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BY THE U.S. GENERAL ACCOUNTING OFFICE

RELEASED

Report To The Honorable Millicent Fenwick United States House Of Representatives

Cargo Preference Requirements Add To Costs Of Title II Food For Peace Programs

The requirement that U.S.-flag ships be used to transport at least 50 percent of the food donated to needy countries through Public Law 480 Title II programs increases the Government's cost of shipping that food. GAO estimates that in fiscal year 1981 this requirement cost the Government a maximum of $15.6 million. The estimated fiscal year 1982 cost is likely to be about the same. If this requirement was eliminated, the savings would allow for purchasing more food and shipping it to needy countries without increasing Title II program costs.

UNITED STATES GENERAL ACCOUNTING OFFICE

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

PROGRAM ANALYSIS
DIVISION

B-171287

The Honorable Millicent Fenwick
House of Representatives

Dear Ms. Fenwick:

At your request, we estimated the cost to the Federal Government imposed by Section 901(b) of the Merchant Marine Act of 1936, as amended, on shipments made under Title II of Public Law 480 and determined the additional aid that could be delivered in the absence of the cargo preference requirement. This report also provides background and program administration information and other considerations that might become important if cargo preference was eliminated. The report does not discuss the benefits that are believed to result from the requirement and because of this we do not take a position on the merits of its retention or elimination. As agreed with your office, we did not address the broader question you originally asked concerning other types of subsidies available in the maritime industry and their costs.

At your request, we did not take the additional time needed to obtain agency comments on the matters discussed in this report.

As arranged with your office, after you publicly announce the report's contents or 30 days after its date, we will send copies to interested parties and provide copies to others upon request.

Sincerely yours,

Morton A. Myers
Director

REPORT BY THE
GENERAL ACCOUNTING OFFICE

CARGO PREFERENCE REQUIREMENT
ADDS TO COSTS OF TITLE II
FOOD FOR PEACE PROGRAMS

D I G E S T

The cargo preference requirement for Food for Peace commodities donated under Title II of Public Law 480 cost the Government a maximum of $15.6 million in fiscal year 1981. Under this requirement, U.S.-flag ships carry at least 50 percent of these commodities.

These products are distributed through nonprofit, private voluntary organizations, the United Nation's World Food Program, and direct government-to-government programs. The United States pays the entire shipping cost for all Title II commodities except for World Food Program shipments to Mediterranean and African countries.

ELIMINATING CARGO PREFERENCE
WOULD REDUCE SHIPPING COST

In fiscal year 1981, the Government spent nearly $250 million to ship Title II commodities. Both liner vessels providing regularly scheduled service and ships chartered for individual voyages, known as tramps, are used to carry these products. To measure the cost of cargo preference, GAO estimated the largest measureable savings from three types of changes that might occur if the 50 percent cargo preference requirement was eliminated. These changes are

--foreign-flag liners might replace some U.S.-flag liners,

--foreign-flag tramps might replace some U.S.-flag tramps, and

--foreign-flag tramps might replace some U.S.-flag and foreign-flag liners through consolidation of liner shipments.

If cargo preference had not been required in fiscal year 1981, each of these substitutions taken separately might have led to shipping cost savings of $5.5 million, $2.6 million, and $8.2 million, respectively. In calculating the total saving from all changes, GAO

recognized that shipments consolidated from U.S.-flag liners to foreign-flag tramps cannot, at the same time, be shifted to foreign-flag liners. Thus, GAO estimated a maximum potential saving of $15.6 million for substituting foreign-flag for U.S.-flag ships and consolidating liner shipments onto less costly foreign-flag tramps.

OTHER EFFECTS OF ELIMINATING CARGO PREFERENCE MIGHT ALSO AFFECT SAVINGS

One possible change that might follow the removal of Title II cargo preference is that more operators who are independent of the liner operators' associations (conferences) might offer rates below those currently set by maritime conferences. GAO does not know how many, if any, additional independents would begin competing for cargoes that would no longer be reserved, but savings might arise from their availability. A more drastic possibility is that eliminating cargo preference might cause one or more conferences to break up. (See p. 21.)

GAO also examined the possibility that removal of the requirement would increase the probability of default on Government-guaranteed ship construction loans. Because conference members typically set common rates for most liner cargoes, U.S. liner operators may not lose much of their Title II business even without cargo preference. This should lessen the chance of such defaults. (See p. 23.)

CONCLUSIONS

The cargo preference requirement adds to the costs of the Title II program. These costs are likely to be about the same in fiscal year 1982 as what GAO estimated for FY 1981 because the Title II program will be about the same size. As examples of how much additional food could be sent abroad if the maximum estimated money saved from the removal of cargo preference was used to provide more food, GAO estimates that an additional 41.7 thousand metric tons of bulgur (parched, crushed wheat) could be sent to India or 33.1 thousand metric tons of corn soya milk could be sent to the Philippines.

GAO has analyzed only the potential budgetary savings from eliminating the cargo preference requirement and is not recommending keeping or eliminating the requirement.

Representative Millicent Fenwick requested that GAO undertake this review. GAO was asked by Representative Fenwick not to obtain official agency comments.

C o n t e n t s

ABBREVIATIONS

AID	Agency for International Development
ASCS	Agricultural Stabilization and Conservation Services
CCC	Commodity Credit Corporation
DWT	dead weight ton
FY	fiscal year
GAO	General Accounting Office
KCCO	Kansas City Commodity Office
LLC	lowest landed cost
MarAd	Maritime Administration
OTD	Ocean Transportation Division
P.L.	Public Law
PSD	Procurement and Sales Division
PVOs	private voluntary organizations
USDA	United States Department of Agriculture
WFP	World Food Program

CHAPTER 1

INTRODUCTION

In 1954, the Congress passed the Agricultural Trade Development and Assistance Act, which enacted what is now known as the "Food for Peace" program, to sell and give American agricultural commodities to needy countries. This program is often referred to as the "P.L. 480" program, in reference to Public Law 83-480. Although the primary purpose of P.L. 480 has always been to assist less-developed countries, an initial secondary purpose was to reduce American farm surpluses, which were becoming increasingly costly to store. P.L. 480 addressed this problem by giving food away and by assisting countries that lacked sufficient foreign exchange to purchase our farm exports. Amendments in 1966 enabled P.L. 480 to make a stronger contribution to the United States' balance of payments position by switching from foreign currency sales to dollar sales. Since by 1966 the surplus commodity problem had diminished, these amendments allowed sales from private or Commodity Credit Corporation stocks.

Different titles of P.L. 480 authorize different programs. Title I authorizes sales of commodities at below-market prices. Title II, on which this report focuses, is concerned with direct and indirect donations of agricultural commodities to recipient countries. More than half of the Title II commodities are distributed under the auspices of nonprofit, private voluntary organizations (PVOs). International organizations, such as the United Nations International Children's Emergency Fund and the World Food Program (WFP), also distribute commodities. (WFP is a multilateral organization established by the United Nations and the Food and Agriculture Organization.) Grants from these organizations support school meals, maternal/child health programs, food-for-work projects, and emergency disaster relief activities in recipient countries. In addition, some aid is distributed through direct, government-to-government transactions.

From 1954 through 1978, the United States had donated commodities valued at $10.2 billion under Title II. More than half of this aid was distributed through private voluntary organizations. In 1978, for example, $319 million in commodities was donated through PVOs and $143 million was donated either directly by the Government or through the World Food Program. Recent expenditures on commodities and transportation are shown in table 1. The commodities that are donated the most through Title II are soy-fortified bulgur, soy-fortified flour, and corn-soya milk. 1/ In FY 1981 41 Africa countries, 17 Latin American countries, 17 Near East and Asian countries, and 1 European country received commodities.

As Government-impelled cargoes, P.L. 480 commodities are subject to the cargo preference requirement of Section 901(b) of the Merchant Marine Act of 1936, as amended. 2/ This Act requires that at least 50 percent of P.L. 480 tonnage be transported on U.S.-flag ships. The Agency for International Development (AID) monitors Title II shipping arrangements and assures compliance with the cargo preference requirement.

For shipments made under Title I, the Government pays only the additional costs that result from using U.S.-flag vessels to comply with the cargo preference requirement. The cost of maintaining cargo preference for Title I is, therefore, an explicit budgetary item. For Title II, however, the Government pays the entire shipping costs with one exception--the World Food Program pays the shipping costs associated with their shipments to the Mediterranean and African countries. The cost of cargo preference for Title II is, therefore, only a portion of the Government's total shipping cost.

OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of Representative Millicent Fenwick, we have estimated how much the Title II cargo preference requirement costs the Government and the amount of additional food that might be shipped at no additional total cost to the program if the requirement was removed. 3/

Because cargo preference is a component of total shipping costs, we had to estimate how much less these costs would be without the requirement. In order to arrive at our estimate, we analyzed data on actual voyages made in fiscal years 1980

1/Other commodities donated are wheat, sorghum, corn, flour, bulgur (parched, crushed wheat), cornmeal, soy-fortified cornmeal, wheat-soy blend, soy flour, soy-fortified rolled oats, soy-fortified sorghum grits, instant corn-soya milk, salad oil, nonfat dry milk, milled rice, peas, corn-soya blend, and wheat protein concentrate.

2/The relevant amendment was added with passage of the Cargo Preference Act of 1954, P.L. 83-664.

3/Title II shipments are only a relatively small part of all P.L. 480 shipments. If the requirement was removed for all P.L. 480 programs, the effect on the merchant marine and shipbuilding industries could be greater than if the requirement was removed only for Title II shipments.

Table 1

P.L. 480, Title II Commodity and Ocean Transport Expenditures by Fiscal Year

FY	Commodity Expenditures $ Million	Ocean Transportation $ Million	Total Expenditures $ Million	Transportation Rate $ Per Metric Ton
1971	$302.3	$ 91.2	$393.5	$ 44.68
1972	403.5	117.7	521.2	46.74
1973	290.0	103.8	393.8	50.16
1974	281.6	101.6	383.2	74.19
1975	331.3	126.6	457.9	101.02
1976	245.3	80.9	326.2	100.90
1976TQ	129.6	26.0	155.6	84.98
1977	362.0	96.9	458.9	72.58
1978	327.5	130.6	458.1	86.19
1979	397.6	149.2	546.8	102.19
1980	410.5	185.6	596.1	141.17
1981	590.1	256.8 a/	846.9	149.92 (est)
1982 (est)	456.0	268.2	724.2	153.85

a/This figure is not consistent with AID's measure of how much was paid by all sources (U.S. and WFP) for FY 1981 (see table 3). We have used AID's data for FY 1981 in performing our calculations.

Source: USDA, CCC, Report of Financial Conditions and Operations of CCC, September 30, 1981.

and 1981 and on the costs and price differences between U.S.-flag and foreign-flag ships. We were then able to estimate how much the shipping costs would have been without the requirement and compared this estimate to the actual FY 1981 shipping costs. From this comparison, we calculated a maximum amount that the Government could reasonably have expected to save in FY 1981 and also provided two examples of how much additional food could have been purchased and shipped to needy countries with that money. This analysis was conducted under the assumption that removal of the requirement did not substantially alter the structure of the maritime industry.

We restricted our calculations to FY 1981 data in order to prepare a more timely report. The small year-to-year variations in factors that account for differences in average costs between U.S.-flag and foreign-flag ships are likely to cause similar variations in the potential savings. We believe, however, that these variations in factors are small enough to make our estimates for FY 1981 a reasonable basis on which to judge likely costs in the near future. Also, in calculating how much additional food could be purchased and shipped to needy countries with money saved from eliminating the requirement, we do not intend to imply that this increase in food shipments would materialize. The Government might, instead, reduce the cost of the program by the amount saved from eliminating cargo preference.

We relied on the knowledge gained from our previous reviews on cargo preference issues and a review of literature on the P.L. 480 program and merchant marine industry to provide a background for this analysis. To determine the various shipping arrangements that could occur from eliminating the cargo preference, we talked with officials from the Department of Agriculture (USDA), AID, and the Maritime Administration (MarAd). We also spoke with an independent freight forwarder who arranges shipping for commodities sent by PVOs and with representatives of the merchant marine industry.

The various changes we analyzed all involve increased use of foreign-flag ships. Our observation of bills of lading showed that the Government paid a little more per metric ton for cargo carried by U.S.-flag scheduled liners used for Title II shipments than for foreign-flag liners and a lot more for U.S.-flag tramps--ships chartered for specific voyages--than for foreign-flag tramps. Therefore, we analyzed the extent to which foreign-flag ships of each type might be substituted for comparable U.S.-flag ships, if cargo preference was eliminated, and the potential savings that might result. Since the lowest cost per ton was for foreign-flag tramps, we then analyzed the potential savings that might result from substituting foreign-flag tramps for both U.S.-flag and foreign-flag liners. This analysis required determining the possibility of consolidating several shipments into one large enough to warrant chartering a tramp, because the small size of most Title II shipments is the major reason that liners currently carry about 80 percent of all Title II commodities.

Beyond analyzing these changes, which could all take place within the existing structure of the maritime industry, we also analyzed how the elimination of the requirement might lead to changes in the industry structure, which would further reduce the cost to the Government of shipping Title II commodities. One such change we analyzed is the possible emergence of more independent foreign-flag liners that charge less than U.S.-flag and foreign-flag conference members. 1/ We also analyzed a more drastic possible change--the breakup of conferences. This change might result in substantially less expensive foreign-flag liner service being available, if the cargo preference requirement did not prevent the Government from using foreign-flag service. Any resulting cost reductions would represent part of the requirement's cost. We also analyzed whether savings might result from using Great Lakes ports more often--a result that some people allege would happen. Finally, we examined whether eliminating cargo preference would lead to defaults on Government-guaranteed construction loans used to finance the construction of U.S.-flag ships currently used to carry Title II commodities.

We have not considered the benefits the Nation might receive from maintaining cargo preference for Title II or how dependent the maritime industry is on this and other cargo preference requirements for survival. We have not, therefore, made any recommendations concerning the continuation or elimination of cargo preference for P.L. 480.

Our analysis was done in accordance with the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions." We discussed our methodology and the general nature of our findings with representatives of the agencies involved with the P.L. 480 program. In the interest of providing a more timely report, we were requested not to obtain formal agency comments.

Chapter 2 provides an explanation of how the Title II P.L. 480 program is administered and how the shipping arrangements are made to transport Title II commodities. Chapter 3 contains our analysis of the cost of maintaining cargo preference for Title II and our estimate of the additional food that might be sent for the same cost. Chapter 4 presents a summary and our conclusions.

1/A conference is an association of ocean liner operators, U.S. and foreign-owned, providing services on a particular route and operating within an agreement that establishes similar rates for many commodities and other conditions of services.

CHAPTER 2

CURRENT TITLE II ADMINISTRATIVE AND SHIPPING PRACTICES

PROGRAM ADMINISTRATION AND PROCEDURES

Title II programs are administered jointly by the Department of Agriculture and the Agency for International Development. Authority for paying the program costs lies with the Commodity Credit Corporation (CCC), a component of USDA. CCC is authorized to determine the availability of agricultural commodities, to pay for the commodities, and to pay all related delivery charges for which the Government is responsible. The Agricultural Stabilization and Conservation Services (ASCS), an agency of the Department of Agriculture, provides administrative support for the procurement and shipment of commodities.

Basically, the system operates in three steps. First, each distributing organization submits its commodity requirements. Second, venders place bids to provide the commodities. Third, the ASCS' Kansas City Commodity office, after selecting venders, arranges for shipping the commodities. It also allocates the shipments to specific ports. (Following is a detailed discussion of these steps.)

Once a month, PVOs and the WFP (the distributing organizations) submit their program proposals and estimated food requirements to AID, which, in turn, reviews the proposals. After this review, AID submits a report on the food program requirements of the various countries with AID's recommendations to the Food Aid Subcommittee for final review and approval. 1/ The subcommittee approves a letter outlining the commodities, countries, and amounts each organization can request.

The individual commodity requests are then submitted to the Procurement and Sales Division (PSD) of the ASCS in Washington, D.C., which assembles and processes the commodity requests each month to determine the commodities, amounts, and destinations for which purchases will be made. PSD sends the assembled and processed requests to the Kansas City Commodity Office (KCCO) for actual procurement and distribution. KCCO bases the acquisition and shipment of commodities on its estimate of the "lowest landed cost" (LLC) of sending a commodity to a specific foreign country. Estimating LLC is a two-part process: evaluating commodity bids and determining the shipping arrangements, which

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1/The Food Aid Subcommittee is an interagency body with representatives from AID, Office of Management and Budget, and the Departments of Treasury, State, Commerce, and Agriculture. The Subcommittee is chaired by a representative from USDA's Foreign Agriculture Service.

requires accounting for both costs and compliance with the 50 percent cargo preference requirement.

KCCO issues about 700 invitations each month to commodity vendors requesting submission of bids to provide approximate quantities of particular commodities. Vendors respond by indicating the "free-along side-ship" price at which they are willing to supply commodities at various U.S. coastal ranges and ports. That is, the offered price includes (1) the cost of the commodity, (2) inland freight charges to the departure port, and (3) any U.S. port charges. The vendors can choose the coastal range or port that allows them to minimize their price bid (though that port may not, ultimately, be used). Meanwhile, KCCO calculates the estimated ocean freight cost to ship commodities abroad. The ocean freight cost is added to the bids submitted by vendors to find the LLC of procuring and shipping the food. The outcome determines the vendor who will sell to KCCO, the coastal range and port(s) of departure, and the ocean service by which Title II commodities will be exported. In determining the cost of ocean shipments, KCCO uses published trade journals to identify available ocean service. To determine ocean rates from all coastal ranges to the destination countries, KCCO uses published tariffs of ocean freight rates that are filed with the Federal Maritime Commission. Generally, KCCO uses the rates of conference or nonconference common carriers offering regularly scheduled liner service. Tramp operators neither establish schedules nor set rates, and they publish their rates with the FMC only when they have negotiated for a specific shipment of Title II cargo. Because the schedules and rates are negotiated continually, KCCO cannot calculate the LLC for tramps.

KCCO compares its procured commodities with the requests made by destination countries for commodities to determine the feasibility of consolidating cargoes onto a chartered tramp. The cost per ton of transporting commodities is generally less on foreign-flag tramps than on liners. If KCCO identifies two shipments weighing 5,000 metric tons each, for which USDA is booking passages from the same or nearby ports to the same or closeby foreign country(ies), KCCO asks the Ocean Tranportation Division (OTD) of USDA to consider consolidating the cargoes and chartering a tramp. OTD generally charters tramps only when the size of the shipment exceeds 10,000 metric tons, since KCCO considers it uneconomical to charter tramps for smaller-sized cargoes. If OTD decides against consolidation, it informs KCCO.

KCCO reports that it consolidates as many shipments as possible to maximize the use of tramps. On six occasions in FY 1981, OTD consolidated two or more shipments onto one tramp. On four of these occasions, OTD consolidated shipments of the same commodity that were sent to the same country from the same port range. On two occasions, OTD consolidated different commodities onto the same tramp.

In allocating shipments to specific ports of departure, KCCO bases its decision on the lowest total cost to deliver the commodity overseas, the published ocean service, and the adequacy of the port facilities for receiving and storing the cargo. If more than one port is equally suitable, the allocation is based on the ports' previous 3-year averages for the same criteria. The port with the lowest cost is considered first. Once KCCO has approved the port allocations, OTD books passage for the shipments sent as part of AID's government-to-government program and for WFP shipments, except those sent to Mediterranean and African countries. The PVOs (such as CARE) privately contract with commercial freight forwarders to arrange passage for their shipments, as does the WFP for its shipments to the Mediterrean and African countries. In making these arrangements, the PVOs and the WFP, supplemented by AID's monitoring, assure that at least 50 percent of the cargo they ship travels on U.S.-flag ships.

PATTERNS OF VESSEL USAGE

In FY 1981, the Government's total shipping cost for Title II was $246.1 million. U.S.-flag carriers received 63.9 percent ($157.2 million) of that amount, while foreign-flag carriers received the remaining 36.1 percent ($88.9 million). The U.S.-flag carriers' volume share of the Title II program was 59.2 percent (1.02 million metric tons). In carrying the remaining 40.8 percent, foreign-flag operators carried 706.6 thousand metric tons. As shown in table 2, these data represent an increase from FY 1980 in the amount carried by U.S.-flag ships.

In FY 1981, 83.3 percent of Title II shipments by volume were carried on scheduled liners; tramps carried 15.3 percent of Title II cargo; tankers carried the remaining 1.4 percent. In the same period, U.S.-flag tramps carried only 19.6 percent of total tramp cargo. The small number of U.S.-flag tramps in operation limits their availability. As a result, U.S.-flag liners must carry more than 50 percent of all Title II liner cargo to assure that the overall 50 percent cargo preference requirement is met. In fact, in FY 1981 U.S.-flag liners carried 65.7 percent of the total liner cargo. Table 3 presents the data for both 1980 and 1981 on the relative use of U.S.-flag and foreign-flag ships of each type.

Most U.S.-flag and foreign-flag liner operators belong to conferences. Conferences establish mutually agreed-upon rates for most cargoes and services along specific, non-overlapping trade routes. For example, the Atlantic and Gulf/West Coast of South America conference operates between Atlantic and Gulf ports in the U.S. and West Coast ports in Columbia, Peru, Ecuador, and Chile. Of the eight conference members, two are U.S.-flag carriers and the rest are South American. Despite the equivalence of

Table 2

Comparison of U.S. and Foreign Flag Vessels Shipments of Title II Commodities (FY 1980-1981)

1980	Amount Shipped Metric Tons	Percent	Amount Paid To $ Thousand	Percent
U.S.	835,612	52.8%	$117,894	59.5%
Foreign	764,287	47.2	80,194	40.5
Total	1,581,899	100.0	198,087 a/	100.0
1981				
U.S.	1,023,322	59.2%	$157,128	63.9%
Foreign	706,586	40.8	88,939	36.1
Total	1,729,908	100.0	246,067	100.0

a/Numbers do not add due to rounding.

Source: AID, FY 1980 and 1981, P.L. 480, Title II, 50/50 Comparison by port of origin and vessel type.

liners rates, the costs of operating the foreign-built and operated liners are much less than the comparable costs for U.S.-flag liners. For example, the Maritime Administration estimates that a voyage from the U.S. Gulf Coast to Somalia on a U.S. liner of 14,300 dead weight tons 1/ costs $28,488 per day. In contrast, MarAd estimates that the operating cost on a foreign-flag ship of 14,486 DWT is $13,596 per day--approximately 50 percent less than the U.S.-flag liner's cost. Therefore, the economic value of the resources used up is greater when U.S.-flag liners are used even when the rates charged to the Government are the same.

Some liners, exclusively foreign-owned, operate independently of conference arrangements, but they are few in number and are used much less frequently to transport Title II cargo. Independents often charge rates below those set by conferences.

1/Dead weight ton (DWT) is the standard for measuring the vessel's lifting capacity in salt water.

Table 3

Comparison of U.S. and Foreign Title II Shipments by Vessel Type

1980	Amount Shipped Metric Tons	Percent of Subtotal	Percent of Total	Amount Paid To $ Thousand	Percent of Subtotal	Percent of Total	Average Cost Per Ton
U.S. tramp	11,492	3.4%	0.7%	$ 1,423	6.5%	0.7%	$123.83
Foreign tramp	322,434	96.6	20.4	20,599	93.5	10.4	63.89
Subtotal	333,926	100.0	21.1	22,022	100.0	11.1	
U.S. liner	824,120	66.0	52.1	116,470	66.2	58.8	141.33
Foreign liner	423,853	33.9	26.8	59,595	33.8	30.1	140.60
Subtotal	1,247,973	100.0	78.9	176,065	100.0	88.9	
Total	1,581,899	--	--	198,087	--	--	
1981							
U.S. tanker	23,694	100.0%	1.4%	$ 2,843	100.0%	1.2%	--
Foreign tanker	--	--	--	--	--	--	--
Subtotal	23,694	100.0	1.4	2,843	100.0	1.2	
U.S. tramp	51,975	19.6	3.0	7,923	33.3	3.2	152.44
Foreign tramp	212,538	80.4	12.3	15,841	66.7	6.4	74.53
Subtotal	264,513	100.0	15.3	23,764	100.0	9.6	
U.S. liner	947,653	65.7	54.8	146,362	66.7	59.5	154.45
Foreign liner	494,048	34.3	28.6	73,098	33.3	29.7	147.96
Subtotal	1,441,701	100.0	83.3	219,460	100.0	89.2	
Total	1,729,908	--	--	246,067	--	--	

Source: AID, FY 1980 and 1981, P.L. 480, Title II, 50/50 comparison by port of origin and vessel type.

CHAPTER 3

POSSIBLE SAVINGS FROM ELIMINATING CARGO PREFERENCE

We have analyzed data detailing the present shipping arrangements to assess a number of changes that might occur and the size of any cost savings that might result from removing cargo preference. These potential changes include increased use of foreign-flag liners and tramps instead of similar U.S.-flag ships, substitution of foreign-flag tramps for both U.S.-flag and foreign-flag liners, increased use of Great Lakes ports for departure, greater availability of independent (nonconference) liners, and the breakup of existing conferences. In some cases, we estimated the potential saving from using foreign-flag ships more often by comparing costs for comparable individual foreign-flag and U.S.-flag voyages. In other cases, however, we based our estimates on comparisons of average foreign-flag and U.S.-flag costs because individual voyage data were not available.

CHANGES FROM CURRENT SHIPPING ARRANGEMENTS

Substituting foreign-flag for U.S.-flag liners

In FY 1981, there was only a $6.49 per ton average difference in shipping costs between foreign-flag ($147.96 per ton) and U.S.-flag liners ($154.45 per ton). The difference in rates was so small because of the conference system: U.S.-flag and foreign-flag ships charge identical rates to carry most commodities. Several factors may account for there being any difference at all: independent foreign-flag ships that charge less than conference rates may have been used for some trips; lower foreign-flag rates often exist for commodities for which conferences have not set rates (open-rated commodities). Also, the data on cost per ton have not been adjusted for any possible differences in average distance between trips made by U.S.-flag ships and trips made by foreign-flag ships or for relative differences in high- versus low-rate commodities carried by U.S. versus foreign-flag ships.

We used the average difference in shipping cost to estimate a $5.5 million maximum potential saving to the Government from substituting foreign-flag liners for U.S.-flag liners. One way that $5.5 million might have been saved would have been if foreign-flag liners had been used to carry the entire 947,652 metric tons of cargo that were carried on U.S.-flag liners in FY 1981. If that had happened and if the average rate charged for shipping had been the same as the actual average rate that was charged for shipping cargoes transported on foreign-flag liners, then the shipping costs would have been reduced by $6.2 million. 1/ Since the WFP paid the shipping costs for 105,569 metric tons of the cargo carried on U.S.-flag liners, only $5.5 million would be a savings to the Government. The remaining $0.7 million would be a savings to the WFP. Table 4 displays these calculations.

This calculation does not imply that foreign-flag liners must carry all cargoes currently carried by U.S.-flag liners to reduce the Government's shipping cost by $5.5 million. This same savings of $5.5 million would result if foreign-flag liners were used to carry cargoes when it would be cheaper to do so. For example, if there were no cost savings from using foreign-flag liners for shipments containing half the cargo now carried on U.S.-flag liners, a $6.49 per ton average cost difference between foreign-flag and U.S.-flag liners for all shipments implies a $12.98 per ton average cost difference for shipments for which there is any difference at all. Then, if this average savings per ton was obtained on the shipments for which foreign-flag liners are less expensive, the total reduction in shipping costs would again be $6.2 million. 2/ And, if the WFP cargo was equally distributed between the two categories, the saving to the Government would still be $5.5 million.

Substituting foreign-flag for U.S.-flag tramps

In FY 1981, there was a $77.91 per ton difference in average price charged between foreign-flag tramps ($74.53 per ton) and U.S.-flag tramps ($152.44 per ton). Although this is a large difference in the average price charged, the potential for saving money by substituting foreign-flag for U.S.-flag tramps is limited because U.S.-flag tramps are not currently used very often, and not using them at all would affect only a few voyages. For each of the 15 U.S.-flag tramps currently in operation, the Maritime Administration establishes "fair and reasonable" rates to charge for their services. MarAd bases these rates, which allow for a profit, on cost data for the ships involved, not on a comparison

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1/This latter assumption is critical to the calculation. We believe this assumption to be reasonable because Title II cargoes represent a relatively small share of total liner cargoes. If the increased demand for foreign-flag liner service to carry Title II cargoes was large relative to the available supply, then the average rate for additional cargoes might exceed the average rate currently paid for foreign-flag liner service. If the average rate on additional cargoes was greater (less) than the rate on existing cargoes, then the reduction in shipping costs would be less (more) than $6.2 million.

2/This reduction of $6.2 million results from multiplying the average savings per ton for cargoes switching to foreign-flag liners ($12.98) by the number of tons of cargo being switched (473,826, or half of all U.S.-flag liner cargo).

Table 4

Potential FY 1981 Savings from Substituting Foreign-Flag Liners for U.S.-Flag Liners

(1) FY 1981 cargo carried on U.S.-flag liners (Metric tons)	947,653
(2) FY 1981 average cost difference between U.S.-flag and foreign-flag liners ($ per ton)	$6.49
(3) Potential FY 1981 saving from substituting foreign-flag for U.S.-flag liners (line (1) x line (2)) ($ Million)	$6.15 a/
(4) FY 1981 WFP cargo carried on U.S.-flag liners for which the Government did not pay shipping costs (Metric tons)	105,569
(5) Potential FY 1981 saving not accruing to the Government (line (2) x line (4)) ($ Million)	$.69 a/
(6) Potential FY 1981 saving accruing to the Government (line (3) - line (5)) ($ Million)	$5.47 a/

a/Numbers do not add up due to rounding.

Source: AID, FY 1981, P.L. 480, Title II, 50/50 Comparison by port of origin and vessel type; and listing of bills of lading provided by AID for individual voyages.

with charter rates available for foreign-flag tramps. In chartering tramps, shippers give preference to U.S.-flag tramps when they are available at fair and reasonable rates. However, since so few U.S.-flag tramps exist, they are rarely available.

We found only four instances in which U.S.-flag tramps were used to carry Title II commodities in FY 1981. We estimate that the Government could have saved a maximum of $2.6 million if foreign-flag tramps had been used instead. (See Table 5.) We obtained this estimate by comparing the charges collected for these trips with charges collected by foreign-flag tramps traveling to the same country at about the same time for the three instances for which we had comparable foreign-flag data. For the one instance for which there was no comparable foreign-flag tramp voyage, we compared the cost on the U.S.-flag tramp with the average cost on all foreign-flag tramps. Using this method, we estimate a maximum total savings of $3.7 million. 1/ Since one of these U.S.-flag tramp voyages carried WFP commodities, for which WFP paid the shipping costs, the savings of $1.1 million associated with substituting a foreign-flag tramp for that voyage would go to the WFP and $2.6 million is the maximum potential savings to the Government.

Substituting foreign-flag tramps
for U.S.-flag and foreign-flag liners

An even greater potential for savings arises by substituting foreign-flag tramps for both U.S.-flag and foreign-flag liners. Although the cost savings resulting from a shift to foreign-flag tramps--$73.43 per ton in the case of a shift from foreign-flag liners and $79.92 per ton in the case of a shift from U.S.-flag liners--is roughly comparable to the $77.91 per ton difference between foreign-flag and U.S.-flag tramps, the savings potential is greater because 83 percent of all Title II cargo traveled on liners in FY 1981. We estimate the Government could have saved a maximum of $8.2 million in FY 1981.

We discovered certain factors besides cargo preference that limit the use of foreign-flag tramps. Most importantly, many Title II shipments are too small to warrant chartering a tramp. Furthermore, some people involved in the P.L. 480 program believe that tramps are often unreliable. Others disagree, believing

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1/The reported total ocean transportation cost of a shipment is often higher than the product of the shipping charge per ton and the number of tons shipped because of additional charges, such as port congestion charges, bunker fuel subcharges, etc. In calculating the potential savings from substituting foreign-flag tramps for U.S.-flag tramps, we assumed that foreign-flag tramps would face the same additional charges as U.S.-flag tramps face because they would be going into the same ports and confronting the same situations.

Table 5

Potential FY 1981 Savings from Substituting Foreign-Flag Tramps for U.S.-Flag Tramps

Destination Country	Date of Shipment a/	Amount Shipped (Metric Tons)	Actual Cost Per Ton ($ Per Ton)	Estimated Cost for Comparable Foreign-Flag Tramp ($ Per Ton)	Estimated Cost Difference between Tramps ($ Per Ton)	Potential Saving from Using Foreign-Flag Tramp ($ Million)
Central African Republic	10/81	10,024	$105.61	$ 74.53 b/	$31.08	$0.31
Pakistan	5/81	15,601	122.00	50.00	72.00	1.12
Somalia c/	4/81	13,332	190.75	110.00	80.75	1.08
Somalia	11/80	13,018	172.66	81.75	90.91	1.18
Total		51,975				3.69
Total excluding WFP shipment		38,643				2.62 d/

a/All these shipments departed in FY 1981. The dates listed represent arrival dates.

b/No comparable foreign-flag tramp voyage existed. Therefore, we used the average cost for all foreign-flag tramps to estimate the comparable foreign-flag cost.

c/This voyage was a WFP shipment for which the Government did not pay shipping costs.

d/Numbers do not add due to rounding.

Source: Listing of bills of lading for individual voyages provided by AID.

that tramp operators generally follow through on their contracts. In addition, in at least one instance a bilateral trade agreement between the United States and the recipient country prevents the use of third-country ships. This effectively prevents using low-cost tramps to carry shipments to that country.

Because the overriding constraint on greater use of foreign-flag tramps is the small size of Title II shipments, we considered whether shipping cost savings might be obtained by combining several small shipments into one shipment large enough to warrant chartering a tramp. In identifying possibilities for consolidation, we allowed for consolidation of shipments sponsored by more than one program and shipments of more than one commodity. AID and USDA confirmed that both practices are feasible. However, AID told us that the PVOs might be concerned about consolidations involving their shipments, if the consolidations reduce PVOs' control of their shipping arrangements. (The WFP might be similarly concerned.) We did not examine the possibility of consolidating Title I and Title II shipments because the two programs ship vastly different commodities.

Our criterion for identifying possible consolidations was observation of instances in which 10,000 metric tons or more of any groups of commodities were shipped within 1 month from the same U.S. port range to the same foreign port. We selected 10,000 metric tons as the minimum amount because that approximate size is typically the smallest, economically feasible shipment for tramps. We used 1 month because the Kansas City Commodity Office orders commodities on a monthly basis, so that possibilities for consolidation that occur during that time are likely to be easier to notice than other possibilities. Some USDA officials suggested that a month was a long time to use because tramps generally remain in port less than 2 weeks before leaving for their destination. We continued to use 1 month as a criterion because officials at KCCO said that when there is sufficient tonnage during a month to warrant chartering a tramp, they can schedule the arrival at port of that month's commodities to assure that those commodities being transported on the tramp arrive at the appropriate time. Since this is done for tramp voyages now, we believe it could also be done for additional charters.

We considered shipments leaving from different ports in the same port range because we believe that KCCO could allocate shipments intended for consolidation to the same port within a port range. We did not take into account whether some ports had the facilities to handle large consolidations because we believe that within each port range ample facilities exist (and are currently used to handle tramp voyages of comparable size). Also, careful port allocation would assure that shipments intended for consolidation were sent to those ports with adequate facilities. We also did not take into account any increases in inland freight costs to get all the shipments to one port because such increases would typically be quite small relative to the swing in ocean transportation costs.

Using our criterion, we identified 14 instances in FY 1981 in which consolidation appeared possible. Seven of these instances, however, involved shipments to India. Since the United States and India have a bilateral trade agreement mandating that all food shipped from the United States to India must travel on either U.S.-flag or Indian-flag ships and since no Indian-flag tramps exist, we disregarded these cases as likely candidates for consolidation. For the remaining seven instances, involving shipments to Egypt, Pakistan, Somalia, the Phillipines, and Mauritania, we used the $74.53 per ton average cost for shipments carried by foreign-flag tramps in FY 1981 to estimate what the shipping costs would have been if consolidations had occurred and tramps had been chartered to carry these commodities. 1/

We did not estimate tramp costs from data on comparable voyages as we had in estimating the savings from substituting foreign-flag for U.S.-flag tramps because in three of seven instances no comparable tramp voyages were made. The proposed charters seem sufficiently representative of actual charters that using the average foreign-flag tramp rate is a reasonable simplification. Also, the additional number of charters that would be needed is sufficiently small relative to the total number of foreign-flag tramps that this increased use of tramps is unlikely to cause the average charter rates of tramps to rise.

We then compared our estimate of the costs of shipping these commodities on foreign-flag tramps with the actual costs incurred in shipping them on liners. On this basis, we conclude that if these consolidations had been made, there would have been a reduction in shipping costs in FY 1981 of $8.8 million (see table 6). In reaching this figure, we have included WFP shipments in the two consolidations of shipments to Somalia. Since the WFP arranges and pays for its own shipments to African countries, any consolidation that occurs might omit these shipments. 2/ If these shipments would be included, the $0.6 million savings in shipping costs would be a savings to the WFP. Therefore, we conclude that the maximum potential savings to the Government in FY 1981 from greater use of foreign-flag tramps instead of U.S.-flag and foreign-flag liners was $8.2 million (see table 6).

We cannot be certain, however, that the foregone savings from not consolidating shipments as we have suggested are a cost of cargo preference. In 1981, the savings from some or all of these consolidations might have been attainable even with the cargo preference requirement in effect. The share of tonnage shipped on

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1/As shown in table 6, these potential consolidations involved liner shipments totalling 130,381 metric tons, which is less than 10 percent of all FY 1981 liner tonnage.

2/Even if those shipments were omitted, the remaining tonnage would be sufficient to warrant chartering a tramp.

Table 6

Computation of Possible Savings from Consolidation

Destination Country	Port Range of Origin	Date of Shipment	Amount Shipped (Metric Tons)	Actual Cost ($ Million)	Estimated Cost on Foreign Tramps ($ Million)	Potential Saving ($ Million)
Egypt	Gulf	2/81	10,718	$ 1.60	$0.80	$0.80
Pakistan	West	5/81	37,390	4.82	2.79	2.03
Philippines	Gulf	10/80	10,955	1.45	0.82	0.63
Somalia a/	Gulf	4/81	28,862	4.77	2.15	2.62
Somalia a/	Gulf	5/81	22,021	3.66	1.64	2.02
Mauritania	Gulf	4/81	10,411	1.03	0.78	0.25
Mauritania	Gulf	6/81	10,024	1.21	0.75	0.46
Total			130,381	$18.54	$9.73	$8.81

a/The two consolidations include 11,997 metric tons of aid sent by the WFP who paid for the shipping costs. If these shipments are omitted, then the tonnage of these consolidations would be 21,840 and 17,046 metric tons, respectively. The potential savings from using foreign-flag tramps would be $2.27 million and $1.76 million. Thus, the total estimated savings to the Government from consolidation would be $8.2 million.

Source: AID, bills of lading for FY 1981 Title II voyages.

U.S.-flag carriers in FY 1981 was far enough above 50 percent that the cargo preference requirement would have been satisfied even if all the consolidations we suggested had occurred. In 1980, however, the share of tonnage actually carried on U.S.-flag ships was closer to 50 percent (see table 2). So, the limitations the cargo preference requirement imposed on the substitution of foreign-flag tramps for U.S.-flag and foreign-flag liners would have precluded this type of consolidation.

Combined savings

We have estimated that in FY 1981 the Government could have saved at maximum $5.5 million by substituting foreign-flag liners for U.S.-flag liners, $2.6 million by substituting foreign-flag tramps for U.S.-flag tramps, and $8.2 million by consolidating liner shipments onto foreign-flag tramps. In combining these estimates into an aggregate figure, we recognized that simple addition would result in some doublecounting. For those U.S.-flag liner shipments that we considered candidates for consolidation, totaling 99,081 metric tons, the potential savings from shifting from U.S.-flag to foreign-flag liners and the potential savings from consolidating onto foreign-flag tramps are not separate, realizable savings. In aggregating our estimated savings, therefore, we reduced the maximum potential savings from substituting foreign-flag liners for U.S.-flag liners from $5.5 million to $4.8 million because greater savings would have been possible by consolidating the affected shipments onto foreign-flag tramps than by shifting them onto foreign-flag liners. 1/ As a result, we estimate that a maximum of $15.6 million could have been saved if the substitutions we described had been made.

OTHER CONSIDERATIONS

The Great Lakes Question

In conducting our review, we encountered the allegation that the cargo preference requirement inhibits greater use of Great Lakes ports, at additional expense to the Government, because few U.S.-flag operators provide service from those ports. For example, in FY 1981, only 13.3 percent of all Title II shipments departed from Great Lakes ports. All of those shipments were liner shipments and 89 percent traveled on foreign-flag liners. However, even if cargo preference was eliminated, increased use of foreign-flag ships leaving from Great Lakes ports would be cost effective only if the total cost of sending commodities through these ports

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1/The value of U.S.-flag liner shipments considered for possible consolidations and, therefore, not available for shifting to foreign-flag liners equals approximately $0.6 million. However, due to rounding, the maximum potential savings from switching the remaining U.S.-flag liner cargoes to foreign-flag liners equals $4.8 million rather than $4.9 million.

was less than the total cost of sending commodities through other ports.

For 22 cases in which we found pairs of shipments of the same commodity to the same destination country that were made at approximately the same time, we compared the cost per ton of shipments made from Great Lakes ports with the cost per ton of comparable shipments made from ports on other coasts. We found that the cost per ton was lower from Great Lakes ports in 11 cases, higher in 10, and the same in 1. On the basis of this evidence, we do not believe that increased use of Great Lakes will necessarily cause any significant savings in Title II shipping costs.

Furthermore, even if it were possible to increase the use of foreign-flag ships and rates for these ships were cheaper from Great Lakes ports, differences in inland freight costs might prevent greater use of Great Lakes ports. When vendors submit bids to KCCO to supply commodities, they include their costs of transporting commodities to ports in determining their bid. If there is a substantial difference in inland freight costs in favor of one port range, this difference might more than offset any ocean transport cost difference in favor of another in determining the lowest landed cost of producing and shipping a commodity. Although we have not investigated the relative costs of inland freight transport to each coast, the availability of low-cost barge shipment to Gulf Coast ports suggests that this factor might offset any ocean transport cost advantage of Great Lakes ports even if one was to develop following the elimination of cargo preference.

Changes in structure of maritime industry

In addition to savings that might result following the elimination of cargo preference from increased use of foreign-flag ships under the existing maritime industry structure, further savings might result from changes in that structure. One possible change is that more independent operators might offer scheduled liner service at rates below those set by conference members. A second, and more drastic, possibility is that the elimination of cargo preference might cause the break-up of one or more conferences.

Independent foreign-flag liners generally charge less than conference members for similar service. Since these independents must publish their rates with the Federal Maritime Commission to offer liner service, they are available to KCCO when determining the lowest landed cost of transporting Title II commodities. As one example of possible rate differences between independents and conference members, we found two independents that carry bulgur--the most common Title II commodity--in competition with conference members between the Gulf Coast of the United States and the West Coast of South America. The independents charge $92.50 and $92.40, respectively, per ton to transport bulgur from the Gulf Coast to

Ecuador, while the conference rate is $129.00 per ton, nearly 40 percent more.

By reserving cargoes for U.S.-flag ships, the cargo preference requirement for P.L. 480 Title II and other programs limits the opportunities for foreign-flag independents to carry cargo from the United States. The removal of that requirement for Title II would make additional cargoes available for which independent liners could compete. Although we have no way of knowing how many, if any, additional independents would begin competing for these cargoes, the incentive of greater potential business might attract some new independents. If so, then there is a possibility of additional savings in Title II shipping costs if these independents are available at lower rates than conference members, as they usually are.

The incentive of greater potential business for foreign-flag carriers that would follow the removal of the cargo preference requirement for Title II shipments might also result in the breakup of one or more conferences. (In raising this possibility, we do not mean to imply that we believe such a breakup would occur.) With U.S.-flag carriers no longer guaranteed a 50 percent share of cargo, some foreign-flag conference members might perceive it to be in their interest to cut their rates to take advantage of the differential in costs that typically exists between foreign-flag and U.S.-flag ships. If even one or two members cut rates in this way, an entire conference might dissolve. 1/ The conferences most susceptible to this are those whose members earn a large share of their revenues from transporting Title II commodities.

If eliminating cargo preference for Title II shipments caused conferences to break up and foreign-flag carriers to compete for Title II cargoes by cutting rates, then the additional savings in shipping costs that would result would represent part of the requirement's cost. However, we have no way of knowing how likely this outcome would be. Therefore, our cost estimate assumes that removing the requirement would not substantially alter the maritime industry's structure in such a way that foreign-flag liner rates would fall. If this was to occur, then our estimate of the total shipping costs without cargo preference would be lower, and, therefore, our estimate of cargo preference's cost would be higher.

Secondary budget effects

The elimination of cargo preference for Title II might also have secondary effects on the Government's budget. If these secondary effects reduce Government spending, one should consider these reductions to be potential additional savings from the

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1/Rate cutting would not necessarily lead to a dissolution of a conference because many members retain the right to independently set rates below the prevailing conference rate.

elimination of cargo preference. For instance, eliminating cargo preference might lower administrative costs, since there would be no further need to monitor compliance with the requirement. If, however, these effects increase Government spending, then one should treat these increases as potential offsets to the likely savings that we have identified.

One possible secondary effect we analyzed was the possibility that removal of the requirement would increase the probability of defaults on Government-guaranteed loans used to finance the construction of ships used to carry Title II cargoes. The probability of default on these loans might increase if the removal of the cargo preference requirement caused U.S.-flag carriers to lose much of their Title II business, particularly if revenues earned from Title II shipments represent a large share of a carrier's total revenues.

We examined the three companies that carried the most Title II cargo and found that the shares of their 1980 earnings represented by payments for Title II shipments were 17.9 percent, 12.7 percent, and 1.6 percent. The company that received 17.9 percent of its revenues from Title II shipments may be the carrier whose ability to repay these loans would be most affected by elimination of cargo preference for Title II. We asked representatives of this company whether they believed that removal of cargo preference would significantly affect their company's ability to repay government-guaranteed construction loans. They declined to express an opinion.

Two factors, however, lessen the likelihood of defaults by this company or any other carrier. First, the elimination of cargo preference does not necessarily imply that U.S. carriers will lose a substantial share of the Title II cargo they carry. If conference rates continue to apply, there would be no advantage to switching from U.S.-flag to foreign-flag liners for many shipments. Second, U.S.-flag ships no longer carrying cargo subject to preference requirements might be eligible for operating differential subsidies from the Maritime Administration. These subsidies would assist U.S.-flag carriers to compete for those same cargoes in the event that their rates were too high to allow them to compete without subsidies.

HOW MUCH MORE FOOD COULD HAVE BEEN SHIPPED IF FINANCED WITH THE SAVINGS?

We have used our estimate of a maximum potential savings of $15.6 million to calculate two examples of how much additional food the United States might be able to provide with no increase in program cost, if cargo preference was eliminated. We selected bulgur and corn soya milk since they are two of the most commonly shipped commodities. In performing these calculations, we recognize that even if this savings in shipping cost is obtained, the money saved might not be used to provide additional food.

We have calculated that the savings from the elimination of cargo preference would be sufficient to provide an additional 41.7 thousand metric tons of bulgur to India or an additional 33.1 thousand metric tons of corn soya milk to the Philippines. 1/ In making these calculations, we made several assumptions about the prices the Government would pay to obtain these additional commodities and the shipping services needed to transport them abroad. Vendors offer to provide commodities to USDA in increments of, for example, 10,000 pounds. Generally, vendors offer the lowest price for the first increment and higher prices for subsequent increments. We assumed that the Government could purchase the additional commodities obtained by elimination of cargo preference at third increment prices because this was the highest price awarded during August 1981, the month we analyzed, and because the United States sent food purchased at that price to both India and the Philippines. For shipping costs, we used the average shipping cost per metric ton for food actually sent on the assumption that the additional amount to be sent would be small enough not to affect shipping rates. If the Government could obtain the additional food or shipping services only by paying incrementally higher prices, then the amount of additional food obtainable for $15.6 million would be less.

1/We made these calculations for India and the Philippines because they receive large amounts of Title II assistance. In FY 1981, 227.2 thousand metric tons of bulgur were sent to India in Title II programs; 28.3 thousand metric tons of corn soya milk were sent to the Philippines.

CHAPTER 4

SUMMARY AND CONCLUSIONS

The Nation's cargo preference laws require that at least 50 percent of the tonnage of commodities that the United States provides to foreign countries under Title II of P.L. 480 be transported on U.S.-flag ships. Since U.S.-flag ships sometimes charge higher rates than foreign-flag ships, cargo preference increases the total cost of shipping Title II commodities. By analyzing changes in vessel usage that might reduce shipping costs if cargo preference did not apply, we have estimated the maximum FY 1981 cost to the Government of cargo preference for Title II shipments. We have also provided two examples of how much additional food could be financed with this savings in shipping cost, if the total savings were used to provide more aid.

We have made separate estimates of the maximum amount the Government might have saved in FY 1981 by substituting foreign-flag liners for U.S.-flag liners ($5.5 million), by substituting foreign-flag tramps for U.S.-flag tramps ($2.6 million), and by consolidating liner shipments to make further use of foreign-flag tramps ($8.2 million). In combining these estimates into an aggregate figure, we recognize that simple addition would result in some doublecounting. For those U.S.-flag liner shipments that we consider candidates for consolidation, we cannot treat the potential saving from shifting from U.S.-flag to foreign-flag tramps as separate, realizable savings. The amount of doublecounting equals the estimated saving from shifting those shipments onto foreign-flag liners ($0.6 million), because this figure is less than the estimated savings from consolidation.

We estimate, therefore, that the maximum amount the Government might have saved in FY 1981 by substituting foreign-flag ships for U.S.-flag ships and by consolidating shipments to make further use of tramps to be $15.6 million. We cannot be certain, however, that a saving of this size would have been achieved if cargo preference had been eliminated prior to FY 1981 because of possible lags in adjusting to the changed environment.

The emergence of more independents or the breakup of conferences might increase these savings; defaults on Government-guaranteed construction loans might decrease them. We have not provided any numerical estimates of these effects because we have no way to know the extent to which these events might occur.

Although an estimated saving for FY 1981 is not a precise measure of how much the maintenance of the cargo preference requirement for Title II will cost in FY 1982, we believe that it is a good "ballpark" estimate because the size of the Title II programs is not scheduled to change much between FY 1981 and FY 1982.

We used our estimate of $15.6 million to calculate how much additional food might be sent abroad if the Government used the entire savings in shipping cost to provide additional food. On this basis, we calculated that the saving from the elimination of cargo preference would be sufficient to provide an additional 41.7 thousand metric tons of bulgur to India or an additional 33.1 thousand metric tons of corn soya milk to the Philippines.

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