

PD-ACC-991

**MUTUAL
SECURITY
PROGRAM**

FISCAL YEAR 1952

BUDGET ESTIMATES **volume H**

BEST AVAILABLE

Basic Materials Development

Title VI

MUTUAL SECURITY PROGRAM

FISCAL YEAR 1952

TITLE VI - BASIC MATERIALS DEVELOPMENT

TITLE VI GENERAL PROVISIONS

Comparative Summary of Obligations by Functions & Activities

<u>Function and Activity</u>	<u>Actual 1950</u>	<u>Actual 1951</u>	<u>Estimate 1952</u>
<u>Economic Assistance</u>			
Basic Materials Development	\$ <u>17,280,500</u>	\$ <u>7,064,108</u>	\$ <u>55,000,000</u>
Total direct obligations (Economic)	<u>17,280,500</u>	<u>7,064,108</u>	<u>55,000,000</u>

THE BASIC MATERIALS DEVELOPMENT PROGRAM

Fiscal Year 1952

1. Funds Required and Basis for Estimate

It is anticipated that \$55,000,000 will be required to cover the dollar needs for the further development of basic materials in FY 1952. The estimated amounts of \$72,736,000 ECA dollars (as shown in Table 2) and the equivalent of \$99,760,000 in 5-percent counterpart funds (as shown in Table 1) are illustrative and have been calculated on the basis of individual projects and purchases which are now under consideration in Title I Area and on the estimated requirements on a country by country basis in Title III Area. However, it is anticipated that the 55 million dollars being requested will cover the actual dollar needs of the contemplated projects that can practically be negotiated and substantiated within FY 1952.

ECA was charged, under Public Law 472 (80th Congress) with statutory responsibility for developing and acquiring strategic materials in which the United States is deficient. During the past three years an appreciable start has been made in the field of strategic materials development by providing financial and technical assistance to Western Europe and the overseas territories in furtherance of new and increased production of those materials in which the United States and the rest of the free world are deficient.

The \$55 million budgeted for basic materials development in fiscal year 1952 is an amount tentatively earmarked for areas where ECA operates for direct advances repayable in materials in which the United States is deficient. A full discussion of ECA activities contemplated for fiscal 1952 in support of an intensified effort to increase the production and availabilities of basic materials in short supply would necessarily include an analysis of several other aspects of ECA programming under other sections of Public Law 472, as amended, which are being dealt with in other programs. These other activities include: the provision of grant funds, within total country allotments, for purposes of developments (especially in some dependent overseas territories and Southeast Asia countries) designed to improve the accessibility and production of basic materials; the provision of technical assistance to make possible increased output of many types of primary materials; the participation with governments of countries receiving ECA assistance in the formulation of their own investment programs, with a view to improved mobilization of their resources to expand more rapidly and efficiently the availabilities of materials in critical short supply; and cooperation with the Export-Import Bank in the programming of loans for economic development directly and indirectly contributory to expanding basic materials production.

Industrial growth during the interval between World Wars I and II resulted in a global exploitation of mineral resources on a scale and in amounts which exceeded all previous history. The heavy demands for increased mineral production brought on by World War II were followed by additional demands to meet the accelerated use of metals

and minerals by industry as it adjusted itself to peacetime production. The impending threat of major hostilities and present intensive defense preparations impose an added drain on the mineral resources of the free world and, in particular, on the mineral resources of the United States.

As a consequence, developed sources of supply are being depleted at a rate which far exceeds the discovery and development of new sources to replace, or partially replace, former resources. Unless there is an intensive effort on the part of the United States and the other nations of the free world to conserve their mineral supply, explore and develop new sources, and further develop established sources, industrial growth faces gradual curtailment, and defense preparedness measures may prove difficult to fulfill. Despite the fact that the United States is richly endowed with many of the most important minerals, it could not continue as a great industrial nation if its essential mineral imports were cut off.

The development of increased production and new sources of supply of basic materials within the areas included in the Mutual Security Bill becomes one of the most important responsibilities of the United States. In order to properly fulfill this responsibility, there will continue to be increasing emphasis on projects to develop new sources of supply and to increase the output of properties already in operation. In general, development projects promising quick increases in production for the benefit of the participating countries and the early repayment of ECA advances in basic materials will continue to be given preference over exploration projects.

2. Plan of Operation

Inasmuch as development and production of most basic materials is done by private enterprise, ECA's plan of operation primarily involves contracting with private operators with the concurrence of the governments concerned. Basic materials projects are financed with ECA dollars to purchase the equipment and services which must be procured in the dollar area. Five percent counterpart funds, when available, are used to finance that part of the investment for which local currency can be used. The Mutual Security Bill would provide authority to purchase local currencies for developmental projects. Repayment is made (in amounts equivalent to the advance plus interest) in the form of basic materials resulting from the development. These materials are transferred by ECA to the United States stockpile. Projects to finance exploration for basic materials are repayable only when the exploration leads to production. Most contracts also include an option right of Emergency Procurement Service (EPS) to purchase an additional portion of the production for the stockpile.

Other United States government agencies are active in promoting the development of basic materials in cooperation with ECA. As the United States' portion of local currency funds (5-percent counterpart) available in the participating countries diminishes, increasing direct procurements will necessarily be carried out by EPS in continuation of its dollar purchase program. Authority to increase the lending capacity of the Export-Import Bank is being requested. The Export-Import Bank finances loans to expand production abroad of basic materials. Whereas ECA loans are repaid in equivalent amounts of the materials being developed, Export-Import Bank loans are repayable in dollars. It is

expected that insofar as materials development projects are related to actual production and shipments and are repayable in dollars, they will be financed by Export-Import Bank loans in close cooperation with ECA. ECA will finance developmental projects which cannot be financed by Export-Import Bank loans. Member countries may also obtain loans for basic materials development from the International Bank for Reconstruction and Development.

3. Analysis of Estimates

As of June 30, 1951 ECA had obligated a total of \$57 million or dollar equivalents for projects to explore and develop basic materials. Of this total amount \$25 million is in ECA dollar aid and \$32 million is the dollar equivalent of the local currency 5-percent counterpart fund. ECA also adds to the United States stockpile through direct purchase from the participating countries of exportable surpluses of such materials. Only 5-percent counterpart funds have been used for the purchase of these materials. As of June 30, 1951 ECA's obligation for the purchase of basic materials amounted to the equivalent of \$74 million. The Emergency Procurement Service (EPS) of the General Services Administration has made dollars available to supplement ECA 5-percent counterpart funds in connection with purchase contracts. As of June 30, 1951, nearly \$19 million had been committed by EPS primarily to cover dollar transportation costs.

A breakdown of the \$72,736 thousand, shown in Table 2, is illustrative of the projects being contemplated. These projects are in various stages of planning and negotiation. It is estimated that projects contemplated for Europe and the overseas territories will require 41,181,000 ECA dollars to purchase the equipment and services from the dollar area. Counterpart funds in some participating countries are insufficient to meet expected local currency obligations. It is therefore necessary that ECA dollars be used for the purchase of local currency where 5-percent counterpart funds are unavailable. It is estimated that 11,555,000 ECA dollars may be required for this purpose. The total estimate of dollars for basic materials development projects is \$52,736,000 for Europe and the territories. Title III projects are expected to require about \$20,000,000, of which an undetermined portion may be used to purchase local currencies. Total 5-percent counterpart funds budgeted for developmental projects in FY 1952 are estimated at the equivalent of \$85,060,000 for ERP countries. The estimated amounts presented herein are for the development of minerals (metals, metallic and non-metallic minerals, and mineral fuels) which constitute a critical percentage of the basic materials required by industry both in peacetime and in war. There are, however, certain high priority agricultural products, such as hard fibers, which are in short supply in this country and abroad. It is contemplated that projects for the development of these essential materials would also be financed under the Basic Materials Development program provided repayment may be made in materials delivered to the United States, and provided the project does not fall within the framework of Export-Import Bank financing.

Purchases of basic materials with 5-percent counterpart funds contemplated in FY 1952 will require the equivalent of \$14,700,000. This amount is considerably lower than the obligations made in previous years. Exportable surpluses available for purchase are vanishing from the world markets and for the countries where surpluses may be available, the amounts of 5-percent counterpart funds are diminishing. Primary emphasis, therefore, is now on projects increasing production from known sources and for the exploration and development of new sources of basic materials.

TABLE 1
 BASIC MATERIALS DEVELOPMENT PROGRAM
 PURCHASE AND PROJECT OBLIGATIONS
 SUMMARY BY FISCAL PERIODS

(In thousands of dollars and dollar equivalents)

Fiscal Period	Total Obligation				Purchase Obligations			Project Obligations 2/		
	Total	5%		EPS 1/ Dollars	Total	5%		Total	5%	
		Counter- part	ECA Dollars			Counter- part	EPS 1/ Dollars		Counter- part	ECA Dollars
Fiscal Year 1949 (Actual)	\$40,695	\$37,503	\$ 622	\$ 2,570	\$38,417	\$36,003	\$ 2,414	\$2,122	\$ 1,500	\$ 622
Fiscal Year 1950 (Actual)	46,720	28,623	17,280	816	22,723	21,757	956	24,137	6,856	17,280
Fiscal Year 1951 (Actual)	62,244	40,044	7,064	15,136	31,113	15,980	15,133	31,128	24,064	7,064
Fiscal Year 1952 (Estimated) 3/	--	99,760	55,000	4/	--	14,700	4/	140,060	85,060	55,000

1/ EPS (formerly FSS) estimated dollar commitments pertain to contracts jointly financed by ECA and EPS. ECA also collaborated in negotiations resulting in contracts financed exclusively with EPS funds, amounting to \$15,759,313 in fiscal year 1949 and \$62,000 in fiscal year 1950.

2/ No estimate is included for EPS dollars that may be required for transportation of materials in repayment of ECA developmental contracts.

3/ Five percent counterpart figures are illustrative. Dollar figures are estimated requirement.

4/ No estimates are given for EPS commitment beyond 6-30-51.

TABLE 2

EASFO MARKETABLE DEVELOPMENT PROGRAMS

SUMMARY OF EDA OBLIGATIONS BY COUNTRY

(In thousands of dollars and dollar equivalents)

Countries	Dollar Obligations				% Completed Obligations			
	FY 1949 Actual	FY 1950 Actual	FY 1951 Actual	FY 1952 Illustrative	FY 1949 Actual	FY 1950 Actual	FY 1951 Actual	FY 1952 Illustrative
Grand Total	\$ 622	\$17,023	\$ 7,064	\$20,706	\$ 1,500	\$ 6,356	\$24,064	\$31,060
Europe and Overseas Territories	622	17,023	7,064	20,706	1,500	6,356	24,064	31,060
Austria	--	--	--	300	--	--	--	2,000
Belgium	--	1,700	--	10,500 ^{a/}	--	--	--	--
Denmark	--	9	4	--	--	--	--	1,700
France	--	5,065	2,522	736	1,500	1,755	8,506	18,897
Germany (Fed. Rep.)	--	--	--	--	--	--	6,789	12,230
Greece	--	--	102	190	--	--	1,473	4,810
Italy	--	--	--	471	--	--	1,494	7,221
Netherlands	--	--	--	368	--	--	1,118	3,220
Norway	--	--	265	215	--	--	--	10,285
Portugal	--	--	1,900	3,565 ^{a/}	--	--	53	185
Sweden	--	350	= 350	--	--	--	--	--
Turkey	--	134	--	454	--	61	--	293
United Kingdom	622	10,023	2,521	3,900	--	5,040	4,631	23,987
Yugoslavia	--	--	--	26,000	--	--	--	--
Asia and the Pacific	--	--	--	20,000	--	--	--	--
Afghanistan-Pakistan-Ceylon	--	--	--	750	--	--	--	--
Burma-Thailand	--	--	--	3,250	--	--	--	--
Formosa	--	--	--	350	--	--	--	--
India	--	--	--	3,150	--	--	--	--
Indochina	--	--	--	1,000	--	--	--	--
Indonesia	--	--	--	4,000	--	--	--	--
Philippines	--	--	--	7,500	--	--	--	--

^{a/} Includes estimated purchases of local currency with dollars as follows: Belgium \$3,500,000; Portugal \$2,055,000; United Kingdom \$6,000,000.

TABLE 3

BASIC MATERIALS PURCHASES

ECA 5% COUNTERPART FUNDS BY COUNTRY

(In thousands of dollar equivalents)

Country	FY 1949 Actual	FY 1950 Actual	FY 1951 Actual	FY 1952 Illustrative
Total	<u>\$36,003</u>	<u>\$21,767</u>	<u>\$15,980</u>	<u>\$14,700</u>
Austria	--	--	--	6,000
Denmark	--	525	37	--
France	2,305	--	3,476	--
Germany (Fed. Rep.)	--	1,268	400	2,500
Greece	--	--	--	--
Italy	5,565	266	2,994	3,200
Netherlands	3,506	5,757	2,692	3,000
Norway	--	3	3,610	--
Portugal	--	39	--	--
Turkey	--	--	--	--
United Kingdom	24,627	13,909	2,771	--
Yugoslavia	--	--	--	--