

*K. E. D. L.
2. INS*

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SC #110
15-8



DEPARTMENT OF STATE
BRIEFING MEMORANDUM

SS

What am I asked to do

*Nothing at present told
Refer 241*

~~SECRET~~

November 20, 1974

To: P - Mr. Sisco
From: NEA - Alfred L. Atherton, Jr.

ALA
11/27/74
11/27/74

PL 480 for Sri Lanka

Following Ceylonese Ambassador Kanakarathne's recent query about PL 480 assistance (Tab A), you asked for a report on the state position.

S/S

Sri Lanka's Food Situation

Sri Lanka is in trouble on the food front. Its trade-oriented economy has been unable to adjust to radically increased food and petroleum import costs in the face of relatively stagnant prices for its plantation crop exports. GSL reforms to cut food and fertilizer subsidies and to increase domestic food production so far have prevented national bankruptcy but the cost has been a serious deterioration in nutritional standards. Embassy Colombo estimates that 25 percent of the population now has a diet below FAO minimum nutritional standards compared with a nominal 5 percent in 1970. For 1975, the country needs approximately 1.8 million tons of foodgrain to feed its population even at the present sub-standard nutritional level. On the uncertain assumption that the Ceylonese 1975 rice crop will be good there still is an uncovered deficit of 200,000 tons of foodgrains despite the Government's food production campaign, curtailment of food consumption, heavy commercial purchases of imported wheat (160,000 tons) and 40,000 tons of food aid from other countries. Sri Lanka does not have the foreign exchange to safely finance this deficit. Soaring import costs

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have produced a trade deficit which will reach an estimated \$300 million in 1975 compared to a manageable \$10 million in 1973. Optimistic GSL aid receipt calculations and planned borrowings will still leave an uncovered foreign exchange gap of an estimated \$150 million in 1975. A \$200 million increase in Sri Lanka's 1975 foodgrain import bill over 1972 more than accounts for this deficit.

U.S. Interests

Last May we pledged \$8 million of Title I wheat flour along with an \$8 million Development Loan at the Sri Lanka Aid Group meeting. The Ceylonese are anxiously waiting to see what action we will take on the foodgrain question and are increasingly nervous on this score (See Tab B). The economic and humanitarian grounds for food assistance are clear. U.S. food aid will ease the crisis in Sri Lanka and provide the GSL a chance to implement its self-help policies in the field of agriculture.

Because of the obvious Ceylonese need, State/AID last September recommended 133,000 tons of wheat for Sri Lanka (more than double what we pledged at the May consortium). Over NEA's objection Sri Lanka was not included, however, in the 2nd quarter FY 75 allocations.

There is also a clear political case for helping Sri Lanka. With a relatively small amount of food aid we earn a large amount of good will in Colombo, where we have enjoyed excellent relations in recent years. American failure to provide aid, will damage our relations, particularly in light of our previous pledge and our recent allocations to India, Pakistan, Bangladesh and especially the UAR. Mrs. Bandaranaike already has indicated uncertainty over her relations with the new Ford Administration. Moreover, her pragmatic foreign policy which has included a friendly attitude toward us, is vulnerable to leftist attack if she cannot demonstrate benefits in the form of U.S. food aid at a time of crisis. She currently

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faces a political confrontation with her Trotskyite coalition partner, the Lanka Sama Samaja Party. The LSSP leadership is being pushed to militancy by its affiliated trade unionists who are adversely affected by food shortages in the urban areas. Ceylon's foreign policy orientation assumes increasing importance as the 1976 Non-Aligned Conference, to be held in Colombo, draws nearer.

What Should We Do About PL 480 to Sri Lanka

The President has decided there will be an increase in PL 480 this year over last but a final budget decision has not been made. The State/AID high option calls for approximately 3.0 million tons of wheat under Title I. Through December we have approval and budget for 1.3 million tons -- for Cambodia, Bangladesh, Chile, Egypt, India, Israel, Jordan, Pakistan and Syria. The minimum additional requirements for these countries during FY-75 are 900,000 tons, assuming the India program does not exceed 500,000 tons. No wheat has yet been approved for Sri Lanka and nine other countries although NEA and EB agree that Sri Lanka needs justify substantial PL 480 assistance.

There is interagency agreement to attempt to reach a final budget decision on PL 480 in December. If the President approves State/AID's high option (\$1,351 million commodity cost) it should be possible at least to provide Sri Lanka with 65,000 tons of wheat, (approximately the quantity we expected to supply under our \$8 million pledge in May) while seeking the full 133,000 tons if possible.

A decision in favor of the middle option (\$1,092 million commodity cost) would require us to reduce Title I wheat by at least 1.0 million tons. We would have to drop some planned programs entirely and reduce most others.

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-4-

There is a danger that Sri Lanka may be lost in the shuffle of competing claims on available PL 480 supplies. Because of economic/humanitarian need and our political interests, we propose to press for at least 65,000 tons of PL 480 wheat during December inter-agency decision-making.

Attachments:

- Tab A - Sri Lanka Ambassador call on Under Secretary Sisco PL 480
- Tab B - GSL Concern over USG's PL 480 Program

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Drafted by: NEA/INS:JEL^{del}leader:jes
x22307:11/18/74

Concurrence:

EB - Mr. Katz del