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UNITED STATES GENERAL ACCOUNTING OFFICE

REPORT TO THE CONGRESS

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The Overseas Food Donation Program-- Its Constraints And Problems

Multiagency

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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

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

We have reviewed the overseas donation program being carried out under title II of the Agricultural Trade Development and Assistance Act (Public Law 480). This report discusses the need for a new approach to sustain overseas donations and points out opportunities for reducing procurement costs.

We made our review 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 Secretaries of Agriculture, State, and the Treasury; and the Administrator, Agency for International Development.

Elmer B. Staats

Comptroller General
of the United States

C o n t e n t s

ABBREVIATIONS

AID	Agency for International Development
AMS	Agricultural Marketing Service
CARE	Cooperative For American Relief Everywhere, Inc.
CCC	Commodity Credit Corporation
Cwt.	hundredweight
GAO	General Accounting Office
OMB	Office of Management and Budget
USDA	U.S. Department of Agriculture

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THE OVERSEAS FOOD
DONATION PROGRAM--
ITS CONSTRAINTS AND PROBLEMS
Multiagency

D I G E S T

WHY THE REVIEW WAS MADE

Because of its dollar magnitude--$283 million in fiscal year 1974--and the continuing congressional interest, GAO reviewed the U.S. overseas food donation program to determine

--the manner in which agricultural commodities are made available for the program and

--the effectiveness of procurement practices being used to acquire the commodities.

This is one of a series of GAO reports on issues dealing with the world food situation and the resources being applied to aid needy countries. The food donation program is authorized under title II of the Agricultural Trade Development and Assistance Act (Public Law 480).

FINDINGS AND CONCLUSIONS

New approach needed to sustain overseas food donations

Exhaustion of surplus agricultural commodities, expanding commercial export demands, and poor grain harvests in recent years have adversely affected the overseas food donation program. Uncertainty over the availability of U.S. grain supplies to support the program has been the most crucial problem.

Existing legislation stipulates that no commodity will be available for Public Law 480 programs if its disposition would reduce the available supply below that needed to meet domestic requirements, adequate carryover, and anticipated dollar exports. (See p. 9.)

An amendment to Public Law 480 recently proposed by the administration would enable the Secretary of Agriculture to give Public Law 480 programs a larger share of the exportable supply of agricultural commodities. However, the administration has stated its intent to use the new authority sparingly--only for national-interest or humanitarian objectives of the highest priority. (See pp. 4 and 19.)

Past commodity reductions, terminations and cutbacks in overseas feeding programs, and delayed decisions on commodity and funding levels have caused disruptions and remain as threats of further curtailment or even termination of the program. (See p. 15.)

Tear Sheet. Upon removal, the report cover date should be noted hereon.

There was rather widespread concern and dissatisfaction with the process through which annual funding and commodity levels were established and with the lack of opportunity for program sponsors to participate in the process. Voluntary agencies have expressed the view that Public Law 480, enacted in an era of commodity surplus, may be largely obsolete for serving their programs in times of commodity shortages. (See pp. 18 and 19.)

Officials concerned with the donation program stress the need for legislation more closely tailored to existing conditions which would better enable the United States to respond to its humanitarian obligations and moral commitment to alleviate basic food needs among the poor in developing countries. (See pp. 5 and 6.)

The proposed amendment, if enacted, could serve to alleviate the uncertainty over commodity availabilities so prevalent in the donation program. However, this would depend on whether ongoing feeding programs would be considered needs of the highest priority. Uncertainty over the agricultural commodities available for Public Law 480 programs has caused difficulties in planning and carrying out such programs. This uncertainty is likely to continue as long as these programs are dependent upon residual commodities that remain after satisfaction of commercial export and domestic requirements.

Therefore, further consideration should be given to freeing the food donation program from this constraint, on the premise that the United States intends to donate food for humanitarian purposes and is willing to allocate and commit commodities--whether surplus of not--for their fulfillment.

Providing greater assurance that needed commodities will be available would (1) enhance the stature and effectiveness of the donation program and (2) enable the Agency for International Development, the Department of Agriculture, and program sponsors to undertake planning based on a more stable flow of commodities and to capitalize on the opportunities to reduce their food procurement costs.

Opportunities for reducing procurement costs

The Department of Agriculture procured processed grain commodities costing $159 million for the overseas donation program in 1973. Procurement costs could be reduced by (1) planning and scheduling monthly commodity procurements over a longer time--at least quarterly rather than monthly--to allow consideration of opportunities to reduce costs and (2) relying more on existing supplier quality control systems rather than duplicate inspection of commodities by

Agriculture. (See p. 26 and 31.)

Liquidated damages charges for late shipment would be more consistent with potential actual damages if assessed on a graduated scale and further efforts are needed to promote greater supplier competition for Agriculture's purchases of processed commodities. (See pp. 34 and 37.)

RECOMMENDATIONS

The Secretary of Agriculture and the Administrator of the Agency for International Development should jointly establish a procurement information and planning system that would enable Agriculture to take advantage of opportunities for reducing procurement costs.

The Secretary of Agriculture should:

--Revise the inspection policy for commodities donated overseas to rely more on existing supplier quality control systems.

--Adopt a graduated scale of liquidated damages charges for late shipments.

--Intensify efforts to promote greater supplier competition for Agriculture's procurement and to insure that prices paid are reasonable.

AGENCY ACTIONS AND UNRESOLVED ISSUES

GAO obtained comments from the Agency for International Development, the Departments of State and Agriculture, and the Office of Management and Budget. (See apps. II to V.)

The Agency for International Development agreed that the report (1) contains constructive suggestions on the operations of the food donation program and (2) highlights problems that have arisen in recent years with regard to commodity and funding levels. According to the Agency, various assessments of the food assistance program are underway in the executive branch, including followup work on a resolution stemming from the World Food Conference for establishing a 10-million-ton food-aid program.

State basically agreed with the need for a comprehensive assessment of U.S. food aid and suggested that the assessment (1) look at both title I (concessional sales) and title II (donation) programs, (2) be carried out in the context of the overall food strategy that the United States and other countries are attempting to develop as a result of the World Food Conference, and (3) be conducted under the aegis of the International Food Review Group established by the President in November 1974.

Agriculture agreed that quarterly planning of its commodity procurements would be highly beneficial and provide opportunities for reducing procurement costs. (See p. 31.) The Agency for International Development agreed to fully cooperate with Agriculture to take advantage of opportunities for reducing procurement costs.

To enhance supplier competition for its procurements, Agriculture took action to return to its former practice of not disclosing the quantities of commodities to be purchased in bid invitiations and was considering eliminating certain commodities that have had minimal demand. (See p. 39.)

Agriculture did not agree that it should reevaluate (1) its inspection policy with a view toward placing maximum practicable reliance on supplier tests during commodity production and (2) its policy on liquidated damages charges to consider reducing them for the first few days that shipments are late. (See pp. 33 and 36.)

Agriculture also did not agree with what it termed an "implication" in the report that the title II program was accorded low priority in fiscal year 1974 programing. While it acknowledged that substantial reductions in overall Public Law 480 availability were made relative to prior years' allocations as a result of tight commodity supply and high domestic prices, Agriculture maintained that in the process title II programing received a high priority with greater relative cuts being made in the title I programs. (See pp. 20 and 22.)

The Office of Management and Budget agreed that commodity shortages substantially disrupted the earlier pattern of programing for Public Law 480 as a whole but also took exception to the "implication" that the title II program bore an unacceptable share of the resulting hardship and contended that title II activities were assigned a high, although not an absolute, priority during 1974. (See pp. 20 and 22.)

The Office contended that (1) action has been and continues to be taken with success to mitigate the impact of shortages on the donation program and (2) the 50-percent reduction in the title II program between 1972 and 1974 was planned and was neither sudden nor arbitrary. (See pp. 22 and 52.)

The Office reiterated its support for the administration's proposed amendment to Public Law 480, which is intended to enable greater flexibility in allocating commodities to meet humanitarian needs or otherwise serve the national interest. The Office believes that this proposed amendment, along with other administrative action, will provide as much of a guarantee of title II program continuity as is advisable. (See p. 53.)

Both the Office and Agriculture doubted the need for a separate and distinct assessment of the overseas food donation program in light of a number of earlier studies and pointed to additional efforts planned or underway in the executive branch to deal with food-aid issues in the future. (See pp. 48 and 52.)

GAO believes that the uncertainty over commodity availability for Public Law 480 programs and the need to free the donation program from this constraint are issues which should be resolved by the Congress. For this reason GAO is suggesting that the Congress may wish to consider whether legislation beyond that proposed by the administration is needed. (See p. 19.)

GAO believes that Agriculture should reevaluate its policies on (1) commodity inspection, giving consideration to the potential economies that might accrue from greater reliance on supplier inspection and testing, and (2) assessment of liquidated damages charges for late shipment, giving consideration to the need to relate assessments more closely to actual damages. (See pp. 34 and 36.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Issues involving U.S. food aid continue to be raised in the Congress. As recently as February 1975, the Public Law 480 programs were among the subjects of hearings by the Senate Committee on Agriculture and Forestry. In further considering these programs, the Congress may wish to consider the constraints and problems identified in this report.

In view of the uncertainty over commodities available for the food donation program, the Congress may wish to consider whether legislation, beyond that proposed by the administration, is needed to free the program from this constraint.

CHAPTER 1

INTRODUCTION

The Agricultural Act of 1949 initiated the U.S. overseas food assistance program by authorizing the Commodity Credit Corporation (CCC) of the U.S. Department of Agriculture (USDA) to "make available * * * food commodities (in excess of anticipated dispostion) * * * to private welfare organizations for the assistance of needy persons outside the United States." The earliest food-aid programs were in Europe, where food shortages were acute in the aftermath of World War II.

The July 1954 Agricultural Trade Development and Assistance Act, since known as Public Law 480, reinforced these programs by (1) authorizing the sale of surplus U.S. agricultural commodites for local currencies of foreign countries, (2) providing for grants of such commodities to governments for famine relief and other emergencies, (3) incorporating and liberalizing CCC's authority to donate surplus food to voluntary welfare agencies to assist needy persons at home and abroad, and (4) authorizing barter of agricultural commodities for materials, goods, or equipment required for foreign economic and military assistance programs. A 1959 amendment to the act allowed for dollar credit sales to foreign governments with long-term repayment periods.

Public Law 480 was initially intended as a temporary measure, to be discontinued as surpluses of U.S. agricultural commodities diminished. Its declared policies were to (1) expand international trade among the United States and friendly nations, (2) facilitate the convertibility of currency, (3) promote the economic stability of American agriculture, and (4) further U.S. foreign policy. Its eventual goal was to develop commercial markets to replace food donations or foreign currency and dollar-credit sales.

The act was amended in 1960 to authorize grants of surplus agricultural commodities to promote development. In 1966 the act was extensively revised to emphasize the importance of food aid as an instrument to combat malnutrition and to promote agricultural self-help and voluntary family-planning activities in developing countries. The 1966 amendments also (1) removed a previous statutory requirement that agricultural commodities be "surplus" before they could be eligible for sale or donation and (2) authorized CCC to pay for enrichment, preservation, and fortification of the donated commodities. The act, as amended in 1966, has been extended, substantially unchanged, through December 31, 1977.

Title II of the act, as amended, allows agricultural commodities to be donated to (1) meet famine or other urgent or extraordinary relief requirements, (2) combat malnutrition, especially in children, (3) promote economic and community development in friendly developing areas, and (4) supply food to needy persons and to nonprofit school lunch and preschool feeding programs overseas.

During the 20 years since the law was enacted, 36.3 million metric tons of U.S. agricultural commodities, valued at $6.6 billion, have been donated through the program. Donations represent approximately 23 percent of the total CCC cost of agricultural commodities shipped under all Public Law 480 programs.

The Congress has periodically amended Public Law 480 to authorize specific annual fund limitations for the overseas donation program. Annual program budget levels, however, are determined by the administration and included in the President's budget. CCC finances program costs and is reimbursed through annual congressional appropriations.

Since 1967 the congressional authorization limit for the overseas donation program has been maintained at $600 million annually. Program costs since that time have been less than $400 million in each year except 1972.

USDA, which determines the types, quantities, and values of commodities available, shares administration of the program with the Agency for International Development (AID), which is responsible for planning and programing operations and for insuring the effective use of food donations. USDA also procures all title II agricultural commodities and arranges ocean transportation for commodities destined for World Food Program and government-to-government recipients. Voluntary agencies arrange ocean transportation of commodities made available to them under Public Law 480 and receive reimbursement from the U.S. Government.

Use of title II resources is planned in accordance with AID guidelines, which give priority to programs aimed at (1) improving the nutrition and health of preschool children and pregnant and nursing women, (2) promoting economic and community development, and (3) feeding primary school children. The resources are also to be directed toward activities which are designed to alleviate causes of the need for assistance and which relate to overall development strategies of recipient governments.

U.S.-donated food is used (1) in feeding programs operated by foreign recipient governments under bilateral agreements with the United States, (2) on a multilateral basis by such governments through WFP, and (3) under the direction of U.S. voluntary relief agencies registered with the Advisory Committee on Voluntary Foreign Aid. These relief agencies include the Cooperative For American Relief Everywhere, Inc. (CARE); Lutheran World Relief; Catholic Relief Services; Church World Service; and such international organizations as the United Nations Relief and Works Agency and the United Nations Children's Fund.

CHAPTER 2

NEW APPROACH NEEDED TO SUSTAIN OVERSEAS FOOD DONATIONS

Exhaustion of surplus stocks, expanding commercial export demands since 1972, and less than expected crop production have made the availability of agricultural commodities the overriding and crucial issue in the foreign food donation program and have introduced difficult choices in commodity allocations. The program has had to compete for and depend on available commodities, rather than dispose of surpluses.

This uncertainty and the recent reduction in available commodities have caused long delays in program allocation decisions and terminations and cutbacks in overseas feeding programs and have even halted commodity procurement in support of the program for 2 months. (See pp.13 and 14.) Together, these actions created widespread concern over the continuity, direction, and purpose of the donation program. This concern was especially evident among U.S. voluntary agencies, which receive and oversee distribution of the largest portion of donated food.

The Congress has long been concerned about insuring the availability of agricultural commodities in support of Public Law 480 programs. A 1966 amendment to Public Law 480 permitted deliberate production of food in the United States to feed hungry people in other nations, thereby relieving the program from being statutorily dependent upon surpluses.

The Foreign Assistance Act of 1973 liberalized commodity availability for Public Law 480 programs by expressing "the sense of the Congress" that (1) the executive branch should consider expected demands for humanitarian food assistance in making assessments affecting or relating to the level of domestic production and (2) legislation providing increased flexibility for responding to emergency and humanitarian requirements for food assistance should be considered as promptly as possible so that Public Law 480 may be amended to permit the Secretary of Agriculture to determine that some part of the exportable supply should be used to carry out the national interest and humanitarian objectives of Public Law 480.

A bill which would have achieved this was introduced in the Senate in December 1973 but was not enacted. In November 1974, the Director of the Office of Management and Budget (OMB), at the request of the President, submitted a similar proposed amendment to the Congress. Although OMB's proposal was not enacted by the 93d Congress, the administration has continued its efforts to have Public Law 480 amended.

To this end, USDA resubmitted the proposed amendment to the Congress on February 5, 1975.

Despite the 1966 amendment and the "sense of the Congress" expression of concern, Public Law 480 programs continued to be confronted with uncertainty as to the share they would receive from USDA's commodity availability decisions. Under existing legislation, domestic requirements, including an adequate carryover, and commercial export sales have first claim on U.S. agricultural commodities. Residual commodities are available for the Public Law 480 programs. Where such quantities are less than total requirements, the Public Law 480 programs compete for the commodities available and those having the lowest priority are not fulfilled.

Although administering the donation program under these conditions has become particularly troublesome for AID, USDA, and program sponsors (especially U.S. voluntary agencies), some initiatives have been taken toward solving the problems. Program sponsors and some Government officials have proposed that new legislation is needed which would recognize and provide for a predetermined humanitarian food component as a part of the commodity availability and allocation process.

In April 1974 AID's Advisory Committee on Voluntary Foreign Aid completed a study entitled "The Role of Voluntary Agencies in International Assistance: A Look to the Future." One of its many recommendations, summarized below, dealt with availability of commodities and priority accorded the overseas donation program.

> "6. In order to respond to critical world-wide food shortages, new Congressional legislation is needed to assure the availability of U.S. food for overseas emergency needs and development assistance programs in the developing countries. To this end: (a) Explicit statutory recognition should be given by the Congress to the priority of meeting America's humanitarian obligations and moral commitment to alleviate basic food needs among the poor in developing countries. Such obligations should not be dependent, in theory or in fact, upon the existence or absence of food "surpluses" in the United States. (b) Special emphasis should be accorded by statute to assistance programs using food aid which contribute to the development of indigenous sources of food and which cope with long-term developmental problems in developing countries."

Another initiative was a Public Law 480 food programing workshop held in June 1974 under the auspices of the Advisory Committee on Voluntary Foreign Aid. It included representatives of the Advisory Committee, USDA, AID, OMB, and several voluntary agencies and dealt largely with the mechanisms for administering the Public Law 480 title II program.

The uncertainty of commodity availability was among the many issues identified during the workshop. A document summarizing the discussion stated in part:

> "A positive approach to the resolution of some of these issues can be made by including food needs when considering crop production plans and in determining applicable fiscal and administrative procedures. It was suggested that many of these questions can be resolved if a new system is devised, perhaps with legislative sanction, to provide a predetermined humanitarian component as part of a comprehensive food production and allocation."

A September 1974 "Report on Nutrition and the International Situation," prepared by the staff of the Senate Select Committee on Nutrition and Human Needs, addressed aspects of the U.S. overseas food-aid program and related problems. In a preface to the report, the Committee Chairman underscored the study findings by noting that:

--U.S. food aid over the past several years has not only been shrinking but in "the struggle over short supplies political concerns have received a high priority."

--Wheat shipments to the hungry overseas dropped from 6.1 million metric tons in 1970 to 2.5 million metric tons in 1973, with a projected further drop to just under a million metric tons for 1974.

--The number of persons being fed in maternal and infant programs has dropped from 14.4 to 11.4 million, in food for work programs from 11 to 8 million, and in school feeding programs from 36 to 25 million.

Commenting on the increasing cost of the Food for Peace program, the Chairman pointed out that, apart from the price of food itself, the program's continued use for political-military as well as humanitarian purposes has increased its cost. He further observed that "It may be that we have reached a point when the Food for Peace program should be redefined--when its dual purpose should be clearly recognized."

Another study, completed before commodity availability became a critical issue, identified a number of problems in the program. The study, conducted by a management consulting firm under a contract with AID, involved a worldwide evaluation of the program and dealt with overall food-aid policy issues as well as program operations in selected areas overseas.

The consulting firm's report included the following policy recommendations toward improving the program.

--Food aid should be given increased emphasis as part of AID's package of development assistance and should be programed much the way dollar aid is.

--Food aid should be planned on a multiyear basis with country plans prepared as a basis for allocating food and monitoring performance.

--Greater programing flexibility should be permitted at the country level by offering some assurance of support for 3-year plans, advising of annual country dollar-planning levels in advance, and permitting some local control of ration levels.

--Voluntary agencies should be brought more closely into the country planning process.

--Program planning responsibility should be progressively shifted to host governments.

The bottom of the barrel

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COMMODITY AVAILABILITY AND ALLOCATION THREATEN PROGRAM CONTINUITY

The Secretary of Agriculture is responsible for determining the quantities of agricultural commodities available for Public Law 480 programs each year. In reaching his decision, the Secretary must consider U.S. agricultural productive capacity, domestic requirements, farm and consumer price levels, commercial exports, and adequate carryover. Legislation stipulates that no commodity can be made available for disposition under Public Law 480 if its disposition would reduce the domestic supply below that needed to meet domestic requirements, adequate carryover, and anticipated exports for dollars, as determined by the Secretary at the time of exportation.

Before 1972, decisions on commodity availability were relatively routine. During those times, the United States maintained large reserves of grain commodities and budget constraints were the major determinant of Public Law 480 program levels. A significant reserve production capacity in farmland set-asides also existed and could be considered in determining commodity availability for the programs. During 1972, however, adequacy of stocks of U.S. agricultural commodities became a matter of concern, largely due to increased export demand for commodities--highlighted by the Soviet Union's massive grain purchases. The magnitude of agricultural exports for fiscal years 1973 and 1974 far surpassed previous record levels. Total use of U.S. grain commodities--domestic and overseas--exceeded production and reduced carryover stocks in 1974 to the lowest levels in more than 20 years.

To alleviate the condition, USDA greatly relaxed production controls over grain commodities for the 1973 crop year and suspended them entirely for the 1974 crop year. Although production did not achieve hoped-for levels, it was still relatively high compared with earlier years. Despite the lifting of controls, USDA production forecasts for grain commodities, as of September 1974, indicated little likelihood of significant improvement in the level of 1975 carryover stocks.

The diminished stocks focused increased attention on total demands for available commodities and soon became the principal constraint on Public Law 480 programs. This constraint has in effect made the separate programs of Public Law 480--concessional sales and donation programs--compete with each other for commodities. As a result, commodities have been allocated on a priority basis by a committee composed of representatives from various Government agencies with differing interests and objectives. Ultimately, the fiscal year 1974 overseas donation program was severely curtailed, receiving 3 billion pounds of commodities, little more than half of the average for the preceding 7 years. Commodity quantities for the fiscal year 1975 program were set at 3.2 billion pounds; however, this level was not finally determined until January 1975, thus creating further uncertainty in program planning and administration.

The events leading to the overseas donation program's increased dependency on commodity availability and allocation are discussed below.

Fiscal year 1973

The fiscal year 1973 donation program was only slightly affected by commodity availability. Availability decisions and tentative approval of individual program levels were substantially completed by the end of July 1972. Budgetary considerations were the principal constraints on program formulations. Because final approval of individual program levels was delayed until February 1973, programs had to operate under tentative authorization levels during most of the year.

In October 1972 USDA commodity export estimates were greatly increased. Because Public Law 480 commodities must meet the legal availability criteria at the time of export, there was concern that approved program quantities might not be available. USDA greatly reduced the quantities of wheat and feed grains available for Public Law 480. As a precaution, new procedures were initiated to more closely control the acquisition and shipment of program commodities.

Although commodity availability was of concern during fiscal year 1973, the overseas donation program received commodities equal to or exceeding the volume of programs for 5 of the 6 preceding years.

Fiscal year 1974

In its budget request to OMB, AID proposed a $300 million donation program for fiscal year 1974, based on a projected 3.7 billion pounds of commodities. Due apparently to extreme budgetary stringency, OMB set a budget level for the program of only $198 million. Therefore, AID guidance to program sponsors stressed that the fiscal year 1974 budget availabilities were expected to be reduced and warned that the available commodities might also be limited. The guidance directed that sponsors consider minimum essential requirements and submit only realistic requests to meet priority needs.

In April 1973 an availability decision for Public Law 480 was needed for fiscal year 1974 program planning and approval. However, the commodity outlook was very unclear, despite USDA's earlier relaxation of production controls. To sustain existing programs, the Secretary of Agriculture decided in May 1973 that certain commodities could be made available for Public Law 480 programs.

At that time, because production and export demand estimates and commodity availability for Public Law 480 were still much in doubt, only relatively small quantities of certain commodities were made available as an interim measure to support first-quarter needs.

By June 28, 1973, commodity availability was even more in doubt, and USDA made an unprecedented decision to suspend procurement of commodities for the program. The decision was viewed by many as a threat to the program and caused widespread concern among program sponsors and recipient countries. Before this suspension, the first two monthly procurements had been made to fulfill specific commodity requests of program sponsors. Because of the uncertainty of further procurement, program officials considered reallocating the commodities already procured to insure satisfying those programs having the highest Government priority. An Assistant-Secretary-level, Government-wide group chaired by OMB was established to deal with allocation. It included representatives of the National Security Council, Council of Economic Advisors, Council on International Economic Policy, and Cost of Living Council in addition to representatives of organizations regularly participating in decisions affecting Public Law 480 programs--the Departments of State and the Treasury, AID, USDA, and OMB.

The group decided on July 6, 1973, to change the allocation of commodities for title I programs but not to alter the committed allocation of commodities already procured for the donation program.

In August 1973 USDA reassessed commodity availability for Public Law 480 and decided that some additional quantities could be made available; however, the total quantities were still much lower than in earlier years. The decision did allow commodity procurement to resume the following month. Making the additional quantities available reflected USDA's willingness to accept smaller carryover quantities than before, considering earlier actions to increase production in the 1974 crop year.

The commodities made available in September were not adequate to satisfy all known requirements. Establishing priorities for use in allocating the additional commodities became essential. Again, the Assistant-Secretary-level group set allocation priorities to individual program elements. U.S. national security and foreign policy objectives figured heavily in their deliberations. For example, the group allocated 60 percent of the added commodities on a top-priority basis for supporting assistance programs in Southeast Asia, which satisfied concessional sales programs in Vietnam, Cambodia, and Thailand. It also gave priority to title I concessional sales programs in eight other countries which were allocated, in aggregate, 10 percent of available commodities and to various donation programs which were allocated 30 percent of the available commodities.

After allocation of the added commodities, requirements of more than $700 million remained unfilled. Of these requirements, 90 percent were for commodities under the title I concessional sales programs.

In December 1973 USDA again reviewed its commodity projections and made available a small additional quantity of feed grains. The additional title II portion was used largely for drought relief in Ethiopia.

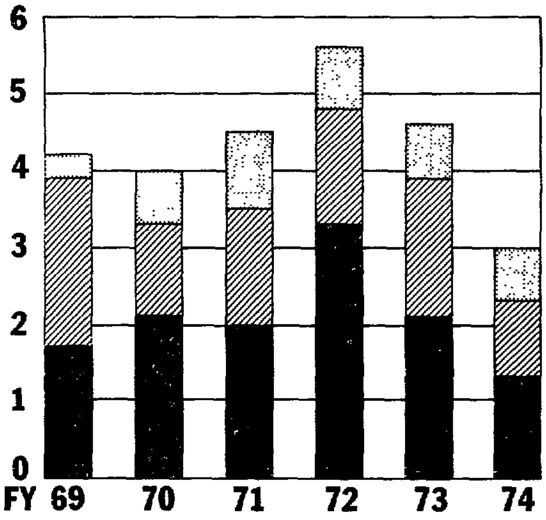
At the end of the fiscal year, the donation program had received 3 billion pounds of commodities, little more than half of the average for the preceding 7 years. This volume was the smallest since 1956 and was less than three-fourths the volume of any year since 1960. In contrast, the program received more than 4 billion pounds in each year from 1969 through 1973. (See p. 13.)

The number of recipients assisted by the program declined to 55 million in fiscal year 1974, compared with 74 million or more in each year from 1969 through 1973. Although budget stringency was stressed, the value of commodities donated in fiscal year 1974 was comparable to other recent years, except for 1972, because of higher commodity prices. (See pp. 13 and 14.)

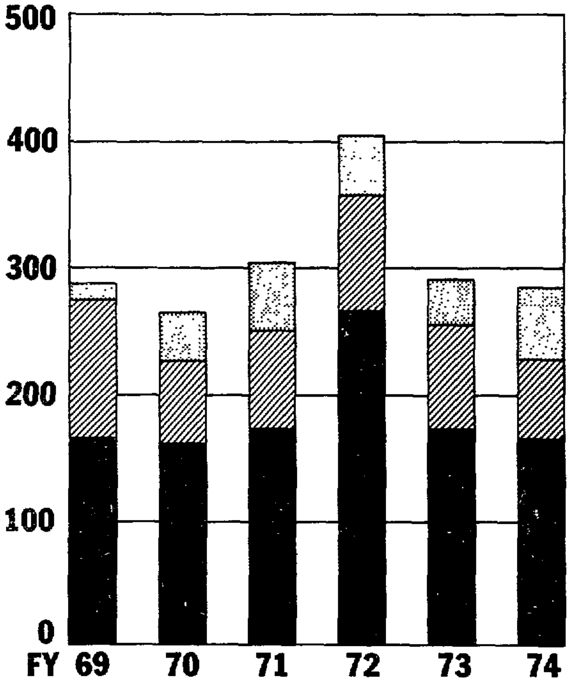
OVERSEAS DONATION PROGRAM DATA BY COOPERATING SPONSOR CATEGORIES

(FISCAL YEARS 1969-1974)

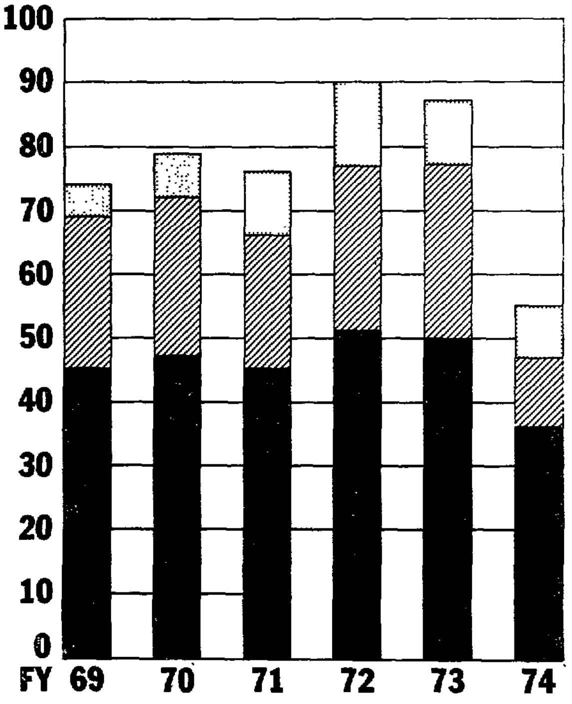
VOLUME OF COMMODITIES 1/
(BILLION POUNDS)



VALUE OF COMMODITIES
($MILLIONS)



RECIPIENTS
(MILLIONS)



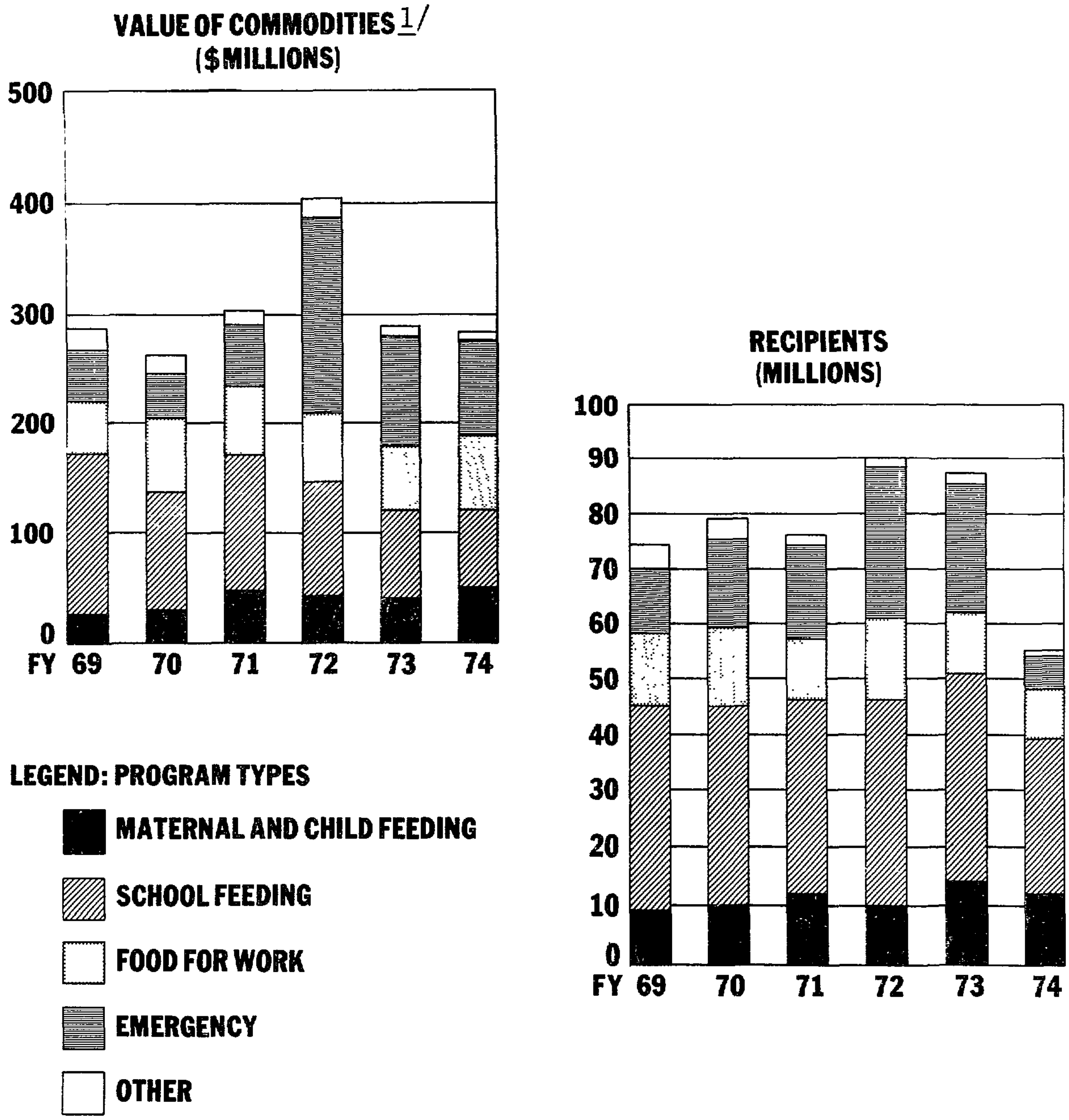
LEGEND: COOPERATING SPONSORS

- **VOLUNTARY AGENCIES AND INTERNATIONAL ORGANIZATIONS**
- **GOVERNMENT-TO-GOVERNMENT**
- **WORLD FOOD PROGRAM**

1/ As can be noted, the FY 1972 program was significantly larger than earlier and subsequent years, due in large part to extraordinary emergency requirements experienced in that year

OVERSEAS DONATION PROGRAM DATA BY TYPE OF PROGRAM

(FISCAL YEARS 1969-1974)



1/ As can be noted, the FY 1972 program was significantly larger than earlier and subsequent years, due in large part to extraordinary emergency requirements experienced in that year.

Fiscal year 1975

USDA continued to be confronted with a tight commodity situation in April 1974, when the annual commodity allocations should have been made. The estimated carryover of wheat had declined to a 30-year low of 182 million bushels, less than 10 percent of estimated consumption. Conversely, production estimates were for record crops because crop acreage had been considerably increased through suspensions of land-set-aside programs. Because of the uncertainties, USDA decided against making its availability determination for the entire fiscal year. Rather, as in fiscal year 1974, it made limited quantities of commodities available to support ongoing programs at minimal levels during the first quarter. This action allowed scheduled monthly procurements to be made for May through July 1974 and permitted USDA to reassess production and export demand when firmer information was available.

Unexpected drought conditions developed in the United States. In August 1974, USDA reduced earlier production estimates considerably. This continuing uncertainty in commodity projections also led to a further deferral of its determination of quantities available for Public Law 480 programs during fiscal year 1975. However, additional interim availability determinations were made to permit procurement for the donation program in August and September 1974.

Increasing commodity prices and a policy of budget stringency renewed the program budget issue. Faced with the likelihood of further reductions in production estimates, the Assistant-Secretary-level group convened again to consider program priorities and optional plans for allocating commodities under various quantity and budget levels.

By September 1974 the President had become concerned about availability, budget, and allocation issues. In October an additional interim decision was made to allow continuation of commodity procurement through December 1974. In February 1975 the President decided that the fiscal year donation program budget should be increased to $395 million, providing an estimated 3.2 billion pounds of commodities.

QUESTIONABLE AVAILABILITY AND COMMODITY REDUCTIONS HAMPER VOLUNTARY AGENCY PROGRAMS

Uncertainty over commodity availability and inherent delays in availability and allocation decisions for the overseas donation program have disrupted the planning and country program implementation by sponsors, especially the U.S. voluntary agencies. In recent years these agencies have witnessed drastic reductions in commodities, changing priorities in feeding programs, cutbacks and termination of ongoing programs, and suspension of commodity procurement for 2 months. The way in which commodity availability and allocation decisions have been made has constrained program planning to virtually a month-to-month basis, and arrangements with participating foreign countries have become everyday worries.

The reduction in commodities made available in recent years and USDA's partial and interim availability decisions have become of greatest concern. More specifically, commodities made available for the donation program declined from 4.6 billion pounds in fiscal year 1973 to 3 billion pounds in fiscal year 1974--a reduction of 1.6 billion pounds, or 34 percent. The voluntary agency and similar international organization programs were cut almost in half, from 2.1 to 1.2 billion pounds. As a consequence, 26 feeding programs in 23 countries were terminated ahead of schedule and many of the remaining programs were reduced.

Uncertainty created by the partial and interim commodity availability decisions of recent years caused disruptions in both the planning and implementation of voluntary agency programs. Many programs involve a substantial commitment of resources of the recipient countries, which become difficult to deal with when program disruptions occur. Cutbacks and terminations of programs beginning in early 1973 were particularly troublesome for voluntary agency officials.

Voluntary agencies began fiscal year 1974 with only interim program approval for the first quarter. However, even that limited commitment could not be honored because of uncertain availability, and USDA ultimately suspended procurement in June 1973. The suspension was initially for an indefinite time. Some USDA officials concerned with the availability decision expected that no additional commodities could be made available during the fiscal year, although commodity availability projections were to be reviewed in August.

Voluntary agency officials were dismayed by the procurement suspension. Some feared it would continue through the fiscal year; others expected it to be shorter. All, however, expected a serious disruption of the food pipeline. The major voluntary agencies--CARE and the Catholic Relief Services--believed that, despite efforts to cut rations and stretch out supplies, their food stocks would soon be depleted. Their major concern was their inability to feed the tens of millions of people--mostly children--assisted by their programs. They were also concerned that programs would suffer irreparable harm and feared that:

--Children might not go to school without the food incentive.

--Developmental programs would be seriously disrupted or terminated.

--Host country resources committed to programs would be diverted.

--Distribution systems and field staff developed over many years might collapse.

--Inability to fulfill commitments to provide food would cause recipients to despair and host governments to have much ill will toward the voluntary agencies and the United States.

The voluntary agencies dismay received national attention from the news media, Members of Congress, and the general public. News articles, letters, and editorials expressed concern that the United States would abandon these humanitarian programs that require so small a part of the total U.S. agricultural production.

After USDA's September 1973 decision to make more commodities available, the suspension was lifted and procurement resumed. The voluntary agency programs approved in September were allocated about 1.2 billion pounds of commodities, or about three-fourths of the annual rate of first-quarter approved programs and about half of the 2.4 billion pounds of commodities originally requested. Voluntary agency planning, which had necessarily proceeded with uncertainty, had to be greatly revised because of reduced commodities.

In planning for their fiscal year 1975 programs, voluntary agencies began with a warning from AID that budget and commodity stringency were again expected to constrain the title II program. The voluntary agencies submitted their program proposals in February 1974 for review and approval. In April they were advised that their programs would again have to operate under interim approval and commodity allocation for the first quarter of the year. The allocation provided minimal quantities--299 million pounds, an annual rate of 1.2 billion pounds (the same as fiscal year 1974)--and had little or no relationship to the programs requested.

The voluntary agencies did receive some cause for hope in May 1974, when they learned informally from U.S. officials that title II programs might be increased dramatically in view of then-expected record crops. However, the summer drought in the United States soon dispelled any cause for optimism.

In August 1974 USDA estimated that U.S. production of feed grains and soybeans would be about 15 percent less than the prior year, again making availability of commodities for Public Law 480 very uncertain.

In July and September, procurement was authorized for voluntary agency programs to supplement the first-quarter procurement authorization. To maintain program continuity, AID obtained approval of an additional interim measure in October which allowed continued procurement through December 1974. In January 1975 commodity levels and allocations for the remainder of the fiscal year were approved providing voluntary agencies with 1,341 million pounds of commodities. Thus, the voluntary agencies have been able to continue their programs but have had to plan and operate on a month-to-month basis.

The Advisory Committee on Voluntary Foreign Aid's April 1974 study report related the voluntary agencies' lack of involvement in the overseas donation program decisionmaking process and the Committee's concern over commodity allocations. The report recommended that:

> "7. Voluntary agencies and the U.S. Government should jointly give attention to revising the regulatory and administrative processes governing food distribution programs. In so doing:
>
> (a) Voluntary agencies should be involved in an advisory capacity in deliberations concerning the budgeting and allocation process governing the availability of U.S. food supplies for overseas distribution.
>
> (b) A serious effort should be made to stabilize the allocation of food available for overseas distribution programs in order to reduce year-to-year fluctuations and allow sponsoring agencies to plan on a multi-year basis."

CONCLUSIONS

Uncertainty over the quantities of U.S. agricultural commodities they will receive each year has been the most crucial obstacle experienced by Public Law 480 programs. Central to the availability issue is the programs' low priority in USDA's commodity availability decisions.

This low priority is essentially built into current legislation which USDA must adhere to in its availability decisions. Before commodities can be made available to Public Law 480 programs, USDA must first satisfy itself that such dispositions will not reduce the domestic supply below that needed to meet domestic requirements, adequate carryover stocks, and anticipated dollar exports. Thus, because of commodity shortages in recent years, USDA has been faced with the dilemma of how to comply with its legal obligations while satisfying commodity demands for the Public Law 480 programs.

The administration's recently proposed amendment to Public Law 480 is intended to allow USDA greater flexibility in arriving at its commodity availability decisions and could enable the Public Law 480 programs to receive a larger share of the U.S. exportable supplies of commodities under certain conditions. The statement of purpose accompanying the submission of the proposed amendment notified the Congress that the authority would be used sparingly and only to meet needs of highest priority. The proposed amendment, if enacted, could alleviate the uncertainty over commodity availabilities so prevalent in the donation program. However, this would depend on whether ongoing feeding programs would be considered needs of the highest priority.

There was (1) rather widespread concern and dissatisfaction with the way the program's annual funding and commodity levels were established and (2) a lack of opportunity for program sponsors to participate in the process. Voluntary relief agencies feel that the changed conditions surrounding U.S. grain supplies have made the 20-year old Public Law 480 largely obsolete as it relates to availability of food for distribution by voluntary agencies. Although this legislation was amended in 1966 to remove the program's statutory dependence on U.S. commodity surpluses, voluntary agencies contend that an attitude born of the tradition of surpluses has taken hold and made the donation program dependent not only on congressional appropriations but also on the residual stocks of U.S. food.

Officials concerned with the donation program stress the need for legislation more closely tailored to existing conditions which would better enable the United States to respond to its humanitarian obligations and moral commitment to alleviate basic food needs among the poor in developing countries.

Uncertainty over the agricultural commodities available for Public Law 480 programs has caused difficulties in planning and carrying out such programs. This uncertainty is likely to continue as long as these programs are dependent upon residual commodities that remain after satisfaction of commercial export and domestic requirements. Therefore, further consideration should be given to freeing the food donation program from this constraint, on the premise that the United States intends to donate food for humanitarian purposes and is willing to allocate and commit commodities--whether surplus or not--for their fulfillment.

Providing greater assurance that needed commodities will be available would (1) enhance the stature and effectiveness of the donation program and (2) enable AID, USDA, and program sponsors to undertake planning based on a more stable flow of commodities and to capitalize on the opportunities to reduce their food procurement costs.

AGENCY COMMENTS AND OUR EVALUATION

The Department of State, USDA, AID, and OMB were provided an opportunity to comment on the matters discussed in this report. Their comments on three of the principal issues discussed in this chapter and our evaluation are summarized below.

Priority of the donation program in commodity allocation decisions

AID, USDA, and OMB did not agree that the overseas donation program was accorded low priority in programing in recent years. They contended that the program had a high, although not absolute, priority in its competition with concessional sales programs for Public Law 480 funds and commodities. OMB also contended that our supporting analysis of the priority accorded the program is not complete because it was based on a broad statistical approach, rather than on a study of the plans and policies then in effect.

In assessing priorities, it is important to understand that many of the decisions on funding and commodity allocations for Public Law 480 programs are made on the basis of the country's or project's importance to the U.S. Government, rather than on the basis of whether the project is a donation or concessional sales project. In this context, we agree that some donation program requirements have had a relatively high priority. However, records we examined clearly show that the 1974 concessional sales programs for Vietnam and Cambodia had priority over all other Public Law 480 requirements. These programs received $403 million of agricultural commodities, double their original budget and 48 percent of the entire Public Law 480 program. Emergency donation programs in drought-stricken areas of Africa had perhaps the next highest priority, receiving increases totaling $52 million. Several other donation programs also received a major increase in value of commodities.

Conversely, concessional sales programs other than Vietnam and Cambodia were greatly reduced, with the total program sustaining a net reduction of $255 million (about 30 percent) from the budget level. Similarly, many donation programs in other countries were either eliminated or reduced, while many others were increased, for a net budget increase of $85 million.

In assessing the impact of these program changes, one should note that fiscal year 1974 was a period of increasing commodity prices. Therefore, the budget increase for donation programs did not actually permit an increase in commodities, while the 30-percent reduction in the concessional sales program resulted in a much larger cut in commodities.

Need for a comprehensive assessment of U.S. food-aid policy

The Department of State, USDA, AID and OMB agreed, in varying degrees, that further assessment of U.S. overseas food-aid policy and programs is needed. USDA and OMB suggested that the thorough executive branch review of food aid over the past year provides a major step towards such a comprehensive assessment. All of the agencies suggested that further assessment should be conducted under the aegis of the International Food Review Group established by the President in November 1974. The Group, chaired by the Secretary of State, is charged with developing U.S. programs and policies in response to the resolutions of the World Food Conference. The Group has also been given responsibility for responding to section 55 of the Foreign Assistance Act of 1974, which requires the President and the Secretary of State to take certain actions to mobilize appropriate resources to meet the world food emergency.

AID and OMB also stated that the Development Coordination Committee, established in accordance with section 640B of the Foreign Assistance Act, is charged with coordination of U.S. policies toward developing nations and will take steps to assure that U.S. food-aid programs are integrated with other U.S. foreign assistance programs.

According to the State Department, an assessment of food aid should consider both donation and concessional sales programs and should be carried out in the context of the overall food strategy that the United States and other countries are attempting to develop as a result of the World Food Conference.

Impact of commodity shortages on the donation program

USDA, AID, and OMB agreed that uncertainty of commodity availability had caused disruption and some reductions in the donation program. AID noted that funding uncertainty had also been a matter of concern. All three agencies pointed out that some reductions in the donation program were the result of the gradual phaseout of ongoing donation programs in accordance with guidelines established by AID and approved by OMB and USDA.

OMB noted concern over the lack of explanation of the tables in the report which show a considerable reduction in the program from 1972 to 1974--nearly 50 percent in volume. OMB explained that the 1974 budget, which they stated was prepared before the extraordinary world food shortage had become apparent, reflected plans to reduce the title II program by approximately 50 percent between 1972 and 1974. According to OMB the reduction in the 1974 donation program was neither sudden nor arbitrary and most of the cutback reflected the phaseout of an emergency feeding program for millions of refugees before and after the India-Pakistan hostilities of December 1971. OMB further stated that most of the remaining reduction reflected the gradual phaseout of ongoing programs which were to (1) be terminated in countries whose economic growth enabled them to assume responsibility for humanitarian feeding and nutrition activities, (2) be phased out in countries which showed no interest in gradually assuming a share of the feeding burden, and (3) concentrate food aid on groups most vulnerable to malnutrition, rather than spreading it more thinly. Finally, OMB noted that there was some reduction in title II below the levels originally planned, accomplished in part by acceleration of program phaseouts, and that this was required to provide food to drought-stricken areas of Africa.

Our rationale for presenting tables on the magnitude of the donation program in recent years was to show that reductions were made in commodities available for the donation program in 1974 and that this caused terminations and cutbacks in overseas feeding programs. We did not attempt to make a direct comparision of 1972 and 1974 program levels but merely presented tables of statistical data drawn largely from the Presidents' annual Public Law 480 reports. Those same tables, which OMB suggests are incomplete, clearly show that a major part of the 1972 program was for emergency requirements and that such requirements were much smaller in 1974.

OMB's statement that the 1974 budget was prepared before the world food shortage became apparent implies that the budget was not affected by the shortage. The program budget level was set by OMB in late December 1972. In apprising AID of this level, OMB strongly stressed budgetary constraints as a limiting factor. We noted, however, that OMB's comments acknowledged that the shift in the supply-demand situation for grain and oilseeds started in late 1972. In fact, this shift was apparent to USDA in early October 1972 when it radically revised its supply-demand estimates and prepared a Public Law 480 budget proposal providing less than $400 million of commodities. The title II portion of the proposal was only $80 million and excluded many of the commodities normally provided. In addition, the expected shortage of nonfat dry milk was a major factor in AID's efforts to restructure donation programs within the budget set by OMB.

The 1974 budget level set by OMB for the donation program--$198 million--did indeed represent a 50-percent reduction from the $403 million program in 1972. As noted by OMB, much of this reduction reflected smaller emergency requirements in 1974--estimated at $19 million compared to $180 million in 1972. Although not pointed out by OMB, AID had requested a much larger 1974 program--$300 million, including a $25 million reserve for emergencies. The AID budget request, in fact, proposed a 1974 program with a commodity volume slightly larger than the 1972 program, excluding emergency requirements in South Asia, and an estimated cost increase of $37 million.

AID took several actions to absorb the $102 million reduction set by OMB. A major reduction--estimated at $40 million--was effected by eliminating nonfat dry milk from many programs because it was expected to be in very limited supply. Other reductions were made, presumably, in accordance with AID guidelines for gradual phaseout of ongoing title II programs, as stated by OMB. In total, commodity volume was reduced by an estimated 700 million pounds.

Reductions totaling $63 million were made for 10 countries with programs in Bangladesh, Colombia, and Pakistan receiving reductions of more than $10 million each. The emergency reserve was reduced by $5.8 million and the remaining reductions of $34 million were spread over many countries.

OMB noted that there was some reduction below its budget mark levels, accomplished in part by accelerating program phaseouts, and that this was required to provide food to drought-stricken areas of Africa. We agree that further commodity reductions were minimal in total--less than 25 million pounds. We also note that budgetary pressures were greatly eased to permit a major budget increase--$85 million--to maintain commodity volume during a period of escalating prices. However, we believe that OMB understates the disruptions that occurred in programs during 1974. Programs in eight countries ($3.2 million) were eliminated and programs in seven others underwent reductions of more than $1 million each (total $17.8 million).

Programs in an additional 23 countries were reduced in lesser amounts totaling $7.1 million, at a time when commodity prices were greatly increasing. At the same time programs in 24 countries were increased by more than $1 million per country (total--$122 million) and smaller increases were made in an additional 27 countries (total--$9.6 million). As indicated by OMB, the drought-stricken areas of Africa accounted for a major share--$52 million--of the reallocations.

Although the volume of commodities did not change significantly, there was a major shift in the types of commodities, largely involving substituting sorghum grain and its products, which were acceptable in the African countries, for wheat and wheat products. Since sorghum grain was less expensive than the commodities for which substituted, this shift helped to minimize budget increases needed to maintain stable commodity volume.

In summary, we believe that funding constraints and anticipated commodity availability limitations combined to impose a fiscal year 1974 budget level that was much smaller than AID felt was needed. We believe that the major program changes discussed above, together with the uncertainties and delays in commodity availability decisions discussed elsewhere in this report, did in fact constitute disruption in the donation program and made it extremely difficult for program sponsors to plan and conduct their feeding programs. As stated previously, administering the program in this environment was also troublesome for AID, and USDA was faced with most difficult decisions in attempting to comply with legal obligations while satisfying commodity demands for Public Law 480 programs. Contrary to OMB's interpretation of our report, we do not contend that program reductions and terminations were arbitrary or that the concerned agencies did not attempt to minimize the disruption. We do believe, however, that many of the reductions and terminations in fiscal year 1974 were caused by commodity limitations and budget stringency, rather than reflecting an AID plan for gradual phaseout of ongoing donation programs. This is further borne out by the fact that seven of the eight countries which had major program reductions in 1974 were given a larger budget in fiscal year 1975.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Issues involving U.S. food aid continue to be raised in the Congress. As recently as February 1975, the Public Law 480 programs were among the subjects of hearings by the Senate Committee on Agriculture and Forestry. In further considering these programs, the Congress may wish to consider the constraints and problems identified in this report.

In view of the uncertainty over commodities available for the food donation program, the Congress may wish to consider whether legislation, beyond that proposed by the administration, is needed to free the program from this constraint.

CHAPTER 3

OPPORTUNITIES FOR REDUCING PROCUREMENT COSTS

In 1973 USDA purchased 1.8 billion pounds of processed grain commodities (see app. I) costing about $159 million for distribution abroad under title II of Public Law 480. USDA's Minneapolis Commodity Office purchased these commodities from some 30 suppliers throughout the United States.

USDA's commodity procurement costs could be significantly reduced by (1) planning procurements over a longer time--at least quarterly rather than monthly--and (2) relying more on supplier commodity inspection results and limiting commodity inspections by USDA inspectors. In addition, liquidated damages charges for shipments only a few days late are higher than necessary to compensate the Government for reasonably expected actual damages. And there is a need to continue and intensify efforts to promote greater supplier competition for USDA procurement.

PROCUREMENT PLANNING TIME

The present USDA system of determining monthly procurement quantities greatly restricts procurement planning and related decisionmaking, and opportunities for reducing commodity costs are missed. The system primarily bases procurement quantities on a simple compilation of monthly commodity requests from title II program sponsors. Requirements data could readily be provided to allow USDA to identify, in advance, monthly shipping requirements for a 3-month period. In addition, cooperating sponsors have some capacity for overseas storage of commodities that would permit some shipment flexibility. USDA could use this information to identify and take advantage of opportunities for reducing commodity costs. Such opportunities include:

--leveling out commodity quantities to be procured and taking advantage of lower bid prices,

--achieving transportation economies through scheduling and consolidating commodity shipments,

--taking advantage of reduced commodity prices normally available during seasonal grain harvests and supplier cyclical periods of production,

--allowing greater flexibility in responding to frequent changes in commodity requirements, and

--enabling the procurement office to play a large and more active role in the procurement decision-making process.

The present procurement planning procedure is primarily limited to a monthly compilation of outstanding commodity requests received from program sponsors. In effect, the sponsors collectively determine, within program limitations, the quantities of each commodity they require each month. USDA procurement functions are to validate and compile the requests, insure that quantities do not exceed commodity availability, procure the commodities, and arrange for transportation to appropriate ocean ports for loading on ships booked by USDA or program sponsors. USDA procures the commodities requested unless requirements exceed the quantities industry is willing and able to furnish during the specified time or the bid prices are unacceptably high.

Under the system described above, program sponsors' ordering patterns are the key determinant of quantities to be procured each month. Program sponsors order commodities quarterly, except for emergency requirements; under this system, procurement requirements vary greatly from month to month. The following schedule illustrates the wide variance in quantities purchased from December 1972 to June 1973:

Date of purchase	Wheat flours	Bulgur wheats	Wheat soy blends	Corn-soya-milks
	(millions of pounds)			
December 1972	73.9	67.8	20.1	18.9
January 1973	42.9	36.0	7.1	14.4
February 1973	104.5	10.0	15.6	67.8
March 1973	66.0	34.1	19.1	69.2
April 1973	31.5	42.8	16.0	34.4
May 1973	98.4	10.3	1.3	59.0
June 1973	91.5	75.2	24.0	44.0

Procurement costs could be reduced if the following commodity market factors were considered in procurement planning.

Bid-price patterns

Commodity contracts are awarded on the basis of formal advertised bidding. Competition for these contracts is unusual, however, because many participating suppliers submit incremental price bids. This type of bid offers a certain quantity at a base price and additional quantities, or increments, at an escalating premium. For example, a miller may offer 1 million pounds of flour at $11.10 per hundredweight (cwt.) and 19 increments of 1 million pounds each with the price increasing by 5 cents per cwt. for each increment. In this example, the 19th increment would be priced at $12.05 per cwt., an increase of 95 cents per cwt. over the base price. Other millers would usually offer different base prices with different increment patterns.

The structure of the bid prices, combined with the greatly fluctuating procurement quantities, causes increased procurement costs. In awarding contracts to satisfy the monthly requirement of a commodity, USDA selects the base prices and increments that will minimize its costs. As the quantity required increases, the average cost to purchase that quantity also increases. We estimate that, during the first 6 months of 1973, USDA paid about $519,000 more for processed commodities than it would have paid if purchase quantities had been more even during the year. For example, 69.2 million pounds of corn-soya-milk were purchased in March 1973 compared with a monthly average for the year of 33.6 million pounds. We estimated that premiums of $64,000 were incurred on the 35.6 million pounds purchased in March above the average monthly quantity. USDA could avoid many of those premiums by leveling out its monthly purchases of a commodity.

Seasonal and cyclical patterns

Procuring commodities in response to sponsors' requests does not permit the flexibility needed to take advantage of certain known seasonal and cyclical factors that affect commodity price levels. Commodity processors' bids, which are based on many factors, vary greatly depending on market conditions. The most significant factor by far is the cost of the basic grain which makes up the bulk of the processed commodity price. Other factors include the processor's plant and labor costs, packaging, rail transport costs, and profit margin.

The grain cost factor has, in recent years, been volatile since it is closely related to the unstable international grain prices. However, even with a basic instability, grain prices have traditionally been at their lowest crop-year level shortly after the new crop entered the market. Thus, it would be reasonable to procure the most during that period after recognizing such constraints as transportation, storage, suppliers' available capacity, and commodity distribution requirements.

USDA commodity officials are aware of other factors tending to inflate or depress grain prices. Given some flexibility in shipping schedules, it might be possible to maximize procurement quantities in months that tend to have relatively low grain prices and minimize procurement quantities in months that tend to have high prices.

Processors' operating costs and profits generally comprise only about 15 to 20 percent of the commodity price. These factors are also influenced by predictable seasonal trends and could also be considered in procurement planning to obtain the most reasonable prices. For example, the processors have certain periods when they are particularly busy--such as before the beginning of the school year and the Thanksgiving-Christmas holiday season. Large procurements during those periods would require processors to use more overtime and night workers at a higher cost, and, since the additional business would be realively undesired, a higher profit margin would likely be included. Conversely, the processors have certain periods of relatively light business when they would offer their best competitive prices for commodities.

Transportation economies

USDA evaluates bids and generally awards contracts on the basis of the lowest total cost to the Government to land commodities in the destination country. This policy requires USDA to add ocean tariffs to suppliers' bid prices to determine the most favorable total cost. The bid prices include domestic transportation necessary to place commodities free alongside ship at U.S. ports. Ocean freight tariffs from various U.S. ports to a specific country may vary, and USDA attempts to export through the port offering the most favorable tariff, if the supplier's free alongside ship price to that port is also favorable. However, in some cases USDA cannot use the most favorable port because the shipment is too small to meet the port's minimum quantity requirement or to encourage steamship companies to call at the port. If USDA were given advance information on commodity requirements for a 3-month period and some flexibility in shipping dates, smaller requirements could be consolidated into larger shipments to take advantage of more favorable transportation arrangements.

Possible additional opportunities for reduced transportation costs could exist if Great Lakes ports were used more. These ports offer lower inland freight costs. The average inland transportation differentials for 1973 were estimated at 37 cents per cwt. on corn-based products and 12 cents per cwt. on wheat-based products. In addition, ocean freight tariffs for these ports have generally been competitive with those for other ports. During the 1973 Great Lakes shipping season (April to November), these ports were used for a large share of processed commodities exported by USDA--83 percent of corn-based products and 36 percent of wheat-based products. However, only a relatively small share of 1973 shipments were made during the 8-month Great Lakes shipping season--2.7 million cwt. (or 54 percent) of corn-based products and 5.5 million cwt. (or 41 percent) of wheat-based products.

Improved procurement planning and shipment flexibility would enable USDA to identify opportunities to increase the Great Lakes' share of shipments and reduce inland transportation costs. USDA has had difficulty, however, in booking cargo space at Great Lakes ports and used all space available during the 1974 season. Admittedly, this problem would have to be resolved to permit greater savings.

Conclusions

USDA should improve procurement planning to take advantage of opportunities for reduced commodity and transportation costs. The present policy basically provides for responding to commodity requests received from program sponsors without regard to factors that might increase costs.

The cost-saving opportunities discussed above might conflict at times. An opportune time for minimizing transportation costs might coincide with a period of seasonally high grain prices or peak use of mill capacity. Commodity managers should be able to recognize and evaluate these factors, however, to provide a basis for developing optimum quarterly procurement plans within the constraints of delivery requirements.

USDA officials said that the uncertainty of commodity availability and delays in program approvals in recent years have disrupted the procurement process and that these conditions would make effective implementation of our proposed procurement planning changes difficult. They noted that suspension of procurement, as occurred in 1973, would complicate efforts to even out procurement quantities or to take advantage of other opportunities for cost savings. According to the officials, approval of program commodities on a month-by-month basis, as experienced more recently, would similarly disrupt a procurement planning system.

Recent years' program instability would disrupt any procurement planning system. Hopefully, other recommendations in this report, or some similar actions, will be instrumental in restoring commodity stability to the program. Therefore, we believe that USDA, if given advance information on commodity requirements and some shipping flexibility, could plan monthly procurements on a quarterly basis to

--avoid unusually large purchases and related premium prices,

--take advantage of seasonal and cyclical price trends, and

--take advantage of opportunities for reducing transportation costs.

Recommendations

We recommend that the Secretary of Agriculture and the Administrator of AID take actions to provide quarterly requirements data to USDA at least 1 month before the first scheduled procurement for those commodities. The data should be structured to identify monthly requirements. We also recommend that the Administrator of AID consult with cooperating sponsors to determine their capacity to accept commodities in advance of need and that this capability be used to give USDA flexibility to ship commodities in advance, if necessary, to take advantage of procurement planning. USDA should use the advance requirements data and shipment flexibility in procurement planning to take advantage of opportunities for reducing procurement costs.

Agency comments and our evaluation

USDA agreed that quarterly planning of monthly procurements would be highly beneficial and would provide opportunities for reducing procurement costs. AID agreed to cooperate fully with USDA to establish a procurement planning system.

We believe that USDA and AID should proceed with preliminary work to establish a procurement planning system for the food donation program and that the effectiveness of such a system would be greatly enhanced if the program had longer term commitments and a more stable volume of commodities upon which quarterly planning could be formulated.

COSTLY COMMODITY INSPECTION

The commodity inspection procedures applied to donated processed commodities are more stringent and expensive than those applied to comparable products in commercial trade or to those procured under title I of Public Law 480. USDA contracts require that suppliers purchase inspection services for processed commodities from USDA's Agricultural Marketing Service (AMS). The inspection is intended to insure that the supplier provides commodities of the quality and quantity specified in the contract. AMS determines the extent of sampling, inspection, and testing necessary to evaluate contract compliance. Under current inspection procedures, AMS inspects commodities on an individual lot basis--a lot usually being the quantity that will be shipped in one rail car, or about 100,000 pounds. Standard inspection procedures for each lot include check-weighing a number of containers; counting the containers as they are loaded; and preparing a composite sample, drawn from a number of containers, for the necessary laboratory tests. The laboratory tests determine whether suppliers comply with various chemical and physical characteristics required by the commodity specifications.

AMS charges suppliers for inspection services at rates intended to recover all of AMS's costs. As of April 1974 these charges included assessment at $12.20 per man-hour for inspection and sampling services and fees at varying rates for the necessary laboratory tests. We could not determine the actual cost of inspection services included in contract prices. According to certain suppliers, factors varying from 6 to 19 cents per cwt., depending on the commodity, are included in their bid prices. Our review of selected contracts indicated that AMS charges to suppliers averaged about 6 cents per cwt. On the basis of procurement of 18,400,000 cwt. of processed grain commodities in 1973, we estimated that AMS charges to suppliers were about $1,100,000.

We solicited selected suppliers' views on commodity inspection. Their responses and our observations at two processing plants disclosed that most of the processed grain commodity suppliers possess quality laboratory facilities which are used to perform commodity quality tests as a routine part of their production. The suppliers stated that AMS inspections largely duplicate the work of their quality control system and that many of their commercial customers rely on their quality control systems either entirely or with minimal spot-checking.

Several milling companies offered suggestions for improving present inspection procedures. Two companies recommended that suppliers be fully responsible for quality assurance with USDA administering spot-checks. Two other suppliers suggested adopting the less stringent inspection procedures used for the USDA concessional sales program (Public Law 480-title I).

According to AMS officials, without lot-by-lot inspection, responsibility could not be established for defective or contaminated commodities received overseas. They said that the Department of Defense, in an effort to reduce costs, tested a system of relying on supplier quality control for grain products and, instead of realizing savings, experienced a deterioration in product quality and reinstituted AMS inspection services about a year ago.

AMS officials also stated that many commercial customers of grain millers intensively test the products they buy and do not rely on the suppliers' quality control. Although the officials conceded that somewhat less intensive inspection procedures might be employed without much loss of quality, they viewed a spot-check system as inadequate.

Conclusions

The current inspection system largely duplicates commodity quality testing and control procedures employed by many suppliers and is unnecessarily stringent and expensive, considering other existing means of insuring commodity quality. USDA could achieve significant savings by modifying the contractual inspection requirements to rely more on supplier quality control systems.

Recommendation

We recommend that USDA revise its inspection policy to place maximum practicable reliance on supplier tests during commodity production.

Agency comments and our evaluation

USDA did not concur in this recommendation. USDA suggested that our recommendation is inconsistent with our previous reports which were critical of USDA's and other Government food inspection programs. These earlier reports, going back to 1970, relate largely to USDA's laxity in administering its own inspection regulations and the need for examining the potential for eliminating overlapping inspections. We therefore view the reevaluation we are proposing for commodity inspections as being consistent with previous GAO positions and believe savings could be achieved without sacrificing quality standards if USDA curtailed its detailed inspections where they are duplicative of supplier inspections during commodity production.

USDA stated that (1) many vendors have minimal or no laboratory facilities and could not offer their own laboratory compliance report and (2) laboratory facilities of many processors are not adequate to evaluate all factors in the specifications. According to USDA, the present system is necessary to insure that purchased commodities conform to specifications and laboratory analysis is particularly important since USDA cannot purchase name brand items whose quality has been established through a history of commercial acceptance.

We agree that commodity inspection and testing procedures should be adequate to provide reasonable assurance that purchased commodities conform to specifications. We note that USDA procedures are based on a sampling technique and thus do not provide absolute assurance of compliance. We believe the issue depends on (1) what degree of sampling is adequate and (2) whether the degree of sampling can be reduced for suppliers that are equipped to do their inspection and testing and have a history of good performance.

We believe that inspection and testing procedures should take into account past experience of suppliers, particularly since suppliers are required to pay for these services in addition to their own in-house inspection costs. Uniform procedures tend to penalize those suppliers who have incurred considerable expense to equip themselves with sophisticated quality control and testing systems. More intensive testing is undoubtedly necessary for suppliers that have minimal or no laboratory testing facilities. However, we still believe that USDA should consider adopting less intensive inspection and testing procedures in cases where suppliers do have good quality control systems and a good record of compliance with specifications. In this regard we noted that there are relatively few suppliers--32 in 1973--of title II processed grain commodities, and that 10 of these provided more than 85 percent of such commodities in 1973.

ASSESSMENT OF LIQUIDATED DAMAGES

Liquidated damages charges for late commodity shipments were much greater than actual monetary damages and could increase prices bid for commodities.

USDA contracts for purchase of processed grain commodities include a provisions for assessing liquidated damages charges against suppliers for late shipment. The contract states that late shipment may cause serious and substantial damage to USDA. Liquidated damages are assessed in lieu of actual damages because of the difficulty of proving the amount of any actual damages. Suppliers may be excused from payment if the cause of delay is beyond their control.

Before May 1973, liquidated damages were assessed at 1 cent per cwt. per day. In May 1973, USDA increased the rate to 5 cents per cwt. per day to reflect a more reasonable estimate. Anticipated actual damages include monetary damages that can be measured and nonmonetary damages that can only be subjectively estimated. Monetary damages could include storage costs, charges for unused vessel space, increased transportation costs, demurrage costs, increased procurement costs, and costs for procuring substitute commodities. Non-monetary damages include additional administrative costs or interference with program objectives. Assessing charges for late shipment is legally restricted to obtaining compensation for resulting damages; the rate must bear a reasonable relationship to the actual damages likely to be incurred.

We examined records relating to late shipments of processed commodities from July 1973 through March 1974. During that period, liquidated damages of $587,000 were assessed against suppliers. Actual monetary damages related to these late shipments were less than $10,000.

Delays in loading commodities aboard a vessel that are caused by late delivery by the supplier are usually less than 30 days. Steamship companies operate regularly scheduled routes, and commodities not placed on the vessel originally booked are placed on the next scheduled vessel, which often is from 1 to 30 days later. Our review showed that late deliveries of from 1 to 7 days would be shipped on either the originally booked ship or on the next scheduled ship--the latter usually about 2 weeks later.

We solicited the views of about one-third of the suppliers on liquidated damages provisions and found that half of them believed the provisions to be excessive and severe. Particular comments were critical of the excessive amounts assessed for delays of only a few days which would cause little or no harm.

For example, a supplier was 2 to 10 days late in delivering about 3.6 million pounds of commodities and was accordingly assessed liquidated damages of about $10,700. According to the supplier, it had slowed production to avoid layoffs of its personnel. The supplier also stated it could have met the required delivery schedule; however, it knew the vessel departure date and delivered the commodities to the port before that date. The supplier thought that the delay proved advantageous to both parties because it maintained continuous production, thereby avoiding any layoffs, and USDA avoided excess port storage charges which might have occurred if earlier delivery had been made.

We could not determine the extent of administrative costs or program damage that may have been caused by late shipments. However, we believe that these damages would probably be very small for shipments that were 7 days late or less.

Most of the suppliers we contacted stated that they always intend to ship commodities on time in accordance with the contract and, for this reason, do not include a specific factor for contingent late shipment costs in their bid prices. Two suppliers noted, however, that their bid prices were constructed to take into account general business risk factors. Potential late shipment charges of the size and type presently assessed by USDA appear to represent a considerable risk factor that would not be ignored by prudent businessmen.

Conclusions

USDA's liquidated damages charges were much greater than actual monetary damages that resulted from late shipments. We believe that nonmonetary damages for shipment delays of 7 days or less would be very small and that the significant business risk inherent in these charges may influence suppliers to anticipate these charges to some extent in constructing bid prices.

The present liquidated damages rate, intended to compensate the Government only for reasonably expected actual damages, is higher than necessary for shipments only a few days late. Nominal rates appear to be more appropriate for the first few days shipments are late when possibility of damage is small; rates could then gradually escalate as the delay and possibility of actual damages increases.

Recommendation

We recommend that USDA revise its policy on liquidated damages charges for late shipment to consider the relationship between actual damages incurred and the amount of liquidated damages assessed for late shipment.

Agency comments and our evaluation

USDA did not concur in this recommendation. It stated that the problem of liquidated damages was evaluated by a USDA team during late 1972 and early 1973. According to USDA, this review culminated in a policy establishing a uniform rate of not less than 5 cents per cwt. for each day of late shipment, with a provision for increasing the rate if necessary to reasonably estimate the probable actual damages for delay.

USDA did not comment on our finding that liquidated damages assessments--$587,000--were much greater than actual monetary damages--$10,000--during a 9-month period. It also did not comment on our conclusions that (1) nonmonetary damages for shipment delays of 7 days or less would be very small and (2) the present liquidated damages rate, intended to compensate the Government only for reasonably expected actual damages, is higher than necessary for shipments that are only a few days late. We believe these factors indicate a need for USDA to reevaluate their policy as we are recommending.

COMPETITIVE PROCUREMENT UNDER LIMITED COMPETITION

Our review of USDA's procurement practices showed that (1) supplier competition for many commodities was less than desirable, (2) some commodities were ordered in small quantities not conducive to supplier competition, and (3) disclosure in bid invitations of quantities to be procured can be advantageous to suppliers and influence the submission of inflated bid prices.

Since commodities are purchased through formal advertised bid invitation procedures, it is in USDA's interest to encourage maximum practicable competition. The introduction of new, more sophisticated commodities in recent years, the small requirements for certain commodities, and the disclosure of approximate purchase quantities in bid invitations have reduced the degree of competition.

The number of commodities being acquired under the title II program has increased from 7 to 17 since 1968. Most of the added commodities have been more sophisticated--enriched, fortified, sweetened, or instantized. In general, fewer suppliers provide the commodities introduced since 1968. For example, until August 1974 only one supplier handled the newly developed soy-fortified sorghum grits. Presently, only two suppliers furnish the following six commodities introduced since 1970:

--Soy-fortified cornmeal.

--Corn-soya milk/corn-soy blend.

--Instant corn-soya milk.

--Sweetened instant corn-soya-milk.

--Soy-fortified rolled oats.

--Soy-fortified sorghum grits.

Several commodities--notably rolled wheat, rolled oats, and soy-fortified rolled oats--have been ordered in very limited quantities in recent years. The resulting small procurements--28 million pounds, or about 1 percent of 1973 purchases--have been of little interest to suppliers that normally deal in larger volume sales in the U.S. domestic market. Consequently, competition in procurement of these commodities has been limited.

In addition to lessened competition, administrative problems are compounded as the number of commodities increases.

Efficiently and effectively performing the necessary planning, programing, purchasing, and distribution of the various commodities becomes increasingly difficult.

Since March 1973, USDA has included in bid invitations the approximate quantity of commodities it expects to procure. This information had previously been withheld and safeguarded since its disclosure was considered to be a factor that could reduce competition. Commodity suppliers, while denying that disclosure was anticompetitive, were very persistent and eventually successful in persuading USDA to disclose planned purchase quantities. The grain-milling industry has numerous trade publications providing accurate information on its activities. One publication furnishes an annual listing of all the milling plants in the United States, including the type of grain milled and daily capacity of each plant. Weekly reports are also published on foreign and domestic sales for both current and future delivery, enabling suppliers to readily determine how much open capacity the industry has for any given period. When quantities are included in invitations, suppliers can assess their relative positions and bid less than fully competitive prices. When quantities are not announced on invitations, it is in the best interest of the suppliers to bid their most competitive prices to improve their chances of a contract award.

There are relatively few suppliers for a number of the commodities USDA purchases; consequently, the inclusion of quantities in invitations can greatly affect the competitiveness of the suppliers' bids. For example, one supplier has about 50 percent of the industry capacity for one of the major commodities and four other suppliers share the remaining capacity. USDA is the sole buyer of this particular commodity. When USDA's monthly purchases are at or near industry capacity, this supplier knows that it is the only one capable of supplying about one-half of that month's requirement.

The USDA procurement office uses a bid evaluation procedure intended to identify and reject unreasonable bids. The procurement office sets a target price for each commodity before bid opening, taking into account the current market price of principal ingredients, estimated processing and transportation costs, and a reasonable profit margin. Base bid prices exceeding the target price by more than a specified amount are rejected as unreasonable.

Although the bid evaluation procedure provides a degree of assurance that prices are reasonable, it may not fully insure the objective of vigorous competition--that the Government fulfill its requirements at the lowest cost available at the time of purchase. The bid evaluation procedure depends on cost estimates that may be invalid at the time of procurement. If these costs are considerably underestimated, a reasonable bid may be rejected and requirements not met. If the costs are considerably overstated, the Government may accept excessive bids submitted noncompetitively.

We could not determine whether either of these situations had actually occurred. We do know that some low bids have been rejected and that many contracts have been awarded with little or no competition.

Conclusions

The introduction of new, more sophisticated commodities and the small requirements for certain commodities have limited supplier competition for USDA purchases of processed commodities.

Recommendations

We recommend that USDA:

- --Continue and intensify efforts to interest more commodity suppliers and strengthen competition for its procurements.
- --Review the current list of commodities being procured and consider eliminating those with minimal demand.
- --Continue to closely monitor bid prices and patterns and consider the need for further measures to increase assurance that prices paid are reasonable.

Agency comments and our evaluation

USDA agreed that some commodities with minimal demand might be removed from the title II program and was considering making a recommendation to drop rolled wheat, rolled oats, and regular cornmeal.

USDA concurred in a suggestion made during our review and returned to the former practice of not disclosing, in bid invitations, the quantities of commodities to be purchased.

USDA does not believe that the existence of only a limited number of suppliers invalidates the competitiveness of USDA purchasing procedures and practices. According to USDA, it is unable to obtain a large number of offers for some purchases even though 700 purchase invitations are mailed to vendors, and whenever it can stimulate additional vendor interest, it does so.

We agree that USDA actively promotes increased competition and employs procurement procedures that provide a degree of assurance that prices are reasonable. We also believe, however, that the degree of supplier competition for certain products continues to be less than desirable and that further efforts should be made to make the program more attractive to potential suppliers. In this regard, the other recommendations in this chapter (for improved procurement planning, a more flexible inspection policy, and a graduated scale of late shipment charges) could help to increase supplier interest in the program.

CHAPTER 4

SCOPE OF REVIEW

Our review was to evaluate the way agricultural commodities are acquired for the overseas donation program. We reviewed USDA's process for determining commodities available, the interagency process of allocating available commodities, and USDA's policies and procedures for procuring program commodities.

Our review included a limited assessment of the impact of these decisionmaking processes on cooperating program sponsors. This assessment was based on information obtained from headquarters officials of certain voluntary agencies--which distribute more than half of program commodities--and from AID. We did not assess the impact on the World Food Program and AID's government-to-government programs.

We did not observe or evaluate program operations in recipient countries.

PROCESSED GRAIN COMMODITIES PURCHASED IN 1973 UNDER TITLE II OF PUBLIC LAW 480

Wheat flour

Soy-fortified wheat flour

Bulgur

Soy-fortified bulgur

Wheat-soy blend

Sweetened wheat-soy blend

Cornmeal

Soy-fortified cornmeal

Corn-soya-milk/corn-soy blend

Instant corn-soya-milk

Sweetened instant corn-soya-milk

Rolled wheat

Rolled oats

Soy-fortified rolled oats

Milled rice

Soy-fortified sorghum grits

Soyflour

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

FEB 7 1975

Mr. J.K. Fasick
Director
International Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fasick:

Forwarded herewith is a memorandum dated February 5, 1975 from Andrew J. Mair, Coordinator, Food for Peace, which presents A.I.D.'s comments on the General Accounting Office's draft report "The Overseas Food Donation Program - Its Constraints and Problems."

We appreciate the opportunity to comment on this draft report. Please let us know if we can be of additional assistance.

Sincerely yours,

Harry C. Cromer

Harry C. Cromer
Auditor General

Attachment

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

February 5, 1975

MEMORANDUM

TO : AG, Mr. Harry C. Cromer

FROM : C/FFP, Andrew J. Mair

SUBJECT : GAO Draft Report - "The Overseas Food Donation Program - Its Constraints and Problems"

The Agency for International Development appreciates the opportunity to comment on the subject draft report. While the report does not deal with our entire food aid program, it does contain constructive suggestions on the operations of the food donation program (Title II). Further, the report highlights problems that have arisen in recent years with regard to commodity and funding levels. In addition, the report is timely with regard to the recommendations of the World Food Conference and in line with the Administration's efforts to increase food assistance.

The points raised in the report concerning the problems faced in recent years regarding commodity availability and the issues connected with funding uncertainties have indeed been matters of concern to A. I. D., and the GAO has correctly identified several of these problems. However, we believe that it is important to keep in mind that the report deals primarily with the Title II donation program. A review of that program in the context of all PL 480 activities shows that Title II donations have consistently been at least one-fourth of the entire program and have received priority consideration in times of tight commodity and funding availabilities. Further, it should be noted that some reductions in Title II have resulted from adherence to tighter A. I. D. guidelines and a gradual streamlining of the program.

Various assessments of the food assistance program are currently under way in the Executive Branch. For instance, at the World Food Conference the U. S. and other countries agreed to consider establishing a 10 million ton food aid program. Follow-up work on this resolution is underway and the U. S. position will, of course, be discussed with appropriate Congressional committees. The Development Coordination Committee, established in accordance with Section 640 B of the FA Act, will inter alia take steps to assure that U. S. food aid programs, including donation programs, are integrated with other U. S. foreign assistance programs. This Committee includes representatives of State, Labor, USDA, OMB, Commerce and Treasury which have major responsibilities for PL 480 programming. Further, the Office of Food for Peace has initiated a series of meetings with representatives of the voluntary agencies in the budgeting and allocation process, as suggested on page 23.

With regard to the recommendation that the Secretary of Agriculture and the Administrator of A.I.D. take coordinated action to establish a procurement and planning system that would enable USDA to take advantage of opportunities for reducing procurement costs, we shall be pleased to cooperate fully with the USDA for that purpose.

cc: GC
PPC
DCC

APPENDIX III

DEPARTMENT OF STATE

Washington, D.C. 20520

February 12, 1975

Mr. J. Kenneth Fasick
Director
International Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fasick:

I am replying to your letter of January 6, 1975 addressed to the Secretary, which forwarded copies of your Draft Report: "The Overseas Food Donation Program -- Its Constraints and Problems".

The enclosed comments have been prepared by the Bureau of Economic and Business Affairs.

We appreciate having had the opportunity to review and comment upon the Draft Report.

Sincerely yours,

Don C. Eller
Acting Deputy Assistant
Secretary for Budget
and Finance

Enclosure:
Comments.

DEPARTMENT OF STATE COMMENTS ON GAO REPORT: "The Overseas Food Donation Program -- Its Constraints and Problems"

Responsible officers of this Department have reviewed the draft report.

The Department of State is not in a position to comment usefully on the recommendations regarding opportunities for reducing procurement costs (Chapter 3).

We do wish to make the following comments on the recommendation that the Office of Management and Budget take the lead in initiating a comprehensive assessment of US overseas food aid policy and related programs (Chapter 2):

1. A comprehensive assessment of food aid should look at both Title I (concessional sales) and Title II (donation) programs. They compete for the same resources; the purposes served overlap.

2. A food aid study should be carried out in the context of the overall food strategy that the United States and other countries are attempting to develop as a result of the World Food Conference. Specifically, future food aid policy must take into account present and evolving policies with respect to reserves, trade in agricultural commodities and assistance for agricultural development in developing countries.

3. Accordingly, a food aid study should be conducted under the aegis of the International Food Review Group established by the President in November, 1974. OMB is a member of the IFRG and could play the lead role in preparing the proposed study.

Julius L. Katz
Acting Assistant Secretary
for Economic and Business Affairs

APPENDIX IV

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

MAR 26 1975

Mr. Henry Eschwege
Director
Resources and Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This is in response to your request for Department comments on the GAO report, "The Overseas Food Donation Program--Its Constraints and Problems."

We do not believe it is necessary for the Office of Management and Budget to undertake a comprehensive assessment of U.S. overseas food aid policy and related programs. An intensive review of the U.S. food aid policy and programs was recently made by the Executive Branch. This review looked at many factors including the various objectives of food aid, commodity availability, and budgetary and administrative problems. The review, involving all levels of administration, was a means of reconciling high priority domestic and foreign considerations and of making recommendations to Cabinet officers and the President on the level and mix of food aid.

Also, the Interagency Food Review Group, administered at the Assistant Secretary level, has been established as a follow-up to the World Food Conference with considerable emphasis on food aid and the problems related to world food shortages. With the review already made and with a forum established to evaluate food aid's role in the future, we do not see substantial gain in another review involving the same agencies.

The report describes the program disruptions occurring in FY 1974 because of uncertainties in commodity availability with the implication that the Title II program was accorded low priority in programming. Substantial reductions in overall P.L. 480 availability were made relative to prior years' allocations because of tight supply situations and high domestic prices. In the process, however, Title II programming received a high priority with greater relative cuts being made in the Title I program. Some reductions in Title II programming resulted, of course, because of previously established guidelines by U.S. agencies to phase out certain programs.

Mr. Henry Eschwege 2

We do not concur in the recommendation to change inspection procedures for Title II commodities. In the past several years, your agency has submitted numerous reports critical of U.S. Government food inspection standards, and highly critical of the administration of Federal food inspection programs. We are, therefore, surprised--and somewhat disturbed--that your agency would now advocate a program change that we believe could cause serious problems in this respect. In our judgment, such a change would be contrary to your objectives, and would not be in the public interest. We do not believe that inspection standards for food that is to be consumed outside the United States should be any less stringent than those used for food to be consumed by our own people.

We feel that the present system is necessary to assure that purchased commodities conform to specifications. Contractor certifications or the use of a vendor-selected laboratory would not be satisfactory. Laboratory facilities of many processors are not adequate to evaluate all factors in the specifications. Many vendors have minimal or no laboratory facilities, so could not offer their own laboratory compliance report. In addition, the availability of qualified laboratories to test grain products appears to be much more limited than inferred in the report.

There remains the possibility that laboratories selected by the processor may be ones that are "sympathetic" to the processor's desire for a compliance report. We feel that laboratory analysis of USDA purchases is particularly important since the Department cannot purchase name brand items whose quality has been established through a history of commercial acceptance.

Regarding the opportunity for reducing procurement costs, we agree that the planning of requirements on a quarterly basis would be highly beneficial. Quarterly planning levels out fluctuations in quantities of monthly purchases, reduces the number of increment bid prices, and provides opportunity to take advantage of available transportation economies. While we agree with quarterly planning, we feel that actual purchasing should remain on a monthly basis.

We do not concur in the GAO's suggestion to reduce liquidated damages below five cents per hundredweight minimum for any short period of time. The problem of liquidated damages was evaluated by a "team" from AMS and ASCS during late 1972 and early 1973. This review culminated in instructions from the Administrators of each Service (concurred in by OGC) establishing a uniform liquidated damage rate

Mr. Henry Eschwege 3

of not less than five cents per hundredweight for each day of late shipment, or the approximate equivalent for purchases made in units other than pounds (such as cases). Liquidated damages were to be established at a rate of more than five cents per hundredweight for each day of delay, if it was determined that such a higher rate would be a reasonable estimate of the probable actual damages for delay.

Also, we do not believe that a limited number of suppliers invalidates the competitiveness of ASCS purchasing procedures and practices. Even though about 700 purchase invitations are mailed to vendors for each purchase, a number of these vendors have indicated no interest in this program and consequently, in some cases, we are unable to obtain a large number of offers. However, whenever we can stimulate additional vendor interest, we do so.

We do agree that some of the commodities might be removed from the list of commodities for purchase under Title II. We may recommend that rolled wheat, regular cornmeal, and rolled oats be dropped.

Finally, we concur and have implemented the recommendation to return to our former practice of not disclosing, in the invitations, the quantities of commodities to be purchased.

Sincerely,

Richard E. Bell

Deputy Assistant Secretary
International Affairs and
Commodity Programs

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

APPENDIX V

February 7, 1975

Mr. Victor L. Lowe
Director
General Government Division
United States Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

We appreciate the opportunity to comment on your draft report, "The Overseas Food Donation Program -- Its Constraints and Problems," and welcome your efforts to undertake a more comprehensive review of P.L. 480, of which this draft report on Title II is a part.

Regarding your recommendation for a comprehensive assessment of food aid policies and programs by OMB, we believe that the thorough executive branch review of food aid over the past year together with ongoing work to follow up on the World Food Conference will constitute a detailed evaluation of the program in light of changing circumstances. During 1974 when grain and oilseed supplies were extremely tight, the Administration undertook a continuing interagency review of all aspects of P.L. 480 to determine the level and composition of food aid most appropriate to our domestic economic situation and our international objectives. The President was kept fully and currently informed of the results of this review to facilitate his decisions on the food aid program. As noted below, he has recommended legislation enabling him to adjust the priority accorded P.L. 480 programs on a case-by-case basis.

Currently the food aid program is being reviewed, within the broader context of alleviating the problem of world food shortages, by the Interagency Food Review Group, chaired by the Secretary of State. This group is charged with developing U.S. programs and policies in response to the resolutions of the World Food Conference including implementation of a 10 million ton multi-donor food aid commitment. I am sure that a continuing review of the P.L. 480 program will be undertaken in that context. Moreover, the Development Coordination Committee, charged under the Foreign Assistance Act with the coordination of U.S. policies toward developing nations will also be studying food aid as part of its ongoing responsibilities. These activities will allow for the development of new legislation if deemed necessary. Given these efforts and GAO's own study of the food aid program, an additional study by OMB does not appear warranted at this time.

With regard to the remainder of the report, the most notable conclusion is that there has been significant disruption in Title II program planning and implementation because of uncertainty over the availability of commodities. The report stresses greatly increased uncertainties confronting the program since early 1973, when world food shortages led to the drawdown of U.S. grain and oilseed stocks to working levels. It implies that during 1974 and possibly 1975 the uncertainty and disruption may have been compounded because Title II programs were assigned low priority in the allocation of P.L. 480 commodities. Finally, it cites a suggestion that the government guarantee a predetermined quantity of commodities for Title II uses as a possible solution to the problem of uncertainty.

While we agree that commodity shortages substantially disrupted the previous pattern of programming for P.L. 480 as a whole, we take exception, as detailed below, to the implication that the Title II program bore an unacceptable share of the resulting hardship. We suggest that the supporting analysis in the report on this point is not complete, because it is based on a broad statistical approach rather than a study of program plans and policies during the period under consideration. We believe that action was and continues to be taken with success to mitigate the impact of shortages on the Title II program in light of actual conditions as they have evolved. Lastly, we question whether a guaranteed, predetermined allocation of commodities for Title II is consistent with the nature of the program or the best interests of the U.S. Government.

General Impact of Commodity Shortages

The report correctly points out the serious impact on U.S. food aid caused by tight U.S. and world grain supplies. The shift in the supply/demand situation for grain and oilseeds starting in late 1972 was sudden and, over the twenty-year life span of the P.L. 480 program, unprecedented. It led to the undesirable but unavoidable imposition by the United States of export controls on oilseeds and related products. This, in turn, under provisions of law, prevented new commitments of those items under either the Title I credit sales or Title II donation programs of P.L. 480 for a period of two months during the summer of 1973.

As the report indicates, the executive branch responded to this situation by establishing a senior-level interagency group, expanding the membership of the existing Interagency Staff Committee on P.L. 480 (ISC). The group's task was to assure the careful allocation of commodities available for food aid uses. As determined under the provisions of Section 401 of P.L. 480, total grain availabilities for fiscal year 1974 were reduced sharply to about one-third of the amount shipped in 1972. It was agreed by all agencies that this was an undesirably low level of food aid. It derived, however, from the provisions of Section 401, which, in effect, accord food aid lower priority than domestic and commercial export uses and adequate carry-over, regardless of the merits of the food aid requirement.

Recognizing the inflexibility of these provisions, the President has proposed, in legislation transmitted to the Congress in October 1974 and again this month, that he be permitted to raise the priority of specific food aid programs when the law would otherwise prohibit them, if he finds it desirable to do so in order to meet humanitarian needs or otherwise serve the national interest. Presidential action would be taken only after a careful review of the specific food aid activities to be carried out and with full regard for the needs of domestic consumers and the demand for commercial exports at the time the decision was made. We believe that this proposed legislation constitutes the most appropriate modification of law to assure, as called for in your report, that appropriate priority can be given to P.L. 480 among competing uses.

Impact of Shortages on Title II

While acknowledging the Administration's proposal, the report expresses reservations about effectively removing uncertainty from Title II programming. The assumed continuation of such uncertainty, with resulting program disruption, apparently derives from a conclusion that Title II activities have been assigned low priority. In support of this conclusion the report in several places stresses the low level of the Title II program in 1974, portrayed as arbitrarily set. The report also provides, without explanation, tables which show a very substantial reduction in the program from 1972--nearly fifty percent in volume. The text of the report adversely compares the 1974 Title II program with the average level of the preceding 13 years.

Based on our participation in the senior-level interagency review of P.L. 480 for 1974, we believe it clear that Title II activities were assigned a high, although not an absolute, priority during the year. As we pointed out to your staff during informal discussions of your report, the best indication of Title II priority in the face of tight supplies in 1974 is how closely the actual program carried out the original plan.

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As shown in the Budget for 1974, which was prepared before the extraordinary world food shortage had become apparent, it was planned to reduce the Title II program by approximately fifty percent between 1972 and 1974. This reduction was neither sudden nor arbitrary. As detailed in the AID congressional presentation for 1974, most of the cutback reflected the phase-out of an emergency feeding program for the millions of refugees requiring food donations before and after the India/Pakistan hostilities of December 1971. With the establishment of Bangladesh as a nation, food aid there was to be put on a more permanent basis under highly concessional Title I sales.

Most of the remaining reduction reflected the gradual phase-out of ongoing Title II programs in accordance with guidelines established by AID and approved by OMB and USDA. In an interagency review of Title II program proposals, it was decided that programs were to be terminated in countries whose economic growth enabled them to assume responsibility for humanitarian feeding and nutrition activities. Programs were also to be phased out in countries which showed no interest in gradually assuming a share of the feeding burden. Finally, programs were to focus on providing nutritionally significant quantities of food to groups most vulnerable to malnutrition, rather than spreading food aid thinly among a broader group of recipients. The report takes no account of these policies and plans.

In fact, there was some reduction in Title II below the levels originally planned, accomplished in part by an acceleration of program phase-outs. This was required in order to provide food to the drought-stricken areas of Africa. Under less stringent supply conditions, this disaster relief could have been undertaken without a reduction in ongoing programs by an increase in the P.L. 480 budget ceiling. This could also be accomplished in tight supply situations if the proposed P.L. 480 amendment is enacted.

By the beginning of 1975 the experience of the executive branch agencies with tight supplies was such that disruption of the Title II program could be further minimized. Formal and arbitrary export controls were avoided through timely monitoring and a voluntary compliance system. Indeed, there was a necessary delay in a final decision on the aggregate level of P.L. 480 while the world commodity situation was thoroughly assessed and budgetary concerns were reviewed. Nevertheless, shipments for Title II proceeded in line with the originally planned levels with some substitution of one commodity for another. This procedure does not indicate either a low priority for food donations or excessive program disruption, even though world food supplies have remained extraordinarily tight.

For the future, we believe that the proposed amendment to P.L. 480 along with other administrative action will provide as much of a guarantee of Title II program continuity as is advisable. As the report points out, those agencies responsible for conducting the donation program are prepared to review five-year country program plans prepared by the voluntary agencies, although these plans must be oriented toward realistic program objectives rather than simple enumeration of proposed program recipients. The United States is also participating in the establishment of the 10-million ton multi-donor food aid commitment, which may be extended for several years.

Beyond this, both domestic and foreign considerations argue against setting any irrevocable, predetermined Title II level. While the program may have been threatened in the past by its statutory treatment as a residual of other demand, that does not argue that it should be given absolute priority over all other uses. Flexibility is essential so that the program may be adjusted in light of domestic needs and the escalating prices which would accompany any sudden, severe deterioration in the U.S. supply situation. Moreover, the United States has some obligation to commercial export customers whose trade P.L. 480 is intended to promote. Such tradeoffs are best determined in light of specific circumstances rather than arbitrarily in advance. Finally, a guaranteed commodity level would put the government in the position of a buyer who must pay any price to obtain the mandated commodity volume, potentially a very costly arrangement in a period of extremely tight supplies. This could be further complicated by the lack of competition for orders of some processed commodities which your report notes.

Moreover, responsible program management calls for continuing review and adjustment of activities to changing conditions abroad. These conditions may dictate increases or decreases in Title II to make it more effective. A minimum commodity guarantee could automatically force the shifting of funds cut from one program to another of lower priority.

While our comments have taken issue with a number of aspects of your report let me reiterate that we welcome GAO review of the P.L. 480 program and assure you of full OMB cooperation as your study progresses. If there are disagreements in interpretation, it partly reflects the complexity and the importance of the food aid program and highlights the need for a better understanding of P.L. 480 by all of us.

Sincerely,

James M. Frey

James M. Frey
Deputy Associate Director
for International Affairs

PRINCIPAL OFFICIALS RESPONSIBLE FOR ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of Office From	To
DEPARTMENT OF STATE		
SECRETARY OF STATE:		
Henry A. Kissinger	Sept. 1973	Present
William P. Rogers	Jan. 1969	Sept. 1973
AGENCY FOR INTERNATIONAL DEVELOPMENT		
ADMINISTRATOR:		
Daniel Parker	Oct. 1973	Present
John A. Hannah	Mar. 1969	Sept. 1973
COORDINATOR, OFFICE OF FOOD FOR PEACE:		
Andrew J. Mair	Aug. 1973	Present
Kathleen Bitterman (acting)	July 1973	July 1973
Irwin R. Hedges	Dec. 1969	June 1973
DEPARTMENT OF AGRICULTURE		
SECRETARY OF AGRICULTURE (note a):		
Earl Butz	Dec. 1971	Present
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS (note b):		
Clayton K. Yeutter	Mar. 1974	Present
Carrol G. Brunthaver	June 1972	Jan. 1974
OFFICE OF MANAGEMENT AND BUDGET		
DIRECTOR:		
James T. Lynn	Feb. 1975	Present
Roy L. Ash	Feb. 1973	Feb. 1975
Caspar W. Weinberger	June 1972	Feb. 1973
DEPARTMENT OF THE TREASURY		
SECRETARY OF THE TREASURY:		
William E. Simon	May 1974	Present
George P. Shultz	June 1972	May 1974

APPENDIX VI

	Tenure of Office	
	From	To
DEPARTMENT OF COMMERCE		
SECRETARY OF COMMERCE:		
Frederick B. Dent	Feb. 1973	Present
Peter G. Peterson	Feb. 1972	Jan. 1973

[a] Chairman of the Commodity Credit Corporation
[b] President of Commodity Credit Corporation

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