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

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RESOURCES AND ECONOMIC
DEVELOPMENT DIVISION

B-114824

AUG 6 1975

The Honorable Richard E. Bell
President, Commodity Credit
Corporation
Department of Agriculture

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Dear Mr. Bell:

In our January 10, 1975, report to the Congress (RED-75-320), we recommended that the Commodity Credit Corporation (CCC) eliminate hazard insurance coverage on grain for which it pays storage charges and obtain a commensurate reduction in storage rates. We pointed out that, over a 5-year period, CCC collections on insured losses amounted to only 33 cents per dollar of premium.

By letter dated June 17, 1975, CCC's Acting Executive Vice President said that the Department, although concurring with the facts in the report, disagreed with the recommendation as it applied to current and anticipated future inventory activities. He said, however, that the Department would evaluate the new offer-rate system, which became effective July 1, 1975, after it had been in operation for a reasonable period of time. He said that, if any major program changes or any industry changes had occurred at that time, the Department would reconsider the applicability of our recommendation.

Under the offer-rate system, individual warehouse operators offer rates at which they will store and handle CCC grain. An operator may not charge CCC rates higher than those charged other customers for the same service. The rates continue until superseded on a subsequent annual renewal date of July 1.

Although the Acting Executive Vice President indicated future reconsideration of our recommendation, he cited the following reservations about CCC's assumption of insurable risks.

--Assumption of insurable risks would not yield substantial savings in view of current and anticipated future inventory activities.

--Eliminating insurance requirements would have minimal effects on storage rates since the rates offered by warehouse operators would be competitive.

Insurance premiums
Farm products
Storage expense claims

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--Assumption of insurable risks would be contrary to trade custom and disrupt normal business practices.

--Assumption of insurable risks would place an administrative burden on CCC.

CCC's grain inventory is comparatively low--about 70 million bushels at July 3, 1975--and CCC's assumption of risks on this volume would not yield the savings indicated in our report which covered a 5-year period when CCC paid storage on an average of 805 million bushels of grain. It would seem advantageous, however, for CCC to assume risks when its grain inventory is low, regardless of the extent of foreseeable savings, so that a substantial saving can be obtained--with a minimum impact on the insurance and warehousing trades--if its inventory should again accumulate to a large volume.

We question the view that, because the storage rates offered by warehouse operators are on a competitive basis, the effect on the rates would be minimal if the insurance requirement were eliminated. In June 1975 we interviewed operators of 21 grain warehouse entities in Iowa, Kansas, Minnesota, and Nebraska. Some of the entities have storage facilities at several locations.

The warehouse operators readily understood the idea of CCC's assuming its insurable risks after being briefed about our recommendation. All of them indicated the feasibility of a reduced storage rate to CCC if they did not have to insure CCC grain. The operators also told us that they definitely would not pay insurance premiums on CCC grain if CCC did not require insurance protection.

Regarding the competitive factor on storage rates, our interviews indicated that, if CCC should acquire grain through loan forfeiture in a warehouse that charges a higher rate than other warehouses in the locality, CCC could not take advantage of the lower storage rates because of the impracticability of transferring the grain. The warehouse operator in such a case would not be obligated to re-offer CCC the lowest rate available locally. Also, in some localities, warehouses may charge identical rates; thus the competitive factor would be lacking.

With regard to trade customs and normal business practices, the warehouse operators said that CCC's assumption of its insurable risks would present no problem for them. They questioned (1) who would absorb hazard losses if only a portion of the stored grain was insured and (2) the applicability of State requirements that warehousemen must carry insurance on all stored grain to retain a warehouse license. However, the comments in our report on these matters (pp. 14 and 15) satisfied their concerns.

Not a single operator we interviewed said that CCC's assumption of risks would be contrary to usual trade customs or disrupt normal business practices. One operator said that, if CCC assumed its risks, he would not have to "worry" about insuring CCC grain. Another stated that insurance was a separate charge at terminal elevators operating under the United States Warehouse Act. This act does not require insurance on grain except when requested in writing by the depositor.

With regard to placing an administrative burden on CCC, we believe, as stated in our report (pp. 13 and 14), that the elimination of the insurance requirement would present no procedural problem and that CCC would incur only a nominal expense to inform warehousemen on the status of warehouse receipts upon maturity of price-support loans. The operators expressed interest in being informed about such status. One told us that the information would be helpful, for example, in planning the use of freight cars.

We believe the principle of risk assumption for CCC is valid and the present time offers an excellent opportunity to adopt a self-insurance policy. Consequently, we strongly recommend its adoption at the earliest opportunity.

We are sending copies of this report to the Secretary of the Treasury; to the Director, Office of Management and Budget; to the Chairmen, House and Senate Committees on Appropriations and Government Operations; and to other interested congressional committees. We are also sending copies to the Secretary of Agriculture; to the Director, Office of Audit, Department of Agriculture; and to the Executive Vice President and the Acting Controller of the Corporation.

Sincerely yours,

Henry Eschwege

Henry Eschwege
Director