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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of Agriculture

Opportunities For Greater Cost Effectiveness In Public Law 480, Title I Food Purchases

Two basic objectives of Title I are to (1) provide concessional financing for developing nations to purchase basic food commodities and (2) protect and develop U S agricultural markets

GAO reviewed fiscal year 1982 purchases under Title I and concluded that Agriculture needs to exert more control over the program. Financing costs were increased because recipient countries were permitted to buy premium commodities, specify restrictive commodity specifications, and require short lead times for shipping the commodities Due to delays in negotiating agreements, many purchases were concentrated in the spring and early summer, exacerbating price and procurement problems Moreover, some recipient countries' proportions of commercial imports from the United States have declined.

Agriculture also needs to strengthen its system for evaluating Title I purchase prices for several commodities and to establish firm price ceilings for evaluating all purchases

This report contains a series of recommendations that should reduce this program's cost or permit a larger volume of exports at no additional cost.

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

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-199688

The Honorable John R. Block
The Secretary of Agriculture

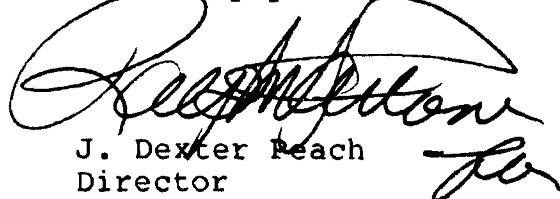
Dear Mr. Secretary:

This report discusses opportunities to improve the cost effectiveness of subsidized food purchases by recipient countries under the Public Law 480, Title I program.

This report contains a number of recommendations addressed to you. (See pp. 11, 17, 22, and 32.) As you know, 31 U.S.C. §720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and the Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. Should any questions arise concerning this report, please contact Mr. John Watson, Group Director, National Security and International Affairs Division. He may be contacted on 275-5889.

We are sending copies of this report to the Director, Office of Management and Budget, to the cognizant congressional appropriation and authorization committees, and to other interested parties.

Sincerely yours,



J. Dexter Peach
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE
SECRETARY OF AGRICULTURE

OPPORTUNITIES FOR GREATER COST EFFECTIVENESS IN PUBLIC LAW 480, TITLE I FOOD PURCHASES

D I G E S T

Under the Public Law 480, Title I program, the Department of Agriculture in fiscal year 1982 financed about $722 million worth of purchases of agricultural commodities by developing countries. Agriculture's Foreign Agricultural Service runs the program, and must approve each purchase and the price paid. Agriculture heavily subsidizes these purchases. Interest rates range as low as 2 to 3 percent and repayment periods up to 40 years, including an initial grace period of up to 10 years.

The basic objectives of the program are to use U.S. overproduction to help developing nations feed their populations and to promote future commercial markets for U.S. agriculture. The Title I legislation further requires, in part, that at least 75 percent of Title I food commodities be made available annually for purchase by the poorest countries of the world. Equally, it requires that U.S. commercial markets be protected. (See ch. 1.)

GAO's review focused on whether the program is being operated in a manner that makes the maximum amount of food available at the minimum cost and on the extent to which U.S. commercial markets are being protected.

GAO's examination of 54 of the 86 purchases made in fiscal year 1982 (involving approximately 64.5 percent of the total tonnage for the year) shows that opportunities exist to better control or reduce program costs in each of the following areas.

PURCHASING PRACTICES AND PROCEDURES

Due to past irregularities in procurement practices in the Title I program, the Congress in 1977 amended the legislation to require that all purchases be made through publicly advertised invitations for bids (IFBs) and that all awards to suppliers be consistent with open, competitive, and responsive bid procedures. Yet, in 26 percent of the cases reviewed, buyer purchasing practices were not conducive to achieving

the full benefits of open competitive tendering or obtaining the lowest prices. Most of these cases involved very short shipping leadtimes, and often resulted in significantly higher financing costs. For example, one buyer paid about a $912,500 premium for early delivery of two lots of wheat; nevertheless, delivery of the first lot slipped almost 3 weeks, well into a later delivery period that would have cost less. Other buyer practices included short bid lead times that limited bidder response and apparent reluctance to rebid tenders in the face of minimal bidder response. (See pp. 6 to 8.)

Delays by the Foreign Agricultural Service in signing Title I agreements with individual countries are a significant problem and resulted in many of the purchases for fiscal year 1982 being concentrated within a 4-month period in the spring and early summer, when commodities tend to be in shorter supply and their prices higher. (See p. 9.)

Overlapping purchases for the Title I overseas concessional sales program, administered by the Foreign Agricultural Service, and the Title II overseas donation program, administered by the Agricultural Stabilization and Conservation Service, can also cause upward pressure on prices, particularly for processed commodities like wheat flour and rice, where industry capacity becomes a factor. For example, 19 percent of the combined wheat flour purchases under both programs in fiscal year 1982 were made on February 8, 1982. (See p. 10.)

GAO concluded that greater control is needed over Title I purchasing practices, that Title I tenders should be spread out over the year and overlap with Title II tenders should be avoided.

RECOMMENDATIONS

GAO recommends that the Secretary of Agriculture direct the Administrator, Foreign Agricultural Service, to:

- --Work for earlier signings of Title I annual agreements and a wider spread of procurements over the year.
- --Establish a required minimum amount of time between (1) the issuance of the IFB and bid opening, and (2) bid opening and the first delivery date.

--Re-emphasize the requirement of the Title I regulations that buyers select the lowest responsive bids. The Foreign Agricultural Service should require and document the justification for any exception.

--Eliminate close or overlapping Title I and Title II Public Law 480 purchases. (See p. 11.)

COMMODITY SPECIFICATIONS

Although the Title I program is directed toward helping the poorest nations of the world feed their general populations, some countries tend to purchase either the most expensive class of a particular commodity or request stringent or hand-tailored specifications that, in some cases, exceed either their commercial import specifications or Agriculture's grain standards.

In several cases, buyers' purchase specifications have been unrealistic. One tender requested white wheat with a minimum protein of 11 percent, whereas white wheat is basically low in protein and is almost always sold with no protein guarantee.

GAO concludes that the Foreign Agricultural Service is financing price premiums for individualized and non-standard specifications when lower cost alternatives are available. (See ch. 3).

RECOMMENDATION

GAO recommends that the Secretary of Agriculture direct the Administrator, Foreign Agricultural Service, to require buyers to finance the extra cost associated with premium commodities unless the buyers can establish and justify definite needs. (See p. 17.)

MONITORING AND PROTECTING COMMERCIAL MARKETS

The legislation requires that the usual U.S. commercial markets be protected and that the United States obtain a fair share of increases in a recipient's commercial imports. Recipient countries' total imports and their U.S. purchases are monitored on a 5-year rolling average basis. On this basis, six of the 27 countries that received Title I assistance during 1977-81 (the latest

data available) show declines in the U.S. historical market share for at least one commodity, where those imports remained relatively stable. However, the requirement that the United States receive a fair share of the increase in recipients' commercial imports over time is not monitored or emphasized, and some countries have shown substantial import growth while the U.S. share has not kept pace. Moreover, several countries have received substantial amounts of concessional imports from the United States but purchased little or no food commercially in this country during 1977-81. GAO concludes that more needs to be done to encourage Title I recipients to increase their level of U.S. commercial imports. (See ch. 4.)

RECOMMENDATION

GAO recommends that the Secretary direct the Administrator, Foreign Agricultural Service to monitor import statistics more carefully and emphasize the legislative requirement to take reasonable precautions to maintain the historical U.S. share of recipients' commercial imports and increases in their imports. (See p. 22.)

PRICE EVALUATION

Program regulations require that the Foreign Agricultural Service approve each sale and that a supplier's price not exceed the prevailing range of export market prices. Field offices of the Agricultural Stabilization and Conservation Service obtain daily export market price information for bulk grains, primarily from U.S. grain exporters, that is based on futures prices on the major commodities exchanges. These field offices evaluate this price information, determine what the market price is for each commodity for that day at various export points, and supply these market prices to the Foreign Agricultural Service. Vegetable oil price data is also based on an exchange price. Therefore, for most bulk grains and for vegetable oil, the Stabilization and Conservation Service is doing a good job of determining the market price. However, it needs to survey a broader cross-section of the grain trade for market price quotes on spring wheat and particularly needs to develop better information sources for wheat flour prices. To illustrate, one firm furnished a market price quote for use in determining the market price of flour and then the same firm on the same day was a successful bidder on a Title I flour tender with bids as

much as $30 a ton lower than the price it had earlier quoted. There is no established commodity futures market for rice and the Foreign Agricultural Service is not developing specific price information to permit objective reviews of suppliers' bid prices, even though Stabilization and Conservation Service field offices are already obtaining daily market price data that could be used and expanded. Instead, approval of rice bid prices is heavily based on the award prices on prior Title I tenders.

Also, in a number of cases, the Foreign Agricultural Service has routinely approved purchase prices that exceed the market price for that commodity on that day. Rarely is any individual purchase disapproved, and the price review system as presently implemented tends to approve all supplier bid prices.

GAO concludes that the credibility of the price evaluation system is questionable and that the Stabilization and Conservation Service needs to survey a broader cross-section of the industry to better establish the market price for spring wheat, flour, and rice. (See ch. 5.)

RECOMMENDATIONS

GAO recommends that the Secretary of Agriculture direct the:

- --Administrator, Agricultural Stabilization and Conservation Service, to strengthen export market price-gathering operations for wheat flour and spring wheat.
- --Administrator, Foreign Agricultural Service, to (1) disapprove any Title I bid price that exceeds an export market price for the comparable commodity specification and shipping mode and (2) develop a system for evaluating Title I rice prices that uses the broadest practical range of information sources. (See p. 32.)

AGENCY COMMENTS

The Foreign Agricultural Service, which provided the Department's comments, generally agreed with GAO's recommendations and cited progress made since fiscal year 1982 in each area cited in the draft report. However, the Service did not agree with the recommendation to disapprove Title I

bid prices that exceed the market price, as developed by the Stabilization and Conservation Service's field offices. It stated that since recipient countries are required to accept the lowest responsive bid under an open, public bid process, the Title I bid price represents the true market price. We disagree because we found that the Foreign Agricultural Service did not disapprove any supplier prices in fiscal year 1982 and routinely approved bids that exceeded the market prices determined by the Stabilization and Conservation Service. We believe that unless the Foreign Agricultural Service uses those market prices to establish an upper limit for Title I prices, the price review system for Title I purchases will lack credibility. (See p. 32.)

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ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
GAO	General Accounting Office
FAS	Foreign Agricultural Service
IFB	invitation for bid
KCCO	Kansas City Commodity Office
mt	metric ton
UMR	usual marketing requirement
USDA	United States Department of Agriculture

CHAPTER 1

BACKGROUND

Title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480, as amended)(USC §1691 et seq.) provides for the sale of U.S. agricultural commodities to friendly countries on concessional credit terms.[1] The Commodity Credit Corporation within the Department of Agriculture (USDA) finances these purchases. Recipient countries purchase the commodities from U.S. grain exporters on a bid basis in response to public tenders, or invitations for bids, issued in the United States by the importing country. USDA's Foreign Agricultural Service (FAS) administers Title I and must approve all purchases before financing is provided.

The Secretary of Agriculture determines the kinds and quantities of commodities available for inclusion in Title I agreements, which in recent years included wheat, wheat flour, corn, rice, vegetable oil, and blended/fortified foods. Specific programs are developed in consultation with several U.S. government agencies, and the actual agreements are negotiated with foreign governments through diplomatic channels.

After an agreement has been signed, the recipient country applies to FAS for a purchase authorization, which stipulates the type and grade of commodity, approximate quantity, maximum dollar amount authorized, and delivery period and outlines conditions for financing and shipping the commodities. To obtain ocean transportation, the importing country issues public freight tenders for both U.S. and non-U.S. flag vessels. At least 50 percent of the Title I commodities must be shipped on U.S. flag vessels to the extent they are available at fair and reasonable rates. USDA finances the ocean freight differential (the additional cost, if any, between the cost of a U.S. flag vessel versus a foreign flag vessel). FAS must review and approve all freight terms and vessels; generally an attempt is made to match the commodity and vessel which result in the lowest combined cost.

During fiscal year 1982, commodities valued at about $722.5 million were exported under Title I.

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[1] Repayment periods range from 20 to 40 years, with a grace period up to 10 years. Interest rates for the majority of agreements have been set at 2 percent during the grace period and 3 percent thereafter.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Public Law 480, Title I legislation requires that at least 75 percent of the food commodities be made available to be purchased by the world's poorest countries. Thus, the program is intended to help these countries feed their general populations and is heavily subsidized by the U.S. government. In a 1980 report on the Title I program[2], we focused on what could be done to interest more suppliers, particularly farmer cooperatives and smaller grain firms, in bidding on Title I tenders. However, we also observed that premium prices were being paid for specialized requirements and that suppliers clearly preferred to offer more normal industry specifications. Accordingly, our primary objectives for this review were to assess the extent to which opportunities exist to reduce the per-ton costs of commodities shipped under the program and to ascertain whether USDA is ensuring that recipients give the United States a fair share of their commercial purchases.

We reviewed the legislation and USDA's Public Law 480, Title I regulations and interviewed FAS officials concerning their application. At the invitation of USDA, we tracked two ongoing tenders completely through the bid opening and FAS review process to learn how the system works. We randomly selected 54 of the 86 tenders for fiscal year 1982, including 16 wheat tenders, 17 rice, 5 corn, 9 vegetable oil, and 7 wheat flour. We analyzed the FAS commodity files for each tender and interviewed FAS officials as appropriate. These 54 tenders accounted for 64.5 percent of the total tonnage purchased under the program in fiscal year 1982. Wherever we identified a potential problem area or dollar savings, we reviewed the related FAS ocean shipping files to verify that adequate shipping capacity was available at comparable or reasonable prices to carry the potential shipment.

We reviewed USDA grain standards and industry publications and interviewed FAS and selected industry firms concerning particular commodity specifications and normal export specifications and buying patterns of selected recipient countries.

To evaluate the reasonableness of individual purchase prices, we reviewed detailed market price information developed by the Agricultural Stabilization and Conservation Service's Kansas City and Portland Offices for each day on which Title I tenders were held and compared them with prices on the Title I tenders. We interviewed officials at those locations as well as in FAS concerning operations of the price review system.

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[2]Report to the Chairman, Subcommittee on Limitations of Contracted and Delegated Authority, Senate Committee on the Judiciary, Competition Among Suppliers in the Public Law 480 Concessional Food Sales Program, Dec. 19, 1980 (ID-81-06).

We also obtained the perceptions of officials of other USDA agencies which are members of the Rice Price Review Committee and reviewed the minutes of Committee meetings.

To ascertain whether the United States is receiving a fair share of recipients' commercial purchases, we interviewed FAS officials and made an in-depth analysis of import statistics prepared by USDA for the 1977-81 period, the most recent information available. We reviewed compliance reports submitted by recipients to determine whether they were importing normal levels of the same type of commodities as sold under Title I and compared Title I imports and commercial purchases from the United States with their other concessional and commercial imports to determine the extent of increases in their imports and whether the United States was sharing in that import growth.

Our work was performed primarily at USDA headquarters in Washington, D.C., and at the Kansas City Commodity Office and Portland suboffice of USDA's Agricultural Stabilization and Conservation Service.

Our review was performed in accordance with generally accepted government audit standards.

CHAPTER 2

AGRICULTURE NEEDS TO BETTER CONTROL

PURCHASING PRACTICES AND PROCEDURES

In 1977 the Congress amended the Public Law 480 legislation to require that all Title I purchases be made under open, competitive, and responsive bidding procedures. In practice, however, USDA allows the buying countries to set or control certain key aspects of these tenders.

In our review of fiscal year 1982 Title I procurements, we found a significant number of cases in which the tender practices or procedures were not conducive to achieving the full benefits of competitive bidding. In some of these cases, no increased costs could be identified because of the way the invitations for bids were written; in other cases, we were able to isolate additional costs financed by USDA. Basically, these practices related primarily to the timing of the purchases, but they also include inadequate bid responses and an apparent reluctance to pursue lower priced alternative offers.

We also found instances in which USDA actions directly influenced competition and caused upward pressure on prices. To a considerable extent, these problems are caused by delays in getting Title I agreements signed with the buying countries, resulting in many purchases being concentrated in the late spring and early summer when commodities tend to be in shorter supply. In contrast, few purchases are made in late summer and early fall, just after harvest, when prices tend to be lower and the industry could use the business. In a number of cases, multiple purchases of the same commodity were made within a few days of each other. In still other cases, Title I purchases were made at approximately the same time as purchases for the Title II program.[1] Concentrated purchases influence commodity prices, particularly for processed commodities where industry capacity limitations can be a factor, raising USDA's program costs.

USDA needs to exert greater control over buyers' tendering and purchasing practices, better coordinate Title I and II purchases to avoid overlap, and make a greater effort to spread more purchases out over the fiscal year.

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[1]Title II makes available free food for distribution abroad, usually for specific population segments, such as infants, school children, and pregnant and nursing women, or for emergency relief feeding. The purchases referred to here are made by the Kansas City Commodity Office.

THE LEGISLATION AND USDA REGULATIONS

Largely because of irregularities in the bidding and award of contracts, the Congress in 1977 added a new section 115 to Title I, providing in part that:

> " . . . No purchases of food commodities from private stocks shall be financed under this title unless they are made on the basis of an invitation for bid publicly advertised in the United States and on the basis of bid offerings which shall conform to such invitation and shall be received and publicly opened in the United States. All awards in the purchase of commodities financed under this title shall be consistent with open, competitive, and responsive bid procedures, as determined by the Secretary of Agriculture . . . "

This provision has been embodied in section 17.6b(2), (3) and (4) of the Title I regulations [7 C.F.R. §17.6(b)(2), (3) and (4)]. Basically, paragraph (2) provides that all purchases of food commodities shall be made on the basis of invitations for bids (IFBs). Paragraph (3) requires, in part, that the IFBs shall

--permit offers from all (approved) suppliers;

--not preclude offers for shipment from any U.S. port(s) unless the purchase authorization limits exportation to certain ports;

--not establish minimum quantities to be offered; and

--comply with the regulations, the purchase authorization, and <u>sound commercial standards</u>. (Underscoring added.)

Regarding sales awards, paragraph (4) provides that

> "The importer shall consider only offers which are responsive to the IFB and shall make awards on the basis of the <u>lowest commodity price(s) offered</u> unless the importer determines and the GSM [General Sales Manager] agrees that acceptance of a higher commodity price would result in the lowest landed cost of the commodity. (Underscoring added.)
>
> . . . . .
>
> "The decision of the GSM shall be final regarding the responsiveness of offers to IFB terms in the awarding of contracts."

BUYERS' PRACTICES LIMIT COMPETITION AND RAISE COSTS

Our review of the 54 IFBs showed that for at least 14 (26 percent), purchasing or tendering practices either were not conducive to maximizing supplier competition or to obtaining the lowest prices. Most of these cases had very short shipping lead times and involved bulk wheat purchases. In a few cases, buyers did not pursue lower priced alternative offers. In some cases, we were able to isolate the additional costs that USDA financed as a result of these tendering practices; in other cases we could not do so; for example, those involving only a single delivery period. A few of the more serious problem cases are discussed in the following sections.

Sudan

On May 13, 1982, Sudan purchased approximately 123,600 meric tons (mt) of winter wheat for Gulf delivery in four separate lots, as shown below.

Load dates	Purchase price per mt	Number of bidders	Metric tons purchased
May 20-30	$172.15	2	29,044
May 26-June 4	167.74	4	32,000
June 15-25	154.50-154.51	9	43,075
July 10-20	152.67	10	19,500

As shown, bidding was rather light for the first two lots, and increased sharply for the last two lots. Further analysis showed that the purchase prices for the first two lots exceeded the prevailing export market price as determined by USDA's market price review system. (See ch. 5.) Therefore, those prices should have been disapproved by USDA and the purchases cancelled. Once that was done, Sudan could have rebid the two lots.

As an alternative, Sudan could have purchased the equivalent amount for third and fourth period delivery at an estimated savings of $912,500. The commodities were available at savings totaling more than $889,300, and adequate U.S. and foreign flag shipping capacity had been offered to ship them at an additional savings to USDA of about $23,200 in non-reimbursable ocean freight differential costs. Finally, Sudan did not get the early first period delivery for which it had paid a $500,000 premium. Ocean freight bills of lading show that the first lot was not completely loaded until June 23, some 19 days after the contract date and well into the loading periods for the other lots.

Morocco

On April 1, 1982, Morocco purchased 217,575 mt of soft red winter wheat for delivery over five periods ranging from May 11

to July 5. Two lots totaling 38,750 mt were purchased for first period delivery for $150.65 mt each. This was as much as $13.15 mt higher than the prices paid for the second delivery period, which began only 10 days later, and $16.65 mt higher than for the last period delivery, which partially reflects the availability of the new crop. The prices paid for the first period delivery again exceeded the prevailing market prices as determined by USDA and should have been disapproved by USDA. Also, our analysis showed that Morocco could have saved about $280,750 in commodity costs by deferring purchase of one of the first two lots, or 19,950 mt, to the third delivery period. USDA would have incurred additional ocean freight differential costs of about $22,800, but would have saved on financing the additional commodity costs.

Zaire

On April 21, 1982, Zaire released an IFB for 52,000 mt of hard red winter wheat for delivery over four periods in 13,000 mt lots. On April 26, one day before the bid opening, Zaire amended the IFB to also request bids on northern or dark northern spring wheat. On April 27, Zaire purchased 52,000 mt of the higher quality and normally more expensive spring wheat for delivery to the Great Lakes. However, the bid file showed that only four suppliers offered spring wheat for the first delivery period and only three for the remaining three periods. In contrast, 8 to 10 suppliers offered hard red winter wheat for each delivery period. In fact, only the low bidder and one other bidder offered spring wheat for first period delivery to the Great Lakes and only the low bidder offered Great Lakes delivery for the last three delivery periods. The relative lack of offers for spring wheat, combined with the heavy bidding for the hard red winter wheat specified in the original IFB, indicates that the grain trade probably did not have sufficient time to react to the IFB amendment. USDA should have required Zaire to re-tender or otherwise amend the IFB to delay the bid opening a few days in order to allow the grain trade sufficient time to respond.

Egypt

On December 23, 1981, Egypt released an IFB for 200,000 mt of white wheat for delivery between January 15 and February 15, 1982. On January 6, 1982, Egypt awarded purchases of 164,100 mt (71+ percent of the 229,750 mt actually purchased) for loading beginning January 15, 1982. Although USDA regulations generally require that the lowest responsive bidder be selected, Egypt passed up the lowest responsive bid at $143.33 mt for 29,400 mt for delivery between January 15 and February 15. Instead, it selected 30,000 mt for January 15 to 31 delivery at $147.67 mt. Our analysis of the files indicates that adequate shipping capacity was available at low cost to have selected the lower bid and no justification was given for not doing so. Thus, USDA

appears to have financed a $127,596 premium for selective delivery, contrary to its regulations.

Liberia

On an IFB for 50,000 mt of rice for delivery over five periods, only two suppliers offered the type of rice preferred by Liberia. Their bids for the first three periods were as follows.

Delivery period	Supplier #1	Supplier #2	Price difference
	(metric tons)		
1	$363.39	no offer	-
2	365.59	$336.54	$29.05
3	369.99	336.54	33.45

Supplier #1 was awarded the first lot and supplier #2 the subsequent two lots. As shown, supplier #1's general price level was considerably higher, but USDA approved the sale anyway. In total, the buyer purchased about 43,000 mt of this rice. However, a price-conscious buyer would have passed up first period delivery and USDA should have considered disapproving that sale on the basis of the high price and general lack of industry response.

Haiti

A 1982 wheat tender also illustrates inadequate concern over pricing. Although this IFB was not in our random sample, we became aware of the problem it involved because we used it as one of our test cases to learn how USDA's price review mechanism worked. The buyer requested three lots of wheat for delivery in June, July, and August. When the bids were opened, the buyer purchased wheat for June delivery at $171.22 mt and for July at $167.92 mt. Although the low bid for August was only $163.15 mt, it could not be accepted because of a lack of ocean transportation bids. FAS officials acknowledged that, through administrative oversight on their part, they had allowed the IFB to be released without a request for August ocean freight. At our request, they telephoned the buyer's agent and asked why the buyer had not requested freight for August. They were told that the buyer had been purchasing wheat commercially in Canada and was uncertain as to what its port situation would be and decided to hold off on August delivery on the Title I tender. However, FAS officials stated that, even if the buyer had tendered for August transportation, FAS policy is to allow the buyer choice of delivery. Thus, FAS officials indicated that they would not have requested the buyer to select the lower priced wheat for August delivery in lieu of June or July delivery, even though the buyer was giving priority to shipping its commercial purchases at an increased cost to USDA and the Title I program.

USDA POLICIES AND PRACTICES AFFECT AVAILABILITY AND PRICES

Industry sources and FAS officials told us that multiple purchases of the same commodity under USDA programs within a short period of time can increase market prices. Processed products, flour and rice in particular, are much more price-sensitive to simultaneous multiple purchases because of the time needed to mill or process large volumes of such commodities. Therefore, FAS officials state they would prefer to have the Title I and II purchases spread out as much as possible. Our review showed that some improvement is needed in both areas.

Purchases too tightly grouped

Several suppliers noted that the trade could use more tenders in late summer and early fall, when commodity availability is greatest and prices tend to be lower. However, in recent years, tenders have been sparse early in the fall and winter and heavily concentrated in spring and early summer.

To illustrate, the first Title I wheat tender took place on November 19, 1981. Through the end of February 1982 (5 months into the fiscal year or Title I "market" year), only about 27 percent of the 2,479,594 mt yearly wheat had been purchased, virtually all of it by one country--Egypt. About 57 percent of the wheat, which is the most important Title I commodity in terms of tonnage and dollar value, was purchased between March and June 1982. In fact, more than 728,500 mt, or almost 30 percent of the total wheat for the year, was purchased under five tenders during one 9-day period in March 1982.

Purchases of other commodities show similar concentrations. The first FY 1982 rice tender did not occur until April 1982, but there were tenders on April 19 and 20, June 24, 25, 28, and 29, and July 13, 19, 22, and 27. USDA's Rice Price Review Committee cited the concentration in June as a factor in increasing the price paid for rice. The first corn purchase was made May 6, 1982. The first vegetable oil purchase occurred on March 31, 1982, and further purchases of this processed commodity occurred on May 25 and 26 and August 13, 16, and 24. The first flour purchase was consummated on December 29, 1981, and Egypt, which accounted for 89 percent of the total tonnage, completed its purchases on March 2, 1982.

To a considerable extent, these situations are attributable to delays in negotiating the basic annual Title I agreements with the countries themselves. For example, FAS records show that, as of March 1, 1982, only 3 of the 29 country agreements for fiscal year 1982 had been signed. This suggests that greater efforts may be needed in this area.

Title I and II overlap

Processed commodities under Title I are sometimes purchased on the same day or within a few days of Title II procurements made by the Kansas City Commodity Office. We noted the following cases of overlapping or closely grouped flour purchases.

Date	Title I	Title II	Sub-total	Percent of combined total
	(mt)			
Dec. 29, 1982	74,410		74,410	12
Jan. 11, 1982		8,437	8,437	
Jan. 14, 1982	73,485		73,485	
Total			81,922	13
Feb. 8, 1982	109,954	10,296	120,250	19
May 10, 1982		22,879	22,879	
May 12, 1982	20,965		20,965	
Total			43,844	7
Other purchases			301,031	49
Total combined purchases--Titles I and II for fiscal year 1982			621,457	100

Several flour millers cited overlapping USDA flour purchases as causing problems in their production and marketing strategies and their resultant prices.

We observed only one case where the two programs were very close on timing for rice purchases. On May 11, 1982, about 9,140 mt of rice was purchased for the Title II program, and on May 13, 9,000 mt was purchased under Title I. Vegetable oil was involved in two instances of overlap or near overlap. On May 18 and 20, 1982, almost 8,400 mt of oil were purchased for the Title II program, and on May 26 and 27, 24,600 mt were purchased for Title I. Also, on June 8 and 10, 28,550 mt of oil were purchased for Title II, while on June 8, 10,000 mt were purchased under Title I.

CONCLUSIONS

USDA has not exerted sufficient control over the tendering process. As a result, buyer tendering practices for a substantial number of IFBs in fiscal year 1982 have not been conducive to achieving the full benefits of open competitive bids and obtaining the lowest offered prices. Moreover, some buyers show inadequate concern over helping to reduce their purchase costs.

Both USDA and buyers appear to be reluctant to re-tender, even when the bidding results indicate that there may have been less than adequate competition in the economic sense.

Although there are undoubtedly a number of ways to achieve improvement, we believe that one way would be for FAS to establish minimum time frames for release of IFBs and for delivery and that any "emergency" purchases should be approved only with written justification of need from the recipient country. When the bid results indicate higher than market prices as compiled by the Kansas City Commodity Office (see ch. 5), such purchases should be disapproved by FAS and rebid.

FAS also needs to improve coordination over the timing of IFBs. Earlier signings of Title I annual agreements with recipient countries would help to prevent tenders from becoming too concentrated in the spring and early summer and should help to lower program costs and increase supplier bidding. For these same reasons, FAS and the Agricultural Stabilization and Conservation Service need to do more to ensure that Title I and II tenders do not overlap in time. These improvements are particularly important for processed commodities, where limited industry capacity and operating costs may affect bid prices.

RECOMMENDATIONS

We recommend that the Secretary of Agriculture direct the Administrator, FAS, to:

--Work for earlier signings of Title I annual agreements and a wider spread of procurements over the year.

--Establish a required minimum amount of time between (1) the issuance of IFBs and bid openings and (2) bid openings and the first delivery dates.

--Reemphasize the requirement of the Title I regulations that buyers select the lowest responsive bids. FAS should require and document the justification for any exceptions.

Eliminate close or overlapping Title I and Title II, Public Law 480 purchases.

AGENCY COMMENTS

The Foreign Agricultural Service generally agreed with our recommendations and cited progress it has made in each area since fiscal year 1982. Specifically, FAS noted that many of the problems cited in our draft report spring directly from the failure to assure early signings of Title I agreements. It stated that, with increased efforts, 50 percent of the fiscal year 1983 program was signed during the first quarter and that

percentage may be bettered in fiscal year 1984. FAS agreed that overlapping of Title I and II tenders should be prevented and stated that improved coordination with the Kansas City Commodity Office enabled it to avoid any serious overlapping during 1983. FAS said that it is developing a written policy on bid and shipping time frames but that usually it strives for 7 days between the release of IFBs and bid openings, followed by 2 to 3 weeks for the first delivery date for bulk grains and 3 to 4 weeks for milled commodities (rice and flour). Finally, FAS stated that the requirement to select the lowest responsive bid is constantly emphasized to buyers but that there may be exceptions when (1) a responsive offer cannot be matched with available ocean freight or (2) a slightly higher commodity offer for one coastal range combined with lower-cost freight results in a lower landed cost and a savings to the United States.

CHAPTER 3

FAS FINANCES PREMIUM PRICES FOR HIGHEST QUALITY COMMODITY CLASSES AND RESTRICTIVE SPECIFICATIONS

Although the legislation requires that assistance be given to the neediest countries to help feed their poor populations, some countries do not always attempt to maximize the use of their Title I dollar allocations. Instead, they sometimes buy the most expensive classes of commodities or pay premiums for restrictive specifications which exceed the official U.S. grain standards or surpass the quality of their normal commercial imports. FAS routinely approves such "upgrades" despite the additional cost and the already high quality standards established for Title I commodities.

USDA ALLOWS RECIPIENTS TO BUY HIGHEST QUALITY COMMODITY CLASSES

In general, Title I quality standards are comparable to or exceed those for commercial export sales. Each purchase authorization approved under a Title I sales agreement states the minimum quality standard allowable. Commodities may exceed the minimum quality, but recipients generally may not tender for a lower grade than that specified in the purchase authorization. Within this guideline, countries are given a wide latitude to set even more stringent specifications regarding grade, quality, and packing.

Our review of 54 fiscal year 1982 tenders showed that countries frequently request the most expensive class of a particular commodity. These requests result in USDA financing higher costs. FAS, which routinely approves and finances these purchases despite the additional expense, supports this policy on the basis of market development and consumer preference. However, in many cases, Title I officials do not know how the commodity will be used or distributed or whether that quality is really needed. Furthermore, FAS is frequently unaware of the countries' normal import purchases. We have noted cases in which the quality of recipients' Title I purchases exceeded that of their normal commercial imports. According to FAS officials, their policy is to allow a country to buy according to its preference, and FAS does not usually require justification for higher priced commodity classes.

Title I purchase authorizations allow countries to buy U.S. standard grade number two wheat or better.[1] Within that

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[1]For Durum wheat, grade number three or better is authorized.

standard, the country may select from five classes of wheat which vary in quality, price, and use. In contrast, U.S. policy under the Title II donation program for all countries is to ship the least expensive delivered class of wheat.

We noted tenders on which buyers either specified only the best class of U.S. wheat--hard red spring wheat--or requested the less expensive hard red winter wheat and then purchased the more expensive spring wheat. For example, several sources cited Indonesia as a country that tends to buy the best class of commodities under Public Law 480 but is more price conscious in its commercial purchases. In fiscal year 1982, Indonesia made two purchases of wheat under Title I totaling about 94,322 mt, all of which was the top-quality class of hard red spring wheat. Yet, industry sources told us that Indonesia normally buys only about 50 percent of its wheat needs in "protein" wheats (hard red spring or hard red winter wheat) commercially, buying less costly varieties either in the United States or, more usually, Australia. Exporters told us that Indonesia buys 13-percent protein hard red spring wheat commercially versus 14-percent protein under Title I, at a price differential of approximately 5 to 10 cents a bushel less (roughly $1.80 to $3.60 mt). One exporter stated that Indonesia was buying ordinary protein wheat (less than 11-percent protein) commercially and several told us that Indonesia was also buying off-grade wheat in Canada. In terms of use, several sources in the grain trade indicated that the very high quality Indonesian imports were being sold to tourist-quality hotels and restaurants to produce high-quality hard rolls and pastries.

We noted this same tendency for buyers to gravitate toward the highest quality and higher priced classes on other commodities as well. For example, industry and USDA sources told us that grade #3 corn is the standard export grade. Yet, for three of the five corn tenders we reviewed, countries purchased at least some #2 corn. On one of these tenders, we estimate that a $19,000 premium was paid for one 13,800 mt purchase. Similarly, on vegetable oil purchases, we noted an IFB where Bangladesh requested only fully refined oil, which is packaged under Title I in 55 gallon or smaller drums only. Although the purchase increased the value of U.S. exports due to the domestic processing and packaging costs involved, it also caused Bangladesh, which has refinery capacity and which usually buys oil in bulk, to pay at least $220 mt more for the refined oil, or about $2.2 million in additional cost to be financed by FAS.

The type of rice authorized under Title I is U.S. grade #5, with a maximum of 20-percent broken grains (5/20). Due to domestic market considerations and buyers' price and quality considerations, Title I rice, unlike wheat and corn, is a lower grade than rice exported for many commercial sales. Commercial rice exports to developed countries are typically grade #2, with

4-percent broken grains (2/4), which cost $80 to $100 more per metric ton. However, according to an FAS official, U.S. 5/20 rice still equals or exceeds the quality that Title I countries import from other sources. Within the 5/20 purchase authorization guideline, recipients may select long, medium, or short grain rice. They generally request only long and medium grain rice; long grain is usually the most expensive class of rice.

Of the 17 rice tenders by 15 countries in fiscal year 1982, 9 tenders requested offers on both medium and long grain rice. In total, on 7 of the 17 tenders, 6 countries selected at least some long grain rice. The price differential between the lowest offered price for each class ranged from $13.29 to $63.51 per mt. In some cases, the additional cost financed by USDA for long grain was substantial. For example, Kenya tendered for 15,000 mt of long or medium grain rice. Although the average price per metric ton for medium grain was $38.45 less, Kenya purchased long grain. The additional cost financed by FAS was $537,762. Five of the six countries which purchased long grain rice under Title I receive the less expensive medium grain under Title II.

STRINGENT SPECIFICATIONS LEAD TO HIGHER PRICES

Although FAS already authorizes high-quality levels for Title I commodities, some recipients request even more stringent specifications, including higher grades, more refined processing, stringent controls on protein or moisture levels, and nonstandard packing. For example, in May 1982, Mauritius purchased 3,975 mt of 5/20 medium grain rice and 3,000 mt of the higher grade 3/10 long grain rice which cost approximately $75 more per ton than the 5/20. Furthermore, Mauritius required that the rice be shipped in 50-kilogram bags (110 lb.), even though the commonly accepted 100-lb. bags were offered at a lower price. These quality and packing specifications led to an additional cost of almost $237,000 for a purchase of only 3,000 mt.

According to FAS files, public opinion in Mauritius had been raised against U.S. 5/20 rice and Mauritius did not want to import "bad quality" U.S. 5/20 rice. However, it traditionally buys a very low-quality rice with 35-percent broken grains from other countries and has not been a commercial customer of the United States. Yet, Mauritius planned to continue importing low-quality rice from other countries for its ration program while obtaining U.S. 3/10 Title I rice as a "luxury" commodity. According to FAS officials, Mauritius intended to use the Title I rice in its hotel trade.

Because so many objections were raised about this sale, FAS adopted an informal policy not to sell a higher grade rice than 5/20 under Title I unless the country (1)traditionally buys that quality rice or (2) has market development potential. FAS cited this policy in refusing Zambia's request to buy 2/4 rice during

fiscal year 1982. However, Zambia did purchase a more restrictive quality of rice on another fiscal year 1982 tender. Zambia requested approximately 6,500 mt of medium grain 5/20 rice, specifying that the rice must be well milled. In general, Title I tenders call for well-milled or reasonably well-milled rice, at the supplier's option. The premium for well-milled rice averaged $15 more per mt, for a total additional cost of almost $86,000. USDA's Rice Price Review committee noted that the "more restrictive tender reduced the eligible pool of rice to be offered, bidding up the prices." The People's Republic of Congo also tendered for well-milled rice and paid a $54,700 premium for only 6,333 mt.

FAS officials did not know why these countries needed the higher quality rice, and the files contain no justification. In fact, according to State Department cables, the potential for developing a rice market in Zambia was considered unlikely.

Buyer specifications caused price premiums to be financed by USDA on wheat tenders. Indonesia restricted one IFB to the sub-class of dark northern spring (DNS) wheat instead of allowing bids on the broader northern spring/dark northern spring (NS/DNS) class purchased by other buyers. One supplier offered to deliver either DNS or the general NS/DNS class, at his option, at more than $8 mt cheaper than the lowest DNS bids. This bid was passed over, apparently because the supplier had the option of supplying either DNS or NS/DNS. However, he offered the same 14-percent protein specification offered by other bidders and industry sources told us that, for all practical purposes, the two wheats are virtually identical except that DNS amounts to a "trademark" and commands a premium. We estimate that Indonesia, and USDA, could have saved about $244,400 on this IFB alone. In another case, a country requested 12-percent protein hard red winter wheat on one tender and 12.5-percent protein on another. Although we could not compute the extra associated costs, industry and USDA sources told us that each of these purchases would include a price premium over the more normal hard red winter "ordinary" protein wheat (up to 11-percent protein).

On one small IFB, the buyer requested wheat of 13-percent moisture instead of the usual 13.5-percent moisture. A USDA technical expert told us that this specification is not needed, since most suppliers furnish wheat at 12.5 to 13.0-percent moisture. He further noted that the specification is unrealistic, since moisture has to be added to wheat during the milling process anyway. One supplier offered 13.5-percent moisture wheat at lower prices and the buyer and USDA could have saved about $57,600 on commodity costs plus about $135,000 in non-reimbursable ocean freight differential costs. On another IFB, the buyer requested NS/DNS 14-percent protein, or hard red winter 11-percent protein, or white wheat 11-percent protein. At least two suppliers and a USDA technical wheat expert advised us that virtually all the white wheat grown in the United States

is, by nature, low in protein. They further stated that white wheat is sold without any protein specification, that this tender was unrealistic, and that USDA should solicit industry views or otherwise impose some type of technical review on tenders to avoid these types of situations in the future.

Egypt and Jamaica request bagging materials which are not standard in the trade. Although woven polypropylene is the preferred bagging material for exported flour, Egypt consistently requests 50-kilogram jute bags. The price of jute fluctuates, but a USDA packing specialist stated that it generally costs about 50 cents more per metric ton than polypropylene. In fiscal year 1982, Egypt purchased approximately 392,000 mt of flour; we calculated the additional cost for jute bags at approximately $196,000.

Jamaica purchases its flour in 100-lb. cotton bags. According to the USDA packing specialist they cost at least $11 more per mt than polypropylene. As a result, an estimated $45,276 premium was paid to meet Jamaica's bagging specifications for 4,116 mt of commodities in fiscal year 1982. The USDA official said that cotton bags are not used in U.S. domestic food distribution programs because of their high cost.

CONCLUSIONS

Some Title I recipients request the most expensive class of commodities or place stringent specifications in their tenders which cause higher prices. In some cases, the specifications exceed typical industry standards. Frequently, program officials do not know how the commodity is to be used or distributed within the country or what quality the recipient normally imports commercially. Moreover, FAS does not require justification for most commodity upgrades and individualized specifications. As a result, FAS financed premium prices when lower cost alternatives were available.

RECOMMENDATION

We recommend that the Secretary of Agriculture direct the Administrator of FAS to require that recipients finance any additional premiums for individualized or non-standard specifications unless a definite need has been established and justified.

AGENCY COMMENTS

FAS agreed that some of the justifications it accepted in the past should be re-examined and more closely scrutinized. It, therefore, agreed in principle to our recommendation, but said that it prefers to justify definite needs for higher priced options and disallow requests for "preferred" premium commodities because determining the extra costs involved and making the countries finance them would be extremely difficult and time consuming.

CHAPTER 4

MONITORING AND PROTECTION OF U.S.

COMMERCIAL MARKETS ARE INADEQUATE

The Title I legislation requires that the usual U.S. commercial markets be protected and that the United States be assured a fair share of any increases in a recipient's commercial purchases of agricultural commodities. Although FAS monitors each recipient's overall commercial purchases, it does little to ensure that the United states receives a fair share of a recipient's increasing purchases. In reviewing Title I recipients' 1977-81 import statistics, we found that in some instances the United States had not maintained its historic share of a country's commercial imports, where those imports had remained relatively stable, nor obtained a fair share of commercial import growth. Moreover, some countries received substantial amounts of concessional assistance but made few, if any, of their commercial purchases in the United States. We believe that FAS should give more attention to safeguarding the U.S. market share.

U.S. POLICY IS TO SAFEGUARD NORMAL COMMERCIAL MARKETS

The policy of the United States is that commodities provided on concessional terms should not interfere with normal commercial exports. This policy is observed through the principle of "additionality;" i.e., commodities sold on concessional terms must be in addition to those the recipient country would have bought with its own resources in the absence of a Title I purchase. To prevent displacement of commercial sales, section 103(c) of the Title I legislation directs the President to take reasonable precautions to safeguard usual marketings of the United States and assure that sales under this Title will not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries.

The usual marketing requirement (UMR) provision of each Title I agreement is the mechanism for assuring additionality. This provision is a commitment by the recipient to maintain its usual commercial import levels. In principle, the UMR attempts to reflect the country's historical import pattern and is typically based on its average commercial imports during the preceding 5 years. However, when setting the UMR, FAS also considers any unusual economic, financial, and political factors to avoid placing an undue burden on the country.

Records on commodity exports to recipient countries are used to calculate the UMR. FAS obtains its wheat and wheat

flour statistics from the International Wheat Council and believes these statistics to be fairly accurate. However, rice data are not available from a centralized source and are more subject to error; statistics after 1980 were not available for 4 of the 15 rice recipients. Usable records were not generally available for soybean oil; however, we were able to obtain import statistics for Pakistan, which accounted for 69 percent of the fiscal year 1982 soybean oil allocation.

The UMR is established for a 12-month period. The recipient country submits periodic compliance reports to FAS to document its commercial imports. If a country does not import the required level of commodities, the "shortfall" is added to the following year's UMR. Recipients remain eligible for Title I commodities, but the UMR shortfalls continue to accumulate each year. Our review of the fiscal year 1982 program showed that 15 of 29 countries were usually late in submitting the required compliance reports and that 16 countries carried shortfalls from previous years of one or more commodities.

Except for cotton, tobacco, and vegetable oil, the UMR is global; that is, the recipient may fulfill the UMR through commercial purchases from any country considered to be friendly to the United States. The commercial imports therefore are not tied directly to procurement in the United States.

U.S. TRADITIONAL MARKETS ARE NOT ALWAYS PROTECTED

The Title I legislation attempts to safeguard normal world patterns of trade and the usual commercial markets of the United States in particular. In fact, one of the principal reasons for establishing a UMR is to ensure that concessional assistance does not interfere with U.S. exports. FAS monitors compliance with the UMR on a global basis. The primary concern is a recipient's total commercial purchases, but FAS shows little concern for the actual quantity purchased in the United States. Furthermore, FAS defines "historical share" as a 5-year moving average of U.S. imports. If a country imports less from the United States each year, a lower average is continually established as the new U.S. share. As a result, the U.S. historical share is eroded.

We reviewed available data for the 27 countries which received Title I wheat, flour, or rice assistance in fiscal year 1982 as well as data on the largest importer of Title I vegetable oil. Six countries showed declines in U.S. commercial

imports of at least one commodity during the 5-year period 1977-81.[1] For example:

--Bolivia received Title I wheat/wheat flour for 3 of the 5 years reviewed as well as for fiscal year 1982. In 1977 and 1978, Bolivia purchased 70 and 80 percent of its wheat commercially from the United States; since then this percentage has dropped substantially, amounting to only 13 percent in 1981. Data for 1982 show no commercial purchases in the United States. During the 1977-81 period, Bolivia's total commercial purchases averaged almost 187,000 mt annually. The U.S. 5-year average market share was approximately 85,500 mt. If the new average for 1978-82 is calculated, the U.S. share drops to 62,300 mt. Furthermore, for 1977-81, the United States provided an average of 89 percent, or just over 47,000 mt, of Bolivia's total concessional assistance.

--The U.S. share of Jamaica's commercial wheat/flour purchases declined from 40 percent in 1977 to 11 percent in 1981. Actual tonnage dropped from 53,000 to 14,700. During this period, Jamaica's commercial purchases remained relatively constant, with an overall average of about 137,000 mt a year. The 1982 data show a slight increase in U.S. purchases to 16,400 mt, despite an almost 28,000 mt decrease in overall imports. However, the previous 5-year U.S. average share dropped from about 40,000 mt to about 33,000 even when 1982 figures were included.

In contrast, 2 of the 27 countries, Indonesia and Haiti, have made increasingly larger commercial purchases from the United States. In 1981 and 1982, Sri Lanka also began to increase its purchases, reportedly due in part to industry market development efforts. The remaining countries have maintained approximately the same level of U.S. imports.

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[1]Title I allocations are handled on a fiscal year basis. FAS wheat export statistics are maintained on a July/June marketing year basis. For clarity, we will refer to the 1976-77 marketing year simply as 1977. Rice statistics are kept on a calendar year basis. When available, 1982 data were reviewed. Because of overlapping analysis periods, it is not possible to have an exact correlation between marketing year export and Title I fiscal year allocations.

UNITED STATES DOES NOT OBTAIN ITS FAIR SHARE OF EXPANDING MARKETS

Although the legislation directs the President to "[t]ake steps to assure that the United States obtains a fair share of any increase in commercial purchases of agricultural commodities by the purchasing country," it does not specifically define "fair share."

A Title I official stated that FAS interprets "fair share" to mean that the United States should obtain the same amount of increased sales as its historical share. That is, if the United States has a historical market share of 30 percent, then it should also obtain 30 percent of any increases in a recipient's commercial purchases. According to FAS officials, however, they neither monitor nor emphasize this provision of the law. FAS maintains statistics on each recipient's commercial imports but does little to ensure that the United States receives a fair share of the recipient's increasing market. For example:

--Guinea's commercial rice purchases jumped from almost 37,000 mt in 1977 to 60,000 mt in 1981. No purchases were made in the United States during this period despite the fact that the United States provided an average of 66 percent (about 13,000 mt a year) of Guinea's total concessional rice assistance during this period. Although the Guinean commercial market grew, the United States obtained no share of it.

--From 1977 to 1981, Egypt's commercial wheat and flour purchases soared from 2.1 million mt to 4.9 million mt. The U.S. share averaged 16 percent, or about 565,000 mt. Despite some yearly fluctuation, the U.S. share remained relatively constant. Moreover, Egypt obtained an annual average of 92 percent, or 1.5 million mt, of its concessional aid from the United States during this period.

U.S. commercial sales in the world market might be higher if FAS monitored and emphasized the fair share provision of the law. For example, the most recent data for Egypt show that the United States received a larger share (32 percent) of Egypt's commercial purchases in 1982. According to an industry official, informal pressure had been placed on Egypt to give the United States more opportunity in the Egyptian commercial wheat and flour market.

SEVERAL TITLE I COUNTRIES MAKE FEW OR NO COMMERCIAL PURCHASES IN THE UNITED STATES

Section 2 of the Act states that it is the policy of the United States "to develop and expand export markets for United States agricultural commodities . . ." Title I sometimes does not serve this purpose. Several countries received substantial amounts of their concessional assistance from the United States for at least 3 of the last 5 years. However, they made few, if any, U.S. commercial purchases during 1977-81. Of 27 countries which have average annual commercial imports of at least 20,000 mt of wheat or rice, 8 have purchased less than 10 percent from the United States. Moreover, 6 of these countries received over 60 percent of their concessional assistance from the United States. Although the UMR is not tied to procurement in the United States, we believe that more should be done to encourage Title I recipients to increase their levels of U.S. commercial imports.

CONCLUSIONS

The Public Law 480 legislation seeks to protect and expand export markets for the United States. In our opinion, FAS has not adequately monitored or emphasized this provision of the law. Our review of import statistics for 27 countries receiving wheat, flour, or rice assistance in fiscal year 1982 and of the largest vegetable oil recipient showed that the U.S. market share had increased in only two cases from 1977 to 1981. In contrast, 10 countries have either shifted their commercial purchases away from the United States or have not given the United States a larger share of increases in their commercial market.

RECOMMENDATION

The Secretary of Agriculture should direct the Administrator of FAS to more carefully monitor import statistics and emphasize the legislative requirements to take reasonable precautions to safeguard the usual U.S. markets and to take steps to assure the United States a fair share of any increase in commercial purchases in countries which have rising imports.

AGENCY COMMENTS

FAS stated that it is monitoring import statistics more carefully but that in fiscal year 1982 traditional U.S. markets were being lost to subsidized exports or other cheaper sources

of supply. FAS cited a broad range of new programs and activities that it initiated, especially during fiscal year 1983, to reverse this trend. It stated that some positive results can already be noted, such as in Egypt, where the U.S. share of commercial wheat and flour imports have increased to nearly 2 million tons, or almost 40 percent of total imports.

CHAPTER 5

PRICE EVALUATION SYSTEM

NEEDS TO BE STRENGTHENED

To ensure that commodities are financed at reasonable prices, Title I regulations require USDA to approve each purchase and purchase price. These regulations further stipulate that the supplier's price must not exceed the prevailing range of export market prices.

To implement these requirements, FAS has developed a system for obtaining daily export market prices from industry sources for most Title I commodities through the Agricultural Stabilization and Conservation Service (ASCS). In theory, ASCS establishes the prevailing market price on the date of each Title I sale and FAS reviews the Title I bid prices and disapproves bids that exceed that price. In practice, ASCS is doing a good job of establishing the market price for most bulk grains. However, it needs to solicit a broader segment of the industry to reasonably establish the market price for spring wheat and for wheat flour, a processed commodity.

Little precise market price information, however, is being developed to serve as a basis for approving Title I rice prices. We believe that FAS needs to develop such a system and that it may be possible to use and expand on rice price data already being gathered by ASCS.

In a number of cases, FAS has approved Title I purchase prices that exceed the market prices developed by ASCS. In fact, the price review system as currently implemented by FAS tends to approve all supplier bid prices. Rarely is one of the hundreds of individual annual purchases disapproved, and we believe that the credibility of the system is questionable.

ORIGIN OF THE SYSTEM AND HOW IT WORKS

Until the early 1970s, USDA was paying subsidies on commercial grain export sales. According to FAS officials, this provided almost daily contacts with the grain trade and a good knowledge of market prices. However, those contacts began to diminish as a surge in export demand in 1973-74 rapidly depleted U.S. grain stocks. To fill this void, in 1974 FAS asked ASCS's regional offices to begin providing daily information on export market prices to enable FAS to review and approve Public Law 480 prices and evaluate the competitiveness of U.S. grain exports.

In late 1974, ASCS's Chicago, Kansas City, Minneapolis, Portland, and Houston regional offices began submitting daily reports called the FA-5P. These FA-5P reports provided export market price information for all major commodities exported under Title I as well as for other commodities.

Today the daily FA-5Ps remain the basic data source used by USDA to review and evaluate supplier bids for Title I grain and flour purchases. However, most ASCS offices have been closed and currently a small unit within the Kansas City Commodity Office (KCCO) and a small sub-office in Portland are responsible for gathering price information over the entire United States. They also have responsibility for other major programs.

We visited these offices and observed their operations. Briefly, they monitor developments in the commodity markets throughout the day for a wide range of commodities and delivery points. This news is obtained mostly through commercial wire services.

Virtually all the export market price information developed for the daily FA-5P reports is based on price quotes for delivery in specified future periods obtained by telephone from grain industry sources. Exporters are the major sources of these price quotes, but other sources are contacted as well. To protect the confidentiality of their sources, the Kansas City and Portland staffs do not identify the names of the firms contacted on their individual price sheets.

It is important to note that these export quotes are "offered" prices; that is, the initial "asking" prices of suppliers. "Bid" prices, which represent what a buyer is willing to pay on a given day, are lower. Thus, actual sales will tend to be negotiated at prices somewhere between bid and asked prices.

Near the end of the afternoon, the KCCO and Portland Offices review individual price quotes for each commodity and make judgements as to what the market price is for that commodity. This information is reported to FAS by telephone that afternoon and is confirmed on the FA-5P report, which takes a day or two to reach Washington. The price information reported to FAS in the afternoon is used to evaluate Title I bid prices.

The FAS reviewer compares the bid prices with the FA-5P price and, in theory, should disallow prices above that reported on the FA-5P. This is the procedure for approving bulk grain and wheat flour prices. The procedures for reviewing and approving vegetable oil prices vary in that all the work is basically performed within FAS; however, the method is basically the

same. The procedures for evaluating rice prices vary substantially and are discussed later.

DATA BASE FOR SOME COMMODITIES SHOULD BE EXPANDED AND REFINED

Our review of the detailed price data compiled by the Kansas City and Portland offices shows that the data base for some commodities has questionable validity for determining daily market prices. For example, for hard and soft red winter wheat KCCO typically obtains export price quotes from four to six or more individual exporters every day and evaluates them to determine the FA-5P price. In contrast, it usually makes only two contacts daily for the expensive spring wheat delivered FOB Gulf or Great Lakes. Generally, Portland obtains more daily quotes for individual commodities than does KCCO. For example, Portland's price sheets usually have 6 or 7 quotes daily for spring wheat delivered FOB Pacific Northwest. The price sheets also show similar or greater numbers of quotes for white wheat, an important Title I commodity. We believe that the small number of price quotes being obtained by KCCO for spring wheat may not be adequate to permit an informed judgment of the general range of market prices for that commodity delivered to the Gulf or Great Lakes or to develop an FA-5P market price.

A somewhat parallel situation exists with regard to flour prices, for which KCCO obtains only two quotes daily. Only one of the quoting firms has consistently exported under Title I, and the other tends to be much higher priced. KCCO is also obtaining quotes for 11-percent protein flour whereas Egypt, the primary Title I flour customer, buys a 10-percent protein flour, which should be less costly. However, neither the KCCO nor the FAS price reviewer "discount" the FA-5P price quotes to reflect the lower protein level.

There tends to be a wide variance between the lowest and highest approved flour prices, and actual supplier bid prices tend to be substantially below the FA-5P flour prices developed by KCCO. For example, for three 1982 IFBs the highest approved bid prices were $12.06 mt, $14.76 mt, and $17.85 mt below the respective FA-5P market prices. In fact, in one instance, one firm quoted a price for the FA-5P and, on the same day, submitted bids on a Title I tender that were as much as $30 mt lower. This firm was among the successful bidders.

The above situation suggests to us that KCCO's system for developing flour prices does not reflect realistic market prices. At a minimum, KCCO needs to solicit a broader cross-section of flour mills.

Similarly, for corn and rice KCCO was obtaining only three or four price quotes a day. While on its face this may not be an inadequate number of quotes, corn is a big U.S. crop and also the most significant U.S. commercial agricultural export in terms of tonnage. Therefore, as with wheat, it should be possible to obtain more export quotes. Rice, however, like flour, is a processed commodity, and obtaining accurate price information for it is more difficult. (See p. 28.)

We discussed our overall observations with the KCCO staff. Their individual and collective responses were that their workload does not permit time to do more on obtaining export prices; they are responsible for administering contracts with some 6,500 warehouses for storing commodities around the United States and for settling claims against these warehouses and railroads for loss or damage to those commodities. At the time of our visit in March 1983, they were also being assigned new responsibilities for USDA's new Payment-in-Kind (PIK) program and for the 1-million ton sale of flour to Egypt.

THE SYSTEM LACKS CREDIBILITY

In discussing Title I price review, it is important to recognize that on any given day there is not one specific fixed price for a commodity; there is a range of prices that varies during the day, including bid prices, asking prices, and actual transaction prices. Additionally, for a large percent of bulk grain purchases, the approved bid prices fell well under the FA-5P market prices developed by KCCO and Portland. On the other hand, FAS did not disapprove any of the literally hundreds of individual Title I purchase prices in fiscal year 1982 on price grounds. Instead, FAS has routinely approved prices that exceed the market prices recorded by the KCCO or Portland staffs for that date.

On 6 of the 16 wheat IFBs we sampled, the approved bid prices exceeded the relevant FA-5P market price submitted by KCCO. These 6 IFBs each consisted of multiple purchases from different suppliers. Therefore, the total number of purchases for which the market price was exceeded was much higher.

On corn, prices in excess of the market price were approved on at least two of the five IFBs in our sample. The same basic situation can be found in the vegetable oil tenders, for which the basic input data is only partially obtained through KCCO. FAS computes the equivalent of the FA-5P market price for vegetable oil, but we learned that purchase prices exceeding the FA-5P equivalent were approved on two of the nine vegetable oil IFBs in our sample.

For flour, the situation tends to be the reverse. That is, the Title I purchase prices tend to be substantially below the FA-5P prices. There were only two cases where the FA-5P and actual purchase prices were relatively close. The purchase price in one case exceeded the FA-5P price but was approved anyway.

Finally, for rice the pricing problem is more complex. The evaluations of wheat, corn, and soybean oil prices are based on an established commodity futures market price. Rice has no developed futures market. FAS officials have stated that rice price quotes are not as accessible or reliable as desired. Consequently, USDA established a departmental Rice Price Review Committee in 1975 to determine the prevailing range of export market prices or the maximum export market price for rice. The Committee consists of representatives from ASCS, the Agricultural Marketing service, and FAS.

Prior to the release of a rice IFB, the FAS representative on the Committee usually prepares a price estimate. The estimate is not binding on the final approval process. Primarily, the per-ton price alerts the buyer, and also Title I officials, as to the approximate tonnage the Title I dollar allocation can be expected to buy. According to the FAS official who prepares it, the estimate is based on prices obtained on previous Title I tenders and is basically a judgment call. No documentation is maintained describing how the estimate was developed.

After the bids are received and the country makes its tentative selections, the Committee evaluates the awards and recommends approval if prices are "reflective" of the market. Often, the analysis is conducted by phone. The FAS member usually writes a brief summary of each price review. Due to time constraints, price estimates and Review Committee summaries were not prepared for some tenders held late in fiscal year 1982. No rice prices were disapproved in fiscal year 1982.

During our review of the 17 rice IFBs held in fiscal year 1982, we found that the Review Committee does not adequately determine the maximum export price or document the prevailing range of export market prices. Rather, price trends are cited in a very general manner and the basis for approval is not clear. Review Committee members told us that they primarily rely on prices quoted in previous tenders, contacts with the rice industry, and world prices from Thailand and Rotterdam. The FAS representative stated that he keeps abreast of daily price trends but that he cannot precisely determine whether a specific quote is reasonable or unreasonable. As a result, it appears that prices are approved whether or not they fall within the "expected" range.

For example, Liberia tendered for medium, long grain, and long grain parboiled rice on April 19, 1982. The FAS technical

expert prepared a price estimate of $305 mt for parboiled rice one week prior to the bid opening. The award for the first delivery was $363.39 mt--about $58 mt over the expected price. The Committee noted that world rice prices had shown some signs of strength but that demand for Thailand's parboiled rice had been weak. The Committee's summary stated that:

> "While some of the bids accepted were higher than anticipated, the spread with long grain rice was in line with that indicated in AMS reports and prior conversations with the trade. The committee felt the prices were reflective of the market and recommended that they be accepted."

Prices for long grain parboiled rice were $27 lower for the next delivery period requested, while prices for regular long grain rice rose by $5. In our opinion, the Committee's determination of the prevailing range of export prices was not adequately established in that the stated reason for approving a price which was higher than expected is vague and unaccompanied by supporting documentation.

In another case, Somalia solicited bids for long and medium grain rice due on June 29, 1982. On June 28, a price estimate of $270 mt was prepared for medium grain. The offers accepted ranged from $282 to $295 mt, or $12 to $25 higher than the estimate of the previous day. The Committee cited factors which may have been reflected in the price increases, such as a projected decline in medium grain acreage and the large number of consecutive Title I tenders. It recommended that the prices be approved. Again, no supporting documentation exists as to what the acceptable price range was or how it was computed.

We believe that the rice price review process needs to be improved. The approval of prices which are higher than anticipated casts doubt on the effectiveness and reliability of the entire rice price approval process. It appears that the process works primarily to approve all prices rather than to carefully determine reasonable export prices.

This doubt is further increased when prices on consecutive tenders are reviewed. As noted previously, bid prices may be approved on the basis of previous award prices. This process of using the previous price as a benchmark tends to push prices higher, as shown in the following three examples.

Award Prices

1982	Price	Delivery period
Medium grain		
Example I:		
June 28	$276.24 to 283.73	Aug. 1 to 31
June 29	282.42 to 294.87	July 15 to Aug. 15
Example II:		
Aug. 23	286.60 to 290.53	Sept. 5 to 25
Aug. 30	292.92	Sept. 10 to 30
Long grain		
Example III:		
June 24	314.00 to 317.68	July 15 to Aug. 15
June 25	322.93	Aug. 1 to 31
June 28	329.24 (offered)	Aug. 1 to 31

To strengthen the price review process, USDA needs to do a better job of obtaining price data and to develop internal guidelines for determining the prevailing export prices for Title I rice. We noted that KCCO has developed a number of rice industry sources and obtains at least three to four daily price quotes or other information from the trade and submits this data on the daily FA-5P report. However, the FA-5P is not received in Washington in time for the Title I price review process, so FAS personnel would have to telephone KCCO on the day of award to obtain this data. Also, this KCCO rice price information relates primarily to southern or Gulf rice, not California rice. We were told that FAS does not contact KCCO for price information at the time of these sales. KCCO personnel also told us that they developed many industry contacts before the Houston Office was closed but that their current workload does not permit them to obtain more price information than they now do. Thus, KCCO is a source for rice price data that could be expanded and used in the price review process.

Another possibility would be for USDA to develop a system to "discount" the higher grade #2 with 4 percent "brokens" rice price to the Public Law 480 #5 with 20 percent brokens price. KCCO staff said they had suggested a system for doing so in 1978 and that while it might take time to develop and refine such a process, it ought to be possible. Rice buyers could be still another source of price data; for example, the Agricultural Market Service rice reporter in Martinez, California, told us that the primary rice suppliers there constantly sell rice in bulk and in bags to supermarket chains and wholesalers and that USDA could survey the buyers to determine a price range.

Finally, we believe that USDA should document the specific basis for approving each rice price; the individual rationales for approving rice prices are stated broadly and very generally and usually rely on the previous Title I price. USDA should strengthen the FA-5P process or develop another system to provide a specific ceiling market price on each tender and reject any prices above that ceiling.

We discussed our observations with FAS price reviewers to ascertain why they approved purchase prices that clearly exceeded the FA-5P prices. They cited a number of reasons, including restrictive commodity specifications, unreasonably tight shipping deadlines, turbulent market conditions, burdensome Title I paperwork, and other factors that they feel can and do cause Title I purchase prices to be higher than the FA-5P price, since suppliers want a premium for dealing with such restrictions. However, they were not able to indicate how they determine a reasonable premium for such conditions nor how they then applied that premium to their price review of those IFBs. It was also our impression that these price reviewers are extremely reluctant to disapprove any Title I price.

Since KCCO and Portland perform the market price surveys, have daily contacts with the industry, and submit the FA-5P, there is little justification for FAS price reviewers to begin developing their own prices once those prices reach Washington.

CONCLUSIONS

Under Title I regulations, USDA must approve each sales price and that price must not exceed the prevailing range of export market prices. USDA's daily FA-5P reports provide the necessary information to establish the prevailing range of market prices for most bulk grains. However, for flour and spring wheat, the KCCO needs to survey a broader cross-section of the industry to establish the prevailing market price range. In particular, the wide variances between actual Title I bid prices and the FA-5P price indicate that FA-5P flour prices do not really reflect market conditions. Thus, the mechanism for obtaining flour prices needs to be refined, and we believe that FAS should ask KCCO to survey flour users, such as large domestic bakers, to help assure more accurate flour prices. Equally, a system based on market prices needs to be developed for evaluating rice prices. Currently, available FA-5P price data are not being used and each prior Title I rice price is used to justify the succeeding tender prices. FAS should explore other information sources for rice prices, including buyers, or it should develop a system for discounting rice prices to Title I quality levels.

More fundamentally, however, the price review system's credibility is questionable. The FA-5P market price is based on suppliers' offering prices, which already represent the maximum

price each supplier is asking. The FA-5P was established precisely to define a reasonable market price and represents the best available price information available to FAS. Yet, FAS price reviewers routinely approve prices that exceed the FA-5P price. In other words, the price review system, as currently operated, tends to rationalize and approve any purchase price, no matter how high. In so doing, it provides little assurance that these prices will not exceed the prevailing range of export market prices. This system needs to be changed, and we believe that, once the system for certain commodities is strengthened, FAS should disapprove any Title I price that exceeds the FA-5P market price developed by KCCO or the Portland sub-office.

RECOMMENDATIONS

The Secretary of Agriculture should direct the:

--Administrator, Agricultural Stabilization and Conservation Service, to strengthen the export market price-gathering function of the Kansas City Commodity Office for wheat flour and spring wheat.

--Administrator, Foreign Agricultural Service, to (1) disapprove any Title I bid price that exceeds an FA-5P export market price for the comparable commodity specification and shipping mode and (2) develop a system for evaluating Title I rice prices that uses the broadest practical range of information sources.

AGENCY COMMENTS AND OUR EVALUATION

FAS stated that there is general agreement that the KCCO's price gathering operation for flour and spring wheat need to be strengthened. It said that prices will be obtained for 10-percent protein flour, the number of price quotations obtained for spring wheat will be expanded, and, workload permitting, a training program for newly employed KCCO merchandisers would complement and strengthen this expansion. FAS also agreed to re-examine the rice price review system for possible strengthening and said that the results will be provided in its response to our final report.

FAS, however, did not agree with our proposal that it should disapprove Title I bid prices that exceed the relevant FA-5P market price developed by KCCO. It stated that the FA-5P market price is essential as a basic guide in the price review process but that, since Title I recipients are required to accept the lowest responsive bid under an open public bid process, there should be no question that the Title I price is the true market price. Also, FAS said that Title I tenders oftentimes reflect conditions, such as premium commodity specifications and additional risks to suppliers for having to load

slower-loading U.S. flag ships, that are not reflected in the FA-5P price.

We believe that the FAS position is inconsistent. On the one hand, it stated that the FA-5P prices are essential in evaluating Title I prices and agreed that the price-gathering system used in developing the FA-5P prices needed strengthening. On the other hand, it did not agree that the FA-5P prices should be used to disapprove Title I bid prices.

We found that the approved bid prices for a large percent of Title I purchases were well below the relevant FA-5P prices. However, we also found a significant number of instances where FAS routinely approved bid prices which exceeded the FA-5P prices. We concluded that, without a firmer standard for judging the reasonableness of Title I bid prices, the FAS price review system lacked credibility because of the tendency to approve all bid prices. The FA-5P export market price system was established at the specific request of FAS for the purpose of evaluating Title I bids. It is the primary source of grain export price information available to FAS and USDA, and the KCCO regularly uses these prices in settling claims against shippers for commodity losses under the Public Law 480, Title II food donation program. Commodities shipped from USDA inventories for Title II are also priced using these same FA-5P export market prices.

We agree with FAS that, for comparison purposes, it would be necessary to adjust FA-5P prices for any differences in specifications between commercial and Title I commodities. KCCO staff told us that information for such adjustments is available from exporters. However, most of the problem cases we identified involved only commodity specifications already provided in the daily FA-5P reports. Concerning any premiums which exporters might add for the potential risks of loading slower-loading U.S. flag ships, it should be noted that Title I bidders are required to submit separate bids for four different types of U.S. flag ships. Any risk premiums for loading are, therefore, explicitly stated and can be used to adjust FA-5P prices. In our comparison of Title I bid prices with FA-5P prices, we made this adjustment for comparability.

We, therefore, continue to believe that unless FAS uses the FA-5P prices to establish an upper limit for Title I prices, the system will lack credibility.

United States Department of Agriculture

Foreign Agricultural Service

Washington, D C 20250

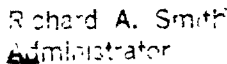
28 DEC 1983

Mr. J. Dexter Peach
Director
Resources, Community and Economic
Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

Thank you for the opportunity to offer the Department's comments on your proposed report, "Opportunities for Greater Cost Effectiveness in Public Law 480, Title I Food Purchases." I am enclosing our response to your recommendations.

Sincerely,



Richard A. Smith
Administrator

Enclosure

GAO Draft Report, Dated November 1983,
Entitled "Opportunities for Greater Cost Effectiveness
in Public Law 480, Title I Food Purchases"

We agree with the thrust and intent of the report and feel that many of the suggested recommendations have already been implemented. Our specific comments:

GAO Recommendation

"Work for earlier signings of Title I annual agreements and a wider spread of procurements over the year."

Response

We feel this to be the key element to assure orderly procurements under Title I and note that many of the problems cited in the study spring directly from the failure to assure early signings. This is not a new problem as USDA has been working for years to convince other USG agencies of the importance of early programming. In 1983 and thus far in 1984, our efforts have been more successful. In 1983, some 50% of the Title I program was signed during the first quarter of the fiscal year and it may be possible to better that percentage in 1984. We are convinced that early signings of Title I agreements lead to more orderly procurements and eliminates the need for Title I countries to purchase on a "spot" basis.

As an example of what happens when early programming is delayed, the report concludes that considerable savings might have been realized by

having countries retender for quantities involving multiple delivery periods when there were appreciable differences in prices between delivery periods. The report suggests that the countries should be required to forgo early delivery or to double up on purchases for later periods.

It should be made clear that delivery schedules for each importing country are carefully and deliberately determined, giving consideration to the urgency of need (supply situation), cargo handling capacity at discharge ports, storage limitations, milling capacities, expected arrivals from other sources and other factors. Delays, interruptions or doubling up in such schedules could result in serious repercussions such as vessel demurrage costs, waste, spoilage and even food shortages in the importing countries.

It has been our experience that retendering, more often than not, results in even higher prices. Passing over perfectly responsive bids for one period to double up in another is not an accepted practice in the public bid and award process and could result in legal actions by the aggrieved bidders.

Our analysis shows that the higher prices paid for early deliveries were an accurate reflection of market conditions and that each of the countries was committed to a predetermined schedule. The major issue, we feel, is to assure timely signing of Title I agreements so that purchases and shipments can take place in an orderly, cost effective, manner. To this end, USDA has increased its efforts to assure "early signing" of key Title I agreements since 1982. Our success in this effort will have direct impact on our ability to avoid situations where critical food needs demand "spot" purchases.

GAO Recommendation

"Establish the minimum amount of time required between (1) the release of IFB's and bid opening, and (2) bid opening and the first delivery date."

Response

We are developing a written policy, based on already established guidelines for minimum time periods between the release of IFB's and bid opening, and bid opening and the first delivery date. As a rule, we strive for 7 days between the release of IFB's and bid opening to ensure that all interested parties have time to respond. At times, it is necessary to shorten this period to 5 or 6 days to avoid scheduling tenders for the same commodity by different buyers on the same day, or to allow more time between bid opening and the first delivery date.

In rare cases, if justified by the buyers, a shorter time frame between IFB release and bid opening, or a late IFB amendment will be approved on verbal assurances from buyers that the IFB's or amendments will be sent out by telex and, if deemed necessary, telephonic notification.

First delivery dates for bulk grains can be as soon as 10 days after bid opening depending on a country's ability to open letters of credit in a timely fashion, the availability of shipping space, and the commodity involved. We strive, however, for a 2 to 3 week minimum. Rice and flour tenders should provide 3 to 4 weeks to allow for milling, bagging and movement to port. At times, it is possible to shorten this period for rice if it is determined that sufficient supplies of milled rice are already in or nearby export positions. On the other hand, bulk commodities such as wheat and feedgrains are usually already in export positions and less lead time is needed.

It is sometimes necessary to shorten time frames as much as possible to meet critical buyer needs. Delayed signing of agreements, especially in FY 1982, increased the frequency of these exceptions. Considerable improvement in this area was made in FY 1983. We are continuing these efforts in FY 1984.

GAO Recommendation

"Reemphasize the requirement of the Title I regulations that buyers select the lowest responsive bids. FAS should require and document the justification for any exception."

Response

This requirement is constantly emphasized to buyers before IFB's are approved and during our review of tender results. There will be occasions, however, when responsive offers for commodities cannot be matched against available ocean freight, or a slightly higher commodity offer for one coastal range, in combination with lower cost freight, will result in the lowest landed cost (and a net savings of USG expense because of lower ocean freight differential costs.) Such exceptions will be documented in the appropriate files.

GAO Recommendation

"Eliminate close or overlapping Title I and Title II Public Law 480 purchases."

Response

We agree with this recommendation.

Improved coordination with the Kansas City Commodity Office enabled us to avoid any serious overlapping of purchases during FY 1983. Early signing of the Title I agreement with Egypt paved the way for orderly procurement of nearly 90 percent of the Title I flour by the end of March. This allowed the flour millers to concentrate on the million ton commercial arrangement concluded with the Government of Egypt in February 1983.

GAO Recommendation

"Require buyers to finance the extra cost associated with premium commodities unless the buyers can establish and justify definite needs."

Response

We agree in principal to this recommendation and have increased our efforts to minimize purchases of commodities with individualized or non-standard specifications for quality and other grading factors. We have also become more persistent in getting buyers to justify definite needs for higher grades and more expensive classes and packaging of commodities than are ordinarily required. We agree, however, that some of the justifications that were accepted in the past should be re-examined and more closely scrutinized.

Regarding several of the examples of higher priced options, cited in the report as inappropriate or unjustified, it should be noted that appropriate technical reviews were performed and industry views generally solicited before authorizing such options. Unfortunately, these cases were not documented in the files reviewed, or the need to document the files was not considered necessary. It is quite common, for instance, for buyers to purchase No. 2 corn for foodgrain needs and No. 3 corn for feedgrain purposes. A No. 2 grade was authorized in some cases because of extensive spoilage enroute attributed to the high moisture content in previous shipments of No. 3 corn. Also, although Bangladesh has refining facilities for crude vegetable oils, bulk storage and refinery capacities have limited the amount of crude oil that could be shipped in bulk form.

We would prefer to justify definite needs for higher priced options and discourage or disallow requests for "preferred" premium commodities rather than require buyers to finance the extra costs involved. Determining such costs would be extremely difficult and time consuming, and could delay letter of credit openings.

GAO Recommendation

"Monitor import statistics more carefully, and emphasize the legislative requirement to take reasonable precautions to maintain the historical U.S. share of recipients' commercial imports and increases in their imports."

Response

We are monitoring import statistics more carefully and have initiated a number of actions to regain, maintain or increase the U.S. share of

APPENDIX I

recipients' commercial imports. In the instructions for negotiating agreements, our embassies are directed to emphasize the fair share provisions. We have sent cables to posts around the world conveying the message to countries who have received P.L. 480 and other CCC credit programs that we expect such countries to use open tendering for their cash purchases, and to award to U.S. suppliers when they are competitive. We will continue to press our position on other agencies.

We recognize, however, that monitoring statistics and demanding our fair share can have only limited success in increasing U.S. exports. The loss of markets and failure to maintain our traditional share of markets is not limited to countries receiving P.L. 480 programs. The same trends were obvious in many traditional cash markets in FY 1982. Many markets were being lost to other exporters using subsidies in one form or another, or attractive credit packages. In other markets we simply lost our competitive edge to cheaper sources.

In order to combat these trends, a number of export expansion initiatives were undertaken, especially during FY 1983. A selected number of countries were targeted for the use of a blend of direct credits and credit guarantees. Credit guarantee programs were increased dramatically and targeted for other selected markets. Trade promotion teams and individuals were sent to various key countries to stir up interest in and negotiate agreements for our programs and products. Many Title I recipients were included in these initiatives.

The full impact of these efforts are still being analyzed. Some positive results can be noted, such as in Egypt where the U.S. share of

commercial wheat and flour imports increased to nearly two million tons, almost 40 percent of the total.

GAO Recommendation

"Strengthen the export market price-gathering function of the Kansas City Commodity Office for wheat flour and spring wheat."

Response

There is general agreement that the export market price-gathering function for flour needs strengthening to more accurately reflect prices for the type of flour purchased under Title I/III, P.L. 480. It would be inappropriate, however, to expand contacts to include commercial bakeries as suggested in the draft report because of significant differences in domestic flour specifications, packaging, transportation and other terms and factors affecting prices. Steps will be taken to obtain market prices for 10 percent protein flour instead of 11 percent protein to more accurately reflect the type of flour exported under P.L. 480, the only active export market for wheat flour.

Steps will also be taken to expand the number of contacts used to obtain market quotations on spring wheat. A training program for newly employed merchandisers would compliment this expansion and strengthen the price-gathering function. Implementation of these measures, as noted in the report, will depend on a decline in the current workload of the merchandising group.

APPENDIX I

GAO Recommendation

"(1) Disapprove any Title I bid price that exceeds the relevant FA-5P export market price and (2) develop a system for evaluating Title I rice prices that uses the broadest practical range of information sources."

Response

As noted in the draft report, the price-gathering system used in developing the FA-5P has its weaknesses, and there is general agreement that it needs strengthening. The report also highlights numerous instances in the Title I purchasing process where premium prices are paid for bulk grains with higher than usual protein, reduced moisture content, and other additional cost requirements that are not reflected in the FA-5P prices. We are comfortable, however, with the fact that Title I commodities are purchased on an open public bid system. This assures that all suppliers have the same opportunity to bid in a "real world" situation. Since the Title I recipient is required to accept the lowest responsive bid, there should be no question that the Title I price is the true market price.

There are other contributing factors which tend to make bid prices for Title I commodities somewhat higher than bids on commercial transactions. Cargo preference requirements subject the supplier to the risk of having to deliver cargo to U.S. flag ships, the majority of which are slower loading than the bulk carriers used in the commercial trade. Failure to meet guaranteed load rates subjects the supplier to demurrage rates on such ships that are double the rates on foreign flag ships. Such added risks are reflected in bid prices, but not in the FA-5P. Premiums for having to load such vessels range from fifty cents to two dollars per ton.

Compressed delivery schedules and delayed openings of letters of credit can also lead to risks of additional carrying charges that may be reflected in Title I bid prices but not the FA-5P.

Given these and other factors affecting Title I bid prices, and the weaknesses noted in the price-gathering system, it can be expected that Title I bid prices will sometimes be a more accurate reflection of the market than the FA-5P. The FA-5P is essential as a basic guide in the price review process. However, considerations of conditions not reflected in the FA-5P will sometimes result in approved prices that exceed the basic guide.

As noted in the report, information sources for prices on the types of rice generally purchased under Title I are not as accessible or reliable as those for bulk grains and other commodities. This, and other factors peculiar to the rice export trade and the Title I purchasing process, requires a higher degree of judgment on the part of the Rice Price Review Committee and raises questions as to the credibility of the system.

In view of the questions raised in the draft report, we will re-examine the rice price review system for possibilities of strengthening it, taking into account the suggestions contained in the report. Results will be provided in our response to the final report.

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