon their economies is approximately the same if the U. S. agrees to continue to confine its hoard of foreign currency; and, in the case of "new money", there is no need to pay interest.

For example, the United States holds \$532 million worth of rupees in India. The Budget Bureau estimates that we will spend about \$21 million equivalent in India during the next fiscal year.

The foregoing facts indicate that, just as the conditions in 1954 called for a new program such as P. L. 480, current conditions in 1964 call for basic and fundamental changes in the program. This requires the enactment of new safeguards and the strict and vigorous implementation of them.

New Safeguards

The most important safeguard is to take those steps necessary to insure that foreign currency sales are limited to current agricultural surpluses. This means that our domestic agricultural programs should not encourage production in order to expand foreign currency movements under Title I. This also means that we should not attempt to justify unrealistic domestic programs by citing the availability of foreign currency sales as a means of exporting the surplus production. We have a serious obligation, not only to ourselves but also to other exporting nations, to make basic changes in our domestic agricultural programs to prevent artificial incentives for production when such production is to be pushed into the world markets through special programs such as P. L. 480.

Of course, the magnitude of the export movements of agricultural surpluses as carried out under P. L. 480 presents a constant danger of displacing normal commercial sales. In our opinion, some displacement has already occurred.

Any new legislation should require that "usual market provisions" be included in every agreement. In addition, we should require that all future foreign currency

sales be made on the condition that at least 25 percent of the total purchase be paid for in dollars or freely convertible foreign exchange.

The recent export arrangement with Poland which included a \$30 million foreign currency sale, a \$30 million short-term credit sale, and a \$30 million sale on commercial terms is evidence that it is time, and that it is possible, to move toward more commercial sales arrangements with the countries which have been acquiring a major part of their food needs through Title I type programming. We recommend that this 25 percent requirement be written into the law now.

After nine years operation of this program, there is a growing attitude among many nations that farm products are not worthy of foreign exchange. To put it another way, many underdeveloped countries seem to feel that foreign exchange is something to be used for the importation of industrial goods since food import requirements can be met through P. L. 480 type transactions. This could have an extremely detrimental long-term effect upon potential dollar markets for farm products.

The excessive foreign currency balance indicates the necessity for a requirement in the law that a P. L. 480 agreement specify not only the general category to which the foreign currency is to be applied but also the projects for which those funds allocated to economic development will be used. Foreign currency should not be generated through Title I sales unless there is real evidence that it can be used promptly and constructively. A foreign currency sale which results in such currency lying indefinitely in a U. S. account is not a sale, and is not serving the best interests of either country.

Since market development activities are being financed by appropriations even when foreign currencies are used, the mandatory "set-aside" of 5 percent for market development activities should be deleted. With the adoption of our recommendation of a 25 percent cash requirement, there should also be deleted the 2 percent convertibility requirement contained in Section 104 (a).

Extension and Authorization

Adoption of the revisions recommended herein would enable Farm Bureau to

support a three-year extension of the authority to enter into foreign currency sales contained in Title I of P. L. 480. We would recommend an increased authorization of \$3 billion with the additional limitation that not more than \$1.5 billion could be committed in any one year.

1. We believe it is essential for Congress to review and reassess a program of the magnitude and implications of P. L. 480 at least every three years.

2. We believe it is imperative that the United States not indicate to recipient countries or to other exporting countries that we intend to enter permanently into a program of noncommercial export movements of U. S. agricultural products. It is not in the best interest of the United States, the American farmer, or the underdeveloped nations of the world to indicate such an attitude. It would not build strength, it would sustain weakness; it would not generate gratitude, it would compound resentment. Our relationship with underdeveloped countries should be based on the principle of a partnership in trade, not on a donor-donee basis.

An additional \$3 billion authorization to cover this period should prove sufficient. The fact is that we already have "over-programmed" India and Pakistan. It certainly is an unhealthy situation when recipient nations must come to the United States to explain why they do not want to take as much as we have tried to give them.

Title II Emergency Relief

Donations for emergency relief and so-called work payment programs under Title II of P. L. 480 are currently administered by the Agency for International Development. It seems appropriate that such activities be delegated to the foreign aid agency. Logically the cost should be borne by the foreign aid budget. Therefore, Farm Bureau recommends that Title II authorizations be transferred to the foreign aid bill and be subject to appropriations for foreign aid.

As a temporary program, P. L. 480 can move surpluses into consumption to countries unable to pay dollars. However, the export movements should be used to expand future commercial trade, not as a substitute for such trade. It will defeat

our purpose if we allow P. L. 480 to become a permanent program and if we permit recipient countries to become permanently dependent on U. S. government programs for their food import needs.