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Exporters' Profits On Sales Of U.S. Wheat To Russia B-176943

Department of Agriculture

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

701841/ 096760 FEB. 12, 1974



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

B-176943

The Honorable John Melcher
House of Representatives

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Dear Mr. Melcher:

In response to your request, we examined the financial results of wheat sales to Russia of certain grain-exporting companies. You asked us to determine whether the firms unduly profited from inside information on Russian wheat requirements, its intention to purchase from the United States, and Government policies facilitating the sales. You also asked that we examine the flow of information between the Commodity Exchange Authority and organizations within the Department of Agriculture having related program responsibilities and to make such recommendations for improvement in the operations of the Department with respect to future sales.

This report covers the results of our examination of these matters. Our July 9, 1973, report to the Congress, "Russian Wheat Sales and Weaknesses in Agriculture's Management of Wheat Export Subsidy Program" (B-176943), made certain recommendations to the Secretary of Agriculture to guard against the possibility of unusual profits. The Secretary responded favorably to these recommendations and stated that they would assist Agriculture in monitoring the program.

In a separate transmittal to the Secretary on this report we amplified these recommendations. In accordance with discussions with your office, we have not followed our customary practice of obtaining formal agency comments on this report.

We believe that this report would be of interest to committees and other Members of Congress. It will be released, however, only if you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Peck".

Comptroller General
of the United States

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ABBREVIATIONS

CEA Commodity Exchange Authority
EMS Export Marketing Service
GAO General Accounting Office

D I G E S T

WHY THE REVIEW WAS MADE

Representative John Melcher asked GAO to examine:

- Whether six U.S. exporters unduly profited from wheat sales to Russia in July and August 1972, as a result of inside information on Russian wheat requirements and Russian intentions to purchase from the United States, and on Government policies facilitating the sales.
- The flow of information between the Commodity Exchange Authority and organizations within the Department of Agriculture having related program responsibilities and to make such recommendations for improvement in the operations of the Department with respect to future sales.

FINDINGS AND CONCLUSIONS

Profitability of the Russian sales

GAO had no statutory or contractual right to examine the records of the grain exporters; however, five of the six exporters voluntarily made available records and documents concerning the sales transactions with Russia. The Louis Dreyfus Corporation, which sold about 83 million bushels of wheat to Russia, refused GAO access to its records. (See p. 7.)

The estimated financial results of the sales to Russia of 316 million bushels of Hard Winter wheat as reported to GAO by the five grain companies ranged from a profit of 2 cents to a loss of 1.9 cents per bushel. Hard Winter wheat sales constituted about 91 percent of the sales made to Russia by the five companies.

Two firms reported profits, one for 2 cents and one for .3 cents per bushel. The other three firms reported losses of .9 cents, 1.5 cents, and 1.9 cents per bushel.

In view of the limitations discussed hereafter, GAO believes that the financial results on the Russian sales cannot be precisely determined. Subject to these limitations, GAO believes that the companies' estimated financial results of the Hard Winter wheat sales to Russia were a reasonably accurate and fair presentation. (See p. 10.)

Available records concerning the background of the Russian wheat sales tend to support the view that exporters either did not have inside information on Russian buying intentions or did not take advantage of any such information. For example, the exporters (1) did not have unusually large inventories on hand or purchase commitments at the time of the Russian sales, (2) made purchases at escalating prices without benefit

of completely offsetting subsidies, and (3) negotiated low sales prices with the Russians. (See pp. 13 to 15.)

GAO's examination was subject to certain limitations. Grain purchases to fulfill the Russian contracts were physically commingled with purchases for other contracts. Therefore sales prices for the Russian contracts could only be compared with averages computed for purchases, hedging gains and losses, and subsidy income for the period reviewed.

Also, it was not practicable for GAO to determine whether the consolidated corporate statements of sales and purchases included all branches, subsidiaries, affiliates, and firms with which the exporters may have had special business arrangements. (See pp. 11 to 13.)

The grain exporters, with one exception did not provide financial results of other periods which could have provided a basis for comparing the financial results achieved by the companies during the period of the Russian sales.

Similarly, GAO was unable to find out the profits made on all wheat sales during this period. Therefore GAO does not know what level of profits would be reasonable or normal in the trade.

Grain companies and trade sources advised GAO that a reasonable profit goal in grain merchandising was 1 percent of gross sales, or about 1.6 cents per bushel on the sales to Russia. GAO could not substantiate the reasonableness of this profit goal or determine its appropriateness for sales of

the magnitude of the Russian sales. (See p. 11.)

Opportunity for profits on other than Russian sales

The grain exporters had opportunities to make unusual profits on their non-Russian sales through September 1972 since these sales were made at higher prices while still obtaining subsidies. Although GAO did not have complete information on companies' non-Russian sales activities, 50 examples showing possible profits per bushel ranging from 2 cents to 53 cents on non-Russian sales were discussed in GAO's July 9, 1973, report to the Congress, "Russian Wheat Sales and Weaknesses in Agriculture's Management of Wheat Export Subsidy Program" (B-176943).

GAO developed five additional examples of non-Russian sales. These showed possible profits per bushel ranging from 8 cents to 37 cents. These possible profits exceeded industry's 1 percent of gross sales profit goal. The 55 sales totaled 6.9 million bushels. (See p. 27.)

The large sales to Russia, combined with other large purchases of U.S. wheat by buyers concerned with covering future needs, radically changed the business environment, greatly increased domestic and world wheat prices, and brought about higher subsidy payments.

Agriculture's fiscal year 1973 budget estimate for subsidy payments was \$67 million and it estimated that 650 million bushels of wheat would be exported. However, actual subsidy payments were \$316 million and wheat exports were about

1.2 billion bushels. In terms of total bushels exported with subsidy, the non-Russian sales accounted for about 53 percent.

Though GAO did not have access to company records, it is likely that the opportunities for increased profits continued after the subsidy was terminated in September 1972 because of increased demand worldwide, the limited supply, and the resulting price increases. (See p. 16.)

Exporters' purchase and registration practices during the summer of 1972 tended to maximize subsidy income through forecasting the market rates and timing subsidy registrations.

Exporters registered for subsidy on the days which represented the high points in subsidy rates up to that time. There were periods when exporters accumulated purchases but delayed registering for subsidy, thereby taking advantage of rising subsidy rates. They registered in advance for subsidy and satisfied these registrations with sales made at higher market prices. (See pp. 28 and 29.)

Coordination with the
Commodity Exchange Authority

At the time of the Russian sales, Agriculture officials concerned with the subsidy program were not receiving reports submitted by exporters to the Commodity Exchange Authority on their cash and futures positions. With proper coordination and enforcement of reporting requirements before the Russian sales, these reports could have alerted subsidy officials that large

sales had been made. Officials would then have had a better information base for considering changes in export subsidy policies. (See pp. 18 to 20.)

Officials responsible for administering the wheat subsidy program are now receiving information from these reports but its usefulness is limited because exporters are not required to distinguish their cash and futures positions as to domestic and international operations. Also sales commitment information is filed only weekly.

GAO is making a further review of the Commodity Exchange Authority's operations and will consider during this review its reporting practices and procedures.

AGENCY ACTIONS AND UNRESOLVED ISSUES

GAO's report of July 9, 1973, made certain recommendations to the Secretary of Agriculture to guard against the possibility of unusual profits. The Secretary responded favorably to these recommendations and stated that they would assist Agriculture in monitoring the program.

GAO discussed the results of its review with the five exporters and considered their comments in the report. There were no major disagreements with the exporters concerning the financial results of the Russian sales. Most agreed also that opportunities for unusual profits existed because of the changed business environment.

GAO also discussed the report with and considered the comments of

responsible Export Marketing Service officials but did not obtain formal agency comments.

These officials stated that the results of the Russian sales supported Agriculture's contention

that large profits had not been made on these sales. With respect to weaknesses in the management of the program, they said that they had previously commented on GAO's earlier report and would not add to them on this report.

CHAPTER 1

INTRODUCTION

Representative John Melcher requested us to:

- Examine certain grain-exporting companies' financial results of selling wheat to Russia.
- Determine whether the firms unduly profited from inside information on Russian wheat requirements, Russia's intention to purchase from the United States, and Government policies facilitating the sales.
- Examine the flow of information between the Commodity Exchange Authority (CEA) and organizations within the Department of Agriculture responsible for the wheat export subsidy program and to make such recommendations for improvement in the operations of the Department with respect to future sales.

Concurrent with our work on Representative Melcher's request we examined Agriculture's management of the program and reported to the Congress in our July 9, 1973, report, "Russian Wheat Sales and Weaknesses in Agriculture's Management of Wheat Export Subsidy Program" (B-176943). On March 8, 1973, the Comptroller General of the United States testified before the Senate Committee on Agriculture and Forestry on preliminary findings from our management review. An interim staff report was issued early in our review, in November 1972, because of intense congressional interest.

BACKGROUND

In July and August 1972 six U.S. export companies contracted with Exportkhleb (the Russian trading agency) to sell over 400 million bushels of U.S. wheat valued at about \$700 million. Each contract was fixed price, calling for shipment of U.S. wheat from the 1972-73 crop. The following schedule shows the sellers and the quantities sold:

<u>Seller</u>	<u>Hard Winter</u>	<u>Soft Winter</u>	<u>Durum</u>	<u>Total</u>
____(in millions of bushels)____				
Continental Grain Company	167.2	16.5	12.9	196.6
Cargill, Incorporated	73.5	-	-	73.5
Cook Industries, Incorporated	33.1	-	-	33.1
Bunge Corporation	22.0	-	-	22.0
Garnac Grain Company, Incorporated	20.2	-	-	20.2
Louis Dreyfus Corporation	<u>82.7</u>	<u>-</u>	<u>-</u>	<u>82.7</u>
Total	<u>398.7</u>	<u>16.5</u>	<u>12.9</u>	<u>428.1</u>

To facilitate the sale of U.S. grains, the United States and Russia signed a credit agreement on July 8, 1972, whereby Russia agreed to purchase not less than \$200 million worth of U.S. grains, including wheat, during the first year. The United States made credit of \$750 million available over a 3-year period at comparable commercial interest rates.¹ Under the agreement, a maximum credit of \$500 million could be outstanding at any one time. The Russians used the credit to finance much of their grain purchases. Of the \$500 million available, as of October 1973, about \$395 million had been used for wheat purchases. About \$13 million of previously extended credits had been repaid.

The Russian purchases not only qualified for the extension of credit but were subsidized by the U.S. Government as well. Under the credit agreement, the sales were governed by the Export Marketing Service (EMS) regulation GR-345, revision V, which spells out the terms and conditions under which wheat grown in the United States may be exported and eligible for subsidy. Subsidy was intended to compensate exporters for the difference between the domestic purchase price and the export target price. However, program procedures did not require evidence of this direct relationship.

¹The interest rate of 6-1/8 percent applied to purchases for which delivery was made no later than March 31, 1973. Interest rates for purchases with deliveries after March 31, 1973, fluctuated in line with comparable commercial rates offered by the Commodity Credit Corporation on other loans.

Briefly stated, the subsidy payment procedure was as follows.

- Agriculture published daily the subsidy rates applicable through each market day for the various types of wheat.
- The exporter applied for subsidy, usually by a telephone call to Agriculture, and offered to export a certain quantity and type of wheat from a designated port.
- Agriculture accepted the exporter's offer, which fixed the subsidy rate the exporter was entitled to upon proof of shipment, and the exporter agreed to make the export or pay a penalty.
- Exporters submitted proof of shipment to the Agricultural Stabilization and Conservation Service, which reviewed and approved it for payment.

SCOPE

We had no statutory or contractual right to examine contractors' records; however, the following grain exporters voluntarily made available their records and documents concerning the Russian sales transaction.

- Continental Grain Company, New York City.
- Cargill, Incorporated, Minneapolis.
- Cook Industries, Incorporated, Memphis.
- Garnac Grain Company, Incorporated, New York City.
- Bunge Corporation, New York City.

The Louis Dreyfus Corporation, which sold about 19 percent of the total wheat, or about 83 million bushels, did not allow an examination.

Since the Hard Winter wheat sales constituted about 91 percent of the total wheat sales, we did not examine in detail the estimated financial results of the sales of the

other classes of wheat. Our examination included the sale by five grain companies of about 316 million bushels of Hard Winter wheat at a weighted average price of \$1.612 per bushel. The sales price for the 316 million bushels totaled about \$509.5 million.

Each grain company prepared or made available the following requested information.

- Analyses of the estimated financial results of the Russian sales.
- Statements of trading profit and loss by commodity (wheat) for the period under review.
- Daily position sheets by commodity showing net cash position for the period under review.
- Summary of wheat quantities registered for export at the various subsidy rates during the period under review.

Four of the five companies' analyses of the estimated financial results included data as of September 30, 1972. Cook Industries included data as of August 31, 1972.

Each company estimated the financial results of the Russian sales consistent with its normal grain merchandising accounting practices. Consequently, the analyses differed with respect to the periods covered, content, computation, and allocation bases of the basic income and cost elements. Each generally included the contract sales price, estimated subsidy income, and estimated purchase costs, including carrying charges, offset by hedging gain or loss. Certain administrative expenses and other minor costs were also included. One analysis was a proration of total profit for the year to date based on the ratio of Russian sales to total sales of wheat exported through gulf ports.

Continental Grain and Cargill engaged independent public accountants to review the analyses of estimated financial results and other statements. Their review procedures did not bring anything to their attention which gave them reason to believe that any adjustments were needed.

We reviewed the companies' analyses by:

- Examining the allocation bases of the income and cost elements.
- Evaluating their reasonableness.
- Verifying their mathematical accuracy.
- Testing the information by examining appropriate records and related supporting documents.

Our work at the grain companies was done at offices in Minneapolis, New York, and Memphis. Our work in Washington, D.C., was done principally at Agriculture. We relied greatly on our previous review of Agriculture's management of the wheat export subsidy program. Our fieldwork was performed between October 1972 and September 1973.

CHAPTER 2

PROFITABILITY OF RUSSIAN SALES CONTRACTS

The estimated financial results of the Hard Winter wheat sales to Russia, as reported by each grain company, ranged from a profit of 2 cents to a loss of 1.9 cents per bushel. Two firms reported profits, one for 2 cents and one for .3 cents per bushel. The other three firms reported losses of .9 cents, 1.5 cents, and 1.9 cents per bushel.

In view of the limitations discussed below, the financial results of the Russian sales could not be precisely determined. Subject to these limitations, we believe that the companies' estimated financial results of the Hard Winter wheat sales to Russia were reasonably accurate and fair presentations.

Available records concerning the background of the Russian wheat sales tend to support the view that exporters either did not have inside information on Russian buying intentions or did not take advantage of any such information. For example, the exporters (1) did not have unusually large inventories on hand at the time of the Russian sales, (2) made purchases at escalating prices without benefit of completely offsetting subsidies, and (3) negotiated low sales prices with the Russians.

PERIOD SALES RESULTS COMPARABLE TO RUSSIAN SALES

Rather than isolating the financial results of specific sales transactions, normal grain accounting practice is to determine financial results of all transactions in a specific commodity during a period. All statements provided by the companies included the trading results for all activity in Hard Winter wheat exported through gulf ports for pertinent periods from June to September 1972. The period results were heavily influenced by the Russian sales because, on an aggregate basis, Russian sales were about 68 percent of total Hard Winter wheat sales exported.

The period results estimated by the companies ranged from a profit of 2 cents to a loss of 1.6 cents per bushel. Two firms reported profits, one for 2 cents and one for

1.1 cents per bushel. The other three firms reported losses of .4 cents, .7 cents, and 1.6 cents. These results were comparable to the estimated financial results of the Russian sales contracts mentioned previously.

The grain exporters, with one exception, did not provide financial results of other periods which could have provided a basis for comparing the financial results achieved by the companies during the period of the Russian sales. Similarly, we were unable to find out the profits made on all wheat sales during this period. We, therefore, did not know what level of profits would be reasonable or normal in the trade.

Grain companies and trade sources advised us that a reasonable profit in grain merchandising was 1 percent of gross sales, or about 1.6 cents per bushel on the sales to Russia. We could not substantiate the reasonableness of this profit goal or determine its appropriateness for sales comparable to the Russian wheat sales.

LIMITATIONS TO REPORTED FINANCIAL RESULTS

Our assessment of the estimated financial results of the Russian sales was based on data submitted by the companies on activities through September 30, 1972. The results could obviously be increased or decreased by events after that date. For example, at September 30, 1972, the grain companies had acquired most of the needed wheat in either the cash or the futures market, but few grain shipments had been made. Deliveries were to be made before June 30, 1973, but stretched out into July because of difficulties in moving grain to and from ports of export.

Provisions in the sales contracts which could materially affect the financial results during the fulfillment of the contracts are:

- An option which allows the buyer to increase or decrease the contract quantity by 5 percent.
- Penalties which could exceed 2 cents a bushel if, upon delivery, the grain is contaminated with insects and foreign objects.

Two companies advised us that, after September 30, 1972, the quantity of Hard Winter wheat to be delivered was reduced and other grains (such as rye) were substituted. Others advised us of claims made by the Russians in late 1973 for infestation damage. These matters could be significant to the estimated profits of individual grain companies.

Accounting limitations

Our examination was subject to certain limitations. In grain merchandise accounting, it is not the practice to determine financial results by matching specific items of income and costs. Grain purchases are physically commingled, stored, dried, blended, and later moved to a shipping point to fulfill a sales contract. The usual practice is to periodically determine financial results on the basis of all activity in a given grain (such as wheat) or in a specific class of wheat (such as Hard Red Winter).

When sales are subsidized by the Government the subsidy element needs to be considered in determining financial results. Subsidy was intended to make up the difference between the domestic purchase price and the export target price. However, Agriculture's regulations did not require evidence of sales and purchase costs. For the most part, exporters could apply the subsidies to any sale. Therefore, the financial results could not be estimated until the grain was purchased and registered for subsidy and even then they could not be precisely determined.

Without any direct relationships between sales, purchases, and subsidy registrations, we had to match the Russian contract sales prices with averages computed for purchases, hedging gains and losses, and subsidy income for the period reviewed. Averaging necessarily reflects existing conditions over a period of time. The period of the Russian sales was characterized by relatively low subsidy rates in early June and July; higher rates prevailed from about mid-July to late September. Purchase costs for wheat, on the other hand, rose steadily from about early July through at least September 1972.

We verified that exporters' stated net positions agreed with corporate financial records. We relied substantially on the examination of source documents by the independent

public accountants at Continental Grain. It was not practicable for us to determine whether the consolidated corporate statements of sales and purchases included all branches, subsidiaries, affiliates, or other firms with which they may have had special business arrangements. We relied on company officials' oral and written representations that foreign affiliates, during the period under review, did not have significant positions in Hard Winter wheat.

EXPLANATION FOR ESTIMATED FINANCIAL RESULTS

The principal reasons for the estimated financial results follow:

Net positions

A grain company's position in wheat before the sale is a key factor in the possibility of realizing unusual profits. The term "net position" is defined here as the quantity difference between a company's sales and purchases in both the cash and futures market of a particular commodity. A significantly long net position (purchases greatly exceeding sales) before the Russian sales would have provided an opportunity to obtain unusual profits.

Net positions of the five companies before their initial Russian sale ranged from 3.9 million bushels long to 6.7 million bushels short. In relation to the total quantity sold of over 316 million bushels, none of the long positions appeared significant. At July 4, 1972, the day before the first sale by these companies, the aggregate net position in Hard Winter wheat of the five companies was about 6.5 million bushels short.

Although Agriculture was aware that Russia was having problems with its wheat crop, it was apparently unaware of Russian intentions to buy large quantities of wheat. Also, because the grain companies' net position records did not show unusually large purchases before the Russian sales, we believe that they either were unaware of or did not take advantage of any inside information on the Russian wheat demand or the intention to purchase large quantities of wheat from the United States.

As a result of being short (sales exceeding cash wheat and futures contracts), grain companies had to buy wheat at rapidly rising prices. Agriculture assured the exporters that it would continue to provide subsidy based on prevailing target price levels of about \$1.63 per bushel. As long as Agriculture filled the gap between rising domestic prices and the \$1.63, exporters could maintain the differential between their prices to the Russians and the target price, notwithstanding the increased purchase prices. Exporters could purchase wheat, knowing that the Government would, in effect, absorb the higher costs through increases in the subsidy rates. (App. I shows the subsidies available for Hard Red Winter wheat from July to September 1972.)

Agriculture continued to provide subsidy on this basis until the second week of August when the export target price was allowed to rise. For example, on August 7, 1972, the export target price was allowed to rise to \$1.74 per bushel. On August 25, Agriculture advised exporters they should no longer rely on support of the target prices. A special subsidy period restoring the \$1.63 target price was established for a period of only 1 week, from August 25 to September 1, to enable exporters to register for subsidy all contracts entered into before August 24. The subsidy was gradually reduced until it was suspended on September 22, 1972.

Since exporters still had not purchased sufficient quantities by August 7 to cover their sales commitments, they had to buy wheat at higher prices without the benefit of subsidy completely filling the gap between domestic prices and the assured target price levels. In the aggregate, exporters' net short positions before the Russian sales were gradually eliminated; a long position finally was attained in late September 1972.

Sales at lower than
estimated market prices

Each day EMS estimated the export target price for domestic wheat on an f.o.b. port basis. Most of the wheat sold to Russia was Hard Winter, f.o.b. gulf ports. Exporters' contracts with the Russians were negotiated at sales prices which were below EMS' estimated export target prices at dates of sale. The differences between the contract sales prices and the export target prices ranged from about

9 cents to .8 cents per bushel. These differences represent a total of about \$11 million.

Because the contract prices to the Russians were several cents lower than EMS' target price, exporters, theoretically, could never obtain sufficient subsidy to cover the difference between their purchases and the contract price.

In view of this, we asked exporters why they sold at lower than target prices. They told us that before last year strong worldwide competition forced sales at below target prices. However, they indicated that the subsidy registration system had provided sufficient flexibility for taking risks so that by anticipating market movements and prudently timing their purchases and subsidy registrations they could exact sufficient subsidy to earn profits. We were told that economies could also be effected through their grain elevator operations and by moving wheat to export points cheaper than EMS' estimates.

OPPORTUNITY FOR PROFITS

Exporters had opportunities to make unusual profits on their non-Russian sales through September 1972 since these sales were made at higher prices while still obtaining subsidies. These opportunities were available as a result of the impact of the Russian sales on wheat prices and weaknesses in the management of the wheat export subsidy program. The massive sales to Russia, combined with other large purchases of U.S. wheat by buyers concerned with covering future needs, radically changed the business environment, greatly increased domestic and world wheat prices, and brought about higher subsidy payments. Agriculture's fiscal year 1973 budget estimate of \$67 million in subsidy payments rose to about \$316 million, and its projected exports of 650 million bushels rose to about 1.2 billion bushels.

The possible effect on company profits and losses resulting from the changed business environment was presented in chapter 3 of our July 9, 1973, report. We concluded in the report that:

"The subsidy registration system provided the opportunity for unusual profit margins in other sales subsidized during fiscal years 1972 and 1973.

Our examination was not comprehensive enough to comment on the full dimensions of these margins. In summary, however, we believe the U.S. Government incurred greater program costs than necessary."

We could not obtain complete information on non-Russian sales from the exporters. In some cases our information consisted of summary data on only certain classes of wheat or on all wheat exported through certain ports. In other cases it consisted of total wheat sales activity during a particular period. However, we obtained the details of some individual transactions from exporters and from information they submitted to Agriculture in support of subsidy claims. Sales prices on these transactions were considerably higher than on the Russian transaction. We noted, for example, many sales made at prices ranging from \$1.70 to \$2.00, per bushel on Hard Winter wheat during the July to September period. Exporters, therefore, compensated for Agriculture's failure to sustain its target price policy by selling at higher prices while still obtaining subsidy as they did on the lower priced Russian sales.

A perspective on the opportunities for profit through higher sales prices and subsidies is shown by the relationships between the Russian sales and other sales during the period. The non-Russian sales accounted for about 53 percent of the total bushels exported with subsidy. Of the total subsidy paid (\$316 million), about \$156 million was applicable to the non-Russian sales. It is important to note that many non-Russian sales were made after the subsidy was terminated in September 1972; consequently, the resulting profits would be reflected in subsequent periods not covered by our review. The opportunities for increased profits likely continued after the subsidy was terminated because of increased demand worldwide, the limited supply, and the resulting price increases.

Most exporters agreed that their non-Russian sales were more profitable than their Russian sales and that weaknesses were evident in the administration of the subsidy program.

Appendix II discusses speculative subsidy registration practices and includes five examples of possible profits

on non-Russian sales. Appendixes III and IV present 50 other examples of possible profits arising from subsidy registration practices contained in our July 9, 1973, report.

CHAPTER 3

COORDINATION WITH CEA

The Secretary of Agriculture was authorized by the Commodity Exchange Act to regulate trading of certain agricultural commodities for future delivery on boards of trade. The major objectives of the regulations were to maintain fair trading practices and competitive pricing by preventing market manipulation and other abusive trading practices. CEA carried out these responsibilities for the Secretary by supervising trading activities and enforcing the Secretary's regulations.

TRADING REPORTS

Traders were required to file with CEA a series 03 report, "Grain Futures Transactions, Deliveries and Open Contracts," on any day they made a future trade resulting in their total undelivered contracts' being at or about the prescribed reporting level for the commodity. They also had to report on the first day their open contracts reached the reporting level and on the day their open contracts fell below the reporting level.

CEA used the 03 reports in conjunction with series 04 reports, "Weekly Statement of Cash Grain Positions," to enforce speculative limits. These limits, set by the Commodity Exchange Commission, were on the maximum net long and net short positions which traders could have or control and on the maximum amount which traders could buy and sell in one trading session on any one future on any contract market or any one day. Speculative limits did not apply to bona fide hedging transactions or positions.

Traders who were merchants, processors, or dealers and whose open contracts reached the reportable level filed a series 04 report with the appropriate CEA regional office weekly. This report detailed the trader's position in the same cash commodity as the trader's reportable futures position. It showed stock owned, fixed-price purchase commitments, fixed-price sales commitments, and unfixed price purchase and sales commitments of the trader in the commodity. All these except the unfixed-price commitments may be hedged.

CEA also used the series 03 and 04 reports to oversee the functioning of the markets, to insure liquidity, and to see that supply and demand did not get grossly unbalanced.

USE OF CEA REPORTS

The only use we found of CEA reports by Agriculture officials concerned with the wheat export subsidy program was by the Assistant Secretary for Commodities and International Programs. He told us that he only recently discovered the availability of this data and had been receiving it from CEA since about July 1973. This data was a company-by-company report of cash and futures positions compiled from CEA report series 03 (futures) and 04 (cash).

The Assistant Secretary and the CEA Administrator told us that the CEA reports were not particularly pertinent to making decisions concerning the subsidy program, because CEA reports did not require traders to classify their positions as to whether they were export related or not. Since many of the major traders had large domestic operations, significant changes in cash or futures positions could be related to either their domestic or their international operations. In addition, the 04 report of fixed price and cash position, which might have helped alert Agriculture officials to the Russian sales, was filed weekly. In a rapidly developing situation like the Russian sale, a weekly report could come too late to be of any value.

We recognize (1) the limitations of the reports, especially during the Russian sales period, and (2) the possibility that CEA may not have effectively monitored the preparation and submission of the reports. Nevertheless, we believe that proper coordination between CEA and other groups in Agriculture concerned with managing the subsidy program could have been useful. If data on exporters' cash and futures positions before and during the Russian sales had been properly reported and compared, it would have alerted Agriculture sooner to the fact that grain exporters had made sales of unusual proportions. Agriculture would have been able to (1) investigate these matters, (2) become better informed about the changed supply-demand situation on which to base its export price policy, and (3) possibly reduce its subsidy liability.

At the time of the Russian sales, Agriculture did not require exporters to report their export sales. However, the Agriculture and Consumer Protection Act, passed in August 1973, requires Agriculture to establish a reporting system to monitor export commitments so that commodities in short supply can be detected and foreign demand for certain commodities can be estimated. Exporters are required, as of October 1973, to report weekly on pertinent export information. The Statistical Reporting Service was assigned responsibility within Agriculture for monitoring the system. Meshing information from the new reporting system and the CEA reports with other available information could provide Agriculture with a valuable means for managing the wheat export program.

CHAPTER 4

CONCLUSIONS AND AGENCY COMMENTS

CONCLUSIONS

In view of the limitations discussed previously, the profitability on the Russian sales could not be determined precisely. Subject to these limitations we believe that the estimated financial results of the Hard Winter wheat sales to Russia were a reasonably accurate and fair presentation.

Available records concerning the background of these sales tend to support the view that exporters either did not have inside information on Russian buying intentions or did not take advantage of any such information. Exporters (1) did not have long positions in wheat before making the sales, (2) made purchases at escalating prices which were not fully compensated for by subsidies, and (3) negotiated low sales prices with the Russians.

The sales to Russia induced other large purchases of U.S. wheat by buyers concerned with covering future needs. These purchases, combined with the massive sales to Russia, greatly increased domestic and world prices and brought about higher subsidies. Exporters who sold to Russia took advantage of the considerable flexibility afforded by the wheat export subsidy system in increasing their subsidy income; however, the factors discussed above limited the profits realized on these sales.

The subsidy system provided the environment for speculative gain on other sales. Speculative subsidy registration practices and selling at above target prices while collecting large subsidies are indicators of the opportunities for realizing unusual profit margins.

Considerable tightening of program regulations is needed to preclude the possibility of large profits or losses as a result of the subsidy program.

Exporters generally agreed that there was a need for some changes in the administration of the program. They cautioned, however, that the United States could return to a surplus condition in wheat and subsidies could again be paid. When this occurs, exporters believe that the program should

retain its flexibility in terms of registering without sales and the like to enable exporters to effectively compete in world markets. In the absence of specific evidence that the program operates more effectively with such speculative aspects, we are not convinced that it is in the Government's best interest to permit these practices. However, the exporters' concern requires that serious consideration be given to assessing the merits of these views in any program changes.

Agriculture did not examine the possible profits companies were accruing from its program, preferring to rely on the competition within the industry to police margins. Thus, virtually no information was available concerning usual or past profit margins with which to gauge, on a company basis, the exporters' financial results.

A year after the large sales to Russia, Agriculture officials responsible for administering the subsidy program began receiving information from reports submitted by exporters to CEA on their cash and futures position. The reports have limitations, but, had enforcement of reporting requirements and proper coordination been established before the Russian sales, they could have alerted program officials that large sales had been made. Officials would have had a better information base for considering changes in export price policies.

We are making a further review of CEA's operations at congressional request. During this review we will consider CEA's reporting practices and procedures.

Our management report concluded that there were considerations which transcended the payment of subsidies, including the need to establish rules and regulations for transactions involving unusual purchases of commodities critical to U.S. well-being. The circumstances detailed in this report reinforced that view.

AGENCY COMMENTS

Our report of July 9, 1973, made certain recommendations to the Secretary of Agriculture to guard against the possibility of unusual profits. The Secretary responded favorably to these recommendations and stated that they would assist

Agriculture in monitoring the program. We amplified these recommendations in a separate transmittal to the Secretary.

We discussed the results of our review with the five exporters and considered their comments in the report. There were no major disagreements with the exporters concerning the financial results of the Russian sales. Most agreed also that opportunities for unusual profits existed because of the changed business environment.

We also discussed the report with and considered the comments of responsible Export Marketing Service officials but did not obtain formal agency comments.

These officials stated that the results of the Russian sales supported Agriculture's contention that large profits had not been made on these sales. With respect to weaknesses in the management of the program, they said that they had previously commented on our earlier report and would not add to them on this report.



U.S. EXPORT SUBSIDY RATES
AND RELATED EXPORT PRICES FOR HARD RED WINTER WHEAT
FOR JULY 1 TO SEPTEMBER 25, 1972 (note a)

<u>Date</u>	<u>Delivered shipboard at U.S. port</u>	<u>Export subsidy rate (note b)</u>	<u>Net export price</u>
(per bushel)			
July 3	\$1.68-1/4	\$0.05	\$1.63-1/4
5	1.69	.06	1.63
6	1.71-1/8	.07	1.64-1/8
7	1.69-7/8	.07	1.62-7/8
10	1.71-7/8	.09	1.62-7/8
11	1.76-1/4	.13	1.63-1/4
12	1.76-1/2	.13	1.63-1/2
13	1.76-1/2	.13	1.63-1/2
14	1.73-1/4	.10	1.63-1/4
17	1.74-1/4	.11	1.63-1/4
18	1.76-7/8	.13	1.63-7/8
19	1.79-1/4	.15	1.64-1/4
20	1.77-5/8	.14	1.63-5/8
21	1.76-1/4	.13	1.63-1/4
24	1.78-3/4	.14	1.64-3/4
25	1.79-1/8	.15	1.64-1/8
26	1.77-7/8	.14	1.63-7/8
27	1.76-5/8	.13	1.63-5/8
28	1.78	.14	1.64
31	1.79-3/4	.16	1.63-3/4
Aug. 1	1.80-1/2	.16	1.64-1/2
2	1.80-3/4	.17	1.63-3/4
3	1.88	.21	1.67
4	1.95	.31	1.64
7	2.05	.31	1.74
8	2.04	.31	1.73
9	1.96-1/4	.31	1.65-1/4
10	2.02	.36	1.66
11	2.04-3/4	.36	1.68-3/4
14	2.05	.36	1.69
15	2.02-3/4	.35	1.67-3/4
16	2.04	.36	1.68
17	2.08	.38	1.70
18	2.10-1/4	.38	1.72-1/4
21	2.10-1/2	.38	1.72-1/2
22	2.11-3/4	.38	1.73-3/4
23	2.14-1/4	.38	1.76-1/4
24	2.12	.38	1.74

APPENDIX I

Date	Delivered shipboard at U.S. port	Export subsidy rate (note b)		Net export price	
		(per bushel)			
		I (note c)	II (note c)	I (note c)	II (note c)
Aug. 25	\$2.09-3/4	\$0.47	\$0.38	\$1.62-3/4	\$1.71-3/4
28	2.10-1/4	.47	.37	1.63-1/4	1.73-1/4
29	2.13-1/4	.47	.35	1.66-1/4	1.78-1/4
30	2.14-1/4	.47	.32	1.67-1/4	1.82-1/4
31	2.12	.47	.30	1.65	1.82
Sept. 1	2.17-1/4		.30		1.87-1/4
5	2.18-1/2		.30		1.88-1/2
6	2.17-1/4		.30		1.87-1/4
7	2.17-1/8		.29		1.88-1/8
8	2.18-3/8		.30		1.88-3/8
11	2.21		.29		1.92
12	2.27		.28		1.99
13	2.25-1/2		.26		1.99-1/2
14	2.29-3/4		.25		2.04-3/4
15	2.38-1/8		.25		2.13-1/8
18	2.49-1/8		.23		2.26-1/8
19	2.46-1/2		.21		2.25-1/2
20	2.40-1/4		.19		2.21-1/4
21	2.39-3/4		.14		2.25-3/4
22	2.43-5/8		-		2.43-5/8
25	2.39-1/2		-		2.39-1/2

^a#2 Hard Red Winter, Ordinary Protein, f.o.b. gulf and east ports.

^bRate announced effective 3:31 p.m. that day applicable through 3:30 p.m. the following day.

^cOn August 25, 1972, Agriculture announced a two-tier system which provided a special subsidy rate of 47 cents a bushel through September 1 for contracts entered into before August 24 (I) and a subsidy in later sales at new rates which did not maintain the \$1.63 to \$1.65 base (II).

Source: Wheat and Wheat Flour Export Programs Payment Rate Announcements and wheat market information and subsidy work sheets, EMS, Department of Agriculture.

SPECULATIVE SUBSIDY REGISTRATION PRACTICES

Our management report presented 50 examples of non-Russian sales which showed the opportunities for unusual profits and pointed out the speculative aspects of the registration system which could give rise to greater subsidy amounts than necessary. (See apps. III and IV.) To determine possible profitability in these cases, it was necessary to establish some measure of the purchase price of wheat to compare with the revenues obtained by exporters. Since some wheat likely would have been bought before the sale and some after, we considered the EMS price at date of sale appropriate for measuring possible profitability. Agriculture officials contended, however, that the price at date of registration would be a reasonable approximation of exporter costs of purchasing wheat.

We developed the additional non-Russian examples below, showing the purchase price on both bases for comparison purposes--the EMS price as of the date of sale and as of the date of registration. These examples include exporters not involved in the Russian sales.

<u>Bushels</u>	Sales price plus subsidy (note a)	EMS price at date of:		Differences			
		<u>Sale</u>	<u>Regis- tration</u>	<u>Sale</u>	<u>Per bushel</u>	<u>Regis- tration</u>	<u>Per bushel</u>
	----- (per bushel) -----						
305,041	\$3.12	\$2.94	\$2.36	\$ 54,907	\$0.18	\$231,851	\$0.76
123,086	2.95	2.67	2.36	34,464	.28	72,621	.59
280,010	2.04	1.96	2.01	22,400	.08	8,400	.03
266,225	2.16	1.7925	2.1325	97,838	.37	7,321	.03
<u>268,713</u>	2.645	2.450	2.22	<u>52,399</u>	.19	<u>114,203</u>	.42
<u>1,243,075</u>				<u>\$262,008</u>		<u>\$434,376</u>	

^aDoes not include incremental subsidy which will make the difference even greater.

As shown above, the per bushel difference on the date of sale basis ranged from 8 cents to 37 cents and the per bushel difference on the date of registration basis ranged from 3 cents to 76 cents. These differences show that the opportunity was present for greatly exceeding the 1 percent of gross sales profit goal.

APPENDIX II

TIMING OF REGISTRATION

Exporters' purchase and registration practices during the summer of 1972 tended to maximize subsidy income through forecasting market rates and timing subsidy registrations. Agriculture maintained that the trade practice was to make sales and to register for subsidy when the wheat was purchased. However, exporters did not follow this practice and used several methods to increase subsidy income. Exporters invariably registered large quantities for subsidy on the days which represented the high points in subsidy rates up to that time, suggesting that they could correctly gauge movements of the subsidy rate.

There were periods during July and August when the total wheat purchased by some exporters involved in the Russian sales exceeded the quantities registered. In these periods exporters accumulated purchases but delayed registering for subsidy and thereby took advantage of rising subsidy rates by registering at the higher rates. (Page 31 shows the irregular registration pattern.)

To illustrate, the daily position sheets of one exporter involved in the Russian sales showed cash grain purchasing from July until September 6, 1972, when a net long position was achieved. However, as shown below, subsidy registrations lagged far behind the purchases. Purchases made in July and August were not fully registered until September 1972.

	Bushels	
	<u>Purchased</u>	<u>Registered</u>
	(000 omitted)	
July	3,988	1,500
August	12,418	
September	<u>1,767</u>	<u>16,673</u>
Total	<u>18,173</u>	<u>18,173</u>

If the exporter registered the wheat at the time of purchase, the total subsidy income on those purchases would have been about \$3.7 million. The actual subsidy income realized by the exporter was about \$6.9 million. By delaying

subsidy registrations, the exporter increased his average subsidy income from about 20 cents to 38 cents per bushel.

Another exporter who sold about 83 million bushels to the Russians registered for subsidy on Hard Red Winter wheat essentially on only 2 days during the period--about 20 million bushels on July 14 when the subsidy was 13 cents and 65 million bushels on September 1 when the subsidy was 47 cents. We had no information on this exporter's purchases during the period. However, it was extremely unlikely that its purchases and sales would have been made in the same concentrated manner as the registrations, indicating that the exporter probably delayed registering because of the increasing subsidies.

In other cases, exporters involved in the sales to Russia registered for subsidy more wheat than they had sold, indicating they were speculating that the subsidy would go down and that sales would be made later to satisfy the earlier established registrations. This practice of advance registration was confirmed by our analysis of information provided to Agriculture in support of exporters' claims for subsidy payments.

Between September 2 and 22, 1972, when the subsidy was terminated, exporters registered about 160 million bushels having subsidy entitlement of over \$36 million. Complete information on sales contract dates was not available. However, 133 of the 430 registrations during the period contained the needed information. It showed that about 23 million bushels, or over 70 percent of the wheat shipped, to which these registrations were applied were for sales contracts entered into after termination of the subsidy. Thus, by speculating, exporters in general collected subsidies for sales made long after subsidies were terminated.

In some of these late sales, exporters sold at or about the EMS estimated domestic price. In these cases most of the subsidy received was not reflected in lower prices to the buyers. The five examples below were used in our management review to demonstrate the unnecessary payment of subsidies and to show on a per bushel basis the possible profits made.

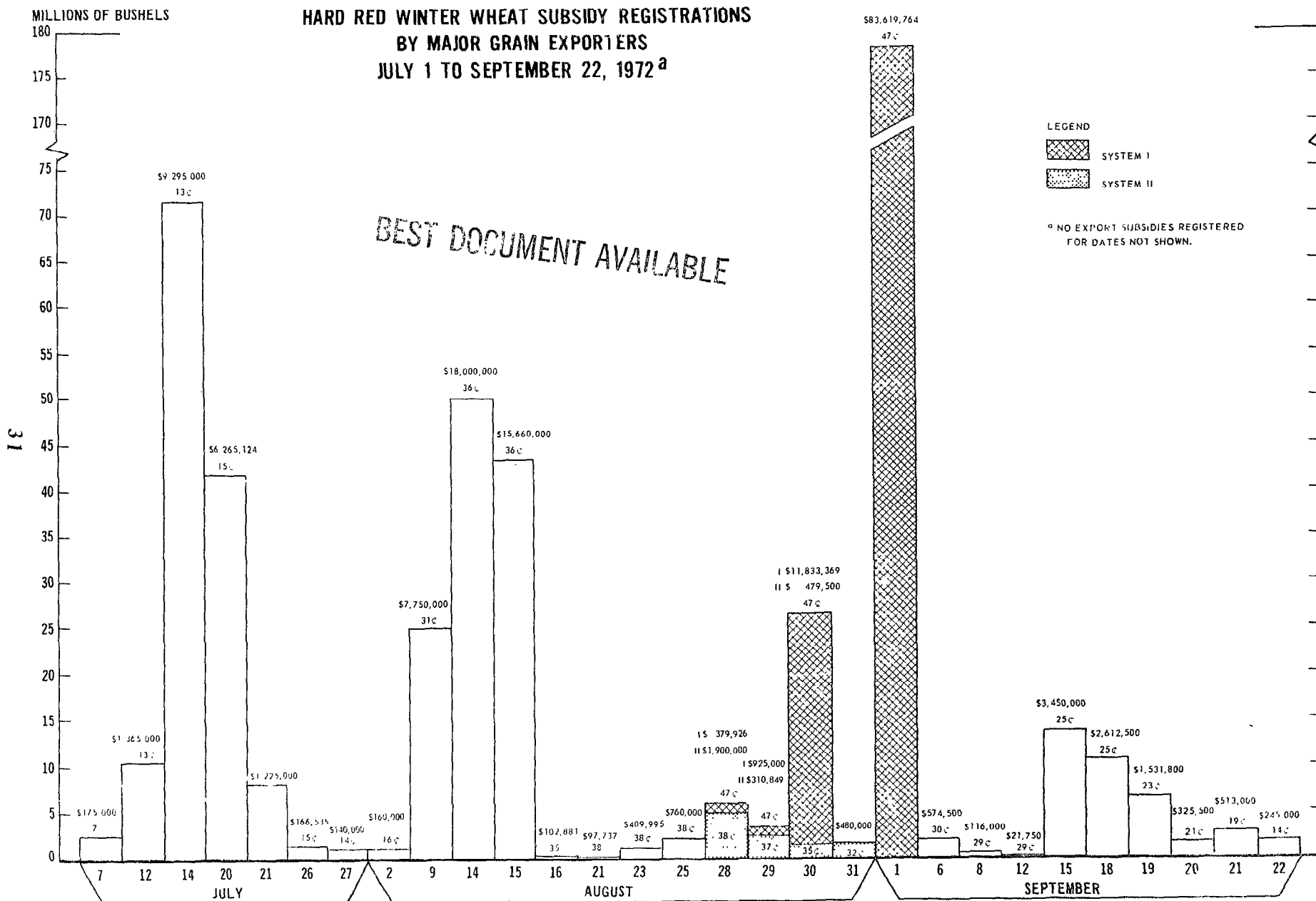
APPENDIX II

	<u>Sales contract data</u>		EMS domestic price (note a)	Subsidy claimed	Total subsidy (note b)	Possible profits per bushel
	<u>Bushels</u>	<u>Price</u>	_____ (per bushel) _____			
Jan. 24, 1973	100,908.45	\$2.787	\$2.85	\$0.232	\$23,410.76	\$0.169
Oct. 13, 1972	255,145.00	2.500	2.51	.341	87,080.99	.331
Oct. 12, 1972	321,724.63	2.470	2.51	.228	73,514.08	.188
Oct. 19, 1972	268,715.18	2.620	2.59	.239	64,222.45	.269
Feb. 20, 1973	192,112.67	2.620	2.64	.247	47,570.16	.227

^aAt date of sale.

^bDifferences due to rounding subsidy.

**HARD RED WINTER WHEAT SUBSIDY REGISTRATIONS
BY MAJOR GRAIN EXPORTERS
JULY 1 TO SEPTEMBER 22, 1972^a**



APPENDIX III

EXAMPLES OF
EARLY AND DELAYED REGISTRATIONS

Case	Bushels	Type of wheat	Sale date	Regis- tration date	Subsidy at date of		Additional subsidy	
					Sale	Regis- tration	Per bushel	Total
<u>EARLY REGISTRATIONS:</u>								
1	29,865	DNS ^a	2-29-72	9-30-71	\$0.06	\$0.11	\$0.05	\$ 1,493.25
2	19,756.12	DNS	12- 9-71	10-13-71	.06	.19	.13	2,568.29
3	23,567	DNS	12- 9-71	10-13-71	.06	.19	.13	3,063.71
<u>DELAYED REGISTRATIONS:</u>								
4	54,112.33	DNS	7-28-72	8-30-72	.21	.53	.32	17,315.94
5	20,519.65	DNS	7-28-72	8-30-72	.21	.53	.32	6,566.29
6	9,093.98	DNS	7- 6-72	8-30-72	.16	.53	.37	3,364.77
7	109,127.70	DNS	4-27-72	8-30-72	.23	.53	.30	32,738.31
8	55,340.40	DNS	3- 3-72	8-30-72	.25	.53	.28	15,495.31
9	115,162.80	DNS	12- 7-71	8-30-72	.19	.53	.34	39,155.35
10	477,604.94	HRW ^b	8- 4-72	8-29-72	.10	.44	.34	162,385.68
11	98,710.97	HRW	8-14-72	8-29-72	.23	.51	.28	27,639.07
12	48,861.35	HRW	8- 4-72	8-29-72	.10	.44	.34	16,612.86
13	201,609.87	HRW	7-19-72	8-29-72	.13	.47	.34	68,547.35
14	457,333.33	HRW	7-25-72	8-29-72	.14	.47	.33	150,920.00
15	115,748.03	HRW	7-25-72	8-29-72	.14	.47	.33	38,196.85
16	173,622.05	HRW	7-25-72	8-29-72	.14	.47	.33	57,295.28
17	160,000	HRW	7-17-72	8-29-72	.10	.47	.37	59,200.00
18	470,000	HRW	7-19-72	8-29-72	.13	.47	.34	159,800.00
19	5,000	WW ^c	8-21-72	9- 1-72	.20	.43	.23	1,150.00
20	460,784.30	WW	8-21-72	9- 1-72	.20	.43	.23	150,980.39
21	14,215.70	WW	8-21-72	9- 1-72	.20	.43	.23	3,269.61
22	55,440	DNS	8-10-72	9- 1-72	.23	.37	.14	7,761.60
23	18,480	DNS	8-15-72	9- 1-72	.28	.37	.09	1,663.20
24	54,605.60	DNS	5-24-72	9- 1-72	.01	.37	.36	19,658.02
25	51,639.35	DNS	7- 3-72	9- 1-72	-	.37	.37	19,106.56
26	18,480	DNS	8-22-72	9- 1-72	.30	.37	.07	1,293.60
27	234,024	DNS	8- 9-72	9- 1-72	.23	.37	.14	32,763.36
28	32,808	DNS	8-14-72	9- 1-72	.32	.53	.21	6,889.68
29	17,150.78	DNS	8-22-72	9- 1-72	.40	.53	.13	2,229.60
30	192,192	DNS	8-22-72	9- 1-72	.40	.53	.13	24,984.96
31	279,681.07	DNS	8-22-72	9- 1-72	.40	.53	.13	36,358.54
32	110,880	DNS	7- 3-72	9- 1-72	-	.37	.37	41,025.60
33	18,188.97	DNS	6-27-72	9- 1-72	-	.37	.37	6,729.92
34	45,235.58	DNS	5-24-72	9- 1-72	.01	.37	.36	16,284.81
35	37,146.67	DNS	5-25-72	9- 1-72	.01	.37	.36	13,372.80
36	66,864.00	DNS	6- 2-72	9- 1-72	-	.37	.37	24,739.68
37	95,989.34	DNS	7- 3-72	9- 1-72	-	.37	.37	35,516.05
38	38,104.66	DNS	7- 3-72	9- 1-72	-	.37	.37	14,098.72
39	10,255.98	DNS	5-24-72	9- 1-72	.01	.37	.36	3,692.15
40	201,520.66	DNS	8- 5-72	8-28-72	.27	.53	.26	52,395.37
41	141,600	HRW	7-19-72	8-31-72	.09	.48	.39	55,224.00
42	242,983.97	HRW	7-19-72	8-31-72	.09	.48	.39	94,763.75
43	204,174.63	HRW	7-19-72	8-31-72	.09	.48	.39	79,628.10
44	47,679.77	HRW	7-26-72	8-31-72	.10	.48	.38	18,118.31
45	14,392.38	WW	8-21-72	9- 1-72	.20	.43	.23	3,310.25
46	183,012.66	WW	8-21-72	9- 1-72	.20	.43	.23	42,092.91
47	32,666.04	WW	8-21-72	9- 1-72	.20	.43	.23	7,513.19
48	68,666.66	WW	8-21-72	9- 1-72	.20	.43	.23	15,793.33
49	55,115	HRW	8-21-72	9- 1-72	.38	.47	.09	4,960.35
50	15,127	HRW	7-26-72	9- 1-72	.15	.47	.32	4,840.64
	<u>5,704,140.29</u>							<u>\$1,659,567.36</u>

^aDark Northern Spring

^bHard Red Winter

^cWestern White

AVAILABLE

AVAILABLE

APPENDIX IV

POSSIBLE PROFITABILITY UNDER
SPECULATIVE SUBSIDY REGISTRATIONS

Case	Bushels	Sale date	Regis- tration date	F.O.B. sale price	Subsidy	Sale price plus subsidy	Domestic price at date of sale	Difference	
								Per bushel	Total
1	29,865	2-29-72	9-30-71	\$1.84	^a \$0.15	\$1.99	\$1.91375	\$0.07625	\$ 2,277.21
2	19,756.12	12- 9-71	10-13-71	1.90	^a .20	2.10	1.97	.13	2,568.28
3	23,567	12- 9-71	10-13-71	1.90	^a .2019	2.1019	1.97	.1319	3,108.49
4	54,112.33	7-28-72	8-30-72	1.7628	.53	2.2928	1.9550	.3378	18,279.15
5	20,519.65	7-28-72	8-30-72	1.7628		2.2928	1.9550	.3378	6,931.54
6	9,093.98	7- 6-72	8-30-72	1.8983	.53	2.4283	1.90	.5283	4,804.35
7	109,127.70	4-27-72	8-30-72	1.8678	.53	2.3978	1.97	.4278	46,684.83
8	55,340.40	3- 3-72	8-30-72	1.73	.53	2.26	2.00	.26	14,388.50
9	115,162.80	12- 7-71	8-30-72	1.8659	.53	2.3959	1.92	.4759	54,805.97
10	477,604.94	8- 4-72	8-29-72	1.6437	.44	2.0837	1.7150	.3687	176,092.94
11	98,710.97	8-14-72	8-29-72	1.75	.51	2.26	2.01	.25	24,677.74
12	48,861.35	8- 4-72	8-29-72	1.6537	.44	2.0937	1.7150	.3787	18,503.80
13	201,609.87	7-19-72	8-29-72	1.6025	.47	2.0725	1.7687	.3038	61,249.07
14	457,333.33	7-25-72	8-29-72	1.6587	.47	2.1287	1.7975	.3312	151,468.80
15	115,748.03	7-25-72	8-29-72	1.7403	.47	2.2103	1.8175	.3928	45,465.83
16	173,622.05	7-25-72	8-29-72	1.6995	.47	2.1695	1.8075	.3620	62,851.18
17	160,000	7-17-72	8-29-72	1.6037	.47	2.0737	1.7425	.3312	52,992.00
18	470,000	7-19-72	8-29-72	1.6025	.47	2.0725	1.7687	.3038	142,786.00
19	5,000	8-21-72	9- 1-72	1.7104	.43	2.1404	1.90	.2404	1,202.00
20	460,784.30	8-21-72	9- 1-72	1.7104	.43	2.1404	1.90	.2404	110,772.54
21	14,215.70	8-21-72	9- 1-72	1.7104	.43	2.1404	1.90	.2404	3,417.45
22	55,440	8-10-72	9- 1-72	1.68	.37	2.05	1.93	.12	6,652.80
23	18,480	8-15-72	9- 1-72	1.6867	.37	2.0567	1.9950	.0617	1,140.22
24	54,605.60	5-24-72	9- 1-72	1.65	.37	2.02	1.6775	.3425	18,702.42
25	51,639.35	7- 3-72	9- 1-72	1.6527	.37	2.0227	1.61	.4127	21,311.56
26	18,480	8-22-72	9- 1-72	1.6829	.37	2.0529	1.9712	.0817	1,509.81
27	234,024	8- 9-72	9- 1-72	1.6872	.37	2.0572	1.97	.0872	20,406.89
28	32,808	8-14-72	9- 1-72	1.82	.53	2.35	2.1450	.2050	6,725.64
29	17,150.78	8-22-72	9- 1-72	1.82	.53	2.35	2.20	.15	2,572.61
30	192,192	8-22-72	9- 1-72	1.82	.53	2.35	2.20	.15	28,828.80
31	279,681.07	8-22-72	9- 1-72	1.80	.53	2.33	2.20	.13	36,358.54
32	110,880	7- 3-72	9- 1-72	1.6527	.37	2.0227	1.61	.4127	45,760.18
33	18,188.97	6-27-72	9- 1-72	1.6456	.37	2.0156	1.6312	.3844	6,991.84
34	45,235.58	5-24-72	9- 1-72	1.6497	.37	2.0197	1.6775	.3422	15,479.62
35	37,146.67	5-25-72	9- 1-72	1.6537	.37	2.0237	1.6812	.3425	12,722.74
36	66,864	6- 2-72	9- 1-72	1.6456	.37	2.0156	1.6550	.3606	24,111.16
37	95,989.34	7- 3-72	9- 1-72	1.6527	.37	2.0227	1.61	.4127	39,614.80
38	38,104.66	7- 3-72	9- 1-72	1.6527	.37	2.0227	1.61	.4127	15,725.79
39	10,255.98	5-24-72	9- 1-72	1.6497	.37	2.0197	1.6775	.3422	3,509.59
40	201,520.66	8- 5-72	8-28-72	1.77	.53	2.30	2.00	.30	60,456.20
41	141,600	7-19-72	8-31-72	1.6669	.48	2.1469	1.75	.3969	56,201.04
42	242,983.97	7-19-72	8-31-72	1.6669	.48	2.1469	1.75	.3969	96,440.33
43	204,174.63	7-19-72	8-31-72	1.6669	.48	2.1469	1.75	.3969	81,036.93
44	47,679.77	7-26-72	8-31-72	1.6669	.48	2.1469	1.76	.3869	18,447.31
45	14,392.58	8-21-72	9- 1-72	1.6748	^a .4585	2.1333	1.90	.2333	3,357.74
46	183,012.66	8-21-72	9- 1-72	1.6748	^a .444	2.1188	1.90	.2188	40,043.17
47	32,666.04	8-21-72	9- 1-72	1.6669	.43	2.0969	1.90	.1969	6,431.94
48	68,666.66	8-21-72	9- 1-72	1.6669	.43	2.0969	1.90	.1969	13,520.47
49	55,115	8-21-72	9- 1-72	1.67	.47	2.14	2.1225	.0175	964.51
50	15,127	7-26-72	9- 1-72	1.635	.47	2.105	1.7912	.3138	4,746.85

5,704,140.29

\$1,695,099.17

^aIncludes incremental subsidy payments--not included in appendix III.

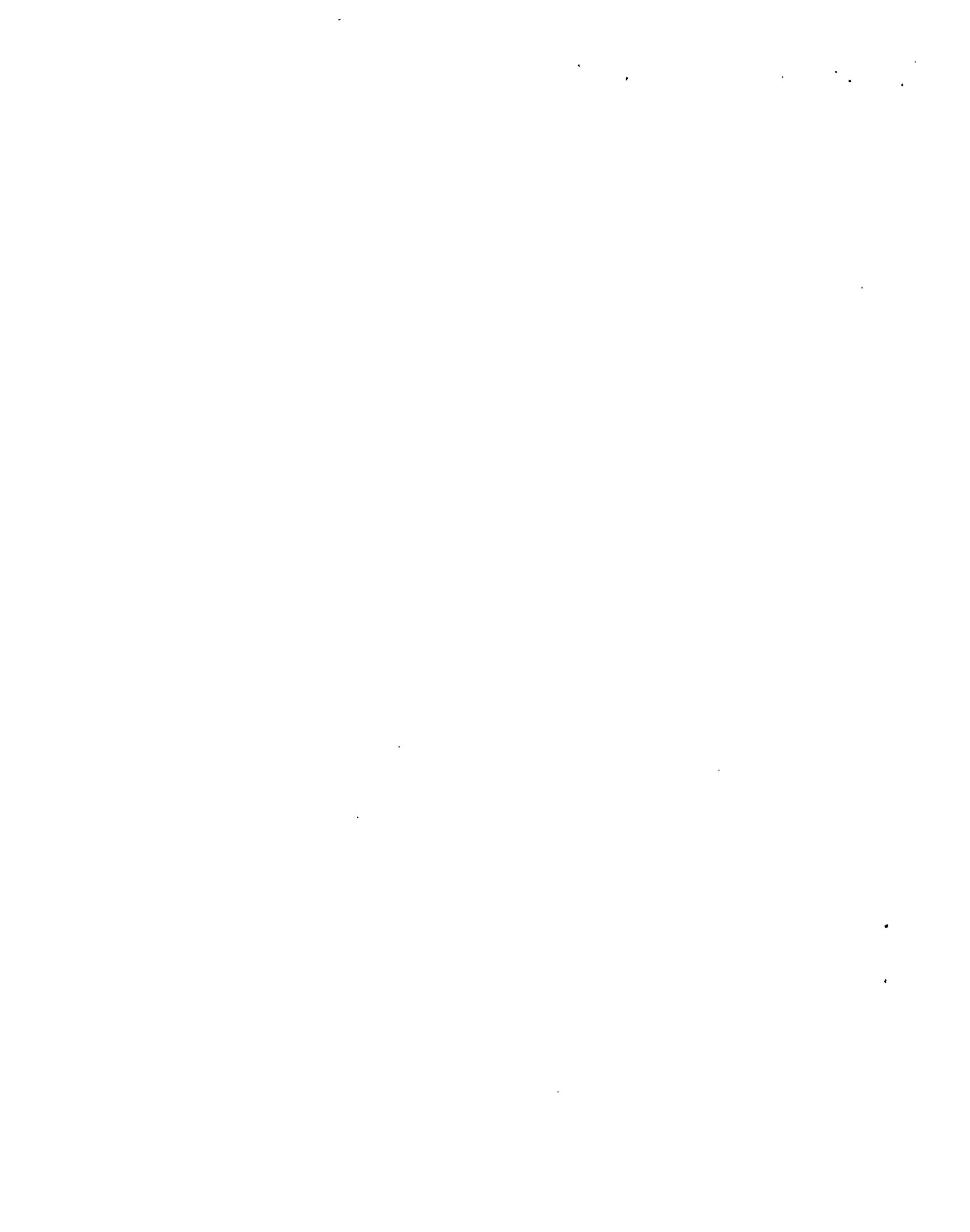
GAO note: Of the 50 cases, 41 were System I registrations and represented 21 registrations or about 3 percent of the System I registrations and 1 percent of the total registrations during July 5 to September 22, 1972. The 50 cases include 9 major exporters of the total of 23 companies that registered during the period and total about 5.7 million bushels.

We developed the cases by randomly selecting registrations by companies and then by examining EMS registration files for the necessary sales contract information. The cases were limited principally to System I registrations because Agriculture does not generally require sales contract information for other registrations. The f.o.b. sales prices were taken from exporters certifications submitted to Agriculture in support of claims for subsidy payments. The domestic prices at date of sale were obtained from EMS daily calculations of such prices, brought to an f.o.b. port basis. Subsidy amounts at registration dates reflect the protein content of the wheat shipped.

Cases include registrations by five of the six major exporters involved in the sales to Russia but exclude Russian sales registrations. Three types of wheat eligible for subsidy are also included.

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF AGRICULTURE
RESPONSIBLE FOR ADMINISTRATION OF
ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF AGRICULTURE:		
Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS:		
Carroll G. Brunthaver	June 1972	Present
Clarence D. Palmby	Jan. 1969	June 1972
ADMINISTRATOR, COMMODITY EXCHANGE AUTHORITY:		
Alex C. Caldwell	Jan. 1960	Present



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