

DOCUMENT RESUME

05915 - [B1566596]

Agricultural Export Reporting Issues. May 31, 1978. 13 pp. + 2 enclosures (4 pp.).

Testimony before the House Committee on Agriculture: Department Investigations, Oversight, and Research Subcommittee; by J. Kenneth Fasick, Director, International Div.

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Organization Concerned: Department of Agriculture.

Congressional Relevance: House Committee on Agriculture: Department Investigations, Oversight, and Research Subcommittee.

Authority: Agricultural Trade Act of 1978. Agricultural Act of 1977. Agriculture and Consumer Protection Act of 1973. Export Administration Act of 1969. H.R. 10946 (95th Cong.).

Since the establishment of a mandatory export reporting system in September 1973, all exporters of wheat and wheat flour, feed grains, oilseeds, cotton, and related commodities have provided the Department of Agriculture with weekly export sales data. Throughout its existence, the export reporting system has been plagued with problems which have resulted in questions concerning its accuracy, effectiveness, and efficiency. The system has fallen short of providing timely, accurate, reliable, and complete agricultural export data. It has not provided prospective sales information and was not effective as an early warning system. A survey of agricultural commodity exporters indicated that exporters had a generally favorable attitude toward the export sales reporting system but that most exporters were generally opposed to more stringent controls. However, exporters were generally dissatisfied with past Government actions which caused them to cancel or renegotiate contracts. They were generally satisfied with the voluntary prior approval system which was a mild precontractual review of large volume export sales. A study of the relationship between weekly agricultural prices and weekly data published in the export reports showed inconsistent results, and an analysis of the reporting system's impact on price variability showed little impact on prices as a result of the reporting system. Proposed legislation is designed to make more and better export information available to the Secretary of Agriculture and to provide a mechanism for more timely decisionmaking. (RRS)

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D. C.

FOR RELEASE ON DELIVERY
EXPECTED 2:00 P.M.
MAY 31, 1978

STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON DEPARTMENT INVESTIGATIONS,
OVERSIGHT, AND RESEARCH
OF THE
COMMITTEE ON AGRICULTURE
UNITED STATES HOUSE OF REPRESENTATIVES
ON
AGRICULTURAL EXPORT REPORTING ISSUES

Mr. Chairmen and Members of the Subcommittee:

We are pleased to appear before you to discuss our 1977 review of agricultural export reporting issues and to comment on the proposed amendment to H.R. 10946. We commented on Agriculture's export reporting system as a major part of our May 2, 1977, report titled, "Issues Surrounding the Management of Agricultural Exports."

EXPORT REPORTING SYSTEM

Massive unanticipated U.S. grain sales to the Soviet Union in 1972 clearly revealed that the Government did not possess the agricultural export data necessary to make rational reliable export policy decisions. Subsequently, the Congress authorized the establishment of a mandatory export reporting system in September 1973 under section 812 of the Agriculture and Consumer Protection Act of 1973. Since the system's inception, all exporters of wheat and wheat flour, feed grains, oilseeds, cotton, and related commodity products have provided the Department of Agriculture with weekly export sales data.

Throughout its existence, the export reporting system has been plagued by a variety of problems which have resulted in questions concerning its accuracy, effectiveness and efficiency. During the Russian grain sales of 1974 and 1975, data provided on export contracts by the system fostered considerable uncertainty within Government and private sectors over actual export levels rather than to provide the element of certainty for which it had been created.

EXPORTING REPORTING SYSTEM'S OPERATION AND MANAGEMENT

Data reported by exporters was not suitable for evaluating foreign demand on which to base timely agricultural policy

decisions. The data had limitations because export contracts were frequently cancelled or extensively modified. For example, our survey of exporting firms showed that about 20 percent of commodities originally contracted for export in 1973-74 were cancelled or deferred. Further, export sales contract data reported by Agriculture was subject to continuous modification.

Although Agriculture officials administered the system in an efficient manner, the uncertain nature of export sales contract data virtually made it impossible for the system to provide the type of concrete information needed for a timely early warning system. The data provided by the system could be used as one of several indices for evaluating total export demand, but it needed to be improved.

In summary, the system fell short of providing timely, accurate, reliable, and complete agricultural export data. It did not provide prospective sales information and, therefore, was not as effective an early warning system as needed.

The quality of information provided by exporters could have been 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 ("destination unknown" entries).
- Contract provisions such as loading tolerances, shipping dates, storage details, etc.

Because the issue of contract decreases had affected the export reporting system's credibility, requiring written explanations for export contract decreases might have reduced the extent of unnecessary and speculative contract changes. Fewer changes would, most likely, have improved 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 and undoubtedly would be strongly opposed by grain exporters as indicated in our survey.

Agriculture's Office of Audit also examined the Department's export reporting system and issued a report in January 1977 containing major conclusions concerning the system's management and operation. The Auditors report supported many of our conclusions and recommendations.

During the export reporting system's 3 years of existence, three different Agriculture organizations have been responsible for its administration. At the time of our review, it was administered by the Office of General Sales Manager, which had primary responsibility for managing Government-funded agricultural export programs. Export monitoring by an agency whose main purpose is to manage export programs raises a question as to the objectivity with which it would carry out its monitoring and quasi-regulatory responsibilities.

EXPORTER SURVEY

As part of our examination of the export reporting system, we surveyed agricultural commodity exporters to get their opinions on its management and administration and their attitudes on U.S. Government involvement in the agricultural export sector. From information we requested on their 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 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, but the majority of export business remains at the top. 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 better 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 opposed having to submit written explanations for contract decreases and opposed even more the penalties for unjustifiable decreases.

Exporters were generally dissatisfied with past Government actions which caused them to cancel or renegotiate contracts. 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 delivery deferrals, contract decreases, cancellations and modifications. As noted earlier, 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, over-contracting 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 believe that contracts showing exact destinations had better chances of being fulfilled than did those showing pricing terms.

EXPORT REPORTING SYSTEM'S PRICE IMPACT

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

Consumers, on the other hand, are increasingly concerned about the effect of grain prices on 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 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.

Proposed amendment to section 812

At the request of the Senate Agriculture Committee, we prepared legislative language amending section 812 of 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 is being provided for the record. (See Attachment I for the principal features of the proposed legislation.)

GAO RECOMMENDATIONS

In our May 1977, report we made several detailed recommendations to the Secretary of Agriculture concerning the management and operations of the Export Reporting System. (See Attachment II.) In general we asked the Secretary of Agriculture to 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 data reliability.

AGENCY COMMENTS AND OUR EVALUATION

The Assistant Secretary of Agriculture for International Affairs and Commodity Programs, in his January 19, 1977, response to our evaluation of the export reporting system acknowledged the factual accuracy of our analysis.

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.

Our recommendations directed at strengthening the export reporting system were based on the premise that better export data will enhance the potential for informed, less crisis-oriented and more market-oriented government decisions. 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 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 envisioned to be necessary.

In a September 28, 1977 letter stating actions taken by the Department of Agriculture on our export reporting recommendations, the present Assistant Secretary of Agriculture for International Affairs and Commodity Programs reiterated Department opposition to implementing our recommendations based on the grounds that the effects of such actions would increase government intervention in our commercial marketing system. He also commented that making further information requirements of exporters should be measured against the relevant information requirements of an effective monitoring system. The Department concluded by stating: "We believe that the present regulations adequately provide for reporting of information relating to destinations and foreign buyers."

Since the submission of that letter the management and operations of the Export Reporting System has continued without any substantive change. We still remain of the view that improvements in the system are possible and necessary.

AMENDMENT TO H.R. 10946

We understand that this Subcommittee is considering an amendment to the proposed "Agricultural Trade Act of 1978," whose basic thrust is to provide more and better

information; hence, a more accurate, timely, and reliable export reporting system. More and better information on export commitments, destinations and relationship of buyers to sellers would not only enhance the Government's ability to make responsive market-oriented decisions, but it would also provide better market intelligence. This improved intelligence could enhance farmers' marketing decisions and provide a greater opportunity for small exporters and exporter cooperatives to compete effectively in the export market.

Mr. Chairman, that completes my statement, I would be pleased to answer any questions you might have.

EXPORT REPORTING SYSTEM MATTERS FOR
CONSIDERATION BY THE CONGRESS, MAY 1977

In its consideration of and deliberations over the Agricultural Act of 1977, GAO recommended that Congress enact legislation providing for an improved export reporting system that will function as an effective early warning system. In May 1977, GAO submitted to Congress proposed legislative language providing for needed improvements to the export reporting system.

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 of 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.

MAY 1977 DETAILED GAO EXPORT
REPORTING SYSTEM RECOMMENDATIONS

- . --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.)

- 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.

- A permanent "early-warning 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.

- 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 exporters 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.

- 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.

--Responsibility for managing and operating the Export Reporting System be transferred from any agency having operational export responsibilities, such as the Foreign Agriculture 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, and 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.