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EXECUTIVE SECRETARIAT

APR 5 1974

ACTION MEMORANDUM FOR THE ~~ADMINISTRATOR~~ ADMINISTRATOR

PD-AAD-139

THRU : EXSEC

FROM : AA/PPC, Philip Birnbaum

SUBJECT: Fertilizer Procurement Policy Statement for FY 1974-75

47p.

Attached is the proposed policy statement on fertilizer procurement.

It has been designed to deal flexibly with a changing situation and recommends a FY 1975 level of AID fertilizer financing along with a course of action designed to permit some AID-financed exports of U.S. fertilizer. A brief analysis of rationale for the statement follows the text, while background information is provided in the annexes.

Recommendation: That you approve the proposed policy.

Approve _____

Disapprove _____

Date APR 11 1974

Attachment: a/s

Clearance:

~~XXXXXXXXXXXXXXXXXXXX~~
4/11 GC:AGardiner AG
~~XXXXXXXXXXXXXXXXXXXX~~



AID Fertilizer Procurement Policy -- FY 1974 and FY 1975

1. For FY 1975, AID should sustain its past policy of assisting IDCs to meet their fertilizer needs, with the expectation that requirements for financing fertilizer will also show up in subsequent years. Purchases should be held to the minimum necessary to assure adequate fertilizer in the LDCs consistent with our available resources. It is recommended that in FY 1975 AID-financed fertilizer be about 700,000 product tons of which 470,000 is recommended to be purchased from U.S. sources.

2. It will be AID policy to finance fertilizer to meet requirements from any Free World source until supply and demand becomes more rationalized in the U. S.

3. AID should be assured that our fertilizer activities are accurately portrayed in the forthcoming hearings on embargoing fertilizer exports. Efforts should be made indirectly through other witnesses and directly through AID witnesses if called upon or deemed necessary.

4. If the proposed embargo legislation is not a factor by mid-May, appropriate steps should be taken by June 1, 1974 to permit U.S. procurement under AID financing of 470,000 product tons of fertilizer during FY 1975. If the Cost of Living Council's life is extended, AID should initiate an approach through NSC/State to ask Treasury to advise the Cost of Living Council to permit such procurement. If the Cost of Living Council ceases to function, AID should seek an appropriate USG policy statement to reassure the fertilizer industry that it may compete for AID-financed business.

5. AID will continue to adhere to the policy of not shipping U.S. fertilizer exports during the main U.S. planting season -- February through May.

6. PPC in consultation with SER/COM will have responsibility for assuring that the above recommendations are carried out. Reports on actions taken and to be taken shall be regularly made through AAC channels to the Administrator.

8.

Problem: Fertilizer is in extremely tight supply both domestically and worldwide. There is great pressure from the LDCs to help them grow their own food by helping them obtain fertilizer. At the same time, many American farmers have objected to fertilizer exports in an effort to guarantee their own supplies. While this pressure had not been reflected in Senate action by the April 1974 date of this paper, 8 resolutions and 9 bills had been introduced on the House side calling for a U.S. embargo on fertilizer exports.

Although AID has not been active in the domestic market during the current U.S. planting season, we will wish to be a factor in the market about June 1, 1974, in order to obtain fertilizer for FY 1975.

Although there are many dynamic factors in the situation which will require close watching and possible readjustment -- i.e. embargo legislation, and the future of the Cost of Living Council -- a policy is needed now in order to set a course of action for remaining FY 1974 and FY 1975 procurement actions.

Supply, Demand and Requirements

The statistics on world supply and demand of fertilizer, particularly the important nitrogenous fertilizers, are deceptive as world figures on overall supply and demand are just barely in balance. But given domestic and foreign hoarding, transportation delays, production problems due to shortages of naptha and other petroleum based feedstocks and rapidly shifting demand in a few select situations like Brazil, market forces have not been able to fill demands smoothly. Instead, there is a great deal of unevenness which has led to outright shortages in several areas and to worldwide price leaps of unprecedented proportions. The experts (USDA/TVA/IBRD) foresee a continuation of both a technical, narrow world surplus in fertilizers for the next several years and uneven distribution patterns which will maintain very high prices until late in the decade when major new production capacity is forecast. The world fertilizer problem has peaked in FY 1974, and will probably remain at peak problem point for 3-5 years.

Pressure by the developed world to restrain fertilizer exports (particularly in the U.S. and Japan) has exacerbated an already difficult situation for the LDCs. The LDCs now depend on fertilizer exports from the developed countries and will remain dependent for the foreseeable future. Many LDCs are finding it extremely difficult to obtain fertilizer at almost any price and these countries are facing real fertilizer shortages. The cumulative impact of several years' fertilizer shortage in these countries, particularly the Green Revolution countries (Pakistan, Bangladesh, India, South Vietnam) and those countries dependent upon free market imports to sustain export agriculture (Brazil, Mexico), will be large. In Asia, the fertilizer shortage, coupled with any other adverse occurrence (e.g. poor weather)

Could have grave consequences. A detailed analysis of fertilizer supply and demand is presented in Annex A.

Any policy to help IDCs obtain fertilizer imports or increase fertilizer capacity must recognize the medium to long-term nature of the present problem. The fertilizer problem pre-dated the Mid-East war and although it was exacerbated by the oil boycott, the problem will not be solved by the lifting of the boycott.

Options

We have reviewed the possible alternatives to AID-financed procurement, i.e.:

- a) Shipment of foodstuffs
- b) Helping IDCs raise productivity of fertilizer
- c) Helping IDCs to build new production capacity
- d) Programs for better usage and less wastage in IDCs
- e) Encouragement of other donors to finance and export more fertilizer to IDCs
- f) Financing of fertilizer procurement only from non U.S. sources.

Option c) is the subject of a separate paper.

Study of the options requires us to seriously consider financing procurement since none of the options will assure that needs will be met over the next years. Our analysis of the options is presented in Annex B.

Failing to find viable alternatives to assisting IDCs finance and obtain fertilizer, we have closely examined the neediest situations and have arrived at a minimal FY 1975 recommended level of AID-financed fertilizer procurement consistent with likely available funds: about 700,000 tons of which 470,000 tons are proposed to be procured from the U. S. Annex C presents an analysis of identified demand for AID-financed fertilizer procurement and a country-by-country detailed analysis of proposed recipients.

Obstacles

A de facto embargo of AID-financed contracts by the U. S. industry exists as part of an agreement between the industry and the Cost of Living Council. The threat of an export embargo is evidenced in recently introduced House resolutions and bills calling for a U.S. embargo on fertilizer exports. (Annex B discusses these obstacles in detail). Any immediate statement of AID policy will be subject to adjustment as several questions are answered. The matter of legislation embargoing fertilizer exports will hopefully be resolved during May as hearings are scheduled to start April 22. The Economic Control Act expires on April 30, 1974. We received information April 18 that agreements entered into between CIC and industries are not likely to be enforced beyond May 1, but this is not at all likely to be announced. Given this situation, the industry should receive

assurances that they may export under AID-financed contracts and not be in violation of their prior agreement with the CLC. These assurances must be available prior to the fertilizer industry's international meeting at the Greenbrier on June 9, 1974, because representatives of all substantial importing countries will be present and much of the FY 1975 business will be staked out at that time, or during the fortnight preceding this meeting.

Clearances:

AAC Fertilizer Sub-Committee:

AA/TA, JBernstein - Chairman (draft)
AA/AFR, SCAdams (draft)
AA/IA, HKleine (draft - RStockman for)
AA/ASIA, DMacDonald (draft - AWhite for)

AID Energy Crisis Committee:

PPC/DPRE, FBKimball - Chairman (draft)
SER/COM, WSchmeisser (draft) - AA/SER
ASIA/CD, TLustig (draft)
AA/AFR, APDisdier (draft)
SA/CCD, RGoodrich (draft - LHoldcroft for)
PPC/PDA, DDalrymple (draft)
AA/TA, CFarrar (draft)

GC, JMullen (subs)
LEG, TGilliland (draft)

Attachments: Annex A: Analysis of U.S. and World Fertilizer Situation 1974
Annex B: Options Alternatives and Obstacles
Annex C: Identified Demand for AID-Financed Fertilizer Procurement

Drafted: PPC/DPRE:RBERG:bkm:4/10/74

ANALYSIS OF U.S. AND WORLD FERTILIZER SITUATION1974 and 1980

Background: World fertilizer use has grown 290% since 1960, but the growth pattern from a production/price standpoint has been saw-toothed. From 1960 to 1965 the world fertilizer market was in a period of relative stability. Then droughts in Asia brought about the need for additional food supplies. The world fertilizer industry overresponded to this call to feed the world by building a large number of production units -- first in the developed regions and later in many of the developing regions. The result was an oversupply of fertilizers, prices in some cases below production costs, curtailed investments, closing of older plants and even abandonment of new projects. This situation lasted until the beginning of the 1970's when demand once again caught up to the supply level.

By late 1971 and 1972 drought in many countries led to imports of fertilizer at record levels as these countries attempted to rebuild agricultural production. But by 1972/3 it was clear that there was no ready additional capacity available to fully supply the world demand. Prices have sharply escalated in a very short period of time in all countries. Traditional trading nations have reduced export shipments in order to meet their domestic demand, and importing countries, accustomed to a buyer's market, have found that they cannot go out on the spur of the moment or well in advance and obtain whatever quantity or type of material they

wanted. Currently, the world fertilizer market is a seller's market; however, past performance has indicated that these situations will change -- although this time the peak will last a long time, perhaps 3-4 years, and the low prices of five or even two years ago are not likely to be seen again. Many important LDCs are and will be in a continuing bind.

The ramifications of the fertilizer crisis are only now being analyzed. We are aware of seven major studies.* One of the latest studies is by the U.S. Department of Agriculture and we have given it some weight in our analysis both because of its high calibre and because it was requested by Senator Humphrey and has just been released to the Hill (3/1/74).

1. The Present World Market

In brief, the developing world is suffering from a shortage which affects mainly the larger LDCs who are agricultural exporters or Green Revolution oriented. Agricultural planning in these countries has been characterized as in havoc and realistic growth objectives are in danger.

Of the three major fertilizers, nitrogen, phosphates and potash, the

* IBRD/IFC 9/73; UNIDO ad hoc group 3/71 and mid-1972; FAO 1972; UNDP, an 1971 FAO study done for the IBRD; British Sulphur, an April 1973 study done for the IBRD; TVA 1972 and March 1974 studies; and, USDA 2/74.

Although the major international donor institutions tried to harmonize their projections of LDC needs last fall, not much progress has been made. Averaging the 1980 forecasts of the 7 major studies leads to some reinforcement of the World Bank's estimates, USDA being a bit more conservative.

greatest world need is in nitrogen, USDA estimates for 1974 indicate that world nitrogen production will climb to 45.3 million tons * while consumption will reach 44.8 million tons, increases over 1973 of 8.5 and 11.4 percent over 1973, respectively. The margin between production and consumption is unusually close and will likely not permit orderly inventories and distribution. Reflecting the world shortage world prices of the nitrogen heavy urea have tripled and nearly quadrupled over the last 15 months. USDA estimates that the developed world will be in surplus in nitrogen by about 7.2 million tons while the developing countries (on all LDC continents) will be in deficit by a total of 2.6 million tons (32% of their requirements) and Communist Asia and Taiwan will be in deficit by 3.5 million tons. There are many "ifs" in this prediction all of which are on the optimistic side. For example, USDA projects increased efficiency in the production of nitrogen this year; but if last year's level of plant efficiency takes place this year, there will be a world deficit of over $\frac{1}{2}$ million tons. Further, if the worldwide inflation of food prices acts to increase fertilizer consumption very markedly, which is likely in some countries, the deficit will be much larger. The prospect of these conditions has led to several producing countries freezing or cutting back on exports and this has meant that on many recent bids there have been no willing suppliers at any price. The market in this most important fertilizer product is in a serious crisis now.

In the second most important fertilizer, phosphates, world production in

* All tonnage figures in Annex A are in nutrient tons, i.e., about $\frac{1}{2}$ of product tons.

1974 will rise to 28.8 million tons while the quantity demanded will climb to 27.7 million tons -- increases of 9.9 and 7.4 percent respectively.

The developed world will be in surplus by 2.4 million tons while the LDCs will be in deficit by 1.2 million tons (30 percent of estimated consumption).

Generally phosphates fertilizer prices on the world market have nearly tripled in price over the last 15 months.

Potash has also experienced a sharp price increase, mainly in sympathy to the other markets. Because of the abundance of raw material in North America, the market is not as tight as the other fertilizers. World production is estimated to be 24.1 million tons in 1974 while consumption will be 21.4 million tons, increases of 1.6 and 5.4 percent, respectively. The developed world will be in surplus by 4.5 million tons and the LDCs in deficit by 1.7 million tons.

In summary, the world market is a pronounced seller's paradise with prices at historic highs and with conditions certainly short of a panic, but more than a routine problem. There is a shortage of fertilizer worldwide with all major LDCs now not receiving adequate stocks. The particular losers who are unable to finance adequate stocks at today's prices are the Asian countries, particularly the sub-continent and South Vietnam. Despite a buzz of multilateral meetings, little help on fertilizer has been forthcoming from the major producers and donors and agricultural prospects for these countries are worrisome.

3. The present U.S. Market

USDA's domestic market analysis is summarized on the next page of statistics. Domestic fertilizer use, responding to very high food prices, is growing at 8% per year versus a traditional 2% annual growth. It is quite noteworthy that domestic demand and foreign demand are integrally linked in the USDA analysis. This is because the US is quite dependent upon potash imports and although a net exporter of both nitrogen and phosphates, receives part of our total supply of these products from imports. The chart on the next page clarifies the import/export relationships. On balance we are and have been a net importer of fertilizer, however, of the two products we finance, nitrogen and phosphates, we are net exporters.

Accounting for a reasonable level of exports, USDA predicts that there will be slight net domestic deficits for nitrogen and phosphate this year. U.S. imports are forecast to increase 23% this year while exports are forecast to increase only 3%. The reason export growth is projected to be so low is that exports have purposely been held down by the industry. On October 25, 1973, the domestic prices of fertilizer were decontrolled with an understanding between the Cost of Living Council and the fertilizer industry that the industry would maximize supply for the domestic market at the expense of export sales.

Since October 25, 1973, domestic prices have risen rapidly: nitrogen over 70%, phosphates over 40% and potash 30%. These prices are well below

Fertilizer summary, United States, 1971/72-73/74

Item	1971/72	1972/73	1973/74
		1,000 short tons	
		Nutrient tons	
Nitrogen:			
Domestic production <u>1/</u> :	9,097	9,560	10,232
Imports.....	843	881	946
Total available supply.....	9,940	10,441	11,178
Exports.....	1,032	1,350	1,390
Net supply.....	8,908	9,091	9,788
Demand.....	8,016	8,339	9,300
Unidentified demand <u>2/</u> :	892	752	651-930
Total requirements..			9,951-10,230
Deficit.....			150-450
Phosphate (P ₂ O ₅):			
Domestic production <u>1/</u> :	6,150	6,387	6,529
Imports.....	326	312	291
Total available supply.....	6,476	6,699	6,820
Exports.....	1,102	1,424	1,606
Net supply.....	5,374	5,275	5,214
Demand.....	4,873	5,072	5,500
Unidentified demand <u>2/</u> :	501	203	385-550
Total requirements..			5,885-6,050
Deficit.....			671-836
Potash (K ₂ O):			
Domestic production <u>1/</u> :	2,432	2,680	2,929
Imports.....	3,088	3,192	4,139
Total available supply.....	5,520	5,872	7,068
Exports.....	657	922	1,013
Net supply.....	4,863	4,950	6,055
Demand.....	4,332	4,412	4,700
Unidentified demand <u>2/</u> :	531	538	540
Total requirements..			5,240
Surplus.....			815

1/ Adjusted for producer inventory changes.

2/ Unidentified demand is an amount of material produced and distributed that cannot be accounted for with the current data system. It may include product loss, changes in retail and farm inventories, and other undetermined items.

international prices. Under normal market conditions, higher fertilizer prices would tend to reduce application rates. However, in 1974, crop prices are expected to be high and heavy fertilizer use is economically justified. There seems to be a fair amount of lumpiness, perhaps hoarding in the domestic market. Like the oil firms, fertilizer manufacturers are supplying their own dealers first and this has meant some areas are feeling a real pinch. One reaction to the domestic situation has been renewed talk on the Hill of embargoing exports.

The domestic market is in less of a problem than the world market. But much more land has been returned to cultivation and this has added to the demand for fertilizer. The weather has been good so far this year but it is still quite early in the season. If the weather continues good this will offset the shortage of nitrogen.

Importantly, the domestic market requires imports, and, as USDA points out in its February 22 report, if the U.S. were to embargo exports, we would suffer if other countries retaliated.

3. Future World Situation - 1980

We know from USDA, TVA and IERD forecasters that the current crisis is not likely to abate for three to four years, roughly the time planned for new capacity to come on stream. The energy crisis affects this timetable in a big way since uncertainties in natural gas, fuel oil and in Europe in:

coal (plus environmental constraints) make projections of new nitrogen capacity uncertain. The best estimates uniformly predict that supply-demand gaps will continue in the LDCs and that the poor nations will have to continue to rely heavily on imports to provide their requirements. Production and consumption will continue to be dominated by the developed world. World consumption now increasing at 4.8%/year is expected to increase by about 7%/year over 1974-80. Nitrogen is expected to increase in importance relative to phosphates and potash. Shortages in nitrogen are likely.

These things are certain at this point: the LDCs, China, Russia and Eastern Europe are expected to continue to use steeply increasing quantities of fertilizer to meet their agricultural needs. The Green Revolution, particularly, is dependent upon fertilizer for without it the new seed varieties will not perform anywhere near their potential. LDCs need fertilizer and they will not be able to produce their full needs for the foreseeable future. Because of forecast strong demand pressure, prices are forecast to remain at their present very high levels for from three years (IFRD) to up to five years (TVA) and while they have about peaked, in no case are prices ever likely to fall to their pre-crisis levels -- at least not by the end of the decade.

It is important that A.I.D. policy take this type of forecast into consideration, for although the Mid-East situation exacerbated the fertilizer problem, it is a more long term problem which pre-dated the Mid-East war and will not be solved by a lifting of the oil boycott.

4. Future U.S. Situation - 1980

Although there are some uncertainties in natural gas prospects, even given higher populations, more meat demand, and higher fertilizer uses, USDA predicts that the U.S. will continue the current trend of fertilizer surplus in nitrogen and phosphates and deficit in potash through the decade. In part, this is based on the sound assumption that the U.S. Government will assign a high priority to the fertilizer industry in fuel allocations. Our exporting capability will probably rise in phosphates and the re-exporting of Canadian potash. The hardest situation to call is in nitrogen. USDA believes that while the situation will remain tight, the U.S. will be able to remain a nitrogen fertilizer exporter. But TVA predicts that the U.S. will need to become a nitrogen fertilizer importer by 1977 to keep up with our growing domestic demand. Of crucial importance will be how fast new production capacity can be created and on this score the experts are not certain about 1977 and following years. Under the current market condition, new production investments should be quite attractive, but the hard question is predicting when significant new production will come on line. Nitrogen products, particularly urea, are most desired on the domestic and world market and will be in the tightest supply bind for at least the next three years. The U.S. produces nearly a quarter of the world's nitrogen products now and will by 1980 still represent over 20% of the world market. Whether we will still be able to help the LDCs with nitrogen products through the decade will have to be one of the questions we continue to closely monitor. We will, however, have capability to export phosphates and re-export potash.

COUNTRY SITUATION REPORTS

I. South Vietnam - Proposed FY '75 AID Fertilizer Procurement: 350,000 tons*

South Vietnam is dependent upon AID-financed fertilizer. Without fertilizer the SA Bureau foresees the country needing to import large volumes of rice which itself is in short supply. This would lead to a diversion of scarce foreign exchange and an economic slowdown. If neither fertilizer nor adequate imported rice were available, the country would face a grain deficit, hunger and some pockets of starvation.

The aim of AID's current fertilizer import program in South Vietnam is to help the country attain rice self-sufficiency by 1976-77. Reaching this goal is dependent upon the success of several efforts, including double-cropping, water control expanded acreage and expanding the acreage planted to high yielding varieties. However, most significant is the expanded use of high yield varieties (HYV) and fertilizer. The area planted to the high yield varieties of rice in Vietnam has increased from 55,000 hectares in 1968 to 875,000 hectares in 1973. An additional area of about 400,000 hectares is suitable and still to be planted to the high yielding varieties, which--when fertilized--will increase the total rice production capacity of the nation by about 15 percent above its current level.

Given current and planned usage of fertilizer, each ton of fertilizer will produce some three to four metric tons of rice. Thus, there

*All tonnage figures in Annex B are in product tons.

is a direct trade-off between fertilizer usage and the requirement to import rice; if fertilizer can be provided as required, the U.S. may reduce its rice exports to Vietnam.

In CY 1973, AID financed the procurement of 480,000 metric tons of fertilizer. The projected CY 1974 import level is 400,000 metric tons, of which AID is planning to finance 350,000 metric tons at a total estimated cost of about \$115.0 million. To date only 44,000 metric tons have been procured and the total projected requirement may not be found. In this event, Vietnam would not be able to increase production each year and reach rice self-sufficiency as planned by crop year 1976-77.

During CY 1975, procurement action should be taken to assure AID procurement of approximately 350,000 metric tons. It is realized procurement of projected requirements during the next three years will be difficult to achieve, but the SA Bureau believes AID must make every effort to support the production of rice or be prepared to accept the consequences of lower yields. That could very well mean that the United States Government would be asked to increase rice imports to offset this loss.

II. India - Proposed FY '75 AID Fertilizer Procurement: 130,000 tons

A. Background

In 1973-74 India is expected to be 40 percent short of fertilizer -- relative to Plan targets. Relative to past availability, however, the shortfall will be only about 15 percent below the previous year and 8 percent below the record crop production year of 1970-71. Fertilizer is only one factor affecting production: this year rainfall was good, water reservoirs were full, and irrigation expanded by about 2.5 percent.

In 1973-74, India will produce about 1.5 million metric tons of fertilizer nutrients, and import about 1.1 million tons: total anticipated availability was about 2.6 million tons. So far, actual imports have reached about 0.3 million tons, indicating an 0.3-million-ton shortage. Estimates of fertilizer-yield response suggest this may reduce potential foodgrain production by 2 to 3 million tons. Actual production, however, should be well above last year's low, and may slightly exceed previous records.

The effect of the current fertilizer shortage should center on wheat, which accounts for about 10 to 12 percent of India's fertilizer use. Overall, the impact of the fertilizer shortage of the 1973-74 crop does not appear too great, although per capita grain production will not reach the record of 1970-71.

*From Foreign Agriculture Service reports

The 1974-75 crops, however, may suffer substantially from the fertilizer shortage. To insure fertilizer supplies for this summer's rice crop, India must contract for fertilizer imports now, and supplies available on world markets now are small and very high-priced. Coupled with the petroleum price increases which will drain her foreign exchange reserves, India will probably have great difficulty meeting fertilizer requirements. Obtaining the necessary imports and quickly stimulating domestic fertilizer production will require strong and decisive governmental action, which may be very difficult in the current political climate of shortages and riots. The Asia Bureau has no detailed requirement figures from India since discussions on resumption of aid are only about to begin. The foregoing analysis by USDA foresees substantial shortages of fertilizer during the 1974/75 crop year. It is also quite clear that domestic production will not come near meeting needs, particularly in the production of P_2O_5 material which relies on imported rock or phosphoric acid.

AID financing of fertilizer imports in FY 1975 may reach \$45 million; that high proportion of funds that may be available for India reflects the importance attached to assisting in avoiding a crisis in Indian food grain production. That amount would buy about 130,000 tons of urea or DAP at present prices.

III. Pakistan: Proposed FY '75 AID Fertilizer Procurement: 100,000 tons
Nitrogenous Fertilizer

Local production during CY 1974 is expected to provide about 570,000 tons of urea. Stocks at the beginning of the year were 90,000 tons. The Government of Pakistan projects sales during the same period at slightly over 1.5 million tons of urea. Even if this projection were reduced by 25 percent to about 1.1 million, and deducting beginning stocks, about 500,000 tons of imports would be needed to cover requirements. Of that quantity, firm contracts have been placed for only 183,000 tons, leaving over 300,000 tons of urea uncovered.

Phosphatic Fertilizers

With the exception of a small quantity of single super-phosphate, Pakistan produces no P_2O_5 fertilizer. Requirements are estimated at between 230,000 tons and 430,000 tons of P_2O_5 fertilizer, in terms of DAP. Beginning stocks, domestic production and contracts for imports provide only about 140,000 tons, leaving an uncovered balance of between 200,000 and 400,000 tons of DAP (or equivalent).

The foregoing figures are for CY 1974 but can be used as a reasonable estimate for the twelve month period beginning 7/1/74. For that period, we expect that Pakistan will have available AID financing of \$33 million, provided from FY 74 and FY 75 funds. At current prices, that quantity would buy less than 100,000 tons of DAP and/or urea, less than 20 percent of Pakistan's minimum uncovered requirements. Pakistan may be able to

contract with off-shore sources for urea and is now attempting to do so. DAP will be available only from the U.S. and preference in purchasing from the U.S. would therefore be given to DAP.

IV. Bangladesh: Proposed FY '75 AIF Fertilizer Procurement: 70,000 tons
Nitrogenous Fertilizer

The Government of Bangladesh expects to cover its entire requirements from domestic urea plants. At the present time, these requirements are about 400,000 tons annually.

Phosphatic Fertilizer

- a. Two TSP plants, one of which has never been operated, are expected to produce about 40,000 tons in the period from 7/1/74 to 6/30/75. About 100,000 tons of rock phosphate (currently at about \$80/ton CIF Chittagong) are needed for that production.
- b. Total requirements of TSP during that period are estimated at 220,000 tons. Deducting from that figure 80,000 tons of local production and about 20,000 tons purchased but not yet delivered, leaves an uncovered requirement of about 120,000 tons.
- c. We expect to provide about \$25 million to Bangladesh for fertilizer imports during that period. That amount would be available to cover imports of TSP from U.S. and off-shore

sources and rock phosphate. Most, but not all, of the TSP would have to come from the U.S., and we, therefore, propose that the export of 70,000 tons of TSP from the U.S. be included in our calculations of the level of minimal exports needed from the U.S. to sustain food production in IDC's at least at its present level.

V. Afghanistan: Proposed FY '75 AID Fertilizer Procurement: 15,000 tons

Afghanistan will need to import about 30,000 tons of urea and DAP in addition to current stocks if it is to sustain the level of present use. About \$5 million is available under a current AID loan to finance fertilizer imports. That amount would buy about 15,000 tons of urea or DAP at current prices.

VI. Cambodia: Proposed FY '75 AID Fertilizer Procurement: 4,000 tons

With the recent interest in increasing agricultural production in the secure areas surrounding Phnom Pehn, a modest requirement for 8,150 metric tons (5,000 urea, 3,000 phosphate and 150 mixed fertilizer) has surfaced. However, to date sources of supply to meet this need have not been found. AID proposes to finance 4,000 tons in FY '75. This will not obviate the need to import substantial quantities of rice. Its main affect will be to sustain the beginnings of more modern practices in the agricultural sector.

VII. Sahel Countries and other Africa - Proposed FY 1975 AID Fertilizer Procurement: 24,000 tons

The Africa Bureau is currently in the process of identifying programs in the Sahel, and other African countries, focusing particularly on cereals and livestock production in the Sahel and other basic economic requirements in other African countries. Teams will be dispatched shortly to the Field to design activities that will permit obligation of funds from the Special Sahel Fund by the end of the current fiscal year. The Bureau anticipates the development of several activities in the Sahel and other areas which will include requirements for fertilizer procurement during early FY 1975. They foresee at this preliminary stage the requirement for 18,000 tons of nitrogen, 4,250 tons of phosphatic fertilizers and 1,750 tons of potash.

VII. Central America and Caribbean Countries - Proposed FY 1975 Fertilizer Procurement: 10,000 tons

The L. A. Bureau is currently in the process of identifying small farmer credit programs which may be in jeopardy unless special efforts are made to assure availability of the additional fertilizer requirements to successfully execute them.

As of March 1974 the L.A. Bureau has identified programs in Guatemala, Honduras, Nicaragua, Haiti and the Dominican Republic as possibly requiring special attention.

The program in Guatemala is ongoing and the programs in the other countries are currently being developed with the anticipation that Loan Agreements will be signed during fiscal 1974. Approximate total requirements are for nitrogenous fertilizer, 7,500 tons, phosphates, 2,000 tons, potash, 500 tons.

A.I.D. Financed Fertilizer (Awards) All Countries

Fiscal Year	Total Metric Tons	Value	Price Per Ton (excluding freight)
1966	1,943,153	\$105,122,385	\$54.09
1967	2,005,453	123,534,681	61.59
1968	3,423,250	186,796,553	54.56
1969	2,149,538	110,590,805	51.44
1970	1,040,148	62,603,988	60.18
1971	640,879	33,090,091	51.63
1972	708,495	48,867,158	68.97
1973	949,137	93,178,265	98.17
1974 1st half	555,000	64,384,000	115.80
1974 2nd half EST.			
1975 EST.	700,000	175,000,000	250.00

Freight Prices

Gulf - India

10/1/72	\$12.00/ton
10/1/73	41.00

FERTILIZER BUDGETS BY COUNTRY

Country	FY 1975 Tonnage @ \$300/T			Congressional Presentative Budget for Fertilizer	
	Tons	From FY '74 Funds	From FY '75 Funds	FY 1975 Tons	\$
South Viet Nam	350,000	320,000T = \$96M	30,000T = \$9M	375,000T	\$110.0M
Pakistan	100,000	50,000 = \$15M	50,000 = \$15M	No est. outside of '75 tonnages: 50,000	\$ 22.0*
Bangladesh	70,000	50,000 = \$15M	20,000 = \$ 6M	No est. outside of '75 tonnages: 20,000	\$ 20.0*
India	130,000	0	130,000 = \$39M	130,000	\$ 75.0*
Afghanistan	15,000	15,000 = \$4.5M	0	0	0
Cambodia	4,000	0	4,000 = \$ 1.2M	15,000	\$ 1.5M
Africa	24,000	15,000 = \$ 4.5M	9,000 = \$ 2.7M	25,000	\$ 7.5M
Central America & Caribbean	10,000	10,000 = \$ 3M	0	15,000	
	703,000	460,000 = \$138M	243,000 = \$72.9M	630,000	\$236.0*

*Total includes agriculture input loans intended to include fertilizer, pesticides and some machinery. No further breakdown available.

ANNEX B

Options, Alternatives and Obstacles

1. Alternatives to AID-Financed Fertilizer Procurement

Because AID is a half-way house of domestic and LDC interests, we carefully analyzed the alternatives to financing the procurement of fertilizer. The apparent alternatives and their merits follow:

a. Send food instead of fertilizer. The U.S. is an efficient producer of foodstuffs. One product ton of fertilizer in the LDCs produces about 4 tons of milled rice; in the U.S. the multiples are greater. The problem with this often suggested solution is that foodstuffs are in short supply in the U.S. and U.S. food exports are no more popular than exporting fertilizer. More important, the solution makes very poor economic sense for A.I.D. The fertilizer will cost A.I.D. in excess of \$300/ton while the tonnage of rice produced by that fertilizer would cost \$2400. When freight costs (up about 150% in 1973-74) are added for one ton of fertilizer vs. 4 ton of rice, the alternative is all-the-more readily discarded. What this alternative does point out is that there is a world-wide inflation in foodstuffs so that the LDCs cannot realistically import food to make up for deficits of fertilizer.

b. Help the LDCs raise the productivity of their fertilizer plants. In the developed countries fertilizer producers operate at about 92-95% capacity. The optimum appears to be about 95%. In the LDCs the average operating rate is about 66-70% of capacity due to difficulties in obtaining raw materials, electric power fluctuations and shortages, labor problems, faulty equipment (much of which is imported), and a host of miscellaneous problems that arise from an undeveloped infrastructure. Both TVA and USDA point out that one short-term solution would be to raise the

efficiency of LDC fertilizer plants. But this is easier said than done and would take two-to-three years in the best of circumstances. A.I.D. and IBRD-financed experts have consulted on the operations of LDC fertilizer plants (in connection with plant construction projects) for over a decade with little startling results. Under contract with TVA we continue to offer such assistance and have recently called it to the attention of appropriate missions. While these efforts should continue, this will not obviate the need for foreign supplies even if this assistance is much more successful than past efforts.

c. Help the LDCs build new production capacity. This issue has been studied because of its possible importance in the years 1977 and beyond. A separate policy paper deals with production capacity.

d. Programs to yield better fertilizer uses and less wastage in the LDCs. TAB's preliminary assessment is that there are promising technological developments which may prove important in future years. No short-term general solutions appear in sight from ongoing fertilizer research which will obviate the need for large scale LDC fertilizer imports over the next several years.

e. Encourage other donors to finance and export more fertilizer to LDCs. The option of encouraging other surplus producers to finance LDC purchases or open their markets more to LDCs has slight short-term potential -- but some possibilities in the future. Among current surplus producers Western Europe and Japan are estimated by USDA to have 85% (6.1 million nutrient tons or about 12.2 million product tons) of this year's exportable production of

nitrogen, the U. S, will have 45% (1.4 million nutrient tons) of this year's exportable phosphate production and Canada will have about 73% (3.9 million nutrient tons) of the world's exportable potash production. Our most recent information is that most if not all of the exportable quantities to be produced this year by other donor nations have been committed through the private market. There is little reason to expect help from these donors this year, but there may be room, particularly vis-a-vis Canada (in the lesser important potash fertilizer), to push other donors to supply and/or finance more fertilizer exports to the LDCs out of future production.

In the longer term, new fertilizer capacity in the OPEC countries might be linked to purchasing arrangements from other LDCs: e.g., Venezuela/Boussier with Brazil and other IA countries and Iran/Kuwait/Iraq with India and Bangladesh. This may take a number of years, but it is one of the possibilities which FAO/IBRD have been thinking about.

Finance fertilizer procurement only from non-U.S. sources.

Because of difficulties in procuring from the U.S. market, A.I.D. has already attempted to maximize direct and indirect procurement from offshore sources. In 1972/73 25% of our fertilizer was bought offshore from such Code 941 developing countries as Philippines, Taiwan and Korea. These nations have now embargoed exports to preserve their supply for domestic needs. In recent months LDCs backed by AID financing also have tried to make some purchases through bids and negotiations from Code 899 developed Free World countries. But these attempts have been only limitedly successful.

While the non-U.S. market has continuing potential for the A.I.D. fertilizer financing program, it has been too unreliable to permit us to plan to be entirely dependent upon it. Nonetheless for many reasons it will be

wise to continue to maximize financing procurement from non-U.S. sources.

Ch. Take steps to permit A.I.D. to resume financing U.S. fertilizer exports. It is only after reviewing all the other options and finding only limited potential for them that we conclude that A.I.D. fertilizer export financing from U.S. sources as well as world market sources will be necessary to correctly address the present LDC problem.

2. Obstacles to A.I.D.-financed Procurement of Fertilizer on the U.S. Market: The Threat of an Embargo

An existing and a potential obstacle preclude AID freely entering the U.S. market:

A de facto embargo of AID-financed contracts by the U.S. industry exists which, more precisely, is a policy of shunning AID-financed business. This arose as part of an arrangement the fertilizer industry struck with the Cost of Living Council on October 25, 1973, in which in exchange for decontrolling the domestic prices of fertilizer the industry agreed to limit its exports. This has been scrupulously adhered to by the industry as far as new AID-financed U.S. purchases are concerned. Recent AID-backed tenders have received no U.S. responses. The industry/Council arrangement is to last until June 30, 1974 notwithstanding the fact that the present Economic Control Act is to expire on April 30, 1974.

A second obstacle now threatens AID-financed U.S. fertilizer exports: the threat of a total embargo of U.S. fertilizer exports. Last October there was some pressure to embargo exports, specifically AID-financed exports, but this was successfully opposed with support from the National Security Council. Within the past few weeks 8 House Resolutions and 9 bills have been introduced in the House to embargo exports. These resolutions have been co-sponsored by

over 125 members. All have been referred to the Sub-Committee on International Trade of the House Committee on Banking and Currency. Chairman Ashley (Ohio) has scheduled hearings for April 22. We have not yet been requested to testify, but State Department Congressional Relations has received an informal telephone request for the State Department to provide a witness.

Both we and the industry spokesmen believe that the Senate is less favorably inclined than the House,* but key members of the McGovern Committee have been meeting to decide on a position. There is more of a chance of House endorsement of an embargo, but it does not seem probable. Nonetheless, the Fertilizer Institute has geared up a campaign against the resolutions based on the fact that the U.S. needs imports more than exports and hence must keep the trade channels open.

3. Options vis-a-vis the Threatened Embargo and the Cost of Living Council Arrangement

a. Options vis-a-vis possible Congressionally imposed embargo.

We will have to defend our fertilizer procurement policy to the Hill at one time or another during the next weeks -- certainly during our own hearings. We will also need a position in connection with the Sub-Committee on International Trade hearings although others (State, the Fertilizer Institute) might indirectly represent us. Since we do plan to account for about 6% of projected U.S. exports in FY 1975, we can hardly hide the fact that we plan to be a factor in the market. What we need to do is to effectively emphasize that A.I.D. will be a minimal factor, largely financing purchases by LDC govern-

* No Senate resolutions on embargoing exports have been introduced to our knowledge. Senate Resolution 289, introduced February 25 by Senators McGovern, Aiken, Allen, Bellmon, Clark, Curtis, Dole, Eastland, Helms, Huddleston, Humphrey, Talmadge and Young is mainly aimed at assuring the fertilizer producers priority in the natural gas and fuel lines, but also calls for "The Cost of Living Council and the Departments of Agriculture and Commerce (to) continue their monitoring and reporting of fertilizer supply availabilities, wholesale and retail prices, and export shipments..."

ments rather than (as appears to be the image among some) a large, direct competitor dominating the U.S. export market. If we opt to be more involved with the Sub-Committee hearings, we can testify, we can send letters or we can supply other witnesses with the facts. Perhaps a combination of these options should be used. State, better than we, can express the foreign policy interests of supplying South Viet Nam (our main proposed recipient) and South Asia. We, perhaps better than others, can defend the actions we have taken to minimize our U.S. export market share. The Institute and USDA will carry the ball on the necessity of U.S. imports and the real threat retaliation poses for us if we embargo.

On balance, although passage of an embargo does not now appear probable, our margin has not been so wide in the House that we can ignore the large number of Congressmen who are under the impression that A.I.D. fertilizer procurement is a serious threat to their constituents' interests. Therefore, we do recommend that we make an effort possibly through A.I.D. witnesses with indirect efforts through State and the Fertilizer Institute to demonstrate to the Sub-Committee and through them the House, both the special efforts we have made and will continue to make to be a minimal factor on the U.S. market and the special needs of the LDCs to obtain fertilizer or face the possibility of an extremely serious world food situation.

In the unlikely event that an embargo is passed by the House, we should be prepared to move strongly to help defeat it in the Senate, or at least to be sure that an exemption is included to permit A.I.D.-financing of the total FY 1975 requirement of 700,000 tons, 470,000 tons from domestic sources and the remainder offshore.

b. Options vis-a-vis the Cost of Living Council (CIC) arrangement with the Fertilizer Institute. While U.S. exports of fertilizer are permitted under the Arrangement, new contracts are not being accepted. It is this feature which has effectively precluded A.I.D. from assisting in financing direct or LDC procurement of fertilizer from the U.S. As a result of "jaw-boning" by the CIC during November, December and at its meeting with the industry on January 10, 1974, U.S. fertilizer producers feel that further exports -- even to A.I.D.-financed programs -- would subject them to the risk of reimposed price ceilings or other retaliation by the CIC. The industry spokesmen have frequently pointed out to Dr. Dunlop (Director of the CIC) that there is need to export to the less-developed countries; he has consistently responded that the U.S. domestic price is his principal concern and that he is not charged with overseas policy questions. The industry has been seeking some expression of Executive Branch policy regarding exports; the Fertilizer Institute will not urge its members to respond to AID-financed tenders or inquiries until the industry is protected by such an expression of policy. If the CIC continues in operation, then this expression of policy should come through it; if not, some other Administration spokesman should give a written statement of policy to the industry. It is our understanding that the Under Secretary of State for Political Affairs (Mr. Sisco) is prepared to join with the Administrator of A.I.D. and with the National Security Council (Mr. Cooper)* in discussing this question with the CIC and with the Secretaries of Treasury and Agriculture if necessary -- at the appropriate time.

*It should be noted that NSC has recently established a Fertilizer Sub-Committee under the Chairmanship of Ambassador Edwin Martin. Members are State, Treasury, Commerce, Agriculture, AID, CEA, FEO, CIA, CIEP and OMB.

ANNEX C

Identified Demand for A.I.D.-Financed Fertilizer

Procurement: The major purchases for FY 1974 have been made by April 1974. Since the acute shortages became evident, we have financed LDCs' fertilizer procurement from any Free World source. We have also observed a self-imposed ban on shipping fertilizer out of the U.S. during February through May when U.S. farm use is at its peak. No more shipments of A.I.D.-financed fertilizer from the U.S. are anticipated during the remainder of FY '74. There may be a few A.I.D.-financed shipments out of the Middle East in May or June. We will endeavor to negotiate and/or approve IDB procurement awards in June of this year, but this will all be in connection with FY 1974 shipments. We had desired to finance 1,058,200 product tons* this fiscal year, but due to market shortages, we have only been able to finance and ship 556,000 tons so far from all sources.

* Tonnage figures are in Product Tons, unless otherwise noted.

In planning for FY 1975, we have analyzed the areas hardest hit by the fertilizer crisis and have taken into account IDC balance of payments problems and our program policies. The most compelling needs are in South Viet Nam, Bangladesh, Pakistan, India, the Sahel and other Africa, Cambodia, Afghanistan, Central America and the Caribbean. Situation reports setting forth FY 1975 fertilizer needs for these areas are given in Annex B. The real uncovered needs of these countries for financing and supplying fertilizer is well in excess of one million product tons. A.I.D. is constrained by the amount of funds available to us and by product availabilities in the U.S. and world markets. We believe it will be necessary and possible for us to finance the procurement of about 700,000 tons in FY 1975. Governmental policy permitting, we believe it will be possible to obtain about 470,000 tons from the U.S. market in FY 1975. The remaining requirement of about 230,000 tons will have to be procured from the world market. Since the situation is a fast moving one, we will have to re-examine these plans before we move.

The amount proposed for domestic procurement is less than one percent of the total available domestic supply (domestic production plus normal imports) and is less than the amount we have picked up from the domestic market this year. We think it is the optimal amount we can procure without becoming too large a factor on the domestic market.

A requirement for FY 1975 for procurement of 700,000 tons has been identified by the regional Bureaus. At current market prices, including freight, the cost would be \$185-to-220 million (which sums are available in our proposed FY 1975 budget). While closer analysis might

shave these requirements somewhat, the total identified requirement will likely exceed \$200 million but will still be significantly below the normal volume of Agency purchases. The chart below is a list of previous annual purchases.

A.I.D. Financed Fertilizer (Awards) All Countries

Fiscal Year	Total Metric Tons	Value	Price Per Ton (excluding freight)
1966	1,943,153	\$105,122,385	\$54.09
1967	2,005,453	123,534,681	61.59
1968	3,423,250	186,796,553	54.56
1969	2,149,533	110,590,805	51.44
1970	1,040,143	62,603,983	60.18
1971	640,879	33,090,091	51.63
1972	708,495	48,867,158	68.97
1973	949,137	93,178,265	98.17
1974 1st half	556,000	64,384,000	115.80
1974 2nd half EST.			
1975 EST.	700,000	175,000,000	250.00

Freight Prices

Gulf - India

10/1/72	\$12.00/ton
10/1/73	41.00
Ending January 1974	44.75

We estimate that about two-thirds of the financing required for FY 1975 shipments will come from FY 1974 funds. The FY 1975 Congressional Presentation will show a fertilizer and related agriculture inputs budget of \$236 million. The chart on the next page presents an analysis of the source of funding for FY 1975 fertilizer shipments and a listing of requests for fertilizer funding to be included in the FY 1975 Congressional Presentation. From this analysis we conclude that sufficient funding should be available for the FY 1975 fertilizer procurement recommended in this paper.

From our analysis of the world supply/demand situation, we estimate that at least 600,000 tons/year costing over \$200 million will be required for AID financing for FY 1976 and FY 1977.

FERTILIZER BUDGETS BY COUNTRY

Country	FY 1975 Tonnage @ \$300/T				Congressional Presentation: Budget for Fertilizer	
	Tons	From FY '74 Funds		From FY '75 Funds	Tons	\$
South Viet Nam	350,000	320,000T = \$96M		30,000T = \$9M	375,000T	\$110.0M
Pakistan	100,000	50,000 = \$15M		50,000 = \$15M	No est. outside of '75 tonnages: 50,000	\$ 22.0*
Bangladesh	70,000	50,000 = \$15M		20,000 = \$ 6M	No est. outside of '75 tonnages: 20,000	\$ 20.0*
India	130,000	0		130,000 = \$39M	130,000	\$ 75.0*
Afghanistan	15,000	15,000 = \$4.5M**		0	0	0
Cambodia	4,000	0		4,000 = \$ 1.2M	15,000	\$ 1.5M
Africa	24,000	15,000 = \$ 4.5M		9,000 = \$ 2.7M	25,000	\$ 7.5M
Central America & Caribbean	10,000	10,000 = \$ 3M		0	15,000	
	<u>703,000</u>	<u>460,000 = \$138M</u>		<u>243,000 = \$72.9M</u>	<u>630,000</u>	<u>\$236.0*</u>

*Total includes agriculture input loans intended to include fertilizer, pesticides and some machinery. No further breakdown available.

** Financed from FY 1973 funds

The FY 1975 requirements are summarized as follows:

<u>Country</u>	<u>Tonnage</u>	<u>Type</u>
South Viet Nam	195,000	Nitrogen
	155,000	Phosphate and Mixed
Sub-total	(350,000)	
Pakistan	100,000	Phosphates or Nitrogen
Bangladesh	70,000	Phosphates
India	130,000	Nitrogen or Phosphates
Afghanistan	15,000	Nitrogen or Phosphates
Cambodia	4,000	Nitrogen or Phosphates
Sahel and other Africa	24,000	Nitrogen or Phosphates
Central America/Caribbean	10,000	Nitrogen or Phosphates
	<hr/>	
Total FY 1975	703,000	
Rounded to	700,000	

The FY 1975 tonnage coming from the U.S. (470,000 tons) will not entail a cut from present levels of fertilizer available to the American farmer since (a) it will be smaller than past AID purchases and (b) USDA estimates that 1,765,000 in new domestic fertilizer production capacity will be added during FY 1975. The AID requirement is about 5.9% of the total U. S. fertilizer exports forecast by USDA. The total requirement of about 700,000 tons/year for FY 1975 compares with an average of 1.6 million tons of AID-financed product shipments from 1966 through 1973. The lowest amount of fertilizer we financed in any one of these years was 640,000 tons, and that low figure was attributable to the hostilities between India and Pakistan, when virtually all aid to these countries ceased.

COUNTRY SITUATION REPORTS

I. South Vietnam - Proposed FY '75 AID Fertilizer Procurement: 350,000 tons*

South Vietnam is dependent upon AID-financed fertilizer. Without fertilizer the SA Bureau foresees the country needing to import large volumes of rice which itself is in short supply. This would lead to a diversion of scarce foreign exchange and an economic slowdown. If neither fertilizer nor adequate imported rice were available, the country would face a grain deficit, hunger and some pockets of starvation.

The aim of AID's current fertilizer import program in South Vietnam is to help the country attain rice self-sufficiency by 1976-77. Reaching this goal is dependent upon the success of several efforts, including double-cropping, water control expanded acreage and expanding the acreage planted to high yielding varieties. However, most significant is the expanded use of high yield varieties (HYV) and fertilizer. The area planted to the high yield varieties of rice in Vietnam has increased from 55,000 hectares in 1968 to 875,000 hectares in 1973. An additional area of about 400,000 hectares is suitable and still to be planted to the high yielding varieties, which--when fertilized--will increase the total rice production capacity of the nation by about 15 percent above its current level.

Given current and planned usage of fertilizer, each ton of fertilizer will produce some three to four metric tons of rice. Thus, there

*All tonnage figures in Annex B are in product tons.

is a direct trade-off between fertilizer usage and the requirement to import rice; if fertilizer can be provided as required, the U.S. may reduce its rice exports to Vietnam.

In CY 1973, AID financed the procurement of 480,000 metric tons of fertilizer. The projected CY 1974 import level is 400,000 metric tons, of which AID is planning to finance 350,000 metric tons at a total estimated cost of about \$115.0 million. To date only 44,000 metric tons have been procured and the total projected requirement may not be found. In this event, Vietnam would not be able to increase production each year and reach rice self-sufficiency as planned by crop year 1976-77.

During CY 1975, procurement action should be taken to assure AID procurement of approximately 350,000 metric tons. It is realized procurement of projected requirements during the next three years will be difficult to achieve, but the SA Bureau believes AID must make every effort to support the production of rice or be prepared to accept the consequences of lower yields. That could very well mean that the United States Government would be asked to increase rice imports to offset this loss.

II. India - Proposed FY '75 AID Fertilizer Procurement: 120,000 tons

A. Background*

In 1973-74 India is expected to be 40 percent short of fertilizer -- relative to Plan targets. Relative to past availability, however, the shortfall will be only about 15 percent below the previous year and 8 percent below the record crop production year of 1970-71. Fertilizer is only one factor affecting production: this year rainfall was good, water reservoirs were full, and irrigation expanded by about 2.5 percent.

In 1973-74, India will produce about 1.5 million metric tons of fertilizer nutrients, and import about 1.1 million tons: total anticipated availability was about 2.6 million tons. So far, actual imports have reached about 0.3 million tons, indicating an 0.3-million-ton shortage. Estimates of fertilizer-yield response suggest this may reduce potential foodgrain production by 2 to 3 million tons. Actual production, however, should be well above last year's low, and may slightly exceed previous records.

The effect of the current fertilizer shortage should center on wheat, which accounts for about 10 to 12 percent of India's fertilizer use. Overall, the impact of the fertilizer shortage of the 1973-74 crop does not appear too great, although per capita grain production will not reach the record of 1970-71.

*From Foreign Agriculture Service reports

The 1974-75 crops, however, may suffer substantially from the fertilizer shortage. To insure fertilizer supplies for this summer's rice crop, India must contract for fertilizer imports now, and supplies available on world markets now are small and very high-priced. Coupled with the petroleum price increases which will drain her foreign exchange reserves, India will probably have great difficulty meeting fertilizer requirements. Obtaining the necessary imports and quickly stimulating domestic fertilizer production will require strong and decisive governmental action, which may be very difficult in the current political climate of shortages and riots. The Asia Bureau has no detailed requirement figures from India since discussions on resumption of aid are only about to begin. The foregoing analysis by USDA foresees substantial shortages of fertilizer during the 1974/75 crop year. It is also quite clear that domestic production will not come near meeting needs, particularly in the production of P_2O_5 material which relies on imported rock or phosphoric acid.

AID financing of fertilizer imports in FY 1975 may reach \$45 million; that high proportion of funds that may be available for India reflects the importance attached to assisting in avoiding a crisis in Indian food grain production. That amount would buy about 130,000 tons of urea or DAP at present prices.

III. Pakistan: Proposed FY '75 AID Fertilizer Procurement: 100,000 tonsNitrogenous Fertilizer

Local production during CY 1974 is expected to provide about 570,000 tons of urea. Stocks at the beginning of the year were 90,000 tons. The Government of Pakistan projects sales during the same period at slightly over 1.5 million tons of urea. Even if this projection were reduced by 33 percent to about 1.1 million, and deducting beginning stocks, about 500,000 tons of imports would be needed to cover requirements. Of that quantity, firm contracts have been placed for only 183,000 tons, leaving over 300,000 tons of urea uncovered.

Phosphatic Fertilizers

With the exception of a small quantity of single super-phosphate, Pakistan produces no P_2O_5 fertilizer. Requirements are estimated at between 230,000 tons and 430,000 tons of P_2O_5 fertilizer, in terms of DAP. Beginning stocks, domestic production and contracts for imports provide only about 140,000 tons, leaving an uncovered balance of between 200,000 and 400,000 tons of DAP (or equivalent).

The foregoing figures are for CY 1974 but can be used as a reasonable estimate for the twelve month period beginning 7/1/74. For that period, we expect that Pakistan will have available AID financing of \$33 million, provided from FY 74 and FY 75 funds. At current prices, that quantity would buy less than 100,000 tons of DAP and/or urea, less than 20 percent of Pakistan's minimum uncovered requirements. Pakistan may be able to

contract with off-shore sources for urea and is now attempting to do so. DAP will be available only from the U.S. and preference in purchasing from the U.S. would therefore be given to DAP.

IV. Bangladesh: Proposed FY '75 AID Fertilizer Procurement: 70,000 tons

Nitrogenous Fertilizer

The Government of Bangladesh expects to cover its entire requirements from domestic urea plants. At the present time, these requirements are about 400,000 tons annually.

Phosphatic Fertilizer

- a. Two TSP plants, one of which has never been operated, are expected to produce about 40,000 tons in the period from 7/1/74 to 6/30/75. About 100,000 tons of rock phosphate (currently at about \$80/ton CIF Chittagang) are needed for that production.
- b. Total requirements of TSP during that period are estimated at 220,000 tons. Deducting from that figure 80,000 tons of local production and about 20,000 tons purchased but not yet delivered, leaves an uncovered requirement of about 120,000 tons.
- c. We expect to provide about \$25 million to Bangladesh for fertilizer imports during that period. That amount would be available to cover imports of TSP from U.S. and off-shore

sources and rock phosphate. Most, but not all, of the TSP would have to come from the U.S., and we, therefore, propose that the export of 70,000 tons of TSP from the U.S. be included in our calculations of the level of minimal exports needed from the U.S. to sustain food production in LDC's at least at its present level.

V. Afghanistan: Proposed FY '75 AID Fertilizer Procurement: 15,000 tons

Afghanistan will need to import about 30,000 tons of urea and DAP in addition to current stocks if it is to sustain the level of present use. About \$5 million is available under a current AID loan to finance fertilizer imports. That amount would buy about 15,000 tons of urea or DAP at current prices.

VI. Cambodia: Proposed FY '75 AID Fertilizer Procurement: 4,000 tons

With the recent interest in increasing agricultural production in the secure areas surrounding Phnom Penh, a modest requirement for 3,150 metric tons (5,000 urea, 3,000 phosphate and 150 mixed fertilizer) has surfaced. However, to date sources of supply to meet this need have not been found. AID proposes to finance 4,000 tons in FY '75. This will not obviate the need to import substantial quantities of rice. Its main affect will be to sustain the beginnings of more modern practices in the agricultural sector.

VII. Sahel Countries and other Africa - Proposed FY 1975 AID Fertilizer Procurement: 28,000 tons

The Africa Bureau is currently in the process of identifying programs in the Sahel, and other African countries, focusing particularly on cereals and livestock production in the Sahel and other basic economic requirements in other African countries. Teams will be dispatched shortly to the Field to design activities that will permit obligation of funds from the Special Sahel Fund by the end of the current fiscal year. The Bureau anticipates the development of several activities in the Sahel and other areas which will include requirements for fertilizer procurement during early FY 1975. They foresee at this preliminary stage the requirement for 18,000 tons of nitrogen, 4,250 tons of phosphatic fertilizers and 1,750 tons of potash.

VIII. Central America and Caribbean Countries - Proposed FY 1975 Fertilizer Procurement: 10,000 tons

The L. A. Bureau is currently in the process of identifying small farmer credit programs which may be in jeopardy unless special efforts are made to assure availability of the additional fertilizer requirements to successfully execute them.

As of March 1974 the L.A. Bureau has identified programs in Guatemala, Honduras, Nicaragua, Haiti and the Dominican Republic as possibly requiring special attention.

The program in Guatemala is ongoing and the programs in the other countries are currently being developed with the anticipation that Loan Agreements will be signed during fiscal 1974. Approximate total requirements are for nitrogenous fertilizer, 7,500 tons, phosphates, 2,000 tons,



388004
U.S. DEPARTMENT OF COMMERCE
Domestic and International Business
Administration
Washington, D.C. 20230

Date: June 14, 1974

To: The Development Loan Committee

From: C. A. O'Rourke, Acting Director
Office of International Finance
and Investment *CO*

Subject: Bangladesh Loan

Commerce concurs in granting the AID loan of \$25.0 million to Bangladesh in order to finance the foreign exchange costs of procuring fertilizers, fertilizer raw materials, granular pesticides, and other agricultural inputs. However, this concurrence is granted with the following reservations, which Commerce requests be noted for the record.

Due to their heavy dependence on supplies of petroleum, coal, and/or natural gas, fertilizers are in extremely short supply not only in the U.S., but around the world. World prices are greatly inflated, and are sure to be pushed still higher if Bangladesh is encouraged to enter the world market with a tender for some 73,000 metric tons of urea and 54,000 metric tons of triple superphosphate (TSP).

Although the domestic prices of fertilizer are considerably below the average world price level, U.S. producers have made a commitment to the Cost of Living Council to hold down fertilizer exports in exchange for domestic price deregulation. The industry is therefore trying to curtail its phosphate exports, and the U.S. is in no position to export urea. In fact, we are a net importer of urea by a sizeable margin. The fertilizer industry is operating at or near capacity levels in order to allow U.S. farmers to increase their acreage, in accordance with Department of Agriculture requests. The near future therefore holds little hope for increased production, especially in view of severe shortages of raw materials.

Despite the wide differential between U.S. and world prices, the tight supply situation is likely to prevent U.S. producers from entering bids on the AID tender. Any producers

who do offer to supply Bangladesh will be doing so at the expense of the American farmer or traditional third country customers.

Commerce strongly recommends that a standing committee be established with representatives of State, Commerce, Agriculture, and other interested agencies to perform a continuing review of USG policies governing fertilizer exports. This committee would review each proposed transaction, giving special attention to its likely effects on the domestic fertilizer market.

Attachments: Concurrence Sheets