1.52.0:

71-257

6
17

REPORT TO THE CONGRESS

LM095671

Need For Interagency Consideration Of Applications For Investment Surveys And Guaranties Involving Potential Displacement Of U.S. Agricultural Exports

B-166077

Agency for International Development

Department of State

Department of Agriculture

Overseas Private Investment Corporation

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

APRIL 27, 1971

~~700571~~ 095671

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-166077

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the need for interagency consideration of applications for investment surveys and guaranties involving potential displacement of U.S. agricultural exports. These programs are administered by the Overseas Private Investment Corporation.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of State; the Secretary of Agriculture; the Administrator, Agency for International Development; and the Chairman, Board of Directors, Overseas Private Investment Corporation.

Elmer B. Staats
Comptroller General
of the United States

Contents

ABBREVIATIONS

AID	Agency for International Development
GAO	General Accounting Office
OPIC	Overseas Private Investment Corporation
USDA	U.S. Department of Agriculture

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

NEED FOR INTERAGENCY CONSIDERATION OF APPLICATIONS FOR INVESTMENT SURVEYS AND GUARANTIES INVOLVING POTENTIAL DISPLACEMENT OF U.S. AGRICULTURAL EXPORTS
Agency for International Development
Department of State
Department of Agriculture
Overseas Private Investment Corporation
B-166077

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) undertook this review because it observed that the Agency for International Development (AID) had guaranteed a project to help Thailand increase its export of corn (a surplus crop in America) to Japan (the principal foreign export market for American-grown corn).

The guaranty was extended by AID under a program which attempts to stimulate the flow of private capital into less developed countries by sharing with American firms the costs of conducting surveys of investment opportunities and by insuring investors against certain political and business risks. (See pp. 5 and 8.)

The purpose of the review was to learn whether sufficient consideration was being given to the potentially adverse effects of investment survey and guarantee programs on export markets for American agricultural commodities.

GAO wished to know whether countervailing views of Government agencies having priority interests in domestic farm programs and problems and in the U.S. balance-of-payments position were being sought and were being given due consideration and whether the kinds of economic analyses needed to weigh the effect of the investment programs on U.S. agricultural export markets were being made. (See p. 5.)

Until January 19, 1971, investment survey and guarantee programs were administered by AID. Pursuant to the Foreign Assistance Act of 1961, as amended in 1969, a new agency, the Overseas Private Investment Corporation, was established to carry out incentive programs for private investment in less developed countries. The Administrator of AID is the Chairman of the Board of the Overseas Private Investment Corporation. (See p. 35.)

GAO wishes to emphasize that its report deals with the administrative mechanism for striking a balance among conflicting U.S. interests and objectives and that the matters discussed are equally applicable no matter which agency administers investment survey and guarantee programs.

GAO wishes also to emphasize that it is not passing judgment on the merits of helping less developed nations to grow more, or export more, agricultural commodities. GAO's concern is in ensuring that each U.S. Government agency, whose vital interests are affected by agricultural investment programs abroad, is consulted and its views considered in the decisionmaking process.

FINDINGS AND CONCLUSIONS

AID was not making the kinds of economic analyses necessary for measuring whether U.S. foreign policy and economic development gains, from underwriting programs to boost foreign production and exports of agricultural commodities produced in excess quantity in the United States, offset the disadvantages to the domestic U.S. farm economy and balance-of-payments position. (See pp. 34 and 35.)

Efforts of AID officials were directed primarily toward assisting other nations to increase their agricultural productivity through economic development and, by doing so, raise their standards of living. AID officials therefore hardly could be expected to always be knowledgeable of, and give overriding consideration to, factors which were at odds with their primary objectives.

The question of whether to assist other nations to increase their production and export of agricultural commodities of a type produced in surplus quantity in the United States is by no means easy to answer.

Many important policy issues are involved, such as,

--whether improvements in agricultural productivity, worldwide, will keep pace with future population growth and

--whether the United States ultimately will benefit more, economically, from increases in national income abroad and in remittances of income on investments than it will lose from decreases in the agricultural export markets. (See p. 34.)

These important issues should be subjected to the discipline of interagency consideration and coordination. This will provide a basis for reducing the possibility that programs may be pursued in furthering the agricultural development of foreign countries that may be inimical to the domestic farm economy, to American exports, and to the American balance-of-payments position. (See pp. 18, 19, 35, and 36.)

Investment survey and guarantee programs studied by GAO do not appear to have substantively damaged U.S. exports. Nevertheless, GAO believes that, with rising production of many agricultural commodities abroad, aided to a great extent by U.S. economic assistance, this would be an opportune time to study the effect of possible additional programs which might be proposed.

RECOMMENDATIONS OR SUGGESTIONS

Applications for investment survey and guarantee programs involving potential foreign exports of crops in U.S. surplus should be called to the attention of all executive agencies concerned, so that due consideration can be given to the likely effect of the proposed investment on the American economy, exports, and balance-of-payments position. GAO proposed that the views of each agency participating in the deliberations be recorded in detail and that the reasons for decisions reached be explicitly set forth. (See pp. 35 and 36.)

Policies with respect to investment survey and guarantee programs should be reviewed and revised to ensure that they are uniform and consistent in their interpretation and application. GAO had observed inconsistencies in policies enunciated in AID handbooks for investment survey and guarantee programs and in the AID manual order dealing with these programs. (See p. 36.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

Although the executive agencies agreed, in general, that there was a need for consideration and coordination by all agencies concerned, they cautioned about the potential for delays in approval of applications if the applications were submitted to a formal board. They suggested several alternative approaches.

--Have a representative of the Department of Agriculture serve on the Board of Directors of the Overseas Private Investment Corporation.

--Have the Development Loan Staff Committee review applications.

--Have liaison and staff-level coordination between the Overseas Private Investment Corporation and executive agencies, including the Department of Agriculture.

Any one of the several ways that have been suggested for better evaluation of the impact of proposed investment survey and guarantee programs could achieve the objectives sought. Whatever the means adopted, the Department of Agriculture should be given an <u>effective</u> voice in the decisionmaking process.

GAO is recommending to the Board of Directors of the Overseas Private Investment Corporation--which assumed responsibility for the evaluation of proposals after the completion of GAO's fieldwork--that the Corporation (1) consult with the Department of Agriculture and other executive agencies to establish an evaluation procedure acceptable to all parties and (2) include in its policy directives the necessary measures for analyzing projects which could adversely affect U.S. agricultural exports. (See p. 36.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO believes this report is of timely importance and interest to the Congress because of continuing weakness in the U.S. balance of trade and balance of payments.

CHAPTER 1

INTRODUCTION

The General Accounting Office has examined into policies and practices followed by the Agency for International Development when it evaluated applications by American firms for participation in investment survey and guarantee programs. These programs are designed to stimulate the flow of private American capital and know-how into less developed countries of the world.

During our review, the Overseas Private Investment Corporation (OPIC) assumed administrative responsibilities for investment programs that had been administered by AID. This report comments on the changeover and makes the point that the same kinds of economic analyses of the effect of investment incentives on U.S. exports and balance of payments need to be made by OPIC.

The scope of our review is shown on page 38.

The principal officials having an interest in the matters discussed in this report are listed in appendix VI.

CHAPTER 2

INVESTMENT INCENTIVE PROGRAMS--

PURPOSES AND POTENTIAL EFFECTS ON

U.S. ECONOMY AND BALANCE-OF-PAYMENTS POSITION

In providing assistance to less developed countries, the United States helps them to develop their economic resources and productive capacities through projects that promote trade, increase production, raise standards of living, and improve technical efficiency.

U.S. assistance efforts take many forms. Direct assistance includes dollar and local currency grants and loans to foreign countries and businesses, sales and grants of food for developmental and other purposes, and participation in the financing of a wide range of programs administered by multinational organizations.

The U.S. Government ~~also~~ attempts to stimulate private capital flows into less developed countries by sharing with American firms the costs of conducting surveys of investment opportunities and by insuring investors against certain political and business risks.

These programs, by their very nature, are an incentive for business firms to increase their investments in less developed countries.

At the time of our review, investment survey and guarantee programs were administered by AID under title IV (secs. 231 to 233) and title III (secs. 221 to 224) of the Foreign Assistance Act of 1961, as amended through 1968. These programs are described under the caption "Purposes of investment survey and guarantee programs administered by AID," below.

With the enactment in 1969 of amendments to the Foreign Assistance Act of 1961, administrative responsibility for comparable programs (relabeled as investment incentive programs) was transferred from AID to OPIC. These programs are described under the caption "Purposes of investment incentive program administered by OPIC," below.

The potential effect of investment incentive programs is described under the caption "Potential effect of investment incentive programs on U.S. economy and balance-of-payments position," below.

PURPOSES OF INVESTMENT SURVEY AND GUARANTEE PROGRAMS ADMINISTERED BY AID

Investment Survey Program

Title IV of the Foreign Assistance Act of 1961 (secs. 231 to 233), as amended through 1968, authorized AID to pay part of the costs that U.S. firms incurred when they surveyed investment opportunities in less developed friendly countries and areas.

AID was authorized to pay up to 50 percent of the cost of surveys, provided that the applicant did not proceed with the investment and the survey was approved by AID as meeting their standards. If the prospective investor proceeded with the investment, it retained exclusive rights to, and use of, the survey; if it did not proceed, it could elect to receive payment by AID and turn over its survey results to the U.S. Government for possible future use by other interested parties.

These approved surveys provided factual and analytical data on economic and technical aspects needed to make investment decisions, including analyses of market potential, plant location, availability of raw materials and labor, profitability, and so forth.

Investment Guarantee Program

The Investment Guarantee Program came into being in 1948, as part of the Economic Cooperation Act, to facilitate and increase participation by private enterprise and private institutions in the development of productive capacities and in the social progress of less developed countries.

The program, as originally conceived, dealt with guaranties of convertibility of income. In 1950 guaranties against expropriation were added, and in 1956 coverage was broadened to include losses by reason of war.

The program was administered by a series of organizations prior to 1955; after that time it was administered by the International Cooperation Administration and its successor, AID.

The most definitive legislation enacted by the Congress in relation to the Investment Guarantee Program was the Foreign Assistance Act of 1961, as amended in 1969. Pursuant to title III of the act (secs. 221 to 224), the Congress authorized three investment guarantee programs.

--Specific political risk guaranties against (1) inability to convert into U.S. dollars other currencies, or credits in such currencies, received as earnings or profits from the approved project, as repayment or return of the investment therein, in whole or in part, or as compensation for the sale or disposition of all or any part thereof, (2) loss of investment, in whole or in part, in the approved project due to expropriation or confiscation action of a foreign government, and (3) loss due to war, revolution, or insurrection.

--Extended-risk guaranties covering up to 75 percent of both political and business risks.

--Extended-risk guaranties covering up to 100 percent of losses on certain housing projects.

The act authorized the President to issue guaranties in connection with projects, including expansion, modernization, or development of existing enterprises, in any friendly country or areas, with the government of which the President had agreed to institute the guarantee program.

PURPOSES OF INVESTMENT INCENTIVE PROGRAMS ADMINISTERED BY OPIC

Investment encouragement

With several exceptions, section 234(d) of the Foreign Assistance Act of 1961, as amended in 1969, authorizes OPIC to initiate and support--through financial participation, incentive grant, or otherwise, and on such terms and conditions as OPIC may determine--the identification, assessment, survey, and promotion of private investment opportunities, utilizing wherever feasible and effective the facilities of private organizations or private investors.

Investment insurance

Section 234(a) of the act authorizes OPIC to:

--Issue insurance, upon such terms and conditions as OPIC may determine, to eligible investors insuring, in whole or in part, against any or all the following risks with respect to projects which the corporation has approved.

1. Inability to convert into U.S. dollars other currencies, or credits in such currencies, received as earnings or profits from the approved project as repayment or return of the investment therein, in whole or in part, or as compensation for the sale or disposition of all or any part thereof.

2. Loss of investment, in whole or in part, in the approved project due to expropriation or confiscation by action of a foreign government.

3. Loss due to war, revolution, or insurrection.

--With several exceptions, make such arrangement with foreign governments or with multilateral organizations for sharing liabilities assumed under investment insurance and, in connection therewith, issue insurance to investors not otherwise eligible thereunder.

--Issue not more than 10 percent of the total face amount of investment insurance to a single investor.

Investment guaranties

With several exceptions, section 234(b) of the act authorizes OPIC to issue to eligible investors guaranties of loans and other investments made by such investors insuring against loss due to certain political and business risks and upon such terms and conditions as the corporation may determine.

Direct investment

With several exceptions, section 234(c) of the act authorizes OPIC to make loans in U.S. dollars repayable in dollars or loans in foreign currencies to firms privately owned or of mixed private and public ownership and upon such terms and conditions as the corporation may determine.

POTENTIAL EFFECT OF INVESTMENT INCENTIVE PROGRAMS ON U.S. ECONOMY AND BALANCE-OF-PAYMENTS POSITION

In administering programs of assistance, the law and/or agency regulations require administrators to consider the effect of the programs on the U.S. economy and balance-of-payments position.

Section 222(g) of the Foreign Assistance Act of 1961, as amended, provided, with respect to the Investment Guarantee Program, that:

> "In making a determination to issue a guaranty under section 221(b), the President shall consider the possible adverse effect of the dollar investment under such guaranty upon the balance of payments of the United States."

Although title IV of the act (which applied to the Investment Survey Program) did not contain a comparable requirement, AID's internal regulations required that such consideration be given. This was only logical, considering that an investment survey could lead to an actual investment.

Section 231(i) provided that, in carrying out its purpose, OPIC, utilizing broad criteria, undertake to further, to the greatest degree possible and in a manner consistent with its goals, the balance-of-payments objectives of the United States.

Other sections of the law, dealing with other sections of the aid program, contained provisions concerning the effect of the programs on the U.S. economy and balance-of-payments position. These included:

1. Section 620(d) of the Foreign Assistance Act of 1961, as amended, which provides that no development loans be furnished for construction or operation of any productive enterprise in any country where such enterprise will compete with U.S. enterprise, unless the foreign country agrees to establish appropriate procedures to limit the amount of exports to the United States.

2. Section 104(e) of the Agricultural Trade Development and Assistance Act of 1954, as amended, which permits use of U.S. owned local currencies for loans to U.S. business firms (including cooperatives) and their entities for business development and trade expansion in foreign countries; provided that the loans not be made for the manufacture of any products intended to be exported to the United States in competition with products produced in the United States and that due consideration be given to the continued expansion of markets for U.S. agricultural commodities or the products thereof.

It seems clear from the foregoing provisions that the Congress is concerned with the possible effects of foreign aid and investments on the U.S. economy and export position.

In the agricultural sector, particular attention must be paid to the effect American investments and aid abroad could have on existing American patterns of marketing and exports.

A number of the principal commodities (such as wheat, feed grains, tobacco, rice, and vegetable oil) grown or processed in the United States are in surplus supply either domestically or worldwide, or both. Some of these crops are either production controlled, qualified for price-support payments, or are diverted from normal commercial trade channels and disposed of in domestic and foreign programs either as gifts or on concessional sales terms. (See app. I.) Still other commodities which the United States imports (for example, sugar) are in worldwide surplus supply, and increases in production pose a problem to the producing nations because of the relatively fixed demand for the commodities.

In effect, programs that lead to increased production of the above commodities might well lead to keener competition for existing markets and to lower world market prices. A case in point is wheat, for which increased production abroad (stimulated to some extent by U.S. assistance to underdeveloped countries) has been a factor explaining recent declines in world market prices and increases in world wheat reserves.

A blanket policy of denying assistance to countries seeking to increase their production of crops that are in surplus supply in the United States might not be desirable for a number of reasons. These include:

--The increased emphasis being placed by our Government on the production of food crops in developing countries so as to meet the impact of the population explosion.[1]

---

[1]Both the President and the Congress have stated that increased emphasis should be placed on the production of food crops in developing countries so as to meet the impact of the population explosion. The President has emphasized the "urgency of assisting developing countries to balance agricultural productivity with population growth," and the Congress, in the Food for Peace Act of 1966, directed the President "to take into account efforts of friendly countries to resolve their problems of food production and population growth."

--The problems confronting developing nations of finding ways to increase their exports so as to earn foreign exchange for the purchase of food and other goods which they themselves cannot produce efficiently yet but which are deemed essential for economic development. (This is particularly true in countries which are heavily dependent for their export earnings on a few types of agricultural commodities in world surplus position.)

It might be argued that U.S. assistance, designed to stimulate increased foreign production of farm commodities that the United States traditionally exports, would adversely affect the level of our exports--irrespective of whether the foreign country proposes to consume the increased production domestically or to export it. In addition, as importing nations move toward self-sufficiency, world import needs would decline. Further, as the countries develop export surpluses, additional competition would be created for existing markets.

Much more sophisticated economic analysis than this, however, is needed to gauge the impact of these programs on the U.S. balance of payments, both in the short run and the long run. Among the factors which have to be weighed are:

--The growth of population versus the growth of production in the country being aided. Production would have to increase for the country simply to remain in the same relative position.

--The effect of greater levels of production on incomes and consumption patterns in the countries being aided. Many importing nations struggling to become more self-sufficient in food production lack foreign exchange to import enough food to feed their populations adequately. As domestic production increases, so may total domestic consumption of food.

--The effect increased agricultural productivity has on the level of economic development of the country being aided. It generally is considered that as less developed countries become more prosperous, they become better customers for products produced in the United States. Thus increased production of food in a foreign country could lead to better markets for U.S. fertilizer, tractors, farm implements, and industrial and consumer goods.

--The extent to which investments abroad generate a stream of investment income which ultimately may offset any loss of dollar exports.

In evaluating the effect of investment survey and guarantee programs on the U.S. economy and balance-of-payments position, AID regulations required separate consideration of the effects of the investment and of the increased production it was intended to stimulate. AID, in turn, distinguished between production which was intended to be consumed in the foreign country and that which was to be exported from the foreign country.

On investments it guaranteed, AID generally required the procurement of American goods and services substantially equal in dollar value to the amount of the loan it guaranteed. To the extent that this was done, the investment led to increased U.S. exports and a neutral effect on the United States balance-of-payments position (e.g., dollars invested by American firms were spent for American goods and services).

As the investment led to increased production abroad, its ultimate effect on the U.S. economy and balance-of-payments position became more difficult to gauge for reasons outlined above.

In line with the policy of increasing the production of food crops in developing countries, AID accorded priority to production of food crops for consumption in the foreign country. (Feed crops to be consumed domestically also were permitted, although this was a lower order of priority.)

AID's position on assistance which was intended to lead to the production of food and feed crops for export was less clear. For example, while AID actually had approved projects having exports as an explicit goal, the following sources indicate that such projects ordinarily would have been considered ineligible for AID participation:

--AID's Investment Survey Handbook (July 1968), stated that a proposed survey was ineligible if the "projects *** would provide foreign competition in the overseas sale of U.S. agricultural surplus commodities."

--AID's Specific Risk Investment Guaranty Handbook (October 1966), stated that an investment was ineligible for a guaranty if "The investment is for a project of increasing the production or processing of food, feeds, and other agricultural commodities (including meats) for the purpose of export, if the food, feed, or other agricultural commodity is of a type in surplus in the United States."

--AID's Extended Risk Guaranty Policy Paper (December 1964, revised) stated that an extended risk guaranty proposal would be ruled ineligible if "The investment would significantly affect the economy of the U.S. in some adverse fashion ***."

--AID's Policy 3.1, Revision 1 (July 1969), stated that "Food products, in world surplus (but not in U.S. surplus) grown for export, are eligible for Specific Risk Investment Guaranties. *** However, food products in U.S. surplus, grown for export, remain ineligible."

On the other hand, AID's Manual Order 1016.2 (March 7, 1968) stated that:

> "Assistance may be given to growing and harvesting food and feed crops for export: <u>provided</u> that due consideration shall be given to the continued expansion of markets for United States agricultural commodities or the products thereof, and that it is necessary to earn foreign exchange to purchase food and other goods which cannot be produced efficiently within the country and which are deemed essential for economic development."[1]

---

[1] Assistance is not to be given to increase the production of nonfood crops in world surplus if the foreign country would be enabled to increase exports appreciably.

As will be noted in the following chapter of this report, AID's comments in regard to the effect of the proposed investment were concerned principally with the benefits that less developed countries would derive from private investments. This is, of course, an understandable emphasis since development was central to AID's mission.

It seemed only right to us, however, that, when AID supported projects which could lead to the development of foreign competition for U.S. export markets, the benefits to the foreign country should have been weighed against any adverse effects on the American economy, export position, and balance of payments. This, in our opinion, requires that the likely effects of the projects be subjected to careful economic analysis and consideration by an interagency group composed of representatives from U.S. agencies directly concerned with such matters.

The following chapter elaborates at greater length on this thesis.

CHAPTER 3

NEED FOR AN INTERAGENCY REVIEW OF APPLICATIONS FOR INVESTMENT SURVEYS AND GUARANTIES

In our opinion, there is a need to establish a system for formal analysis and interagency review of the merits of proposed investment incentive projects which could adversely affect U.S. agricultural exports. This need is highlighted by our chronic balance-of-payments difficulties.

USDA officials informed us that the establishment of any foreign agricultural project which aimed to increase the foreign production and exportation of wheat, corn, rice, or grain sorghums (milo) could compete with our export markets. This is particularly true not only for wheat but also for corn, since the United States has been losing ground in the growing Japanese corn market it traditionally has dominated.

AID officials stated that, as a matter of policy, they solicited the views of USDA whenever an application for a survey or a guaranty involved the foreign production of agricultural commodities. They added that they were well aware of the special significance of projects which specifically proposed to help foreign countries produce and export agricultural commodities.

Our review of selected applications for investment surveys and guaranties showed only a few documented instances where AID had contacted USDA or other agencies concerned with American exports or balance-of-payments problems in the course of their review and approval of the applications. Although AID officials assured us that this had been done as a matter of practice, they were unable to tell us to whom they had spoken within USDA or whose opinions they had obtained. Moreover, AID officials in most instances had not made any calculations of the likely effect that increased production in the foreign country would have on U.S. exports of like agricultural commodities.

Although we cannot dismiss the possibility that there may have been informal conversations with USDA that were not documented, the importance of safeguarding U.S. exports with American exports or balance-of-payments problems in the course of their review and approval of the applications. Although AID officials assured us that this had been done as a matter of practice, they were unable to tell us to whom they had spoken within USDA or whose opinions they had obtained. Moreover, AID officials in most instances had not made any calculations of the likely effect that increased production in the foreign country would have on U.S. exports of like agricultural commodities.

Although we cannot dismiss the possibility that there may have been informal conversations with USDA that were not documented, the importance of safeguarding U.S. exports seems to warrant more formal consideration of these applications at policymaking levels of the Government agencies directly concerned with the likely effects of AID programs on the U.S. economy, export trade, and balance-of-payments position. In our opinion, the examples discussed on pages 20 through 33 support this conclusion.

INVESTMENT SURVEYS

From the beginning of the investment survey program, in fiscal year 1962, through June 30, 1969, AID signed 333 investment survey participation agreements with private firms interested in exploring investment opportunities in agriculture, manufacturing, transportation, and other sectors. Approximately 73 of these agreements were designed to explore the feasibility of making investments for the production, processing, distribution, or storage of agricultural commodities in less developed countries of the world.

The number of investment surveys authorized during any one year reached a peak in fiscal year 1967 when AID signed 73 agreements with various private enterprises. Since that time the yearly number of agreements has fallen off. In 1969, 23 agreements were signed--five of which dealt with agricultural projects.

The recent decline is partially attributable to less dynamic promotion of the survey program by AID. Also AID adopted more stringent criteria in an attempt to restrict its participation to those surveys which appeared to be solid and which were to be performed by businesses having the know-how and financial backing to carry projects through to successful completion.

Three applications received by AID after March 1968 proposed surveys to explore the feasibility of projects designed, among other things, to increase foreign country exports of agricultural commodities. The objectives of the proposed surveys, AID's comments and recommendations, and other pertinent data (e.g., the market situation in the United States) are discussed in the following pages for each of these projects.

Proposed project in Brazil

One corporation submitted an application on September 1, 1968, for AID's financial participation in a survey to explore the feasibility of a project for grain marketing and all of its aspects in Brazil. The corporation's survey was to include a study of the flow of grain for domestic consumption and for export and import. The production of commodities--corn, wheat, oilseeds, and other grains--was to be studied.

It was anticipated that, if this investment project were successful, it could well increase the income of Brazilian grain producers through expanded export markets and more efficient handling of their crops.

AID's Office of Brazil Affairs favored implementation of this survey. The Office was of the opinion that the project could have a significant economic impact, since increased exports of nontraditional agricultural products was a major goal of Brazil.

USDA officials told us that, if rice and corn were to be exported by Brazil, this possibly could have an adverse effect on U.S. export markets in the future.

Although the corporation withdrew its application on September 25, 1968, we found no indication that AID had considered the possibility of turning it down on the basis that the proposed investment was designed, in part, to expand Brazil's export market through more efficient handling of its crops. During the period the application was pending, AID did not solicit the views of USDA.

Proposed project in Thailand

Another corporation signed an agreement with AID on March 7, 1968, to perform an investment survey in Thailand. The purpose of the survey was to determine the feasibility of establishing an agricultural facility in northeast Thailand and to study available local, national, and export marketing capacity--all for the purpose of considering a direct investment in private enterprise agricultural establishments which would produce and market corn (maize), rice, soybeans, and sorghum.

The AID Mission in Thailand stated that it was in agreement with the survey if AID/Washington was satisfied that the project would not compete unduly with other AID-supported agricultural projects in Thailand.

Our discussions with AID officials revealed that the reference to other AID-supported agricultural projects was more than likely to the underwriting, under the Extended Risk Guarantee Program, of a corn production and marketing project in central Thailand at the time this corporation applied for the investment survey. The primary objective of this already existing project (discussed on pp. 29 to 33) was to add to Thailand's export potential for corn.

AID/Washington was of the opinion that the new proposed project would not compete unduly with the other AID-supported projects. The establishment of an agricultural venture in northeast Thailand was considered to be of high priority, since AID had financed another high-priority project in that area (the Northeast Agri-business Development Project) and AID felt that agricultural development possibly could curb infiltration and restrain communism in northeast Thailand.

We found no reference in AID's comments to the facts that Thailand was a major exporter of corn and that rice also was one of Thailand's major export earners. In 1966 Thailand was exporting approximately 90 percent of its corn production; approximately two thirds to the Japanese market.

AID's comments relating to the project's effect on the U.S. balance-of-payments position dealt with the effect of acquiring U.S. equipment for the project and potential long-run earnings on investment. No inquiry or analysis was made, however, as to what effect the potentially increased production might have on Thailand and United States exports of corn and rice.

We found no indication that AID had considered the possible combined developmental impact of the two agricultural projects in Thailand or what effect these two projects could have on United States exports of corn and rice if both companies actively became engaged in competing for export markets in the Far East.

In recommending approval of the project, AID pointed out that the implementation of the project should result in a favorable effect on Thailand's balance of payments by producing local substitutes for imports, by providing export commodities, by developing nonproductive lands, by increasing the productivity of existing farmlands, and by training host country nationals in modern practical methods of large-scale scientific agriculture.

The corporation informed AID on June 6, 1969, that it had decided not to make an investment in a corporate farming activity in northeast Thailand. It was of the opinion that the return on investment would be too low, although the project might be economically feasible if it were Government sponsored.

Proposed project in Indonesia

The same corporation signed an agreement with AID on June 3, 1968, to perform an investment survey in Indonesia. The objective of the survey was to determine the feasibility of developing an economically viable large-scale agricultural operation for the production, storage, and marketing of food and feed crops. The crops, which would be produced for domestic and export purposes, were rice, maize, soybeans, sorghums, and cassava. The investor stated that the project ultimately could consist of an area in excess of 1,000,000 hectares (2,500,000 acres).

The AID Mission pointed out that the Government of Indonesia was very much interested in the proposed survey, since the project would have a valuable impact on Indonesia's economy.

A representative of USDA contacted AID to inquire into the status of the survey application, because it was understood that the corporation intended to export corn to Japan, a substantial purchaser of United States corn. The USDA representative pointed out that the United States market (Japan) could be proportionately affected by this project.

AID/Washington was of the opinion, however, that the survey was in order, since implementation of the project would assist in the economic development of Indonesia--a corn importer--by developing its foreign exchange earnings, providing employment, and supplying a national need. AID also pointed out that corn was not in world surplus.

Our discussions with USDA officials indicated that the establishment of any facility, regardless of size, that intended to export corn would be in competition with the United States. According to USDA, the United States is a residual supplier of corn even though it exports a large volume of corn. The reason given for this was that, whereas foreign exporters reduce the price of their corn to get rid of it, the United States stores the corn and waits for a favorable price. Thus the United States supplies only that quantity that other suppliers are unable to furnish.

The corporation completed its survey on November 20, 1969, but, as of January 6, 1971, AID had not been formally notified of its investment decision. Indications were that an investment would be made by the corporation, but AID told us that, if the investment were not made, AID would not be financially liable to pay funds that it otherwise would have had to pay, since the investment determination date had passed without an extension being requested or granted.

SPECIFIC-RISK GUARANTIES

From the beginning of the Specific Risk Guarantee Program in 1948, through June 30, 1969, AID had issued 3,855 specific-risk guaranties. In fiscal years 1968-69 approximately 70 guaranties were issued specifically for agricultural-type projects, 20 of which we reviewed.

Of the 20 guaranties selected for review, three specifically stated that the U.S. investors intended, among other things, to export some of the agricultural commodities to be produced as a result of their investment in the foreign country.

An analysis of the facts surrounding the issuance of two of the three guaranties follows.

Proposed projects in El Salvador

One applicant signed a specific-risk insurance contract with AID on November 11, 1968. The guaranties were to cover its investment in a project in El Salvador. To insure against unforeseeable hazards of doing business in an unfamiliar area, the investor obtained about $206,000 worth of inconvertibility insurance and about $206,000 worth of expropriation insurance.[1]

The objective of the project, as stated on the application for insurance, was to import poults; raise turkeys; and sell live and dressed, fresh and frozen birds within the Central American Common Market (which includes Costa Rica, Guatemala, Honduras, El Salvador, and Nicaragua). The investor also expressed its intention of exporting turkey eggs to the United States.

The AID Mission praised the project as one which would enhance the agricultural sector and export earnings of El Salvador, as well as increase the demand for poultry feed in that country.

---

[1]The dollar amounts shown for both specific and extended risk guaranties issued for all projects are the maximum amounts AID could be liable for if a claim was made by the investor.

Discussions with AID officials revealed that USDA had not been consulted in an effort to determine the status of the poultry situation in the United States or to determine whether the possible exportation of fresh or frozen birds would have an adverse effect on U.S. exports of poultry.

They were of the opinion, however, that the main thrust of the project was for domestic consumption and that exportation was something that "might" be done in the future. We did not, however, find any indication that AID had questioned the investor's objectives in regard to the immediate or future potential for poultry exports.

We were informed that the exportation of agricultural commodities from one member of the Central American Common Market to another member was considered by AID to be "domestic consumption."

USDA officials told us that the United States was not exporting turkeys to Central American countries at the time of our review. They also expressed doubt that exports from this project to other Central American countries, if any, would compete with United States markets in that area. They thought, however, that exports to any other member of the Central American Common Market should be classified as exports rather than domestic consumption.

Although it appears at this stage that any future exportation of turkeys, as a result of this project, will not be in direct competition with U.S. exports, it still seems to us that AID should have consulted with USDA at the time the application for insurance was being processed. Such consultations would have helped to ensure that the effects of this type of project on the status of the U.S. domestic and export poultry markets would be given appropriate consideration.

Proposed project in Costa Rica

Another applicant signed a contract with AID on October 22, 1968, for specific-risk guaranties covering a project in Costa Rica. Guaranties were issued in the amount of about $1.5 million for inconvertibility insurance and about $1.3 million for expropriation insurance.

The project was for the production and sale of agricultural products (principally rice) for the local market. The application for the specific-risk guaranties submitted by the corporation stated that Costa Rica was a net importer of rice and in the future might become an exporter. The applicant added that, if and when Costa Rica became an exporter, it would participate directly or indirectly in this exportation.

Emphasis was being placed by the AID Mission on increasing Costa Rican agricultural production and export of agricultural products. The AID Mission felt that the proposed project met this criterion and that it should, therefore, enjoy top priority status. The Mission believed that the project would make Costa Rica self-sufficient in rice and also would make rice available for export to Japan. The rice would also be available for export to other Asian countries which currently import rice from the United States.

We were informed by an AID representative that USDA was contacted in regard to this project on September 18, 1968. Although documentation showed that AID had been informed by USDA that rice was not in world surplus and although there appeared to be no reason for not encouraging the project, rice is a very important U.S. export crop and rice exports account for nearly two thirds of U.S. production.

This was the only project we examined into where we found documentation that AID had contacted USDA during AID's review and approval of the application.

EXTENDED-RISK GUARANTIES

From the inception of the Extended Risk Guarantee Program in calendar year 1963, 33 guaranties had been issued by AID, 15 of which were in effect as of June 30, 1969.

Of the 15 guaranties in force, two involved projects for the production of agricultural commodities abroad, one of which was designed to increase exports. We selected the latter project for review together with another project, not currently in force, which specifically proposed to increase the exports of a foreign country. A discussion of these projects follows.

Proposed project in the Dominican Republic

One applicant signed an extended-risk guaranty with AID on August 25, 1967, for about $2.8 million. A subsidiary firm of the applicant later obtained additional extended-risk coverage for about $2.3 million (on March 14, 1969) to cover the increased capital expenditures needed to complete development of the project. This boosted coverage on the project to $5.1 million.

The guaranty was to cover the development of about 32,000 acres of land in the Dominican Republic, of which 20,000 acres initially were to be used for the production of milo. It was anticipated that some of the milo would be sold in the Dominican Republic and that the balance would be exported to world markets--primarily Western Europe. The original financial projections indicated that operations should begin to show a modest profit in the fall of 1967 and should steadily improve as the project approached full-scale operations. The estimated yearly earnings were expected to reach $1 million by 1969.

AID correspondence files showed that during 1966 a representative of an American company (whose investment and management responsibilities later were taken over by the applicant) contacted USDA to inquire whether corn, milo, and cotton could be considered nonsurplus agricultural commodities in the United States. USDA informed the representative that it would reject all proposed specific-risk guarantee projects which proposed to increase the production of corn, milo, cotton, or wheat in foreign countries.

Our review of the correspondence, however, did not disclose any evidence that AID/Washington had contacted USDA to discuss the merits of this project prior to the issuance of an extended-risk guaranty to the applicant, even though the investors intended to export milo to world markets.

The objectives of the agricultural project in the Dominican Republic had changed somewhat by the time that the subsidiary firm requested extended-risk insurance to cover its portion of the investment in the project. The revised plan called for early diversification into crops which would bring more revenue and a higher profit return than milo. The choice of specific crops was to be geared to the food needs of the Dominican Republic and to existing export markets. On the basis of the size of domestic and export markets, maximum acreage would be allocated to crops having the highest earnings potential, e.g., onions, garlic, tomatoes, and sweet potatoes, with the remaining acreage being put into milo. Foreign exchange earnings from exports were estimated to be from $1.5 million to $2 million annually.

The AID Mission in the Dominican Republic informed AID/Washington that milo was gaining acceptance by the livestock and poultry industry in the Dominican Republic and that, as milo continued to substitute for corn as a feed, corn would be released for export.

AID/Washington believed that approval of the guaranty was justified on financial and economic grounds. Also it was recognized that the project was dependent upon AID guaranties, since the applicant otherwise would have to withdraw from the project.

Proposed project in Thailand

Another applicant first entered into a contract with AID for extended-risk guaranties for a corn-merchandising project in Thailand on April 5, 1967. Since the initial contract did not provide protection against the risks of inconvertibility, expropriation, and war, the applicant took out specific-risk coverage in the amount of $4.5 million at the same time it increased protection under the extended-risk contract on April 5, 1968. The second extension of the extended-risk coverage was signed on June 19, 1968. This extension brought the total amount of insurance in force to $12 million (extended-risk guaranties, $7.5 million and specific-risk guaranties, $4.5 million).

The project involved a joint venture with Thailand shareholders for the operation of a corn-merchandising project in central Thailand. The project was designed to increase Thailand corn export earnings, increase productivity through farmer assistance programs, provide higher income to the farmers by selling a higher quality corn, and provide expert services in selling corn on the international market.

We found no evidence that AID had contacted other U.S. Government agencies which had the responsibility of protecting our balance-of-trade position, to obtain their formal views as to the feasibility of underwriting an investment in an agricultural project that had as an objective the increasing of corn production in a country (Thailand) which exported approximately 90 percent of its domestically grown corn--Japan being the primary market.

Shortly after the applicant signed its first contract for extended-risk guaranties, the U.S. Feed Grains Council sent a letter (dated April 21, 1967) to the Secretary of State, expressing concern over the policies being followed by AID under the Extended Risk Guarantee Program.

The U.S. Feed Grains Council, which is involved in the promotion of exports of U.S.-produced corn, grain sorghums, feed grains, and feedstuffs in cooperation with USDA, made the following comments about the Thailand project.

> "The membership of the Council fully appreciates the importance of increasing food production in the world, as well as the need for upgrading human diets all over the world. But it is quite another thing for the United States to expend funds and to guarantee loans to competing export countries for *** that country to double or triple its corn production in direct competition with the United States.

"*** stand aghast to think that the United States on one hand is spending a near unprecedented amount of money to control corn production in our own country and at the same time subsidize production in a competing country, with the announced intention of that country becoming a greater force in the world corn export market."

AID's reply to the Council's letter placed little emphasis on the Council's primary concern--the approval of projects which would be in direct competition with U.S. exports. AID's comments were as follows:

"Returning to your primary concern, this project will not give the Thai corn farmer an unfair competitive advantage on world markets. We feel your assumption that our main objective is to double or triple corn production in Thailand in direct competition with the United States is based on a misunderstanding. As you can see from the foregoing, we are indirectly helping a program that is already under way. We recognize there are certain trade implications. However, taking all factors into consideration we feel the program will contribute significantly to the economic and social well-being of Thai farmers and their rural economy and political stability. We feel this is especially important at this time during the present unsettled conditions in Southeast Asia. As you know, Thailand is a strong participating ally of the United States in supporting certain strategic objectives in that area and we believe that the success of this private initiative based on local self-help, can stimulate our best overall interest. In addition, Thailand is an important customer of the United States exports, and we believe in the long run the net advantage to the United States both economically and politically will be significant."

In December 1967 the applicant stated again that one of its objectives was to provide technical assistance to Thailand farmers. The technique used would be the one proven most successful in the United States. The applicant pointed out that the average yield of maize in Thailand at that time was about 300 kilo per rai (0.4 acres). By implementing U.S. techniques, the applicant would be trying to bring yields first to 600 kilo per rai, then to 1,000, then even higher.

The applicant also projected that corn production in Thailand would be 4 million metric tons by 1973 compared with about 1 million metric tons in 1967. The applicant also made known its plans to develop export markets in countries other than Japan, notably Taiwan, and in Western Europe.

In preparing the data necessary for the approval of the application for additional extended-risk guaranties, AID had this to say about the project's effect on our balance of payments.

> "The 5.5 million of U.S. capital proposed for Calthai will be spent for procurement of U.S. goods and services ***. Positive reflows of capital to the U.S. will begin during the first year. Interest on U.S. debt and guaranty service fees on the U.S. capital will add a positive reflow of dollars to this country. Much of the salaries paid to Calthai's U.S. employees will be repatriated to the U.S.
>
> "The U.S. will also benefit from future exports of farm equipment ***. Moreover, increasing discretionary incomes of the farmers and the positive balance of payments effects of increasing Thai corn exports will cause Thai imports to rise. Some of these increased imports will be of U.S. origin.
>
> "It is true that Thai corn exports will compete with U.S. corn exports in the world markets, especially the Japanese market. More importantly, however, the U.S. should not

forget that the growing world need for food demands that positive actions be taken to encourage potential food surplus countries such as Thailand to develop their agriculture potential."

AID was of the opinion that the United States, not Thailand, had received the most benefit from the growing Japanese demand for corn. Moreover, United States corn exports to Japan would not be curtailed by Thailand competition, because Japanese import demand for corn would increase much faster than the probable future Thailand export supply, according to AID.

The foregoing statement was based on agricultural statistics (1966) published by USDA and Japan. The documentation showed that the United States exports of corn to Japan had increased from an annual average 239,000 metric tons in 1955-59 to 2,088,000 metric tons in 1964. The statistics showed that Japanese corn imports increased from 1,353,000 metric tons in 1960 to 3,299,000 metric tons in 1964.

Although it is true that the United States supplied a major portion of the Japanese corn market prior to 1965, and has continued to do so, USDA officials have informed us that the United States is losing ground in Japan because of competition by small exporters.

CHAPTER 4

CONCLUSIONS, PROPOSALS, RECOMMENDATIONS

AGENCY COMMENTS, AND GAO EVALUATION

At the time of our fieldwork, AID, through its investment survey and guarantee programs, was responsible for stimulating the flow of private American capital and know-how into less developed countries of the world. Since that time, OPIC has assumed this responsibility.

CONCLUSIONS

Some of these programs involved projects designed to increase the foreign production and foreign export of crops which the United States exports. This means that there is a possibility that AID's helping foreign countries to expand their production of crops could adversely affect the level of production in the United States and its exports and thus add to its farm problem.

The desirability of programs designed to increase foreign production and exports of crops and the overall effect of these programs on the U.S. economy and balance-of-payments position are not easy to assess. The question of whether, and how, to help less developed countries grow more food cannot be separated from other important questions, such as (1) whether future world population growth will outstrip future agricultural productivity, (2) whether increased agricultural productivity will generate increased income abroad and thereby lead to greater American export markets for agricultural, industrial, and consumer products, and (3) whether American investments in farming abroad will yield returns on investment income that will offset any loss of agricultural dollar exports.

The fact that it is so difficult to measure the effect of investment abroad makes it especially important, in our view, that a careful economic analysis be made before proposed survey or investment projects are approved.

We believe that this was not being done at the time of our review, and we questioned whether AID, whose primary concern was with the potential developmental effect of investments on the economies of the countries it assisted, was the appropriate agency to weigh the effect of these programs on the U.S. economy and balance-of-payments position and to consider whether foreign policy or economic development should be paramount.

Pursuant to the Foreign Assistance Act of 1961, as amended in 1969, a new agency, OPIC, was established to carry out incentive programs for private investment in less developed countries. The Administrator of AID is the Chairman of the Board of Directors of OPIC. This report comments on the changeover and points out that the same kinds of economic analyses of the effect of investment incentives on U.S. exports and balance-of-payments need to be made by OPIC.

In our opinion, such analyses and decisions should be made only after interagency consideration, taking into account the views of:

--USDA which could consider effects on its programs of production controls, price supports, surplus disposal, and export expansion for American agricultural products.

--The Department of Commerce which could consider effects on other American exports.

--The Department of Treasury which could consider short- and long-range effects on the U.S. balance-of-payments position.

--The Department of State which could consider foreign policy implications.

--AID which could consider the developmental effect on the economy of the foreign country.

PROPOSALS

We proposed that the applications for investment survey and guarantee programs involving potential foreign exports of crops in U.S. surplus be submitted to members of an interagency review committee for advance review so that each agency could analyze the proposal and present its views as to the effect of the proposal on the U.S. economy, the export position, and the balance-of-payments position when weighed against the foreign policy or economic development objectives sought. We proposed also that the views of each agency participating in the deliberations be recorded and that the reasons for decisions reached be explicitly set forth.

In addition, we proposed that the policies with respect to investment survey and guarantee programs be reviewed and revised to ensure that they are uniform and consistent in their interpretation and application. We had observed inconsistencies in policies enunciated in AID handbooks for investment survey and guarantee programs and in the AID manual order dealing with these programs.

RECOMMENDATIONS

Because OPIC now has the responsibility for the evaluation of the proposals, we are recommending to the Board of Directors of OPIC that:

--OPIC consult with USDA and other executive agencies to establish an evaluation procedure acceptable to all parties.

--OPIC include in its policy directives the necessary measures for analyzing projects which could adversely affect U.S. agricultural exports.

AGENCY'S COMMENTS AND GAO EVALUATION

A copy of our draft report was sent to AID and to the Departments of State, Agriculture, and Commerce.

Although the executive agencies agreed, in general, that there was a need for consideration and coordination by all agencies concerned, they cautioned about the potential for delays in approval of applications if the applications were submitted to a formal board. They suggested several alternative approaches.

--Have a representative of USDA serve on the Board of Directors of OPIC.

--Have the Development Loan Staff Committee review applications.

--Have liaison and staff-level coordination between OPIC and executive agencies, including USDA.

Any one of the several ways that have been suggested for better evaluation of the impact of proposed investment survey and guarantee programs could achieve the objectives sought. Whatever the means adopted, USDA should be given an <u>effective</u> voice in the decisionmaking process.

CHAPTER 5

SCOPE OF REVIEW

Our review was conducted at AID and at USDA in Washington, D.C. It included an examination of available records and discussions with representatives of both agencies. Shortly before we issued the report, we discussed it with representatives of the newly established OPIC.

The purpose of our review was to learn whether sufficient consideration had been given to the potentially adverse effects of investment survey and guarantee programs on export markets for American agricultural commodities. Since AID, by its nature, places primary emphasis on the contribution these programs make to the development of the countries it assists, we wished to know whether countervailing views of Government agencies having such other priority interests as the U.S. agricultural sector and balance of payments were sought and given due consideration. We wished also to know whether the kinds of economic analyses needed to weigh the effect of the investment programs on U.S. agricultural export markets were being made.

We made no attempt to evaluate the extent to which AID analyzes the effects its direct agricultural aid programs (carried out with technical assistance and capital assistance in the form of loans or grants) have had on the U.S. economy and balance-of-payments position. We recognize, therefore, that the matters discussed in this report deal with only one small part of the greater issue of how to assist developing nations in a way that will not have unduly disruptive effects on specific sectors of the American economy.

APPENDIXES

PRODUCTION CONTROL, PRICE SUPPORT, AND

SURPLUS REMOVAL PROGRAMS FOR AGRICULTURAL COMMODITIES

FISCAL YEARS 1967, 1968, AND 1969

Commodity	Production controlled	Price supported	Removed from market under section 32 program (note a)	Eligible for shipment under Public Law 480 program (note b)	
				Title I	Title II
Wheat	Yes[c]	Yes	No	Yes	Yes
Corn	Yes[d]	Yes	No	Yes	Yes
Rice	Yes[c]	Yes	No	Yes	(e)
Grain sorghum	Yes[d]	Yes	No	Yes	Yes
Soybean-cottonseed oils	Yes[f]	Yes	No	Yes	Yes
Soybeans	No	Yes	No	(g)	(g)
Soy flour	No	Yes	No	(g)	(g)
Soybean meal	No	Yes	No	(h)	(h)
Evaporated milk	No	No	(i)	Yes[j]	No
Chickens (canned or frozen)	No	No	Yes	Yes	(e)
Turkeys (canned or frozen)	No	No	Yes	Yes	(e)
Eggs (dried)	No	No	(i)	(g)	(e)
Cattle	No	No	No	No	No
Tobacco	Yes[k,c]	Yes	No	Yes	No

[a]Section 32 of Pub. L. 320 (7 U.S.C. 602, 612(c)), as amended, encourages, among other things, the domestic consumption of agricultural commodities or products thereof by diverting them from normal channels of trade and commerce or by increasing their utilization among persons in low-income groups.

[b]Title I of Pub. L. 480 (7 U.S.C. 1701) authorizes the President to negotiate and carry out agreements with friendly countries to provide for the sale of agricultural commodities for dollars on credit terms or for foreign currencies.

Title II of Pub. L. 480 (7 U.S.C. 1721) authorizes the President to determine requirements and to furnish agricultural commodities to meet famine or other urgent or extraordinary relief requirements, to combat malnutrition, to promote economic and community development in friendly developing areas, and for needy persons and nonprofit school-lunch and pre-school-feeding programs outside the United States. Section 401 of Pub. L. 480 (7 U.S.C. 1731) spells out the restrictions on commodities which can be made available under Pub. L. 480. Essentially, this section requires the Secretary of Agriculture to take production, domestic needs, price levels, commercial exports, and carryover stocks into account in deciding whether or not commodities may be made available under the program.

[c]Acreage Allotment and/or Annual Diversion Program under the Agricultural Act of 1938, as amended (1969 only for wheat).

[d]Diversion Program under the Soil Conservation and Domestic Allotment Act, as amended.

[e]Made available under title II in fiscal year 1969.

[f]The production of cottonseed oil was controlled indirectly through the Acreage Allotment Program (1967-69) and the Diversion Program (1967-68) for lint cotton.

[g]Made available under title I and title II in fiscal years 1968-69.

[h]Made available under title I and title II in fiscal year 1969.

[i]Purchased for section 32 distribution in fiscal years 1968-69.

[j]Deleted as of December 30, 1966.

[k]Production of flue-cured tobacco is further restricted by a poundage marketing quota which places a limitation on the quantities which can be sold.

DEPARTMENT OF STATE

Washington, D.C. 20520

JUL 14 1970

Mr. Oye V. Stovall
Director, International Division
United States General Accounting Office
Washington, D. C.

Dear Mr. Stovall:

On behalf of the Secretary I am replying to your request for the Department's comments on the draft GAO report "Need for Interagency Consideration of Applications for Investment Surveys and Guarantees Involving Potential Displacement of United States Agricultural Exports".

The Department of State does not support the recommendation, in the draft report, that investment surveys and guarantees involving potential foreign exports of crops in U.S. surplus be submitted to the interagency staff committee or a similar interagency committee for advance review and approval. U.S. exports of crops in surplus are certainly a factor of some significance to be considered in evaluating investment guarantee and survey proposals for agricultural projects. But there are many other significant U.S. interests involved as well; for example, increasing food production in developing countries, raising living standards, encouraging private enterprise and productive U.S. investment in these countries, and increasing U.S. exports of capital goods and services. Additional considerations are involved for guarantees and surveys covering non-agricultural projects. In our view, an appropriate balancing of all these U.S. interests and considerations would not be facilitated by establishing interagency machinery to review and approve projects largely on the basis of one of these considerations. A balanced consideration of all U.S. interests would be preferable.

We note that the programs considered in the GAO report will in the future be administered by the Overseas Private Investment Corporation (OPIC). The Board of OPIC will include representatives of a number of executive departments and should provide direction to OPIC in light of the broad spectrum of U.S. interests represented by the Board's members. Staff level coordination with executive agencies, including the Department of Agriculture, will also be needed. I understand that OPIC policy directives are expected to provide for consultation with the Department of Agriculture to seek its advice and recommendations on agricultural projects.

Sincerely yours,

Philip H. Trezise
Assistant Secretary
for Economic Affairs

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

JUN 30 1970

Mr. Oye V. Stovall
Director, International Division
U. S. General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Stovall:

I am pleased to provide herewith the Agency's comments on the General Accounting Office's proposed report entitled "Need for Interagency Consideration of Applications for Investment Surveys and Guaranties Involving Potential Displacement of United States Agricultural Exports." The Agency's response, set forth in the attached memorandum dated June 23, 1970 from Mr. Salzman, represents the results of a consolidated Agency review of the draft report.

I appreciate your intention to take our comments into consideration in the preparation of the final report.

Sincerely yours,

Charles G. Haynes

Charles G. Haynes
Acting Auditor General

Attachment:
Memorandum from Mr. Salzman
dated June 23, 1970

UNITED STATES GOVERNMENT

Memorandum

TO : AG, Mr. Edward F. Tennant **DATE:** June 23, 1970

FROM : AA/PRR, Herbert Salzman HS

SUBJECT: Comments on GAO Draft Report on "Need for Interagency Consideration of Applications for Investment Surveys and Guaranties Involving Potential Displacement of United States Agricultural Exports"

The subject draft report was prepared on the basis of programs previously administered by the Agency for International Development. Pursuant to the Foreign Assistance Act of 1969, a new government agency, the Overseas Private Investment Corporation (OPIC), was established to carry out incentive programs for private investment in less developed countries.

Although OPIC will administer programs similar to those carried out by AID, the structure of the new corporation will differ significantly from the structure of AID. OPIC will have a board of directors selected not only from private life but also from other agencies of government concerned with overseas investment. The board will thus provide in itself an interagency forum for matters affecting the domestic economy as well as overseas development(whether or not the Agriculture Department is directly represented). This should assure that OPIC policy formulation will involve a variety of interests and result in activities consistent with U.S. trade and investment policies. Indeed, the corporation is specifically enjoined under Section 231 (j) to act in consonance with these policies.

As OPIC commences operations, it is clear that policies concerning the agricultural sector, along with many other issues, will have to be thoroughly considered. This will also be true as OPIC reviews the considerations applicable to project approvals. However, we want to stress the fact, as pointed out by the GAO, that protection of U.S. exports, including agricultural exports, is but one factor among many in making decisions about specific projects. We believe that the Congress is aware of the problem of competing considerations and accepts the fact that such judgments must be exercised in carrying out OPIC's programs.

In view of the emphasis on the agriculture sector for the development of many less developed countries, we would be particularly concerned if the GAO report is regarded as urging that U.S. agriculture be singled out for special protection at the cost of important projects in the less developed countries. We agree that the problem of U.S. exports must be analyzed when projects are presented, but it must be recognized that such an analysis cannot force a conclusion on project approvals. If OPIC is to carry out its broad mandates successfully, it must be in a position to exercise the authority and responsibility needed for effective promotion of private investment in important developmental projects.

We fully recognize that OPIC must maintain liaison with the Department of Agriculture and seek its advice and recommendations on OPIC policies involving the agriculture sector. We expect to make clear in OPIC policy directives that the Agriculture Department must be consulted regarding such policies. We hope to work out improved procedures with that Department to accomplish this objective. (In fact, as the GAO has noted, AID's Office of Private Resources has already instituted policies requiring consultation with the Agriculture Department in appropriate cases.)

However, we strongly oppose the recommendation in the draft report that surveys and guaranty programs involving potential foreign exports of crops in U.S. surplus be submitted to an interagency review committee for approval. The interagency staff committee which reviews PL 480 programs may be an appropriate mechanism for considering government assistance programs directly involving U.S. agricultural policy and commodity availability. However, OPIC will be dealing with private investors, not government-to-government programs and must be able to respond quickly and with authority to private initiatives.

Referral to an interagency committee will cause delay and uncertainty. It will constitute the kind of bureaucratic hurdle which the establishment of OPIC was intended to minimize. One of the primary reasons for making OPIC a government corporation, separated from A.I.D. but governed by a broadly representative board, was to streamline procedures on investment incentive programs. While coordination with other departments is essential, it would be most unproductive to subject OPIC operations to a series of formal interagency committees. This formal superstructure, we think, is simply not necessary in the case of agriculture projects.

The draft report discusses several investment survey, political risk insurance and extended risk guaranty projects where, according to the GAO, the views of the Agriculture Department were either not sought or not adequately examined. We do not think it would be useful for us to comment in detail on these past cases since, based upon our discussions with GAO representatives, it appears that they are more concerned with procedures for future operations than with specific past cases. It is worth observing, however, that several of the cases cited, including the Calabrian project in Thailand, do indicate consideration of effects on U.S. agriculture along with other competing factors. In fact, these cases well demonstrate the point that ultimately a judgment must be made on the basis of many factors in deciding to assist a project. The decision in many cases obviously will not satisfy everyone's interests, but the program administrators must still exercise their responsibility.

In conclusion, we think this responsibility is best exercised without formal interagency committee procedures. Other means can be devised for taking the views of the Agriculture Department into consideration, both on specific projects and in formulating general policy. OPIC can be expected to fully explore this subject with that Department.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

June 12 1970

SUBJECT: Need for Interagency Consideration of Applications for Investment Surveys and Guarantees Involving Potential Displacement of United States Agricultural Exports

TO: Oye V. Stovall, Director
International Division
U. S. General Accounting Office

The Department of Agriculture was asked to comment on the subject report. We are pleased to provide you with our views with regard to the findings and recommendations set forth in this report.

GAO concluded that AID was not making the kind of economic analyses necessary to measure whether the foreign policy and economic development gains from underwriting programs to boost foreign production and exports of agricultural commodities produced in excess quantity in the United States offset the disadvantages to the domestic United States farm economy and the United States balance of payments position. Also, agencies having an interest in the United States agricultural economy, agricultural exports, or balance of payments were not given the opportunity to evaluate and comment on such overseas development projects which were to receive AID assistance or guarantees. GAO recommends that such analyses and reviews be made.

The Department supports the findings and the recommendations of this report.

There may be an implication in the report that the Department of Agriculture is only concerned with the impact which development in the LDC's may have on U.S. agricultural exports. While that is a highly important consideration, the Department is also interested in using our technical expertise in assisting the less developed world. In fact, 400 of our technicians served on technical assistance and research projects in developing countries last year. We were involved in the training of 3500 foreign agriculturalists.

Oye V. Stovall

While we are vitally concerned with promoting U.S. agricultural exports and preventing unfair competition to our products in the world market, we recognize that less developed nations must be accorded an opportunity to export and earn foreign exchange. This is consistent with the statement in the Economic Report of the President: "An effective strategy must be designed to further their (the less developed countries) participation in foreign trade and attract private investment from abroad. ...in the long run the less developed countries must look to a continued and vigorous expansion of export earnings as an important part of their economic progress". This is also an important point of the Peterson report. "In administering the sales programs, the United States should recognize the need for developing countries to export agricultural commodities that they can produce efficiently."

The statement of GAO that sound agricultural development in the LDC's leads to higher income levels and better markets for U.S. products, is probably well founded. However, sufficient economic analysis should be made to determine whether specific investments are consistent with a sound development policy and are in the best interests of the recipient and donor countries.

The report recommends that investment surveys and guarantees be reviewed by the Interagency Staff Committee which meets periodically on P.L. 480 programs. There is a question whether this Committee is the appropriate body since it is primarily involved in implementation of P.L. 480 sales. If a representative of the Department of Agriculture served on the Board of Directors of Overseas Private Investment Corporation, the Department would have the opportunity to review investment policies and consider individual projects. Another alternative, although less desirable, would be a review in the Development Loan Staff Committee.

Don Paarlberg

Don Paarlberg
Director, Agricultural Economics

U.S. DEPARTMENT OF COMMERCE
Bureau of International Commerce
Washington, D.C. 20230

JUN 3 1970

Mr. Oye V. Stovall
Director
International Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Stovall:

This is in reply to your letter of May 21 to Secretary Stans which enclosed a GAO Draft Report entitled "Need for Interagency Consideration of Applications for Investment Surveys and Guarantees Involving Potential Displacement of United States Agricultural Exports."

The Commerce Department is interested in procedural changes in this area not only as a member of the Interagency Staff Committee which reviews commodity programs under P.L. 480 as referred to in this GAO Report, but more directly as a member of the statutory Development Loan Committee which reviews financial policies and individual project proposals of A.I.D. We will also be involved in the newly-created Overseas Private Investment Corporation (OPIC). The programs which the GAO Report addresses have already been transferred to OPIC, although the Board has not yet been selected and convened. It is expected that this Board, including private and Government members will be convened by approximately July 1.

We feel that the final GAO Report should refer to the operations of the Development Loan Committee (Sec. 204, Foreign Assistance Act of 1961, as amended). This Committee reviews extended-risk guaranty proposals, including the examples cited. The Department of Agriculture has observer status on this Committee. We do not feel that a new forum would be required for interagency clearance of these transactions.

With regard to the specific-risk insurance program, there is no such formal review. The reason for this is that the private investor supplies the capital and takes the business risks. Thus the review is less rigid than in the case where the U.S. Government is supplying any capital or bearing any commercial risks. An additional consideration is the need for expeditious treatment of a large volume of applications from private businessmen. Most of these applications present no policy issues; however, AID has requested our views on particular applications which appeared to have import sensitivity.

With regard to the investment survey program, the U.S. Government assistance is minimal insofar as the private investor receives partial reimbursement of expenses only if he does not proceed with the project under consideration. However, if AID is willing to provide further support with other programs to a project being investigated, it should, of course, consider in depth the economic factors relating to the project. In some cases a referral to Agriculture, Commerce or other Departments may be necessary even to investigate the commercial feasibility of the project. Regarding both surveys and political risk insurance, the clearance procedures for particular types of projects should be clearly specified as is recommended by the Draft GAO Report.

In sum, we feel that the OPIC should develop appropriate clearance procedures for support to projects affecting U.S. agricultural and industrial production and trade; we do not feel that the ISC would be an appropriate forum for such considerations; we feel that the Development Loan Committee already serves this function for extended-risk guaranties; and we would expect that only exceptional applications for surveys and political risk insurance would be subject to formal clearance.

Sincerely,

M. van Gessel

M. van Gessel
Acting Director

PRINCIPAL OFFICIALS HAVING AN INTEREST IN THE MATTERS DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF STATE		
SECRETARY OF STATE:		
Dean Rusk	Jan. 1961	Dec. 1968
William P. Rogers	Jan. 1969	Present
AGENCY FOR INTERNATIONAL DEVELOPMENT		
ADMINISTRATOR:		
William S. Gaud	Aug. 1966	Mar. 1969
John A. Hannah	Apr. 1969	Present
ASSISTANT ADMINISTRATOR, OFFICE OF PRIVATE RESOURCES:		
Herbert Salzman	Nov. 1966	Jan. 1971
DEPARTMENT OF AGRICULTURE		
SECRETARY OF AGRICULTURE:		
Orville L. Freeman	Jan. 1961	Dec. 1968
Clifford M. Hardin	Jan. 1969	Present
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS:		
Dorothy Jacobson	Jan. 1961	Dec. 1968
Clarence D. Palmby	Jan. 1969	Present
OVERSEAS PRIVATE INVESTMENT CORPORATION		
CHAIRMAN OF THE BOARD OF DIRECTORS:		
John A. Hannah	Jan. 1971	Present

	Tenure of office	
	From	To
OVERSEAS PRIVATE INVESTMENT CORPORATION (continued)		
PRESIDENT:		
Bradford Mills	Jan. 1971	Present
EXECUTIVE VICE PRESIDENT:		
Herbert Salzman	Jan. 1971	Present

U.S. GAO Wash., D.C.