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The
1966 Amendments
to
Public Law 480

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ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

SUMMARY

The 1966 amendments make Public Law 480 a more flexible instrument than previous P.L. 480 legislation for expanding export markets for U.S. farm commodities, and for fostering agricultural and total economic development and improving health and nutrition in the developing countries of the world.

Under the new Act, developing nations will be required to demonstrate an adequate degree of self-help in agricultural development to be eligible for continued food assistance from the United States. They will have to show that steps are being taken to more rapidly increase per capita food and fiber production and to improve their storage and marketing facilities for agricultural products. The emphasis on self-help is designed to insure the effectiveness of food and other forms of assistance in achieving a better rate of economic progress in friendly developing countries.

For countries meeting this requirement, the United States can produce the quantities of almost any foods or food products that are judged to best meet the development needs of these countries. In addition, the United States can more fully utilize its agricultural production capacity and knowledge of nutrition to help improve the health of people in countries receiving food aid.

In the interest of maintaining stability in the development plans and programs of recipient nations, and considering the availabilities and costs of foods for food aid, the total levels of food assistance under P.L. 480 as amended in 1966 are not likely to be substantially different in the near future from levels prevailing in recent years, although authorized expenditure levels permit a larger program if necessary. Of course, substantial changes could occur for individual countries. For the longer run, the levels of food aid could be increased to friendly nations that have demonstrated an adequate degree of self-help in their agricultural development program and have demonstrated that food aid is a valuable resource in achieving both a better rate of agricultural development and a better state of health and well-being for their people.

The total level of U.S. foreign food assistance will, of course, depend upon the amount of money available to implement the 1966 Act. Food aid is viewed as an interim form of assistance until such time as developing nations realize the benefits from accelerated agricultural development in the form of a more rapid rate of growth in agricultural output.

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THE 1966 AMENDMENTS TO PUBLIC LAW 480 □ □ X

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INTRODUCTION

The new P.L. 480 legislation (the Agricultural Trade Development and Assistance Act of 1954 as presently amended) is timely and significant in terms of its implications for the agricultural community and the general public of the United States. It is timely because, with the virtual elimination of surplus stocks, much of the surplus capacity of American agriculture is now a production reserve. It is significant because it focuses on the use of U.S. agricultural capacity to more effectively develop markets for farm products, to achieve more rapid agricultural and total economic development in developing nations, and to improve the health of the people in these countries, rather than to dispose of accumulated farm surpluses. This report focuses on those features of the 1966 Act which are new and of significant interest to the American public.

NEW PROGRAM PROVISIONS

The differences in objectives between the new P.L. 480 legislation and the old are clear from the following two passages.

Section 2 of the Agricultural Trade Development and Assistance Act of 1954, as previously amended, states:

"It is hereby declared to be the policy of Congress to expand international trade among the United States and friendly nations, to facilitate the convertibility of currency, to promote the economic stability of American agriculture and the national welfare, to make maximum efficient use of surplus agricultural commodities in furtherance of the foreign policy of the United States and to stimulate and facilitate the expansion of foreign trade in agricultural commodities produced in 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 and foreign currencies accepted in payment therefor. It is further the policy to use

foreign currencies which accrue to the United States under this act to expand international trade, to encourage economic development, to purchase strategic materials, to pay U.S. obligations abroad, to promote collective strength, and to foster in other ways the foreign policy of the United States."

Section 2 of the new Act states:

"The Congress hereby declares it to be the policy of the United States to expand international trade; to develop and expand export markets for United States 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 assisting those countries that are determined to improve their own agricultural production and to promote in other ways the foreign policy of the United States."

Several differences in objectives between the two pieces of legislation are clear. In comparison with the previous legislation, the 1966 Act (a) now links the food aid program to self-help efforts on the part of recipient countries; (b) no longer limits the operation of U.S. foreign food assistance programs to supplies of surplus agricultural commodities, but provides that the United States can produce the quantities of almost any farm commodity or derived product that are judged to best meet the development needs of recipient countries; and (c) provides for means to improve the nutritional content of U.S. food assistance. In addition, the new bill provides for changes in financial provisions and for a program of farmer-to-farmer assistance.

Self-Help Requirement

Unlike previous legislation, this Act links the foreign food aid program of the United States directly to the agricultural development efforts of developing countries receiving food assistance. This is the "self-help" feature of the Act. It is a principal objective of the Act "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 . . ." (Section 2). In implementing the new P.L. 480 legislation the President shall "take into account efforts of friendly countries to help themselves toward a greater degree of self-reliance, including efforts to meet their problems of food production and population growth . . ." (Section 103(a)).

Sections 109(a) and 109(c) state:

Before entering into agreements with developing countries for the sale of United States agricultural commodities on whatever terms, the President shall consider the extent to which

the recipient country is undertaking wherever practicable self-help measures to increase per capita production and improve the means for storage and distribution of agricultural commodities, including: (1) devoting land resources to the production of needed food rather than to the production of nonfood crops--especially nonfood crops in world surplus; (2) development of agricultural chemical, farm machinery and equipment, transportation, and other necessary industries through private enterprise; (3) training and instructing farmers in agricultural methods and techniques; (4) constructing adequate storage facilities; (5) improving marketing and distribution systems; (6) creating a favorable environment for private enterprise and investment, both domestic and foreign, and utilizing available technical know-how; (7) establishing and maintaining Government policies to insure adequate incentives to producers; (8) establishing and expanding institutions for adaptive agricultural research; and (9) allocating for these purposes sufficient national budgetary and foreign exchange resources (including those supplied by bilateral, multilateral and consortium aid programs) and local currency resources (resulting from loans or grants to recipient governments of the proceeds of local currency sales).

ⁱ Each agreement entered into under the title shall describe the program which the recipient country is undertaking to improve its production, storage, and distribution of agricultural commodities; and shall provide for termination of such agreement whenever the President finds that such program is not being adequately developed.¹

Range of Commodities

Under the new P.L. 480 legislation, our foreign food assistance programs are no longer limited to surplus agricultural commodities. Any agricultural commodity or product thereof (except alcoholic beverages, and tobacco and tobacco products under donation programs provided for by the new legislation) may be produced for food aid purposes. However, exports are subject to the following restriction:

ⁱ No commodity shall be available for disposition under this Act if such disposition would reduce the domestic supply of such commodity below that needed to meet domestic requirements, adequate carryover, and anticipated exports for dollars as determined by the Secretary of Agriculture at the time of exportation of such commodity¹¹ (Section 401).

These features of the new Act mean that food aid exports should not pre-empt supplies of commodities required to meet domestic, carryover, and dollar export needs. But no legal constraint is placed on the production of

agricultural commodities (as defined in the Act) for food assistance. Under the new legislation, foreign food assistance requirements become a legitimate demand upon the agricultural production capacity of the United States, and not just upon reserve stocks of commodities as was the case under previous legislation. The amount of food and fiber produced for disposition under the 1966 Act will be determined by the demands from eligible countries and the amount of money available to meet these demands. Restrictions on the use of diverted and conserving acres under the Food and Agriculture Act of 1965 are still applicable.

Emphasis on Nutritional Needs

Another new feature is the specific emphasis given to the problems of inadequate nutrition. The nutritional content of U.S. foreign food aid efforts can now be substantially improved through nutritional fortification and supplementation of traditional foods that have been exported for food aid, through increased use of nutritionally adequate prepared food mixes and, where practicable, through increasing the availability of foods of high nutritional content that heretofore have not been a significant component of the U.S. food aid program.

New Financing Provisions

The new Act provides that sales for local currencies should be phased out by December 31, 1971, except where such currencies can be effectively used for payment of U.S. obligations in the recipient country, for carrying out programs of the Government of the United States, for procuring equipment, materials, facilities and services for defense purposes, for loans to United States businessmen, and for financing programs of maternal welfare, child health and nutrition, and voluntary population control requested by countries receiving food assistance. Specifically, the Act states that the President shall:

" . . . take steps to assure a progressive transition from sales for foreign currencies to sales for dollars (or to the extent that transition to sales for dollars under the terms applicable to such sales is not possible, transition to sales for foreign currencies on credit terms no less favorable to the United States than those for development loans made under Section 201 of the Foreign Assistance Act of 1961, as amended, and on terms which permit conversion to dollars at the exchange rate applicable to the sales agreement) at a rate whereby the transition can be completed by December 31, 1971 . . ."

(Section 103(b)).

Sales for dollars under the new legislation can be made in two ways. If a recipient country cannot afford to pay cash, sales can be made on credit terms that stipulate a loan period of up to 20 years, a 2-year grace period

on loan repayment, an interest charge of not less than 1 percent per year during the grace period and an interest charge of not less than 2½ percent thereafter. Or, if the above terms impose an excessive financial burden on the recipient country, sales can be made for foreign currencies on credit terms, but these loans are to be repaid in dollars at agreed-upon rates of exchange. In such cases, loans can be made for up to 40 years with a 10-year grace period on repayment, an interest charge of not less than 1 percent during the grace period and an interest charge of not less than 2½ percent thereafter.

This provision requires a transition in the methods of financing that puts food aid on the same terms as capital assistance. This, in turn, will likely result in a more economically meaningful allocation within recipient countries of development resources between agricultural and nonagricultural development activities. Food aid will cost recipient countries more than it has in the past and this should induce a greater emphasis on expanding their domestic production.

Farmer-to-Farmer Assistance

Finally, the new legislation authorizes the Secretary of Agriculture, in order to further assist friendly developing countries to become self-sufficient in food production,

" . . . to establish and administer through existing agencies of the Department of Agriculture a program of farmer-to-farmer assistance between the United States and such countries to help farmers in such countries in the practical aspects of increasing food production and distribution and improving the effectiveness of their farming operations . . ." (Section 406(a)(1)).

This feature of the Act provides a new basis whereby American farmers could participate directly in agricultural development in friendly developing nations.

OTHER PROVISIONS RETAINED

The Act retains the many provisions of previous legislation dealing with the development of foreign markets for U.S. farm products; research and educational activities in recipient countries; promotion and financing of investment by private industry--U.S. and indigenous; food donation programs operated by U.S. approved voluntary agencies; the use of U.S. food to finance community development projects; emergency relief; and other activities.



OFFICIAL BUSINESS

MAGNITUDE OF PROGRAM

It is not possible at this time to specify the types and quantities of agricultural commodities that will be produced and exported under the new legislation. On the 'demand' side, a set of self-help criteria have been added to the more traditional criteria concerning needs. Thus, in large measure the amount and type of agricultural commodities that the United States will make available under the new Act will depend upon the demonstrated effort of recipient countries to improve their own rate of agricultural development. Food assistance is viewed as a stop-gap measure until such time as recipient countries achieve a more satisfactory rate of growth in agricultural output and reap the benefits of greater efforts in agricultural development. Successful development in recipient countries will decrease the need for food aid. A precise course for agricultural development in recipient countries cannot be charted because of the uncertainties involved in determining the output effects of a variety of self-help measures.

On the supply side, much of the excess capacity in U.S. agriculture has been transformed from stocks of commodities to reserve agricultural production capacity. This capacity will undoubtedly be used to the extent that is required to meet total domestic demands, to meet commercial export demands, to maintain adequate reserves of food and fiber, and to fulfill food aid commitments. U.S. food aid commitments will be governed by both the needs of eligible countries and the amount of money available to finance U.S. food aid programs. Although the new Act authorizes expenditures that would permit a larger program if necessary, the total levels of food assistance in the near future are not likely to be substantially different from those of recent years; this is because of the desire to maintain stability in development plans and programs of recipient countries and the limited availabilities of food for food aid.

There will be a greater effort under the new legislation to improve the nutritional quality of food aid exports. It is difficult to specify exact quantities of foods of high nutritional content which will be shipped, because the amounts of such foods that can effectively be utilized by recipient countries and their availabilities and cost in the United States have yet to be determined.