DOCUMENT RESUME

01883 - [A1252234]

Issues Surrounding the Management of Agricultural Exports. ID-76-87; B-176943. May 2, 1977. 2 vols. (v.1, 127 pp.; v.2, 115 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: Food: Federal Involvement in U.S. Agricultural Commercial Export Sales (1714).
Contact: International Div.
Budget Function: Agriculture (350).
Organization Concerned: Department of Agriculture; Council of Economic Advisers.
Congressional Relevance: Congress.
Authority: Agricultural Act of 1970, as amended; Agriculture and Consumer Protection Act of 1973, sec. 812 (P.L. 93-86; 7 U.S.C. 612c-3 (Supp. IV)). Export Administration Act of 1969, as amended (50 U.S.C. App. 2401-2413; 50 U.S.C. App. 2403(F) (Supp. IV)). B-114824 (1974). B-178753 (1974). B-159652 (1974). B-146770 (1975). B-133160 (1975).

Interviews, questionnaires, and literature reviews were utilized in an attempt to describe and evaluate: (1) circumstances surrounding 1974 and 1975 grain purchase by the Soviet Union; (2) Agriculture's management of its export reporting system; (3) Agriculture's forecasting of foreign supply and demand; and (4) executive branch agricultural export policy and related issues. Findings/Conclusions: Fundamental improvements are needed in the Nation's food export machinery. The Department of Agriculture's export reporting system needs to provide accurate and timely data on exports--a necessary input if the effects on domestic supply and price are to be minimized. Current elements of export policy need to be more complete and cohesive and need to provide the flexibility necessary to meet both domestic and international objectives and changing food supply and demand situations. Export policy implementation needs more coordination, cohesion, and better timing.
Recommendations: The Congress should enact legislation providing for an improved export reporting system that will function as an effective early-warning system. Congress should also establish a food export policy that protects the interests of both producers and consumers, while simultaneously providing an effective policy mechanism for surplus and shortage market conditions. That policy should also clarify the Government's position on grain sales to nonmarket economies, including the desirability of such mechanisms as long-term agreements and government-to-government negotiations. The question of a national grain reserve, the role of multinational grain exporters in U.S. marketing, and the role that could be played in grain exporting by U.S. grain cooperatives should also be considered by the Congress. (Author/SC)

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Issues Surrounding The Management Of Agricultural Exports

Volume I

Agriculture's export reporting system needs to provide more accurate and timely export sales data. U.S. food policy needs more cohesion and flexibility to meet domestic and international objectives and changing food supply/demand conditions.

By legislation the Congress should provide for an improved export reporting system to function as an effective early warning system and should direct that a food export policy be established that protects the interests of U.S. producers and consumers. That policy should also clarify the Government's position on grain sales to non-market economies.

ID-76-87

MAY 2, 1977

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

B-176943

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

We have reviewed executive branch management of Russian grain sales, agricultural export reporting, and related export policy issues. Interim staff briefings were provided to interested Members of Congress. We testified before the Permanent Subcommittee on Investigations of the Senate Committee on Government Operations on August 1, 1975. On June 24, 1976, we testified before the Subcommittee on Foreign Agricultural Policy and the Subcommittee on Agricultural Production, Marketing and Stabilization of Prices of the Committee on Agriculture and Forestry, United States Senate. The testimony described the tentative findings of GAO's review of executive branch management of Russian grain sales, agricultural export reporting, and related export policy issues.

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

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Agriculture; and the Chairman, Council of Economic Advisers.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

ISSUES SURROUNDING THE
MANAGEMENT OF AGRICULTURAL
EXPORTS
Department of Agriculture

D I G E S T

GAO has conducted a series of reviews of the agricultural export situation since 1972, when Russia's massive grain purchases and worldwide changes in food supply helped to focus national attention on the challenge of allocating the Nation's food resources to meet domestic and international objectives.

GAO's current review focused on a key element of food resource allocation--food export policy--and on executive branch management of Russian grain sales, export reporting, and related export policy issues (See pp. 1-6.)

GAO found fundamental improvements are needed in the Nation's food export policy machinery:

--Agriculture's export reporting system needs to provide accurate and timely data on exports--a necessary input to aid policymakers in exercising measures to mitigate the effects which large, lump-sum purchases have on domestic supply and price. (See ch. 4.)

--Current elements of export policy need to be more complete and cohesive, and need to provide the flexibility necessary to meet both domestic and international objectives and changing food supply and demand situations. (See ch. 6.)

--Policy implementation needs more coordination, cohesion, and better timing. (See ch. 6.)

Agricultural Exporting Reporting

Although an export reporting system has been in operation since 1973, the system does not provide reliable prospective sales data early enough to allow U.S. policymakers to make timely decisions. The Department of Agriculture requires that export sales data be reported, but such data is often dramatically changed before shipments are made and reported too late to provide an early warning indicator. (See ch. 4.) To improve the system, GAO recommends that the Secretary of Agriculture require:

--Exporters to explain contract changes to the Government. This may reduce modifications substantially and thereby increase data reliability.

--Exporters to advise the Government of their intent to negotiate contracts at the earliest possible time. This would help satisfy the early warning need.

--Additional information on contracts to include classification of foreign buyers, disclosure of pricing terms, exact destinations and other provisions. This information would greatly improve export data reliability. (See p. 114.)

U.S. Forecasting of Foreign Supply and Demand

Efforts in this area--particularly for the Soviet Union and other non-market economies--should be further upgraded and improved. Better market intelligence and analysis coupled with greater intraagency and interagency communication and coordination is necessary and desirable. (See ch. 5.)

The Executive Branch could benefit from considering some of the forecasting methodologies used by major multinational exporters, the Central Intelligence Agency, and the United Nations Food and Agriculture Organization.

Substantial improvement is dependent on the Government's progress in eliciting forward estimates from the Soviet Union, as provided by the 1973 U.S.-U.S.S.R. Agricultural Cooperation Agreement.

GAO therefore recommends that the Secretary of Agriculture evaluate Soviet compliance with the 1973 agreement to determine how it has benefitted the United States and the Soviet Union, whether it is effective, and how to insure Soviet compliance with its forward estimate provision. (See p. 115.)

Agriculture Export Policy

While advocating a hands-off approach to agricultural export policy, Government has intervened extensively on an ad hoc basis in the U.S. agricultural market. The GAO recommends that Government response be formulated within an agricultural policy framework with criteria designed to satisfy specific output objectives but with the flexibility to change when conditions change. Who should get what, when and why are the critical questions such a framework should address. This would allow consideration of a number of different policy actions which would be appropriate under different conditions. (See pp. 115-116.)

Implementing Policy

With 26 Federal agencies involved in agricultural policymaking and despite a 1976 reorganization in U.S. policymaking structure, there is still uncertainty regarding how and when major policy options should be implemented. In addition to improved data reliability and an integrated agricultural policy, a new mechanism to effectuate policy action is worth consideration. (See ch. 6.)

GAO believes that a national agricultural policymaking system should include these essential elements:

--An early warning system for export sales. (See p. 114.)

--A flexible policy framework that satisfies specific objectives. (See pp. 110, 115-116.)

--A structure and procedure for implementing policy action. (See p. 110.)

--Contingency planning to meet domestic and foreign economic policy objectives and national security needs. (See pp. 115-116.)

Handling of Russian Grain Sales

The Executive Branch has taken numerous actions over the past three years to improve its information gathering, data analysis, and decisionmaking processes. But weaknesses in these areas, cited in GAO's 1973 Russian wheat report and its 1974 soybean and commodity shortages reports, persist. Domestic and international disruptions associated with the 1973 soybean embargo and Russia's 1974 and 1975 grain purchases demonstrate a lack of substantial change in the Executive Branch's agricultural export policy. (See pp. 105-106.)

Removal of the 1975 temporary embargo on U.S. grain exports to the Soviet Union coincided with a 5-year purchasing agreement with the Soviets. During 1976--the agreement's first year of operation--the Soviets purchased in an orderly manner about 6 million tons of U.S. wheat and corn (the minimum required under the agreement). Because of significant increases in Soviet 1976 grain production, the Soviets had no need to import large quantities of U.S. grain. Therefore, the agreement's maximum limits were not tested. But the agreement's existence did result in minimum Soviet purchases which otherwise might not have been made. (See p. 107.)

Prior to negotiating the 1975 agreement with the Soviets, the Government intervened in the grain exporting market without warning and in the wake of strong official statements that such action would be unnecessary. While the agreement has added some stability to the purchasing relationship between the two nations, its effectiveness remains uncertain until tested under a variety of circumstances. (See p. 105.)

In view of the uncertainty associated with the 1975 agreement and in light of its significance, GAO recommends that the Secretary of Agriculture:

--Evaluate the effectiveness of the agreement, determining costs and benefits to producers, processors, consumers, exporters, and the Soviet Union.

--Submit an annual report to Congress evaluating the agreement's effectiveness.

--Require that all future long-term grain purchasing agreements between the U.S. Government and other governments be fully reviewed by relevant Executive Branch agencies and be subjected to some form of congressional consultation.

--Require that all future short-supply export control decisions be subjected to some form of congressional consultation before being finalized. (See p. 116.)

Matters for Consideration by the Congress

In its consideration of and deliberations over the forthcoming Agricultural Act of 1977, GAO recommends that Congress enact legislation providing for an improved export reporting system that will function as an effective early warning system. GAO has submitted to Congress proposed legislative language providing for needed improvements to the export reporting system. (See vol. II, app. F.)

The GAO also recommends that Congress establish a food export policy that protects the interests of both producers and consumers, while simultaneously providing an effective policy mechanism for surplus and shortage market conditions. That policy should also clarify the Government's position on grain sales to non-market economies, including the desirability of such mechanisms as long-term agreements and government-to-government negotiations.

Other issues for Congressional consideration include: the question of a national grain reserve (see pp. 100-101); the role of multinational grain exporters in U.S. marketing, and the degree of concentration in this area (see p. 104); and the role that could be played in grain exporting by U.S. grain cooperatives (see p. 104).

Agency Comments and GAO Evaluation

Agriculture in its January 19, 1977, official response acknowledged the accuracy of factual material presented in GAO's report. However, it disagreed with the general thrust of the report's conclusions, recommendations, and matters for consideration of the Congress. Agriculture contended that its policy over the past 4 years has been effective and that GAO's recommendations would unnecessarily involve government in agriculture, resulting in a reduction of U.S. grain exports.

GAO maintains that a balanced agricultural policy involving the government in a supportive role is essential to avoid recurrences of crises similar to those resulting from past Russian grain sales and export embargoes. It is also necessary if the U.S. is to preserve its market-oriented agricultural policy and provide for some form of market stability in the event of extreme shortages and surpluses. (See pp. 110-114.)

Volume I

Contents

Page

CHAPTER

CHAPTER 1

INTRODUCTION

Policy choices involved in massive grain sales to Russia have been of continuing Governmental concern since the first of these purchases took the Nation by surprise in 1972. Intense national debate has centered on the impact of these and subsequent purchases in 1974 and 1975.

Together with many other supply and demand variables, the grain sales have been a factor in the unstable agricultural market situation of the past 3 years, a period characterized until recently by tight supplies and high prices, and by continuing general market uncertainty. How significant a factor the sales have been has proved difficult to assess.

Consumers have been quick to blame rising food prices on the foreign sales. Farmers, on the other hand, have welcomed the new market, and have reacted sharply to Government intervention. Three maritime unions, with other union backing, temporarily refused to ship U.S. grain to the Soviet Union.

The fact that the sales have improved the U.S. balance of trade situation must be weighed against the depletion of U.S. and world grain stocks and the decreased availability of commodities for concessional food and feedgrain exports to developing countries.

One certain effect of the sales has been to force recognition of the interrelationship between domestic and international economic policy, and to elevate agriculture to a high priority in formulating and executing foreign economic policy.

A central question is what kind of role the Executive Branch should choose in dealing with grain exports. Since 1972, Government intervention--through either voluntary or mandatory short-supply export controls--has strained its free-market approach to grain export policy and raised the question whether established guidelines for future intervention should be assessed.

Government efforts to stabilize grain marketing, through formal and informal long-term grain purchasing agreements with other countries have not met with universal acceptance. Farmers, as noted, have attacked them sharply as unwarranted interference in the free market.

GAO STUDIES, 1973-1975

During the continuing controversy over grain export policy, the Congress has called on the GAO to make several investigations.

The results of the first study were published in July 1973: "Russian Wheat Sales and Weaknesses in Agriculture's Management of Wheat Export Subsidy Program, (B-176943)." GAO concluded that (1) there were no guidelines for managing grain sales to non-market economies; (2) no accurate, timely, reliable and complete export data to assist decisionmakers; and (3) no systems for assessing the impact of exports on the economy.

To develop a responsive governmental system for managing grain sales to non-market economies in the future, it was recommended that:

--Agriculture establish rules and procedures for transactions involving unusual purchases by state trading monoplies. The unequal bargaining power that exists when a single, fully informed buyer (such as the Russian state trading agency) confronts several partially informed sellers calls for greater government-industry cooperation.

--As part of the above, Agriculture establish an export reporting system in cooperation with private exporters so that the Government is informed of impending large sales to non-market economies.

--Agencies be required to develop definitive ground rules so that expected benefits from exports can be appropriately weighed against their impact on various segments of the economy.

In March 1974, GAO issued a report, the "Impact of Soybean Exports on Domestic Supplies and Prices, (B-178753)," reiterating the need for a reporting system that provides for accurate, timely, and reliable export data. The report emphasized that such a system must provide the Agriculture Department with the information to make responsive, export-related decisions and to carry out those decisions promptly to help insure an adequate domestic supply at reasonable prices. The report also suggested that the Agriculture Department adopt a more flexible export policy so that the Government would be able to respond early to unanticipated supply and demand conditions.

Our April 1974 report, "U.S. Actions Needed To Cope with Commodity Shortages, (B-114824)," also cited a variety of informational, analytical and decisionmaking weaknesses. The recommendations in that report included making improvements in: (1) coordination and responsiveness of the commodity decisionmaking process; (2) implementation, reporting, and evaluation of short-supply export controls; (3) capabilities, procedures, and report products of agency commodity monitoring, analysis, and forecasting groups; and (4) data gathering, analytical capabilities, and policy coordination for long-range economic policy planning efforts.

As an outgrowth of our 1973 review of Russian wheat sales and the Wheat Export Subsidy Program, we further examined the role of the agricultural attache and issued a report on April 11, 1975, titled, "The Agricultural Attache Role Overseas: What He Does and How He Can Be More Effective For The United States," (ID-75-40). In that report we commented on the attaches' information gathering and reporting responsibilities, focusing particularly on their operating role in the Soviet Union, Eastern Bloc countries and the People's Republic of China. We found that attaches had limited effectiveness in developing, gathering and analyzing foreign market information. We recommended that Agriculture upgrade the quality of attache reporting both in market and non-market economies.

In a separate Congressional review of Russian grain transactions, the Permanent Subcommittee on Investigations of the Senate Committee on Government Operations, issued a report in July 1974 concluding:

> "* * *the government and specifically the Department of Agriculture (during the 1972 Russian grain sales) had no means to inform itself in an accurate and timely fashion as to the quantity of grain sales to foreign buyers which could assist in an assessment of such sales, domestic supplies and domestic prices* * *. Specifically, the Subcommittee finds that the Agriculture Department failed to initiate even a rudimentary reporting sytem for grain exports."

In an effort to provide the executive branch with constructive alternatives for dealing with future grain sales to the Soviet Union, the Subcommittee recommended: (1) GAO review Agriculture's export reporting system--which was established as a result of an act of Congress in September 1973--to determine that its information is accurate, complete and timely; and (2) interagency coordination and oversight of large grain sales be initiated to reconcile conflicting goals of U.S. foreign, agricultural, transportation, economic and social policies at the outset of trade negotiations.

As a result of significant unanticipated purchases of U.S. grain by the Soviet Union in 1974 and 1975, the Subcommittee convened hearings in October 1974 and again in July and August of 1975 to reexamine the government's management of grain sales to the Soviet Union. In each case the Subcommittee found that the substance of the recommendations had been only partially implemented.

Purpose of GAO Review

Our review was made in response to the Subcommittee's 1974 recommendations and also in response to the request of several Members of Congress to review Agriculture's implementation of GAO's 1973 Russian Wheat Report recommendations and the circumstances surrounding the 1974 and 1975 Russian purchases of U.S. grain.

Since starting our review we have briefed several Members and committees of Congress on various aspects of Russian grain sales. On August 1, 1975, we testified before the Permanent Subcommittee on Investigations of the Committee on Government Operations of the United Sates Senate to describe the status of our on-going efforts.

On March 3, 1976, we issued a separate follow-up report concerning our 1973 Russian Wheat Sale Report recommendations on the Wheat Export Subsidy Program, titled, "Agriculture's Implementation of GAO's Wheat Export Subsidy Recommendations and Related Matters, (B-176943)." We reported that:

--Agriculture had not evaluated the former subsidy program.

--Agriculture officials contended that there was no need to systematically evaluate the former subsidy program (which was suspended in September 1972) nor to subsequently develop a new, standby program because they believed the tight wheat supply and high demand situation existing since 1972 would continue, precluding the need to reestablish export subsidy.

--Agriculture's policy provides no adequate policy alternatives for disposing of surplus wheat.

--Current Federal investigations of U.S. grain inspection practices raised the question of recovering Federal subsidy payments on grain exports.

Based on our findings and continuing concern for more effective programs, we recommended that the Secretary of Agriculture (1) conduct an evaluation of the former subsidy program, and (2) initiate appropriate action to insure that any future program will be effective and efficient. We also suggested to Congress that it might wish to reexamine the entire subject of agricultural export subsidies and to determine whether legislation should be considered as a means for insuring a more effective and efficient subsidy program, should one become necessary in the future.

On June 24, 1976, we testified before the Subcommittee on Foreign Agricultural Policy and the Subcommittee on Agricultural Production, Marketing and Stabilization of Prices of the Committee on Agriculture and Forestry, United States Senate. The testimony described the tentative findings of GAO's review of executive branch management of Russian grain sales, agricultural export reporting, and related export policy issues.

Our current report is a detailed and in-depth extension of that testimony. The report attempts to describe and evaluate: (1) circumstances surrounding 1974 and 1975 grain purchases by the Soviet Union; (2) Agriculture's management of its export reporting system; (3) Agriculture's forecasting of foreign supply and demand; and (4) executive branch agricultural export policy and related issues.

As part of this project, we developed and sent a questionnaire to approximately 300 exporters of U.S. grain (the entire U.S. export market) requesting information on various aspects of grain export policy. (See pp. 56, 57, Chap. 4 and Volume II, Appendix G.) We also provided legislative language to amend Section 812 of the Agricultural Act of 1970 as added by the Agriculture Act of 1973 (P.L. 93-86), which strengthens Agriculture's Export Reporting System regulations. (See Vol. II, Appendix F.)

SCOPE OF REVIEW

During the course of our review of Russian grain sales, export reporting and related export policy issues, we interviewed numerous public policy experts, agricultural policy specialists, agricultural economists, agricultural commodity analysts and other representatives of the agricultural sector. The officials we contacted are associated with or employed by the following organizations:

PRIVATE SECTOR

All Exporters of U.S. grain (Approx. 300)
Grain Exporter Associations
Agricultural Trade Associations

Farmer Cooperatives
Agricultural Economists
Commodity Traders
Private Commodity Forecasting Organizations

U.S. GOVERNMENT

White House
Council of Economic Advisers
Economic Policy Board
National Security Council
Council on International Economic Policy
Special Representative for Trade Negotiations
Central Intelligence Agency
Commodity Futures Trading Commission

Agriculture Department
State Department
Labor Department
Treasury Department
Federal Trade Commission
Relevant congressional entities
Federal Maritime Commission
Commerce Department
Food and Agriculture Organization of the United Nations

The study also covered various executive branch documents and files and, on occasion, some documents and publications of the private sector. We also contacted knowledgeable congressional staff members and reviewed relevant congressional hearings and reports. Interviews, questionnaires, and reviews of written material were extensive.

CHAPTER 2

GOVERNMENT'S HANDLING OF 1974 GRAIN SALES TO RUSSIA

SITUATION, SUMMER, 1974

As evidence of a potential tight supply situation for wheat, corn, and soybeans emerged in June 1974, the President established a Cabinet-level Committee on Food, appointing his Counsellor for Economic Policy as Chairman. The Committee was formed to review Government activities significantly affecting food costs and prices and to provide coordination for the Nation's policy relating to (1) domestic and international food supplies and (2) food costs and prices. The Committee's functions were transferred to the Economic Policy Board (EPB) in October 1974.

On June 21, 1974, the Chairman of the Committee established a working group--the Deputies Group--composed of representatives from member organizations and chaired by representatives from the Council of Economic Advisers. The Deputies Group began meeting on a biweekly basis shortly after the President's Committee was established. From early August the Group focused on (1) the U.S. crop shortfall and its implications for export policy, (2) Public Law 480 1/ policy and (3) domestic food prices.

Beginning in mid-August meetings were stepped up to a weekly schedule to keep abreast of the domestic crop situation. Information was presented on export commitments from the Agriculture Department's export reporting system, export shipments, domestic and foreign production, food aid commitments, and domestic consumption.

Analysis conducted by the Deputies Group in August, September and October reflected a rapid increase of projected corn and wheat exports and a dramatic decrease in projected domestic carryover levels. The following table provides a detailed breakdown of the deteriorating market condition.

1/Provides for U.S. agricultural exports on a concessional basis to foreign nations.

Supply and Demand for Major U.S. Crops 1974-75 (note a) (million bushels)

	8/11/74	9/15/74	10/13/74	10/27/74
			Wheat	
Supply:				
Beginning stocks	249	249	249	249
Production	1,840	1,792	1,781	1,781
Imports	1	1	1	1
Total supply	2,090	2,042	2,031	2,031
Demand:				
Domestic	808	815	813	738
Exports:				
Cumulative exports	117	228	311	352
Undelivered sales	339	389	434	465
Total exports	456	617	745	817
Total demand	1,264	1,432	1,558	1,555
Carryover	826	610	473	476
			Corn	
Supply:				
Beginning stocks	428	428	428	481
Production	4,966	4,995	4,718	4,718
Imports	1	1	1	1
Total supply	5,395	5,424	5,147	5,200
Demand:				
Feed	3,830	3,859	3,607	3,535
Food, ind. and seed	455	455	455	455
Total domestic	4,285	4,314	4,062	3,990
Exports:				
Cumulative exports	-	-	24	50
Undelivered sales	608	1,055	1,096	1,125
Total exports	608	1,055	1,120	1,175
Total demand	4,893	5,369	5,182	5,165
Carryover	502	55	35	35
			Soybeans	
Supply:				
Beginning stocks	160	160	172	172
Production	1,314	1,316	1,262	1,262
Total supply	1,474	1,476	1,434	1,434
Demand:				
Crushings	805	805	805	805
Seed, feed, and residual	84	86	84	84
Total domestic	889	891	889	889
Exports:				
Cumulative exports	-	13	43	61
Undelivered sales	449	595	614	614
Total exports	449	608	657	675
Total demand	1,338	1,499	1,546	1,564
Carryover	136	-23	-112	-130

a/Prepared by GAO from information provided by the Department of Agriculture.

As the domestic carryover situation continued to deteriorate, policy decisions were made to avoid imposing export controls and to begin consultations with major U.S. trading partners to share the adjustment burden required by the U.S. crop shortfall. First discussions were conducted in late August by the Secretary of Agriculture and representatives from the Council on International Economic Policy (CIEP) with Japan, the European Community, and the Soviet Ambassador in Washington. The U.S. representatives inquired about Soviet intentions to purchase U.S. grains, but the Soviet Ambassador said he had no instructions.

SEPTEMBER DEVELOPMENTS

Responses from Western trading partners were generally favorable and informative. An indepth review was made by the Deputies Group in early September and an option paper was prepared for the Food Committee. The Committee decided in mid-September to continue the strategy designed to avoid export controls by facilitating market adjustments and maintaining close consultations with U.S. trading partners.

The Deputies Group repeatedly expressed concern about the reliability of the export demand data reported by the Agriculture Department. Generally, it was felt that this data presented an exaggerated demand picture, in view of other indications of reduced export demand for U.S. grains and continuing stable prices.

The export reporting system was changed on September 12, 1974, to require that previously unreported export sales be reported within 24 hours whenever the quantity of a sale or sales to any destination during any calendar day equals or exceeds 100,000 metric tons. Reports were required for exports of wheat, corn, grain, sorghum, soybeans, and soybean meal to permit the Government to deal with any exceptional orders.

In the meantime, the Deputies Group's September assessment efforts were also being plagued by varying reports of the 1974 Soviet grain crop. In early September, the Agriculture Department estimated it would be 210 million tons. It also reported that the 1973 crop had permitted the Soviet Union to increase stocks by an estimated 11 million tons. The Department estimated that Soviet feedgrain imports would be only about a fifth as large as the 5 million tons imported in 1973-74 and that the Soviets would purchase only 50,000 tons of U.S. corn.

However, other information available to the Deputies Group indicated reduced Soviet production and possibly greater demand for U.S. grains. On September 20 the agricultural attache in Moscow confirmed his earlier (June 1974) estimates that Soviet production would range from 195 to 205 million tons.

The Deputies Group also had to consider the fact that the Soviets had been a major buyer of U.S. corn over the previous three years, with imports averaging 3.5 million tons per year.

DECISION ON PRIOR APPROVAL, SEPTEMBER 19

The Food Committee recognized that the major threat to its mid-September strategy, aside from further U.S. crop setbacks, was possible purchases by the Soviet Union, the People's Republic of China (PRC) and the Persian Gulf oil-exporting countries.

Consequently, on September 19, 1974, the Committee decided to have the Secretary of Agriculture contact the major exporting companies to inform them that the Government expected prior approval on exceptional sales to these countries.

The Committee also decided a formal approach should be made to the Soviet Union to clarify the U.S. crop situation and to obtain advance knowledge of Soviet import needs if purchases were expected. The Departments of State and Agriculture were designated to carry out this directive.

CONTACTS WITH EXPORTERS, SEPTEMBER 25

The September 19 directives of the Food Committee were implemented by the Secretary of Agriculture's phone conversations with major grain exporters and by another, more formal, approach to the Soviet Union.

The Secretary called Cook Industries, Inc., on September 25, 1974, and inquired about what the Soviets were possibly going to buy. He learned that Cook officials expected the Russians to purchase 2 million tons of U.S. corn, as well as 4 to 6 million tons of corn from the world market to support their developing broiler and cattle-feeding programs. The Secretary requested the company to notify him immediately if it sold a significant amount of grain. "Significant" was defined as over 1 million tons. The Secretary did not request the company to obtain clearance before finalizing any sale. That day he also called Continental Grain Co., as well as the other major exporters, and asked Continental to inform him before concluding any sale.

U.S.-SOVIET GOVERNMENT CONTACTS

A cable to the U.S. Embassy in Moscow on September 25 instructed the Embassy to explain to the Soviet Government:

--the tight supply/demand situation for U.S. grains and the need for information on Soviet intentions to purchase U.S. grains,

--that other countries had provided the United States with such information and that the request was instructed by Washington, and

--that since the U.S. market was tight, the Government was not sure that it could service large requests.

Thus it wished to know to the degree of possible Soviet purchase intentions.

The Soviet Deputy Minister of Foreign Trade responded that:

--the Soviet Union did expect to purchase some grains in the United States but its requirements would be considerably below previous purchases;

--the Soviet Union did not wish these quantities to be burdensome to the United States and would like to know the U.S. view of what a reasonable amount would be;

--since Soviet crop data was not in, specific Soviet requirements were as yet unknown, but would be conveyed to the U.S. when the Soviet trading agency contacted U.S. grain exporters.

The Soviet Ambassador informed the Secretary of Agriculture the same day that the Soviet Union would wish to purchase modest quantities of U.S. grain and that it wished to have a statement of the U.S. position. The Secretary told him that the U.S. market remained tight with the recent frost and that it would be preferable to delay any purchases in the market until after the Government had a clearer crop report and knew the real situation. He also told the Ambassador that as a tentative estimate he believed that modest quantities, perhaps on the order of one million tons of wheat, could be accommodated sometime later in the year.

Not until after the Soviet Union's purchases were held up in early October did the U.S. Government adequately address the problem of responding to Soviet questions about acceptable levels of feedgrain purchases for the remainder of the crop year. There was some discussion of this issue before the September 25 cable to Moscow, but no quantity was agreed upon. The reasoning may have been that specifying a quantity would be the equivalent of a purchase guarantee.

ECONOMIC POLICY BOARD SET UP

On September 30, 1974, the President issued Executive Order 11808, which established the President's Economic Policy Board (EPB). The Board was composed of various Cabinet and White House officials, with the Secretary of the Treasury as Chairman and the Assistant to the President for Economic Affairs as Executive Director. EPB advised the President on all aspects of national and international economic policy; oversaw the formulation, coordination, and implementation of all U.S. economic policy; and served as the focal point for economic policymaking.

REPORTS OF SOVIET INTEREST, SEPTEMBER 30, OCTOBER 1

In response to the Secretary's September 15 request, Continental Grain Company informed the Agriculture Department on September 30 that there appeared to be a strong possibility that the Soviet Union was interested in receiving offers of U.S. grain during the next seven to ten days. On October 1, Continental told USDA that it had again advised Soviet representatives that the U.S. grain situation was tight and that USDA officials opposed large sales.

CONTINENTAL'S CORN SALE TO SOVIET GOVERNMENT

When the Soviet representative asked what quantities the company was prepared to offer, Continental Grain Company proposed to the Agriculture Department that it confine its offer to 1 million tons of corn. The Secretary of Agriculture agreed to approve this sale, but it is unclear whether his approval covered only Continental's proposed sale or whether it was meant to cover total U.S. sales to the Soviet Union. In any case, the Secretary told Continental officials on October 3 that he could not approve a Soviet bid that day for an additional two million tons of wheat. Later that day, Continental Grain Company informed U.S. Government officials that the terms and conditions for the sale of one million tons of corn had been finalized and filed the required formal notification of the sale with the Agriculture Department.

Since this sale was at variance with established policy (to get other countries to follow the U.S. action to reduce consumption of feedgrains and share some of the adjustment necessitated by the shortfall in U.S. crop production), the Deputies Group, meeting that day, decided to contact the Secretary of State and the National Security Council. State's representative to the Deputies Group also prepared a memorandum on the Russian grain purchase for the Secretary which included recommendations to contact the Soviet Union.

The Deputies Group met again on the morning of October 4 and prepared an options paper for consideration by the Economic Policy Board's Executive Committee on Continental Grain Company's finalized corn sale and proposed wheat sale.

COOK INDUSTRIES, INC. NEGOTIATIONS

Cook Industries, Inc., concluded its negotiations with the Russians at 11:45 a.m. on October 4, for the sale of 1,300,000 tons of corn and 900,000 tons of wheat. The company called the Agriculture Department about 1:30 p.m. and was told that the Department had to notify the White House immediately. While representatives of the Deputies Group were waiting at the White House for a scheduled meeting with the Economic Policy Board's Executive Committee, they were informed of Cook's sale to the Soviet Union. The Deputies Group representatives then informed the Executive Committee of the situation.

Contact was made with the other major U.S. exporters, who advised that additional Soviet purchases of corn and wheat in the range of six to eight million tons were expected.

DECISION TO DEFER SOVIET CONTRACTS

Subsequent Executive Committee discussions initially focused on the use of licensing and export controls. A

Deputies Group representative argued that across-the-board export controls were unnecessary but that Soviet purchases should be held up. Following consultations with the Secretaries of Treasury and State, the President agreed.

After the discussion, the Secretary of State called the Soviet Ambassador to the United States and informed him of the U.S. Government's decision. He told the Ambassador that the magnitude of these contracts was more than the American market could stand at that time. The Ambassador still thought they were modest quantities and no resolution was reached. The Secretary of State told the Ambassador that the Secretary of the Treasury would discuss the question of grain sales with Soviet officials while in Moscow the following week.

WHITE HOUSE MEETING WITH EXPORTERS

Continental Grain Company and Cook Industries, Inc., officials were invited to a White House meeting on October 5.

A statement released by the White House Press Secretary on this meeeting stressed the President's expression of strong concern and the grain companies' responsiveness to this concern. The statement also reported that the two companies were arranging to cancel these contracts, and that Government-to-Government discussions would be undertaken with Soviet officials during the Secretary of Treasury's trip to Moscow.

On October 7, an official letter was sent to the two grain companies (reportedly at their request) by the Secretary of Treasury (as Chairman of the Economic Policy Board) stating the President's strong concern over the potential impact of such exports when the United States had experienced a disappointing harvest of feedgrains. The letter also stated that the contracts were not in the national interest at that time and that the companies should not implement them. Further, the letter formally and officially confirmed the Government's request that the companies not ship the grain.

MONITORING AND APPROVAL OF EXPORT SALES

As a result of the decision to hold up the Russian purchases, an ad-hoc export sales approval group was established in early October at the Secretary's suggestion and with the President's approval. Initially, the group consisted of representatives from the Council of Economic

Advisers, the Office of the Special Representative for Trade Negotiations, the National Security Council, and the Departments of State and Agriculture; Treasury was subsequently added. The group was originally chaired by CEA, but was subsequently transferred to USDA.

GUIDELINES

On October 8, 1974, the Agriculture Department announced new guidelines for the voluntary prior approval system for large export contracts. Exporters of wheat, corn, grain, sorghums, soybeans, and soybean oil cake and meal were requested to obtain USDA approval prior to making:

1. export sales which would either:

    a. exceed 50,000 tons of any one commodity in one day for shipment to any one country of destination, or

    b. cause the cumulative quantity of sales of any one commodity made to any one country of destination during any one week (Monday through Sunday) to exceed 100,000 tons; and/or

2. any change to a known country of destination from a country of destination (including unknown destinations) previously reported to USDA in Form C.E. 06-0098 covering existing export sales if the change(s) for any one commodity exceeding 50,000 tons in any one day accumulates to exceed 100,000 tons during any one week (Monday through Sunday).

It was also requested that neither offers nor sales made under Title I, Public Law 480 need be reported under this voluntary system. It was further requested that exporters make their offers under a tender issued by a foreign buyer (usually a foreign government) subject to USDA approval. However, exporters were informed that USDA would not knowingly approve offers or sales made under a tender that lacked such a condition.

APPROVAL CRITERIA

The ad hoc approval group developed criteria for approving large sales. Guidelines for prior approval issued by USDA on October 9, 1974, stated:

"In determining which proposed sales will be given prior approval and which will not, the Department will consider the total annual requirements of the country involved and the extent to which those requirements are already covered. Factors, in addition to the U.S. availability, will include the level of the foreign country's 1974-75 crop; its stocks on hand; existing purchase contracts calling for future delivery; projected consumption; and the pattern of imports during recent years."

RENEGOTIATION OF THE SOVIET PURCHASES

After the October 5 meeting at the White House, the Deputies Group prepared an options paper on how much U.S. grain could be exported to the Soviet Union. The paper was submitted to the Executive Committee of the Economic Policy Board and was discussed with the President, who gave the Secretary of the Treasury instructions for his discussions in Moscow.

The options included questions of timing and the quantity and composition of the purchases. The timing question was whether to defer Soviet purchases until after the October crop report or until after January 1, 1975. The quantity and composition question was whether to (1) permit Soviet purchases of 50,000 tons of corn, Agriculture's original estimate of Soviet demand, (2) permit Soviet purchases of one million tons of corn and 1.5 million tons of wheat, the current USDA proposal, or (3) permit Soviet purchases under existing contracts and obtain agreement that no additional sales would be made.

The Deputies Group concluded that the United States could approve a Soviet purchase of 500,000 tons of corn and 1,000,000 tons of wheat for immediate export, with the possibility of up to 500,000 tons of corn and more wheat later--but only if more information about Soviet crop availabilities and import requirements was forthcoming. Also, it was to be made clear to the Soviet representatives that they should not offer to buy additional amounts beyond the levels approved for immediate export without prior consultation between the two Governments. Other conclusions were reached on the domestic price impact, the need for a public statement, Commodity Credit Corporation financing, and contract problems for the grain companies involved.

The Group's recommendations were essentially adopted and provided the instructions for the Secretary of the Treasury. The Secretary met with the Soviet Minister of Foreign Trade on October 14 and 15 and discussed outstanding problems of U.S.-Soviet trade, including the question of Soviet grain purchases. The Minister pressed for an increase in the quantities offered and the Secretary presssed for an exchange of information as agreed upon in the 1973 agreement on agricultural cooperation. The Soviet representatives had originally contracted for 2.3 million tons of corn, and 900,000 tons of wheat, but reduced their request to 1.5 million tons of corn. The United States offered a compromise of wheat for corn, as follows: 1.2 million tons of wheat, 1 million tons of corn, and 1 million tons from other exporting countries or deferred U.S. delivery until the new crop year. No agreements were reached during these talks.

DEVELOPMENT OF NEW U.S. OFFER

In a subsequent discussion with the President, the Secretaries of Treasury and State recommended an increase in the quantities originally approved for export to the Soviet Union. The President agreed to an increase from the originally approved 500,000 tons of corn to one million tons and from one million tons of wheat to 1.2 million tons and the remainder for delivery from other exporting countries. It appears that this decision was made partly out of concern for existing contracts and partly for foreign policy reasons.

The Soviet Union agreed to accept this U.S. offer, and details were announced in Treasury's October 19 press release. The agreement provided that the Soviet Union would make the necessary purchase arrangements with U.S. export firms and would make no further purchases in the U.S. market during the 1974-75 crop year. Further, the Soviet Union agreed to work toward the development of a grain exchange system between the two Governments.

Part of this agreement was modified in February 1975, when the Soviet Union requested the grain companies to substitute 200,000 tons of old crop wheat for new crop corn, for delivery starting in October 1975. Their request was made in two separate, 100,000-ton transactions. The grain companies submitted both requests for U.S. Government approval. The Grain Monitoring Group approved the first 100,000-ton request without delay and made the situation known to the Secretaries of the Treasury and Agriculture.

Approval for the second 100,000-ton request was delayed until after Government-to-Government discussions in Moscow during the meeting of the Exports Group under the Long Term Cooperation Agreement. After receiving information that Soviet desires were based upon commercial grounds, the second request was approved. Also, a problem with the quality of some U.S.-origin corn shipments resulted in non-U.S.-origin corn replacing part of the one million tons originally approved for sale to the Soviet Union. This U.S.-Soviet agreement on grain purchases applied only to the 1974-75 crop year.

U.S.-U.S.S.R. GRAIN DATA EXCHANGE

The Government's problems in anticipating and responding to Russian grain purchases in 1974 would have been simplified by an adequate data exchange program (as agreed upon in the 1973 Agricultural Cooperation Agreement). U.S. dissatisfaction with the workings of this exchange were discussed during the Moscow meetings of October 1974 and and Washington of December 1974, and in other meetings in February and April 1975. (For further discussion, see chapter 5.)

COUNTRY TARGET LEVELS

The Executive Committee of EPB directed the Grain Monitoring Group in December 1974 to establish country target levels of estimated U.S. exports for the 1974-75 crop year. Once these target levels were established, they were not to be changed without the Group's approval. These target levels served as the basis for the Group's discussion and approval of export sales of U.S. grains.

The approval system (which was operative from October 1974 through March 1975*) was basically a check against anticipated or estimated exports by country developed by Agriculture's Foreign Agricultural and Economic Research Services. In essence, the system tracked exports against Agriculture's estimates of demand. Weaknesses in this data base are discussed in GAO's assessment on pages 43-45.

---

* Declines in U.S. consumption of feedgrains permitted elimination on March 6, 1975, of the system of prior U.S. Government approval for large export orders for wheat, feedgrains, and soybeans.

GAO ASSESSMENT OF 1974 DECISIONMAKING PROCESS

The executive branch showed certain improvements in dealing with the 1974 grain sales to Russia. The decisionmaking process was more formalized than it had been in 1972, and was less crisis-oriented. There was a more deliberate process for weighing options and for devising responses to the developing shortage situation. This process led to the requests for self-imposed limits on both importers and exporters and for the deferment of existing contracts, and eventually to the temporary voluntary prior approval system.

On the other hand, the Government demonstrated a continued reluctance to intervene in the market with firm policy guidelines until faced with major disruptions, such as the 1974 Soviet grain purchases. As a result, its response to the crisis created problems similar to those of 1972 (general uncertainty about future Government moves and their possible effects on the market).

The decisionmaking process was also hampered by interagency discord. Disagreement over the composition of the ad hoc monitoring group, for example, led to the three shifts in the chairing of this group. There was similar friction over the makeup of the team sent to the U.S. discussions with European Community officials on feedgrain exports. Another point of disagreement involved changes in authority to approve or not to approve export sales.

GAO ASSESSMENT OF 1974 IMPLEMENTATION

In the view of the GAO, a fundamental difficulty in implementation stemmed from the lack of any compliance program. This led to problems including simple but significant failures of communication and inadequate control of shipments.

Although the decision was made to inform grain companies that prior Government approval was expected on exceptional sales to the Soviet Union, Cook Industries, Inc., was not so informed before its sale had been made.

The monitoring system for agricultural exports did not provide any control of diversions and/or transhipments. Members of the Deputies Group were concerned about the practical value of compliance checks, since there was a voluntary approval system and no mandatory licensing requirements under the Export Administration Act or similar authority.

As a result, it is unclear whether, and the extent to which, there may have been diversions and/or transhipments. There were rumors, but no evidence, of such transactions. The CIA checked for transhipments, but its investigations applied only to sales after the prior approval system was put into effect. There seems to have been no evidence as of December 1974 of any diversions to Cuba or to Eastern Europe. The Agriculture Department was asked to talk with West German officials about this question because of the large number of sales destined for delivery to Rotterdam and Hamburg.

Another implementation problem involved U.S. feedgrain and soybean meal exports to the European Community. A November 1974 report to the Economic Policy board stated that U.S. sales to the Community were exceeding the quantity that had been earlier agreed could be safely exported. Since this situation was considered a political issue, an informal compromise was worked out and it was agreed to reexamine the situation in March 1975.

GAO ASSESSMENT OF DATA COLLECTION

The data base for decisionmaking had improved since 1972. Export information developed by the Agriculture Department's newly established export reporting system was used in coordination with information of export shipments, domestic consumption, food aid requirements, domestic production, and probable foreign production and demand.

The usefulness of the data base was, however, impaired by two serious weaknesses.

One major weakness had to do with the Agriculture Department's estimates of consumption within individual foreign countries of destination. (See ch. 5.) The absence of accurate estimates and the effort spent in obtaining them created confusion about whether a problem did, in fact, exist, and delayed the Government's eventual response once the situation had been clarified.

A second problem was the lack of confidence in the reliability of the Agriculture Department's figures on export demand. (For reasons, see ch. 4.) Members of the Deputies Group were agreed that there were inaccuracies in the system but did not agree on corrective action or even on whether it could be done. In spite of much discussion of possible improvements, no steps were taken except to consult with U.S. trading partners in an effort to get better information.

The Economic Policy Board expressed concern about correcting inaccuracies in the sytem, especially figures for exports to the European Community. An Agriculture representative met with Community officials but failed to get cooperation on the deletion of inflated figures from the reporting system.

The ad hoc approval group used additional data from other sources to modify Agriculture's export figures. The group attempted, through this means, to avoid unusual transactions, stockpiling, and other abnormal trends.

CHAPTER 3

HANDLING OF 1975 SOVIET GRAIN SALES

INTRODUCTION

The Soviet Union's purchase of approximately 16.5 million tons of U.S. grains in 1975 was in some ways similar to its 1972 and 1974 purchases and accentuated many of the previous policy and implementation weaknesses. The executive branch was again surprised by the size and makeup of the purchases--despite the existence of an export reporting system, better communication with U.S. grain exporters, and improved relations with the Soviet Union.

There were, however, several notable differences in the 1975 purchases; especially as compared to the 1972 situation: (1) Soviet purchases were not facilitated by U.S. Government credits, but were made strictly on a cash basis; (2) an export reporting system was operative, largely as an outcome of the 1972 sales; (3) the Agricultural Agreement of 1973 had been signed by the Soviet Union and the United States (committing both parties to exchanging valuable agricultural information); (4) the sales involved several executive branch agencies, whereas, in 1972 the Department of Agriculture was the primary agency involved; (5) no U.S. Government export subsidies were paid to export firms; (6) wheat prices were two to three times higher than in 1972; and (7) at the time of the sales, there was more doubt of what total U.S. supply would be, since production was uncertain and stocks were one-third as high in 1972.

To better understand the circumstances surrounding Soviet reemergence in the U.S. grain market, we asked high level Agriculture, State, and White House officials such key questions as:

--When and how did the U.S. Government first receive any indication of Soviet buying intentions?

--How effective, as an early warning system, had the agricultural export reporting system proved to be?

--Had there been any formal or informal communications between grain exporters and the U.S. Government? If so, with what results?

--Had there been any formal or informal communications between the U.S. and the U.S.S.R. Governments? If so, with what results?

--What was the nature of U.S. Government involvement in the grain sales?

--How accurate were U.S. Government estimates of Soviet grain purchases in 1975?

--How accurate were U.S. Government forecasts of Soviet crop production?

--Had the U.S. Government developed any contingency plans in the event the Soviet purchases exceeded estimates and precipitated a potential short-supply/high price situation? Had the U.S. Government, in anticipation of such a development, completed impact analyses reflecting the differing effects of varying sizes of purchases on the domestic economy?

--What were the price and other impacts of the sales?

--Was there any interagency monitoring of the current sales?

GOVERNMENT'S DISCOVERY OF PURCHASE PLANS

We found that the Government had not received advanced notice of the nature and extent of Soviet buying intentions. U.S. officials learned through a published news story (Journal of Commerce, July 7) that Soviet representatives were arranging for shipments of grain from Canadian and U.S. ports.

Before then there had been only one or two clues to the Soviet crop situation: U.S. Air Force reports of deteriorating weather conditions in Russia, and rumors that the Soviet Government was selling considerable amounts of gold in the world market for hard currency.

EARLY WARNING SYSTEM

With the ending in March 1975 of the Prior Approval System, the only potential mechanism for alerting the Government to extraordinary sales was the agricultural export reporting system. This system failed to provide any advance notice. Voluntary submission of Government-requested data from major grain companies did not constitute a formal early warning system.

Government officials contended that the system was not designed to reflect Soviet--or any foreign--buying intentions until after a written contract had been entered into and reported to the Department of Agriculture.

The fact remains, however, that in 1975, as in 1972 and 1974, there was no formal system to provide decisionmakers with accurate, timely and complete information. As a result, there was the same uncertainty and confusion as had been the case with earlier sales.

U.S. CONTACTS WITH EXPORTERS

We found that the Agriculture Department had established informal communications with multinational grain exporters several months before the impending grain sales were publicized. These informal contacts also failed to provide any warning clues to Soviet intentions.

CONTACTS BETWEEN U.S.-U.S.S.R. GOVERNMENTS

Throughout the summer of 1975, there were informal discussions between U.S. and Soviet officials, both in Washington and Moscow. But despite repeated U.S. requests for information about the probable extent of Soviet purchases, and despite agreements to provide such data under the 1973 Agricultural Cooperation Agreement, no satisfactory answers were obtained until August. At that time Soviet officials provided for the first time preliminary production data on area zones with a breakdown by types of grain.

U.S. ESTIMATES OF SOVIET GRAIN PRODUCTION AND DEMAND

Western agricultural specialists in Moscow in May, discounting poor weather reports, predicted a bumper crop for the Soviet Union. The first offical U.S. estimate of the Soviet crop yield, published in June, called for 200 million tons. An earlier USDA preseason projection of 210 million tons was based on a "normal" weather assumption. After the Soviet crop data was provided, subsequent estimates were revised downward on several occasions, with the last (December 9, 1975) being set at 137 million tons.

The initial U.S. forecasts of Soviet grain demand, based on informal discussions with U.S. grain exporters and with Soviet embassy officials, anticipated Soviet purchases of U.S. grain of approximately 5 million tons.

It should be noted that forecasting grain supply and demand is always complicated by the difficulties of predicting weather conditions at critical periods. The Soviet Union's needs for extraordinarily large quantities of U.S. grain in 1975 can be traced primarily to the drought in the spring and summer of 1975.

The U.S. response to the sales was also shaped to some extent by uncertainty about how the weather would affect the size of the available U.S. crop.

Chapter 5 provides a detailed discussion of the problems of forecasting grain demand.

CONTINGENCY PLANS-IMPACT ANALYSES

We found that neither contingency plans nor impact analyses had been developed prior to July 1975. Therefore, when it became clear that the Soviet Government would be buying unspecified larger-than-anticipated quantities, the executive branch was not prepared to determine quickly what acceptable levels of exports would be.

PRICE AND OTHER IMPACTS OF SALES

The effect of the sales on U.S. food prices is by far the most controversial issue in the U.S.-U.S.S.R. grain trade. The 1972 sales were a factor in the highest food price increases since 1947. It should be noted, however, that in that year total U.S. grain exports to other countries, especially Japan and Western Europe, were considerably higher than the shipments to the U.S.S.R., and must bear a proportional share of the responsibility for the food price increases.

Nevertheless, the news of the mid-July 1975 sales provoked a wave of protests based on fears--which proved to be exaggerated--that they would have the same domestic inflationary repercussions as those in 1972.

Due to the volatility of the commodities market, the mere announcement of Soviet entrance tends to send commodity prices up. For example, the cash price of wheat in Kansas City rose from $3.08 to $3.96 per bushel from July 1 to July 29, 1975. Corn in Chicago jumped from $2.78 to $3.14 per bushel. The higher cost of corn, the basic livestock feed, helped to keep the price of fattened cattle from dropping as much as had been anticipated.

The chairman of the Federal Reserve Board in testimony before a congressional committee on September 4, 1975, said that U.S. grain sales to the Soviet Union in 1975 might lead to a rise in food prices on the order of 2 or 2-1/2 percent in 1976.

A study by Agriculture's Economic Research Service, in late July 1975 estimated that a sale of approximately 10 million tons would mean a 1 to 1-1/2 percent increase, about $3-4 billion in additional food costs for consumers.

A similar study, prepared for the use of the Joint Economic Committee in Congress, making a projection based on a 10-million ton sale, projected the resulting rise in retail food prices at 1.0%. The study projected a rise in farm prices of feedgrains and wheat of 10-12 percent and a rise in realized net farm income of 10 percent. The income gain was expected to go mainly to crop producers, while livestock producers might face possible losses.

Actually, food prices rose only slightly in subsequent months. That slight rise may be attributable to an improved supply situation reflecting generally high levels of world production.

The sales also may have had an impact on foreign policy. Although executive branch officials generally considered the sales to be a separate issue from overall U.S. relations with the Soviet Union, one official claimed that the sale influenced the Soviet Union not to interfere with the U.S.-engineered 1975 Sinai Agreement.

SUMMARY OF EVENTS, 1975 GRAIN SALES

The following is a brief narrative summary of events. For a more detailed chronology, see Vol. II, Appendix D.

Only a week after the first sale of 2 million tons was announced on July 16, the International Longshoreman's Association (ILA) voted to refuse to load American and Canadian grain on ships destined for Russia. They indicated that the ban would be lifted if "the interests of the American people were adequately protected."

The next day the Under Secretary of Agriculture asked exporters to notify the Department before making major grain sales to the Soviet Union.

Two other maritime unions--the Seafarer's Association and the Maritime Engineers Benevolent Association--also voted to refuse to load grain unless assured the sales would not substantially raise food prices.

The unions were also openly dissatisfied with the Soviet Government's reluctance to agree to a new set of shipping rates more favorable to American shipping. (See Vol. II, Appendix K)

There was a brief work stoppage on August 7, followed by another on August 18, at which point a temporary Federal Court injunction on behalf of the shippers was issued.

There was strong criticism of the boycott from the administration and from farm organizations. The boycott had the complete support of the A.F.L.-C.I.O., which took the position that the U.S. was facing the prospect of massive grain sales to the Soviet Union with no assurance that national interests would be properly safegaurded.

The A.F.L.-C.I.O. pressed for full disclosure of the extent of the prospective sales, a policy to protect American companies from unfair competition with state-owned monopolies, an offensive policy to deal with commodity cartels such as the OPEC nations, and an investigation of the extent to which American corporations are participating in and supporting such cartels.

On August 11 the Secretary of Agriculture called on exporters to withhold further sales to the Soviet Union until U.S. crop production figures were known.

The announcement pleased labor, consumer groups, and various members of Congress who had urged government action out of concern about food prices and the availability of U.S. commodities.

Farm spokesman expressed strong disapproval, based partly on the fear of extensive government intervention should similar situations arise in the future. Farmers were also afraid that the suspension would force traditional buyers to seek other sources of supply, and that once sales resumed, farm prices would be lowered.

Various veiwpoints on grain export policy were expressed at hearings July 31 and August 1, 1975, before the Senate Committee on Government Operations, Permanent Subcommittee on Investigations. The Assistant Secretary of Agriculture for International Affairs and Commodity Programs said that "American farmers must export in order to maintain the incentives to generate *** high levels of production ***. Any potential impact on prices must be balanced against the need for farmers to receive full returns***."

Arguing for a temporary sales limitation, pending crop developments, John A. Schnittker, former Under Secretary of Agriculture, cited the risk of serious food price inflation. He went on to say: "*** while export sales should be carefully managed to preserve relatively stable food prices, farm price support ought to be raised substantially to protect farmers."

A number of critical decisions were made on September 9 and 10. After a meeting between AFL-CIO President George Meany and the President, it was announced that the President would explore the possibility of a long-term grain purchasing agreement with Soviet Union. At the same time the President extended until mid-October 1975 the moratorium on sales. As of that date, the Soviet Union had purchased 10.2 million tons of grain.

In response to the President's announcement, the AFL-CIO announced the lifting of the boycott.

The next day, without a public announcement, the State Department requested through the Polish Embassy that Poland halt grain buying in the U.S. (See below, pp. 29 and 30.) News stories of the suspension did not begin to surface until September 22.

Also on September 10, the Under Secretary of State for Economic Affairs left for Moscow to begin negotiations on the long-term grain trade agreement.

The President also announced the creation of a special board to consider related questions of agricultural exports and domestic food prices.

Agriculture had been the Government agency primarily involved in the sales during July 1975. However, the Economic Policy Board and the Deputies Group had begun meeting regularly in mid-July to discuss the grain sales, and it was the Board which made the decision to order suspension of the sales in mid-August. The decision was reluctantly agreed to and announced by the Secretary of Agriculture, a Board member.

Another Board member, the Secretary of Labor, was the primary negotiator between the AFL-CIO and the Government concerning the longshoremans boycott, revised shipping rates, and the long-term agreement.

The new unit created on September 10 was the Economic Policy Board/National Security Council Food Committee. It was expected to develop negotiating strategy for the grain sales and to monitor those negotiations.

It should be noted that the new Food Committee involved little change in membership. Nine of the ten members of the Food Committee were also members of the 14-member Economic Policy Board. One important difference was that new group was chaired jointly by the Secretaries of State and the Treasury. This enabled the State Department to initiate and carry out the grain embargo on Poland, over the objections of the Secretary of Agriculture.

SUSPENSION OF GRAIN SALES TO POLAND

The official explanation of the suspension of grain sales to Poland was that the suspension was necessary until the size of the U.S. corn crop became clear. There has been speculation, however, that the decision to suspend grain sales to Poland was taken primarily to put pressure on the Soviet Union to cooperate in negotiating the long-term purchasing agreement.

The suspension met with some criticism because of the secrecy under which it was imposed and because of its possible conflict with U.S. international treaty obligations. Foreign Agricultural Service officials said that this type of suspension was arbitrary and contrary to: (1) U.S. initiatives to expand its trade relationship with the Polish Government, and (2) the General Agreement of Tariffs and Trade (GATT), of which Poland is a member.

The latter agreement is multilateral and therefore the United States is bound to abide by set criteria covering embargoes stemming from short supply situations.

On October 10 the President announced he was lifting the suspension on sales because the Agriculture Department's October 1 crop estimates showed record harvests for wheat and corn. The Under Secretary of State for Economic Affairs had announced on September 16 that the Soviet Government had agreed in principle to a long-term grain trade agreement, and the text of the U.S.-Soviet agreement on shipping rates of $16 a ton was released three days later.

U.S.-U.S.S.R. LONG-TERM GRAIN PURCHASING AGREEMENT OF 1975

The long-term grain purchasing agreement between the United States and Russia was signed on October 20, 1975, to take effect on October 1, 1976. This agreement committed the Soviet Union to purchase a minimum of 6 million tons of wheat and corn annually through 1981, and allows the Russians to purchase an additional 2 million tons annually without Government consultation, plus additional amounts with consultation. The United States may reduce the quantity to be sold in any one crop year if the estimated total U.S. grain supply is less than 225 million tons. Shipments are to be in accord with the U.S.-Soviet Maritime Agreement.

Executive branch officials justified signing the agreement on the grounds that it regularizes Soviet purchases and minimizes associated disruptions. Officials also argued that the agreement:

--assures U.S. farmers a market in Russia for 6-million tons of wheat and corn a year for the next 5 years;

--provides additional assured demand which will assist farmers in making planting decisions;

--protects U.S. livestock producers and consumers and other foreign customers from large Russian purchases of U.S. grain without prior consultation;

--provides the United States with $4 billion to $5 billion in potential foreign exchange earnings (at prevailing prices) over the next 5 years;

--assures that sales under the agreement will take place at the prevailing market price through traditional exporter channels;

--reduces price fluctuations in United States and world markets by smoothing out Soviet purchases of U.S. grain, and thus protects American farmers, consumers, and livestock producers as well as foreign customers;

--stimulates not only agriculture but such related enterprises as farm machinery and ocean transport; and

--strengthens cooperation between the two countries by stabilizing the important grain trade between them.

Farmer representatives have been highly critical of the agreement, which they view as another government export control that will restrict exports and markets and depress prices. One spokesman accused the administration of yielding to unjustified pressure from consumer groups and the maritime unions, and interfering unnecessarily in the grain market.

Other critics of the agreement, including consumers and congressmen, contend that it has created additional uncertainty rather than resolving the disruptions associated with massive grain purchases. Various criticisms leveled at the agreement include:

--limits the President's authority to impose short-supply export controls on corn and wheat.

--fails to include substitutable commodities, such as soybeans and soybean meal.

--fails to clearly cite the authority for such an agreement.

--was negotiated and signed without the advice and consent of the Congress.

--is unenforceable because grain is a fungible commodity distributed by multinational corporations whose market activities are not regulated by the agreement.

--fails to provide for Soviet disclosure of forward estimates and stocks as promised in the 1973 Joint Agricultural Cooperation Agreement.

--fails to protect U.S. domestic consumer interests by not restraining the volume of Soviet sales in the event such sales create unacceptably high levels of inflationary food prices domestically.

--fails to comment on the potential for shipments of subsidized grain in the event market conditions change during the term of the agreement.

--represents increasing government intervention in the market, gives the Soviets privileged market status, and establishes a precedent for government-to-government, long-term grain purchasing contracts that may cause other major importers of U.S. grain to seek such agreements and privileged market status.

Despite considerable discussion about linking an agreement on Soviet oil sales to the U.S. grain agreement, no such accord has been finalized. Negotiations on a long-term agreement for Soviet oil exports to the U.S. are continuing. (See Vol. II, Appendix I, for text of the Agreement.)

Legality of the Long-Term Agreement

The decision to send negotiators to Moscow was apparently made before the legal jusitification of a grain agreement was determined. The State Department did not complete its legal analysis until several weeks after the agreement was signed.

According to this analysis:

--The legal basis for this executive agreement is the President's authority under Article II of the Constitution to negotiate and conclude appropriate agreements with foreign governments.

--It is consistent with the Agricultural Marketing Act of 1946, the Export Administration Act of 1969, as amended, the General Agreement on Tariffs and Trade and all other relevant U.S. statutes.

--The agreement is legally binding on the governments involved, but upon no individual under U.S. domestic laws.

--The U.S. Government will not interfere with any private commercial transaction made under the agreement and will, in fact, facilitate such transactions.

--The President, however, does retain the authority to impose export controls under the Export Administration Act, if such controls become necessary.

GAO'S LEGAL ANALYSIS OF AGREEMENT AND VOLUNTARY CONTROLS

Following the grain agreement and the Government's voluntary export restraints in 1975, the Congress expressed concern over their legality. Consequently, we prepared a legal analysis of the Government's actions in these two instances. (The complete analysis appears in Vol. II, Appendix J.) From our analysis we concluded that:

--The President has authority under the constitution to negotiate international agreements affecting foreign commerce, notwithstanding the constitutional responsibility of the Congress "to regulate Commerce with foreign nations."

--The suspension of sales to the Soviet Union was based on voluntary action by exporters at the request of the executive branch. Since the suspension was not legally binding, it was a lawful exercise of executive branch authority.

--The President has independent constitutional authority to enter into such an executive agreement as the long-term Soviet grain purchasing agreement which affects foreign commerce and such action on his part is not precluded by the Export Administration Act. However, the U.S. Government does retain its statutory authority under the Export Administration Act to impose export controls should Soviet purchases be of the nature to necessitate such actions.

--The President's authority to institute legally binding and enforceable export controls is derived from and dependent upon the authority delegated to him by the Congress in the Export Administration Act.

The National Association of Wheat Growers has considered taking legal action against the executive branch because of the Agreement and the grain sales moritorium that preceded it. The Association believes that by establishing terms on which grain commerce between the two countries is to be conducted, the agreement regulates commerce, which the President cannot do without congressional consent. The Association rejects the argument that the agreement does not involve regulation of commerce in that it does not create restraints on commerce under domestic law.

The State Department has acknowledged that whatever the President's inherent authority to affect commerce under his foreign relations powers may be, that authority may be preempted by legislation--which, according to State, has not occurred in this case. The Association believes, however, that the President's authority has been preempted by the Export Administration Act, which governs the regulation of U.S. exports.

The Association holds that the prior approval system implemented in 1974 and the 1975 sales moritorium are inconsistent with the Export Administration Act. The Act provides that nothing in the Act or in the rules and regulations thereunder should be construed to require authority or permission to export, except where required by the President under the provisions of the Act.

The Association may also take legal action against several grain exporters. It contends the exporters may have violated the Sherman (Antitrust) Act when they voluntarily agreed to cease exports of grain during the 1974 and 1975 moratorium--the implication being that the exporters would not have agreed to stop their exports unless all agreed.

SUMMARY OF GOVERNMENT RESPONSE TO 1975 GRAIN SALE CRISIS

The 1975 grain sales to Russia, in exceptionally large quantities, caught the Government offguard and without an adequate data base, background studies, or policy guidelines.

Because of this lack of preparation, uncertainty over total U.S. grain production, and unreliable estimates of Soviet production prospects, the Government had to improvise its responses.

The July 24 request for prior notification of major grain sale contracts created an informal prior approval system. The latter requests for suspensions of sales to Russia and to Poland followed.

In taking these steps, the Government was forced to modify its reiterated commitment to a free market economy with minimum government intervention, in order to minimize potential domestic and international disruptions.

Significant segments of society--farmers, labor, consumers, and legislators--were at odds over the handling of the grain sales, specifically, and over grain export policy, generally. Labor leadership and boycotting unions exerted powerful influence over negotiated shipping rates and the long-term grain purchasing agreement with the Soviet Union. This agreement and the one signed with Poland were hailed in some quarters, criticized sharply in others.

GAO's assessment of the Government's 1974 and 1975 experiences with the grain sales, as they bear on agricultural export policy, is set forth in Chapter 6.

DEVELOPMENTS IN 1976

On March 5, 1976 the President again reorganized food policy groups. The Economic Policy Board/National Security Council Food Committee was consolidated with the International Food Review Group (established in November 1974, primarily to coordinate follow up to the World Food Conference).

The new consolidated unit was the Agricultural Policy Committee, chaired by the Secretary of Agriculture. The other members included: Secretaries of State, Treasury, and Commerce; Presidential Assistants for Economic Affairs, Domestic Affairs, National Security Affairs, and Consumer Affairs; Chairman of the Council of Economic Advisers; Director of the Office of Management and Budget, and the Executive Director of the Council on International Economic Policy.

The appointment of the Secretary of Agriculture to the chairmanship of the new Committee appeared to return Agriculture to the position of primary maker of food policy. This position had been eroded by the events of July, August, and September 1975.

The Agricultural Policy Committee was formed to consolidate agricultural policymaking into one group reporting directly to and advising the President on the formulation, coordination and implementation of all agricultural policy, including both domestic and international issues.

The Deputies Group became the Agricultural Policy Working Group, and provided staff assistance by monitoring agricultural developments and preparing issue papers and other analyses.

No major foreign agricultural policy crises erupted during 1976 to test the operational capabilities of the Agriculture Policy Committee. According to White House staff officials, the Committee met rarely and then only for ceremonial reasons. These officials stated that despite the Committee's existence, the Economic Policy Board of the President reviewed and decided major agricultural policy matters throughout 1976. The Economic Policy Board continually received analyses of major policy issues from the staff level Agricultural Policy Working Group.

The complexity of food policy is illustrated by the fact that two executive branch groups and several subgroups, composed of representatives from as many as 26 government agencies, have dealt with food policy. The creation of new units and the shifts in recent years attest to the difficulties of developing effective food policy mechanisms.

During 1976, the first year of operation of the long-term purchasing agreement, the Soviet Union purchased in an orderly manner about 6 million tons of U.S. wheat and corn. This was approximately the minimum amount required under the agreement. Because of significant increases in Soviet and world grain supplies and the continuing high level of U.S. production, no unusual circumstances emerged in 1976 to test the agreement's endurance.

CHAPTER 4

AGRICULTURAL EXPORT REPORTING SYSTEM

Evolution of Export Reporting System

For approximately three decades prior to the 1972 Russian Sales, the U.S. had virtually continuous agricultural surpluses. Except for brief intervals, bountiful surplus enabled the U.S. to satisfy domestic and foreign demands and retain large quantities as a domestic buffer stock. Government policy focused on problems of over-supply and low farm prices, and ways to expand exports. There was rarely a need to keep close track of exports, and no system existed to do so.

Agriculture's Interagency Commodity Estimate Committees then and now develop projections for total crop production, domestic use, exportation, and carryover. Crop and marketing year estimates are revised periodically to reflect various changes in supply and demand. Before 1972, errors in estimates of foreign demand caused little concern in the Government because surpluses always existed to satisfy increases in demand not reflected in estimates.

Another means of assessing export levels prior to 1972 was by reviewing export shipment data compiled by the Census Bureau and the Agricultural Marketing Service. However, data provided by these two agencies has never been current. Because a 1 to [illegible]-month time lag usually exists in the publication of this information, it is of little use to decision-makers faced with assessing current crises. It is, of course, useful in analyzing historical records and trends.

Some agricultural export data also has been available as a result of past and current government concessional export programs. Between 1949 and 1967, the Wheat Export Subsidy program provided current export sales information, as did corn, feedgrains, rice and tobacco subsidy programs which are either being phased out or are terminated. According to Agriculture, data on export sales activity under P.L. 480 and the CCC Sales Program has also been available for the past 20 years.

Although all of the above programs provided export sales information, their primary purpose was not data collection. As a consequence, such information was generally not utilized as a means of monitoring the export market, but used almost solely to verify qualification to participate in one of the export programs.

The only other means of developing export information prior to 1972 was Agriculture's market intelligence activities, primarily reports from the Agricultural attaches and conversations with grain exporters and importers. Agriculture has for many years based its export estimates on its informal communication with these groups and on historical export data. Agriculture officials informed us that USDA export estimates were based primarily on such factors as foreign production prospects, likely consumption requirements, existing reserve stocks, and prospective quantities of grain available for export in exporting countries. These yielded only rough approximation of export demand. No specific analytical model has existed for developing more refined data.

The Foreign Agricultural Service's Assistant Administrator for Commercial Export Programs summed up the situation when he wrote in 1975.

> "It is really not surprising that the Export Sales Reports proved difficult to interpret. Until recently no such data existed. Periods of public or official interest in export sales of commodities have been highly infrequent--ususally restricted to wartime or rare peacetime intervals of short commodity supplies, and no systematic effort was made to monitor them. Commodity analysts are now confronted with a new statistical tool. They need time to test its reliability under various market conditions as well as to explore its possibilities as a forecasting help.
>
> Export sales data has been available only accidentially--and spasmodically--in the past, usually as a byproduct of one or another of the export assistance programs for agricultural commodities* * *."

Immediately following the 1972 grain sales, pressure increased inside and outside government for the development of an export reporting system to provide current, accurate and reliable export information. Agriculture officials were opposed to it. They believed that the 1972 sales were highly unusual and that situations requiring current export data occurred too infrequently to justify the costs of administering such a program.

It was the mounting concern over strong foreign demand for U.S. soybeans in the Spring of 1973 that led Agriculture to announce its intention to establish a voluntary export reporting system. However, the increasingly critical soybean supply condition preempted such a voluntary system.

COMMERCE'S EXPORT REPORTING SYSTEM

On June 13, 1973, the President authorized Commerce to establish a temporary mandatory export reporting system. Under the Export Administration Act of 1969, Agriculture assisted in developing the system, under which exporters were required to report sales contracted for shipment in the coming crop year for soybeans, cottonseed, and their products.

A variety of problems plagued the system while it was administered by Commerce. For example, Commerce's export reports differed consistently with Agriculture's interagency export estimates. Commerce's export reports reflected soybean and soybean meal export sales considerably in excess of levels projected by Agriculture's interagency estimates committee.

Making an accurate assessment was crucial to decisionmaking. For example, if Commerce's export reports were correct, most of the Nation's soybean crop for 1973-74 had been committed for export by July 1973. The Secretary of Commerce based his judgment on these figures, rather than on Agriculture's estimates, when he decided on June 21, 1973, to impose export controls on soybean and cottonseed exports and the related products. These controls were not lifted until October 1, 1973.

Some Agriculture officials claimed that Commerce's statistics were unrealistically inflated because foreign importers were overbuying in anticipation of having their contracts cut by export controls. These officials also contended that grain exporters were registering grain for export which would eventually be resold to the domestic market. However, in an August 1973 meeting involving Commerce, Agriculture, and the grain trade, exporters insisted that all export sales reported were bonafide contracts that would be fulfilled.

The failure of Commerce and Agriculture to reconcile their differences over the accuracy of reported exports was due, in part, to an interagency conflict that emerged over the question of which agency was ultimately responsible for interpreting export information gathered by the Office of Export Administration. Agriculture contended that it was responsible because of its extensive experience in grain export marketing. Commerce maintained that it was responsible because of its short-supply authority under the Export Administration Act of 1969 and the Presidential directive of June 13, 1973, ordering it to establish an agricultural export reporting system.

Mandatory Export Data Reporting System, Responsibility Given to Agriculture

The problems with accuracy of reported export data remained unresolved and the debate over expected export amounts continued into the Fall of 1973. In August 1973, the Agricultural Act of 1970 was amended to authorize the establishment of a mandatory export reporting system in the Department of Agriculture.

In Congressional hearings before its passage, Agriculture officials reiterated opposition to mandatory export reporting, but began in October to develop a system to comply with the new law. The new system did not become fully operative until November 1973.

Under the Act, all exporters of wheat and wheat flour, feed grains, oil seeds, cotton and related commodity products (as well as other commodities designated in need of export reporting by the Secretary of Agriculture) are required to provide Agriculture with weekly export sales data. Information supplied by exporters includes: (a) type class and quantity of the commodity sought to be exported, (b) the marketing year of shipment, and (c) destination, if known.

All exporters of agricultural commodities produced in the United States are also required, upon request of the Secretary of Agriculture, to immediately report to the Department any additional export sales related information. The Secretary is also empowered with the authority to modify weekly export reporting to monthly export reporting if he determines that the domestic supply of a commodity is "substantially in excess" of the quantity needed to satisfy domestic utilization and foreign demand. Such a determination would also have to be made with the understanding that requiring exports to be reported on a weekly basis would "unduly hamper export sales."

Individual exporter sales data is processed as confidential information by Agriculture and aggregated before release for public information in the Weekly Export Sales Report. Failure knowingly to report export sales data as required by the Act is a crime punishable by a fine of not more than $25,000 or imprisonment of not more than 1 year, or both.

Agriculture publishes its Export Sales Reporting regulations in compliance with the rule-making procedures of the Administrative Precedures Act. Under this authority it also issues instructions and reporting forms to exporters for filing export reports.

Specific types of export data supplied by exporters to Agriculture include: new sales, buy-backs or cancellations, purchases from foreign sellers, changes (marketing year, destinations, etc.), export shipments against contracts, and net outstanding sales (unshipped balances) at the end of the reporting period, usually weekly.

The Department also periodically requests exporters to furnish contract information to be used as a basis for double-checking summary export reports, for conducting field reviews of exporter adherence to export reporting system regulations, and for developing important data to evaluate the effectiveness of the export reporting system.

Approximately 22 professional and support staff operating within an annual budget of $520,000 1/ administer the Export Reporting System.

Use of Export Reporting System

According to Agriculture's General Sales Manager's Office (GSMO), the Department uses export sales information compiled under section 812 of the Agricultural Act of 1970, as added by the Agriculture Act of 1973, in the following way.

1/The budget for the coming fiscal year is expected to remain unchanged. Prior to the current fiscal year the system operated under a budget of $511,000 in FY 76 and $463,000 in FY 75. Source: Mr. Thomas McDonald, Budget Officer of the General Sales Manager's office.

"Each week the Department published data received in compilation form along with analytical comment designed to highlight important market activity and to relate the data to the worldwide supply and demand situation. Thus, export sales data has become integrated with the worldwide market intelligence system operating through agricultural attaches and the Washington staff of analysts and export program officials. ***"

Shifts in Organizational Responsibility Within the Agricultural Department

At various periods during the export reporting system's 3-year existence within Agriculture, three different internal units have been given the responsibility for administering the system. The Statistical Reporting Service operated it from September 1973 through September 1974. The Foreign Agricultural Service took over from October 1974 until March 1976. Since March 1976, the newly created Office of General Sales Manager has had responsibility for the system, along with various Government financed agricultural export programs.

From the inception of the system, the Statistical Reporting Service experienced difficulties. Weekly export reports continually varied, reflecting export volumes that exceeded departmental estimates. The statisticians who operated the system were unable to provide the necessary analysis of exporters' data, and were unable to manage the system in a a manner consistent with the Congress' legislative intent.

As the U.S. corn and wheat situation deteriorated in August and September 1974 amid rumors of impending Soviet purchases, the Foreign Agricultural Service--which was already performing some analysis of export data--was assigned full responsibility for the export reporting system. The Secretary of Agriculture's October 1974 memorandum transferring responsibility cited the unit's analytical experience as a key factor in the operational shift. It had become increasingly clear throughout late 1973 and 1974 that mere data collection and publication were insufficient, given the complex and ever-changing character of export sales data.

The Foreign Agricultural Service had already set up its own daily export reporting system in September, 1974 to: (a) supplement the mandatory weekly export reporting system; (b) provide more timely export data; (c) ensure closer monitoring of export sales; and (d) function as an "early-warning system" for Executive Branch decisionmakers.

Although initially conceived as a temporary monitoring action, the daily export reporting system has remained in effect since inception. The quantity qualification for daily reporting of various agricultural commodities was revised upward from 50,000 tons to 100,000 tons as the U.S. supply situation improved over the past year and a half. Unlike the weekly export reporting system, where exporters submit only written export reports to Agriculture, the daily system requires exporters to telephone export information for sales in excess of certain prescribed quantities. They are then required to submit written verification of their oral report to the Department within 24 hours. The daily export reporting system's importance has varied since its establishment. When supplies appear tight and foreign demand is high, its significance, as a decision-making tool, mounts.

<u>Voluntary Prior Approval System</u>
<u>September, 1974 - March, 1975</u>

The Foreign Agricultural Service also directed the voluntary prior approval system for export sales which was set up in September 1974, to monitor the Soviet purchases. Until terminated in March 1975, this system functioned as part of Agriculture's overall export sales monitoring activites. At its inception exporters were requested to seek Agriculture's approval for sales of 50,000 tons or more to a single destination in any one day or 100,000 tons or more to a single destination in one week. Although the system did not require that exporters seek approval of export sales on a mandatory basis, it was clear to all observers that failure to participate would ultimately have resulted in mandatory export controls through implementation of the Export Administration Act of 1969, as amended.

In a 1975 letter to the Chairman of the Senate Agriculture and Forestry Committee, the Secretary of Agriculture presented executive branch rationale for establishing the prior approval system:

"* * * (In view of the extremely tight wheat and corn market situation that existed in September 1974) We had three choices: (1) stand firmly on the principle of completely free access to export markets and risk the strong possibility of legislatively imposed mandatory (export controls); (2) make a short supply determination on the assumption that the Act would be extended in the same form; or (3) devise a less drastic way for resolving the dilemma.

We chose the third alternative and the voluntary prior approval program was the instrument for implementing it. At the same time it seemed a logical and feasible solution, supported generally by farmers, the grain trade, the public and the Congress * * *.

* * * the voluntary approval program did not embargo or control export trade. During the period of its operation (Oct. 1974 - March 1975), we approved over 14 million tons of exports sales of grain and oilseeds. The program applied only to large sales and did not affect cargo quantities. At most, the program constituted a loose form of restraint and its principal effect was to cause some overly eager foreign buyers to pace their purchases. Except for the U.S.S.R. purchases, the program did not interfere with contracts already made; it did not harm our diplomatic relations with foreign countries; it did not damage our reputation as a dependable supplier of agricultural commodities in world markets. These would have been the inevitable consequences of the other alternatives available to us."

The prior approval system's operation generated controversy. It was criticized by farmers, farm organizations and congressional representatives from corn and wheat-producing States on grounds that it represented unnecessry government involvement in the market and that its existence adversely affected market prices. Prices dropped approximately 35 - 40 percent during the 5 months of its operation.

Although it was not clear at the time, the sharp drop in prices probably resulted from a number of other factors. One Agriculture official wrote later:

"Looking back now, it is apparent that the easing in the supply/demand situation was the result of a number of economic factors unrelated to the voluntary approval system. World-wide recession, balance of payments problems in many importing countries, consumer cut-backs in response to high market prices, reductions in grain and feed use in the U.S. and elsewhere all combined to bring about adjustments in supply and demand."

Advocates of the voluntary prior approval system were principally executive branch officials, commodity exporters and congressional representatives concerned about sustaining and expanding agricultural export markets.

According to Agriculture officials, the voluntary prior approval system accomplished its principal goal--the precluding of mandatory export controls which would have either completely cut U.S. agricultural exports or partially but significantly restricted such exports. The system enabled the Department to be notified of large transactions before being finalized. It also permitted Agriculture the opportunity to initiate discussions with foreign buyers to develop mutually acceptable alternative plans for satisfying their import requirements.

This type of communication resulted in deferring some sales and staggering others into the following marketing year. The system also had a psychological effect on the market and, according to some officials, tended to restrain speculative export transactions and sales entered into as a hedge against the potential imposition of mandatory export controls.

1975 "Prior Approval" System

In mid-1975, the Agriculture Department introduced a modified informal version of the 1974 prior approval system. On July 24, 1975, grain export firms were asked to notify the Department before negotiating major grain sales to the Soviet Union. This ad hoc system remained in effect until August 11, 1975, when the Secretary of Agriculture asked grain exporters to withhold further sales to the Soviets until U.S. crop production levels became concrete. This temporary system was voluntary and, again, was designed to avoid the imposition of mandatory export controls (although such controls on exports to the Soviet Union and Poland did follow). The system placed the responsibility for compliance on grain exporting company officials. No formal compliance system was established by Agriculture to determine whether all exporters were adhering to the Secretary's request.

This temporary system extended an even more informal notification system that had been in existence for several months. Since late 1974 exporters had been requested by Agriculture to keep the Department informed of major contracting activity with the Soviet Union either through the U.S. Embassy in Moscow, the Department of Agriculture in Washington, or other appropriate sources.

Export Reporting System Weaknesses

The Export Reporting System was improved after being transferred to the Foreign Agricultural Service in 1974 through the establishment of the daily system and the temporary imposition of the prior approval system. But the system's effectiveness and usefulness remain somewhat uncertain. This is partly due to the fact that export contracts are frequently modified before shipments actually take place. The actual quantities shipped may be less than originally contracted for, delivery of the commodity may be deferred to the next marketing year, another commodity may be substituted for the commodity originally contracted for, the destination may be changed, or purchases from foreign sellers may be used to fulfill export sales contracts.

We determined several causes for decreases in export contract quantities after contracts were reported to Agriculture. These causes included:

- --original quantities contracted for may be based on estimates of maximum needs rather than probable needs;
- --original quantities contracted for may be based on anticipation of the imposition of U.S. Government export controls;
- --there may be hedging to protect exporters cash or futures market position;
- --with a drop in price of commodity, it is more advantageous for a buyer to cancel or modify the original contract;
- --a foreign buyer's inability to pay or take delivery or a seller's inability to deliver; and

--poor quality grain.

The above demonstrates that the reporting system--established to provide accurate, timely, and reliable export data--actually provides data that is continuously subject to change. For this reason it is not functioning as the early warning system originally envisioned by Congress.

The Acting General Sales Manager addressed the issue in an August 1974 memorandum to the Foreign Agricultural Service Administrator:

"It seems inevitable that any system of monitoring export sales will reflect inflated sales totals when there is fear of scarcity. Foreign buyers seek to protect their ultimate requirements and sellers are anxious to get as much business as possible recorded in case controls are imposed * * *. The problem is to interpret the motivation of the buyer--to decide whether he bought for direct consumption or for later re-sale--and there is no easy way to do this.

Our short experience with the monitoring system suggests that we have created something of a monster--a system which automatically inflates export sales in times of threatened scarcity and which doubtlessly will have a reverse effect in times of surplus when low sale totals will encourage buyers to abstain in anticipation of still lower prices. Unfortunately, I am afraid this is inherent in the human psychology that contributes to the making of markets. It is a problem that I hope will lessen as we become more familiar and experienced in the use of this new information factor. Until then, I am afraid I have no better suggestion than to proceed as we did last year--to use every opportunity to explain our interpretation of the reports and our evaluation of the supply situation."

Because the issue of contract decreases has impacted significantly on the export market and on the credibility of the reporting system, Agriculture and other executive branch officials have considered the possibility of modifying reporting system regulations by requiring exporters to submit written explanations for contract decreases and/or to penalize exporters who cancel for purely speculative or manipulative reasons. It is possible that such action could minimize the amount of unnecessary or speculative contract changes and thus enhance the system's informational reliability and decisionmaking quality.

After some consideration, Agriculture officials decided that the above action would result in giving the reporting system an unnecessary regulatory orientation which could adversely affect the flow of exports. Managers of the system have reiterated that their primary responsibility is to provide export sales information without impeding the flow of exports. Therefore, they have no interest in requiring exporters to justify contract changes for fear that more reliable information would result in restricted export flows. They also remain unwilling to temporarily modify the system on an experimental basis.

The issue is particularly important during short-supply situations, when the Department's traditional orientation toward export promotion may color its assessment of export controls of a quasi-regulatory nature. The export promotion orientation may also interfere with the effective administration of a short-supply monitoring function.

In our interviews with Agriculture and other executive branch forecasting groups, we found that for forecasting purposes, the export data provided by Agriculture's export reporting system had not been particularly useful. Responsible officials in these agencies said that because the export data provided by the system is constantly changing--either decreasing or increasing--it does not provide a reliable representation of foreign demand by which forecasters can make accurate short-term forecasts for the relevant crop year.

Internal Evaluations and Audits

Each of the three groups responsible for administering the export data reporting system has been concerned with upgrading the data collection, and has found it difficult to accomplish.

During its tenure, Commerce tried to improve the quality of its reports by auditing the firms which were providing the information and through a comprehensive management evaluation of the entire short-supply program. This evaluation, completed just before Agriculture assumed responsibility, revealed a variety of data base and management weaknesses.

Until 1976, Agriculture had initiated analyses of particular problems, such as contract changes, but no formal evaluation program. This may have been due to the system's limited budget, although some government officials attributed it to an inclination to avoid any modifications that might limit the flow of exports.

The adminstrators have tried to operate the system effectively and efficiently, and attempts have been made to improve the quality of the data.

Shortly after becoming responsible for the operation of the export reporting system, the Foreign Agricultural Service initiated field reviews in an effort to improve effectiveness. Teams of two to four staff members periodically visited reporting exporters to verify data furnished the Department and to instruct exporters in the proper procedures for submitting export sales data. Department officials participating in field reviews have also attempted to evaluate some contract data as well as develop a better understanding of the export market and export sales contracting in particular. Although field reviews have been superficial and periodic they have provided the export reporting system's managers a means of improving operations short of a thorough program evaluation and detailed internal audit.

Recognizing that continuous contract changes are a normal manifestation of traditional agricultural trade practices, Government officials have attempted to improve their ability to interpret contract changes in an effort to evaluate more effectively export data provided them. Their efforts have focused on contract modifications involving destination changes (known vs. unknown), pricing terms (flexible "basis" vs. fixed), relationship of seller to buyer, definition of an acceptable and reportable export sale, reselling of export contracts, and comparison of export sales data to data received by the Bureau of Census and the Agricultural Marketing Service.

In 1976 the Department for the first time established a program evaluation post to assess the system's operation. A study of contract cancellations due to pricing terms conducted by the system's program evaluation specialist concluded that for the period beginning April 13, 1975, and ending August 31, 1975:

1. More than 50 percent of corn basis-type contracts resulted in cancellations, while approximately 20 percent of corn fixed-price contracts were cancelled.

2. Approximately 75 percent of soybean cake and meal basis-type contracts were cancelled while about half this commodity's fixed-price sales were cancelled.

3. Overstatement of export sales reports is not limited to basis-type contracts as originally believed.

4. During periods of declining prices there is a greater frequency of contract cancellations of both a basis- and fixed-price nature with the rate of cancellation particularly higher among basis-price contracts.

5. Both basis-price and fixed-price contracts should be reported to the Department to provide a better picture of total export sales, even though there are times when the sales position is overstated.

Although the above evaluation and its conclusions as well as other analytical efforts have contributed to understanding the significance of export sales data, the ever-changing nature of export sales contract data continues to make the reporting system an unreliable early-warning system.

Since October 1974, the following disclaimer has appeared on the cover of the Department's weekly U.S. Export Sales Report:

> "Outstanding export sales as reported by private exporters and compiled with other data in this release give a snapshot view of the current contracting scene. At any given time in the course of a marketing year outstanding sales do not bear a consistent relationship to eventual export shipments. A meaningful export projection is not obtainable by the simple device of adding outstanding sales to exports to date. The latter data, alone, may provide a more reliable measure of current export activity than may be derived from a year-to-year comparison of outstanding sales."

In view of the continuing controversy associated with the general unreliability of the export sales data, Agriculture's Office of Audit initiated an audit of the system in the Summer of 1975.

The audit--on which a report was being developed in September 1976--had the following objectives:

--to determine if the existing export sales reporting system is providing assurance that all export sales are being properly reported.

--to ascertain the validity and accuracy of the individual exporter's reports submitted, and determine what influence such transactions as cancellations, sales between affiliates, etc., have on these reports.

--to determine how export sales data is being used (1) by Agriculture officials; (2) by individuals and companies on the mailing list; and (3) by other Government agencies.

--to evaluate the security for protecting the confidentiality of export sales data.

--to evaluate the Export Sales Division's field review system and procedures with a view towards determining whether the field reviews are an audit function that should be handled by the Office of Audit.

In its January 1977 report the Office of Audit made the following major conclusions concerning the export reporting system's management and operation:

1. "Foreign buyers tend to view the export sales reporting system as a type of export control or at least a mechanism that will 'trigger' export controls; as a result there is an incentive to overcontract to assure adequate supplies in case contracts are cut as during the 1973 soybean embargo. Several European grain companies established subsidiaries in the U.S. primarily to report commitments through the export reporting system to protect against possible export controls.

2. There is a need to revise the Export Sales Reporting Regulations to provide that a verbal transaction supported by a trade or sales document (which according to trade practice will lead to a written agreement) be reported at the earliest possible opportunity. Basically, the Export Sales Reporting Regulations now define a reportable sales transaction as one that represents a written agreement between the buyer and the seller. However, the Office of Audit noted, according to trade practice, a sale occurs when verbal agreement is reached between the buyer and seller. The written agreement may sometimes follow the verbal sale by several weeks. In practice, verbal agreements were being reported.

3. The Department should change the designated weekly reporting period (currently Monday through Sunday) to reduce the elapsed time to the weekly report publication date (Thursday, 3 p.m.) This could enhance the accuracy of the data reported ***.

4. Several exporters visited (by OA) were not maintaining complete records in accordance with the Export Sales Reporting Regulations. The exporters were unable to provide sales contracts because their U.S. offices only purchased and arranged shipment of commodities. As a result, (OA) was unable to trace the applicable sales contract to the reported transactions for verifying the accuracy of submitted reports. (The OA was able to review shipping documents and verify shipments.)

5. Several Department officials, as well as other Government agencies, felt cancellation occurred most frequently between U.S. exporters and their affiliates. (OA's) review disclosed that cancellations occurred almost as frequently with nonaffiliates as with affiliates.

6. Current policies and procedures for evaluating and analyzing the export sales reporting data need to be broadened both in terms of improving the data base and evaluating the manner in which the export reporting information might be integrated into the FAS and the ERS forecasting information system. Presently, export sales data is only being utilized on as-needed basis by FAS Foreign Commodity Analysis. ERS only gains access to the data through a copy of the U.S. Export Sales Publication at the time of its official release. The Export Sales Division's ADP system does not have built in capability for cataloging, storing, retrieving and analyzing export data.

7. The Export Sales Division has not performed field reviews in a manner that best accomplishes the objectives of such reviews. Although (OA) generally found the data accurate, (OA) noted field reviews were not always responsive in assuring that exporters thoroughly understood reporting regulations, nor have they provided a basis for updating the regulations.

8. The Department needs to change its procedures for releasing export sales reporting information.

Several exporters, on a regular basis, telephonically request and receive export sales information each Thursday at 3:00 p.m. EST, which is the time set for official release of the weekly publication. This could provide an advantage as against those not aware of the oppurtunity (who receive the written report sales 2 to 4 days later through the mail)."

The Office of Audit proposed the following recommendations to the Secretary of Agriculture to correct the above deficiencies in the export reporting system:

1. "Establishment of a task force co-chaired by the Director of Agricultural Economics and Assistant Secretary for International Affairs and Commodity Program, with OGSM, FAS, ERS, ASCS, and other members as deemed necessary, or desigate a USDA coordinator, to evaluate data accumulated through the export sales reporting system with the objective of utilization and integration into the FAS and ERS forecasting information system."

The Office of Audit also suggested that the Task Force or coordinator should consider the following:

"--Refine and further develop the ADP system for cataloging, storing, retrieving, and analyzing the data and provide capability of online hookup for FAS and ERS forecasters to gain access to the raw aggregate data at the time of its official release.

--Reemphasize to reporting entities that the expressed policy of the Executive Branch of Government, including USDA, is to 'not' impose sanctions on exports and that if export controls are ever needed, reported export contracts will not be used as a basis for allocations. This would possibly deter foreign buyers from inflating their import expectations to assure themselves adequate supplies in the event of the introduction of export controls.

--Require all reporting exporters to submit a written statement concerning: (1) their export operations; and (2) their affiliation with domestic and/or foreign corporations. Exporters should be classified or grouped according to their methods of operation, i.e., likeliness of performance or non-performance based on current market conditions, or exporters who are only reporting for protection against possible export controls.

--Provide data users with interpretive analysis of what the export sales reporting system is, what it measures, and what represents in relation to foreign demand for U.S. agricultural products. This could eliminate much of the fear over export controls when the reporting system indicates a short supply situation developing.

--Take a poll of export sales data users, within and outside the Government, on suggestions for needed additional information that could be utilized in improving analyses and forecasting needs. Where practicable, expand the existing data base to require additional data, e.g., delivery period of shipment and the price and/or pricing mechanism of the contract. The data requirements should be constantly evaluated to minimize the collection of extraneous data."

The Office of Audit suggested to the Office of General Sales Manager that it consider the following recommendations:

1. "Revise the export sales reporting regulations to provide that a verbal transaction supported by a trader or sales document (which according to trade practice will lead to a written agreement) be reported at the earliest possible opportunity.

2. Study (in conjunction with the task force or coordinator) ways of changing the weekly report. Also develop an ADP system with sufficient built-in edits, and improving the field data collection system ***.

3. Require all reporting exporters to maintain in their U.S. offices trader documents and/or written sales contracts with support documentation for every transaction reported to USDA, in accordance with established regulations.

4. Perform field reviews on an as-needed basis to assure that exporters thoroughly understand and

follow export reporting requirements, concentrating on those exporters that would have the greatest impact on the composite weekly export figures ***.

5. Designate an Export Sales Division staff member with an alternate to handle policy and regulation interpretation inquiries from the trade. This could eliminate some of the confusion at the exporter level over policy and regulation interpretations.

6. Strengthen the release of information procedures and channels by:

   --Establishing, documenting, and following guidelines which set forth the criteria or basis on which official information is to be released by ESD employees.

   --Eliminating the practice of releasing export sales information over the telephone immediately on or after its official release unless ESD is prepared and willing to provide the service to all (about 850) people on the mailing list.

7. Release the reported daily sales information to the public at the earliest possible time after Department officials have been notified, e.g., a press release."

Office of Audit officials discussed their conclusions and recommendations with appropriate Departmental representatives and the Assistant Secretary of Agriculture for International Affairs and Commodity Programs. The Assistant Secretary generally agreed with the recommendation to appoint a study group to evaluate the export sales data for utilization and integration into forecasting information systems. He supported the recommendation to improve the Export Sales Division's export reporting ADP system. He also expressed general agreement with other recommendations appearing in the OA report. However, he did state that concerning the recommendation on releasing daily sales data such information had been released when possible with individual exporter's agreement. It was also noted in the discussion OA officials had with the Assistant Secretary "that there may be legal questions concerning the release of daily sales information." Officials of the Foreign Agricultural Service, Office of General Sales Manager and Economic Research Service were in general agreement with the majority of the Office of Audit's recommendations.

OVERVIEW OF GAO'S EXPORTER SURVEY

As part of our examination of the export reporting system, we surveyed agricultural commodity exporters to get their opinions on the export reporting system's management and administration and their attitudes on U.S. Government involvement in the agricultural export sector. A copy of our exporter questionnaire and a detailed analysis of exporter responses appear in Vol. II, Appendix G of this report. From information we requested on organization, sales, and contract procedures, we also hoped to develop a general description of the agricultural export industry as a whole. The 195 exporters who participated in the survey were found to represent, in terms of sales and exports, almost all of the U.S. agricultural export industry.

The firms surveyed encompass a wide range of enterprises, from businesses doing a few thousand dollars in exports to multinational, billion-dollar corporations. Almost 30 of the firms claimed 1974 sales in excess of $100 million. Seven of the firms accounted for more than 60 percent of total 1974 sales.

Exporters expressed a generally positive attitude toward the Export Sales Reporting System. For example, they acknowledged the Government's need to monitor export sales and did not find weekly sales reporting to be burdensome. They accorded the Reporting System a moderate degree of success in achieving its objective of providing accurate, timely, and reliable export statistics, and they rated Agriculture's weekly reports as generally useful. When asked to rank 10 forms by order of preference, that U.S. involvement in export markets might take, the exporters chose a reporting system similar to the present one over all other (and more extensive) forms of Government involvement.

The exporters' view of Government reporting, however, may well be more tolerant than enthusiastic, for they generally opposed more stringent controls. For example, more firms opposed than supported the public disclosure of the terms of export sales contracts, even if information were aggregated to protect individual exporter identities. They oppose having to submit written explanations for contract decreases and oppose even more the penalties for unjustifiable decreases.

Exporters were generally dissatisfied with past Government actions which lead to contract cancellations or renegotiations. They were generally satisfied with the voluntary Prior Approval System--a mild, pre-contractual review of large volume export sales. If Prior Approval were reestablished, however, exporters would prefer it to be temporary and voluntary, rather than permanent and mandatory.

The exporters gave us detailed information about contract decreases, cancellations, modifications, and delivery deferrals. Approximately 20 percent of the quantities contracted for export in 1973-74 were eventually cancelled or deferred. Reasons cited for decreases included contracting for maximum rather than probable needs, overcontracting in anticipation of export controls, hedging to protect market positions, and disadvantageous price changes. More often than not, the decreases were attributed to actions of buyers rather than of sellers.

Further analysis of 1973-74 contract information revealed that basis contracts (those with no specifically stipulated price) were much more frequently decreased than were fixed-price contracts and that contracts with unknown destinations were more often decreased than those with known destinations. About half of the 1973-74 decreases were against contracts made by exporters with their own affiliates. Exporters believed that contracts showing exact destinations had better chances of being fulfilled than did those showing pricing terms.

GAO ANALYSIS OF EXPORT REPORTING SYSTEM'S PRICE IMPACT

The influence of Agriculture's weekly export reporting system on agricultural commodity prices has been debated. Some farmers contend that it has depressed grain prices and cite the dropoff in prices since late 1974.

Consumers, on the other hand, are increasingly concerned about the effect of grain prices on the general rise of food prices. Since the export reporting system was established in part to assure "consumers of plentiful supplies * * * at reasonable prices," the question of its possible price impact seems appropriate.

Using regression analysis, we studied the relationship between weekly agricultural prices and weekly data published in the export reports. The analysis identified a moderate relationship between changes in the weekly export commitment and weekly cash prices of corn and soybeans but none for wheat and soybean meal. Because of these inconsistent results, inferences could not be drawn concerning the system's price impact.

Next we analyzed the reporting system's possible impact on price variability. We developed indices of price variability for agricultural commodities based on month-to-month price changes in the 22-month period before reporting began and in the 21-month period since. After making adjustments for unusual market activity in 1973, we found no great change in price variability since the reporting system was established.

The major determinants of agricultural commodity prices are worldwide and domestic supply and demand factors. After acknowledging this, we asked exporters if the weekly publication of export data in the U.S. Export Sales report has any additional influence on commodity prices. Sixty (60) percent of the exporters responding felt the reports influence commodity prices to some extent, while 25 percent believe they have little or no price influence at all.

Exporters were also asked what effect the reporting system has had on their firm's export sales of agricultural commodities during the past year. An overwhelming majority (93 percent) claimed that ESRS had not affected their export sales volumes. Given this result, it may well be that the advantage some exporters feel foreign buyers are getting is in the form of lower prices for commodities purchased from the United States.

A detailed GAO analysis of the export reporting system's price impact is contained in vol. II, appendix C.

PROPOSED GAO AMENDMENT TO 1973 AGRICULTURE ACT

At the request of the Senate Agriculture and Forestry Committee, we prepared legislative language to amend the Agriculture and Consumer Protection Act of 1973 for congressional consideration. This proposed amendment is intended to make more and better export information available to the Secretary of Agriculture and to provide a mechanism to facilitate more timely decisionmaking. The proposed amendment accompanied with explanations appears in Vol. II, appendix F of this report.

The principal features of GAO's proposed language to amend the 1973 Agriculture Act follow:

A. Exporters would be required to furnish Agriculture with weekly reports regarding any commitment, contract, or other agreement for export sales entered into, modified in any manner, or terminated during the weekly reporting period. In addition, exporters would be required to notify the Secretary of Agriculture, within 15 days of their commencement, of any contracts with foreign commercial or governmental importers which might result in exports of wheat and flour, feed grains, oilseeds, soybeans, soybean meal or other agricultural commodities so designated by the Secretary.

B. The Secretary would determine at the start of each marketing year whether a short-supply situation exists or will exist for each commodity on which exporters' reports are filed. The Secretary, utilizing information from executive branch sources as well as exporters' reports, would periodically review these commodity situations and modify his determination as appropriate. Whenever a short-supply situation is determined, the Secretary would report such determination to the Congress. Unless either House, within 30 legislative days, provides a resolution to the contrary, exportation of the short-supply commodity would be subject to regulation by the Secretary of Commerce under the Export Administration Act of 1969.

C. The Secretary--utilizing the full resources of the Department--would make a semiannual report to the President and the Congress on:

--The impact on the economy and world trade of of shortages or increased prices for commodities subject to these reporting requirements,

--The worldwide supply of such commodities, and

--Actions being taken by other nations in response to such shortages or increased prices.

D. The Comptroller General would monitor and evaluate the activities under this amendment, including all reporting activities. Essentially, the GAO would:

--Review and evaluate the procedures followed by the Secretary of Agriculture in gathering, analyzing, and interpreting statistics, data, and information related to the supply of agricultural commodities;

--Evaluate particular projects or programs;

--Gain access to any documents, data or records of persons or facilities engaged in any phase of exporting agricultural commodities; and

--Provide appropriate reports to the Congress.

CHAPTER 5

AGRICULTURE'S FORECASTING OF FOREIGN SUPPLY AND DEMAND

EXPORT FORECASTS AND THE SOVIET UNION

Chapter 4 described the development of an improved export data reporting system, to minimize disruptions caused by large, unexpected purchases of U.S. commodities by foreign buyers. For the same reasons, higher priority is being given to accurate forecasting of foreign production and demand.

A 1975 report by the Office of Technology Assessment on agriculture, food, and nutrition information systems expressed concern over the increasing importance of the Soviet forecast problem. The report attributed most of the instability in world supplies in past decades to the Soviet Union's variation in crop yields and changes in national policy.

An internal agriculture study (being finalized in 1976) on the problem of forecasting accuracy concluded that:

> "Examination of forecasts for U.S. wheat prices and utilization in 1972-73 suggests that most of the forecast errors were directly attributed to export market factors. More precise and timely knowledge about possible Russian purchases and estimated world grain supplies outside the U.S. would have improved forecasting accuracy for domestic usage and prices in the wheat economy."

In recent Congressional testimony, the Soviet Union's importance in world grain markets was accentuated when an agricultural specialist made the following point:

> "The Soviet Union is the world's largest producer of wheat. It normally produces about one-quarter of the world's annual wheat crop, and about one-fifth of the world's annual production of wheat and coarse grains. It has also accounted for about 80 percent of the annual fluctuations in world trade in wheat during the past decade* * *."

The Office of Technology Assessment concluded that despite recent improvements in information systems relating to world agriculture, they have not kept pace with needs for current information and short-term analysis caused by the short supply situation. According to the report, necessary improvements depend on the leading food exporting nations persuading the centrally planned countries, particularly the Soviet Union and the People's Republic of China, to prepare estimates of their exports and imports.

SOVIET FORWARD ESTIMATES

The exchange of this kind of data was one of the principles and aims of the 1973 agricultural cooperation agreement between the U.S. and the Soviet Union, but Soviet compliance has been disappointing.

The difficulties in implementation and compliance that have caused problems for U.S. forecasting primarily concern article II, paragraph I, which requires:

> "Regular exchange of relevant information, including forward estimates, on production, consumption, demand and trade of major agricultural commodities."

Without forward estimates, data provided under the agreement has primarily historical interest for researchers. It is not useful in Agriculture's preparation of worldwide production estimates and Soviet production-supply estimates.

The United States has repeatedly asked the Soviet Union to fulfill the forward estimates provision of the June 19, 1973 agreement. The United States has maintained that forward estimates of crop production and foreign trade data are an integral part of the June 19 agreement. The Soviet delegates have responded that no "official" forward estimates are available and that such data could not be released until published by the Central Statistical Administration on November 1 of each year--after the end of crop year when it is of little planning use to the U.S.

Agriculture officials contend that providing of forward estimates alone will not resolve problems associated with forecasting of Soviet supply and demand. While variations in Soviet production are a major factor, the magnitude of such variations by no means serves to indicate the exact magnitude of grain imports. The volume of Soviet imports is also importantly influenced by physical restraints (e.g., port capacity, internal transport capacity), availability of reserve stocks, feed consumption requirements, availability of foreign exchange, etc., only if full details concerning these other factors were available would it be possible to make a fully accurate translation of Soviet crop forecasts into a forecast of Soviet imports.

As noted in the previous chapter, the Soviet Union's continued failure to provide forward estimates thwarted U.S. efforts in 1975 to make accurate estimates of Soviet grain import demand. A period of 7 months saw production forecasts go down over 70 million tons, from a near-record high to a 10-year low. By the end of the crop year, the Soviet Union released data showing they had produced approximately one-third less than U.S. and Soviet agricultural economists had forecasted earlier that year.

EFFECT OF LONG-TERM PURCHASING AGREEMENT

Soviet and some executive branch officials have said that the 1975 long-term purchasing agreement obviates the need to furnish the U.S. with information other than that already being supplied under the 1973 agreement. U.S. officials, especially in the Agriculture Department, disagree. They say U.S. forecasters will continue to need forward estimates from the Soviet Union.

AGRICULTURE'S FORECASTING SYSTEM

The availability of more complete foreign data is only one side of the equation of U.S. forecasting. The other side is the effectiveness of the Agriculture Department's forecasting system itself. Although it is generally acknowledged to be the best forecasting system in the world, increasing attention is being given to ways and means of improving it.

GAO has previously reported on the causes and effects of the 1972 and 1973 poor forecast record.1/ We more recently reported on the history of the 1974 forecast record and examined its causes and effects. 2/ The review reported here addressed Agriculture's current short-term forecasting

---

1/ Russian Wheat Sales and Weaknesses in Agriculture's Management of Wheat Export Subsidy Program (B-176943, 07/09/73) and U.S. Actions Needed to Cope with Commodity Shortages, (B-114824, 4/29/74).

2/ What the Department of Agriculture Has Done and Needs to do to Improve Agricultural Commodity Forecasting and Reports. (B-114824, 8/27/75) operations, with particular emphasis on 1975 crop year forecasts, and includes our evaluation of those operations.

Our review focused primarily on the two Agriculture agencies most directly involved in foreign crop intelligence and short-term forecasting areas:

1. Foreign Agricultural Service - foreign crop intelligence and the analysis with resultant current export forecasts; and

2. Economic Research Service - foreign and domestic crop analysis with current forecasts of domestic demand, foreign supply and demand, and all long-term (one year or more) projections.

Detailed discussion of the operations of these two services begins on p. 68.

Statistical Reporting Service

An integral part of U.S. forecasting activities is accurate estimating of the domestic supplies that will be available for export. The data on the domestic agricultural economy is collected by the Statistical Reporting Service, established in 1961.

The service carries out its crop and livestock estimates through 44 State offices serving the 50 States, operated through cooperative arrangements with various State agencies as doing Federal/State services.

The Crop Reporting Board (chaired by the Deputy Administrator of the Service) meets monthly in Washington to compile and analyze reports submitted by the State offices.

Because GAO's current study focused on foreign forecasting, readers interested in a more detailed discussion of the Service's operations are referred to GAO's 1975 study, What the Department of Agriculture Has Done and Needs to Do to Improve Agricultural Forecasting and Reports (B-114824, 8/27/75).

In addition to the above agencies, Agriculture also has a number of interagency groups that combine specific elements of these agencies' forecasts to arrive at the Department's official comprehensive forecasts of the domestic agricultural sector. These include, for each crop, total supply by source, total utilization (demand) both foreign and domestic, and end-of-year carryover. These groups, as applicable, were also included in our review.

We also surveyed other groups, private and governmental, which maintain similar operations. This allowed us to compare the analytical capability of these groups with Agriculture's, and to explore possible avenues of additional cooperation between them and the Department as a means of enhancing its forecast capability.

System Flowcharts

To assist the reader in comprehending the extensiveness and complexity of the Department's crop intelligence and short-term forecasting systems, flowcharts of the systems, from data input to publications output, are presented throughout this chapter. The first chart shows the system that results in information for public documentation.

Interagency Groups in
Agriculture Department

Within the Department are several forecasting groups made up of persons having expertise in specific commodities and/or geographic areas from those Agriculture agencies directly involved in forecasting or farm programs.

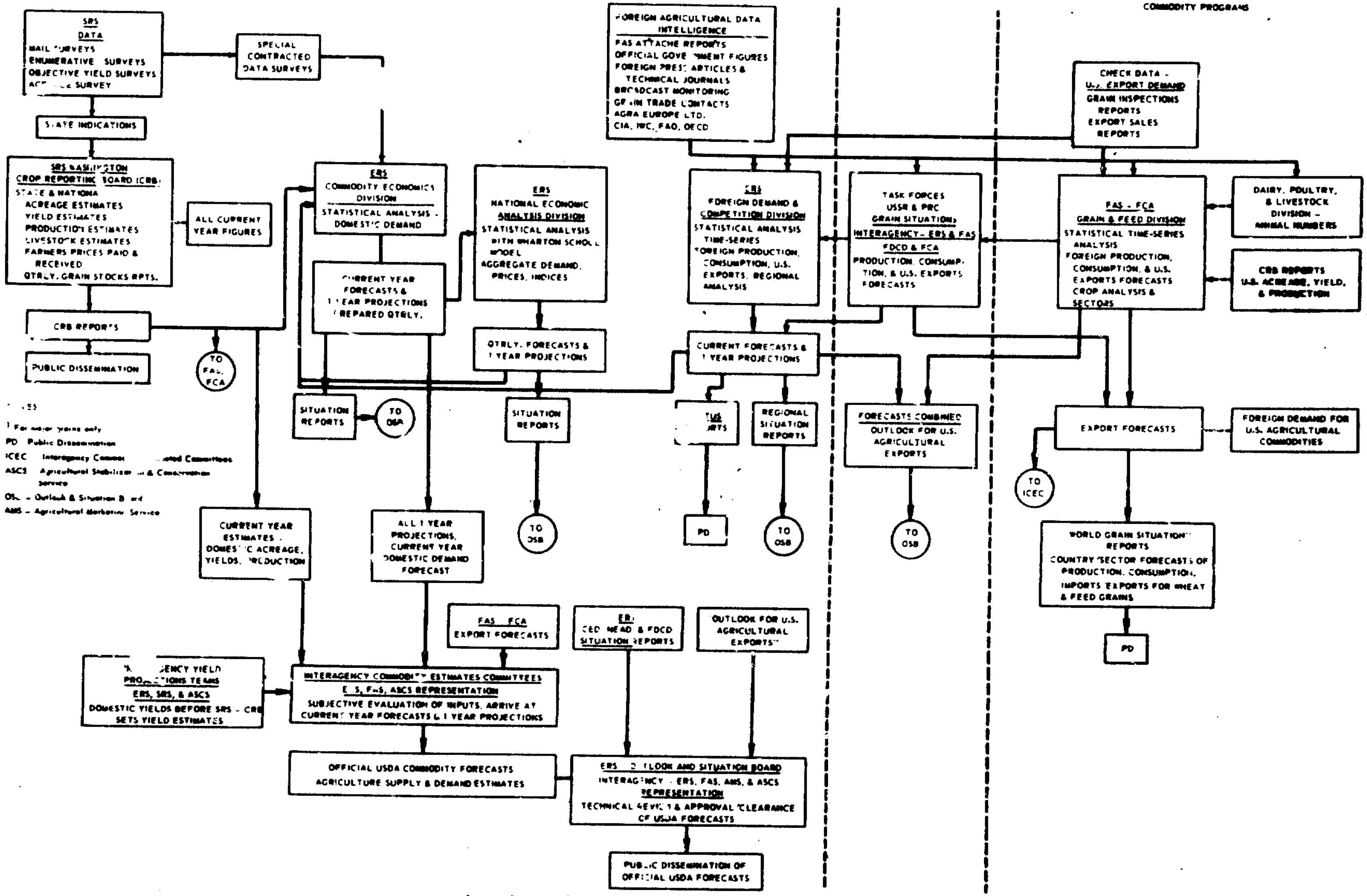
These forecasting groups are as follows:

1. The Outlook and Situation Board, chaired by the Economic Research Service.

2. Task Forces on U.S.S.R. and People's Republic of China (PRC) established at the request of the Secretary of Agriculture in his memos of February 21, 1973, and September 13, 1973.

3. The Interagency Commodity Estimates Committees, chaired by the Agricultural Stabilization and Conservation Service.

AGRICULTURE'S CROP INTELLIGENCE AND SHORT-TERM FORECASTING SYSTEMS[1]
(PUBLIC DISSEMINATION FUNCTIONS)



NOTES
1 For major grains only
PD Public Dissemination
ICEC Interagency Commodity Estimates Committees
ASCS Agricultural Stabilization & Conservation Service
OSB - Outlook & Situation Board
AMS - Agricultural Marketing Service

Outlook and Situation Board

The Outlook and Situation Board is responsible for the technical review and approval of all economic situation and outlook reports prepared within Agricultural Economics or by other agencies of the Department. The Board consists of specialists drawn from the Economic Research Service and other Agricultural agencies, and the membership varies for the different reports reviewed. Board approval of a situation and/or outlook report constitutes clearance by the Department as to its technical accuracy.

USSR and P.R.C. Task Forces

The Task Forces' purpose is to make a collective judgement on USSR and P.R.C. crop statistics: production, carryover, import demand, export trade, etc. They were formed because of the need to pull together available expertise on these two countries so as to derive the best possible estimates of crop statistics and to resolve any differences in the estimates derived by the individual representative agencies that make up these groups.

Representatives to the Task Force come from the Foreign Agricultural Service, the Office of the General Sales Manager, the Economic Research Service, Agricultural Stabilization and Conservation Service, and the Agricultural Marketing Service. The USSR Task Force is primarily interested in grains, while the P.R.C. Task Force covers grains, cotton, and rice.

Both Task Forces arrive at their forecasts primarily through subjective evaluation of various types of information. These sources of information include press reports (the USSR group depends heavily on the Soviet press), information from the Air Force Air Weather Service, embassy reports, agricultural delegation reports, travelers' reports, CIA information, Radio Liberty and sources within the Department of Commerce. Official Soviet publications are used whenever available. The People's Republic of China publishes no agricultural data except for total production. (To date, its imports of U.S. grain have been modest, totaling only 8 million tons of wheat and corn between 1972 and 1975, although it should be recognized that imports from major competing grain exporting countries can have a direct effect on U.S. markets.)

Interagency Commodity Estimates Committees

Interagency Commodity Estimates Committees exist for each price-supported agricultural commodity (and others as needed) in response to a "continuing need for estimates and projections of basic data rega .ng supply, utilization, prices, and program effects to be used on a Department-wide basis for program planning and budgeting purposes and for evaluation and administering present or proposed programs."

Committees for price-supported commodities are charged with the responsibility to appraise and review basic data and make estimates of projected supply, utilization, and prices for commodities. When new programs are under consideration, the Committees attempt to estimate a number of effects, including exports and availabilities for export.

FOREIGN AGRICULTURAL SERVICE

The primary source for Agriculture's information on foreign supply and demand is intelligence reported by the Foreign Agricultural Service's agricultural attaches. There are 63 attaches assigned to foreign offices who issue reports on 110 countries. The attaches function as an integral part of the in-country Embassy team headed by the Ambassador, but under the general direction of the Foreign Agricultural Service in Washington. The Washington group is headed by the Service's Administrator under the Assistant Secretary for Ir .national Affairs and Commodity Programs.

The Service is involved in efforts to improve its overseas training and expand its staffing. It has increased its Moscow staff, recently placed a representative at the U.S. mission in Peking and an attache at the U.S. Embassy in Cairo. The Service plans, during fiscal year 1977, to establish attache positions in the Arabian Peninsula, East Germany, Kiev and at the U.S. Trade Center in Moscow.

Attache Reporting

In their host countries, attaches are involved in such activitie as: gathering crop production/consumption/demand information, administering Food for Peace programs under P.L. 480, developing export markets and identifying new trade opportunities. They also play a diplomatic role as members of the Embassies' mission to assist in maintaining contacts with government officials of the host country.

The individual attache s ability to gather data on agricultural commodities is dependent on the flexibility allowed him by the host country to carry out these duties. For example, travel restrictions imposed by the Soviet Government hinder the attache in that country from making firsthand observations of Soviet crop production. The attache is officially restricted from traveling to some parts of the USSR, except with special permission, and reportedly has been often unofficially hindered through cancelled flights, closed roads, or similar difficulties characteristic of a closed system. Theoretically, Soviet attaches in this country face the same kind of restrictions, but are actually less restricted due to our more open system. 'o negotiations to improve attache travel in the USSR are currently being held, but the U.S. makes a constant effort to improve the situation.

Because of the travel restrictions, the U.S.S.R. Attache must rely heavily on agricultural statistics that appear in the Soviet daily press or official figures published by the Soviet government for the information needed in his reports submitted to Washington. The Soviets publish annual and 5-year goals, and have felt these were sufficient to fulfill their obligation to supply the U.S. with agricultural information. However, thirty teams of agricultural experts were exchanged between the U.S. and the U.S.S.R. in 1976. These teams studied a wide range of subjects in the fields of agricultural research, technology and economics.

As a result of travel restrictions or other difficulties, and the limited available data, the attache in the U.S.S.R. has submitted the 19 minimum required number of reports each year, compared with an average of 74 reports a year each for France, West Germany, and the United Kingdom.

In countries which fail to provide reliable current estimates, the judgement of the individual attache can be a significant factor. A consultant's report, prepared for the Office of Technology Assessment in 1975, pointed out that attaches "in general are influenced by what they perceive to be their mission and the length of time they are posted in a country."

According to the report, "Few Attaches perceive the collection of agricultural statistics and the development of supply-demand estimates to be their primary mission. * * *"

Other points made in the report: that attaches are seldom selected for their analytic ability, but usually for their ability to represent U.S. agriculture; and that relative short tours of duty are a distinct disadvantage with respect to developing reliable estimates.

The report indicated that attache reporting could be improved through more adequate coverage of several important agricultural countries, and through stationing data specialists who had no other duties and who "were a part of an organization whose sole mission was to operate a world agricultural information system."

TYPES OF ATTACHE REPORTS

Attaches submit two types of reports; (1) scheduled, required reports, and (2) "alert" reports, which are used to report fast-breaking items in the host country's agricultural situation that have an immediate effect on U.S. agricultural commodities with respect to demand, world prices, and/or consumption.

Required attache reports consist of numerical data entered on a statistical format devised by the Service's Foreign Commodity Analysis group. Attache analysis of the data is not considered essential because data analysis is primarily the responsiblity of the Service's commodity analysts in Washington.

Foreign Commodity Analysis

The data supplied by the Attaches and other sources is analyzed by the Foreign Commodity Analysis Group of the Foreign Agricultural Service. This group is comprised of 7 divisions working on the analysis of foreign supply/demand data for 7 specific commodities or groups of commodities. Our review was limited to the Group's management, the Grain and Feed Division, and the Dairy, Poultry, and Livestock Division.

The Group has responsibility for short-term (current year) forecasting of foreign supply/demand/exports of agricultural commodities. It completes projections of the next crop season so as to provide input into policy decisions for that season. In addition, export forecasts, based on foreign crop and consumption projections, have been produced regularly for grain for a 5-year period each since around 1970. These forecasts are reviewed once or twice a year.

The Group uses various forms of models as one technique for forecasting global and regional levels of grain yields. It also relies on trend analysis to provide quantitative input into the analysis process. If necessary, qualitative factors such as the degree of mechanization, the amount of arable land, and weather are also subjectively included in the analysis.

The 1975 OTA consultant's report concluded that better analytical capability was needed because:

> "As we have learned in current years, trend analyses fail to provide reliable results. More detailed analyses of the factors that determine production and consumption are required to improve the reliability of [Agriculture's] world estimates."

Officials told us that most of the Group's problems are in the grains area. Personnel are presently trying to integrate feedgrains use into grains analysis and admit that they have been slow in defining the interrelationship between the livestock and grain sectors.

The Dairy, Poultry, and Livestock Division has instituted new reporting instructions for quarterly dairy and poultry reports for 40 country automatic-data-processing data bases for the years 1964-74 by the end of fiscal year 1976. By the same time, they planned to expand the existing livestock data base (1960-73) and make a major revision of livestock reporting instructions to a standard quarterly reporting schedule, for use in developing a short-term forecasting methodology of feed demand based on dairy cattle and poultry production.

Division analysts have also increased the frequency of reports from annual/semi-annual to quarterly submissions by attaches, accompanied by a current forecast devised by the attache.

The data base for coarse grains and wheat for short-term forecasting purposes has been developed and operational for almost 2 years. This commodity area is the responsibility of the Grain and Feed Division. It was the first division to initiate quarterly reporting instructions for grains to be submitted by attaches, and its analysis/forecasting capability is the model for the other divisions in the Group. This division is also filling the gap in the feedgrain demand sector of analysis until such time as the Dairy, Poultry, and Livestock Division completes its livestock data base.

Grain and Feed believes that it has tuned-in its operations to meet its priorities. Major emphasis in its analytical work is directed to monitoring current crop prospects and changes in individual foreign countries, and keeping abreast of the trade-flow impact of changes in foreign crop production.

In response to a major upward shift in feedgrain demands 2 years ago, the Division set up a unit to specifically handle the expanding work in this area.

The Grain and Feed Division obtains its data base information from Agricultural attache reports, published statistical sources, periodicals, cooperator reports, Reuters news service and personal contacts by Division personnel.

In addition to its wheat and coarse grains data, Grain and Feed also collects and updates monthly trade-flow data by country of actual grain movements by origin to destination. The third part of the Division's data base is a record of grain transactions to data of forward contracts (what will move) for future grain shipments that have been purchased by buyers. This data is then subjected to judgmental decision-making (by Division personnel and Attaches) to determine what portion of forward contracts is indicative of actual demand and what portion is "buying now" to avoid future price rises.

Analysis/Forecasting Methodology

Analysis and forecasting in the Grain and Feed Division is essentially trend analysis subsequently adjusted by qualitative (professional judgment) considerations as Attache-reported intelligence becomes available. These trends are needed to forecast crop yields, production, and consumption; then any anticipated stocks changes are arrived at through subjective evaluation to finally determine import and export forecasts and appropriate revisions.

Matrix analysis is used to arrive at these forecasts wherein total grain must equal total demand.

Division analysts use sector analysis in making their forecasts--combining major groups of countries into aggregate trends as opposed to country by country analysis. While the Division performs the sector analysis for commodities, it works closely with the Economic Research Service's Foreign Demand and Competition Division, which provides individual country analysis of commodity supply/demand factors.

The quality of information of foreign supply, demand and buying intentions is often not high, being frequently based on subjective analysis of data gathered from various sources. This is especially true of the reports from closed societies such as the Soviet Union and the People's Republic of China. Of course, it would be unreasonable to expect statistically accurate estimates of foreign supply, demand and buying intentions, in such limited data situations.

Officials' Views of Forecasting Operations

Grain and Feed Division officials informed us that the Attaches were their primary source of export information. They also told us that U.S. weekly export sales data is used mainly as a means of keeping informed of any unusual situation that might cause problems in the domestic market. More specifically, export sales reports are used as a general indicator of country demand and activity on a weekly basis, based on that importing country's production, demand, and stocks position (which analysts claim they know with a reasonable degree of accuracy for most countries). Export sales figures are not fully integrated into their forecasts, because the analysts maintain they are usually overstated, for both exports and outstanding sales contracts. One reason for this could be foreign buyers' overbuying to protect themselves from possible future U.S. export controls. FAS officials informed us that export sales figures are taken into account as the marketing year progresses, in determining whether preseason estimates of U.S. exports to specific countries sould be adopted. In some instances such adjustments are triggered by new export sales data. This is especially true for such countries as the USSR, the PRC and certain other countries--especially in Eastern Europe and North Africa--for which data on current crop developments are less readily available.

Division personnel point out that the fundamental barrier to improving their forecasting is the lack of an adequate data base and the inabiliity to accurately forecast the impact of weather on grain production. Given this limitation, officials believe that they are doing the best job possible with the available information. These officials noted t t the quality of foreign crop production information may depend more on national policies (of foreign governments) than on any other factor.

Foreign Commodity Analysis officials stated that the biggest unknown in their production forecasts is weather, although they are trying to account for it in some measure.

The principal source of weather data used by Agriculture's analysts of Soviet crop production is the Air Force Environmental Technical Applications Center. The Center computerizes and processes raw weather data and provides average information on 27 USSR regions on precipitation, temperature, and calculated soil moistrue. Data are summarized and made available each 10 days, and cumulative monthly and seasonal averages are also provided.

Agriculture's analysts evaluate this and other weather data to estimate regional weather indexes of grain crops. Statistical models are used, but the indexes--which are largely judgmental--are multiplied by trend yields to obtain overall Soviet production.

Fiscal year 1976 brought into full operation the Large Area Crop Inventory Experiment(LACIE), a joint project of the Agriculture Department, the National Aeronautics and Space Administration and the National Oceanic and Atmospheric Administration. This experiment combines Agriculture's expertise in international economic and statistical disciplines with the use of satellites and meteorological and climatological data. Grain and Feed Division personnel stated that the Experiment will help by providing earlier warnings of crop failures due to adverse weather. Analysts will then be able to use this information to supplement and evaluate reports from Attaches. Initial tests of the Experiment were positive.

Officials said that another problem affecting work quality is the Foreign Agricultural Service's rotation policy, which moves professional personnel throughout the various organizational units. This tends to disrupt the continuity of commodity analysis operations as well as the development of more sophisticated forecast methodology and the degree of competence of commodity analysts. Officials cited various possible remedies to the problem, but pointed out that some form of rotation is needed in order to give analysts an appreciation of field reporting and attaches' problems.

Dissemination of information

The Foreign Agricultural Service publishes some of its statistics, forecasts, and narrative analysis in publications for public dissemination, but more frequently its publications are for internal use only.

For external use, the Service publishes the World Grain Situtation in the Foreign Agriculture Circular on a bi-monthly basis.

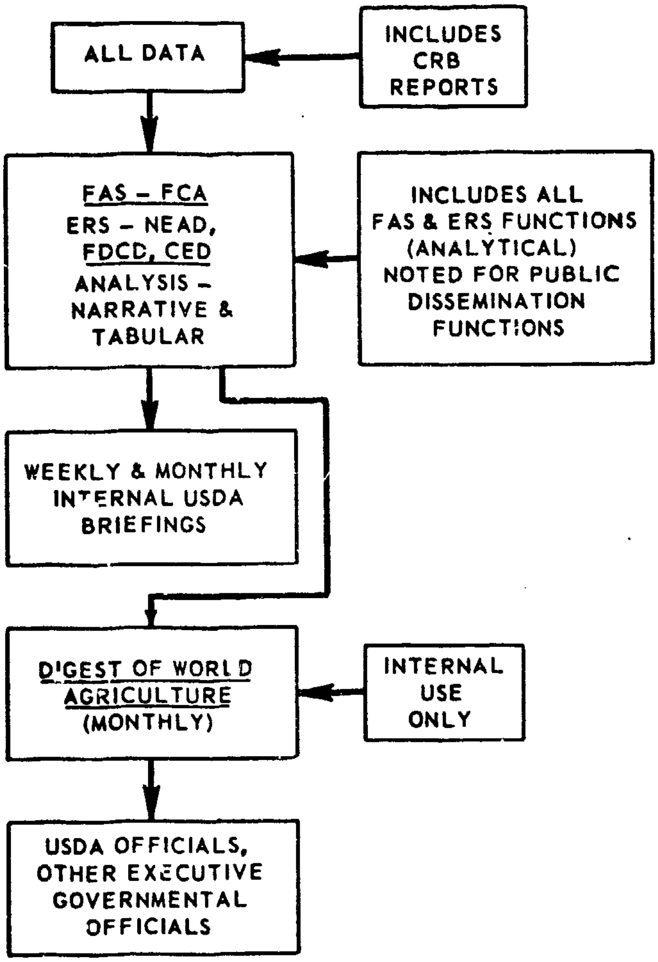
Recently, in recognition of the need for more complete and accurate reporting and analysis of foreign crops, the Service has taken steps to improve this report. According to the Administrator, it is unique in the world as a summary of production, trade, utilization, and stocks information from all major producing and importing countries.

The World Grain Situation report, along with the U.S. Export Sales report published weekly by the Office of the General Sales Manager, adds a new dimension to available information on current supply and marketing, and expands it to include additional production and price information. The U.S. Export Sales report now includes a narrative interpretation designed to make the tabular material more useful to farmers, marketing people, and others.

It also publishes a monthly World Agricultural Production and Trade Statistical Report. A weekly news release service was instituted in June 1975 for reporting to the public current developments in the foreign agricultural situations that affect American agriculture. The Service hopes to expand it into a daily news release system.

Internally, Service personnel make regular briefings on foreign agriculture for Department officials. The Service also prepares (in collaboration with the Economic Research Service) a monthly internal document, Digest of World Agriculture, that includes a World Grain Situation and world weather and crop summary. A flowchart on the following page depicts the system for internal management information.

INTERNAL USDA DISSEMINATION FUNCTIONS



ECONOMIC RESEARCH SERVICE

Overview

The Economic Research Service develops and provides economic information to a wide variety of decisionmakers interested in or responsible for improving agriculture. These include Agriculture Department officials, Members of Congress, officials of other government agencies, State and local administrators, foreign government leaders, farmers and farm organizations, marketing firms and farm supply companies.

The research is carried out in a number of areas, including the characteristics and performance of the U.S. food and fiber sector, foreign trade, and foreign market development.

The Service's monitoring and short-term foreign agricultural forecasting responsibilities are carried out by its Foreign Demand and Competition Division. This Division focuses on worldwide supply and demand conditions and the impact of U.S. and foreign policies on world farm trade. Its publications provide information needed by traders, government officials, and trade negotiators.

The Foreign Agricultural Service has the major short-run forecasting responsibilities for the international area. The Foreign Demand and Competition Division functions in a consulting, review and advising role and thus in the past did little regular forecasting work.

An in-house review in 1974 stated that the Division then had only two regular forecasting projects: (1) U.S. agricultural trade forecasts and (2) world agricultural production indices.

The review went on to point out that one of the Division's missions is an international agricultural intelligence gathering service-oriented mission. In this role, the review noted that the Division was often called on to make specific forecasts for various projects, but that this work fell in the one-time-only category.

Recently, the Division began to develop its own short-term forecasting capability as shifts in export demands became more rapid and more important to U.S agriculture. Officials stated that these forecasts would contribute to the Department's "Outlook and Situation" reports.

Currently, the Division does some forecasting of exports of major commodities, contributing this information indirectly to the Department's official forecasts assembled through the Interagency Commodity Estimates Committees. However, the Foreign Agricultural Service has primary responsibility within the Department for export forecasts and has the major influence on the final export forecasts published by the committees. Nor does the Foreign Demand and Competition Division share any responsibility for export forecasts with the Foreign Agricultural Service, even though these units are supposed to complement one another and utilize the same data base.

According to Division officials, the primary purpose in developing its enhanced short-term forecasting capability was to service internal Economic Research Service needs. They claimed that their forecast methodology was more analytic and hoped to improve the rigor of both their and the Foreign Agricultural Service's forecasting.

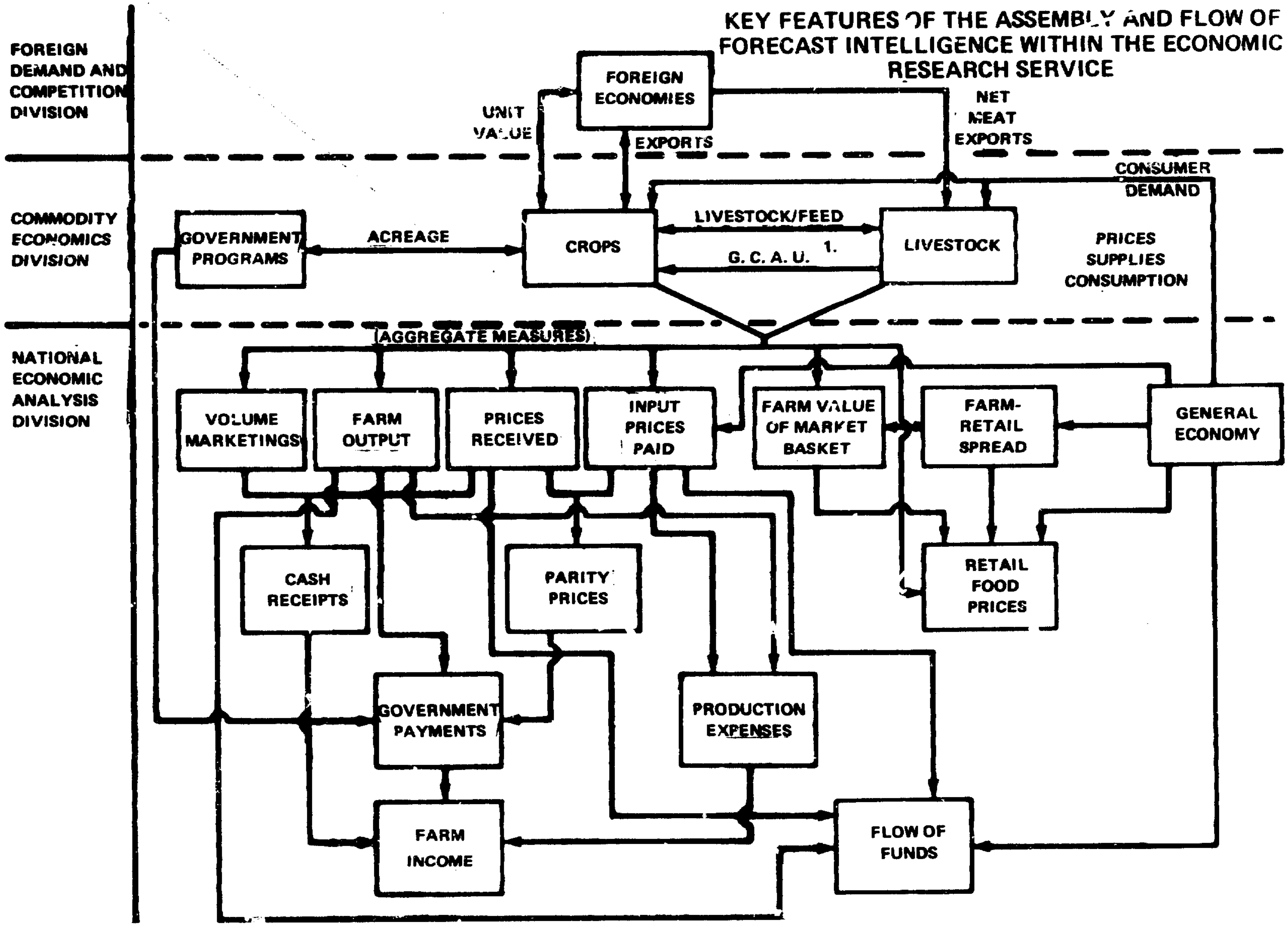
We were informed that the Division has two essential lines of effort ongoing in short-term forecasting of foreign supply/demand/exports: the first is regional analysis and the second is monthly one-month projections of exports. These efforts were closely coordinated with Foreign Commodity Analysis operations. Both are based on subjective evaluation of all of the available information. One source is the U.S. Export Sales reports. Officials use the reports to obtain an indication of export demand and to track their forecast estimates of exports. Generally, they found the reports inflated by scare buying when a shortage situation existed or was anticipated, and deflated in situations of excess supply. For specific commodities, these officals stated that wheat and corn sales reported were reliable but that soybeans sales were very inflated.

The Division has established a group to develop new and more sophisticated models for short-term forecasting of production/utilization/export demand by individual foreign nations and for U.S. agricultural exports. Their effort was geared to making the short-term forecasting process more efficient, as well as shifting to a more formal quantitative forecasting methodology to supplement subjective evaluation (qualitative analysis).

Projections are now being developed of production and consumption levels for grain, feed and livestock products under alternative price and policy conditions for several developed nations. From this information, projected imports and exports of each country can be calculated.

Despite the Division's interest in its expanding role in the international forecasting effort, there is also concern that the Economic Research Service may be perceived as stepping directly into a role historically designated as FAS's. The ERS report was careful to point out that by developing a modeling approach to forecasting its work "* * * would be more complementary than competitive to what the Foreign Agricultural Service is currently doing."

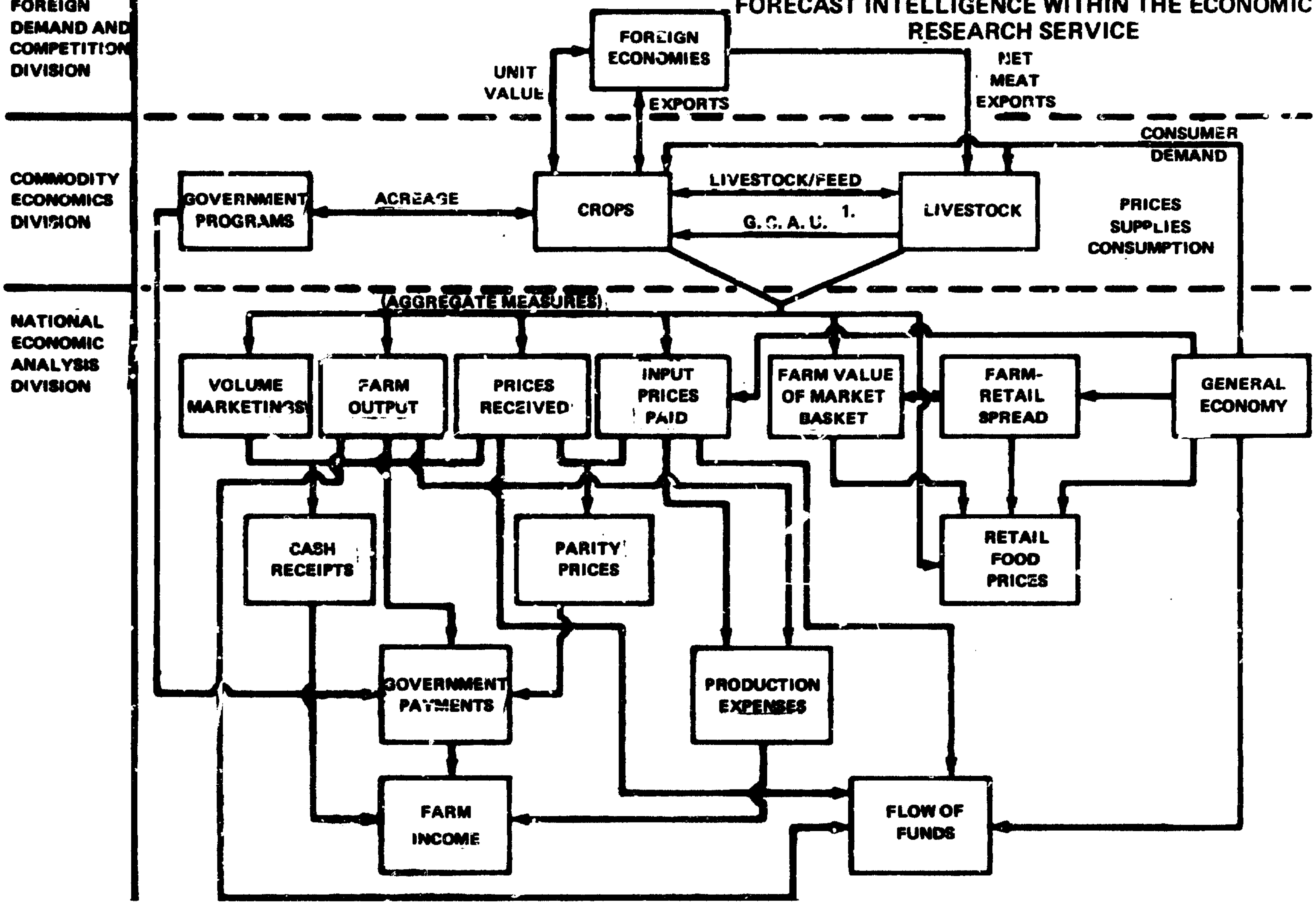
KEY FEATURES OF THE ASSEMBLY AND FLOW OF FORECAST INTELLIGENCE WITHIN THE ECONOMIC RESEARCH SERVICE



1. G. C. A. U. - Grain Consuming Animal-Units

SOURCE: A REVIEW AND APPRAISAL OF FORECASTING IN THE ECONOMIC RESEARCH SERVICE, ERS, USDA, (Draft), 1/16/75, Pg. 34.

KEY FEATURES OF THE ASSEMBLY AND FLOW OF FORECAST INTELLIGENCE WITHIN THE ECONOMIC RESEARCH SERVICE



1. G. C. A. U. - Grain Consuming Animal-Units

SOURCE: A REVIEW AND APPRAISAL OF FORECASTING IN THE ECONOMIC RESEARCH SERVICE, ERS, USDA, (Draft), 1/16/75, Pg. 34.

The Under Secretary recommended:

"For example, we believe that data on production, supply and distribution of agricultural commodities can be most efficiently developed by Foreign Agricultural Service commodity specialists, while data on general economic indicators and factor inputs can be most efficiently developed by Economic Research Service country analysts. Common data bases can be developed for use by both agencies on all types of data, just as [these services] have done with grain data."

The 1975 Consultants' Report for the Office of Technology Assessment commented on the relationship between the two services:

"The organizational structure used by [the Agriculture Department] to operate the world agricultural information system impedes efficiency and effectiveness. It is extremely difficult to use analysts efficiently and effectively when the responsibility for the outputs of a system is assigned to two completely separate agencies * * *It will be essentially impossible for USDA's world agricultural information system to reach potential under the present organzational setup."

The report suggested several ways to achieve a meaningful reorganization. The alternative considered most efficient and effective would combine the Foreign Agricultural Service's commodity analysts with the Economic Research Service forming a group responsible "for assessing and disseminating information on world and U.S. agriculture". The report claimed this would eliminate duplication and maximize coordination.

PROBLEMS OF COORDINATION

The barriers to smooth coordination of the sister agencies range from philosophical to practical. Foreign Agricultural Service officials believe that work is needed in the area of defining relationships that will enable them to develop short-term models so as to devise better forecasts. They stress the current situation, which is always changing, and contend that because the Economic Research Service is too academic in its approach and spreads the work over a number of years, the Foreign Agricultural Service has had to undertake its own basic economic research.

Others in the Foreign Agricultural Service cited poor relations with their counterparts in the Economic Research Service. They attributed it to a lack of understanding between the two groups brought about by their respective orientations--the Foreign Agricultural Service personnel having direct agricultural knowledge, the Economic Research Service personnel having a more academic background with no appreciation of how the agricultural sector functions. They also said that the Economic Research Service was competing with the Foreign Agricultural Service in its efforts to develop its own short-term forecasting capabilities.

Economic Research Service officials agreed in part with these statements and mentioned the need for their staff to have more contact with private trade. On the other hand, they felt that the Foreign Agricultural Service needed to develop its analytical capabilities.

They also cited another problem. The Foreign Agricultural Service retains primary responsibility for export forecasts and is adamant that its final forecasts of foreign supply/demand for U.S. exports be retained as the Department's official forecasts published for public dissemination. Given this position, the Economic Research Service is relegated to the position of attempting only to influence the forecast figures.

IMPROVEMENTS, CONTINUED WEAKNESSES

The Office of Technology Assessment published another report in August 1976: Food Information Systems: Summary and Analysis. It noted improvements made in Agriculture's information and forecasting system since 1972-73: modification of the agricultural attache system; improving staff analytical competence; upgrading publications and eliminating duplication; attempting to get better information on the Soviet food situation; releasing more timely crop forecasts; collecting data from new areas; and using modeling and remote sensing technologies.

The report concluded that four groups of deficiencies continue to exist in the food information system:

1. poor national (foreign) systems, upon which the Agriculture Department must depend;

2. collection of inadequate and/or obsolete data;

3. inadequate analysis, especially by the overseas network of agricultural attaches;

4. Agriculture's fragmented organizational structure, which hinders effectiveness and promotes institutional conflicts of interests.

The Office of Technology Assessment proposed the following possible solution to the above weaknesses. The National Commission on Supplies and Shortages supported these possible solutions in its December 1976 final report to Congress. These solutions which are designed to protect the integrity of U.S. foreign agricultural data include:

1. Transfer the Foreign Commodity Analysis Unit out of the Foreign Agricultural Service and make it a Division of the Economic Research Service.

2. Combine the Foreign Commodity Analysis Unit with the Foreign Demand and Competition Division of the Economic Research Service into a new agency, one with the sole mission of providing economic intelligence on world agriculture.

3. Combine the Foreign Commodity Analysis Unit with the Economic Research Service's Foreign Demand and Competition Divison and with domestic commodity analysts into a single economic intelligence agency responsible for assessing and disseminating information on world and U.S. agriculture.

Both organizations (OTA and NCSS) agree that "overall efficiency and effectiveness would be highest under the first proposal." The National Commission was highly supportive of the third option because it represents an effort to end the redundancy of both operations and attempts to establish an integrated view. The Office of Technology Assessment and the National Commission also concur in the belief that the best long-run solution to developing a better international information system is the employment of agricultural information specialists who would reside in major food export and import countries on a permanent basis. The Commission stresses that better data analysis is essential if the U.S. food information system is to improve.

The Commission also proposed the following pertinent guidelines regarding Agriculture and other materials agencies in its summary report:

1. Data collection and data analysis should be organizationally separate from policy and program activities.

2. Data collection and data analyses should be placed in a separate, high level (preferably Bureau level) organization of comparable status.

3. The credibility of data and analyses should be maintained through open access, advisory committees, and other institutional safeguards.

4. Data collection and analysis should be responsive to the needs of users.

5. Statistical standards should be upgraded, and the limitations of the data--including sampling error, uncertainty, and assumptions--should be published with the data.

OTHER FORECASTING ORGANIZATIONS

Central Intelligence Agency

Central Intelligence Agency forecasts include periodic assessments of harvest prospects compared to domestic consumption levels of Communist-Bloc nations. This is part of its continuing research on agricultural and consumption trends in these countries. The CIA also projects international trade in grain and other agricultural products, taking into account its incomplete knowledge of domestic stocks and the intentions of Bloc leaders with regard to consumption levels.

CIA findings go to several government agencies (including Agriculture) and to relevant interagency agricultural policy groups. The CIA estimates demand for U.S. grain by considering total worldwide supply and demand utilizing a total matrix approach based on importer/exporter activity. It uses all other available sources of data, including Agriculture and grain companies, in devising its trade estimates.

It has developed a crop forecasting model to predict crop yields in 27 major producing areas of the Soviet Union. The predicted yields--based on time trends and a composite index of several weather variables--are combined with reported data on sown area to produce crop estimates.

Prior to the 1972 grain sales, the CIA had not placed a significant priority on the forecasting of Soviet grain production and import demand. During the past 4 years the CIA has continuously endeavored to expand and improve its forecasting capability. Concern has emerged among Government officials in recent years over differences in Agriculture and CIA estimates of the Soviet grain situation. The differences were generally attributed to the different data bases and forecasting methodologies used by both agencies, as well as difficulties in achieving effective interagency communication. However, since 1975 both Agriculture and the CIA have improved their coordination and communication on the forecasting of Soviet supply and demand. Although both agencies utilize different forecasting methodologies based on many different varieties of data, they recently have worked together in attempting to provide the executive branch with one consensual estimate of Soviet production and demand.

Food and Agriculture Organization of the United Nations

The Food and Agriculture Organization (FAO) of the United Nations fosters international cooperation in the fields of nutrition, food, and agriculture. The United States maintains a permanent mission--under State Department supervision--to the Organization's Rome headquarters.

The Organization is a source of international economic and statistical data. It obtains information from a number of sources, including member governments, the Organization's technical personnel assigned overseas, and from Foreign Agricultural Service publications.

In turn, Agriculture uses the Organization's publications as a supplemental source of statistical information; however, Agriculture makes little attempt to follow the Organization's information-gathering activities on a current basis.

GAO recommended in a previous report that closer cooperation between the two groups might be desirable. Agriculture responded that although they would welcome closer cooperation with the Organization, it was not always the best source of information or the most timely source.

The Office of Technology Assessment in 1975 compared the forecasting of the two groups and concluded:

> "All in all, USDA's system clearly has been superior with respect to timely assessments of the current situation and near-term outlook, but unless steps are taken soon to improve USDA's system, the most reliable system will be the one operated by FAO."

The Food and Agricultural Organization began to develop an early warning system in 1965 which assembled monthly estimates of major food crops from over 70 developing countries in order "to obtain advance indications of possible emergency food aid needs." It is also experimenting with aerial photography to gather agricultural information from those countries lacking adequate information-gathering systems.

Major Grain Exporting Companies

GAO interviewed officials of several major grain exporters including the six who handled the majority of the 1972 Russian grain sales (Cargill, Inc.; Cook Industries, Inc.; Bunge Corporation; Dreyfus Corporation; Continental Grain Co.; and Garnac Grain Co., Inc.).

The exporters' forecasts are for the most part independent of Agriculture's data. Coordination between the exporters and Agriculture is superficial and the exporters are careful not to compromise their respective competitive positions.

Although forecasting ability varies by company, the officials of the large exporting companies feel that their short-term forecasts are more accurate than Agriculture's, especially on a commodity basis, because the Department covers all agricultural commodities and does not focus exclusively on selected commodities as is the case with many exporters.

Private grain exporters and some government officials added that the Department's forecasts, as well as the Department itself, are subject to numerous bureaucratic and political constraints influencing ultimate supply/demand/export forecasts. While instances of bureaucratic or political constraints may have influenced ultimate forecasts in some instances, the view of forecasters in the Foreign Commodity Analysis Division is that, for grain, it would be difficult to imagine a situation where objectivity would be any less prevalent than is the case now with Agriculture's forecasts of foreign supply/demand/trade prospects.

Agriculture maintains that its forecasts are not politically influenced for the following reasons: "First, the procedural system for grains ensures collective judgment by a staff of analysts rather than allowing forecast judgments to be compartmentalized or specialized. Under the existing system, all forecast judgments made by Foreign Agricultural Service personnel are open to scrutiny by specialists in the Economic Research Service and other concerned USDA agencies. The second reason (for Agriculture's rejection of the claim of outside influence)is the fact that all significant components of the foreign supply/demand and U.S. export forecasts are regularly disseminated through public information channels and therefore open to the scrutiny of the foreign countries concerned, as well as the domestic producer groups and exporter firms who themselves can judge the accuracy, currentness, and objectivity of Department forecast judgments. Under these conditions Agriculture insists analysts responsible for the grain forecasts are acutely aware and continually reminded of the need for objectivity at all times in the preparation of forecasts."

CHAPTER 6

U.S. AGRICULTURAL EXPORT POLICY

The most important consequence of Soviet grain purchases over the past 4 years has been that these transactions have highlighted the need to assess the Government's agricultural export policy. The results of this review conducted by GAO have raised a number of questions about the effectiveness of recent policy.

FLEXIBILITY

Export policy clearly should be sufficiently flexible to adjust to extreme shifts in foreign demand for U.S. commodities. The difficulties encountered by the Government in responding to the Soviet Union's 1972 and subsequent purchases were only in part due to weaknesses in export reporting and forecasting. They also arose from fundamental policy assumptions.

In 1972, the Government had completed a recent transition in agricultural policy. The former policy--which had been in effect for roughly 4 decades--had been focused almost exclusively on limiting farm production in order to bolster prices. The policy involved large-scale government intervention involving billions of dollars for price supports, export subsidies, Government held stocks, food aid programs, and similar measures.

In 1969, this policy was abandoned and supplanted by one designed to remove the Government from agriculture altogether. The policy change was articulated in legislative changes in the 1970 and 1973 Agricultural Act.

An article in a recent issue of Foreign Affairs described the Goverment's new approach:

> "* * *the federal government according to this policy, should no longer own reserves of commodities and regulate prices, as it has for more than 30 years. Price changes should regulate the movement of resources into and within agriculture."

This new policy was based on expectations of full production. Exports were encouraged, but without subsidization. It was assumed that the free market could handle international transactions in U.S. commodities.

Then several forces came together in the early 1970's to push foreign demand up sharply. From the perspective of 1976, it is clear that the Soviet purchases, though pivotal, were only one part of this larger picture of growing world demand.

The phenomena contributing to growing demand in the early 1970s included:

- --world-wide (except in U.S.) shortfalls in crop production;
- --Soviet decision to increase per capita protein consumption, and import grain;
- --dollar devaluations of 1971 and 1973 made American agricultural commodities less expensive and, therefore, more competitive on the world market;
- --world population continued to increase, particularly in the less developed countries, many of which tend to experience chronic food shortages;
- --Peruvian fishmeal supplies were temporarily exhausted;
- --relative affluence and prosperity in the more developed nations stimulated demand for more, and better quality, food which entails greater consumption, directly or indirectly, of grain; and
- --the effects of the so-called energy crisis, particularly with respect to fuel and fertilizer, impacted on most nations.

These forces also came into play just at the time that the U.S. and other major grain exporting nations had embarked on a stocks reduction policy. The result was an unprecedented demand for U.S. grain, a situation the U.S. Government's agricultural export policy was not geared to meet. As a consequence, between 1972 and 1975 it was forced to modify its commitment to non-intervention and to take the steps described earlier in this report:

1973 - Established a mandatory export reporting system and placed temporary export controls on soybeans and related products.

1974 - Requested voluntary export restraints on grain sales to the Soviet Union, established a voluntary prior approval system on grain exports, and initiated a mandatory daily export reporting system; imposed a temporary embargo on Soviet grain sales; and held up and renegotiated existing Soviet grain sales.

1975 - Requested voluntary export restraints on grain sales to the Soviet Union and Poland, negotiated a formal long-term grain sales agreement with the Soviet Union, and informally committed itself to supply Japan with grain for the next 3 years.

These steps were required by the sudden transformation to a tight-supply situation. The question arises whether Government policy may be similarly unprepared to meet a period of agricultural surpluses.

A close look at the phenomena which led to the sudden increase in demand in the early 1970s shows that most of these factors were subject to change. They could fairly suddenly shift in ways that would present a dramatically different world market for U.S. grains from the one of the early 1970s.

Sharp drops in foreign demand, for example, could be precipitated by a period of good weather and successful foreign harvest, by a prolonged recession in the developed countries, or by an economic situation in which U.S. grains were priced beyond foreign budgets.

Changes in foreign demand could also come about as a result of changes in national policies, such as the Soviet Union's 1971 decision to abandon its practice of diverting grain from livestock in periods of shortage, and to import grain instead.

The fact is that the demand picture is already changing. It appears that U.S. agricultural surpluses may again reach and/or exceed pre-1972 levels as a consequence of stagnating or decreasing foreign demand.

When faced with periods of extreme markets, either surplus or shortage, Government officials implementing present policy have to deal with the following questions:

--What is the range within which price variations for domestic producers and consumers will be tolerated?

--Should there be some governmental mechanism over and above the market by which the domestic supply of grain is to be allocated among domestic and foreign consumers?

--To what, if any, extent should Government respond to differences between foreign consumers with respect to:

1. their willingness and ability to pay for U.S. grain,

2. the regularity of consuming nations' purchases, and

3. allowable quantities of grain to be purchased.

A degree of rigidity of official position in the face of changing conditions may be expected, according to the March 1976 GAO report on export subsidies:

> ". . .in the summer of 1972, Agriculture was extremely reluctant to modify its surplus policy, including the payment of export subsidies which (had) existed for many years, and to shift to a policy oriented to a low surplus and high export demand. Although Agriculture did finally adopt a market-oriented policy and suspend payment of subsidies, it finds itself in 1975/76 committed to that policy with the same degree of rigidity that it had in support of subsidies in the summer of 1972 when signs of changing market conditions arose."

GAO's current review of the 1974-75 transactions, export reporting and forecasting, and export policy found weaknesses in Government policy when challenged by unanticipated market shifts. Besides the deficiencies in export reporting and forecast data, no contingency plans or impact analyses had been carried out.

A more fundamental criticism, we believe, requires consideration: that the absence of guidelines and standby mechanisms for government intervention contributed to the dissension, confusion and uncertainty marking the Soviet purchases.

FOREIGN POLICY ASPECTS OF FOOD EXPORTS

Food export policy clearly warrants consideration because of its newly recognized importance as a part of the nation's overall foreign policy. The Commission on International Trade and Investment Policy, in its final report in 1971, assigned agricultural exports a major role in helping to overcome the Nation's trade deficit, and these hopes have been fulfilled. Approximately one-quarter of U.S. export earnings are derived from agricultural exports. As agricultural exports have had a positive impact on the U.S. balance of trade, they have strengthened the U.S. world position.

The Secretary of Agriculture in 1976 pointed out: "Agriculture has now become our number one source of foreign exchange and it's a powerful factor in maintaining the economic health of this country."

The Secretaray also pointed to the role of grain exports in U.S. foreign relations: "We are using food to win friends."

The special role of food exports in our political/economic relations with Communist countries was underscored by the Administrator of Agriculture's Foreign Agricultural Service in 1976:

> "The plain fact is that agricultural trade has been crucial to economic relations, and therefore political relations, with Communist countries. In the last three years, U.S. exports to the Soviet Union have been more than two-thirds agricultural; the same ratio has held for exports to Eastern Europe, and U.S. (agricultural) exports to Mainland China have been 80 percent of the total exports from this country."

It has also been advocated that the U.S. use its food export potential more aggressively, to counteract oil or other embargoes, for example, or as a mechanism for political leverage. Although ruled out, one suggestion was the employment of "food power" to discourage Soviet involvement in Angola.

In Chapter 3 we noted the AFL-CIO's proposal during 1975 negotiations that: "The U.S. should establish an offensive policy to deal with commodity cartels such as the OPEC nations and determine to what extent American corporations are participating in and supporting them."

A 1974 CIA document addressed to coming decades described the potential economic and political dominance flowing from the U.S.'s near monopoly position as food exporter. The report cited the "virtual life and death power" which could result.

This is a profoundly moral issue, and not the only one bound up in grain export policy-making, both from a domestic and a foreign relations veiwpoint. A former high-level Agriculture official has stated that:

> "The great difficulty with respect to food supplies during the next 25 years will not be one of too little grain and other food in the aggregate, but of distributing the grain equitably between people and animals, and nations."

1975 LONG-TERM GRAIN PURCHASING AGREEMENT

Another problematical area of food export/foreign policy is the long-term agreement negotiated with the Soviet Union in 1975. To recapitulate briefly, the Government's position is that the agreement represents an attempt to shield producers and consumers from wide fluctuations in foreign demand by stipulating minimum annual grain purchased by the Soviet Union for a 5-year period. Not only does the agreement provide certainty for farmers, but it assures the Soviet Union a minimum of U.S. grain annually.

In contrast to this official view, consumers complain that they fear paying higher prices for farm products as a consequence, farmers feel that the agreement both contradicts Government's commitment to free markets and depresses prices, and the grain trade believes that the Government's arbitrary intervention impairs the credibility of both producers and traders.

There were also fears that the agreement might be the first of more government-to-government contracts, but this does not appear to be the case. The official position is that it was "a unique agreement to deal with a unique situation" and that the Government does not seek and would not approve similar proposals from other importing countries. "Understandings" with Japan, Poland, and other countries, according to officials, are not specific in their obligations and provide only general assurances on both sides.

CONSTRAINTS ON FREE MARKET AGRICULTURAL TRANSACTIONS

Government Controls in Other Countries

The world context in which the U.S. agricultural economy operates is one marked by government controls. Of all nations involved in grain trade, the U.S. now stands alone in not exercising considerable control over either agricultural production or marketing.

The rise of centrally-planned economies with state trading systems represents concentrated power disruptive to a market model. Currently the most significant of these is the Soviet Union, whose ability to disrupt a free market system was demonstrated in the 1972 grain sales.

The 1975 long-term agreement has drawn criticism because it is a contract between this kind of controlled economy and the U.S. free market.

The Farm Bureau Federation testified before Congress on this point in January 1976:

> "The interest of the United States in international trade cannot be advanced by participation in politically determined international commodity agreement . . .(therefore, the) Farm Bureau strongly opposes the recent Soviet grain agreement and others because these government-to-government contracts establish a dangerous precedent for future political international commodity agreements and constitute further interference with the world market system."

In other grain exporting countries a recently completed review by GAO found a range of marketing controls. The marketing differences evolved mostly from the political orientation of the respective governments.

In Canada, Australia, and Argentina, only government wheat or grain boards are authorized to buy wheat and certain feed grains. Canadian and Australian wheat boards are producer-oriented, while Argentine agricultural policy until recently has been geared primarily to benefit the urban population. The European Community, in contrast to other markets we studied, produces primarily for domestic consumption and uses exports to dispose of surpluses. Brazil's agricultural policy is directed toward expanding its developing soybean industry and increasing exports, and Brazil gives credit, tax breaks, and other incentives to producers.

These marketing systems contained guaranteed producer and domestic support price schemes.

--The European Community support price benefited producers but consumers generally paid higher-than-world-market prices.

--The Australian Wheat Board uses a wheat stabilization fund to smooth fluctuations in grower income and ties the domestic wheat price to growers' production costs.

--Argentine producers until recently paid a fixed price, which was about one-third of world-market prices, and Argentine consumers benefit from on-again, off-again subsidies to Argentine millers and other processors. (This system is now in a state of transition and it is unclear whether past policies will continue.)

--The Brazilian Government has set attractive minimum soybean prices, but high world market prices have made price support unnecessary.

--The Canadian Wheat Board has established a minimum price for producers and sells wheat to domestic users at prices considerably below world market prices.

Concentration in U.S. Grain Exporting

Although U.S. grain is produced by a large number of farms, grain marketing is characterized by a high degree of concentration. The GAO's survey found that 11 multinational firms control almost three-quarters of U.S. agricultural export sales. Since less than 10 percent of the firms account for nearly 75 percent of all export sales, the grain trade can thus be characterized as oligopolistic competition. This raises the question whether current policy adequately addresses the subject of competition in the exportation of grain.

GOVERNMENT DECISIONMAKING

The new status of food exports (as no longer a matter solely of domestic concern, but a potent factor in U.S. balance of trade and foreign policy) has meant considerable shifting in decisionmaking, particularly during the Soviet grain transactions.

In January 1976 the Senate Subcommittee on Foreign Agricultural Policy conducted hearings on decisionmaking and food policy in order to learn more about executive branch actions. The chairman's opening statement addressed the inherent complications of 26 agencies participating in the policy process:

> "When one looks at all of the agencies. . .involved in food and agricultural policy, it is understandable that decisions are made which are seemingly at cross purposes.
>
> If the Secretaries of State, Treasury, Agriculture, and Labor say conflicting things, one can only wonder who is in charge. And, obviously, this will have an important impact on decisions by our foreign buyers."

As noted earlier, agricultural policy was consolidated in March 1976 under the Agricultural Policy Committee, chaired by the Secretary of Agriculture. Agriculture in theory was to be the "lead" agency in what had become an inter-organizational policy process. However, the President's Economic Policy Board in reality remained the Nation's primary agricultural decision-making entity throughout 1976.

Uncertainty continues to exist regarding how and when major policy options should be implemented. GAO believes a new mechanism to effectuate policy action is worth consideration.

VIEWS OF RECENT POLICY

The chairman quoted above also expressed concern about weaknesses of current food policy:

> "If the complex interrelationships of food and agricultural system are to be balanced. . .we have got to start thinking in terms of a comprehensive policy which relates all the basic elements.

We can no longer afford to have a separate policy for grain producers and another for livestock, dairy and poultry producers. We can not ever afford to have just an agricultural policy, or a consumer policy, or trade policy. We must have a policy which interrelates and balances all of these elements."

Whether the Government has a food policy has been a matter of dispute. For example, the Director of the Community Nutrition Institute contends that there is none:

". . .the Administration (in existence in 1976) seems intent on emphasizing that we do not have a national food policy, and that we are not about to develop one. There is no mechanism within the Executive branch to develop a food policy, nor is there an agency to administer one if it should be developed. This does not relate to the economic consequences to farmers and consumers of farm exports, it also touches on such issues as food availability, food quality, and food safety."

The National Farmers Union in 1976 also criticized the lack of an overall food policy:

"To service our domestic and export customers--and alleviate fears of shortages--adequate reserves of storable food products should be maintained as a public policy. All of this, however, must be done as part of an overall food policy--and this is something which we do not have at this time.

. . .We regard it as important to have, as part of a definitive, comprehensive national food policy, an export licensing system which would enable the government to insure that food supplies needed by American consumers and industries would be assured and maintained, and to allocate remaining supplies in times of real shortages among our various export customers on the basis of their historical record of purchases, and to provide food needs for humanitarian purposes and natural disasters.

In 1973, in 1974 and again in 1975, the government has intervened and is now interfering to prevent farmers from selling their crops freely.

Because this was done without any guidelines, without any line to a policy of food abundance, this has been the worst possible form of export control. It has exposed farmers, American consumers and our export customers alike to the capricious, irresponsible and incompetent whim of politicians in the Executive branch, acting unpredictably and arbitrarily under the pressures, the hysteria and the political motives of the moment."

Similarly, the National Farmers Organization has said that if Government can ask farmers to undertake full production, farmers deserve to know more about Government's role in the market place.

The Secretary of Agriculture in 1976, however, had taken exception to the charge that no food policy exists:

"The plain truth is that this Administration has a definite, and a very positive, food policy. Our food policy can be summed up in a single word--abundance. Its synonym is full production. Or differently, it is freedom from government restraints for farmers. Or still another way, it is encouragement by the government of conditions that lead to full production of farm goods."

But the policy may be inadequate to deal with the complexities and equity of food distribution, as the Secretary acknowledged in his response to the chairman of the Senate Subcommittee on Foreign Agricultural Policy in January 1976.

SENATOR: "Let us say there is going to be a shortage of supply. . .Do we (Government) have ground rules that say if there is a shortage, our regular customers are going to be taken care of first? Do we have ground rules that say if you are intermittent that you can only expect to get a certain percentage over what you got a year ago or less than that? Are there any ground rules such as this?

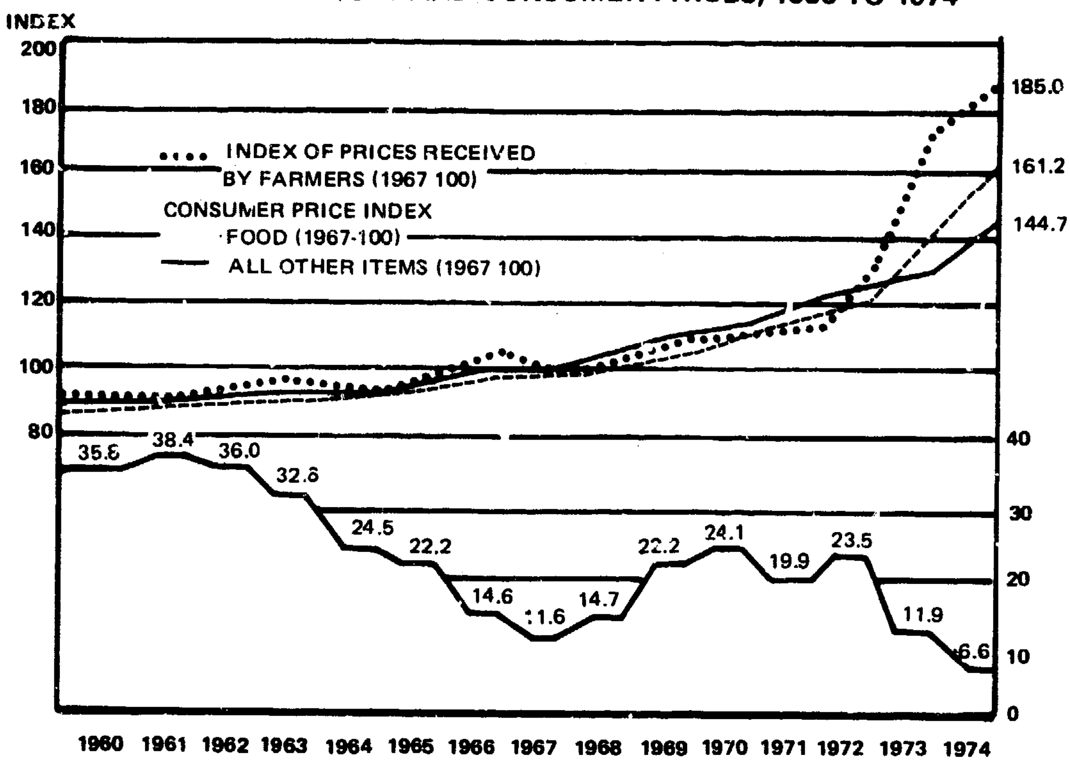
SECRETARY: No. It (Government policy) makes it difficult to do that kind of thing."

IMPACTS OF RECENT POLICIES

With respect to consumers, the table below reflects the consumer price index of food in comparison with all other items during the last 15 years. As world demand increased and as U.S. grain stocks were depleted, domestic food prices rapidly inflated, particularly in relation to non-food items.

With respect to producers, average net farm income more than tripled between 1960-1974, and the farm sector's average per capita income more than quadrupled. While the land utilized remained roughly constant during this period, the intensity of farming increased somewhat in terms of mechanical power and enormously in terms of fertilizer. The predictable result is that crop production increased. Although farmers' equity doubled over the last 15 years, total farm debt more

U.S. FOOD SURPLUSES AND CONSUMER PRICES, 1960 TO 1974



NOTE: All figures for 1974 are estimated

SOURCES: Indexes for food prices and prices received by farmers: Economic Report of the President (Washington, D.C. U.S. Government Printing Office, Feb. 1974). Stocks of wheat: Wheat Situation (Washington, D.C. U.S. Department of Agriculture, February 1974).

than tripled. It should also be noted that farmers' operating costs have also risen steeply, particularly the price of fertilizer and of energy to run farm machinery. These and other rising costs mean that the farmers are in a vulnerable position should falling demand depress farm prices substantially.

POSSIBLE MODIFICATIONS OF PRESENT POLICY

National Grain Reserve

As noted previously, a key part of the post-1969 agricultural policy was the decision to give up government reserves of commodities. The Secretary of Agriculture observed: "At one time storage costs on government-held stores of grain exceeded $1 million a day."

Under the new policy the Commodity Credit Corporation disposed of all of its grain holdings, except for oats, and the Nation's grain stocks in the summer of 1973 were at their lowest levels in years. Despite the bumper crops of 1973, stocks were not replenished.

The U.S. was joined by other major grain exporting countries in a general move to reduce surplus stocks. A study prepared by the Congressional Budget Office described the evolution of this policy:

> "As a result of the continuing accumulation of surplus stocks, their depressing effects on market price and their high budget costs, the U.S. and other large grain producing nations embarked on a stocks reduction policy in 1970 to join with the produciton curbs launched a couple of years earlier. Between 1970 and 1971, the four major exporters reduced their combined stocks by more than one-quarter. They accomplished this through export sales promotion and changes in farm price support policy. By 1974, the stocks of these countries were only about 40 percent of the level four years earlier. In the U.S., almost all stocks of grain are now held by the private sector."

The above summary points out that one of the major consequences of Government's accumulation of surplus stocks in prior years was to stabilize or dampen upward price movements, even though this was not the primary purpose of holding stocks. For this reason, U.S. farmers are understandably concerned that a resumption of formal Government policy of holding reserves would have a similar effect on prices in the future.

The advocates of reserves believe their function is to smooth out the "peaks" and "valleys" of production and prices not to eliminate them. In this view reserve stocks can serve as buffers in the production and distribution of agricultural products. A 1975 GAO report, "Grain Reserves: A Potential U.S. Food Policy Tool," stressed this point. Observing that crop shortfalls are as probable as surpluses, we concluded that attention should be given to developing a food reserve mechanism to facilitate decision-making and management. Lacking some form of physical reserve, the Nation has no insurance in case of crop failure. And this commits U.S. consumers and dependent foreign customers to a hand-to-mouth strategy.

Food reserves could improve the predictability of market prices for farmers and consumer and assure a physical supply of food, whereas other allocation mechanisms (such as export controls or long-term agreements) only provide the <u>rules</u> for allocating available supplies.

Should the United States adopt a national grain reserve policy, several types of management control systems are available:

--voluntary private reserve,

--mandatory Government-financed reserve stored either by the private sector or by the Government,

--private sector-financed reserve stored by the private sector, and

--joint venture reserve mutually financed and stored by the Government and the private sector.

<u>Other Optional Modifications</u>

A number of options for dealing with exports under short supply conditions could be considered, including

--allocating export quotas by country or region,

--selling export permits of fixed fees with no quota on the number of permits to be sold,

--selling export quota licenses to exporters at auction,

--distributing export licenses to domestic producers on the basis of production histories, and

--distributing export licenses to exporters on the basis of their historical market shares, or on a first-come, first-served basis

Any of these options could be trigge... by a variety of early warning systems, ranging from a voluntary to a mandatory prior approval system on U.S. export sales.

Another proposal advanced by a member of Congress would make the Commodity Credit Corporation (CCC) the seller or marketing agent for grain exports. A flexible approach, it would--at one extreme--enable the corporation to replace private industry in all grain export transactions. At the other extreme, the corporation would allow private industry to continue to make sales but under certain guidelines and regulations. It would be possible for the corporation to manage sales with centrally-planned economies (a government-to-government approach) and to allow the multinationals to transact all other sales.

EXPORTERS' VIEWS OF OPTIONAL MODIFICATIONS

In chapter 4 we reported the response of grain exporters to various proposals involving export data reporting. We noted their general preference for a voluntary prior approval system over a mandatory one, a temporary system rather than a permanent one, and the current system over one requiring written explanations for contract decreases.

To the question whether Government might need to monitor food exports routinely in order to permit market intervention in the national interest, 64 percent of those responding did perceive such a need.

When presented various options for allocating exports, roughly one-third of the companies responding preferred allocation by export quotas by country or region.

On the question of various forms of grain reserves, the responses were mixed. (See Vol. II, Appendix G, for details.)

SUMMARY

At this juncture, U.S. agricultural export policy must not only meet domestic needs but is also expected to fulfill important foreign policy and foreign economic policy objectives. In this context, the full-production/nonintervention policy appears inadequate to deal with periods of either shortage or surplus. Seeking full production by farmers, Government has a need for a range of alternatives as agricultural surpluses accumulate and depress farm prices. On the other hand, when shortages materialize, the policy hampers Government's ability to intervene promptly and with a minimum of disruption to the economy.

Government interventions in marketing decisions during the 4 years prior to 1976 appear to have both compromised expressed policy and limited the opportunities for farmers to realize greater financial returns from their efforts. On the other hand, consumers can be said to have subsidized the foreign grain sales through higher domestic prices. Government intervention also appears to have increased rather than reduced market uncertainty.

The experience with the 1973 soybean embargo and with Soviet grain transactions between 1972 and 1975 shows clearly that the central issue of agricultural export policy is not whether the Government can or should intervene. The Government did intervene, several times and in various ways, during this period.

The basic issue is whether a more effective policy would result from guidelines or ground rules establishing conditions under which intervention (through either export controls or export subsidies) would take place. This kind of more formalized intervention policy would allow a more flexible response to extreme changes in market conditions and minimize the disruptions caused by these situations. The agricultural sector would benefit from a policy offering some stability while simultaneously insuring fair prices for consumers and acceptable returns for producers (conditions essential to assuring an adequate supply). Such a policy would also benefit foreign buyers of U.S. grain, in that it would provide more equitable access to available supplies, and make the U.S. a more reliable supplier internationally.

The GAO believes that these potential benefits warrant consideration in the Congress's assessment of agricultural export policy. Our 1976 study of grain reserves as a U.S. food policy tool has already set forth our conclusion that attention should also be given to developing a food reserve mechanism to facilitate decisionmaking and management.

Any attempt to develop a balanced agricultural export policy should also include an assessment of the role of multinational grain exporters in marketing and distributing U.S. grain, their relationship to Government, and their impact on the market in terms of supply and price.

Attention might also be paid to the potential role of U.S. grain cooperatives which have shown considerable interest in developing their export capabilities. 1/ There are strong indications that this trend will continue, and such cooperatives might well provide a viable supplement to traditional grain-exporting channels.

In the GAO's view, a national agricultural policymaking system which can deal effectively with current and future challenges should include the following elements:

--An early warning system of changes in export sales.

--A flexible policy framework that satisfies specific objectives.

--A structure and procedure for implementing policy action.

--Contingency planning to meet domestic and foreign economic policy objectives and national security needs.

A complete summary of GAO's conclusions and recommendations is provided in the following chapter.

1/The Farmer Cooperative Service of the U.S. Department of Agriculture issued FCS Research Report #34 in 1976: "Improving the Export Capability of Grain Cooperatives".

CHAPTER 7

CONCLUSIONS, AGENCY COMMENTS AND OUR EVALUATION, RECOMMENDATIONS, MATTERS FOR CONSIDERATION BY THE CONGRESS

GENERAL CONCLUSIONS

The Executive Branch has taken numerous actions over the past 3 years to improve its information gathering, analysis, and decisionmaking processes. But weaknesses cited in GAO's 1973 Russian Wheat Report and its 1974 Soybean and Commodity Shortages Reports persist. We believe that these weaknesses are potentially destabilizing to the domestic economy and may impact on the international economy as well.

The domestic and international disruptions associated with the 1973 soybean embargo and Russia's 1974 and 1975 grain purchases demonstrated a continuing agricultural export policy problem--particularly on the issue of large-volume grain purchases by Russia.

While the 1975 long-term grain purchasing agreement added some stability to the purchasing relationship between the two Nations, its effectiveness remains uncertain until tested under a variety of circumstances.

Various Government interventions in the grain exporting market, prior to successful negotiation of the 1975 agreement with the Soviets, occurred without warning and in the wake of strong official statements that such action would be unnecessary. Government's reemergence in the market on an ad hoc basis remains a distinct possibility despite the existence of the grain agreement.

The GAO believes a more balanced export policy, based on established guidelines for government intervention, would minimize disruptions and impacts of extreme shifts in foreign demand.

SPECIFIC CONCLUSIONS

As a result of our review of Executive Branch management of Russian grain sales, export reporting, and related export policy issues, we arrived at the following specific conclusions.

1974 Russian Grain Sales

In our opinion, cancellation and renegotiation of the Russian grain purchases and the adoption of the voluntary export approval system are evidence of a need for greater flexibility in export policy. Although an interagency committee was established to monitor the U.S. crop situation and its policy implications, the committee was not able to implement its decisions effectively. More importantly, it saw no need to modify export policy in light of a tight supply situation and to assess the benefits of agricultural exports in a broader national context. Instead, it avoided intervention in the marketplace until a major disruption had occurred. Instead of recommending Presidential adoption and announcement of a formal mandatory export approval system, the committee established a voluntary system as a stop-gap measure.

Firm rules and procedures for large disruptive transactions involving purchases by centrally-planned economies were not adopted until after such transactions occurred. Weaknesses in the data base for decisionmaking were recognized, and some steps were taken to eliminate the weaknesses. However, decisions of working groups were not properly considered and acted upon by senior officials.

Consultations with U.S. trading partners did not result in their sharing the adjustment burden of smaller supplies caused by the U.S. crop shortfall nor in the provision of accurate estimates of demand for U.S. grains. Nor did consultations with U.S. exporters result in improvements in data supplied by the export reporting system.

There was an absence of agreement concerning decisions on such policy issues as the need for a compliance program to assure that grain exports were allocated as approved, and the need for a prior approval system for large export sales. There was also uncertainty resulting from conflicting statements of U.S. policy.

Policymakers were hampered by inadequacies of the data base for decisionmaking and the delay caused by debate over whether and how the data base should be improved. Finally, there was interagency conflict over policy and a resulting inability to reach consensus and adopt plans for effective and coordinated implementation.

1975 Russian Grain Purchases

Despite the existence of the Export Reporting System, the Executive Branch was surprised by and ill-prepared to handle the events surrounding the 1975 Soviet sales--although not to the same extent as in 1972. Once the first sales were made, the Government reacted to pressure from various groups and suspended sales indefinitely. Further pressure was instrumental in the Government's decison to seek a long-term purchasing agreement.

As in 1974, certain events in 1975 caused the Government to take actions that were contrary to its policy of full production and open markets.

It is presently difficult to assess the extent to which the long-term grain agreement is a viable and effective alternative to the traditional Soviet approach of substantial buying without prior notification. It has clearly raised additional uncertainties that may only be resolved as its application is tested under a variety of circumstances. For example, concern continues over the extent of Soviet responsiveness to the agreement's terms and conditions. And doubt continues as to how the U.S. Government will manage possible extreme circumstances that may confront both signatories. Such circumstances include unexpected changes in the market environment and possible difficulties in the foreign policy area that might necessitate reconsideration of the entire issue.

Even with the agreement in force, the 1975 Soviet grain experience clearly reflects a need for the U.S. Government to improve grain export policy decisionmaking and monitoring.

Agricultural Export Reporting System

Our review of the system indicated that it falls short of providing timely, accurate, reliable, and complete agricultural export data. It does not provide prospective sales information and therefore is not as effective an early warning system as needed. Data currently reported by exporters is not suitable for evaluating foreign demand on which to base timely agricultural policy decisions. The data has limitations because export contracts are frequently canceled or extensively modified. Our survey of exporting firms showed that about 20 percent of commodities contracted for export in 1973-74 were canceled or deferred.

Although Agriculture officials administer the system in an efficient manner, the uncertain nature of export sales contract data virtually makes it impossible for the system to provide the type of concrete information needed for a timely early warning system.

The quality of information provided by exporters could be materially improved if Agriculture modified reporting requirements to include additional information on export sales such as:

--Classification of foreign buyer (Government agency, affiliate, private reseller, processor, distributor or other end user).

--Contract pricing terms or formula (including identification of flexible (basis) vs. fixed-contract types).

--Exact destinations.

--Contract provisions such as loading tolerances, shipping dates, storage details, etc.

Because contract decreases have affected the export reporting system's credibility, requiring written explanations for export contract decreases might reduce the extent of unnecessary and speculative contract changes. Fewer changes would, most likely, improve the quality, consistency, and credibility of data generated by the system. Data quality could be further improved and the system's reliability enhanced by penalizing exporters who modify contracts without acceptable justification. Such actions would expand the system's regulatory role, however, and undoubtedly would be strongly opposed by grain exporters, as was indicated in our survey.

During the export reporting system's 3 years of existence, three different Agriculture organizations have been responsible for its administration. It is currently administered by the Office of the General Sales Manager, which has primary responsibility for managing Government-funded agricultural export programs. We believe that export monitoring by an agency whose main purpose is to manage export programs raises a question as to its objectivity in carrying out its monitoring and quasi-regulatory functions.

Agricultural Forecasting

To improve its ability to forecast Soviet grain production, develop an appropriate early warning system, and manage Soviet grain sales effectively, the United States must endeavor to gather more and better data. This objective can be partially realized by taking a stronger stand that the Soviet Union provide the forward estimates called for under the 1973 US/USSR Agricultural Cooperation Agreement.

In recent years, it has become clear that trend analyses do not provide reliable forecasts because of the difficulty of interpreting the impact of severe weather variations and a variety of market and nonmarket variables. Forecasters in various agencies are now attempting to make more detailed analyses of the numerous factors that determine production and consumption, both domestically and internationally.

In the past forecasting was employed primarily for export promotion and market development objectives, not to provide high-quality data analysis for Government decision-makers. Executive branch officials are interested in strengthening the application of forecasting to the management of foreign agricultural policy.

The Government still needs to improve its market intelligence capability and forecasting system. Estimates of foreign agricultural conditions are sometimes inadequate for proper U.S. policy making due to the many demands placed on the agricultural attaches' time and the difficulties in collecting agricultural information in some countries. Compounding the problem is a less-than-adequate methodology and disagreements between the Foreign Agricultural Service and the Economic Research Service--the two agencies within Agriculture that make foreign agricultural forecasts. Since major multinational exporters develop forecasts of foreign demand for the commodities they export, we believe that the executive branch could benefit by considering some of the methodologies used by these companies. Other organizations, such as the Central Intelligence Agency, the United Nations Food and Agriculture Organization and various private organizations also collect information on foreign agricultural conditions and, in some respects, with better success than the Agriculture agencies.

Agriculture should improve its relationship with the foregoing organizations and should persist in its attempts to improve the in-house relationship between the Economic Research Service and the Foreign Agricultural Service. It should also evaluate the importance of foreign data gathering by attaches in relation to their other duties. Finally, the Department should continue pressing nations such as the Soviet Union for information about their domestic agricultural situation.

Agricultural Export Policy

Executive Branch commitment to a full-production/non-intervention export policy has adversely affected its ability to intervene effectively in the market and with a minimum of disruption when a shortage situation materializes. This is likely to be equally the case in periods of grain surpluses. Although a variety of forms of limited Government intervention are available, the Executive Branch has generally opposed considering such alternatives on the grounds that ad hoc, voluntary export control systems are more effective. Moreover, it claims that if ad hoc voluntary restraints fail to achieve their objectives, the Export Administration Act authorizes formal Government intervention on a temporary basis.

In GAO's view, what is clearly needed is an agricultural policy framework that contains a series of criteria designed to satisfy specific objectives, but with the flexibility to change when conditions change. Who should get what, when and why are the critical questions such a framework should address. This would allow consideration of a number of different policy actions which would be appropriate under varying conditions.

We believe that a more balanced agricultural export policy, responsive to consumer, producer, exporter, and foreign needs, could insure against recurrence of serious supply problems and satisfy basic domestic and international supply commitments.

AGENCY COMMENTS AND OUR EVALUATION

Agency Comments

The Assistant Secretary of Agriculture for International Affairs and Commodity Programs, in his January 19,1977, response to our report, acknowledged the accuracy of the factual material presented in it. He wrote: "In general the draft report appears to be a reasonably balanced presentation of facts surrounding the 1974 and 1975 Soviet grain sales and the Executive actions taken in response to these sales."

However, the Assistant Secretary's letter disagrees with many of our conclusions and recommendations.

Specifically, the Assistant Secretary contended that there is no evidence in the report justifying additional government intervention in the agricultural economy. In fact, he asserted that "recent experience indicates that Government intervention in the marketing system should rarely be used." He added that many of the forms of government intervention proposed by our report "may affect foreign purchasing of U.S. grains by encouraging importing countries to become less dependent on the U.S. as a source of their grain supplies."

The Assistant Secretary contended that our criticisms of recent agricultural policy are unsubstantiated by fact. He states that the market mechanism better serves all sectors of the economy and the country than would formal government mechanisms. He also reiterates that such an orientation represents a conscious and deliberate agricultural policy.

Other disagreement reflected in the Assistant Secretary's formal response concerns the 1973 Agricultural Agreement with the Soviet Union, the export reporting system, and our recommendations to improve the management and operation of the export reporting system.

The Assistant Secretary maintained that the export reporting system was never intended to function as an early warning system and that it is not organizationally misplaced by being assigned to the Office of the General Sales Manager. He stated that the export reporting system is intended to operate in an informational capacity and not in a regulatory role and that many of our recommendations would make the system more regulatory and consequently have the impact of reducing the flow of U.S. grain exports abroad. He also questioned the need for an annual report to the Congress on the management and operation of the export reporting system because the system is included in the Office of General Sales Manager's quarterly report on its operations.

The Assistant Secretary also contended that we overstated the significance of Soviet non-compliance with the forward estimates provision of the 1973 U.S./USSR Cooperative Agreement. He stated that other factors are also important. His letter also questioned our suggestion concerning Agriculture's need to become more familiar with forecasting methodologies used by other government agencies and the private sector on the basis that we provided no evidence supporting the "suggestion that export forecasts by these other organizations have generally been more accurate that those made by USDA."

A complete text of the Assistant Secretary's formal response appears in Volume I, Appendix III, pp. 124-127.

We also met with and received informal comments from officials of the Federal Maritime Administration, the President's Economic Policy Board and the Council on International Economic Policy. Officials of the Maritime Administration acknowledged the accuracy of the report on matters pertaining to the U.S. and Soviet Maritime Agreement.

Officials of the Economic Policy Board and the Council on International Economic Policy generally agreed with the facts of the report but did have some concern about the general thrust of several recommendations. Although they agreed that a need exists to establish a flexible and more responsive agricultural policy, they were uncertain concerning whether increased government involvement through a more systematic approach would produce a stable and growth oriented agricultural market. They expressed concern that our recommendations could adversely impact on the market, however, they also agreed that the past crisis-oriented approach had also adversely impacted on the market and the entire economy.

Our Evaluation

We believe that our conclusions and recommendations are appropriate and constructive. They emerge from the general factual accuracy of the report which the Assistant Secretary acknowledges. We are not advocating increased government involvement in the agricultural economy but we are recommending a qualitative change in government involvement designed to preserve and enhance the existing agricultural economy.

Despite its commitment to a market-oriented system the Executive Branch has intervened in the market repeatedly during the past five years in a crisis manner precipitating serious market disruptions. Had the Government developed a flexible export policy designed to respond to a variety of contingencies (including large lump sum Soviet purchases as well as shortages and surpluses), fewer disruptions would have materialized and the integrity of the market would have been in better condition. We believe that some systematic involvement of the Government in the exporting of U.S. grain is both necessary and desirable. Continued crisis-oriented intervention in the absence of a flexible policy could cause unnecessary government intervention and the undermining of our market oriented agricultural economy. Our recommendations are designed to preserve the integrity of a market oriented agricultural economy while at the same time recognizing government's responsibility to protect producer, processor, consumer, exporter and importer interests by insuring adequate supplies at reasonable prices.

Our recommendations directed at strengthening the export reporting system are based on the premise that better export data will enhance the potential for informed, less crisis-oriented and more market-oriented government decisions. Agriculture's Office of Audit's recent evaluation of the export reporting system (pp. 51-56) supports many of our conclusions and recommendations. It is highly unlikely that an improved export reporting system will reduce the flow of U.S. grain exports. Such a position was argued by USDA against establishing the system initially; however, the performance of the system thus far shows no relationship between its existence and a decline in exports. Indeed, many exporters believe that the system has provided information that has facilitated more effective operation of our market oriented system.

We believe an annual report to Congress on the operation and management of the export reporting system would be useful. The current quarterly report on the operations of the Office of the General Sales Manager only contains a brief description of the export reporting system. It does not represent the detailed analytical report that we envision to be necessary.

The growth in the size and importance of U.S. agricultural exports to the U.S. economy and national interest over the past five years cannot be denied. All our recommendations emerge out of an awareness of this new stature. They are designed to support an updated and more realistic agricultural policy.

Our recommendations concerning the 1973 and 1975 U.S. agreements with the Soviet Union are intended to help establish the proper framework for evaluating such agreements in the context of a comprehensive U.S. export policy.

Efforts at improving Agriculture's forecasts through more knowledge of forecasting methodologies used by the private sector and other government agencies are intrinsic to better agricultural policy decisionmaking.

RECOMMENDATIONS

In view of our conclusions, we recommend to the Secretary of Agriculture that the following actions be taken, either administratively, if possible, or by seeking appropriate legislation:

1. The Export Reporting System be modified to improve its accuracy and reliability by requiring all exporters to explain contract changes, and to penalize exporters who modify export contracts for speculative or manipulative purposes. (This could be done on an experimental basis so that if export flows are impeded as a result, these procedures could be modified.)

2. All exporters who currently report export sales contracts to Agriculture also be required to report all verbal agreements concerning the sale of U.S. grain, including information on negotiations of sales exceeding 50,000 metric tons.

3. A permanent "early-warning system" be established that supplements the daily and weekly export reporting system, taking into consideration a variety of other market and decisionmaking factors that would result in a process that minimizes disruption and facilitates informed, orderly, and balanced decisionmaking.

4. A permanent "prior approval system" be established as part of any early warning system to insure that the Government reserves the right to defer, modify, or otherwise intervene in the market to insure adequacy of supply and fairness of price. Unlike past, ad hoc prior-approval systems, this system would be established as a formal entity with guidelines and subject to the rulemaking procedures of the Federal Register and the Administrative Procedures Act.

5. All exporters who currently report exports sales contract data to Agriculture be required to submit additional data involving more specific destination information. This would require importers to declare the final destination and/or ultimate end-user location when known or determined. Exporters would also be required to identify the name of the buyer and submit information to Agriculture concerning the buyer's relationship to the seller.

6. An annual report on the management and operations of the export reporting system be submitted to Congress. Such a report would stress efforts made to improve the system's reliability and effectiveness, and would be submitted to Congress prior to the convening of appropriation hearings each year.

7. Responsibility for managing and operating the Export Reporting System be transferred from any agency having operational export responsibilities, such as the Foreign Agricultural Service and the Office of the General Sales Manager, to an analytical and/or regulatory agency. Agencies with a more objective, analytical and/or regulatory orientation that appear to be appropriate repositories of such a reporting function include Agriculture's Economic Research Service, Commerce's Office of Export Administration, and the Commodity Futures Trading Commission. Another alternative would be to establish within Agriculture a separate and independent organizational entity which would report concurrently to the Secretary and to the Congress.

8. A thorough evaluation of Soviet compliance with the 1973 Agricultural Cooperation Agreement be made to determine how the agreement has benefitted the U.S. and the Soviet Union. This effort should also determine whether Soviet non-compliance with the agreement's forward estimates provision has rendered the agreement ineffective in U.S. terms. An attempt should also be made to determine a means for insuring Soviet compliance with the forward estimates provision.

9. U.S. forecasting of foreign supply and demand--particularly for the Soviet Union and other non-market economies--should be upgraded and improved. Better market intelligence and analysis coupled with greater intraagency and inter-agency communications and coordination is necessary and desirable. The recommendations of recent studies (by the Economic Research Service on short-term forecasting and by the Office of Technology Assessment on food information systems) should be considered in the response to this recommendation.

10. An agricultural export policy be established that clearly defines the Nation's policy goals and objectives as well as the role of the Government and private sector in implementing that policy. Such a policy should take into consideration periods of surplus and shortage and provide

policy variations responsive to each condition. The policy should, to the extent possible, differentiate an approach to non-market economies to minimize instability resulting from large-scale, unanticipated purchases. In view of foreign economic policy considerations, and for reasons of national security, the policy should provide for contingency planning.

11. Evaluate the effectiveness of the 1975 long-term purchasing agreement with the Soviet Union, determining costs and benefits to producers, processors, consumers, exporters, and the Soviet Union. Submit an annual report to Congress on the agreement's effectiveness in order to provide for appropriate Congressional action.

12. All future long-term grain purchasing agreements (such as the 1975 Russian Agreement) be fully reviewed by all relevant Executive Branch agencies and subjected to appropriate Congressional consultation before being formally signed by all parties.

13. All future short-supply export control decisions should be subjected to some form of Congressional consultation before final decisions are made.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

In its consideration of and deliberations over the Agricultural Act of 1977, GAO recommends that Congress enact legislation providing for an improved export reporting system that will function as an effective early warning system. GAO has submitted to Congress proposed legislative language providing for needed improvements to the export reporting system. (See vol. II, app. F.)

The principal features of GAO's proposed legislation include:

--Exporters would be required to provide Agriculture with weekly reports on any commitment, contract, or other agreement for export sales.

--Exporters would be required to inform Agriculture within 15 days of commencement of any contracts with foreign commercial or governmental importers.

--The Secretary would determine at the start of each marketing year whether a short-supply situation exists or will exist. He will also periodically assess commodity situations and modify his determination as appropriate.

--Whenever a short-supply situation is determined, the Secretary would report such a determination to Congress. Unless either House, within 30 legislative days, provides a resolution to the contrary, exportation of the short-supply commodity would be subject to regulation by the Secretary of Commerce under the Export Administration Act of 1969.

--The Secretary, utilizing the full resources of the Department, would make a semiannual report to the President and the Congress on: (1) the impact on the economy and world trade of shortages or increased prices for commodities subject to these reporting requirements; (2) the worldwide supply of such commodities; and (3) actions being taken by other nations in response to such shortages or increased prices.

--The Comptroller General would monitor and evaluate the activities under section 812, including all reporting activities. Essentially, we would: (1) review and evaluate the procedures followed by the Secretary of Agriculture in gathering, analyzing, and interpreting statistics, data, and information related to the supply of agricultural commodities; (2) evaluate particular projects or programs; (3) gain access to any documents, data or records of persons or facilities engaged in any phase of exporting agricultural commodities; and (4) provide appropriate reports to the Congress.

In its development of the 1977 Agricultural Act we recommend that the Congress establish an agricultural export policy that protects the interests of both producers and consumers, while simultaneously providing an effective policy mechanism for surplus and shortage market conditions. The policy should also clarify the Government's position on grain sales to non-market economies, including the propriety of such mechanisms as long-term agreements and government-to-government negotiations.

Other issues which the Congress should consider include: the question of a national grain reserve; the role of multinational grain exporters and the degree of concentration in this field; and the role that might be taken in grain exporting by U.S. grain cooperatives.

APPENDIX I

BIBLIOGRAPHY

1) Food, Agriculture and Nutrition Information Systems: Assessment and Recommendations, Report of the Food Advisory Committee, Congress of the United States; Office of Technology Assessment, June, 1975; 79 pp.

2) Working Papers On Agriculture, Food, and Nutrition Information Systems, Appendix A, An Analysis of National and International Agricultural, Food and Nutrition Information Systems; Congress of The United States, Office of Technology Assessment; June, 1975; 311 pp.

3) A Preliminary Report On The Agriculture Information Systems, Appendix C, An Analysis of National and International Agricultural, Food and Nutrition Information Systems; Congress of The United States, Office of Technology Assessment; June, 1975; 307 pp.

4) Preliminary Assessment Of The U.S. Food Consumption And Nutrition Status Information Systems, Appendix B, An Analysis of National and International Agricultural, Food and Nutrition Information systems; Congress of The United States, Office of Technology Assessment; June, 1975; 219 pp.

5) Food Information Systems; Hearings Before The Technology Assessment Board Of The Office of Technology Assessment, Congress Of The United States; Ninety-Fourth Congress; First and Second Sessions; September 24, 25 and December 10, 1975, February 4, 1976; 414 pp.

6) Food Information Systems: Summary and Analysis: United States Congress; Office of Technology Assessment; August, 1976; 85 pp.

7) GAO Testimony on 1972 Russian Grain Sales (Interim Report) March 8, 1973, pp. 385-418; Hearings Before The Committee On Agriculture And Forrestry, United States Senate, Ninety-Third Congress, First Session On S. 517, Extension Of Farm And Related Programs (Part 1) U.S. Government Printing Office; Washington, D.C.; 1973.

8) GAO Testimony on 1972 Russian Grain Sales (Final Report); July 23, 1973, pp. 149-162; Hearings Before The Permanent Subcommittee On Investigations Of The Committee On Government Operations, United States Senate, Ninety-Third Congress, First Session; Russian Grain Transactions; Pursuant To Section 4, Senate Resolution 46, 93rd Congress; U.S. Government Printing Office; Washington, D.C., 1973.

9) GAO Testimony on Coping With Commodity Shortages, April 24, 1974; Joint Hearings On The Domestic Supply Information Act; Committee On Commerce and Committee On Government Operations, U.S. Senate; Ninety-Third Congress, Second Session; U.S. Government Printing Office, Washington, D.C., 1974.

10) Russian Grain Transactions, July 31, 1974, Report Of The Committee On Government Operations, United States Senate, Permanent Subcommittee On Investigations; U.S. Government Printing Office; Washington, D.C., 1974 67 pp.

11) Sales Of Grain To The Soviet Union; October 8, 1974, Hearings Before The Permanent Subcommittee On Investigations of The Committee on Government Operations, U.S. Senate; Ninety-Third Congress, Second Session; Pursuant to Section 4, Senate Resolution 269, 93rd Congress; U.S. Government Printing Office; Washington, D.C., 1974; 71 pp.

12) GAO Testimony on Russian Grain Sales; July 31 and August 1, 1975, pp. 76-104; Hearings Before The Permanent Subcommittee on Investigations of the Committee on Government Operations, United States Senate; Ninety-Fourth Congress; First Session; Pursuant to Section 4, Senate Resolution 49, 94th Congress; U.S. Government Printing Office; Washington, D.C., 1975.

13) Russian Grain Sale; Hearing Before the Committee on Agriculture and Forestry; United States Senate; Ninety-Fourth Congress; First Session; September 4, 1975; U.S. Government Printing Office; Washington, D.C., 1975.

14) United States Grain And Oil Agreements with the Soviet Union; Hearing Before the Committee on International Relations; House of Representatives; Ninety-Fourth Congress; First Session; October 28, 1975; U.S. Government Printing Office; Washington, D.C., 1975.

15) Who's Making Foreign Agricultural Policy? Hearings Before the Subcommittee on Foreign Agricultural Policy of the Committee on Agriculture and Forestry; United States Senate; Ninety-Fourth Congress; Second Session; January 22 and 23, 1976; U.S. Government Printing Office; Washington D.C., 1976.

16) U.S.S.R. and Grain: A Staff Report Prepared for the Use of the Subcommittee on Multinational Corporations of the Committee on Foreign Relations; United States Senate; April, 1976; U.S. Government Printing Office; Washington, D.C., 1976.

17) The United States, FAO and World Food Politics: U.S. Relations With An International Food Organization: A Staff Report Prepared for the Select Committee on Nutrition and Human Needs; United Staes Senate; U.S. Government Printing Office; Washington, D.C., 1976.

18) Government and the Nation's Resources: Report of the National Commission on Supplies and Shortages; U.S. Government Printing Office, Washington, D.C.; December 1976, 211 pp.

19) Multinational Corporations and United States Foreign Policy: International Grain Companies; Hearing Before the Subcommittee on Multinational Corporations of the Committee on Foreign Relations, United States Senate; Ninety-Fourth Congress; Secon Session; June 18, 23, and 24, 1976 (Part 16); U.S. Government Printing Office; Washington, D.C. 1977; 382 pp.

20) GAO Testimony on Grain Export Policy Management; Hearings Before the Subcommittee on Foreign Agricultural Policy and the Subcommittee on Agricultural Production, Marketing and Stabilization of Prices of the Committee on Agriculture and Forestry, United Staes Senate; Ninety-Fourth Congress; Second Session; June 24, 1976; U.S. Government Printing Office; Washington, D.C., 1976, 96 pp.

21) Improving the Export Capability of Grain Cooperatives; FCS Research Report 34; Farmer Cooperative Service; U.S. Department of Agriculture; 1976, 90 pp.

22) A Review and Appraisal of Forecasting in the Economic Research Service; (Draft), By Jim L. Matthews and Richard C. Haidacher; Commodity Economics Division; Economic Research Service; 1975 & 1976; U.S. Department of Agriculture, 2 volumes.

Note: See also list of GAO reports, Appendix A, Volume II.

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

January 19, 1977

Mr. Henry Eschwege, Director
Community & Economic Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to your letter of December 14, 1976, asking for comments on your proposed report to the Congress entitled, "Executive Branch Management of Russian Grain Sales, Agricultural Export Reporting, and Related Export Policy Issues."

In general the draft report appears to be a reasonably balanced presentation of facts surrounding the 1974 and 1975 Soviet grain sales and the Executive actions taken in response to these sales. From these facts, however, we draw conclusions which differ considerably from most of the conclusions in the draft report. We also, therefore, disagree with many of the report's recommendations.

As presently drafted, the report appears to reflect an underlying assumption that the current market system for U. S. grain is incapable of satisfactorily allocating yearly supplies of U. S. produced grains between domestic and foreign buyers without considerable government intervention. The report, however, contains no evidence to support this underlying assumption. In the absence of the export subsidy mechanism which existed throughout the 1960's and until the autumn of 1972 whereby foreign buyers received a price advantage over domestic buyers, we believe recent experience indicates that Government intervention in the marketing system should rarely be used. We believe that your report is unbalanced if it fails to recognize that the forms of government intervention proposed in the report may affect foreign purchasing of U. S. grains by encouraging importing countries to become less dependent on the U. S. as a source of their grain supplies.

The draft report asserts that this Administration's export policies and the implementation of these policies "lack cohesion", "fail to provide flexibility...", are "often ill-timed, and generally suffer from an absence of rational decisionmaking...". These are strong charges that appear unsubstantiated by fact. These charges appear to reflect the presumption that intervention by government in the export of U. S. grain is in the national interest. The absence of formal mechanisms for government interventions in grain and food exports reflects an explicit policy (not, as the report implies, a lack of policy) -- based on the belief that the market mechanism better serves not only the producing and consuming sector in the United States, but also the general interest of the country.

Throughout the report there are references to inaccuracies in the USDA's export forecasts due to weaknesses and deficiencies in the overall system of export reporting and the forecasting of foreign demand. The draft report fails to recognize that the principal reasons for "inaccuracies" of forecasts and other export indicators is not a failure of systems, procedures or techniques, but simply the occurence of unpredictable deviations in the weather.

In regard to export forecasts, the draft report suggests that forecasting methodology used by the multi-national exporters, the CIA, and the United Nations Food and Agricultural Organization might be an improvement over that used by the Department of Agriculture. However, the report offers no evidence to support the suggestion that export forecasts by these other organizations have generally been more accurate than those made by USDA.

The report makes repeated references to the need for obtaining forward estimates of grain production from the Soviet Union under the 1973 Agricultural Agreement. While such information would be of value, and in fact we have made repeated efforts to obtain forward estimates, we believe the importance of this point is overstated. Even if earlier crop estimates were given, there would remain a wide range of uncertainty as to the size of Soviet import needs since factors other than the level of production (e.g., availability of grain reserves, government policy decisions, availability of foreign exchange, etc.) may be more important in determining the level of imports.

Opportunity for receiving general indications of Soviet import needs for grain will perhaps be best within the context of the biannual consultations with the Soviets under the 5-year Grain Supply Agreement. The Ministry of Foreign Trade, the agency responsible for imports, is the lead Soviet agency in these consultations. If experience with the bilateral agreement is satisfactory on both sides, this channel of forward information may develop further, but it will be through patient development of good working relationships rather than by simply making new demands for information.

Our remaining observations relate to the report's conclusions and recommendations concerning the export sales reporting system. GAO concludes that, although the export sales reporting system is administered in an efficient manner, it fails to provide timely, accurate and complete data on foreign demand for U. S. agricultural commodities. This conclusion is based primarily on the determination that (1) reported export sales are often concelled or modified, and (2) the system fails to provide information on prospective export sales.

We do not believe that either of these determinations affect the accuracy or timeliness of data generated under the reporting system. Cancellations and modifications of contracts are normal trading practices in our free market system. As long as such transactions are reported accurately and promptly to the Department, and there is no suggestion in the report that they are not, published summary data would accurately reflect the outstanding balance of export sales. To penalize exporters for cancelling or modifying their contracts, as recommended in the report, would amount to government control of sales, a concept which we doubt the Congress intended and certainly one which this Administration opposes.

Likewise, we find nothing in the law, nor in the legislative history, which suggests that Congress intended prospective export sales to be included in the reporting system. Moreover, we believe it impractical to implement such a reporting system, as recommended in the report, without significantly impeding export sales of agricultural commodities -- sales which are vital to the American economy.

We generally agree with the recommendations concerning the reporting of verbal transactions and ultimate destinations. In fact, verbal transactions, supported by written documentation, which as a matter of trade practice represent or lead to written contracts, are reportable under present regulations. The reporting of ultimate destinations, if known, is also required under present regulations.

Information concerning the name of the foreign buyer and other contract details is being obtained on a periodic basis. However, we do not agree with GAO's conclusion that the relationship between the buyer and seller determines whether a given contract will be performed. Exporters maintain that all export sales are bona fide contracts and will be fulfilled. Logically, it is the importer's motivation, e.g. whether purchasing for consumption or for re-sale, which most affects the incidence of cancellation, and this factor is exceedingly difficult to determine.

Contrary to the report's conclusion that the reporting system is organizationally misplaced in Agriculture, we think a persuasive case can be made for its relevance to the other activities of the General Sales Manager. It is in this office that responsibility for agricultural export policy is centered. Most decisions affecting commodity priorities or export stimulus flow through the General Sales Manager. It therefore seems logical to make this office responsible for the reporting of the consequences of USDA's export policies. We would observe that the concept of the reporting system under the present law is informational, not regulatory.

We disagree with the recommendation to establish a formalized early warning system, encompassing a reporting procedure for prospective export sales and a prior approval system. As indicated in the draft report and in the proposed amendment to Section 812 of the Agriculture and Consumer Protection Act of 1973, this system would be effective only in those situations such as purchases by the Soviet Union, where traditional intelligence and forecasting methods do not work. However, we believe the long term U. S./USSR Grain Supply Agreement has now stabilized trading between our countries thus eliminating the threat of large unexpected grain sales and the need for a formal early warning system.

An additional concern we have with the proposed amendment to Section 812 involves the formalized procedures for Secretarial determinations of short supply. As proposed, this concept could impede our ability to respond promptly and effectively in critical supply situations. Of special concern is the proposed 30 day period for Congressional override. We know from past experience that time is of the essence when making determinations and policies affecting commodity availability during these critical periods.

Finally, we question the need for the recommended annual report to the Congress on the management and operation of the export reporting system since the General Sales Manager is already submitting quarterly reports on the operations of the Office of the General Sales Manager, including this system.

USDA's detailed comments on specific portions of the draft report are attached.

Sincerely,

Richard E. Bell

Richard E. Bell, Assistant Secretary
International Affairs and Commodity Programs

PRINCIPAL OFFICIALS RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF STATE		
SECRETARY OF STATE:		
Cyrus Vance	Jan. 1977	Present
Henry A. Kissinger	Sept. 1973	Jan. 1977
William P. Rogers	Jan. 1969	Sept. 1973
DEPARTMENT OF THE TREASURY		
SECRETARY OF THE TREASURY:		
W. Michael Blumenthal	Jan. 1977	Present
William E. Simon	May 1974	Jan. 1977
George P. Shultz	June 1972	May 1974
John B. Connally	Feb. 1971	June 1972
David M. Kennedy	Jan. 1969	Feb. 1971
DEPARTMENT OF JUSTICE		
ATTORNEY GENERAL:		
Griffin Bell	Jan. 1977	Present
Edward H. Levi	Feb. 1975	Jan. 1977
William B. Saxbe	Jan. 1974	Feb. 1975
Elliot L. Richardson	May 1973	Oct. 1973
Richard G. Kleindienst	June 1972	May 1973
John N. Mitchell	Jan. 1969	Mar. 1972
DEPARTMENT OF AGRICULTURE		
SECRETARY OF AGRICULTURE:		
Robert Bergland	Jan. 1977	Present
John A. Knebel (Acting)	Oct. 1976	Jan. 1977
Earl L. Butz	Dec. 1971	Oct. 1976
Clifford M. Hardin	Jan. 1969	Nov. 1971

	Tenure of office From	To
DEPARTMENT OF COMMERCE		
SECRETARY OF COMMERCE:		
Juanita M. Kreps	Jan. 1977	Present
Elliot L. Richardson	Feb. 1976	Jan. 1977
Rogers C.B. Morton	May 1975	Feb. 1976
Frederick B. Dent	Feb. 1973	Mar. 1975
Peter G. Peterson	Feb. 1972	Jan. 1973
Maurice H. Stans	Jan. 1969	Feb. 1972
OFFICE OF MANAGEMENT AND BUDGET		
DIRECTOR:		
Bert Lance	Jan. 1977	Present
James T. Lynn	Feb. 1975	Jan. 1977
Roy L. Ash	Feb. 1973	Feb. 1975
Caspar W. Weinberger	June 1972	Feb. 1973
George P. Shultz	July 1970	June 1972
Robert P. Mayo	Jan. 1969	June 1970
NATIONAL SECURITY COUNCIL		
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS:		
Zbigniew Brzezinski	Jan. 1977	Present
Brent Scowcroft	Nov. 1975	Jan. 1977
Henry A. Kissinger	Jan. 1969	Nov. 1975
COUNCIL ON INTERNATIONAL ECONOMIC POLICY a/		
EXECUTIVE DIRECTOR:		
John M. Dunn (Acting)	Feb. 1975	Jan. 1977
William D. Eberle	July 1974	Jan. 1975
Peter M. Flanigan	Feb. 1972	July 1974
Peter G. Peterson	Jan. 1971	Feb. 1972

---

a/Organization no longer in existence.

	Tenure of office From	To
CENTRAL INTELLIGENCE AGENCY		
DIRECTOR:		
Vice Admiral Stansfield Turner	Feb. 1977	Present
George Bush	Jan. 1976	Jan. 1977
William E. Colby	Sept. 1973	Jan. 1976
James R. Schlesinger	Feb. 1973	July 1973
Richard Helms	Jan. 1969	Feb. 1973
COUNCIL OF ECONOMIC ADVISORS		
CHAIRMAN:		
Charles Shultze	Jan. 1977	Present
Alan Greenspan	Sept. 1974	Jan. 1977
Herbert Stein	Jan. 1972	Aug. 1974
Paul W. McCracken	Feb. 1969	Dec. 1971
OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS		
SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS:		
Rober Strauss	Mar. 1977	Present
Vacant	Feb. 1977	Mar. 1977
Frederick B. Dent	Mar. 1975	Jan. 1977
William D. Eberle	Nov. 1971	Jan. 1975
Carl J. Gilbert	Aug. 1969	Nov. 1971
EXECUTIVE OFFICE OF THE PRESIDENT		
COUNSELOR TO THE PRESIDENT a/ FOR ECONOMIC POLICY:		
Kenneth Rush	May 1974	Oct. 1974
ASSISTANT TO THE PRESIDENT a/ FOR ECONOMIC AFFAIRS:		
L. William Seidman	Sept. 1974	Jan. 1977

a/Position no longer in existence.

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

Issues Surrounding The Management Of Agricultural Exports

Volume II

(Related Appendixes)

ID-76-87

MAY 2, 1977

VOLUME II: RELEVANT APPENDICES

Contents

Page

APPENDIX

GAO REPORTS ON

AGRICULTURAL EXPORTS AND RELATED MATTERS

1. July 9, 1973, "Russian Wheat Sales and Weaknesses in Agriculture's Management of Wheat Export Subsidy Program," B-176943

2. February 12, 1974, "Exporters' Profits on Sales of U.S. Wheat to Russia," B-176943

3. March 22, 1974, "Impact of Soybean Exports on Domestic Supplies and Prices," B-178753

4. April 29, 1974, "U.S. Actions Needed to Cope with Commodity Shortages," B-114824

5. July 30, 1974, "Information Concerning Reports of a Possible Wheat Shortage," B-176943

6. September 6, 1974, "Increasing World Food Supplies--Crisis and Challenge," B-159652

7. December 30, 1974, "Alleged Discriminations and Concessions In The Allocation of Railcars to Grain Shippers," B-114824

8. April 11, 1975, "The Agricultural Attache Role Overseas: What He Does and How He Can Be More Effective for the United States," B-133160

9. April 21, 1975, "The Overseas Food Donation Program--Its Constraints and Problems," B-159652

10. June 24, 1975, "Improvements Needed in Regulation of Commodity Futures Trading," B-146770

11. July 10, 1975, "Review of U.S. Import Restrictions--Need to Define National Sugar Goals," ID-75-80

12. August 27, 1975, "What The Department of Agriculture Has Done and Needs To Do To Improve Agricultural Commodity Forecasting and Reports," RED-76-6

13. November 26, 1975, "Disincentives to Agricultural Production in Developing Countries," ID-76-2

14. February 12, 1976, "Assessment of the National Grain Inspection System," RED-76-71

15. March 3, 1976, "Agriculture's Implementation of GAO's Wheat Export Subsidy Recommendations and Related Matters," ID-76-39

16. March 26, 1976, "Grain Reserves: A Potential U.S. Food Policy Tool," OSP-76-16

17. April 23, 1976, "Marketing Order Program--An Assessment of its Effects on Selected Commodities," ID-76-26

18. May 28, 1976, "Grain Marketing Systems in Argentina, Australia, Canada, and the European Community; Soybean Marketing System in Brazil," ID-76-61

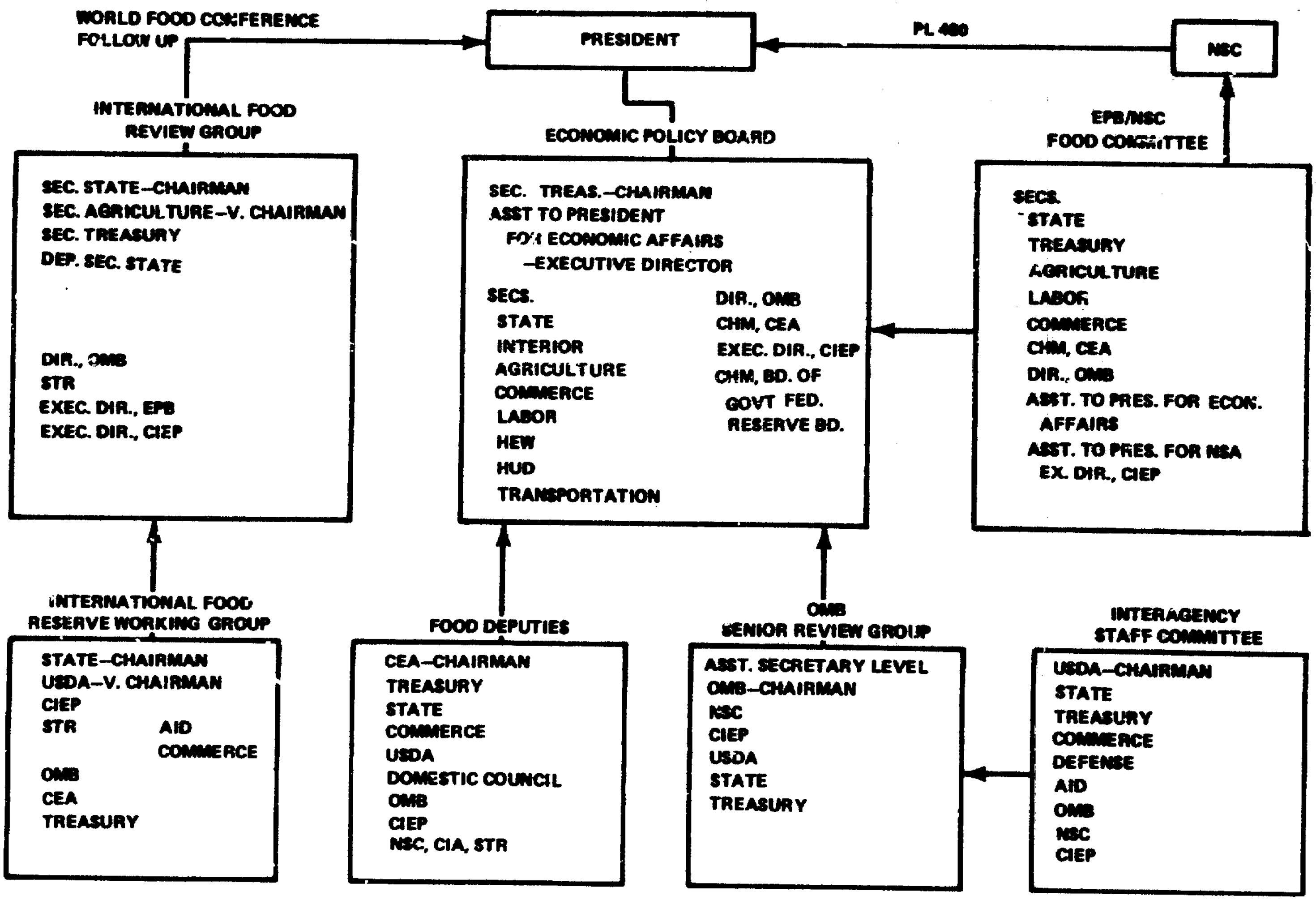
19. August 6, 1976, "U.S. Participation in International Food Organizations: Problems and Issues," ID-76-66

20. December 8, 1976, "U.S. Import Restrictions: Alternatives to Present Dairy Programs," ID-76-44

21. March 3, 1977, "Summary of GAO Reports Issued Since 1973 Pertaining to Farm Bill Legislation," CED-77-39

APPENDIX B

1975 EXECUTIVE OFFICE ORGANIZATION FOR FOOD ISSUES



IMPACT OF EXPORT SALES REPORTING SYSTEM ON AGRICULTURAL COMMODITY PRICES

Since the inception of USDA's weekly export reporting system in October 1973, comments have been made about the system's influence on the price of agricultural commodities. Farmers, for example, contend that the monitoring system has been depressing grain prices. As evidence for their contention, they cite the dropoff in prices since late 1974.

Consumers, on the other hand, are increasingly concerned about the róle that grain prices play in the continuing rise of food prices in general. Since the export reporting system was established in part to assure "consumers of plentiful supplies * * * at reasonable prices", the question of the possible price impact of the reporting system seems an appropriate one. We began by looking at the determinants of agricultural prices and price trends over the last few years.

Price Determinants

Long-run agricultural price movements are commonly explained in terms of the fundamentals of supply and demand--production, consumption, and reserves (stocks). In general, when production exceeds consumption, prices fall and when consumption exceeds production, prices rise.

Because of the nature of the demand for agricultural products, large price changes result when imbalances between production and consumption coincide with low reserves. The price increases of recent years, we found, have generally been attributed to the dropoff in world grain production in 1972 and in U.S. production in 1974, rising imports by both developing and state-controlled economies, and depleted stocks.

Short-run price movements are more complex. They are influenced to a large extent by the same forces that affect supply and demand. Among these are transportation and storage costs; fertilizer and substitute grain prices; inflation and government policy; and weather, plant disease and pests. But they reflect, additionally, people's perceptions and expectations of future market conditions. The size of a harvest is not a certainty until the crop comes in and the estimates of future export activity undergo frequent revision throughout the marketing year. Day to day and week to week fluctuations in agricultural prices are a result of the constant interplay of economic factors and forecasts and human emotions.

A significant element affecting short-run price movements is the periodic, detailed information on future supply and demand coming from the Department of Agriculture and private organizations. This information, in the form of forecasts of production, farmers' planting intentions, and foreign demand estimates (among others) allows speculation in commodity futures markets to adjust for future supply-demand imbalances. Given foreseeable imbalances, speculators tend to smooth out the release of grain to the market over time and to stabilize prices. Conversely, when speculators guess incorrectly about future market events, they tend to aggravate price variability.

Price Trends

The 1960's and early 1970's were relatively tranquil times for U.S. agriculture. Grain surpluses and low prices were the rule, with only an occasional exception. After 1972, however, the grain situation underwent a rapid reversal when world crop shortfalls and rising exports led to diminished stocks, high prices, and general uncertainty.

The deterioration in the grain situation was precipitated by a drop in world production in 1972--off 35 million tons against an average annual increase of 36 million tons the previous 10 years. At the same time, there was a sharp rise in total world exports and a significant shift in their pattern. World grain trade increased 31 million tons from 1972 to 1973. Concurrently, state-controlled economies, and especially Russia, chose to import on a massive scale rather than reduce their consumption in the face of tight domestic supplies. The U.S.S.R., traditionally a net grain exporter, led the world in imports, buying 30 million tons in 1972 and 1973, compared with net exports of 8.6 million tons the previous 2 years.

These two large-scale occurrences--declining world production and rising exports--combined to create demand that put strong pressure on U.S. grain stocks and prices. From 1973 to 1974, U.S. wheat stocks dropped 71 percent and feedgrain stocks were down to 54 percent. With the U.S. the world's leading grain exporter, these short supplies sent prices skyrocketing (see figure 1). The rebound of world grain production in 1973 was not sufficient to replenish already low carryover stocks and the downturn in the 1974 U.S. crop reduced exportable supplies even further. Grain prices in general remained high through late 1974, when smaller export demand and prospects of record 1975 crops combined to prompt a slow but steady price slide. (See figure 2.)

Export Reporting System

The export reporting system was established in October 1973 to act as an early warning system for short-supply situations in heavily exported agricultural commodities. The summer of 1973 had seen just such a situation develop in soybean markets, when strong export demand and depleted stocks combined to drive soybean prices to all-time highs. An embargo on soybean exports, followed by an export licensing system, led to a temporary easing of prices. But the action taken was not well received by domestic producers or foreign buyers. The reliability of the U.S. as grain supplier had been called into question and overbuying by foreign importers as a hedge against further contract cuts may have occurred.

The reporting system began, as a result, amid extensive market uncertainty, both about the supply and demand of wheat, corn, and soybeans, and about a reimposition of export controls. In view of these unusual market and non-market events, we felt that the system's price impact would be difficult to identify or measure. Nonetheless, we considered various economic and mathematical approaches to the problem.

Econometric modeling is a method frequently used to study price behavior and the economic forces that influence it. Occasionally, the impact of a single force can be inferred from a change in price behavior at the time the force first took effect. We discussed modeling with agricultural economists to see if it could be used to detect the export reporting system's price impact. Because price models are usually based on yearly--and sometimes quarterly--data, a formidable statistical problem developed. The export reporting system had been in effect for less than 2 years, making tests of a model for the system's impact unreliable. This problem, combined with the difficulty of handling unusual market events like recent dollar devaluations, export controls, and large grain purchases by state-controlled economies, led us to forego a modeling attempt.

In its place, we tried two simpler, although less promising, methods. The first of these was to examine how much prices seemed to be affected by the information published in the weekly export sales reports. If we found a strong relationship between prices and the export data, the price impact of the system might be inferred. Conversely, no relationship at all might suggest that the system had had minimal impact.

The second method was to study agricultural price variability or instability over recent years. We hoped to determine whether a change in variability occurred with the establishment of the export reporting system. Reasonable economic arguments suggest that the system's impact on prices may well be of this nature.

Regression Analysis

To determine the relationship between prices and data in the export reports, we performed a simple regression analysis. Regression analysis is a statistical technique used to examine data and draw meaningful conclusions about the relationship between elements. We selected four commodities the U.S. exports heavily--wheat, corn, soybeans, and soybean meal--and computed their average weekly cash prices from November 1973 through March 1975. The weekly averages were developed from daily quotations at Chicago, Kansas City, and Decatur markets. Two other major agricultural prices--futures and prices received by farmers--were not used because they were unavailable on a uniform weekly basis. To compare with cash prices, we chose for each of the same commodities two items published in the export reports--change in "apparent export commitment" and weekly export shipments.

Cash prices of agricultural commodities are commonly classified by market, grade, and class. With no composite cash price available, we chose those prices we felt were reasonably representative of the commodities in question: corn-No. 2 yellow, Chicago; soybeans - No. 1 yellow, Chicago; soybean meal - 44% protein, Decatur; and wheat, No. 1 hard winter ordinary, Kansas City.

These items are both measures of the export activity of an individual grain. Weekly export shipments represent simply the amount of the grain exported that week. "Apparent export commitment," on the other hand, is obtained by adding cumulative shipments (i. e., exports to date in the marketing year) to outstanding sales. As such, this latter item reflects longer-run export activity and, in particular, future demand for a commodity.

We performed separate regression analyses for each of the commodities, first with weekly prices against weekly shipments and then with prices against changes in apparent export commitment. All of these analyses presumed that the variables were related on a simultaneous (same week) basis. Since prices in some cases may have been responding to export activity of a week or two earlier, we also performed regression analyses that accounted for the possibility of delayed responses.

Results of Regression Analysis

When cash prices were tested against weekly shipments, no significant mathematical relationship was found for any of the four commodities. This lack of relationship does not seem unreasonable given the apparent random character of the weekly shipment levels.

The second group of tests measured the mathematical relationship between prices and changes in export commitment. For wheat and soybean meal, we found no significant mathematical relationship between weekly prices and changes in export commitment. In the cases of corn and soybeans, however, relationships of moderate strength were obtained. The coefficients of determination (R squared) 1/ for soybeans and corn were .59 and .51, respectively. In effect, there was a general tendency for large swings in the apparent export commitment for these two commodities to be accompanied by price movements in the same direction.

We believe that, during periods of market stability, one should expect to find a relationship between agricultural prices and data on agricultural exports. For major exportable crops like corn, wheat, and soybeans, however, such stability was not the case from 1973 through 1974. As a result, the inconsistency of the regression results among the four commodities is not surprising. Unfortunately, however, this inconsistency prevents us from making inferences about the reporting system's price impact.

Price Variability

The measure of variability we chose was based on month-to-month percentage changes in the cash price of six agricultural commodities. For each commodity, we computed the

---

1/The value of the R squared is a measure of the strength of the relationship. A perfect relationship yields an R squared of 1.0 and none at all gives an R squared of 0.0.

average absolute month-to-month price change for the periods January 1960-December 1965, January 1966-December 1971, January 1972-October 1973, and November 1973-July 1975. (The last two periods are the 22 months before and 21 months after the export reporting system's establishment.) The resulting averages, or variability indices, are a measure of the tendency for prices to change, either up or down, from one month to the next. 1/

The results are presented in table I.

TABLE I

	Average Absolute Percentage Change from Previous Month			
	I	II	III	IV
	Jan '60-Dec '65	Jan '66-Dec '71	Jan '72-Oct '73	Nov '73-Aug '75
Corn price	2.7	3.1	6.2	5.6
Cotton price (note a)	.7	2.1	8.7	5.9
Rice price (note b)	.6	.4	5.8	3.4
Soybean	2.9	2.6	10.1	6.6
Soybean meal price	4.5	4.2	13.3	10.9
Wheat price	2.2	2.2	8.2	79

a/SLM (41), Staple 34

b/Southwest Louisiana (long)

1/As such, the indices are driven up during periods of sustained price movements in a single direction (trends), as well as during periods of frequent up and down price swings. Since only the latter situation is what we mean by price variability, our indices are imprecise to the extent that they are not adjusted to account for the effect of underlying trends.

APPENDIX C

The pattern of the indices over time is similar for all the commodities. Price variability seemed to rise markedly from Periods I and II to Period III. This rise, moreover, is consistent with market events since 1972.

The suggested decline in variability after 1973, however, is not as easy to confirm. All of the commodities experienced unusually large price increases in the summer of 1973-- increases that weighed heavily in the Period III indices. We felt, however, that these increases were part of major price trends in 1973 and, as such, did not reflect true price variablity. Consequently, we adjusted the Period III indices to account for the increases. The adjusted Period III indices and the Period IV indices are as follows.

TABLE 2

	III Jan 1972-Oct 1973	III Adjusted	III Nov 1973-Aug 1975
Corn price	6.2	4.1	5.1
Cotton price (note a)	8.7	7.1	5.9
Rice price (note b)	5.8	3.6	3.4
Soybean price	10.1	6.8	6.6
Soybean meal price	13.3	9.1	10.3
Wheat price	8.2	5.6	7.9

a/SLM (41), Staple 34

b/Southwest Louisiana (long)

A comparison of the adjusted Period III indices with Period IV finds a modest increase for corn, soybean meal, and wheat; a similar decline for cotton; and little change for rice and soybeans. Given the acknowledged imprecision of the indices and the relative shortness of Periods III and IV, we believe that agricultural price variability has not greatly changed since the establishment of export monitoring.

Summary

We studied the possible price impact of USDA's export reporting system. We could not develop an agricultural price model because of recent unusual market instability and the comparatively short lifespan of the reporting system. A comprehensive and well-defined model should have identified any significant changes in price behavior since the start of export monitoring.

In lieu of developing a model, we selected two other approaches to identifying the system's impact on prices. Using regression analysis, we studied the relationship between weekly agricultural prices and weekly data published in the export reports. The analysis identified a moderate relationship between changes in the weekly export commitment and weekly cash prices for corn and soybeans, but none for wheat and soybean meal. Because of the inconsistency of the results, we do not believe that inferences about the system's price impact can be made.

Our second analysis was of the export reporting system's possible impact on price variability. We developed indices of price variability for six agricultural commodities based on month-to-month price changes in the 22-month period before reporting began and the 21-month period since. After suitable adjustments to account for unusual market activity in 1973, we find no great change in price variability since the reporting system's establishment.

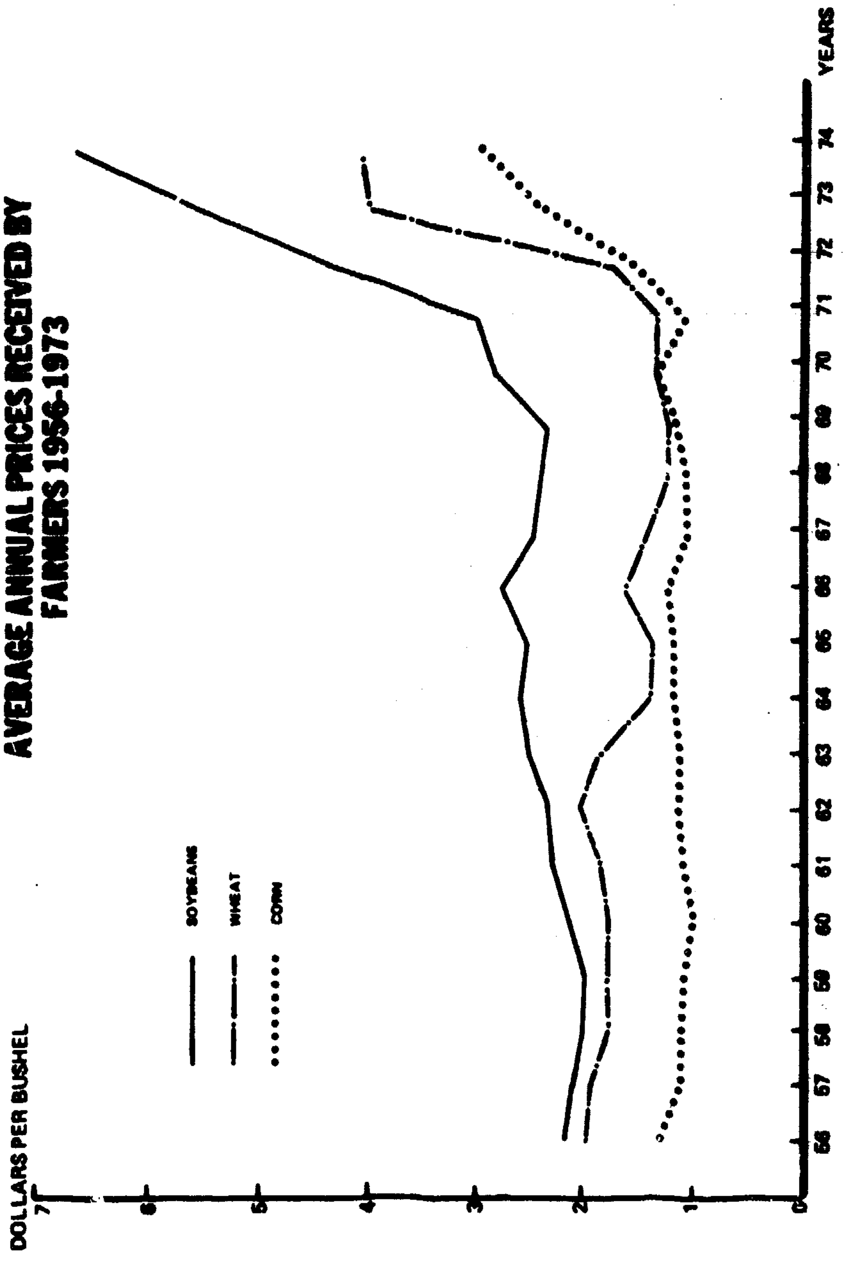
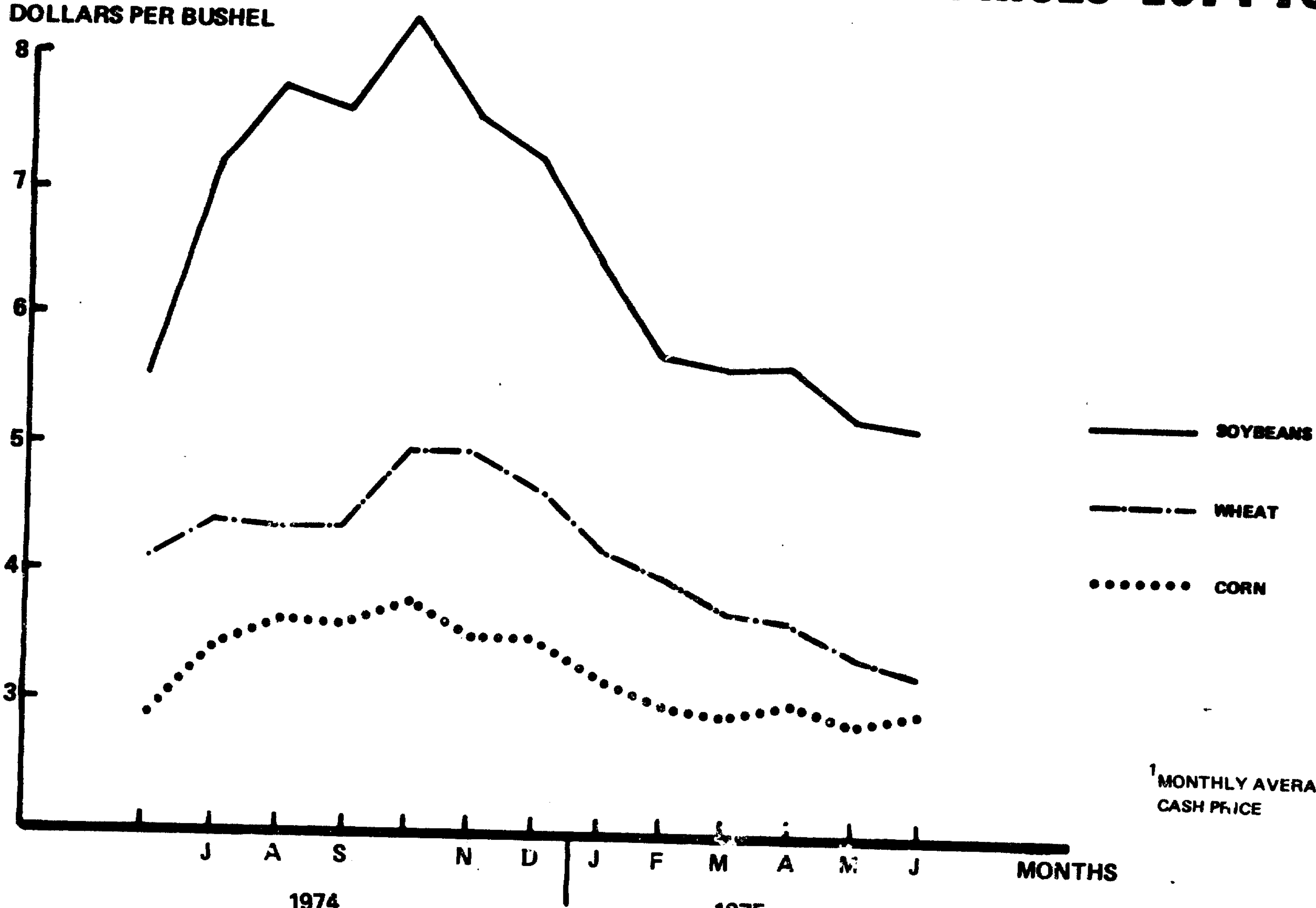

AVERAGE ANNUAL PRICES RECEIVED BY FARMERS 1956-1973
DOLLARS PER BUSHEL
SOYBEANS
WHEAT
CORN
YEARS
0
1
2
3
4
5
6
7
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74

FIGURE 1

AGRICULTURAL COMMODITY PRICES[1] 1974-75



[1] MONTHLY AVERAGE CASH PRICE

FIGURE 2

 APPENDIX D

CHRONOLOGY

OF

EVENTS IN

SALES OF WHEAT

TO RUSSIA

1975

Prepared for the Subcommittee on Foreign Agricultural Policy of the Committee on Agriculture and Forestry by the Congressional Research Service in January 1976. Modifications and updating of chronology provided by GAO.

CHRONOLOGY OF 1975 Soviet Grain Purchases

January 23	A wheat expert from the International Wheat Council reported that unusually mild weather in Europe was threatening the Soviets' winter wheat crop. About 40 percent (100 million tons) was in danger.
March 6	Secretary of Agriculture Earl Butz announced the termination of the voluntary prior-approval system for export sales for grains, soybeans, and soybean meal. The export reporting system remained in effect.
May 20	A bumper grain crop was predicted for the Soviet Union by Western agricultural experts in Moscow. Poor weather conditions were not considered serious.
June 9	The Department of Agriculture revised downward its projection of Soviet grain production, from 210 to 200 million tons. Soviet grain import requirements were estimated between 10 and 15 million tons.
July 1	Agriculture's Crop Reporting Board predicted a bumper U.S. soybean and corn crop for 1[illegible]. Corn crop estimates ranged from 5.7 to [illegible] billion bushels.
July 7	A Department of Agriculture team returned from a 3-week inspection tour of Soviet wheat-producing areas and predicted a lower yield than in 1974.
July 8	Richard Bell, Assistant Secretary of Agriculture, denied any knowledge of a grain pact with Russia or that Russian negotiators were in this country seeking purchases. He acknowledged, however, that the Russians were chartering vessels to ship grain from North America to the Baltic and Black Seas.
	First estimates of Russian grain needs indicated a 10-million-ton a year purchase from the U.S. over 3 years, and 2 million tons a year from Canada, also over 3 years.

July 9 Agriculture predicted Russia would harvest 195 milli .etric tons of grain, 10 percent below the S. t goal of 215.7 million metric tons and under the 200 million metric tons that Agriculture forecasted last month.

July 10 Agriculture's July U.S. crop report predicted a 153.6-million-ton corn harvest (30 percent over 1974) and a 59.5-million-ton wheat harvest (22 percent over 1974).

Bell estimated that the U.S. could sell 12 to 14 million tons to Russia "without endangering domestic supplies."

July 15 Government intelligence reports suggested Soviet import needs of 15 million tons for 1975.

July 16 USDA announced the sale of 2 million metric tons of hard red winter wheat to Russia (first 1975 sale to USSR), confirmed by Cook Industries of Memphis.

July 17 USDA announced the sale of 1.2 million metric tons of hard red winter wheat to Russia. Cargill, Inc. of Minneapolis confirmed the sale through its subsidiary Tradax of Geneva.

The Canadian Wheat Board announced that the Soviets had purchased 2.0 million metric tons of high-grade wheat. The Department of Agriculture announced additional sales of 1.2 million metric tons of U.S. grains to the Soviets.

July 21 Agriculture announced the sale of corn and barley by Continental Grain Co. to Russia. This sale included 4.5 million metric tons of corn and 1.1 million metric tons of barley.

July 22 The Department of Agriculture announced additional sales of 1.0 million metric tons of wheat to the Soviets.

July 23 Major U.S. newspapers carried the story that the Soviets had declined to issue a formal invitation to members of the House Committee on Agriculture to tour Soviet farmlands in August.

International Longshoremen's Association (ILA) in Miami voted to refuse to load American and Canadian grain on ships destined for Russia. However, they indicated the ban would be lifted if "the interests of the American public are adequately protected." West Coast longshoremen opposed the move.

To date, Russia has purchased approximately 12,550,000 tons of foreign grain (within the last 3 weeks)--2 million tons from Canada, 750,000 tons from Australia and 9.8 million tons from private grain companies, primarily using U.S. supplies.

Bell stated that the Russians will wait for the August 11 Agriculture crop report and further evaluation of their own crop before making additional purchases. He indicated the Russians will buy more. He also projected Soviet import requirements at 16.5 million tons, with 12.1 million tons from the U.S.

July 24 The Department of Agriculture asked export firms to notify the Department before making major grain sales to the Soviet Union. The Department revised its estimates of Soviet grain production, from 195 to 185 million metric tons. Soviet import requirements were estimated at 20 million metric tons.

Agriculture revised downward its estimate of the Russian grain crop to 185 million tons and increased their import requirements to about 20 million tons of grain.

ILA promised that they will load U.S. grain aboard Soviet-bound ships.

July 29 Lack of rainfall over much of Iowa and other parts of the Midwest corn belt with forecasts for continued hot and dry weather threatened the bumper crop prospects for corn and soybeans.

At a hearing before the Joint Economic Committee, the Chairman of the Federal Reserve Board, Arthur Burns, testified that grain sales to the Soviets could lead to a sharp rise in food prices in the U.S.

July 31 — The AFL-CIO pledged to support the International Longshoremen's Association if the longshoremen refused to load grain on ships bound for the Soviet Union.

July 31 and August 1 — At hearings before the Permanent Subcommittee on Investigations of the Senate Committee on Government Operations, Assistant Secretary Bell stated that U.S. grain sales to the Soviet Union included 10.3 million tons of wheat, corn, and barley. John Schnittker testified that grain sales to the Soviets should be stopped until mid-October.

Bell, before the Senate Committee on Government Operations' Permanent Subcommittee on Investigations, stated that the grain sales will have minimal effects on consumer prices. He further said that the Government has no upper limit as to Russian purchases.

General Mills (Minneapolis) and Multifood raised wholesale flour prices 1.6 cents a pound affecting grocery prices. Among reasons cited were the Russian grain developments.

August 1 — J. Kenneth Fasick, Director, International Division, GAO, testified that the Soviets have refused to comply fully with a 1973 agreement (Article II of the July 1973 Soviet-American Agriculture Agreement) to exchange estimates of farm production, consumption, demand, and trade information.

August 6 — Maritime union leaders (ILA) decided to meet in Washington on August 18 to consider an embargo against loading American grain for shipment to the Soviet Union. Two other maritime unions, the Seafarer's Association and the Maritime Engineers Benevolent Association, have already voted to refuse to load grain unless assured the sales will not substantially raise food prices. The meeting will also attempt to resolve disagreements over ocean shipping rates.

August 8 Two-thirds of Iowa's 100 counties indicated their corn crop prospects for the October harvest were fair to poor because of lack of rain. Iowa produces 16 percent of the U.S. corn crop.

August 9 The CIA received information indicating the Soviet grain harvest could be as low as 165 million metric tons (20 million metric tons below current USDA figures).

Information also obtained by CIA indicated that Soviet grain import requirements could reach 40 million metric tons.

Government officials stated that Soviet port capacity may limit future grain purchases. Estimates indicated that their ports can handle a maximum of 25 million tons of grain annually, only 10 million tons more than is already on order.

August 11 The USDA Crop Reporting Board forecasted U.S. corn production at 5,850 million bushels, 3 percent (196 million bushels) below July 1 but 26 percent above 1974, and wheat production at 2,141 million bushels, 19 percent more than 1974 but 2 percent (47 million bushels) below the July figures.

Bell released a new estimate of Soviet grain production--180 million metric tons, a decrease of 5 million metric tons from earlier estimates. Russian import needs were increased to 25 million metric tons.

The Secretary of Agriculture called on grain companies to withhold further sales to the Soviet Union until U.S. crop production figures were known. The Department of Agriculture estimated Soviet grain production at 180 million metric tons.

August 13	Canada sold the Soviets 750,000 long tons (28 million bushels) low-grade wheat and 3.3 million bushels of feed oats.
August 14	Pillsbury Co. raised flour prices by 8.5 percent or 1.4 cents a pound.
August 18	President Ford told Iowa grain farmers that he expects additional grain sales to the Soviet Union pending more complete crop figures.
	The maritime unions reaffirmed their intention to boycott ships loading grain for the Soviet Union in ports along the Atlantic Coast, Gulf of Mexico, and Great Lakes. Longshoremen in Port Houston stopped loading grain.
August 19	A temporary Federal Court injunction on behalf of shippers, ordered longshoremen in Houston to return to their jobs loading grain on vessels bound for Russia.
August 20	Associations of wheat producers began to talk of a retaliatory boycott against union-made farm implements. President Ford called for restraint and cooperation.
August 21	The Secretary of Agriculture predicted a rise of 1.5 percent in U.S. food prices as a result of grain sales to the Soviet Union, and an annual food-price inflation rate of 9 percent.
	However, a senior official cautioned that the impact would be greater if further sales are consummated.
August 29	Agriculture again revised downward their estimate of the Soviet grain crop to 175 million metric tons, 5 million metric tons below their previous estimate. Import requirements were set at 25 million metric tons.
	Soviet-American negotiations on a freight rate for American ships carrying grain to Russia were suspended after the Soviets refused to make an acceptable offer. U.S. sources were optimistic that a settlement could be reached when talks resume in Moscow on September 9.

September 4 Secretary Butz and Chairman Burns testified before the Senate Committee on Agriculture and Forestry. Secretary Butz stated that no additional sales would be made to the Soviet Union until the dispute with the maritime unions was settled.

Federal Reserve Board Chairman Arthur F. Burns said that Soviet grain purchases have had a "quite sizable" impact on food prices, but much less than the effect of rising production and marketing costs.

September 9 As a result of negotiations between George Meany and President Ford, the President announced his intention to explore the possibility of a long-term grain agreement with the Soviet Union. He extended the moratorium on grain sales to the Soviets until mid-October. The maritime unions agreed to load grain destined for the Soviet Union.

In response, the AFL-CIO agreed to end their boycott of ships loaded with grain bound for the Soviet Union. To date, the Soviets have purchased 10.2 million metric tons of grain in the U.S. this year.

September 10 Without a public announcement, the State Department requested through the Polish Embassy that Poland halt grain buying in the United States. Poland had purchased 1.9 million metric tons of wheat and corn before that date. On the same day, Under Secretary of State Charles W. Robinson left for Moscow to begin negotiations for a long-term grain trade agreement. President Ford announced that he would create a special board to consider related questions of agricultural exports and domestic food prices.

September 11 USDA said that the 1975 U.S. grain crop will be large enough to permit additional corn and wheat sales to the U.S.S.R. without causing substantial food price increases in the U.S.

	The statement was based on the latest (as of Sept. 1) estimates of 5.69 billion bushels of corn and 2.14 billion bushels of wheat.
September 11 or 12	Jozef Danilczuk of the New York Office of Rolinpex, the Polish grain-buying agency, was ordered by his government to stop buying grain on the American market.
September 12	Danilczuk informed grain exporting firms that Rolinpex was no longer buying grain in the United States. He later reported that he did not mention the embargo to the firms.
September 15	President Ford rejected a request by the American Farm Bureau Federation to lift immediately the administration's suspension of grain sales to Soviet Union.
September 16	Und... Secretary Robinson announced in Moscow that the Soviets had agreed in principle to a long-term trade agreement.
September 19	The text of the U.S.-Soviet agreement on shipping rates of $16 per ton was released. The rate would go into effect on September 22 and extend at least through 1975.
September 21	The Polish Minister of Agriculture Kazimierz Barcikowski arrived in Washington to begin discussion of a long-term grain trade agreement.
September 22	News agencies began publishing reports of a secret government ban on grain sales to Poland. These news stories caused sharp fluctuations in grain prices on U.S. commodity exchanges.
September 23	An Associated Press article in the Washington Post stated that "informed sources" had confirmed that further U.S. sales to Poland had been suspended until a long-term agreement could be negotiated with the Soviet Union. Department of Agriculture officials confirmed the suspension but added that it originated in the

APPENDIX D

	State Department and not in Agriculture. State Department officials declined to comment or said that they were unaware of the suspension.
September 29	Secretary of Agriculture Earl Butz and the Polish Minister of Agriculture completed discussions on a long-term trade agreement between the United States and Poland. The agreement was scheduled to be signed in November.
October 1	The Senate Committee on Agriculture and Forestry agreed that the United States should negotiate separate agreements for the sale of U.S. grains to the Soviets and for the sale of Soviet oil to the United States.
October 6	American newspapers reported a speech by a Soviet Communist Party leader, stating that Soviet grain production could reach only 170 million metric tons, or 45 million tons short of the projected goal.
October 9	The Department of Agriculture reduced its estimate of Soviet grain production to 170 million metric tons, including 82 million metric tons of wheat.
October 10	The Department of Agriculture released its October 1 crop estimates, showing record harvests for wheat (2.137 billion bushels) and corn (5.737 billion bushels).
	President Ford announced that he was lifting the embargo on grain sales to Poland because the Department of Agriculture was estimating record corn and wheat harvests.
October 20	President Ford announced the signing of a five-year grain trade agreement with the Soviet Union and ended the embargo on grain sales to the Soviets. Shipments are to be in accord with the U.S.-Soviet Maritime Agreement. An oil trade agreement was still under negotiation.

October 24	The Department of Agriculture reduced its estimate of Soviet grain production to 160 million metric tons. Import needs were estimated at 30 million tons.
October 24	Grain sales to the Soviet Union resumed. The U.S.S.R. has purchased 1.2 million tons of corn, raising their imports to 25 million tons--11.5 tons from the United States USDA revised its estimate of Soviet grain production down to 160 million metric tons.
October 29	The U.S.S.R. has purchased an additional 400,000 tons of corn, raising their U.S. imports to 11.9 million tons.
November 27	Secretary Butz and Minister Barcikowski exchanged letters relating to a five-year grain trade agreement. Poland agreed to purchase 2.55 million tons of U.S. wheat and corn each year. This amount would be allowed to fluctuate from year to year by 20 percent, depending on the size of the U.S. crop and Polish import requirements.
December 4	A Soviet planner disclosed that 1975 Soviet grain production may total only 137 million metric tons.
December 5	Assistant Secretary of Commerce Robert Blackwood announced that the Soviets were unwilling to pay above-market rates for American shipping after December 31, 1975. American longshoremen threatened another boycott of Russian-bound ships if the Soviets refused to pay the higher rates agreed to in September ($16 per ton).

December 5	A spokesman for the Washington Association of Wheat Growers, Jerry Rees, states that wheat growers might sue the Federal Government over the five-year grain export agreement with the Soviets. Rees accused the government of yielding to unjustified pressure from consumer groups and the maritime unions, and interfering unnecessarily in the grain market.
December 9,	William Kuhfuss, President of the American Farm Bureau, stated that there was no legal basis for suing the Federal Government over the grain trade agreement, though the Bureau opposes the agreement.
	The Department of Agriculture reduced its estimate of Soviet grain production to 137 million metric tons, about 80 million tons below the original Soviet target for 1975.
December 18	Under Secretary Blackwood initialed the U.S.-Soviet shipping agreement which will take effect on January 1, 1976, and will remain in force for 6 years. The agreement allows American ships to receive $16 a ton for grain shipped to the Soviet Union.
December 29	Secretary of Commerce Rogers Morton and Minister of the Merchant Marine Timosey Guzhenko signed the shipping agreement in Washington and Moscow.
January 22, 1976	The National Association of Wheat Growers authorized initial steps toward making a legal challenge of the U.S.-Soviet grain agreements.

SECTION 812 OF THE AGRICULTURE AND CONSUMER PROTECTION ACT OF 1973 (P.L. 93-86)

"EXPORT SALES REPORTING"

"Sec. 812. All exporters of wheat and wheat flour, feed grains, oil seeds, cotton and products thereof, and other commodities the Secretary may designate produced in the United States shall report to the Secretary of Agriculture, on a weekly basis, the following information regarding any contract for export sales entered into or subsequently modified in any manner during the reporting period: (a) type, class, and quantity of the commodity sought to be exported, (b) the marketing year of shipment, (c) destination, if known. Individual reports shall remain confidential but shall be compiled by the Secretary and published in compliation form each week following the week of reporting. All exporters of agricultural commodities produced in the United States shall upon request of the Secretary of Agriculture immediately report to the Secretary any information with respect to export sales of agricultural commodities and at such times as he may request. Any person (or corporation) who knowingly fails to report export sales pursuant to the requirements of this section shall be fined not more than $25,000 or imprisoned not more than one year, or both. The Secretary may, with respect to any commodity or type of class thereof during any period in which he determines that there is a domestic supply of such commodity substantially in excess of the quantity needed to meet domestic requirements, and that total supplies of such commodity in the exporting countries are estimated to be in surplus, and that anticipated exports will not result in excessive drain on domestic supplies, and that to require the reports to be made will unduly hamper export sales, provide for such reports by exporters and publishing of such data to be on a monthly basis rather than on a weekly basis."

GAO PROPOSED AMENDMENT TO SECTION 812 OF THE AGRICULTURAL ACT OF 1970, AS ADDED BY THE AGRICULTURE ACT OF 1973 (P.L. 93-86)

The Congress hereby finds that accurate, reliable, complete, and timely information on exports of agricultural commodities and control of such exports in situations of potential or actual short-supply are necessary to protect the domestic economy from: (1) excessive drain of certain commodities; (2) the disruptive effect of major price fluctuations; and (3) the serious inflationary impact of excessive foreign demand.

Section 812 of the Agricultural Act of 1970, as added by P.L. 93-86, is amended to read as follows:

"EXPORT SALES REPORTING"

"Sec. 812. (a) All exporters of agricultural commodities produced in the United States shall, pursuant to regulations to be promulgated by the Secretary, report to the Secretary on a weekly basis the following information, including any changes in information previously reported, regarding any commitment, contract, or other agreement for export sales entered into, modified in any manner, or terminated during the reporting period: (1) type, class, quantity, and price of the commodity sought to be exported; (2) the marketing year of shipment; (3) ultimate destination and any intermediate destinations; and (4) identity of the buyer and the relationship, if any, of the buyer to the seller. The Secretary may, upon request by one or more exporters of a particular commodity, waive the reporting requirements of this section with respect to such commodity for good cause shown; provided, however, that such waivers may not be granted for exports of wheat and wheat flour, feed grains, oilseeds, soybeans, soybean meal, and cotton and products thereof, and that waivers may be withdrawn by the Secretary if in his opinion it becomes necessary to begin or resume reporting on a particular commodity.

(b) In addition to the other reporting requirements established herein, and subject to the penalties set forth in subsection (f) for knowing failure to report, exporters of agricultural commodities shall notify the Secretary, within 15 days of their commencement, of any contacts with foreign commercial or governmental importers which may result in export sales of wheat and wheat flour, feed grains, oilseeds, soybeans, soybean meal, cotton, and products thereof, or of other agricultural commodities as may be designated by the Secretary. For purposes of this subsection, the Secretary may establish threshold notification quantities by regulations. For each commodity for which the Secretary establishes a threshold notification quantity, notification is only required when a contract with a foreign importer may result in an export of at least that quantity. Notification shall consist only of identification of commodity, the quantity expected to be exported, and the expected marketing year of shipment.

(c) The Secretary shall, with respect to each commodity concerning which reports are required to be filed hereunder, determine at the start of each marketing year whether a short-supply situation exists or will exist. A commodity shall be determined to be in a short-supply situation when the total of reserves on hand, estimated total domestic production, and an amount determined by the Secretary to be an adequate reserve is exceeded by the total of estimated exports (both commercial and under Government programs) and estimated domestic consumption.

The Secretary shall, as additional information becomes available to him during the marketing year by means of the required reports, consultation with other agencies, and otherwise, review his determinations whether or not agricultural commodities are in a short-supply situation, and, as appropriate, modify those determinations. In developing the necessary information and in making determinations hereunder, the Secretary shall seek information and advice from the Department of State, the Council of Economic Advisers, the Council on Wage and Price Stability, and the Commodity Futures Trading Commission; from the several departments and agencies concerned with aspects of our domestic and foreign policies and operations having an important bearing on exports of agricultural commodities; and, with respect to foreign demand, from foreign sources including governments, importers, grain boards, and other such sources. All departments and agencies of the United States shall fully cooperate in rendering such advice and information.

The Secretary shall cause to be published in the Federal Register any determination that a commodity is or will be in a short-supply situation, with a summary of the basis for such determination.

(d) The Secretary shall, when he determines that a short-supply situation exists with respect to a particular agricultural commodity, report this determination to the Congress. Unless either House, within 30 legislative days, by resolution provides otherwise, export of the commodity shall, notwithstanding 50 U.S.C. App. 2403(f), be subject to regulation by the Secretary of Commerce under the Export Administration Act of 1969, as amended, 50 U.S.C. App. 2401-2413.

(e) The Secretary shall publish in the Federal Register notice of proposed regulations to implement the reporting requirements of this section, and of subsequent modifications of such regulations, at least 45 days before their effective date, and shall consider and evaluate all comments received thereon.

(f) All exporters of agricultural commodities produced in the United States shall, upon request of the Secretary, immediately report to the Secretary any information with respect to export sales of agricultural commodities and at such times as he may request. Any person (or corporation) who knowingly fails to report export sales pursuant to the requirements of this section shall be fined not more than $25,000 or imprisoned not more than 1 year, or both.

(g) Individual reports submitted hereunder shall remain confidential. Reports submitted under subsection (a) shall be compiled by the Secretary and published in compilation form each week following the week of reporting; Provided, however, that published compilations shall not include information concerning identity of buyers or buyer-seller relationships. Nothing contained herein shall be construed to limit the authority of the General Accounting Office to have access to all records of the Department of Agriculture, including the reports filed hereunder, to the extent necessary to carry out its duties.

(h) The Secretary, utilizing the Economic Research Service and the Office of Planning and Evaluation, Department of Agriculture, shall make a semi-annual report to the President and the Congress of his operations hereunder. Each such report shall contain an analysis by the Secretary of: (1) the impact on the economy and world trade of shortages or increased prices for commodities subject to the reporting requirements of this section; (2) the worldwide supply of such commodities; and (3) actions being taken by other nations in response to such shortages or increased prices. Each report shall include also summaries of the information contained in the reports required by subsection (a). For each commodity reported on under subsection (a), the report shall include the Secretary's most recent estimates of exports, domestic consumption, domestic production, reserves on hand, and what he considers to be an adequate carryover, along with an account of the bases for reaching these conclusions. The second semiannual report required hereunder and every second report thereafter shall set forth the internal audit guidelines relied upon by the Secretary to evaluate the effectiveness of the reporting system, and his recommendations with respect to any changes or additional legislative action deemed necessary or desirable in carrying out the program.

(i) Upon his determination that an agricultural commodity is potentially in a short-supply situation, the Secretary may promulgate temporary emergency regulations requiring that all proposed agreements to export such commodity in excess of a quantity to be determined by the Secretary shall be reported to him in advance by the exporter, and shall not be executed without his approval. Approval of an export contract shall be granted unless the Secretary, based on written findings, makes a determination that the proposed export would unduly contribute to the creation of a short-supply situation. Notice of the emergency regulations shall be given directly to all persons who have previously reported exports of the affected commodity under subsection (a) and shall simultaneously be published in the Federal Register, and reported to the Congress pursuant to subsection (d). The emergency regulations may remain in effect only for 30 legislative days after the report to the Congress. Unless either House disapproves, exports of the commodity shall become subject to regulation under the Export Administration Act, as provided in subsection (d).

(j) (1) The Comptroller General of the United States shall monitor and evaluate the operations hereunder including reporting activities. The Comptroller General shall (A) review and evaluate the procedures followed by the Secretary in gathering, analyzing, and interpreting statistics, data, and information related to the supply of agricultural commodities, and (B) evaluate particular projects or programs. The Comptroller General shall have access to such data within the possession or control of the Secretary from any public or private source whatever, notwithstanding the provisions of any other law, as are necessary to carry out his responsibilities under this section and shall report to the Congress at such times as he deems appropriate with respect to the operations hereunder including his recommendations for modifications in existing laws, regulations, procedures, and practices.

(2) The Comptroller General or any of his authorized representatives, in carrying out his responsibilities under this section shall have access to any books, documents, papers, statistics, data, records, and information of any person owing or operating facilities or business premises who is engaged in any phase of export of agricultural commodities as he may determine relates to the purposes of this section.

(3) To assist in carrying out his responsibilities under this section, the Comptroller General may sign and issue subpoenas requiring the production of books, documents, papers, statistics, data, records, and information referred to in subsection (j) (2).

(4) In case of disobedience to a subpoena issued under subsection (j) (3) of this section, the Comptroller General may, through his own attorneys or attorneys he may choose, invoke the aid of any district court of the United States in requiring the production of the books, documents, papers, statistics, data, records, and information referred to in subsection (j) (2). Any district court of the United States within the jurisdiction where such person is found or transacts business may, in case of contumacy or refusal to obey a subpoena issued by the Comptroller General, issue an order requiring such person to produce the books, documents, papers, statistics, data, records, or information; and any failure to obey such order of the court shall be punished by the court as a contempt thereof.

(5) Reports submitted by the Comptroller General to the Congress pursuant to this section shall be available to the public at reasonable cost and upon identifiable request. The Comptroller General may not disclose to the public any information which concerns or relates to a trade secret or other matter referred to in section 1905 of title 18, United States Code, except that such information shall be disclosed by the Comptroller General or the Secretary, in manner designed to preserve its confidentiality--

APPENDIX F

(A) to other Federal Government departments, agencies, and officials for official use upon request;

(B) to committees or Congress upon request; and

(C) to a court in any judicial proceeding under court order.

(k) To the extent necessary or appropriate to the enforcement of this section the Secretary (and officers or employees of the Department specifically designated by him) may make investigation and obtain information from, require reports or the keeping of records by, make inspection of the books, records, and other writings, premises, or property of, and take the sworn testimony of, any person. In addition, such officers or employees may administer oaths or affirmations, and may by subpoena require any person to appear and testify or to appear and produce books, records, and other writings, or both, and, in the case of contumacy by, or refusal to obey a subpoena issued to, any such person, the district court of the United States for any district in which such person is found or resides or transacts business, upon application, and after notice to any such person and hearing, shall have jurisdiction to issue an order requiring such person to appear and give testimony or to appear and produce books, records, and other writings, or both, and any failure to obey such order of that court may be punished by such court as a contempt thereof. No person shall be excused from complying with any requirements under this section because . his privilege against self-incrimination, but the immunity provisions of the Compulsory Testimony Act, Part V of title 18, United States Code, shall apply with respect to any individual who specifically claims such privilege.

(l) The Secretary of Agriculture and the Secretary of Commerce shall fully cooperate in the administration of this section.

(m) In the administration of this section, reporting requirements shall be so designed as to reduce the cost of reporting, recordkeeping, and export documentation to the extent feasible consistent with effective enforcement and compilation of useful statistics. Reporting, recordkeeping, and export documentation requirements shall be periodically reviewed and revised in the light of developments in the field of information technology.

Explanation of Proposed Revision of Section 812

The Export Administration Act of 1969, as amended, recognizes that control of exports may be necessary in certain circumstances. Agricultural commodities are specifically exempted from export controls unless the Secretary of Agriculture approves the imposition of controls in a particular instance (50 U.S.C. App. s2403(f), Supp. IV, 1974). Except where the President determines that control of an agricultural commodity is required to further U.S. foreign policy and fulfill its international responsibilities, or where control over the export is significant to the national security of the United States, the Secretary may not give his approval to controls over exports of agricultural commodities during any period for which he determines the supply of such commodity to be in excess of the requirements of the domestic economy.

One grave difficulty with the operation of this system has emerged: the Secretary's determination whether supply exceeds domestic demand can only be as good as the information available to him, and that information, with respect to the export by private persons or corporations of agricultural commodities, is often incomplete or inaccurate, and hence misleading.

Currently, the source of information on exports of agricultural commodities is section 812 of the Agricultural Act of 1970, as added by the Agriculture and Consumer Protection Act of 1973 (7 U.S.C. §612c-3, Supp. IV, 1974). The accompanying amendment to section 812 is intended to make more and better information available to the Secretary, and to provide a mechanism whereby the crisis atmosphere and the decisions without sufficient information which have characterized previous short-supply situations can be avoided.

Of crucial importance is improvement of the data base. The amendment would require <u>all</u> exporters of agricultural commodities to report to the Secretary, rather than just those of wheat, feed grains, cotton, oil seeds, soybeans, and soybean meal, as in section 812. While the Secretary may, under existing law, designate other commodities to be reported on, the problem remains that by the time a short-supply situation with respect to a particular commodity has developed to the point that the Secretary finds it necessary to require reports on exports, much of the harm may have been done.

Second, the kind of information to be reported will be significantly broadened. The amendment makes it clear that not just formal contracts for export but any kind of commitment or agreement, written or otherwise, which may result in an export, should be reported. Price is to be reported along with the other information. Price trends may give a valuable clue for forecasters. Where an export is not at a fixed or pre-determined price, reports should reveal the basis or formula on which price will ultimately be set.

Existing law requires that destination be reported. The amendment makes it explicit that the purpose of the reports is not served by reporting intermediate destinations or transfer points only. Where the final destination is known to the exporter, it should be reported. A requirement is added that the identity of the buyer be reported, and that if the buyer is in some way affiliated with the seller, this relationship should be revealed.

The bill recognizes that the information sought is proprietary in nature. The confidentiality requirement of existing section 812 is retained, with a direction added that information concerning identity of buyers, and buyer-seller relationships is not to be published or disseminated. Nothing in the bill, however, is intended to limit the access of the General Accounting Office to records of the Department, including reports filed thereunder, to the extent necessary to carry out its duties. GAO would be expected to respect the confidentiality of private data.

In addition to reports of contracts, exporters would be required to submit reports of negotiations with foreign buyers which may lead to contracts. This requirement is intended to allow the Secretary to predict accurately the potential for a short-supply situation, particularly with respect to certain critical commodities. Once the Secretary determines that an agricultural commodity is potentially in a short-supply situation, he can, on a temporary emergency basis, promulgate regulations which prevent consummation of any further agreements for export of that commodity without prior approval by him. (At the same time, he would be required to report his determination to the Congress, so as to activate the mechanism in the bill which brings export of commodities in short-supply within the Export Administration Act, unless the Congress disapproves.)

But a short-supply situation may be created by the execution of contracts which are not known .. the Secretary until after they are executed and reported to him. At that time, exercise of his power to prevent execution of proposed contracts might come too late to avoid market disruption and the other consequences of an unforeseen short-supply situation.

The bill therefore provides for reports of negotiations by exporters which, if they result in execution of a contract, are likely to have a significant impact on supply. The reports are to be made when the negotiations are entered into, and are intended to provide an additional and crucial source of data for the Secretary to make forecasts. Recognizing the sensitivity and the competitive nature of negotiations at an early stage, however, the bill not only protects the confidentiality of individual reports of negotiations, but does not require that these reports include the identity of the prospective buyer, and further provides that the reports of negotiations are not be to published by the Secretary, even in compilation form.

A requirement that the Secretary publish regulations and consider comments thereon has been added. Its purpose is to give the exporters who will be affected, as well as interested Government agencies, a chance to review the procedures proposed by the Secretary before they go into effect.

The Secretary is to report semi-annually on the export reporting system. The purpose of this requirement is to provide continuing assurance that the system is accomplishing its intended purpose and, particularly, that there is adequate capability within the Department to ensure that the requlations are being complied with. That capability does not now exist, and one result has been the failure of the current reporting system to be responsive. The evaluation of the system by the Secretary should be useful to the Congress as well as to the General Accounting Office which, it is expected, will also carefully review and comment on the manner in which the Secretary carries out the mandate of section 812.

Finally, the bill is addressed to the problem that there is now no adequate system to ensure adequate supplies of a variety of agricultural commodities at stable prices, that there is no effective early warning system to protect the domestic economy against the disruptions of unanticipated export sales, and that the short-supply "trigger" for agricultural commodities--that is, the mechanism for bringing agricultural commodities under the export controls of the Export Administration Act of 1969--does not now operate

APPENDIX F

effectively. The trigger in 50 U.S.C. App. §2403(f) requires approval by the Secretary, but he cannot give approval during any period for which supply is determined by him to exceed the needs of the domestic economy. No limits are set on his authority to withhold approval.

What is needed is a trigger which is a matter of public knowledge, and which gives more weight to forecasting, rather than to the supply-demand relationship at the present moment. The bill enjoins the Secretary to determine when a short-supply situation exists or will exist. Its intent in this respect is that he make a careful and systematic assessment of developing shortages and the long-term supply and demand situation. His analysis should show the impact on the economy and world trade of shortages or increased prices, their probable duration, the worldwide supply, and actions taken by other nations in response to such shortages or increased prices. The analysis is intended to allow development of appropriate policies before a crisis materializes, and before options short of a complete embargo are foreclosed.

Such a provision was controversial in the proposed 1973 amendments to the Export Administration Act of 1969 and, ultimately, was rejected. This provision is intended to answer some of the objections which led to rejection of that earlier provision. Under this bill, the Secretary's determination of a short-supply situation does not automatically impose controls, but only brings the commodity potentially under controls, subject to congressional veto.

The bill incorporates the penalty provision contained in present section 812. While the nature and amount of any penalties are matters for the Congress, we are not convinced that the present provisions are effective. The Congress may wish to consider providing for civil penalties, as is done in the Export Administration Act of 1969, as amended, possibly to include suspension of the right to export.

APPENDIX G

QUESTIONNAIRE SURVEY OF EXPORTERS' ATTITUDES TOWARD USDA'S EXPORT REPORTING SYSTEM

CONTENTS

CHAPTER 1

INTRODUCTION

Under the Agriculture and Consumer Protection Act of 1973, the Department of Agriculture was required to assume the responsibility for monitoring the export sales of agricultural commodities. U.S. agricultural supplies had been severely strained that year, in part by the accelerating rate of exports. The Export Sales Reporting System, as the monitoring has come to be known, provides information on future export demand, so that in the event of shortages thoughtful Government planning can replace precipitate market intervention.

All firms exporting U.S.-origin wheat, feed grains, cotton, and oil seeds are required to submit weekly reports to USDA on their export activity, including among other things information on actual exports and outstanding (forward) sales. The Office of the General Sales Manager at USDA is responsible for the administration of the Export Sales Reporting System and each week compiles the information submitted by the exporters and publishes it in the "U.S. Export Sales" report.

We surveyed agricultural exporters to determine their attitudes and opinions on the Export Sales Reporting System and on other past, present, and potential short-supply management systems. The survey was conducted through the use of a questionnaire that was mailed in the summer of 1975 to 316 businesses that had filed export sales reports with USDA. Forty-six of these businesses, however, were subsidiaries whose parent corporations answered for them, or were no longer active in the agricultural export business. Of the remaining 270 exporters, 195 (or 72 percent) returned completed questionnaires acceptable for analysis. These 195 respondents were found to represent, in terms of sales and exports, almost all of the agricultural export industry.

CHAPTER 2

DESCRIPTION OF THE EXPORTERS

This chapter describes the 195 exporters that participated in our survey. In so doing, it also describes to a large extent the entire agricultural export industry, since the firms surveyed account for almost all of the agricultural commodities exported by the U.S. in 1973 and 1974. The agricultural export industry is a concentrated one, we found, with relatively few firms doing most of the business. The firms range in size from a small exporter with export sales of only $35,000 to a large multinational firm with export sales of $3.7 billion.

Organization of exporters

Although some of the firms in our survey have been in the export business since the late 1800's and early 1900's, about two-thirds of the firms appear to have entered the agricultural exporting industry during the past 25 years. The following table shows how 175 exporters responded to a question on this matter.

Period entered export industry	Exporters Number	Exporters Percent
1880 to 1925	19	10.9
1926 to 1950	39	22.3
1951 to 1960	42	24.0
1961 to 1970	38	21.7
1971 to 1975	37	21.1
	175	100.0

Although we have no knowledge of the frequency with which firms go in or out of the export business, about a third of those responding have entered since 1965--possibly drawn to exporting by the increased demand for U.S. agricultural commodities over the past decade.

The exporters in our survey were found to range from small firms exporting less than 100 metric tons of a single agricultural commodity (or with no exports at all) to multi-national companies dealing heavily in a variety of commodities. In answer to a question concerning their organization, most of the 193 respondents identify themselves as private corporations (123 firms), a small group as public corporations (31 firms) and the remainder either as partnerships (8 firms), sole proprietorships (7 firms), or some other form of business (24 firms). Although we did not determine how many of the firms are U.S.-owned, 37 of the exporters say they are subsidiaries or affiliates of foreign-based companies.

Pursuing the parent-subsidiary relationship, we found that one-third (70) of the surveyed exporters are a subsidiary or affiliate of another company. Sixty-six of the firms, furthermore, indicate that they export U.S.-origin agricultural commodities to parent, subsidiary, or affiliate organizations. The latter were identified mostly as merchants, processors, or traders located in the European Community, Japan, or Canada.

Export Sales 1/

The exporters were asked to approximate the dollar value of all the U.S.-origin agricultural commodities they exported (i.e., export sales) during calendar years 1973 and 1974. Although a number of firms gave no sales information (34 for 1973 and 36 for 1974), the rest estimate sales totaling $18.6 billion in 1973 and 1974, respectively. We compared these figures to published ones 2/ on the total 1973 and 1974 dollar value of all U.S. agricultural exports, so that we could measure the sales volume of the firms on which we did not obtain data. The published figures are $17.7 billion and $22 billion for 1973 and 1974, respectively, suggesting that most major exporters are included in our survey. 3/

1/The term "sales" refers here and in later sections to the dollar value of agricultural commodities actually exported.

2/"Foreign Agricultural Trade of the United States," September 1975, USDA.

3/We are unable to explain why the surveyed firms claim export sales in excess of the total U.S. export value beyond ascribing the discrepancy to exporter overestimates, USDA underestimates, or a combination of the two.

The 1974 sales figures indicate further that the agricultural export industry is a concentrated one, with relatively few firms accounting for a substantial share of the business. In addition to the 36 firms who did not identify their 1974 export sales, 11 firms reported zero sales. Of the remaining 148, however, just 7 firms (only 5 percent) account for 62 percent of the total sales for the group as a whole. The 75 smallest, or 51 percent of the 148 firms, on the other hand, have less than 1 percent of the total sales. The following table shows 1974 export sales by sales categories and the number of firms, total sales, and average sales in each category.

In the analysis of the questionnaire, we frequently make use of the terms "large," "medium," and "small" exporter. These designations evolved from the above table and refer to firms with 1974 sales of $500 million and more, between $10 and $500 million, and of $10 million and less, respectively. The 11 large exporters captured about 74 percent of the total sales for all surveyed firms and are, for the most part, multinational corporations dealing in a wide variety of agricultural commodities.

1974 EXPORT SALES

1974 Sales	Exporters Number	Exporters Percent	Total Export Sales Amount (millions)	Total Export Sales Percent	Average Sales (millions)
$0-$10	75	50.7	$ 173	0.7	$ 2.3
$10-$100	45	30.4	1,759	7.6	39.1
$100-$500	18	11.5	3,974	17.2	233.8
$500-$999	4	2.7	2,949	12.7	737.2
$1,000 & up	7	4.7	14,323	61.8	2,046.2
	148	100.0	$23,178	100.0	$ 156.6

Commodities Exported

We asked the exporting firms for their 1973/74 export totals in wheat, corn, rice, soybeans, cottonseed, soybean oil, cake and meal, and cottonseed oil, cake and meal. We found that, as with sales, the exports were frequently concentrated in the hands of a few large companies. The seven commodities are presented in the following table with the number of firms that dealt in them, the total exports claimed, and corresponding USDA figures for the industry as a whole.

Commodities Exported (1973/74)

Commodity	Number of firms	Total exports claimed (Metric tons)	Total U.S. exports 1/ (Metric tons)
Wheat and products	42	35,068,000	31,067,000
Corn	43	35,263,000	31,574,000
Soybeans	36	18,435,000	14,700,000
Soybean oil, cake, and meal	42	4,312,000	5,600,000
Rice	37	1,565,000	1,589,000
Cottonseed	5	31,000	44,000
Cottonseed oil, cake, and meal	18	239,000	62,600

As with 1974 export value (sales), some survey export figures exceed comparable USDA figures for the industry as a whole. A Department of Agriculture official has indicated that USDA 1973/74 data on agricultural exports came in part from the newly established Export Sales Reporting System, in whose early months accuracy was questionable. The sizes of the discrepancies, however, lead us to believe that the surveyed exporters may have overestimated their 1973/74 exports to some extent also.

Using the 1973/74 export information provided by the exporters, we assigned each of the 195 firms to a primary export commodity group. For these purposes, cottonseed and cottonseed oil, cake and meal were combined, as were soybeans and soybean oil, cake and meal. We wanted to see whether exporters in different commodities would respond to

---

1/"Foreign Agricultural Trade of the United States," September 1975, USDA.

questions in different ways. Where 1973/74 export information was lacking, we turned to 1974/75 data obtained from USDA for the classification. A primary commodity was assigned to a firm if better than two-thirds of its exports in one of the years were of a single commodity. Otherwise the firm was designated "multi-commodity." (Nine of the very large exporters are in this category.) Some of the exporters in our survey proved to be inactive in all five commodity groups and were classified as such. The following table shows the primary commodity exported for the firms in our survey and the total 1974 export sales for each commodity group.

Primary Export Commodity

	Number	Percent	Total 1974 sales
			(millions)
Multi-Commodity	27	13.9	$17,402
Soybeans and Products	34	17.4	687
Wheat and Products	22	11.3	1,212
Corn	17	8.7	2,304
Cotton and Products	54	27.7	839
Rice	26	13.3	706
Inactive	15	7.7	29
	195	100.0	$23,179

Shipment Terms

The exporters were also asked to provide a percentage breakdown of the mode of shipment for their export sales. The following table shows the volumes of seven major commodities exported in the 1973/74 marketing year and the percent exported by mode of shipment for the firms who completed this question.

Commodity	Amount in metric tons (000 omitted)	F.O.B. 1/	C.I.F. 2/	F.A.S. 3/	C&F 4/
		Percent			
Wheat (including wheat products)	35,068	79.2	5.2	0.4	15.3
Corn	35,263	64.5	11.3	0.0	24.2
Rice	1,565	16.1	16.5	47.8	19.5
Soybeans	18,145	46.6	24.3	0.0	29.1
Soybean oil, cake, and meal	4,267	67.6	17.7	0.1	14.6
Cottonseed	31	99.6	0.0	0.4	0.0
Cottonseed oil, cake, and meal	239	54.0	3.1	4.8	37.9
	94,543	65.8	11.9	1.0	21.3

More than half of the 1973/74 exports of wheat, corn, cottonseed, soybean oil, cake and meal, and cottonseed oil, cake and meal were F.O.B. Almost half of the soybeans also went F.O.B., while rice was most frequently sold F.A.S. On the whole, about two-thirds of the exports for all seven commodities went F.O.B.

1/F.O.B. - free on board
2/C.I.F. - cost, insurance, and freight
3/F.A.S. - free alongside
4/C&F - cost and freight

CHAPTER 3

EXPORTER ATTITUDES AND OPINIONS ON THE EXPORT SALES REPORTING SYSTEM

A majority of the exporting firms believe that the U.S. Government needs an export sales reporting system. Most of the exporters feel that the present Export Sales Reporting System has met the provisions of the Act that established it and has, to at least a moderate degree, achieved its objective of providing accurate, timely, and reliable export statistics. The firms have had few problems in complying with the reporting regulations and requirements, and most of them receive and use the weekly U.S. Export Sales reports. Despite their belief that the Export Sales Reporting System has not affected their own sales, the exporters generally feel that the publication of the export reports has to some extent influenced agricultural commodity prices and has given at least a minor advantage to foreign buyers in export contract negotiations. Most exporters believe the U.S. Export Sales reports would be more useful if additional information on contract destinations, decreases, and shipment dates were included.

General Comments on Export Sales Reporting System

The Export Sales Reporting System (ESRS) is intended to monitor the amount of agricultural commodities being exported so that, in the event of shortages, the U.S. Government will have on a timely basis the information required to formulate necessary decisions. The exporting firms were asked how they feel about the U.S. Government's need for an export sales reporting system. Almost 70 percent of the firms believe a reporting system is needed, while 15 percent say it is not. None of the large exporters (those with 1974 export sales above a half billion dollars) is among the 15 percent. The firms' responses follow.

Need for an Export Sales Reporting System?

	Exporters	
	Number	Percent
Needed	136	69.8
Undecided	26	13.3
Not needed	30	15.4
Did not answer	3	1.5
	195	100.0

USDA's Export Sales Reporting System was established under section 812 of Agricultural Act of 1970, as added by the Agricultural Act of 1973 (P.L. 93-86). The exporters claim a good understanding of the Act's provisions and generally feel that ESRS has met those provisions. The exporters' responses to a related question are presented in the following table.

Has ESRS Met The Provisions of the Act?

	Exporters	
	Number	Percent
Yes	145	74.4
Undecided	39	20.0
No	8	4.1
Did not answer	3	1.5
	195	100.0

The exporters were asked to what degree they believe the Export Sales Reporting System has achieved its stated objective of providing accurate, timely, and reliable export statistics. Most of the exporters who answered (74 percent) believe the System has achieved that objective at least to a moderate degree. The other 26 percent claim the achievement has been minimal at best.

Because the Export Sales Reporting System represents an entry of the Federal Government into the private sector, the exporting firms were also asked for their primary perception of the system as it is presently operated. About 41 percent of the firms responding view the system primarily as a means to provide the U.S. more information on foreign demand and export commitments. In a similar vein, 17 percent perceive it mainly as an improvement of the Government's system for forecasting exports. Twenty-two percent see ESRS as a first step toward a comprehensive Government short-supply management system, while 14 percent term it a Government activity of marginal utility. These perceptions were found to be unrelated to the firms' sizes or commodities exported.

Administration of the Export Sales Reporting System

A certain amount of work is required of exporting firms in providing information to USDA on their weekly export sales activity. In addition to the basic "Report of Export Sales and Exports" form, which they must submit each week that they have some activity in exports, there are three other report forms that are filled out at varying times. To guide the exporters in completing the report forms, USDA issued regulations and instructions for the reporting system. We asked the exporting firms to evaluate these regulations and instructions in terms of clarity, format, indexing, and comprehensiveness. The majority of the exporters indicate that they have little or no problem in any area.

Similarly, we asked the exporters to rate the export report forms themselves, in terms of the language, format, response space, measurement conversions, the burden associated with completing the forms, and the meeting of report deadlines. Again, the majority of the exporters say they have little or no problem with the forms in the areas mentioned.

To determine whether the exporters are burdened by export reporting requirements, we asked them to estimate how many staff hours per week are spent in completing the following four forms used in administering ESRS:

1. Report of Optional Origin Sales (Form 97).

2. Report of Export Sales and Exports (Form 98).

3. Contrac Terms Supporting Export Sales and Foreign Purchases (Form 99).

4. Report of Exports for Exporters Own Account (Form 100).

Forms 97 and 100 are used to report relatively uncommon transactions, and we found that almost all of the exporters responding had spent an hour or less each week completing each of them. Forms 98 and 99, on the other hand, are submitted more frequently--when reporting export sales, changes in the status of sales, or specific sales terms. The following table shows how many staff hours the 180 exporters who responded say they spend each week in completing these two forms.

Average Staff Hours Spent Each Week by Exporters To Complete Forms 98 and 99

	Form 98		Form 99	
Hours per week	Number of exporters	Percent	Number of exporters	Percent
Less than 1	29	16.1	95	52.8
1	98	54.5	52	28.9
2	22	12.2	11	6.1
3	10	5.6	2	1.1
4	6	3.3	2	1.1
5	2	1.1	5	2.8
6 to 10	8	4.4	6	3.3
Over 10	5	2.8	7	3.9
	151	100.0	85	100.0

As might be expected, we found that large exporters spend appreciably more time completing the forms. On the whole, however, we believe the results indicate that the completion of the USDA report forms is not a burden for the exporters.

USEFULNESS OF THE U.S. EXPORT SALES REPORT

Almost 90 percent (172) of the 195 exporters in our survey say they receive the weekly U.S. Export Sales reports. We asked these 172 firms to rate the overall usefulness of the data published in the reports. Of the 168 firms who responded, 103 (or 61 percent) term the data generally or very useful. Only 23 firms, in contrast, find the data of little or no use. The larger firms consider the export data more useful than do the smaller firms. The responses follow.

Exporters Rate "U.S. Export Sales" Data

	Exporters Number	Exporters Percent
Very useful	26	15.1
Generally useful	77	44.8
As useful as not	12	7.0
Of some use	30	17.4
Of very little or no use	23	13.4
Did not answer	4	2.3
	172	100.0

In a similar manner, we inquired about the frequency and manner of use the exporters make of the U.S. Export Sales reports. As can be seen from the table below, slightly more than two-thirds use the report at least occasionally. The big exporting firms were found to be the more frequent users.

Frequency of Use	Exporters Number	Exporters Percent
Very frequently - about 2 or 3 times a day	3	1.8
Frequently - about 2 or 3 times a week	40	23.8
Occasionally - about 2 or 3 times a month	79	47.0
Rarely - about 1 or 5 times a year	31	18.5
Don't use it at all	15	8.7
Did not answer	4	2.3
	172	100.0

The exporters were also asked to identify the different ways they use the weekly U.S. Export Sales reports. In general, the reports appear to be used for market development and intelligence, with the most common use being as a reference for export sales to foreign countries by commodity. The following table summarizes the results.

Description of Use	Number of exporters
Compare company's export sales with total U.S. export sales	54
Forecast foreign countries' needs for specific agricultural commodities	55
Use as a reference for export sales to foreign countries by commodity	107
Develop planning strategy for buying U.S. agricultural commodities	37
Develop planning strategy for company's trading decisions with foreign buyers	34
Use to make transportation and/or storage decisions	19
Other	16

The major determinants of agricultural commodity prices are worldwide and domestic supply and demand factors. After acknowledging this, we asked the exporters if the weekly publication of export data in the U.S. Export Sales report has any additional influence on commodity prices. Sixty (60) percent of the exporters responding feel the reports influence commodity prices to some extent, while 25 percent believe they have little or no price influence at all. The table below illustrates the exporters' responses.

Influence of Export Reports on Agricultural Commodity Prices

	Exporters	
	Number	Percent
Little or no influence	46	25.4
Small influence	44	24.3
Moderate influence	54	29.8
Substantial influence	9	5.0
Very great influence	1	0.6
No basis to judge	27	14.9
Total	181	100.0

The weekly publication of export sales data is believed by about half of the firms to be of some benefit to foreign governments or trading companies. Of the 169 firms answering a question on this matter, 61 feel the reports give foreign buyers at least a moderate advantage in contract negotiations. The exporter responses follow.

Advantage of Export Reports to Foreign Governments or Trading Companies

	Exporters	
	Number	Percent
Major advantage	10	5.9
Somewhat of a major advantage	19	11.2
Moderate advantage	32	18.9
Minor advantage	23	13.6
Little or no advantage	48	28.4
No basis to judge	37	21.9
	169	100.0

The exporters were also asked what effect the Reporting System has had on their firms' export sales of agricultural commodities during the past year. An overwhelming majority (93 percent) of the exporters able to judge claim ESRS has not affected their export sales volumes. Given this result, it may well be that the advantage some exporters feel foreign buyers are getting is in the form of lower prices for the commodities they buy.

Exporters' Comments on Changes Suggested to Improve ESRS

The inclusion in the export reports of some information not now provided would apparently increase their usefulness substantially. Of great interest to exporters are destinations, decreases (cancellations, buy-backs, etc.), and shipment periods (dates). Each of these items is regarded as very or generally important by a majority of the firms responding. Only 1 out of 5 exporters, in contrast, considers these items of little or no importance. Contract type, i.e., fixed or basis, is rated at least moderately important by about half the firms, while little importance is attached to quantity tolerances and transportation details. About 92 percent of the 172 firms receiving the export reports responded to this question, and their responses are summarized in the following table.

Information that Might Improve

the Reports' Usefulness

(By Percent of Firms Responding)

Type of Information	Very or generally important Percent	Moderately or somewhat important Percent	Little or no importance Percent
Destinations	63.3	22.2	14.5
Decreases	57.3	21.7	21.0
Shipment Dates	57.0	23.4	19.6
Contract Type	35.5	23.4	41.1
Transportation Details	21.7	28.0	50.3
Tolerances	10.8	25.9	63.3

CHAPTER 4

CONTRACT DECREASES

For a number of reasons, agricultural export contracts do not always result in actual exports. At the option of the buyer or the seller, contracts can be cancelled or modified, and deliveries can be deferred to another marketing year -- actions which are called, in general, "contract decreases". Because of their potential for decrease, outstanding export contracts tend to overestimate the actual U.S. export commitment.

Through our survey of exporters we attempted to measure the extent of contract decreases for five selected commodities, the reasons for the decreases, and the characteristics of export contracts that are likely to be decreased. We found that about a fifth of the total quantities of wheat, corn, rice, soybeans, and soybean oil, cake and meal originally contracted for export in 1973/74 by 48 firms in our survey were not shipped. Large exporters as a group had a rate of decrease below that of the rest of the exporters, while two firms cancelled all 2.2 million metric tons of corn, soybeans, and soybean oil, cake and meal they had contracted for export.

The most commonly cited reasons for the decreases were commodity price changes, contracting for maximum rather than probable needs, overcontracting in anticipation of controls, and hedging to protect a market position. Our survey also revealed that basis contracts (those with no specifically stipulated price) were much more frequently decreased than fixed price contracts, and unknown destination contracts more often than known destination. About half of the 1973/74 decreases were made by exporters against contracts with their own affiliates.

The surveyed exporters oppose being required to submit written explanations to USDA for their contract decreases and are even stronger in their opposition to the addition of penalties for unjustifiable decreases. In addition, more firms are against than are for the public disclosure, even on an aggregated basis, of information they presently provide USDA in Form 99 (Contract Terms Supporting Export Sales and Foreign Purchases).

Contract Decreases

As defined in USDA's Export Sales Reporting instructions, "decreases" means cancellations or modifications, including those times when (a) smaller quantities are shipped than originally contracted for, (b) delivery is deferred to the next marketing year, (c) another commodity is substituted for the original one, and (d) purchases from foreign sellers are used by the seller to fulfill the original contract.

We asked the exporting firms to estimate the quantities of five commodities (wheat, corn, soybeans, rice, and soybean oil, cake and meal) they contracted to export in the 1973/74 marketing year. Along with that, we requested the total quantity decreases for each of the commodities in the same year, so we could see the percentage of the quantities originally contracted for that were decreased. The following table summarizes the results for the 48 firms who responded.

Contract Decreases* - 1973/74

	Wheat	Corn	Soybeans	Soybean oil, cake and meal	Rice	Total
Total quantities originally contracted for	41,486	45,855	23,086	6,308	1,564	118,298
Total quantity decreases	6,407	9,547	4,671	3,704	39	24,369
Percent of decreases	15.4	20.8	20.2	58.7	2.5	20.6

*In thousands of metric tons.

As can be seen, about a fifth of the agricultural commodities originally contracted for export in 1973/74 were not shipped that year. Better than half of the soybean oil, cake and meal contracted for export was cancelled or deferred. The rates of decrease for wheat, corn, and soybeans, meanwhile, ranged from 15 to 21 percent, while rice decreases were negligible.

Of the 48 firms who described their decreases, two subgroups are of particular interest. The 9 big exporters among the 48 had a combined rate of decrease substantially below that of the other firms. With original contracts totaling 88,073,300 metric tons and decreases at 15,841,291 metric tons, the larger exporters' decrease rate was only 18 percent, compared to 28 percent for the others. Two exporters in the latter group, moreover, cancelled 100 percent of their 1973/74 export contracts--representing over 2.2 million metric tons of corn, soybeans, and soybean oil, cake and meal. These firms are subsidiaries of foreign-based companies and, not surprisingly, registered for but did not export in 1974/75 either.

In order to determine the causes of decreases, we asked the exporters to break out on a percentage basis the reasons for their 1973/74 contract decreases. Although only 35 of the 48 exporters answered, these 35 account for almost 99 percent of the decreases made by the surveyed firms. The following table shows the reasons the exporters gave for their 1973/74 contract decreases and the percentage and amounts of the decreases attributed to each reason.

Reasons Given by Exporters

For 1973/74 Contract Decreases

	Volume (metric tons)	Percent
Contracting for maximum rather than probable needs	6,957,479	28.9
Overcontracting in anticipation of controls	4,783,602	19.9
Price changes	7,350,076	30.5
Hedging to protect a market position	3,185,303	13.2
Other	1,806,760	7.5
Total	24,083,220	100.0

Decreases, then, play a significant role in the agricultural export market. With 21 percent of the 1973/74 agricultural contracts ultimately not fulfilled in that year, the U.S. Export Sales reports consistently overstated the extent to which U.S. grain supplies were committed. Recognizing this, USDA cautions readers of its weekly reports that a meaningful export projection is not obtainable by simply adding outstanding sales commitments to exports to date because sales commitments outstanding are subject to modification, deferral or cancellation.

Fixed vs. Basis Contracts

The terms "fixed" and "basis" refer to the pricing arrangements of agricultural export contracts. Fixed contracts have a price set at the time they are written, while in basis contracts the price is set at a later date. As one might expect, we found that decreases were made much more frequently against basis contracts than against fixed.

Almost 50 million metric tons of the five commodities we surveyed were originally contracted for export in 1973/74 with a basis pricing arrangement. Of these, about 16 million metric tons did not get shipped--a 32 percent rate of decrease. Of the 69 million metric tons in fixed contracts, however, only 8.4 million metric tons, or 12 percent, were ultimately not exported. Fixed contracts, then, appear to represent a substantially more solid commitment of U.S. grain for export than do basis contracts. The following table contains the results for all five commodities.

1973/74 Contract Decreases/Fixed vs. Basis Contracts

		Originally contracted for (metric tons)	Contract decreases (metric tons)	Decreases as a percentage of original contract volumes (percent)
Wheat	Fixed	33,082,988	3,530,621	10.7
	Basis	8,402,638	2,876,737	34.2
Corn	Fixed	21,947,937	3,303,653	15.1
	Basis	23,907,266	6,243,414	26.1
Soybeans	Fixed	9,959,973	1,272,935	12.6
	Basis	13,125,967	3,398,216	25.9
Soybean oil, cake & meal	Fixed	2,547,592	273,405	10.7
	Basis	3,759,950	3,430,113	91.2
Rice	Fixed	1,562,930	39,443	2.5
	Basis	1,150	0	0.0
Total	Fixed	69,101,420	8,420,057	12.2
	Basis	49,196,971	15,948,480	32.4

Known vs. Unknown Destination Contracts

When an exporter reports a grain sale on the weekly reporting form, he is required to enter a country of destination if it is known at the time. Otherwise, the sale is considered of unknown destination unless and until the ultimate destination becomes known and the exporter files an amending report. Occasionally, however, grain is shipped without a country of destination ever being identified. This frequently happens with free on board (FOB) sales, where the seller's responsibility ends as soon as the grain is loaded on the transport vessel. When the Office of the General Sales Manager compiles and publishes the weekly sales report, it keeps the quantity of outstanding sales with unknown destination separate from those with known destination.

We asked the exporting firms in our survey to indicate the amount of their 1973/74 contract decreases that were known destination. Again, only the commodities wheat, corn, soybeans, rice, and soybean oil, cake and meal were included. About 56 percent of the 24,368,391 metric tons of decreases were identified as known destination, leaving 44 percent of the decreases as unknown destination. The results for the individual commodities and for all five as a whole are shown below.

1973/74 Contract Decreases by Destination

Commodity	Destination	Decreases: Amount (metric tons)	Decreases: Percent
Wheat	Known	3,024,995	47.2
	Unknown	3,382,363	52.8
Corn	Known	5,643,815	59.1
	Unknown	3,903,252	40.9
Soybeans	Known	3,082,213	66.0
	Unknown	1,588,938	34.0
Soybean oil, cake & meal	Known	2,014,824	54.4
	Unknown	1,688,694	45.6
Rice	Known	11,518	29.2
	Unknown	27,925	70.8
Total	Known	13,777,365	56.5
	Unknown	10,591,172	43.5

How these results compare with the breakout of known and unknown destination sales originally contracted for cannot be determined directly, since the latter information was not obtained. An indirect comparison can be made, however, using 1974/75 contract data. An analysis of data on 1974/75 wheat and corn contracts revealed that 89.9 percent of the original sales were known destination. Assuming that same percentage to have held for 1973/74 wheat and corn sales yields decrease rates for known and unknown destination contracts of 11.0 percent and 82.6 percent, respectively. Because the 1974/75 data does not represent a complete marketing year, however, we conclude from the comparison only that known destination sales appear more solid than those with unknown destination.

Affiliate vs. Non-Affiliate Contracts

As with known and unknown destination contracts, we asked the exporters to identify those 1973/74 decreases that were against contracts with affiliates, as opposed to non-affiliate contract decreases. No information about the quantities originally contracted for with affiliates and non-affiliates was obtained, however, so the solidity of the two kinds of sales remains unknown. Nonetheless, decreases with affiliates constituted almost half of all the 1973/74 contract decreases in our survey. The results for the five commodities follow.

Decreases: Affiliate vs. Non-Affiliate Contracts, 1973/74

		Decreases	Percent
Wheat	Affiliate	2,997,223	46.3
	Non-Affiliate	3,410,135	53.2
Corn	Affiliate	3,728,477	40.0
	Non-Affiliate	5,818,590	60.0
Soybeans	Affiliate	2,534,509	54.3
	Non-Affiliate	2,136,642	45.7
Soybean oil, cake & meal	Affiliate	2,772,352	74.9
	Non-Affiliate	931,166	25.1
Rice	Affiliate	7,056	17.9
	Non-Affiliate	32,387	82.1
Total	Affiliate	12,039,617	49.4
	Non-Affiliate	12,328,774	50.6

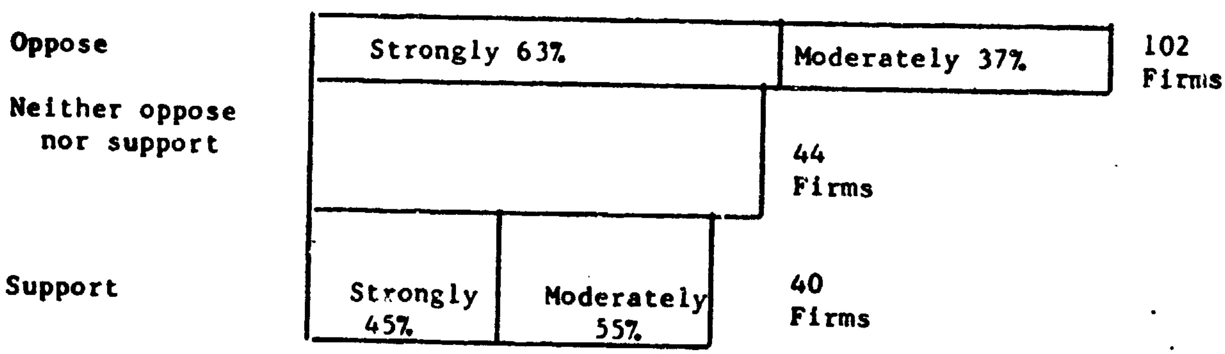
Possible Modifications to the Export Sales Reporting System

The Export Sales Reporting System was intended to act as an early warning system in agricultural export markets. The level of agricultural exports could be constantly measured against existing and forecasted supplies so as to avoid overcommitment of U.S. agricultural commodities. A problem with the reporting system is that many of the exports originally contracted for are not shipped because of contract cancellations or modifications. It has been suggested that if USDA had certain additional information, not currently available in all cases, it would be able to estimate more accurately the percentage of exports originally contracted for that would result in actual shipments. Such information could be obtained from the exporters through a modification of the export reporting forms.

In line with this, we asked the exporting firms to indicate the extent to which they feel certain items of information might help USDA identify contracts with a high potential of being fulfilled. For each item of information, about 30 percent of the firms marked "don't know" or did not respond. The rest of the firms rank information on foreign buyers' capability to honor contracts as highest in importance, with over half calling it helpful to a substantial extent or more. About 40 percent of the firms rate exact destinations, foreign buyers' advanced needs, and the extent of buyers' activities and position in the U.S. cash and futures market as substantially helpful also. Less importance is ascribed, however, to foreign buyers' storage capacities, the exact classification of the foreign buyer, contract pricing terms (fixed vs. basis), and contract provisions. In general, large exporters attribute less importance to all of the information.

Another way of modifying the existing Export Sales Reporting System would be to require exporters to provide written explanations for contract decreases. It appears from our survey, however, that such a requirement might meet considerable resistance from the exporters themselves. Firms in opposition to written explanations outnumber those in support by a wide margin, and the opposition is more strong than moderate in its tone. Furthermore, eight of the large exporters oppose the requirement and only one supports. The exporters' responses follow.

Exporter Attitudes Toward
Written Explanations for Contract Decreases

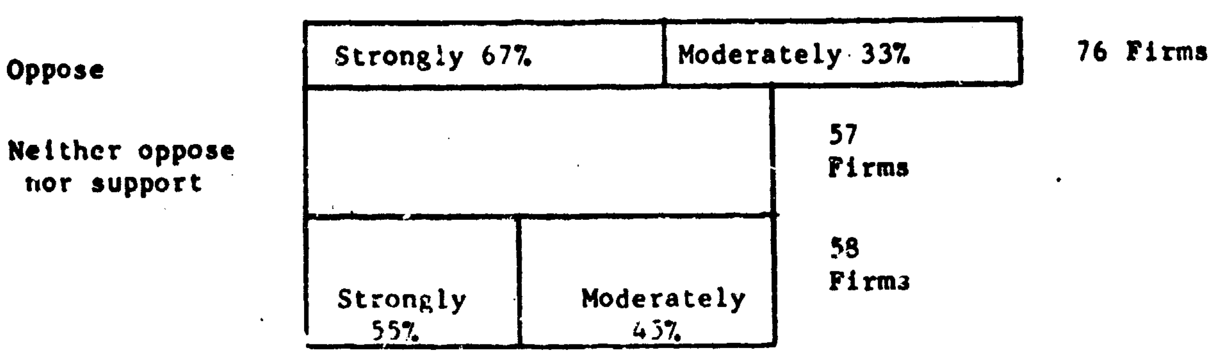


We then asked the 84 firms not opposed to written explanations how they would feel about the addition of penalty assessments for unjustifiable decreases. Of the firms responding, 21 oppose this stronger action, 30 support it, and 30 are neutral (neither oppose nor support). One large exporter is in support and the other two are neutral. The results for the 84 can be combined with the imputed opposition of the 102 firms against written explanations to obtain a composite exporter opinion on the addition of penalties for unjustifiable decreases. About two-thirds oppose the action, a sixth support it, and the rest neither oppose nor support.

These same 84 exporters feel that written explanations and/or the assessment of penalties for unjustifiable contract decreases could possibly have some effect in various areas. The largest impact would be in the form of a decrease in contract cancellations and in the number of contracts, with commodity prices and total export volumes not as greatly affected. As might be expected, the assessment of penalties is seen as having the greater impact.

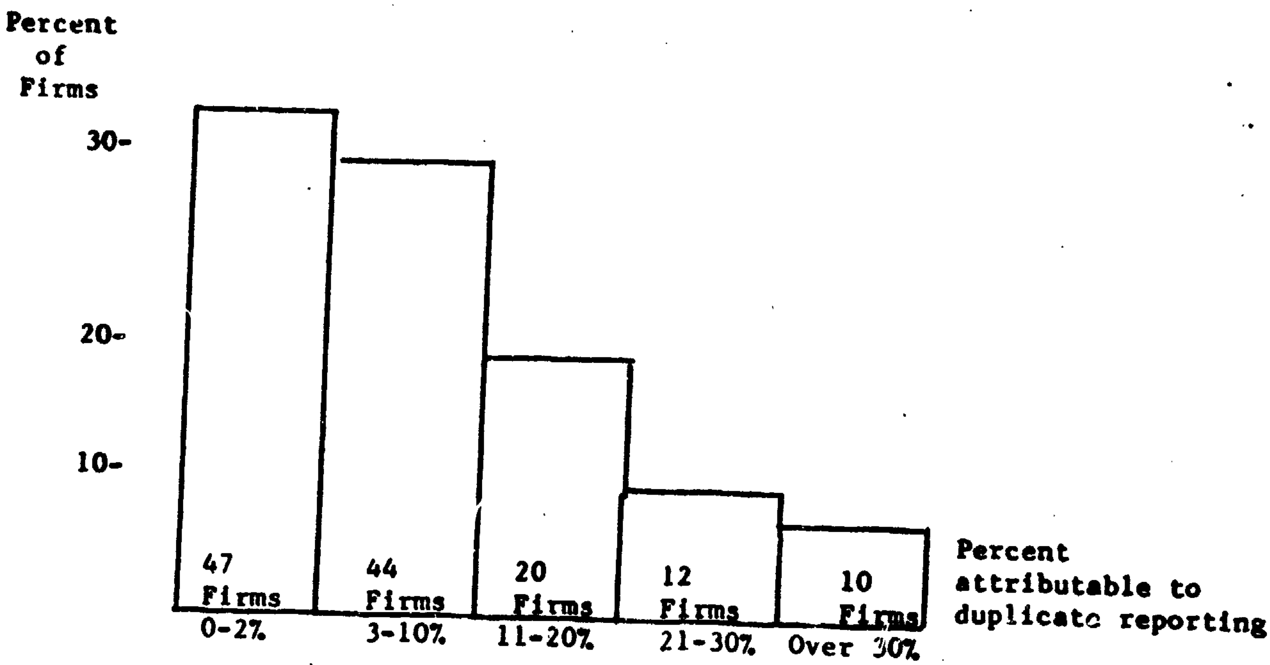
At the present time, exporters are notified on an individual basis when to file the form, "Contract Terms Supporting Export Sales and Foreign Purchases." We asked the exporters for their position on the public disclosure of the information on these forms if it were aggregated to protect individual firms' identities. Exporters in opposition to public disclosure exceed those in support 76 to 58 (with 57 expressing indifference). Moreover, the firms opposed to disclosure called their position a strong one. We found that large exporters are against disclosure more so than medium and small exporters. The responses follow.

Exporters' Position on Public
Disclosure of Export Contract Terms



A potential shortcoming of the Export Sales Reporting System is duplicate reporting. For example, different exporters might each report the same shipment or an individual exporter might report a single shipment more than once. We asked the exporting firms to estimate what percentage of the total export volumes reported they would attribute to such duplication. Of the 133 firms who gave us estimates, almost one-third feel that duplicate reporting accounts for more than 10 percent of total volumes. Another third put the duplication rate in the 3 to 10 percent range, while the rest believe it is less than 3 percent. Large exporters tend to minimize the extent of the duplication. The responses are shown below.

Exporter Estimates of
Percent of Total Export Volumes
Attributable to Duplicate Reporting



CHAPTER 5

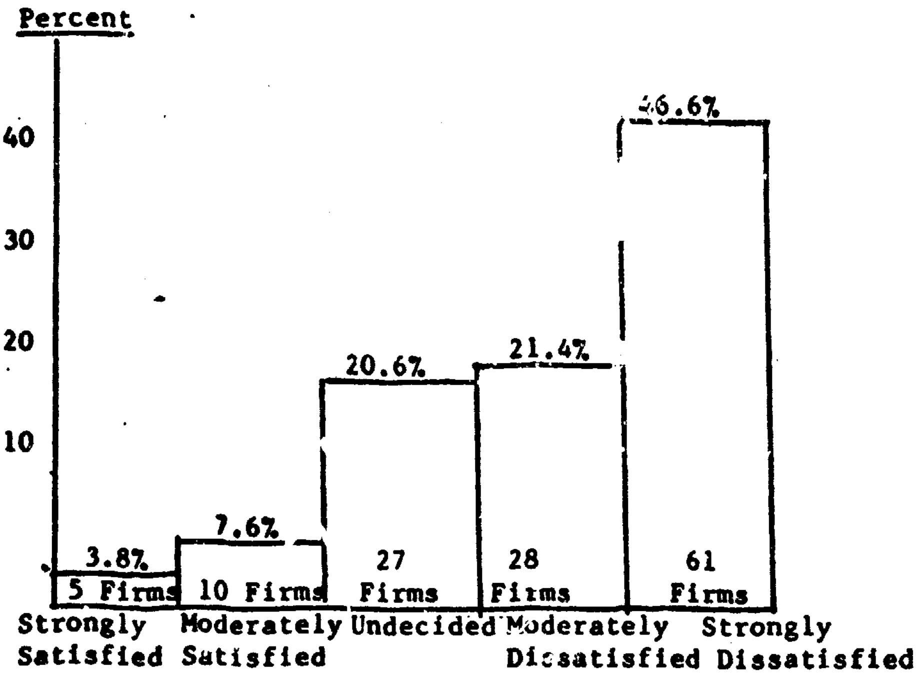
EXPORTER OPINIONS ON PAST AND POSSIBLE U.S. INVOLVEMENT IN EXPORT MARKETS

Part of the survey dealt with the roles the U.S. Government has played in the past and might consider for the future in agricultural export markets. Our survey disclosed that the exporters were generally dissatisfied with the Government's role in the soybean embargo in 1973 and the renegotiations of Soviet wheat and corn sales in 1974. On the other hand, the exporters were generally satisfied with the prior approval system implemented for a short time by the Government in 1974 and 1975. As to future U.S. involvement in the export market, a majority of the exporters prefer the present reporting system to other forms of Government export monitoring and/or controls.

1973 Soybean Embargo

Because of a domestic short-supply situation in the soybean market and an increase in foreign demand, the Department of Commerce imposed an embargo on the export of soybeans on June 27, 1973. On July 2 the embargo was replaced by export controls that remained in effect until October 1, 1973. A decidedly large number of exporters in our survey were dissatisfied with this Government action. Of the 131 firms responding, only 15 (12 percent) express satisfaction with the controls, while 89 (68 percent) claim dissatisfaction. Two out of three exporters in this latter group, moreover, call their dissatisfaction strong rather than moderate. The following graph illustrates the overall responses.

Exporters' Attitudes Toward
1973 Soybean Controls



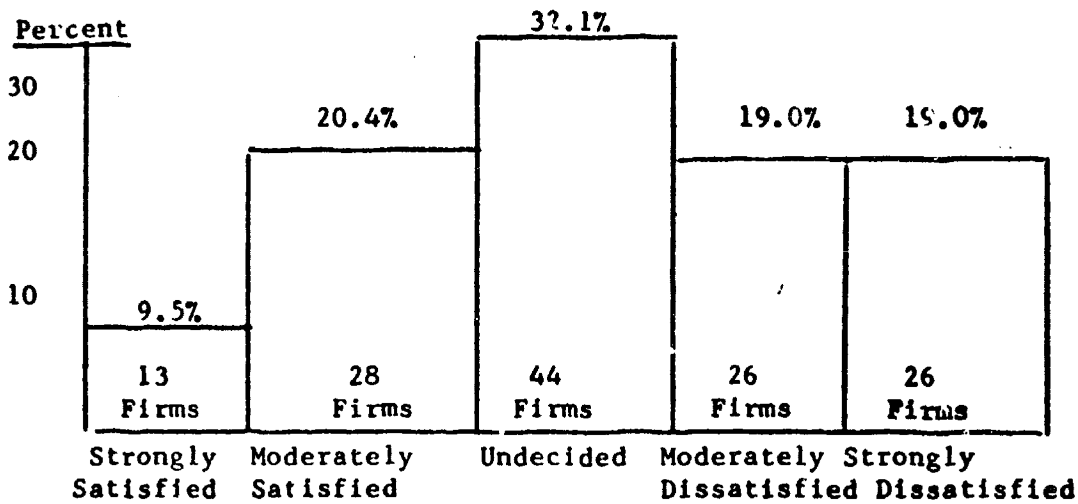
Not surprisingly, a greater proportion of exporters directly affected by the controls express dissatisfaction with them. We found, for example, that 77 percent of the firms who exported soybeans or their products in 1973/74 were dissatisfied, compared to 61 percent for the rest of the firms. Similarly, of the 39 firms who were forced to make contract decreases because of the embargo, almost 85 percent (33) were dissatisfied, as against 61 percent for the others. These two results converge in the case of the 11 large exporters, 10 of whom exported soybeans and 9 of whom had to cancel contracts. We found that 10 of these 11 claim strong dissatisfaction with the Government's action.

Just under half of those dissatisfied say that the Government controls were implemented at the wrong time or were simply not necessary. Smaller percentages feel the controls were the wrong type to apply or were excessive in nature.

The 1974 Soviet Union Wheat and Corn Sales

In mid-September 1974, the Soviet Union entered the U.S. market to purchase wheat and corn. Because of a tight-supply situation in this country, the U.S. Government intervened in the following month, causing the original sales to be renegotiated for small quantities. As with the soybean embargo, we sought to determine the exporters' attitudes toward this U.S. action. Their responses are shown in the following table.

Exporter Attitudes Toward the U.S. Role in the 1974 Soviet Grain Purchases



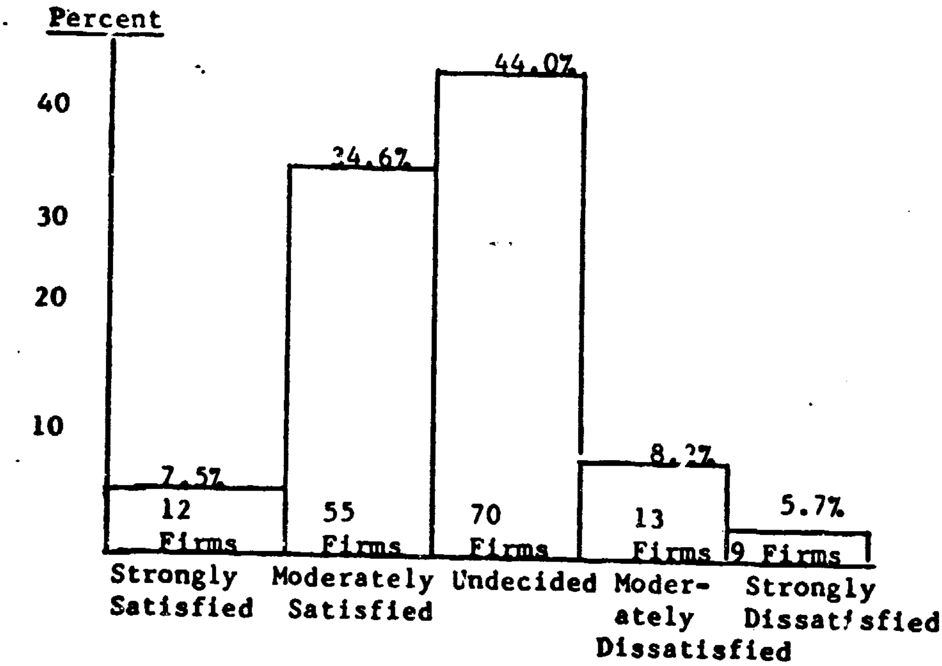
Although more firms were dissatisfied than not, the strength of the dissatisfaction is noticeably less than it was with the embargo. The difference, we feel, is that the 1974 U.S. intervention was considerably less severe than the embargo. Only 6 firms, in fact, had to make contract cancellations or deferrals as a result of the U.S. action. The dissatisfaction of the 52 exporters was centered on the feeling that the intervention was simply not necessary, and the exporters' responses appear unrelated to how much and to what they export.

The Prior Approval System

From October 7, 1974, to March 6, 1975, USDA operated a voluntary Prior Approval System for large volume export transactions. Under this system, exporters were requested to receive prior approval from USDA before entering into contracts for selected agricultural commodities in excess of 50,000 tons. In the later months of the system's operation, the limit was raised to 100,000 tons.

As with the 1973 soybean embargo and the 1974 Soviet wheat and corn sales, we asked the exporting firms whether or not they were satisfied with the implementation of the Prior Approval System. In contrast to the two earlier U.S. actions, exporters expressing satisfaction (as opposed to dissatisfaction) are in the majority this time, as shown in the following table.

Exporter Attitudes Toward Prior Approval



Exporters who were satisfied with Prior Approval outnumber those dissatisfied by about three to one, with the response about the same through all sizes of firms. The exporting firms repeated this favorable view of Prior Approval in their response to another question. When asked how effective, in terms of the national interest, Prior Approval was, the firms answered as follows.

Exporters Rate The Effectiveness of Prior Approval

	Exporters	
	Number	Percent
Positive effect	69	35.4
Little or no effect	64	32.8
Negative effect	20	10.3
Did not answer	42	21.5
	195	100.0

A final question posed to the exporters concerns the impact of Prior Approval in four specific areas. Although the responses are generally mixed, the most common answer in each case is that Prior Approval had no effect. The results are shown in the following.

Exporters' Opinions on the Impact of Prior Approval

	Increase	No effect	Decrease	No answer
Total Volume of Exports	6	79	56	54
Commodity Prices	29	57	56	53
Number of Contracts	27	66	44	58
Contract Cancellations	26	92	20	57

Government Role in Export Markets

Besides simple modifications to the Export Sales Reporting System, we asked the exporters about various levels of involvement in the agricultural export market that the U.S. Government might wish to consider. Among these are different kinds of Prior Approval Systems, export allocation schemes, and national grain reserve policies. Many of the programs represent a more active market role for the Government than the monitoring now being done, while others are similar to action that has been taken by the U.S. in the past.

When asked to rank, in order of preference, ten forms Government involvement in the export market might take, the exporters responded as follows:

Exporters' Preferences For Government Involvement

		Average Rank
1.	An Export Sales Reporting System similar to the one currently in operation.	2.1
2.	A voluntary temporary Prior Approval System.	3.8
3.	An Export Sales Reporting System with the requirement to submit written explanations for contract decreases.	4.9
4.	A voluntary permanent Prior Approval System.	4.9
5.	A mandatory temporary Prior Approval System.	5.0
6.	An agricultural commodity reserve system.	5.9
7.	An Export Sales Reporting System with the requirement for penalties to be assessed against exporters unable to reasonably justify contract decreases in writing.	6.3
8.	A mandatory permanent Prior Approval System.	6.4
9.	An export licensing system.	7.5
10.	A producers' licensing system.	8.2

We have included the average rankings to demonstrate the relative strength of the exporters' preferences. The Export Sales Reporting System as presently operated is strongly preferred over all the others, with 86 of the 143 firms who responded placing it first. Similarly, a voluntary temporary Prior Approval System is a solid second choice.

The rankings reflect, in addition, a preference in most cases for the minimal necessary Government involvement. For example, the firms favor a voluntary Prior Approval System over a mandatory one and a temporary rather than a permanent one. They prefer the Export Sales Reporting System as it is to one with written explanations for contract decreases and would like the addition of penalties for unjustifiable decreases even less.

The exporters' preference for the present Export Sales Reporting System is, furthermore, not simply a choice among evils. Earlier we mentioned the firms' strong belief in the U.S. Government's need for an export sales reporting system. A second question we asked concerns the Government's need to monitor agricultural exports routinely as to permit intervention when it is felt to be in the national interest. About 64 percent of the exporters who expressed an opinion believe there is such a need, while only 23 percent say no. Large exporters overwhelming say yes. No significant difference of opinion on this issue appears among the various commodity groupings. The results follow.

Need for Monitoring

Agricultural Exports

	Exporters	
	Number	Percent
Yes	111	64.2
Maybe	19	11.0
No	43	24.8
No basis to judge or did not answer	22	--
	195	100.0

Two final questions on alternative programs involve different export allocation schemes and national grain reserve policies. Were the U.S. Government to implement an allocation program in the face of a short-supply situation like the 1973 soybean shortage, exporters would prefer to see the allocation based on quotas by country or region than to have export licenses sold or distributed on any basis. The exporters' preferences are shown in the following table.

Exporter Preferences Among

Short-Supply Export Allocation Programs

	Exporters	
	Number	Percent
Allocate export quotas by country or region	63	32.3
Distribute export licenses on the basis of exporters' historical market shares	19	9.7
Distribute export licenses on a first-come, first-served basis	13	6.7
Distribute export licenses to domestic producers on the basis of production histories	11	5.6
Sell export quota licenses to exporters at auction	7	3.6
Sell unlimited export permits at fixed fees	5	2.6
Other or did not answer	77	39.5
	195	100.0

In the event that the U.S. adopts a national grain reserve policy, however, exporters disagree widely on the types of management control systems they would favor. The different systems and the numbers of firms favoring each are shown below.

Exporters' Preferences Among

Grain Reserve Systems

	Exporters	
	Number	Percent
Voluntary private	34	17.4
Mandatory Gov't-financed, stored by private sector	35	18.0
Mandatory Gov't-financed, stored by Gov't	32	16.4
Joint venture--mutually financed and stored by Gov't and private sector	32	16.4
Private sector-financed and stored	11	5.6
Other or did not answer	51	26.3
	195	100.0

SUMMARY

The surveyed exporters are generally satisfied with USDA's Export Sales Reporting System as it is presently operated. For example, most of the exporters:

- believe the U.S. Government needs a monitoring system to prepare for commodity shortages,

- feel ESRS has met the provisions of the act that established it,

- think ESRS has at least moderately achieved its objective of providing accurate, timely, and reliable export statistics,

- find the Weekly Export Sales Reports useful for market development and intelligence purposes,

- have little problem with the actual reporting requirements,

- claim that ESRS has not affected their export sales volumes,

- and prefer ESRS over other forms of U.S. Government involvement in agricultural export markets.

In a somewhat different vein, many of the exporters feel that the publication of the export reports has to some extent influenced agricultural commodity prices and has given at least a minor advantage to foreign buyers in export contract negotiations. Also, most exporters think that the reports would be more useful if additional information on contract destinations, decreases, and shipment dates were included.

We pursued the subject of contract decreases (i.e., cancellations, modifications, or delivery deferrals) in an attempt to measure the overall extent of decreases and the characteristics of contracts that are likely to be decreased. Using data obtained from 48 firms in the survey, we calculated a 21 percent rate of decrease in the total volumes of contracts to export wheat, corn, rice, soybeans, and soybean oil, cake and meal in the 1973/74 marketing year. Given the unusual market events and Government actions that took place in that period, we view this rate as not at all surprising. The exporting firms attributed over 90 percent of their decreases to one of the following four reasons:

- Disadvantageous price changes,
- Contracting for maximum rather than probable needs,
- Overcontracting in anticipation of the imposition of controls, and
- Hedging to protect a market position.

Further analysis revealed that basis contracts (those with no specifically stipulated price) were much more frequently decreased than fixed price contracts and that unknown destination contracts were less solid than those with known destinations. About half of the decreases, moreover, were made by firms against contracts with their own affiliates.

Part of the survey dealt with the roles that the U.S. Government has played in the past and might consider for the future in agricultural export markets. The exporters were asked first about three recent Government actions--the soybean embargo in 1973, the renegotiations of Soviet wheat and corn sales in 1974, and the Prior Approval System in 1974 and 1975. Both the embargo and the renegotiations resulted in the forced cancellation of some outstanding export contracts, while Prior Approval was mainly a voluntary, pre-contractual review of large volume sales. Exporters expressing an opinion were generally dissatisfied with the first two actions, but satisfied with the third.

As for future forms of U.S. involvement, the exporters also appear to prefer a minimal Government role. Were Prior Approval reestablished, for example, the firms would want it to be temporary instead of permanent and voluntary rather than mandatory. Although they accept the fundamental need for monitoring itself, the exporters oppose modifications to the existing Export Sales Reporting System that would step up the Government's involvement. Specifically, more firms are against than are for the public disclosure of export sales contract terms, even on an aggregated basis. They are in opposition, furthermore, to being required to submit written explanations for their contract decreases and even more opposed to the assessment of penalties for unjustifiable contract decreases.

Although only 72 percent of identifiable exporters participated in the survey, the participants were found to represent, in terms of sales and exports, almost all of the agricultural export industry. As such, the survey results extend, we believe, to the industry as a whole.

CHAPTER 6

U.S. GENERAL ACCOUNTING OFFICE
SURVEY OF EXPORTING FIRMS

INSTRUCTIONS

All exporters who have filed export sales reports with the Foreign Agricultural Service of the U.S. Department of Agriculture are being surveyed to determine their attitudes and opinions on the Export Sales Reporting System and other past, present, and potential short-supply management systems. Please read the following questions and answer each one as frankly and completely as possible. If a question does not apply to your firm, simply cross it out and go on to the next question. In responding to specific items in this questionnaire, please:

1. Consider only U.S. origin agricultural commodities, specifically those identified in Appendix I of the Export Sales Reporting Regulations.
2. Respond as if all alternative actions mentioned could be implemented under existing legislation.
3. Respond to questions on the Export Sales Reporting System as it currently operates. Please don't be influenced by the initial "start-up" problems or early revisions and modifications unless the questions are specifically about the original or early system.
4. Assume normal market conditions unless the question directs you to consider certain specific abnormalities.
5. Consider an export to be defined as a shipment of a commodity from the United States to (a) a destination outside the United States or (b) any territory or possession of the United States. The commodity shall be deemed to have been exported on the date of the applicable export carrier on-board bill of lading or the date the commodity is received for shipment, as specified on the bill of lading; in the case of a commodity received for shipment in a lash barge or containerized van if a through on-board bill of lading is issued for shipment to (a) a destination outside the United States or (b) any territory or possession of the United States.

Please feel free to add any additional comments you may have at the end of the questionnaire.

GENERAL INFORMATION

1. Please identify your firm.

____
(Name)

__________ ____________________
Firm No. (the same no. used to report export sales)

____
(Address)

____
(Zip Code)

2. Company official completing questionnaire.

____
(Name)

____
(Title)

____
(Telephone)

3. How is your firm organized? (Check one.)

- [ ] Sole proprietorship
- [ ] Private corporation
- [ ] Partnership
- [ ] Public corporation
- [ ] Other (please specify) ____________
____

4. Is your firm a subsidiary or affiliate of another corporation?

[ ] Yes [ ] No

If Yes, please provide the name and address of the parent corporation or company.

Name ______________________________

Address ______________________________

______________________________ Zip Code ____________

5. Does your firm export U.S. origin agricultural commodities to any organizations that are either (a) your parent organization or partially or wholly owned affiliates or subsidiaries thereof or (b) partially or wholly owned affiliates or subsidiaries of your firm? (Check one.) ☐ Yes ☐ No

If yes, please list the name of each organization, the country or territory in which it is located, and the nature of its operation, e.g., shipper, agent, storage facility, commodity trader, end user, processor, merchant, etc. If your firm deals with more than five such organizations, please list the five with which you ordinarily conduct the greatest volume of export activity.

Affiliate/Subsidiary or Parent	Country or Territory	Type of Organization
1.		
2.		
3.		
4.		
5.		

6. In what year did your firm begin exporting agricultural commodities? Year ______

7. What was the approximate value of all your U.S. origin agricultural commodities exported during calendar years (1 January through 31 December) 1973 and 1974?

1973 $______ 1974 $______

8. Please enter the amount (in metric tons) of each agricultural commodity listed below that your firm exported during the 1973-74 marketing year. Also indicate what percent of export sales of each commodity was F. O. B. (free on board), C. I. F. (cash, insurance, and freight), F. A. S. (free alongside), C & F (cost and freight), or other. Please approximate the amounts and percentages requested if you don't have this information readily available.

Commodity/ marketing year	Amount in metric tons	Percent exported				
		F.O.B.	C.I.F.	F.A.S.	C & F	Other
Wheat (including wheat products) 7/1/73 - 6/30/74						
Corn 10/1/73 - 9/30/74						
Rice 8/1/73 - 7/31/74						
Soybeans 9/1/73 - 8/31/74						
Soybean oil, cake and meal 10/1/73 - 9/30/74						
Cottonseed 8/1/73 - 7/31/74						
Cottonseed oil, cake, and meal 10/1/73 - 9/30/74						

ADMINISTRATION OF THE EXPORT SALES REPORTING SYSTEM

Regardless of whether you agree or disagree with the need for an Export Sales Reporting System, do you understand the provisions of Section 812 of the Agriculture and Consumer Protection Act of 1973? (For exact wording refer to page 1 of the Export Sales Reporting Regulations.) (Check one.)

☐ Very good understanding

☐ Generally good understanding

☐ Moderate understanding

☐ Generally poor understanding

☐ Very poor understanding

10. Do you believe the Export Sales Reporting System, as formulated and implemented by the Department of Agriculture, has met the stated provisions of the Act? (Check one.)

☐ Definitely yes

☐ Probably yes

☐ Undecided

☐ Probably no

☐ Definitely no

11. The Export Sales Reporting System is intended to monitor the amount of agricultural commodities being exported so that, in the event of shortages, the U.S. Government will have on a timely basis the information required to formulate necessary decisions. Which statement best describes how you feel about the U.S. Government's need for an export sales reporting system? (Check one.)

☐ Definitely needed

☐ Probably needed

☐ Undecided

☐ Probably not needed

☐ Definitely not needed

12. Each of the items below deals with USDA's "Export Sales Reporting Regulations" and "Export Sales Reporting Instructions" (both revised effective June 16, 1974). Rate each item as to whether you consider it to be a problem or not. (Check only one box for each item.)

	Little or no problem	Somewhat of a moderate problem	Moderate problem	Somewhat of a serious problem	Serious problem
a. Language--can you understand it?					
b. Format--order of presenting information					
c. Indexing--your ability to find what you need					
d. Comprehensiveness--does it cover everything?					
e. Other (please specify) ______ ______					

13. Each of the items below deals with certain features of the export report forms that your firm is required to submit. Rate each item as to whether you consider it to be a problem or not. (Check only one box for each item.)

	Little or no problem	Somewhat of a moderate problem	Moderate problem	Somewhat of a serious problem	Serious problem
a. Language--can you understand it?					
b. Format--order in which information is requested					
c. Adequacy of space for responses					
d. Measurement conversions					
e. Cost or burden associated with completing forms					
f. Meeting deadlines for submitting forms					
g. Other (please specify) ______ ______					

14. List in the box below the average time in staff hours per week that your firm spends on filling out the following reports.

		Staff hours per week
Form C.E. 06-0097	(Report of Optional Origin Sales)	
Form C.E. 06-0098	(Report of Export Sales and Exports)	
Form C.E. 06-0099	(Contract Terms Supporting Export Sales and Foreign Purchases)	
Form C.E. 06-0100	(Report of Exports for Exporters Own Account)	

15. At the present time, reporting exporters are notified by USDA on an individual basis when to file form CE 06-0099 (Contract Terms Supporting Export Sales and Foreign Purchases). This form contains export sales information related to reporting exporter, name of foreign buyer, contract terms, actual contract quantity not exported, destinations, etc.

Would your firm support or oppose the public disclosure of such data in a periodic report if it were combined or aggregated with similar data from other firms so that it could not be identified with your firm or any other firm? (Check one.)

- [ ] Strongly support
- [ ] Moderately support
- [ ] Neither support nor oppose
- [ ] Moderately oppose
- [ ] Strongly oppose

16. Several changes have been made to the Export Sales Reporting System since its inception. How did your firm first learn that changes were being considered? (Check one.)

- [ ] From the Federal Register
- [ ] Government officials requested your comments
- [ ] Only found out after changes were implemented (If you checked this box, please skip to question 20.)
- [ ] Other (please specify) ____________________

____

17. How does your firm feel about the adequacy of the time allowed to submit comments on propos modifications to the Export Sales Reporting System? (Check one.)

- [ ] Completely inadequate
- [ ] Slightly less than adequate
- [ ] About right
- [ ] Slightly more than adequate
- [ ] Much more than needed

18. What was the extent of your participation in the modification process? (Check all that apply.)

- [ ] Did not participate (Skip to question 20.)
- [ ] Submitted telephone comments
- [ ] Submitted written comments
- [ ] Participated in meetings that were closed to the general public
- [ ] Participated in meetings that were open to the general public
- [ ] Other (please specify) ____________________

____

____

19. What is your firm's impression about the exten to which USDA has considered your views prior to finalizing modifications to the System?

- [ ] Very little consideration, if any
- [ ] Some consideration, but not enough
- [ ] An appropriate amount of consideration
- [ ] Too much consideration
- [ ] No basis to judge

20. In addition to exporters, which (if any) of the following interest groups do you believe should be represented if future meetings concerning changes to the Export Sales Reporting System are required? (Check all that apply.)

- [ ] Farm groups
- [ ] Consumer groups
- [ ] Trade associations
- [ ] Transportation companies
- [ ] Storage companies
- [ ] Foreign importers
- [ ] Foreign governments
- [ ] Retail food companies
- [ ] Other (please specify) ____________________

____

USEFULNESS OF THE U.S. EXPORT SALES REPORT

21. Do you receive the U.S. Export Sales report that is published each week by the Foreign Agricultural Service, USDA?

☐ Yes ☐ No

If No, please skip to question 28.

22. Which of the following statements describe how your firm generally uses the weekly U.S. Export Sales reports? (Check all that apply.)

☐ Compare company's export sales with total U.S. export sales

☐ Forecast foreign countries' needs for specific agricultural commodities

☐ Use as a reference for export sales to foreign countries by commodity

☐ Develop planning strategy for buying U.S. agricultural commodities

☐ Develop planning strategy for company's trading decisions with foreign buyers

☐ Use to make transportation and/or storage decisions

☐ Other (please specify) ____________________

____

23. Which statement best describes how frequently your firm uses the data from the weekly U.S. Exports Sales report? (Check one.)

☐ Don't use it at all

☐ Rarely - about 1 to 5 times a year

☐ Occasionally-about 2 or 3 times a month

☐ Frequently - about 2 or 3 times a week

☐ Very frequently-about 2 or 3 times a day

24. How would your firm rate the overall usefulness of the data published in the weekly U.S. Export Sales report? (Check one.)

☐ Very useful

☐ Generally useful

☐ As useful as not

☐ Of some use

☐ Of very little or no use

25. Do you believe that the weekly publication of export data in the U.S. Export Sales report gives foreign governments or trading companies any advantage in negotiating contracts with U.S. exporting companies? (Check one.)

☐ Major advantage

☐ Somewhat of a major advantage

☐ Moderate advantage

☐ Minor advantage

☐ Little or no advantage

☐ No basis to judge

26. At times, the Export Sales Reporting System has been critized for containing duplicate reports of the same shipment: i.e., different exporters reporting the export of the same quantity of a given commodity (same shipment) or a given exporter reporting the export of the same shipment two or more times. As the system is currently operated, what percent of the total export volumes reported do you believe is attributable to such duplicate reporting? (Check one.)

☐ 0-2% ☐ 21-30%

☐ 3-10% ☐ 31-40% ☐ More than 50%

☐ 11-20% ☐ 41-50%

27. Below are listed some items of information that could be included in the U.S. Export Sales report if USDA had data on them. How important do you believe each of them is, or would be, to the usefulness of the U.S. Export Sales report? (Check one box for each item.)

	Very important	Generally important	Moderately important	Some importance	Little or no importance
a. Quantity tolerances (percent of allowable under/over shipments)					
b. Transportation details (such as F.O.B., C.I.F., etc.)					
c. Destinations					
d. Shipment periods (dates)					
e. Contract type (fixed[1], basis[2], etc.)					
f. Decreases[3] (including cancellations, buy-backs, etc.)					
g. Other (please specify) ______					
______					
______					

[1] Fixed contracts are defined as contracts or transactions in which a definite cash price is established at the time the contract is written, sometimes referred to as flat contracts.

[2] Basis contracts are defined as contracts or transactions in which a definite cash price is not originally set --sometimes referred to as open, discount, or premium contracts.

[3] Decreases are defined as downward adjustments of quantities actually exported, including cancellations, "buy-backs", loading tolerances, changes in marketing years, or changes in commodities.

28. Many people believe that export commitments (outstanding export sales plus export shipments to date) frequently overstate probable actual export shipments for a given marketing year. This happens because export contracts are (1) cancelled with no shipments being made, or (2) modified so that (a) actual quantities shipped are less than originally contracted for, (b) delivery of commodities is deferred to the next marketing year, (c) another commodity is substituted for the commodity originally contracted for, (d) delivery of commodities is changed to another destination, or (e) purchases from foreign sellers are used to fulfill export sales contracts. Please estimate what percentage of your firm's total decreases that occurred in the 1973-74 marketing year was attributable to each of the following reasons? Please respond in terms of the percent of volume, e.g., tons or running bales, etc., of commodities that were decreased. If your firm did not experience any contract decreases during the specified period, please check this box ☐ and skip to question 29.

Reasons for Contract Decreases	Percent Decrease in Volume
Buyer Activities:	
a) Original quantities based on estimates of maximum rather than probable needs	
b) Original quantities based on anticipation of the imposition of U. S. Government controls	
c) Hedging to protect their cash or futures market position	
d) Price dropped--more advantageous for buyer to cancel or modify contracts	
e) Foreign buyers' inability to pay	
f) Foreign buyers' inability to take delivery	
Seller Activities:	
g) Original quantities based on estimates of maximum rather than probable needs	
h) Original quantities based on anticipation of the imposition of U. S. Government controls	
i) Hedging to protect their cash or futures market position	
j) Price dropped--more advantageous for seller to cancel or modify contracts	
k) Seller's inability to deliver	
l) Other (please specify) ______ ______	
	100% TOTAL

POSSIBLE ALTERNATIVES TO THE EXPORT SALES REPORTING SYSTEM

Several alternatives to the Export Sales Reporting System have been proposed at various times. These have ranged from a slightly modified export reporting system to drastically different kinds of commodity supply management systems.

Some of these alternative programs have been tried in the past. In this section we would like to obtain your views both as to your past experience with some of these alternative proposals, as well as to the desirability of implementing them in the future.

29. It has been suggested that if USDA had certain additional information, not currently available in all cases, it would be able to more accurately estimate what percentage of the exports originally contracted for would result in actual shipments. Please indicate the extent to which you believe each of the following items of information would permit USDA to more accurately make such estimates. (Check one box for each item.)

ADDITIONAL INFORMATION	Don't know	Little or not at all	To a small extent	To a moderate extent	To a substantial extent	To a very large extent
INFORMATION FROM EXPORT CONTRACTS:						
a) Classification of foreign buyer (Government agency, affiliate, private reseller, processor, distributor, or other "end user")						
b) Contract pricing terms or formula (including identification of fixed vs. basis contract types)						
c) Exact destination (i.e., not permitting destination "unknown" entries)						
d) Contract provisions such as loading tolerances, shipping dates, storage details, etc.						
e) Other (please specify) ______ ______						
ADDITIONAL BUYER INFORMATION:						
f) Foreign buyers' advanced estimate of total needs						
g) Foreign buyers' storage capacities						
h) Foreign buyers' capability to honor contracts						
i) Extent of foreign buyers' activities and position in the U.S. cash and futures market						
j) Other (please specify) ______						

I. Explanations for Contract Decreases

30. Would your firm support or oppose a U.S. Government policy that required exporters to provide written explanations for contract decreases? (Check one.)

- ☐ Strongly support
- ☐ Moderately support
- ☐ Neither support nor oppose
- ☐ Moderately oppose
- ☐ Strongly oppose

If you checked either "Moderately oppose" or "Strongly oppose", skip to question 33.

31. Would your firm support or oppose a U.S. Government policy that required penalties to be assessed against exporters who were unable to reasonably justify, in writing, contract decreases? (Check one.)

- ☐ Strongly support
- ☐ Moderately support
- ☐ Neither support nor oppose
- ☐ Moderately oppose
- ☐ Strongly oppose

32. If the government did require either, (a) written explanations for contract decreases or, (b) both written explanations and the assessment of penalties for unjustified contract decreases, what do you think the effect would be on the items listed below? (Check one box for each item in section a and one box for each item in section b.)

	Major increase	Moderate increase	No effect	Moderate decrease	Major decrease	Don't know
a) Written explanations only						
1. Total volume of exports						
2. Commodity prices						
3. Number of contracts						
4. Contract cancellations						
5. Other (please specify) ______						
b) Written explanations and the assessment of penalties						
1. Total volume of exports						
2. Commodity prices						
3. Number of contracts						
4. Contract cancellations						
5. Other (please specify) ______						

II. The Prior Approval System

From October 7, 1974, to March 6, 1975, USDA operated a voluntary Prior Approval System for large volume export transactions. Under this system, exporters were requested to receive prior approval from USDA before entering into export contracts for selected agricultural commodities in excess of 50,000 tons originally, and finally in the later months for quantities in excess of 100,000 tons.

33. What do you think was the primary reason why USDA implemented the Prior Approval System? (Check one.)

- ☐ Concern for the U.S. consumer
- ☐ Concern for the U.S. farm community
- ☐ Concern for U.S. exporters
- ☐ U.S. Government concern for the adequacy of foreign supplies
- ☐ USDA's desire to avoid more stringent controls
- ☐ Other (please specify) ____________________

____

34. During the period the Prior Approval System was in effect, was it clear to your firm what criteria USDA was using to approve or disapprove export contracts? (Check one.)

☐ Very clear ☐ Fairly clear ☐ Not clear at all

35. The Prior Approval System was established and operated by USDA as a voluntary system. Did your firm perceive it as a voluntary system? (Check one.)

☐ Yes ☐ No ☐ Don't know

36. In retrospect, was your firm satisfied or not with the implementation of the Prior Approval System? (Check one.)

- ☐ Strongly satisfied
- ☐ Moderately dissatisfied
- ☐ Moderately satisfied
- ☐ Strongly dissatisfied
- ☐ Undecided

If you checked "Moderately dissatisfied" or "Strongly dissatisfied", please attempt to identify your reason(s) by checking one or more of the following:

- ☐ U.S. Government controls were not necessary
- ☐ Wrong type of controls were applied
- ☐ Controls were implemented at the wrong time
- ☐ Controls were terminated at the wrong time
- ☐ Controls were too excessive
- ☐ Controls were not strong enough
- ☐ Other (please specify) ____________________

____

37. In terms of the national interest, how effective was the most recent voluntary Prior Approval System? (Check one.)

- ☐ Major positive effect
- ☐ Generally positive effect
- ☐ Little or no effect
- ☐ Generally negative effect
- ☐ Major negative effect

38. It is possible that, during the period the most recent Prior Approval System was in effect, some instances of multiple contracts between U.S. exporters and foreign buyers were arranged in order to circumvent or avoid obtaining prior approval; for example, contracting for tonnages slightly under that requiring approval one day and contracting for more shortly after. Of the total contracts entered into during the period that the Prior Approval System was in effect, what percentage do you believe represented attempts to circumvent or avoid obtaining approval? (Check one.)

☐ None ☐ 11-25% ☐ More than 50%

☐ 0-10% ☐ 26-50%

39. What effect do you believe the most recent Prior Approval System had on the factors listed below? (Check one box for each factor.)

	Major increase	Moderate increase	No effect	Moderate decrease	Major decrease
A) Total volume of exports					
B) Commodity prices					
C) Number of contracts					
D) Contract cancellations					
E) Other (please specify) ______ ______					

40. If the U.S. Government were considering establishing either (a) a temporary Prior Approval System, only when it perceives such action to be in the national interest or (b) a permanent Prior Approval System, which of the following systems would your firm prefer? (Check one.)

/__/ A voluntary permanent system

/__/ A voluntary temporary system

/__/ A mandatory permanent system

/__/ A mandatory temporary system

/__/ Don't know

III. 1973 Soybean Embargo

Due to a domestic short-supply situation in the soybean market and an increase in foreign demand, the Department of Commerce imposed export controls on July 5, 1973 that remained in effect until October 1, 1973.

41. Did your firm cancel contracts or defer delivery under any of your contracts as a result of the U.S. Government imposed soybean embargo of 1973? (Check one.)

/__/ Neither cancelled contracts nor deferred delivery under any contracts

/__/ Cancelled some contracts but did not defer delivery under any contracts

/__/ Deferred delivery under some contracts but did not cancel any contracts

/__/ Cancelled some contracts and deferred delivery under other contracts

42. From your understanding of the soybean embargo of 1973, were you satisfied or not with the Government's action? (Check one.)

/__/ Strongly satisfied

/__/ Moderately satisfied

/__/ Undecided

/__/ Moderately dissatisfied

/__/ Strongly dissatisfied

If you checked "Moderately dissatisfied" or "Strongly dissatisfied", please attempt to identify your reason(s) by checking one or more of the following:

/__/ U.S. Government controls were not necessary

/__/ Wrong type of controls were applied

/__/ Controls were implemented at the wrong time

/__/ Controls were terminated at the wrong time

/__/ Controls were too excessive

/__/ Controls were not strong enough

/__/ Other (please specify) ____________________

____

IV. The 1974 Soviet Union Wheat and Corn Sales

In mid-September 1974, the Soviet Union entered the U.S. market to purchase wheat and corn. Because of a tight supply situation in this country, in October 1974, the U.S. Government intervened, causing the original sales to be renegotiated for smaller quantities.

43. Did your firm cancel contracts or defer delivery under any contracts as a result of the U.S. Government control applied to the October 1974 purchase of corn and wheat by the Soviet Union? (Check one.)

/__/ Neither cancelled contracts nor deferred delivery under any contracts

/__/ Cancelled some contracts but did not defer delivery under any contracts

/__/ Deferred delivery under some contracts but did not cancel any contracts

/__/ Cancelled some contracts and deferred delivery under other contracts

44. From your understanding of the October 1974 control applied to the sales of corn and wheat to the Soviet Union, were you satisfied or not with the Government's action? (Check one.)

/__/ Strongly satisfied

/__/ Moderately satisfied

/__/ Undecided

/__/ Moderately dissatisfied

/__/ Strongly dissatisfied

If you checked "Moderately dissatisfied" or "Strongly dissatisfied", please attempt to identify your reason(s) by checking one or more of the following:

/__/ U.S. Government controls were not necessary

/__/ Wrong type of controls were applied

/__/ Controls were implemented at the wrong time

/__/ Controls were terminated at the wrong time

/__/ Controls were too excessive

/__/ Controls were not strong enough

/__/ Other (please specify) ____________________

____

45. In the event of a short supply export control situation materializing, similar to the soybean shortage of 1973, which of the following Government export allocation programs would you prefer? (Check one.)

- /_/ Allocating export quotas by country or region
- /_/ Selling export permits at fixed fees with no quota on the number of permits to be sold
- /_/ Selling export quota licenses to exporters at auction
- /_/ Distributing export licenses to domestic producers on the basis of production histories
- /_/ Distributing export licenses to exporters on the basis of their historical market shares
- /_/ Distributing export licenses to exporters on a first-come, first-served basis
- /_/ Other (please specify) ____________________

____

V. Reserves

In anticipation of future short-supply situations the U.S. Government could establish reserves in which a specified quantity of specific commodities would be set aside for future national needs.

46. In the event the U.S. adopts a national grain reserve policy, please indicate which of the following types of management control systems you would prefer. (Check one.)

- /_/ Voluntary private reserve
- /_/ Mandatory Government financed reserve stored by the private sector
- /_/ Mandatory Government financed reserve stored by the Government
- /_/ Private sector financed reserve stored by the private sector
- /_/ Joint venture reserve--mutually financed and mutually stored by the Government and the private sector
- /_/ Other (please specify) ____________________

____

____

EXPORTER ATTITUDES AND OPINIONS

47. What effect do you believe the Export Sales Reporting System has had on your firm's export sales of agricultural commodities during the past year? (Check one.)

- /_/ Moderate increase in sales volume
- /_/ Slight increase in sales volume
- /_/ No effect
- /_/ Slight decrease in sales volume
- /_/ Moderate decrease in sales volume
- /_/ No basis to judge

48. The major determinants of commodity prices are worldwide and domestic supply and demand factors. Recognizing this, do you believe that the weekly publication of export data in the U.S. Export Sales report has any additional influence on commodity prices? (Check one.)

- /_/ Little or no influence
- /_/ Small influence
- /_/ Moderate influence
- /_/ Substantial influence
- /_/ Very great influence
- /_/ No basis to judge

49. What is your firm's primary perception of the Export Sales Reporting System as it is presently employed? (Check one.)

- /_/ A means to provide more information on foreign demand and export commitments
- /_/ Improvement of the Government's system for forecasting exports
- /_/ The first step toward a comprehensive Government short supply management system
- /_/ A Government activity of marginal utility
- /_/ Other (please specify) ____________________

____

50. To what degree do you believe the Export Sales Reporting System has achieved its stated objective of providing accurate, timely, and reliable export statistics? (Check one.)

- /_/ Little or no achievement
- /_/ Minimally achieved
- /_/ Moderately achieved
- /_/ Major achievement
- /_/ Almost completely achieved

Do you believe that there is a need for the U.S. Government to routinely monitor U.S. agricultural exports so as to permit intervention when it perceives such action to be in the national interest? (Check one.)

☐ Definitely yes ☐ Probably yes ☐ As much yes as no ☐ Probably no ☐ Definitely no ☐ No basis to judge

52. Regardless of whether or not you believe that there is a need for Government involvement in the activities of agricultural commodity exporters, in the event that Government involvement is to continue, we would like your views as to what form this involvement should take. Below are listed ten different types of control for the export of agricultural commodities. Please rank order the alternatives presented from the most to the least preferred by your firm. Select the alternative most preferred and indicate it by circling 1st to the right of it. Do the same for all remaining alternatives, ranking them 2nd, 3rd, 4th, 5th, 6th, 7th, 8th, 9th and 10th. NOTE: Each rank, 1st through 10th should be circled only once.

1.	An Export Sales Reporting System similar to the one currently in operation	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
2.	An Export Sales Reporting System with the requirement to submit written explanations for contract decreases	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
3.	An Export Sales Reporting System with the requirement for penalties to be assessed against exporters unable to reasonably justify, in writing, contract decreases	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
4.	A voluntary temporary Prior Approval System	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
5.	A voluntary permanent Prior Approval System	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
6.	A mandatory temporary Prior Approval System	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
7.	A mandatory permanent Prior Approval System	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
8.	An exporter licensing system	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
9.	A producers licensing system	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
10.	An agricultural commodity reserve system	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th

53. Please provide the following information on the quantities (<u>in metric tons</u>) of agricultural commodities contracted for--fixed and basis type contracts--during the 1973-74 marketing year. If historical records are not readily available, please obtain estimates from knowledgeable individuals (e.g., specific commodity traders) at your firm. Also, please remember to indicate for each commodity whether historical records were used or whether estimates were made. If you did not export any given commodity listed, during the specified period, please cross it out and go on to the next commodity.

	WHEAT		RICE		CORN		SOYBEANS		SOYBEAN OIL, CAKE, MEAL	
	Marketing Year		Marketing Year		Marketing Year		Marketing Year		Marketing Year	
	Beginning	Ending	Beginning	Ending	Beginning	Ending	Beginning	Ending	Beginning	Ending
	7/1/73	6/30/74	8/1/73	7/31/74	10/1/73	9/30/74	9/1/73	8/31/74	10/1/73	9/30/74
	FIXED	BASIS	FIXED	BASIS	FIXED	BASIS	FIXED	BASIS	FIXED	BASIS
Total quantities originally contracted for										
Total quantity decreases (reduction in quantities originally contracted for)										
Total quantity decreases--"Known destination" export contracts										
Total quantity decreases--"Known destination" export contracts with affiliates										
Total quantity decreases--"Unknown destination" export contracts with affiliates										
From historical records	☐		☐		☐		☐		☐	
Expert estimates	☐		☐		☐		☐		☐	

GENERAL COMMENTS:

Please use this space for making any comments you may have on the Export Sales Reporting System or any of the other items mentioned in the questionnaire. Your views are greatly appreciated. Thank you.

AGREEMENT BETWEEN
THE GOVERNMENT OF THE UNITIED STATES OF AMERICA AND
THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS
ON COOPERATION IN THE FIELD OF AGRICULTURE

The Government of the United States of America and the Government of the Union of Soviet Socialist Republics;

Taking into account the importance which the production of food has for the peoples of both countries and for all of mankind;

Desiring to expand existing cooperation between the two countries in the field of agricultural research and development;

Wishing to apply new knowledge and technology in agricultural production and processing;

Recognizing the desirability of expanding relationships in agricultural trade and the exchange of information necessary for such trade;

Convinced that cooperation in the field of agriculture will contribute to overall improvement of relations between the two countries;

In pursuance and further development of the Agreement between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics on Cooperation in the Fields of Science and Technology of May 24, 1972, and in accordance with the Agreement on Exchange and Cooperation in Scientific, Technical, Educational, Cultural and Other Fields of April 11, 1972, and in accordance with the Agreement on Cooperation in the Field of Environmental Protection of May 23, 1972.

Have agreed as follows:

ARTICLE I

The Parties will develop and carry out cooperation in the field of agriculture on the basis of mutual benefit, equality and reciprocity.

ARTICLE II

The Parties will promote the development of mutually beneficial cooperation in the following main areas:

1. Regular exchange of relevant information, including forward estimates, on production, consumption, demand and trade of major agricultural commodities.

2. Methods of forecasting the production, demand and consumption of major agricultural products, including econometric methods.

3. Plant science, including genetics, breeding, plant protection and crop production, including production under semi-arid conditions.

4. Livestock and poultry science, including genetics, breeding, physiology, nutrition, disease protection and large-scale operations.

5. Soil science, including the theory of movement of water, gases, salts, and heat in soils.

6. Mechanization of agriculture, including development and testing of new machinery, equipment and technology, as well as repair and technical service.

7. Application, storage and transportation of mineral fertilizers and other agricultural chemicals.

8. Processing, storage and preservation of agricultural commodities, including formula feed technology.

9. Land reclamation and reclamation engineering including development of new equipment, designs and materials.

10. Use of mathematical methods and electronic computers in agriculture, including mathematical modeling of large-scale agricultural enterprises.

Other areas of cooperation may be added by mutual agreement.

APPENDIX H

ARTICLE III

Cooperation between the Parties may take the following forms:

1. Exchange of scientists, specialists and trainees.

2. Organization of bilateral symposia and conferences.

3. Exchange of scientific, technical and relevant economic information, and methods of research.

4. Planning, development and implementation of jcint projects and programs.

5. Exchange of plant germ plasm, seeds and living material.

6. Exchange of animals, biological materials, agricultural chemicals, and models of new machines, equipment and scientific instruments.

7. Direct contacts and exchanges between botanical gardens.

8. Exchange of agricultural exhibitions.

Other forms of cooperation may be added by mutual agreement.

ARTICLE IV

1. In furtherance of the aims of this Agreement, the Parties will, as appropriate, encourage, promote and monitor the development of cooperation and direct contacts between governmental and non-governmental institutions, research and other organizations, trade associations, and firms of the two countries, including the conclusion, as appro-propriate, of implementing agreements for carrying out specific projects and programs under this Agreement.

2. To assure fruitful development of cooperation, the Parties will render every assistance for the travel of scientists and specialists to areas of the two countries appropriate for the conduct of activities under this Agreement.

APPENDIX H

3. Projects and exchanges under this Agreement will be carried out in accordance with the laws and regulations of the two countries.

ARTICLE V

1. For implementation of this Agreement, there shall be established a US-USSR Joint Committee on Agricultural Cooperation which shall meet, as a rule, once a year, alternately in the United States and the Soviet Union, unless otherwise mutually agreed.

2. The Joint Committee will review and approve specific projects and programs of cooperation; establish the procedures for their implementation designate, as appropriate, institutions and organizations responsible for carrying out cooperative activities; and make recommendations, as appropriate, to the Parties.

3. Within the framework of the Joint Committee there shall be established a Joint Working Group on Agricultural Economic Research and Information and a Joint Working Group on Agricultural Research and Technological Development. Unless otherwise mutually agreed, each Joint Working Group will meet alternately in the United States and the Soviet Union at least two times a year. The Joint Committee may establish other working groups as it deems necessary.

4. The Executive Agents for coordinating and carrying out this Agreement shall be, for the Government of the United States of America, the United States Department of Agriculture, and for the Government of the Union of Soviet Socialist Republics, the Ministry of Agriculture of the USSR. The Executive Agents will, as appropriate, assure the cooperation in their respective countries of other institutions and organizations as required for carrying out joint activities under this Agreement. During the period between meetings of the Joint Committee, the Executive Agents will maintain contact with each other and coordinate and supervise the development and implementation of cooperative activities conducted under this Agreement.

APPENDIX H

ARTICLE VI

Unless an implementing agreement contains other provisions, each Party or participating institution, organization or firm, shall bear the costs of its participation and that of its personnel in cooperative activities engaged in under this Agreement.

ARTICLE VII

1. Nothing in this Agreement shall be interpreted to prejudice or modify any existing Agreements between the Parties.

2. Projects developed by the US-USSR Joint Working Group on Agricultural Research which were approved at the first session of the US-USSR Joint Commission on Scientific and Technical Cooperation on March 21, 1973, will continue without interruption and will become the responsibility of the US-USSR Joint Committee on Agricultural Cooperation upon its formal establishment.

ARTICLE VIII

1. This Agreement shall enter into force upon signature and remain in force for five years. It will be automatically extended for successive five-year periods unless either Party notifies the other of its intent to terminate this Agreement not later than six months prior to the expiration of this Agreement.

2. This Agreement may be modified at any time by mutual agreement of the Parties.

3. The termination of this Agreement will not affect the validity of implementing agreements concluded under this Agreement between institutions, organizations and firms of the two countries.

DONE at Washington, this 19th day of June, 1973, in duplicate, in the English and Russian languages, both texts being equally authentic.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA	FOR THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS
/S/ Earl L. Butz	/S/ A. Gromyko

Agreement Between the Government of the United States of America and The Government of the Union of Soviet Socialist Republics on the Supply of Grain

The Government of the United States of America ("USA") and the Government of the Union of Soviet Socialist Republics ("USSR");

Recalling the "Basic Principles of Relations Between the United States of America and the Union of Soviet Socialist Republics of May 29, 1972;

Desiring to strengthen long-term cooperation between the two countries on the basis of mutual benefit and equality;

Mindful of the importance which the production of food, particularly grain, has for the peoples of both countries;

Recognizing the need to stabilize trade in grain between the two countries;

Affirming their conviction that cooperation in the field of trade will contribute to overall improvement of relations between the two countries.

Have agreed as follows:

ARTICLE 1

The Government of the USA and the Government of the USSR hereby enter into an Agreement for the purchase and sale of wheat and corn for supply to the USSR. To this end, during the period that this Agreement is in force, except as otherwise agreed by the Parties, (i) the foreign trade organizations of the USSR shall purchase from private commercial sources, for shipment in each twelve month period beginning October 1, 1976, six million metric tons of wheat and corn, in approximately equal proportions, grown in the USA; and (ii) the Government of the USA shall employ its good offices to facilitate and encourage such sales by private commercial sources.

The foreign trade organizations of the USSR may increase this quantity without consultations by up to two million metric tons in any twelve month period, beginning October 1, 1976 unless the Government of the USA determines that the USA has a grain supply of less than 225 million metric tons as defined in Article V.

Purchases/sales of wheat and corn under this Agreement will be made at the market price prevailing for these products at the time of purchase/sale and in accordance with normal commercial terms.

ARTICLE II

During the term of this Agreement, except as otherwise agreed by the Parties, the Government of the USA shall not exercise any discretionary authority available to it under United States law to control exports of wheat and corn purchased for supply to the USSR in accordance with Article I.

ARTICLE III

In carrying out their obligations under this Agreement, the foreign trade organizations of the USSR shall endeavor to space their purchases in the USA and shipments to the USSR as evenly as possible over each 12-month period.

ARTICLE IV

The Government of the USSR shall assure that, except as the Parties may otherwise agree, all wheat and corn grown in the USA and purchased by foreign trade organizations of the USSR shall be supplied for consumption in the USSR.

ARTICLE V

In any year this Agreement is in force when the total grain supply in the USA, defined as the official United States Department of Agriculture estimates of the carry-in stocks of grain plus the official United States Department of Agriculture forward crop estimates for the coming crop year, falls below 225 million metric tons of all grains, the Government of the USA may reduce the quantity of wheat and corn available for purchase by foreign trade organizations of the USSR under Article I (i).

ARTICLE VI

Whenever the Government of the USSR wishes the foreign trade organizations of the USSR to be able to purchase more wheat or corn grown in the USA than the amounts specified in Article I, it shall immediately notify the Government of the USA.

Whenever the Government of the USA wishes private commercial sources to be able to sell more wheat or corn grown in the USA than the amounts

APPENDIX I

specified in Article I, it shall immediately notify the Government of the USSR.

In both instances, the Parties will consult as soon as possible in order to reach agreement on possible quantities of grain to be supplied to the USSR prior to purchase/sale or conclusion of contracts for the purchase/sale of grain in amounts above those specified in Article I.

ARTICLE VII

It is understood that the shipment of wheat and corn from the USA to the USSR under this Agreement shall be in accord with the provisions of the American-Soviet Agreement on Maritime Matters which is in force during the period of shipments hereunder.

ARTICLE VIII

The Parties shall hold consultations concerning the implementation of this Agreement and related matters at intervals of six months beginning six months after the date of entry into force of this Agreement, and at any other time at the request of either Party.

ARTICLE IX

This Agreement shall enter into force on execution and shall remain in force until September 30, 1981 unless extended for a mutually agreed period.

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

June 24, 1976

B-176943

The Honorable Paul Findley
House of Representatives

Dear Mr. Findley:

This is in response to your request for the views of our Office concerning the legal basis of certain administrative actions that were taken by the Departments of State and Agriculture with respect to grain sales to Poland and the Soviet Union. You also submitted several specific questions concerning the "Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republicson the Supply of Grain," dated October 20, 1975.

In accordance with the policy of our Office, we requested the Departments of State and Agriculture to provide us with complete reports containing their views and comments concerning the questions you raised. We have enclosed copies of the responses we received from these Departments, together with copies of other relevant documents and reports we have been able to obtain. Based on the information thus obtained, as well as our own analysis, we offer the following responses to your questions, which have been consolidated as necessary for ease in presentation.

Concerning the reported request by the Department of State to Poland to delay grain purchases from the United States, you ask:

> "Did the official of the U.S. State Department on or about September 10, act lawfully in telephoning a request to the Embassy of Poland that Poland delay purchases of grain from the U.S.? This question has special significance, because the request was transmitted several days before anyone else, including the other branches of government, the Agriculture Department, the public, the grain trade and the farmer, became aware of it. The circumstances of the 1972 grain sale to the Soviet Union made the Agriculture Department very sensitive to the need to avoid private selective notification of grain sale developments in order to minimize the perversion of such information to windfall personal

APPENDIX J

B-176943

> profit. An employee of the State Department notified my office that the request was made to Poland in order to 'hold down prices.' I question the State Department's legal authority for such action.
>
> "Did the official telephoning the request comply fully with laws and regulations concerning the handling of market-sensitive information? At whose direction did he act? To whom did he give notice of his telephoned request and on what dates? Why did he or his superiors fail to notify, immediately, the Agriculture Secretary in view of the historic and statutory responsibilities of the Agriculture Department in handling and monitoring such information?
>
> "What was the legal basis for a request of this nature?"

According to the State Department, the official who asked the Polish Government to refrain temporarily from making further purchases of U.S. grain was implementing an Executive decision made at a White House meeting between the President and various other officials. The State Department official reported his action to the Secretary of State on the same day, September 10, 1975. The State Department has further stated that this Executive decision was only made "* * * after consultations with all appropriate advisers, including the Department of Agriculture.* * *"

With respect to the legal basis for a request of this nature, the State Department's position is as follows:

> "A request of this nature is within the authority of the President under the Constitution. This request did not purport to be legally binding or enforceable under United States law. It has never been doubted that one aspect of the President's constitutional authority is the authority to make requests of foreign governments in the national interest; indeed, the President could hardly fulfill his constitutional responsibilities without such authority. For example, the request to foreign steel producers to restrain

B-176943

> steel exports to the United States was held to be authorized under the Constitutional power of the Executive in Consumers Union of the U.S., Inc. v. Kissinger, 506 F.2d 136 (D.C. 1974), even when the producers' undertakings to comply were set forth in a written arrangement."

See also the discussion in Part III of the State Department Memorandum on the Legal Status and Effect of the Grain Agreement between the United States and the Soviet Union (copy enclosed).

Concerning the President's authority to negotiate and conclude agreements with foreign governments, we agree with State that the actions taken in this instance fall within the scope of the President's constitutional authority to conduct foreign relations. As stated in part III of the State Department Memorandum, the existence of the President's authority under the Constitution to negotiate with foreign governments and to conclude appropriate agreements with them has been upheld by the courts. For example in United States v. Curtiss-Wright Corp., 299 U.S. 304, 319-20 (1936), the Supreme Court said:

> "* * * In this vast external realm /of international relations/, with its important, complicated, delicate, and manifold problems, the President alone has the power to speak or listen as a representative of the nation. He makes treaties with the advice and consent of the Senate; but he alone negotiates. Into the field of negotiation the Senate cannot intrude; and Congress itself is powerless to invade it. As Marshall said in his great argument of March 7, 1800 in the House of Representatives, 'The President is the sole organ of the nation in its external relations, and its sole representative with foreign nations.'
>
> * * * * *
>
> "It is important to bear in mind that we are here dealing not alone with an authority vested in the President by an exertion of legislative power, but with such an authority plus the very delicate, plenary and exclusive power of the President as the

B-176943

> sole organ of the federal government in the field of international relations--a power which does not require as a basis for its exercise an act of Congress * * *." (Emphasis in original.)

In other words, the President's authority in the field of international relations is not dependent upon an act of Congress.

It has also been held that the President has some authority under the Constitution to negotiate agreements that affect foreign commerce, notwithstanding the constitutional responsibility of the Congress "To regulate Commerce with foreign Nations* * *." Const., Art. I, sec. 8, cl. 3. In the case of Consumers Union of U.S. v. Kissinger, 506 F.2d 136 (D.C. Cir. 1974), cited in the State Department's response to this question, the State Department, at the direction of the President, had negotiated with foreign steel producers concerning the quantity of steel imports. As a result, the producers sent letters to the Secretary of State, stating their intention to limit steel shipments to the United States to specified maximum tonnages. The Court affirmed the ruling of the District Court (in Consumers Union v. Rogers, 352 F. Supp. 1319 (D.D.C. 1973)) that the Executive had the constitutional power to carry out the negotiations, and to request foreign steel producers to restrain voluntarily their steel exports to the United States. In this regard Judge Mc Gowan, speaking for the majority of a three judge panel of the Court of Appeals, said the following:

> "* * * There is no potential for conflict * * * between exclusive congressional regulation of foreign commerce * * * and assurances of voluntary restraint given to the Executive. Nor is there any warrant for creating such a conflict by straining to endow the voluntary undertakings with legally binding effect, contrary to the manifest understanding of all concerned* * *."

We conclude that the President does have the authority to make an informal request to a foreign government to refrain from making purchases of grain from this country.

You ask next, in connection with the request to the Polish Government, whether the requirements of the Export Administration Act were met fully. The Export Administration Act of 1969, 50 U.S.C. App. § 2401 et seq. (1970) as amended (Supp. IV, 1974), authorizes the President, or his delegate, to prohibit or curtail exports of agricultural commodities from the United States during periods when, as determined by the Secretary of Agriculture, supply exceeds domestic requirements, in order to further the foreign policy of the United States, or to protect national security. When supply does not exceed domestic requirements, controls may be imposed on agricultural commodity exports for the additional purposes of protecting the economy from excessive drain of scarce materials and reducing the inflationary impact of foreign demand. However, as stated in the State Department's response to this question, the request to the Polish Government "* * * was not made pursuant to the Export Administration Act, nor did the President purport to make Polish compliance with the request enforceable under that Act." There was no attempt to "prohibit" exports but, as pointed out above, only to solicit voluntary cooperation. Accordingly, the procedural requirements of that Act were not applicable.

You ask further whether the request to the Polish Government was in conformity and compliance with United States obligations under the General Agreement on Tariffs and Trade. After reviewing the General Agreement on Tariffs and Trade, we agree with the State Department's response to this question which reads as follows:

> "* * * The General Agreement on Tariffs and Trade in no way forbids the U.S. from requesting another party to limit or suspend purchases of a U.S. product. The GATT has a general requirement in Article XIII that export restrictions be applied on a most-favored-nation basis, as between members, but there are many exceptions in the GATT to this provision, and in any event the GATT clearly does not prevent members from agreeing, formally or informally, to different terms which do not prejudice the rights of other parties to the GATT."

In addition to your questions concerning the request made to the Polish Government, you refer to the earlier incident when, on July 2, 1975, the United States Department of Agriculture asked grain exporters to advise the Department of further sales to the Soviet Union. This evolved, you state, into a suspension of sales through a series of press conferences with the Secretary of Agriculture. You ask what the legal basis was for a request of this nature, and whether the requirements of the Export Administration Act were met fully.

B-176943

The response to these questions is the same as the response to the prior questions concerning the basis for the request to the Polish Government to limit grain purchases from this country. As the State Department points out, the "suspension of sales" to the Soviet Union was not legally binding under United States law and represented a lawful exercise of executive branch authority to conduct foreign relations and "make requests of foreign governments in the national interest."

The report of the Department of Agriculture said the following with respect to this matter:

> "In late July, based on information received under the export monitoring program coupled with information on the Soviet crop situation, we concluded there was the likelihood of further large sales of grain to the Soviet Union. The Department consequently asked exporters to advise the Department prior to negotiating any large sales for export to the USSR * * *.
>
> "Thereafter, it was announced at the Secretary's press conference, following release of the crop estimates on August 11, 1975, that U.S. exporters were being asked to refrain from contracting for additional quantities of U.S. grain to the USSR until more precise information was available concerning the size of the 1975 U.S. grain crops. The Secretary further stated at that time that he expected additional grain sales from the 1975 U.S. grain crops to be made to the Soviet Union at a later date. * * * (These statements were reported in a publication on U.S. export sales issued by the Foreign Agricultural Service, United States Department of Agriculture on August 14, 1975 * * *.)
>
> "The Department of Agriculture's actions were limited merely to making informal requests to grain exporters to defer temporarily export sales to the Soviet Union. Compliance with these requests was purely voluntary on the part of exporters. No action was taken pursuant to the authority of the Export Administration Act."

B-176943

Although the foregoing explanation from the Department of Agriculture suggests that only the American grain exporters were requested to refrain from contracting for additional quantities of grain to the Soviet Union, the cited publication on Export Sales, dated August 14, 1975 (copy enclosed) states that the Soviet Union was also requested to refrain temporarily from making additional purchases until more precise information became available concerning the size of the 1975 United States grain crop.

The request to the Soviet Union, as in the case of the request to the Polish Government, represented a lawful exercise of Executive authority, since the request was not legally binding and compliance was not mandatory. We are aware of no legal basis to object to the request to the grain exporters to refrain voluntarily from sales to the Soviet Union.

You have also requested that we determine what is the legal basis for the Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics on the Supply of Grain dated October 20, 1975 (referred to hereafter as the Agreement). You ask specifically what is the legal authority for entering into or negotiating this Agreement.

The Agreement is an executive agreement which became effective upon signing by representatives of our Government and of the Government of the Soviet Union on October 20, 1975. The purpose of the Agreement has been explained by the State Department as follows:

> "* * * The impetus of this Agreement was a legitimate public concern that sudden and secretive purchases of huge quantities of United States grain by the Soviet Union might, as in the past, disrupt grain markets in the United States and contribute strong inflationary pressures to the economy. The objective of the Agreement was to assure a substantial and steady market for American grain to the Soviet Union, to protect consumers from sharp price increases, and to strengthen cooperation between the two countries by stabilizing the important grain trade between them."

Essentially, the Soviet Union has agreed to purchase, at the prevailing market price, at least 6 million metric tons of United States

B-176943

wheat and corn in approximately equal proportions for each of 5 years beginning October 1, 1976. Purchases of up to 2 million additional metric tons in each of the 5 years can be made without prior consultation unless the total United States grain supply is less than 225 million metric tons. Purchases of more than 8 million metric tons of grain in these years cannot be made without the prior consent of the United States. In return, the United States has agreed to facilitate and encourage sales by private commercial sources and not to exercise its discretionary authority under United States law to curtail exports unless the domestic grain supply, as determined by the Department of Agriculture, should fall below 225 million metric tons. The Agreement provides for consultations in the event that sales of more than the amounts of grain specified therein are desired by either Government.

In its response, the State Department explains the President's legal authority to negotiate the Agreement as follows:

> "The President has the authority under Article II of the Constitution to negotiate and conclude appropriate agreements with foreign governments. This Agreement was concluded on the basis of the President's Constitutional authority. It is consistent with the statutes of the United States and carries out Congressional policies expressed in such legislation as the Agricultural Marketing Act of 1946."

Also see Part III of the State Department's legal memorandum, cited above, which deals at considerable length with this issue.

The President's authority to negotiate and enter into executive agreements with foreign governments (other than treaties, which are subject to the advice and consent of the Senate) is firmly established and well settled. In this regard, see the discussion in the State Department memorandum and the cases cited therein, including United States v. Curtiss-Wright Corp., supra; United States v. Belmont, 301 U.S. 324 (1937); and United States v. Pink, 315 U.S. 203 (1942).

However, the President's legal authority to enter into the particular Executive Agreement involved here may be subject to attack in light of the provision in Article I, Section 8, Clause 3 of the Constitution, authorizing the Congress rather than the President to regulate foreign commerce, and the specific terms of the Export Administration Act which set forth certain procedures to be followed by the

B-176943

Executive branch in implementing export controls under the Act, especially when agricultural commodities are involved. Admittedly, the Export Administration Act procedures were not adhered to in this case because, as stated by the State Department, the authority conferred upon the President by the Export Administration Act to control exports did not form the basis for negotiation of the Grain Agreement. The basic legal issue is whether the President has independent Constitutional authority to enter into this type of Executive Agreement affecting foreign commerce or whether his legal authority in this regard is solely derived from and dependent upon the provisions of the Export Administration Act, in which case it would have to be exercised in compliance with the Act.

In Consumers Union of U.S., Inc. v. Kissinger, *supra*, the Court of Appeals for the District of Columbia was confronted with a similar question with respect to the authority of the Executive Branch to bring about a reduction in steel imports by requesting foreign producers to limit their steel exports to this country. The request was made without adhering to the procedural requirements concerning import restrictions set forth in the Trade Expansion Act of 1962, 19 U.S.C. §§ 1801 *et seq.* (1970). The Court said the following:

> "What is clear from the foregoing /discussion of the Trade Expansion Act/ is a purpose on the part of Congress to delegate legislative power to the President for use by him in certain defined circumstances and in furtherance of certain stated purposes. Without such a delegation, the President could not increase or decrease tariffs, issue commands to the customs service to refuse or delay entry of goods into the country, or impose mandatory import quotas. To make use of such delegated power, the President would of course be required to proceed strictly in accordance with the procedures specified in the statutes conferring the delegation. Where, as here, he does not pretend to the possession of such power, no such conformity is required.
>
> "The steel import restraints do not purport to be enforceable, either as contracts or as governmental actions with the force of law; and the Executive has no sanctions to invoke in order

B-176943

to compel observance by the foreign producers of their self-denying representations. They are a statement of intent on the part of the foreign producer associations. The signatories' expectations, not unreasonably in light of the reception given their undertakings by the Executive, are that the Executive will consult with them over mutual concerns about the steel import situation, and that it will not have sudden recourse to the unilateral steps available to it under the Trade Expansion Act to impose legal restrictions on importation. The President is not bound in any way to refrain from taking such steps if he later deems them to be in the national interest, or if consultation proves unavailing to meet unforeseen difficulties; and certainly the Congress is not inhibited from enacting any legislation it desires to regulate by law the importation of steel.

"The formality and specificity with which the undertakings are expressed does not alter their essentially precatory nature insofar as the Executive Branch is concerned. In effect the President has said that he will not initiate steps to limit steel imports by law if the volume of such imports remains within tolerable bounds. Communicating, through the Secretary of State, what levels he considers tolerable merely enables the foreign producers to conform their actions accordingly, and to avoid the risk of guessing at what is acceptable * * *.

"The question of congressional preemption is simply not pertinent to executive action of this sort. Congress acts by making laws binding, if valid, on their objects and the President, whose duty it is faithfully to execute the laws. From the comprehensive pattern of its legislation regulating trade and governing the circumstances under and procedures by which the President is authorized to act to limit imports, it appears quite likely that Congress has by statute occupied the field of enforceable import restrictions,

B-176943

> if it did not, indeed, have exclusive possession thereof by the terms of Article I of the Constitution. There is no potential for conflict, however, between exclusive congressional regulation of foreign commerce--regulation enforced ultimately by halting violative importations at the border--and assurances of voluntary restraint given to the Executive. Nor is there any warrant for creating such a conflict by straining to endow the voluntary undertakings with legally binding effect, contrary to the manifest understanding of all concerned and, indeed, to the manner in which departures from them have been treated." 506 F.2d at 142-44 (emphasis in original).

Although there are differences between the situation in the Consumers Union case and this situation, we agree with State's position on the applicability of the decision to the instant situation. State contends (on page 5 of its legal memorandum):

> "While the grain Agreement differs from the arrangement in question in the Consumers Union case in that this arrangement is an inter-governmental agreement that gives rise to obligations of states under international law, it is similar in that it does not create any restraints on commerce enforceable under domestic law. Moreover, the Agreement does not go as far as the arrangements in the Consumers Union case which established specific ceilings on steel imports. This Agreement does not establish a ceiling on grain exports. * * *
>
> "In the case of the grain Agreement, the action of the Executive Branch is consistent with the statutes relating to exports and carries out important Congressional policies expressed in legislation. There is no evidence of any Congressional intent to pre-empt the President's constitutional authority to conclude such an agreement."

The statutory provisions referred to by the State Department are sections 202 and 203 of the Agricultural Marketing Act of 1946, 7 U.S.C. §§ 1621 and 1622 (1970), which encourage the development of wider markets, both foreign and domestic, for American agricultural products. Section 202 of the Act provides that it is the policy of the Congress that such

B-176943

markets be developed to help make it possible "* * * for the full production of American farms to be disposed of usefully, economically, profitably, and in an orderly manner. * * *" The grain agreement with the Soviet Union would appear to further these policies.

In accordance with the foregoing, we believe that enactment of the Export Administration Act did not preempt the authority of the President to negotiate and enter into the Agreement.

You ask further "What is the legal authority for limiting the amount of sales of agricultural goods as defined in the agreement?" As stated in the State Department's response to this question, the Agreement does not limit or set a ceiling on the quantity of American wheat and corn that can be purchased by the Soviet Union. To the contrary, the agreement establishes a minimum annual amount of 6 million metric tons of grain that the Soviet Union is "obligated" to purchase and what is in effect an option for an additional 2 million metric tons, which the Soviet Union can exercise without consultations unless U.S. supply is less than 225 million metric tons. In the event the Soviet Union wishes to purchase grain in excess of the specified amount, the Agreement provides for prior consultation with the United States Government. Of course, our Government would retain its statutory authority under the Export Administration Act to impose export controls should the Soviet Union desire to make such additional purchases. This further demonstrates that the Agreement is in no way inconsistent with the provisions of the Export Administration Act of 1969, which authorizes the President to "prohibit or curtail" exports.

In addition, you ask that we identify the legal obligations of the American government imposed by the Agreement. We agree with the following State Department response to this question:

> "The Agreement is legally binding upon the two governments under international law. Under the Agreement the United States is obligated not to exercise discretionary authority to control exports of wheat and corn purchased in accordance with the Agreement. The United States is also obligated to use its good offices to facilitate and encourage sales under the Agreement and to consult on various matters under the Agreement. However, the Agreement does not establish any obligation enforceable against any person under United States domestic law."

Your next question is stated as follows:

B-176943

"In Article II of the Agreement, the term 'shall not exercise any discretionary authority available to it under United States law' appears. What is the discretionary authority to which the Agreement refers?"

The President, or such other official as he designates, has discretionary authority under section 4(b)(1) of the Export Administration Act of 1969, 50 U.S.C. App. § 2403 (1970), as amended (Supp. IV, 1974), to control exports as follows:

"To effectuate the policies set forth in section 3 of this Act * * * the President may prohibit or curtail the exportation from the United States, its territory and possessions, of any articles, materials or supplies, including technical data or any other information, except under such rules and regulations as he shall prescribe * * *" (Emphasis added.)

You ask next:

"On July 2, 1975, the United States Department of Agriculture asked exporters to advise the Department of further sales to the Soviet Union. This evolved into a suspension of sales through a series of press conferences with the Secretary of Agriculture. This embargo was removed by the President October 20, 1975. Yet, I have read that the Soviets can only purchase 7 million tons of wheat and grain for shipment between now and October 1, 1976. If this is true, is this limitation lawful? What law authorizes it?"

The State Department justified this Executive action on the following grounds:

"In concluding the grains agreement, which becomes effective with the next crop year /beginning October 1, 1976/, we had to reach an understanding with the Soviets regarding further purchases this year. The Soviets assured us that they would not make additional purchases of grain in the current

B-176943

> crop year in a volume which could disrupt the U.S. market and that they would consult with us before purchasing more than an additional seven million metric tons of grain.* * * The seven million ton limitation does not purport to be binding as a matter of domestic law, nor does it constitute a formal international legal obligation of either the United States or the U.S.S.R."

In light of the nonbinding nature of this limitation, we believe that the same rationale, discussed above, justifying the President's request to the Polish Government to suspend grain purchases, is applicable here:

You ask that we outline the procedures and requirements the Administration would have been required to follow under the Export Administration Act, had that statute been relied upon.

Section 4(b)(1) of the Export Administration Act of 1969, 50 U.S.C. App. § 2403(b)(1)(1970), as amended (Supp. IV, 1974), authorizes the President to prohibit or curtail exports from the United States of "* * * any articles, materials, or supplies, including technical data or any other information, except under such rules and regulations as he shall prescribe * * *" The purposes for which such controls may be implemented have been set forth above, and include foreign policy, national security, and prevention of short supply. 50 U.S.C. App. § 2402(2)(1970), as amended (Supp. IV, 1974). Pursuant to section 4(e) of the Act, 50 U.S.C. App. § 2403(e)(1970), as amended (Supp. IV, 1974), authorizing the President to delegate the authority conferred upon him under the Act, the President has delegated the authority to regulate exports to the Secretary of Commerce. Exec. Order No. 11,533, June 4, 1970.

The Office of Export Administration within the Commerce Department implements export control. With several exceptions, the Office of Export Administration authorizes exports either by issuing specific "validated licenses" or by issuing broad "general licenses." A validated license is a formal document issued to an exporter by the Office of Export Administration, based on his signed application. It authorizes the export of commodities or technical data within the specific limitations of the license. See 15 C.F.R. Part 372 (1976). A general license, on the other hand, is a broad authorization established by the Department of Commerce to permit exports under specified conditions. Neither the filing of an application by the exporter nor the issuance of a license document by the Department is required. See 15 C.F.R. Part 371 (1976).

Except for most exports to Canada for internal consumption; exports for the official use of the United States Armed Forces; exports of commodities and technical data controlled by another Government agency; and exports to an American territory, the export from the United States of all commodities and technical data is prohibited unless a general license authorizing the export shall have been established or a validated license or other authorization for the export shall have been granted by the Office of Export Administration. 15 C.F.R. §§ 370.3, 370.4 (1976). The Commodity Control List which is published in the Department of Commerce Export Administration Regulations contains the complete list of all commodities under the export control jurisdiction of the Office of Export Administration. For additional specific information in this regard including the different types of general and validated licenses and their usage, see 15 C.F.R. Parts 368-399 (1976).

Any agricultural commodity is specifically exempted from export control under the Act during any period for which the Secretary of Agriculture determines the supply of the commodity to exceed domestic requirements. 50 U.S.C. App. § 2403(f)(Supp. IV, 1974). Controls may be imposed with respect to any agricultural commodity, however, regardless of the supply, when control of the commodity is required to further significantly foreign policy and fulfull international responsibilities, or when control is significant to national security. Id.

Accordingly, to invoke the Export Administration Act with respect to grain exports, during a period when domestic supply exceeded demand, the President or his delegate would have to determine that controls were necessary to further foreign policy or for national security reasons. Thereafter exports of grains could only be made if licensed, pursuant to the procedures discussed above.

Finally you ask whether it is possible for the Export Administration Act to be implemented ex post facto. It would in our view be improper to attempt to invoke the sanctions provided under the Act with respect to an export which at the time was licensed or was exempted from the controls imposed by the Act.

As discussed above, the President's authority to institute legally binding and enforceable controls on exports is derived from and dependent upon the authority delegated to him by Congress in the Export Administration Act. As stated in the Consumers Union case concerning a similar situation: "* * * To make use of such delegated power the President would of course be required to proceed strictly in accordance with the procedures specified in the statutes conferring the delegation.* * *" 506 F.2d at 143.

B-176943

Nothing in the statute itself would support the use of "ex post facto" controls. However, 15 C.F.R. § 370.3(b)(1976) provides that all export licenses and other authorizations to export "* * * are subject to revision, suspension or revocation without notice.* * *" Although this provision would not authorize ex post facto implementation of the Export Administration Act, it would allow the Executive Branch to institute export controls, with respect to subsequent exports, without advance notice or in a situation where export authority for a particular commodity had previously been granted.

We trust that the foregoing information and our responses to your questions will be helpful to you.

Sincerely yours,

R.F. Keller

DEPUTY Comptroller General
of the United States

Enclosures

APPENDIX K

D IPTION OF U.S.-U.S.S.R.

MARITIME AGREEMENT

U.S.-U.S.S.R. MARITIME AGREEMENT

The 1972 Maritime Agreement between the United States and the Soviet Union, which extends through December 31, 1981, contributes to the establishment of an expanding commercial relationship. By providing a broad framework and a clear set of ground rules for maritime activities between the two countries, the agreement represents an important step toward normalizing and expanding commercial relationships between the U.S. and the Soviet Union.

Due to the positions adopted by American maritime unions through the 1960s, the trade relationships between the two countries stalemated. The unions insisted that 50 percent of grain and other cargoes to the Soviet Union be reserved for U.S. ships, but the Soviets were reluctant to pay the additional shipping costs that use of U.S. flag vessels would entail. However, the Merchant Marine Act of 1970, providing for the payment of operating subsidy to bulk carriers, has made it possible for American ships to engage in carrying wheat to the Soviet Union at reasonable rates. In view of this radical change, the unions withdrew their long-standing objections and the United States was able to conclude various trade agreements with the U.S.S.R.

Basically, the Maritime Agreement has two objectives: first, to open the channels of maritime commerce between the two nations by opening major U.S. and Soviet commercial ports to calls by U.S. and Soviet flag vessels and second, to afford to U.S. and Soviet flag vessels the opportunity to participate substantially in the carriage of all cargoes moving by sea between the two nations. The Agreement provides that U.S. flag vessels and Soviet flag vessels will each have the opportunity to carry not less than one-third of all cargoes moving by sea between the two nations.

With the aid of operating subsidies, U.S. flag vessels are able to offer a reasonable freight rate and thus participate in this program. Initially, the Agreement provided for the Soviets to pay a negotiated fixed freight rate plus a premium over and above these fixed rates through June 30, 1973.

For the period July 1, 1973, to March 31, 1975, this negotiated rate system was replaced with a more favorable index system which adjusted, on a monthly basis, the rates paid to U.S. vessels to reflect current market conditions. The index system used the U.S. Gulf/Holland-Belgium grain trade as the base trade used to calculate the U.S./Soviet Black Sea freight rate. This index system was terminated on March 31, 1975, due to the U.S. Gulf/Holland-Belgium trade being abnormally distorted by large vessels. Subsequently, a fixed freight rate of $9.50 was agreed to through June 30, 1975.

Negotiations for a new rate agreement were concluded in mid-September on the establishment of a freight rate for U.S. flag ships participating in the carriage of Soviet grain.

Terms of the agreement included:

--A minimum U.S. Gulf/Soviet Black Sea grain freight rate of $16.00 through December 31, 1975. In January, the rate was extended through December 31, 1976. This minimum rate is significantly in excess of the current market price.

--A revised index system for determining monthly freight rates offered to U.S. flag vessels. The index base now uses a Gulf/Black Sea rate that is twice as high as the old rate.

--A credit/debit system which is a low market provides for Soviet payment of a freight rate which is higher than the market rate and sufficient to allow a significant number of U.S.-flag vessels to participate in the trade and, in a strong market, provides for an offset. When the credit is eliminated, the rates received by U.S.-flag carriers will be determined under the new index system.

--A higher minimum demurrage rate (the penalty paid by Soviets to shipowners for delays).

APPENDIX L

PROVISIONS OF GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT), RELEVANT TO POLISH SALES SUSPENSION

The General Agreement on Tariffs and Trade (GATT) is multilateral and, therefore, the U.S. must abide by set criteria covering embargoes stemming from short supply situations, as explained in Articles 11, 20, and 13. Article 11 contains an absolute prohibition on export controls but is followed by an important exception which allows:

> "export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party."

Article 20 permits the adoption of measures:

> "(i) involving restrictions on exports of domestic materials necessary to assure essential quantities of such materials to a domestic processing industry during periods when the domestic price of such materials is held below the world price as part of a governmental stabilization plan; Provided that such restrictions shall not operate to increase the exports of or the protection afforded to such domestic industry, and shall not depart from the provisions of this Agreement relating to nondiscrimination;
>
> "(j) essential to the acquisition or distribution of products in general local short supply; Provided that any such measures shall be consistent with the principle that all contracting parties are entitled to an equitable share of the international supply of such products, and that any such measures, which are inconsistent with the other provisions of this Agreement shall be discontinued as soon as the conditions giving rise to them have ceased to exist."

Article 13 provides that:

> "1. No prohibition or restriction shall be applied by any contracting party * * * on the exportation of any product destined for the territory of any other contracting party, unless * * * the exportation of the like product to all third countries is similarly prohibited or restricted."

Article 13 also provides guidance for allocating import and export restrictions and makes the principles, insofar as applicable, apply also to export restrictions. It suggests that a global quota for import restrictions be established or, if there is to be allocation among countries that quota shares be negotiated or allocated as in the past. Article 20 states that there must not be "arbitrary or unjustifiable discrimination between countries when the same conditions prevail," and the general rule that "all contracting parties are entitled to an equitable share of the international supply of * * * products."