

# REPORT TO THE CONGRESS



BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES



## The Department Of Agriculture Should Be Authorized To Charge For Cotton Classing And Tobacco Grading Services

The Congress should pass legislation authorizing the Secretary of Agriculture to charge users for cotton classing and tobacco grading services.

Except for cotton and tobacco producers, users of the Department of Agriculture's grading services have to pay all or at least a substantial part of the cost of these services. In fiscal year 1976, free cotton and tobacco services cost American taxpayers \$11.2 million.

The reasons for placing these services on a free basis in the 1930s no longer apply. Providing these services free is inconsistent with the Government's general policy of charging fees for special services and with the practice of charging for grading other commodities.

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*709176*



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

B-142011

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

This report discusses the Department of Agriculture's practice of providing free cotton classing and tobacco grading services although most other commodities are graded on a reimbursable basis. We made this review to determine if the Department should also be reimbursed for providing cotton classing and tobacco grading services.

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

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

*James B. Stacks*  
Comptroller General  
of the United States

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

THE DEPARTMENT OF AGRICULTURE  
SHOULD BE AUTHORIZED TO  
CHARGE FOR COTTON CLASSING  
AND TOBACCO GRADING SERVICES

D I G E S T

The Congress should amend the Cotton Statistics and Estimates Act and the Tobacco Inspection Act to authorize the Secretary of Agriculture to charge producers for cotton classing and tobacco grading services furnished by his Department. (See p. 10.) Suggested legislative language appears in appendixes I and II.

Providing free cotton classing and tobacco grading to producers is inconsistent with the Government's policy of charging fees for special services and with the practice of charging for grading other commodities, as shown by this report. (See p. 10.)

Most agricultural commodities, other than cotton and tobacco, are graded by the Department of Agriculture on a reimbursable basis. In fiscal year 1976, the Department spent \$66.2 million grading commodities. Of this, \$48.5 million was recovered primarily through charges to those using the services.

Of the \$17.7 million not recovered, \$11.2 million represented cotton classing and tobacco grading services provided without charge to producers. These free services are provided under the 1937 Smith-Doxey Amendment to the Cotton Statistics and Estimates Act of 1927 and the Tobacco Inspection Act of 1935.

Most of the remaining \$6.5 million was for the Department's costs of supervising State and private grain inspection agencies, which were not reimbursable. The United States Grain Standards Act of 1976, however, now requires that direct supervision costs be recovered through a fee system. (See pp. 1 and 3.)

Historically, grading programs have been set up on a self-supporting basis or have become self-supporting following their establishment. Originally, cotton classing and tobacco grading were also on a reimbursable basis. (See p. 5.)

The original reasons for providing free tobacco grading and cotton classing services are not applicable today. Free tobacco grading was authorized because tobacco was the only crop for which all domestic consumption was subject to taxation. It was believed that the heavy taxes imposed on tobacco limited consumption, thereby having a direct bearing on the producers' income. Despite increases in tobacco taxes and antismoking campaigns more recently, the total number of cigars and cigarettes consumed in this country continues to increase. (See p. 6.)

A primary purpose of free cotton classing services was to encourage cotton producers to improve the quality of their cotton by participating in cotton improvement groups which marketed cotton on the basis of quality. These groups are now firmly established in most U.S. cotton-producing areas, and members market (on the basis of quality) 96 percent of all cotton produced. Current cotton improvement programs consist generally of following normal farming practices. (See p. 7.)

Government policy provides for charging fees for Federal services when these result in special benefits to receivers. Cotton classing and tobacco grading provide special benefits to producers because the producers are now paid on the basis of grades assigned to the commodities. (See p. 7.)

Producer association and industry representatives, however, expressed opposition to placing these services on a reimbursable basis, stating that most producers, being small, would be affected adversely.

GAO notes that, if cotton classing and tobacco grading had been on a fee basis in fiscal year 1976, it would have cost cotton producers about 81 cents per bale and tobacco producers about 23 cents per hundredweight for these services. During the same period, cotton production costs averaged about \$277 per bale (producers received about \$300 per bale) while tobacco production costs averaged \$68 to \$76 per hundredweight (producers received about \$111 to \$115 per hundredweight). Placing cotton classing and tobacco grading services on a reimbursable basis would increase production costs of both commodities by 0.3 percent. (See p. 9.)

The Department said that it did not have a position on GAO's recommendation to place the cotton classing and tobacco grading services on a reimbursable basis. (See p. 10.)

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ABBREVIATIONS

AMS	Agricultural Marketing Service
GAO	General Accounting Office
USDA	United States Department of Agriculture

## CHAPTER 1

### INTRODUCTION

In fiscal year 1976, the U.S. Department of Agriculture (USDA) spent \$66.2 million inspecting, grading, and classing agricultural commodities. Over \$48.5 million was recovered primarily through charges to users of the services. (See p. 3 for breakdown of costs and revenues.) Of the amount not recovered (\$17.7 million), \$11.2 million was for cotton classing and tobacco grading services provided free to eligible producers. We made this review to determine whether USDA should be reimbursed for cotton classing and tobacco grading services.

### LEGISLATIVE AUTHORIZATION FOR GRADING AGRICULTURAL COMMODITIES

Most agricultural commodities, except cotton, grain, and tobacco, are graded under the Agricultural Marketing Act of 1946 (7 U.S.C. 1621 et seq.). The act authorizes the grading of commodities and provides for the assessment and collection of fees to cover the costs of the services rendered. Commodities graded under this act include: dairy products; fruits and vegetables; meats and poultry; and certain grain products, such as beans, lentils, rice, hay, and straw.

The United States Grain Standards Act, as amended (7 U.S.C. 71 et seq.), authorizes USDA to provide inspection services for grains on a reimbursable basis. Inspection is performed by USDA employees at some export locations and by State and private inspection agencies at other locations in the United States. The grains covered by the act include barley, corn, flaxseed, grain sorghum, mixed grain, oats, rye, soybeans, and wheat.

Cotton is classed under the United States Cotton Futures Act (7 U.S.C. 15b); the United States Cotton Standards Act, as amended (7 U.S.C. 51-65); and the Cotton Statistics and Estimates Act, as amended (7 U.S.C. 471-476). Cotton classed under the Cotton Futures and Cotton Standards Acts has been on a reimbursable basis, while free cotton classing services have been provided, on request, to members of cotton improvement groups under the 1937 Smith-Doxey Amendment to the Cotton Statistics and Estimates Act. Free cotton classing accounted for about 96 percent--7.8 million bales--of the 1976 cotton production.



Cotton classing is not entirely free because producers must submit samples to USDA for classing. USDA retains the samples and sells some of them (about \$1.1 million worth in 1976) while others are donated to the Federal prison system, at its request pursuant to the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471 et seq.).

The Tobacco Inspection Act (7 U.S.C. 511-511q) authorizes USDA to provide tobacco grading to producers (1) free at designated auction markets and (2) on a reimbursable basis at nondesignated markets. USDA determines which markets are to be designated by producer referendums. If two-thirds of the producers voting favor designation, grading is made mandatory at an auction market, subject to the availability of USDA inspectors. Grading at 175 designated auction markets accounted for about 99 percent--2.2 billion pounds--of the 1976 tobacco production.

#### PROGRAM ADMINISTRATION

Grading programs are handled by three separate USDA agencies. The Agricultural Marketing Service (AMS), which had responsibility for providing all grading services before November 20, 1976, currently administers the cotton classing and tobacco grading programs. Pursuant to the United States Grain Standards Act of 1976 (Public Law 94-582, 90 Stat. 2867), the Federal Grain Inspection Service was established effective November 20, 1976, to handle the grain inspection and grading program, and the Secretary of Agriculture established the Food Safety and Quality Service on March 14, 1977, to administer the grading programs for dairy products, fruits and vegetables, and meats and poultry.

#### PROGRAM COSTS

USDA's fiscal year 1976 grading costs were over \$66 million. As shown in the following table, 73 percent of the costs was recovered through fees and other revenue sources.

Commodity group	Total costs (note a)	Costs covered by fees and other revenue sources	Program costs paid by taxpayers	
			Amount	Percent
----- (millions) -----				
Dairy pro- ducts	\$ 3.1	\$ 3.1	\$ -	0
Fruits and vegetables	16.2	15.6	0.6	4
Livestock	11.3	11.3	-	0
Poultry pro- ducts	9.3	9.1	0.2	2
Cotton	8.2	c/2.0	6.2	76
Tobacco	5.8	.8	5.0	86
Grain	b/12.3	6.6	5.7	d/46
Total	<u>\$66.2</u>	<u>\$48.5</u>	<u>\$17.7</u>	27

a/ Does not include costs for developing and revising standards.

b/ Does not include State and private inspection agencies' costs for grading grain.

c/ About \$1.1 million of this amount represents the sale of samples retained by AMS after classing. Additional samples valued at about \$670,000 were donated to the Federal prison system. Reimbursable work amounted to about \$260,000 in 1976.

d/ This percentage is high because fiscal year 1976 grain grading costs included \$5.7 million for USDA's supervision of State and private inspection agencies, which were not reimbursable. The U.S. Grain Standards Act of 1976 requires that direct supervision costs be recovered through a fee system.

#### SCOPE OF REVIEW

We reviewed legislation on the cotton and tobacco programs as well as regulations, instructions, various reports and studies, and records pertaining to cotton classing and tobacco grading. At the Federal level, we interviewed USDA officials from AMS, the Agricultural Stabilization and Conservation Service, and the Economic Research Service.

We visited the AMS Cotton Division regional and classing offices in Memphis, Tennessee, and observed cotton classing. We visited the AMS Tobacco Division regional office in Lexington, Kentucky, where we observed tobacco grading. We also obtained the views of producer associations and industry representatives on placing cotton classing and tobacco grading on a reimbursable basis.

## CHAPTER 2

### PROVIDING FREE COTTON CLASSING AND TOBACCO GRADING SERVICES IS INCONSISTENT WITH THE PRACTICE OF CHARGING FOR GRADING OTHER COMMODITIES AND CONTRARY TO GOVERNMENT POLICY

Most users of USDA grading services have to pay for these services, while cotton and tobacco producers receive the services at almost no cost. This special treatment of cotton and tobacco producers, which cost American taxpayers \$11.2 million in fiscal year 1976, is inconsistent with the practice of charging for grading other commodities and with the Government's general policy of charging fees for special services as provided in title V of the Independent Offices Appropriation Act, 1952 (31 U.S.C. 483a).

Also, the original reasons for providing the free services no longer apply. Free tobacco grading services were authorized because of a belief that the high taxes imposed on tobacco decreased grower returns because the tax limited consumption. Despite an increase in taxes on tobacco, however, consumption continues to rise.

Free cotton classing was provided to encourage producers to join groups which carried out cotton improvement programs. These groups are now firmly established and our review showed that present cotton improvement programs generally consist of following normal farming practices.

### HISTORICALLY, GRADING PROGRAMS HAVE BEEN ON A REIMBURSABLE BASIS

Historically, grading programs have been set up on a self-supporting basis or have become self-supporting following their establishment. The 1916 Grain Standards Act provided for grading grains on a reimbursable basis. Grading of perishable agricultural commodities began in 1917 on an emergency basis and, in 1919, was placed on a permanent basis with authority for USDA to assess fees. In 1946 the Agricultural Marketing Act authorized the Department to grade food commodities and collect fees to cover the costs of the service

Originally, cotton classing and tobacco grading were also on a reimbursable basis. The Cotton Futures Act of 1914 and the Cotton Standards Act of 1923 both provided for the classing of cotton on a reimbursable basis. It was not until the Smith-Doxey Amendment to the Cotton Statistics and Estimates Act was passed in 1937 that USDA began providing free cotton classing services. Tobacco grading was also on a reimbursable basis until passage of the Tobacco Inspection Act in 1935.

In fiscal year 1976, USDA collected fees totaling about \$46 million for grading commodities other than cotton and tobacco. This represented almost 88 percent of the cost of grading these products. In contrast, only 24 percent of the cotton classing costs and 14 percent of the tobacco grading costs were covered by revenues. Because most producers and other users of USDA's grading services pay either directly or indirectly for any grading of their products, we believe that giving cotton and tobacco producers special treatment is inconsistent and should be discontinued.

THE REASONS FOR PROVIDING FREE  
TOBACCO GRADING AND COTTON CLASSING  
ARE NO LONGER VALID

According to the 1935 House Committee on Agriculture report<sup>1</sup> on the bill that became the Tobacco Inspection Act, the Government was to provide grading services free because tobacco was the only crop for which all domestic consumption was subject to taxation. The Committee believed that the heavy tax had a direct bearing on producers' welfare because it limited consumption. The Committee reasoned, therefore, that producers would receive a greater return for the same volume of production, or would have a ready market for a larger production, if it were not for the tax.

Despite increases in Federal and State excise taxes on tobacco and antismoking campaigns more recently, the number of cigars and cigarettes consumed in this country continues to rise. Federal excise taxes on cigarettes have increased from 6 cents per pack in 1935 to the current rate of 8 cents per pack. Also, in 1935 only 19 States levied taxes on cigarettes. The rates ranged from 2 to 5 cents per pack. Today, 50 States and the District of Columbia levy taxes on cigarettes with rates ranging from 2 to 21 cents per pack. Even with these increases, cigar and cigarette consumption, which accounts for 90 percent of total U.S. tobacco consumption, has increased from about 140 billion in 1935 to 621 billion in 1976. This has not had a significant impact on recent production figures because manufacturers now use about 33 percent less tobacco in a cigarette than was used 20 years ago. Total U.S. tobacco production since 1966 has varied from a low of 1.7 billion pounds (1971) to a high of 2.2 billion pounds (1975).

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<sup>1</sup>/ H. Rept. No. 1102, 74th Cong., 1st Sess. 5 (1935)

Also, tobacco producers have higher returns on their crop than producers of other agricultural commodities. According to a December 1976 Economic Research Service report entitled "Economic Importance of the U.S. Tobacco Industry," gross receipts from an acre of tobacco may average over \$2,000 compared with under \$300 for feed and food grains. The report further stated that net returns for an acre of tobacco also generally exceed the \$300 gross receipts for an acre of food and feed grains.

A primary purpose of the free cotton classing services provided under the 1937 Smith-Doxey Amendment was to encourage producers to improve the quality of their cotton by participating in cotton improvement groups (one-variety community organizations) and to place producers in a better bargaining position in the marketplace by furnishing them with quality information on each bale produced and market news information. These groups are now firmly established in most U.S. cotton-producing areas, and members market (on the basis of quality) 96 percent of all cotton produced.

In addition, the cotton improvement programs have stabilized at the point where producers are being provided a free service for what appears to be normal farming practices. Our review of cotton improvement programs for 46 counties in 4 States--Arkansas, Kentucky, Mississippi, and Tennessee--showed that most programs consisted of following normal farming practices, such as

- planting the variety of cotton recommended for that area,
- following recommended cultivating practices, and
- following recommended harvesting practices.

#### GOVERNMENT POLICY FOR CHARGING FEES

The Government's general policy of charging fees for special services, which is expressed in title V of the Independent Offices Appropriation Act, 1952, states:

"It is the sense of the Congress that any work, service, publication, report, document, benefit, privilege, authority, use, franchise, license, permit, certificate, registration, or similar thing of value or utility performed, furnished, provided, granted, prepared, or issued by any Federal agency \* \* \* to or for any person (including groups, associations, organizations, partnerships,

corporations, or businesses) \* \* \* shall be self-sustaining to the full extent possible, and the head of each Federal agency is authorized by regulation \* \* \* to prescribe therefore such fee, charge, or price, if any, as he shall determine \* \* \* to be fair and equitable taking into consideration direct and indirect cost to the Government, value to the recipient, public policy or interest served, and other pertinent facts, and any amount so determined \* \* \* shall be collected and paid into the Treasury as miscellaneous receipts \* \* \*."

Office of Management and Budget <sup>1/</sup>Circular No. A-25, dated September 23, 1959, sets forth general policies for the executive branch of the Government with respect to charging for certain Government services and property.

The Circular defines a special service as follows:

"Where a service (or privilege) provides special benefits to an identifiable recipient above and beyond those which accrue to the public at large, a charge should be imposed to recover the full cost to the Federal Government of rendering that service \* \* \*."

The cotton classing and tobacco grading programs for producers were originally established because producers were not receiving fair prices for their commodities, based on the quality. In both cases the Congress believed that, if producers knew the quality of their commodity, they would be able to bargain for and obtain better prices. Before the Tobacco Inspection Act was passed, tobacco producers were often paid prices far below the actual value of their tobacco because they did not know its quality. Likewise, cotton producers were generally receiving the same price for their cotton regardless of the quality.

We believe free cotton classing and tobacco grading provide special benefits to producers because producers are now paid on the basis of the grades assigned to the commodities. Also, producer association and industry representatives said that producers received the greatest benefit from USDA's tobacco grading and cotton classing services and that these services enable producers to receive fair prices.

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<sup>1/</sup> Formerly, Bureau of the Budget.

IMPACT OF PLACING COTTON CLASSING AND  
TOBACCO GRADING ON A REIMBURSABLE BASIS

Producer association and industry representatives expressed opposition to placing cotton classing and tobacco grading services on a reimbursable basis, stating that most producers are small and would be adversely affected if charged for these services. The costs of these services under a reimbursable program, however, would be low for most producers and would have little impact on production costs.

Using fiscal year 1976 unrecovered cotton classing and tobacco grading costs of about \$11.2 million, plus an additional estimated \$164,000<sup>1/</sup> to administer a reimbursable program, we estimated that it would have cost cotton producers 81 cents per bale and tobacco producers 23 cents per hundredweight if they had been charged for classing and grading services.

In 1976 cotton production costs averaged about \$277 per bale (producers received about \$300 per bale), while tobacco production costs averaged \$68 to \$76 per hundredweight (producers received about \$111 to \$115 per hundredweight). Placing cotton classing and tobacco grading services on a reimbursable basis would increase production costs of both commodities by 0.3 percent.

PRIOR PROPOSALS TO PLACE  
PROGRAMS ON A FEE BASIS

USDA has submitted several proposals to the Congress for placing the special benefit portion of the cotton classing and tobacco grading services on a fee basis. The most recent proposals were submitted in 1965, 1967, and 1970. The last proposal was incorporated with the President's proposed Omnibus Savings Act of 1970 and sent to the Congress under a special Presidential message. It was later introduced as S. 3593 and H.R. 16264 and 16652 (91st Cong., 2d Sess.). Action was never taken on any of these proposals.

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<sup>1/</sup> Estimated administrative costs of a reimbursable program were based on the cost to bill licensed cotton samplers and tobacco warehousemen.



## CHAPTER 3

### CONCLUSIONS, RECOMMENDATION, AND AGENCY COMMENTS

#### CONCLUSIONS

Not charging for cotton and tobacco grading services is inconsistent with the Government's general policy of charging fees for special services and with the practice of charging for grading other commodities. The reasons for providing free cotton classing and tobacco grading to producers and placing these services on a free basis in the 1930s no longer apply. In fiscal year 1976, these free services cost the American taxpayers \$11.2 million.

#### RECOMMENDATION TO THE CONGRESS

We recommend that the Congress amend the Cotton Statistics and Estimates Act of 1927 and the Tobacco Inspection Act of 1935 to authorize the Secretary of Agriculture to charge for cotton classing and tobacco grading services. Suggested legislative language appears in appendixes I and II.

#### AGENCY COMMENTS

In its comments (see app. III), USDA stated that it did not have a position on our recommendation to place the cotton classing and tobacco grading services on a reimbursable basis.

USDA said, however, that it did not agree with our suggested legislative proposal to deposit the fees and proceeds from the sale of cotton samples into the Treasury as miscellaneous receipts (see app. I), but advocated that collections be placed into a revolving trust fund. Our proposal is consistent with the Independent Offices Appropriation Act, which provides for such fees to be paid into the Treasury as miscellaneous receipts. (See p. 8.) In addition, financing through direct appropriations provides the adequate and continuing congressional control which we advocate.

GAO's SUGGESTED LEGISLATIVE CHANGE TO THE  
COTTON STATISTICS AND ESTIMATES ACT

DISCUSSION

The following change would authorize the Secretary of Agriculture to charge for cotton classing services, which have been provided free to members of cotton improvement groups since passage of the Smith-Doxey Amendment in 1937.

CHANGE

Insert in lieu of section 3a:

"Sec. 3a. CLASSIFICATION OF COTTON FOR PRODUCERS--  
The Secretary of Agriculture is authorized and directed to make cotton classification services available to producers of cotton. The Secretary shall, under such regulations as he/she may prescribe, charge and collect from licensed sampling agents reasonable fees to cover the estimated total cost of the classification services provided. The fees authorized by this section shall, as nearly as practicable and after taking into consideration the market value of cotton disposed of pursuant to the Federal Property and Administrative Services Act of 1949 and any proceeds from the sale of samples, cover the costs of the Department of Agriculture incident to the special benefit services for which the fees are collected, including supervisory and administrative costs associated with these special benefit services. All fees collected and the proceeds of any sales of cotton samples shall be deposited in the Treasury of the United States to the credit of miscellaneous receipts."

GAO's SUGGESTED LEGISLATIVE CHANGESTO THE TOBACCO INSPECTION ACTDISCUSSION

The following changes would authorize the Secretary of Agriculture to charge for tobacco grading services at designated auction markets. Grading services at nondesignated markets have always been on a reimbursable basis.

CHANGES

Delete the eighth sentence of section 5, which reads:

"No fee or charge shall be imposed or collected for inspection or certification under this section at any designated auction market."

Delete the second and third paragraphs of section 6, which read:

"The Secretary is authorized to fix and collect such fees or charges in the administration of this section as he may deem reasonable, and the moneys collected, except as provided in this section, shall be deposited in the Treasury of the United States to the credit of miscellaneous receipts. Fees or charges collected under an agreement with a State, municipality, or person, or by an individual licensed to inspect or weigh or sample tobacco under this Act, may be disposed of in accordance with the terms of such agreement or license. Charges for expenses for travel and subsistence incurred by inspectors or weighers or samplers employed by the Secretary when required to be paid by the applicant for service, may be credited to the appropriation, or any other funds authorized in this Act from which they were paid.

"This section is intended merely to provide for the furnishing of services upon request of the owner or other person financially interested in tobacco to be sampled, inspected, or weighed and shall not be construed otherwise. (7 U.S.C. 511e)."

Insert a new section after section 6 to read as follows

"Reasonable fees and charges for inspection and related services of special benefit to the persons receiving the service under the provisions of sections 5 and 6 of this Act shall be collected from warehouse operators or persons financially interested in the tobacco: Provided, That fees and charges for inspecting tobacco and performing other related services at auction warehouses in designated markets shall be assessed against warehouse operators irrespective of ownership or interest in the tobacco, and such inspection and related services shall be suspended or denied at any such warehouse if the warehouseman fails to pay fees and charges assessed. All moneys collected from fees or charges assessed in the administration of this Act shall be deposited in the Treasury of the United States to the credit of miscellaneous receipts."

#### DISCUSSION

The Tobacco Inspection Act does not provide for terminating designated markets. Because legislation is being proposed to charge for grading services at designated markets, an additional change is being suggested, which will give the producers an opportunity to terminate existing designated markets if they do not want USDA's grading services.

#### CHANGE

Insert after the fourth sentence of section 5 a new sentence to read:

"The Secretary shall terminate the market designation of any designated market if he/she determines by referendum that two-thirds of the growers voting disapprove of inspection and certification."



UNITED STATES DEPARTMENT OF AGRICULTURE  
AGRICULTURAL MARKETING SERVICE

June 29, 1977

TO: Henry Eschwege, Director, Community and Economic  
Development Division, GAO

FROM: William T. Manley, Acting Administrator

*William T. Manley*

SUBJECT: GAO Report on User Fees for Cotton and Tobacco

We have reviewed the draft of your proposed report to the Congress on placing cotton classing and tobacco grading services for producers on a reimbursable basis. Although the Department has no position at this time on changes in the program, our comments follow for your consideration. To begin, we suggest the following editorial changes be made in the report:

1. Chapter 1, page 2, paragraph 2 be revised to read:

"Cotton classing is not entirely free because producers must submit samples to USDA for classing. USDA retains the samples and then sells some of them (about \$1.1 million worth in 1976) but is required to donate to the Federal prison system, pursuant to the Federal Property and Administrative Services Act of 1949, the amounts requested by that Agency."

2. Chapter 2, page 8, paragraph 2 be revised to read:

"A primary purpose of the free cotton classing services provided pursuant to the 1937 Smith-Doxey Amendment was to encourage producers to improve the quality of their cotton by participating in cotton improvement groups (one-variety community organizations) and to place producers in a better bargaining position in the marketplace by furnishing them with quality information on each bale produced and market news information."

We do not concur with the legislation proposed by GAO which recommends that fees collected and the proceeds from any sales of cotton be deposited into the Treasury to the credit of Miscellaneous Receipts. If legislation is enacted, we believe that these collections should be deposited into a revolving trust fund account, thus enabling these funds to be used to pay for the cost of the services rendered and unused balances to be carried forward from one year to the next. We would then also recommend that an appropriation be made to the trust fund for start-up costs for the first fiscal year.

We also request that the phrase "proceeds from sale of loose cotton" be clarified. Under provisions of the Federal Property and Administrative Services Act of 1949 we must currently donate to the Federal Prison Industry as much loose cotton as they request. Under the user-fee concept we recommend that loose cotton accumulated be exempt from the Federal Property and Administrative Services Act of 1949. Therefore, all cotton would be sold on the open market and the proceeds deposited to the trust fund.

With respect to the GAO recommendation that would authorize the Secretary of Agriculture to charge producers for cotton classing services, we believe that it would not be feasible or practicable to bill 200,000 cotton producers for classing services. It would be more workable if USDA were to bill the sampling agents for the cost of the classification services, who would collect the fee from the growers. This method would parallel the GAO proposal to assess the tobacco auction warehouse operators for the tobacco inspection fee irrespective of ownership of the tobacco.

The GAO notes that, "if cotton classing and tobacco grading had been on a fee basis in fiscal year 1976, it would have cost cotton producers about 81 cents per bale and tobacco producers about 23 cents per hundredweight for these services. During the same period cotton producers received about \$300 per bale for their cotton while tobacco producers received about \$111 to \$115 per hundredweight for their tobacco." We feel this comparison is misleading. The cost of production per hundredweight and per bale should be more meaningful. In addition, it would cost more than the 23 cents and 81 cents respectively to generate a bill to the individual producers.

We appreciate the opportunity to comment on this report.

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

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF AGRICULTURE: Bob Bergland	Jan. 1977	Present
ASSISTANT SECRETARY, MARKETING SERVICES: Robert H. Meyer	Apr. 1977	Present
ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE: Dr. William Manley (acting)	Mar. 1977	Present

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