



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

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RESOURCES COMMUNITY
AND ECONOMIC DEVELOPMENT
DIVISION

B-212726

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The Honorable Joseph G. Minish
House of Representatives

RELEASED

Dear Mr. Minish:

Subject: Feasibility of Providing the Armed Services With Additional Surplus Dairy Commodities Owned by the U.S. Department of Agriculture (GAO/RCED-84-88)

In response to your October 7, 1983, request concerning the U.S. Department of Agriculture's (USDA's) surplus dairy inventory, we gathered some preliminary information on the feasibility of providing the bulk of USDA-owned surplus dairy commodities to the Armed Services. We discussed this information with your office and agreed to prepare a brief written summary of the information for your use in determining whether to pursue this matter further.

According to the Dairy Division Director of USDA's Agricultural Stabilization and Conservation Service, two major issues are involved in providing the Armed Services with greater quantities of surplus products than are currently provided:

- The Armed Services' normal needs for dairy products are met by purchasing such products on the open market. Under Section 202(b) of the Agricultural Act of 1949, as amended (7 U.S.C. 1446a(b)), the Armed Services can order dairy products from USDA's Commodity Credit Corporation (CCC) only in quantities which exceed their normal needs.
- If the law were revised to eliminate this restriction, providing the Armed Services' normal needs with CCC-owned dairy products would displace their commercial purchases. This would result in increased market surpluses which CCC would have to purchase under its dairy price-support program and add to its dairy surplus inventories.

During the past several years, the dairy industry has produced much more milk than can be marketed commercially at established prices. As a result, CCC's purchases of surplus dairy



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products have increased from about \$1.3 billion in fiscal year 1979 to about \$2.8 billion in fiscal year 1983, while dairy surplus inventories increased from about \$569 million at the end of fiscal year 1979 to an all-time high of about \$3.7 billion at the end of fiscal year 1983. CCC's cost of storing dairy products in fiscal year 1983 totaled about \$79 million, almost an 800 percent increase over fiscal year 1979.

SURPLUS DAIRY PRODUCTS PROVIDED
TO THE ARMED SERVICES

According to the Dairy Division Director, Section 202(b) of the Agricultural Act of 1949, as amended, limits the amounts of dairy products the Armed Services can order from CCC to amounts that are in addition to their normal needs. Section 202(b) provides that

"The Commodity Credit Corporation until December 31, 1985, shall make available to the Secretary of the Army, at warehouses where dairy products are stored, such dairy products acquired under price-support programs as the Secretary of the Army or his duly authorized representative certifies can be utilized in order to provide additional butter and cheese and other dairy products as a part of the ration (1) of the Army, Navy, Air Force, or Coast Guard, (2) in hospitals under the jurisdiction of the Department of Defense, and (3) of cadets and midshipmen at, and other personnel assigned to, the United States Merchant Marine Academy. The Secretary of the Army shall report every six months to the Committees on Agriculture of the Senate and the House of Representatives and the Secretary of Agriculture the amount of dairy products used under this subsection."

According to USDA officials, except for the costs of processing products into consumer-sized units, CCC provides dairy products to the Armed Services free of charge for troop use but charges for products to be sold in commissaries in foreign countries. The officials told us that CCC provided the Armed Services with the following quantities of butter, cheese, and nonfat dry milk in fiscal year 1983.

	<u>Products given free for troop use</u>	<u>Products sold to commissaries in foreign countries^a</u>
	(millions of pounds)	
Butter	10.7	0.1
Cheese	3.5	1.0
Nonfat dry milk	0	7.5

^aUSDA officials told us that products are not sold to commissaries in the United States because this would displace domestic commercial sales.

According to the Chief, Inventory and Management Section, Department of Defense's (DOD's) Defense Personnel Supply Center (DPSC) in Philadelphia, Pennsylvania, about 70 percent of the butter used by the Armed Services is obtained from CCC, and the remaining portion, which represents their normal need, is bought on the open market. According to a Staff Analyst for Subsistence within DOD's Manpower Reserve Affairs and Logistics in Arlington, Virginia, the high percentage of butter obtained from CCC for use by the Armed Services results from the fact that their normal needs requirement was determined using the base years of 1966-67 when butter usage was low and margarine usage was high. This official also told us that the Navy Ration Act of March 2, 1933 (47 Stat. 1423), requires the Navy to feed its troops butter and not butter substitutes. As shown in the above table, the Armed Services obtain relatively small quantities of cheese and no nonfat dry milk from CCC.

In accordance with the request made by your office, we also obtained information on the prices CCC and the Armed Services pay for dairy products. Under its dairy price-support program, CCC paid \$1.50 a pound for butter, \$1.48 a pound for cheese, and \$0.93 a pound for nonfat dry milk for products produced prior to December 1, 1983. The Dairy Production Stabilization Act of 1983 (Title I of Public Law No. 98-180), enacted on November 29, 1983, lowered the milk support price from \$13.10 to \$12.60 per hundredweight. As a result, for products produced on or after December 1, 1983, CCC now pays about \$1.46 a pound for butter, \$1.35 a pound for cheese packed in 40- to 60-pound blocks and \$1.32 for cheese packed in 500-pound barrels, and \$0.91 for non-fortified nonfat dry milk. According to the Chief, Inventory and Management Section, DPSC, DOD pays an average of \$1.70 a pound for butter on the open market and \$1.50 a pound for cheese.

Although CCC pays less for butter and cheese than the Armed Services pay, it purchases products in bulk form, whereas the Armed Services purchase products in ready-to-use form. When CCC provides free cheese and butter to the Armed Services, CCC incurs

additional costs to have these products processed into consumer-sized units for military use. The Armed Services reimburse CCC for the processing costs, which are \$0.07 a pound for cheese and range from \$0.05 to \$0.24 a pound for butter, depending on whether the butter is processed into 1-pound prints, quarters, patties, or readies (patties placed on paper squares).

DISPLACEMENT OF COMMERCIAL SALES

Surplus dairy products are acquired by CCC under the dairy price-support program. Under this program, CCC is obligated to purchase any quantity of butter, cheese, and nonfat dry milk that is offered and meets specifications.

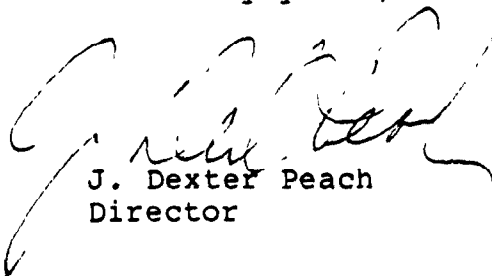
According to the Dairy Division Director, providing CCC-owned dairy products to the Armed Services in quantities that would displace their commercial purchases would result in increased market surpluses which, in turn, would result in increasing the quantity of dairy products CCC would have to purchase under the dairy price-support program. Therefore, the inventory reductions resulting from any additional distributions to the Armed Services would be offset by increases in CCC purchases.

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In gathering information to respond to your inquiry, we interviewed officials of USDA's Agricultural Stabilization and Conservation Service in Washington, D.C., and officials of the DOD's Defense Personnel Supply Center in Philadelphia, Pennsylvania, and Manpower Reserve Affairs and Logistics in Arlington, Virginia. We also reviewed pertinent documentation and files. We made our review in accordance with generally accepted government auditing standards, except that, as you requested, we did not obtain agency comments.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



J. Dexter Peach
Director