



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION



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JUN 16 1971

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Dear Mr. Secretary:

In our continuing review of ways to increase the export of United States agricultural commodities, we learned recently of a program where the Department of Agriculture (USDA) could in our opinion beneficially increase its export sales of surplus nonfat dry milk.

The Export Marketing Service (EMS), in cooperation with the Agricultural Stabilization and Conservation Service (ASCS), conducts a program under which nonfat dry milk of the Commodity Credit Corporation (CCC) is sold for dollars to American plants overseas.

The basic procedures for the program are set forth in ASCS Announcement MP-23 (hereafter referred to as the MP-23 program) which provides that CCC dairy products be offered for sale on the basis of competitive bids or announced prices.

In addition to the basic procedures and conditions of sale contained in this announcement, EMS has administratively determined that sales of nonfat dry milk under MP-23 be restricted to the highest bidder for each offering regardless of the size of the bid. EMS officials informed us that sales under this program are being limited because nonfat dry milk is needed to meet the commitments of title I sales programs (20.7 million pounds in fiscal year 1971) and title II donations programs (314.4 million pounds in fiscal year 1971) under Public Law 480. As a result, the bid invitation quantities under the MP-23 program are made available only after Public Law 480 commitments are satisfied.

There is some question as to whether this should be so. From a purely economic standpoint, there is no doubt that amounts sold under the MP-23 program are more beneficial than equivalent amounts donated free to foreign recipients under Title II of Public Law 480. Further, every pound donated abroad incurs transportation costs which must be borne by the U.S. taxpayer.

Public Law 480 legislation provides that dollar sales have priority over title I sales and title II donations. Some may debate whether MP-23 could be considered "dollar sales" in the strictest sense since these

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sales are generally made below prevailing market prices. Also, there may be instances where title I sales might eventually bring a greater return to the Department than sales under MP-23. However, when compared with title II donations, MP-23 sales, regardless of the price received, result in greater economic benefits than title II donations.

Our review showed that a significant increase in sales of nonfat dry milk under the MP-23 program is possible if the Department were to modify its present restrictive procedures slightly in order to be able to (a) accept all reasonable bids and (b) reduce prices as necessary to meet foreign competition.

Under the restrictive bid procedure instituted in August 1970 through early April 1971, we found that bids for more than 4.5 million pounds of milk powder with a value approximating \$550,000 were rejected. The quantities covered by the rejected bids averaged only 9/10 of one cent per pound below the award price.

We obtained information from a dairy company which presently operates several plants overseas, and which buys most of its nonfat dry milk requirements from offshore sources, to see if they would be interested in obtaining USDA milk powder under the MP-23 program. The company advised us that they would be pleased to use the U.S.-source milk powder if it could be purchased at prices comparable to those charged by foreign suppliers. The company presently purchases about 21 million pounds of nonfat dry milk offshore that might be made available under the MP-23 program. This would provide USDA with approximately \$2.5 million of additional revenue per year from this one company alone.

GAO suggests that a subsidiary benefit above and beyond the obvious economic benefit of giving priority to MP-23 sales over foreign donations is that the donation programs might be more properly identified and appreciated. Heretofore, many people have believed that commodities donated are in such long supply that the recipient was doing the United States a favor in providing USDA an outlet for its mounting surplus problem.

In view of the cost, the balance-of-payments and other benefits possible in an increased MP-23 program, we recommend that your Department consider:

- ...giving a higher relative priority to MP-23 sales in relation to Public Law 480, Title II donations,
- ...adopting a more flexible bid policy so that greater quantities might be sold under the program,
- ...offering price reductions to provide American plants overseas with U.S.-source milk powder on a basis competitive with offshore procurement, and

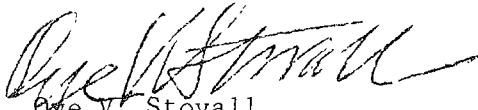
...informing American firms which operate dairy plants abroad of the availability of American nonfat dry milk at competitive prices and encouraging them to use American milk.

This report contains recommendations for your consideration. Your attention is invited to section 236 of the Legislative Reorganization Act of 1970 which requires that you submit written statements of the action taken with respect to the recommendations. The statements are to be sent to the House and Senate Committees on Government Operations not later than 60 days after the date of this report and to the House and Senate Committees on Appropriations in connection with the first request for appropriations submitted by your agency more than 60 days after the date of this report.

We would appreciate it if you would send copies of the statements furnished to the congressional committees to the Office of the Director, International Division, General Accounting Office.

Copies of this report are being sent to the House and Senate Committees on Appropriations, the House and Senate Committees on Government Operations and the Director, Office of Management and Budget.

Sincerely yours,



Oye V. Stovall
Director

The Honorable
The Secretary of Agriculture