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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

November 2, 1954

MEMORANDUM FOR THE OPERATIONS COORDINATING BOARD

SUBJECT: Commodity Aid to Pakistan Under Public Law 480, Agricultural Trade Development and Assistance Act of 1954

The attached staff paper prepared in the Department of State has been circulated to the Board Assistants and is presented for consideration by the Board. It is recommended in the attached paper that the Board agree that the commodity aid to be extended to Pakistan under Public Law 480 be entirely on the basis of a grant and that all of the local currency generated by such aid be made available to the internal economy of Pakistan. United States economic aid planned for Pakistan in this fiscal year will be slightly in excess of $105 million of which about $20 million for economic development will be on a loan basis and about $38 million is planned as grant aid using Public Law 480.

The question of whether commodity aid extended to Pakistan under Public Law 480 should be furnished under Title I or Title II was referred by the Department of State to the Interagency Committee on Agricultural Surplus Disposal on October 19. This committee, under the chairmanship of Mr. Clarence Francis, is the agency to advise the President whether the provisions of Title I or Title II of Public Law 480 should be utilized in the providing of commodity aid to foreign countries. There would be no difficulty in making the commodity aid to Pakistan as a full grant if Title II were utilized.

If the recommendation as suggested in the staff paper is agreed upon, two courses are open for the Board:

a. A request to Mr. Francis, Chairman of the Interagency Committee on Agricultural Surplus Disposal, that his committee consider, as a matter of urgency, the question of providing commodity aid to Pakistan under Public Law 480, and that in its study the committee take into account the considerations set forth in the attached paper and the views of the OCB thereon;

b. In the event that a decision is reached that Title I must be utilized, the OCB member agencies could then explore the possibility of obtaining grant aid funds from other sources.

NSC review(s) completed.

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Mr. Francis will be unable to meet with the Board either on November 3 or November 10. Because of the urgency of this matter it is being scheduled for consideration as an item of emergency business at the meeting of the Board on November 3, 1954.

Elmer B. Staats
Elmer B. Staats
Executive Officer

Attachment:

Staff Paper on Emergency
Commodity Aid to Pakistan.

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STAFF PAPER ON EMERGENCY COMMODITY AID TO PAKISTAN

Prepared in the Department of State

October 29, 1954

In its consideration of Pakistan's request for United States emergency commodity aid to meet an acute shortage of consumers goods and industrial raw materials, a special economic survey mission under the leadership of H. J. Heinz II was sent to Pakistan. The Heinz Mission Report, submitted to Governor Stassen in the third week of September, stated among other things that there exists in Pakistan a serious shortage of consumers' goods and industrial raw materials (along with Pakistan's severe internal and external financial difficulties) which has grave political, psychological and economic portent in Pakistan.

The Heinz Report strongly recommends $75.6 million of US grant commodity aid to Pakistan in this fiscal year, with further commodity aid in each of the succeeding two years, perhaps in diminishing amounts.

In addition, the rate of investment in the Pakistan economy is deemed barely adequate to keep pace with the population increase. The Heinz Report laid great stress on the need for accelerated economic development in Pakistan (1) if basic economic strength and stability are to be built up in Pakistan, (2) if we are to have reasonable hope for non-recurrence of the present commodity crisis, and (3) if Pakistan is to begin to assume its part of an increased defense burden in future years.

The Heinz Report made pointed and repeated reference to Pakistan's serious budgetary situation and the need for aid-generated rupees in Pakistan. The Report specifically states that all such local currency should be used to improve the rate of economic development and to cover increased rupee costs connected with US military end-item deliveries to Pakistan.

As mentioned above, the Report also specifies grant aid. The Mission indicated that any real improvement in the rate of economic development is dependent upon the cumulative effects of early investment in enterprises which will produce added capital for reinvestment. The Heinz Mission had in mind the psychological and political factors which dictate provision of this emergency commodity aid on a grant basis.

On his recent visit to Washington, the Pakistan Prime Minister was informed that in addition to some $30 million in technical assistance and certain other aid the United States will extend $75.6 million in emergency commodity aid to Pakistan this year pursuant to the Heinz Mission recommendations.

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After considering the specific list of commodities requested by Pakistan, the Heinz Mission incorporated in its recommended $75.6 million of such commodities, as many US surplus agricultural commodities as possible. Careful consideration of the commodity composition in Washington has indicated that some $35 to $37 million, of the $75.6 million, can be met under PL 480 -- with the remainder to be covered by additional allocations of Defense Support funds for Pakistan under PL 665.

It has been generally agreed that $20 million of our $25 million Defense Support program outside commodity aid will be on a loan basis. The portion of the $75.6 million in emergency commodity aid which is to be financed from Defense Support funds will be on a grant basis.

However, despite the Heinz recommendations that aid be in the form of a grant, two questions have arisen within the Executive Branch with respect to the local currency which will be generated by the sale of PL 480 commodities to and in Pakistan:

1. Whether all or part of the local currency should be plowed back into the Pakistan economy;

2. Whether all of that local currency should be made available to Pakistan as a grant for agreed purposes, or whether part should be on a loan basis.

Both questions resolve themselves into the question of using Title I or using Title II of PL 480 for part of the commodity aid. Under PL 480, surplus agricultural commodities may be given for emergency relief under Title II of that Act; or surplus agricultural commodities may be sold for local currency in order to increase consumption, under Title I of the Act, with the rupees so generated being used for various administrative expenses, trade promotion, international exchange of persons, etc., and (on a loan basis) for economic development. There are a number of problems connected with the use of Title I for emergency commodity relief to Pakistan. In addition to the fact that this Title is not set up for relief purposes, almost $5 million in rupees would be set aside for US Government purposes, as a sort of prior claim, before considering use of the remaining rupees for other purposes. Furthermore, use of the remaining rupees for economic development must be on a loan basis unless a Presidential waiver is given. The Bureau of the Budget has indicated that a waiver is not possible in the present circumstances.

The OCB Working Group on NSC 5409 (South Asia) concurs in the Heinz analysis on the need for using all the local currency on a grant basis, with particular regard to the desirability of contributing to the attainment of the United States political objective of fostering a strong pro-United States attitude in Pakistan with the psychological benefit of extending this emergency commodity aid and all rupees generated thereby on the basis of a full grant.

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Recommendation

That the Board agree that as a matter of importance affecting United States policy toward Pakistan the $75.6 million in United States commodity aid should be extended to Pakistan as a full grant, and that all rupees resulting from such aid be plowed back into the Pakistan economy for the purposes of direct forces support and economic development as specified in the Heinz Report.

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DATE 2 Nov 54

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