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Briefing Report to the Chairman, Subcommittee on Department Operations, Research and Foreign Agriculture, Committee on Agriculture, House of Representatives

March 1987

INTERNATIONAL TRADE

Alternative Trading Practices for International Grain Trade

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National Security and
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March 17, 1987

The Honorable George Brown, Chairman
Subcommittee on Department Operations,
Research and Foreign Agriculture
Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

As requested in the subcommittee's letter of March 7, 1986, we obtained information concerning two alternative trading practices for international grain trade—long-term bilateral grain agreements and countertrade. We briefed subcommittee representatives on several occasions during the past year on the status of the assignment and testified on September 30, 1986, on the progress of our review. This briefing report summarizes the material presented in previous briefings and testimony. In it we (1) present information concerning the nature, extent, and structure of long-term bilateral grain agreements and countertrade, (2) list the advantages and disadvantages of employing such policy trading tools, and (3) analyze and compare selected U.S. and foreign experiences with these agreements and countertrade in the international grain market.

We are also preparing another briefing report on bilateral grain agreements between the United States and the Soviet Union and the United States and the People's Republic of China. We plan to complete our overall report on foreign bilateral agreements and countertrade in the fall of 1987.

This report is in response to increased congressional interest in pursuing alternative grain trading practices as a means of increasing U.S. grain exports. During the 99th session of Congress, members urged the administration to explore the possibility of expanding bilateral grain agreements and bartering U.S. grain abroad. The Food Security Act of 1985 provides for a pilot barter program and specifically requires that the U.S. Department of Agriculture carry out at least two projects with nations experiencing food and currency reserve shortages during fiscal years 1986 and 1987. Numerous agricultural trade bills were introduced during the 99th Congress, many of which included some requirement for the U.S. government to pursue alternative agricultural trading approaches. Congressional interest in such practices continues to grow.

Our findings indicate that in the 1980's, the minimum purchase volumes specified in bilateral agreements represent a little over 20 percent of wheat and coarse grain traded on the world market. Long-term bilateral grain agreements are used most extensively in countries where the government is directly involved in agricultural production and marketing. Three of our four principal grain competitors — Argentina, Australia and Canada — have government affiliated enterprises that play a major role in their grain trade. They have used long-term bilateral agreements more extensively than the United States in an attempt to both maintain and expand their market shares. Since 1983, minimum wheat and coarse grain export volumes listed under such agreements accounted for, on average, 40 percent of their total grain exports compared to a 14 percent average for minimum wheat and corn exports specified under U.S. bilateral grain agreements. Many U.S. and foreign officials acknowledge that long-term bilateral grain agreements have declined in importance as a result of a buyer's market in world grain trade over the last few years. Despite a slight decline since 1985, due in large part to the oversupply of grain in the world market, the use of long-term bilateral grain agreements by major U.S. competitors remains an important aspect of international grain trade.

Historically, the United States has opposed long-term agreements on the grounds that they run counter to free trade policies and represent a significant non-competitive trade practice. Nevertheless, the United States has entered into such agreements with the Soviet Union and the People's Republic of China to provide grain over extended periods through the private sector at prevailing market prices. These exceptions were made to (1) establish a mechanism for close communication for agricultural trade with these countries; (2) minimize the occurrence of large unexpected, erratic, and disruptive sales; (3) stabilize U.S. domestic prices; and (4) develop an expanding agricultural export market.

From 1976 to 1981, minimum grain quantities specified under these long-term bilateral grain agreements represented less than 10 percent of total U.S. grain exports. Since 1981, the minimum amounts have represented significantly larger percentages of total U.S. grain exports; however, this has occurred during a period of overall decline in U.S. grain exports. If actual sales occuring under the agreements are examined instead of agreement minimums, the bilateral grain exports under these agreements reach 19 percent of total grain exports. This is due largely to Soviet grain purchases that in some agreement years far exceeded total quantity minimums.

Our analysis shows that some foreign competitors have used countertrade to export grain, primarily to developing countries and the Soviet bloc. Among the documented countertrade cases involving grain transfers on which we obtained information, only one out of the 21 involved the United States. As reported to Congress in January 1987 by the Secretary of Agriculture, the United States has not initiated any pilot barter projects as required by the Food Security Act of 1985. USDA officials informed us that compliance has been hampered by the requirement that the barter be initiated with a less developed country which has limited foreign exchange and which also has a strategic mineral we need in our stockpile. Complications regarding division of program authority, agency coordination, and reimbursement between federal agencies involved in potential barter transactions have also contributed to a lack of action. Additionally, there have been problems in identifying the appropriate combination of eligible countries and acceptable commodities. Meetings among officials from USDA, GSA, and the Department of Energy have not been successful in producing agreement on a means for complying with the provisions of the law.

In short, other countries have used both bilateral agreements and various forms of countertrade as alternative agricultural trading tools in the midst of increasingly competitive world market conditions, large foreign debt, and hard currency shortages faced by the less developed countries. Recent trends indicate that world agriculture trade will witness continued usage of both bilateral agreements and countertrade as alternative means to stimulate exports.

Further information on the results of our work is enclosed. As requested, we did not obtain agency comments. Unless you publicly announce its contents earlier, we do not plan to distribute this report further until 30 days from its issue date At that time, copies will be sent to the Secretaries of Agriculture, State, and Commerce and to other interested parties. If we can be of further assistance, please contact me at 275-4812

Sincerely,

Allan I. Mendelowitz

Allan I. Mendelowitz
Senior Associate Director

Contents

Abbreviations

BATCO	Bauxite and Alumina Trading Company
CCC	Commodity Credit Corporation
CRS	Congressional Research Service
EC	European Community
EMPB	Emergency Mobilization Preparedness Board
ERS	Economic Research Service
FAO	Food and Agricultural Organization
GAO	General Accounting Office
GSA	General Services Administration
IED	International Economic Division
IMF	International Monetary Fund
LBGA	Long-term Bilateral Grain Agreement
MT	metric tons
MMT	million metric tons
OECD	Organization for Economic Cooperation and Development
PRC	People's Republic of China
TMT	thousand metric tons
USDA	United States Department of Agriculture
USSR	Union of Soviet Socialist Republics

Introduction

The Condition of U.S. Agriculture in a Changing International Grain Market

Between 1980 and 1985, the U.S. share of the world grain market decreased from 55 to 46 percent (111.9 million metric tons (mmt) to 95.4 mmt).[1] World grain utilization increased from 1,191.0 mmt to 1,278.4 mmt during the same time, and was met through a combination of increased domestic production as well as imports Moreover, according to current U.S. Department of Agriculture (USDA) data, the U.S. share of the world market in 1985-86 fell to 36 percent, the lowest level in 15 years, as shown in table 1.1.

Table 1.1: World Wheat and Coarse Grain Trade: World Utilization vs. U.S. Exports

Year[a]	World Utilization (mmt)	World Exports (mmt)	U.S. Exports (mmt)	U.S. Share (percent)
1980-81	1,191 0	202 1	111 9	55 4
1981-82	1,181 4	197 9	108 2	54 7
1982-83	1,214.8	188 4	94 1	49.9
1983-84	1,244 5	193.7	95 5	49 3
1984-85	1,278 4	207 1	95 4	46 1
1985-86[b]	1,258 9	168 6	61 4	36 4

[a]Trade year which varies by crop, for example, the trade year for coarse grain begins October 1 and ends September 30 while that for wheat begins July 1 and ends June 30

[b]As reported by USDA, Foreign Agriculture Service Circular "Grain World Situation & Outlook," (FG-1-87), Jan 1987

Source Foreign Agriculture Service Circular, "Grain World Situation and Outlook," (FG-14-86) Dec 1986

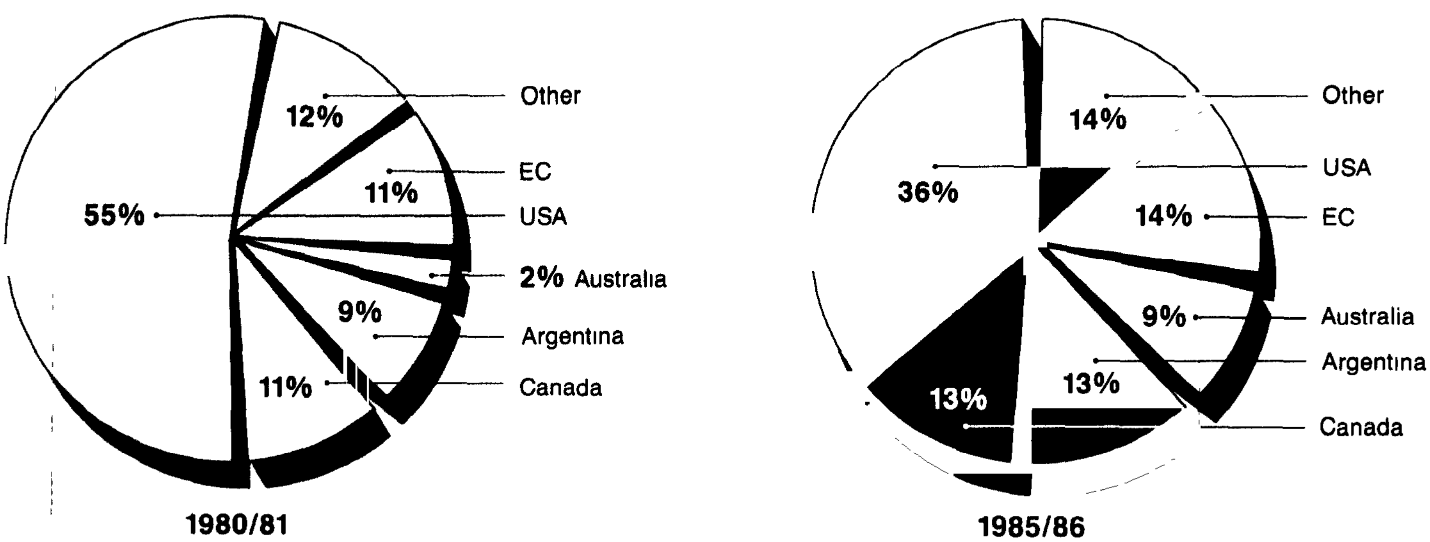
As figure 1.1 shows, the United States has experienced a decline in its competitive position vis-a-vis Canada, Australia, European Community (EC) and Argentina since 1980.

According to current USDA statistics for 1986, the U.S. share of grain trade fell by 19 percent, while Canada's share increased by 2 percent, Australia's by 7 percent, the EC's by 3 percent, and Argentina's by 4 percent. Also, exports by other countries increased from 12 percent five years ago to 14 percent.

[1]For this report we define grain as wheat and coarse grain, coarse grain includes corn, rye, oats, barley, millet, sorghum and mixed grains

Figure 1.1: Change in Grain Market Share: Percentage of World Trade Total

Trade Years 1980/81 and 1985/86



Source USDA—Foreign Agriculture Service (percentages rounded)

International grain trade fluctuated in volume between 1980 and 1986. Several factors contributed to this fluctuation in grain trade, including a global economic recession in 1981, debt problems of many of our grain trading partners, more expensive financial credit often used by many countries to finance food imports, slower economic and population growth levels in many of the less developed countries, and food self sufficiency policies pursued by many traditional importing nations.

In 1980, faced with high inflationary pressures, the developed countries began to pursue restrictive economic policies that led to a worldwide economic slowdown which bottomed out in 1982. Furthermore, as the value of the dollar relative to other currencies increased, developing countries (a rapidly growing market for U.S. agricultural exports) burdened by heavy debt problems and able to meet only interest payments on their debts, significantly restricted the import of agricultural products. Also, developing countries expanded production to limit the erosion of their foreign exchange reserves and to move toward self-sufficiency. These measures were largely aided by worldwide increases in yield, technological advances, and government incentives.

Since 1980, the U.S. share of the world grain trade has consistently declined while major foreign competitors' shares have increased Major U.S. competitors, taking advantage of the effects the strong dollar and U.S. domestic policies that were pushing U.S. prices above world market prices, significantly increased their own production confident that they could continue to acquire new markets and substantially dispose of all their excess capacity at prices just below those of the United States. Foreign competitors did substantially increase wheat and coarse grain market shares by 1985/86, mostly at the expense of the United States.

Emergence of Alternative Trading Practices in International Grain Trade

The agricultural policies of other countries, both exporting and importing, may have contributed to the decline of U.S. agricultural exports, especially grain, and placed the United States in the position of a residual supplier. Among many factors, two agriculture trade practices, in particular, have een cited as possible contributors to the shifting market share in international grain trade—long-term bilateral grain agreements (LBGA's) and countertrade.

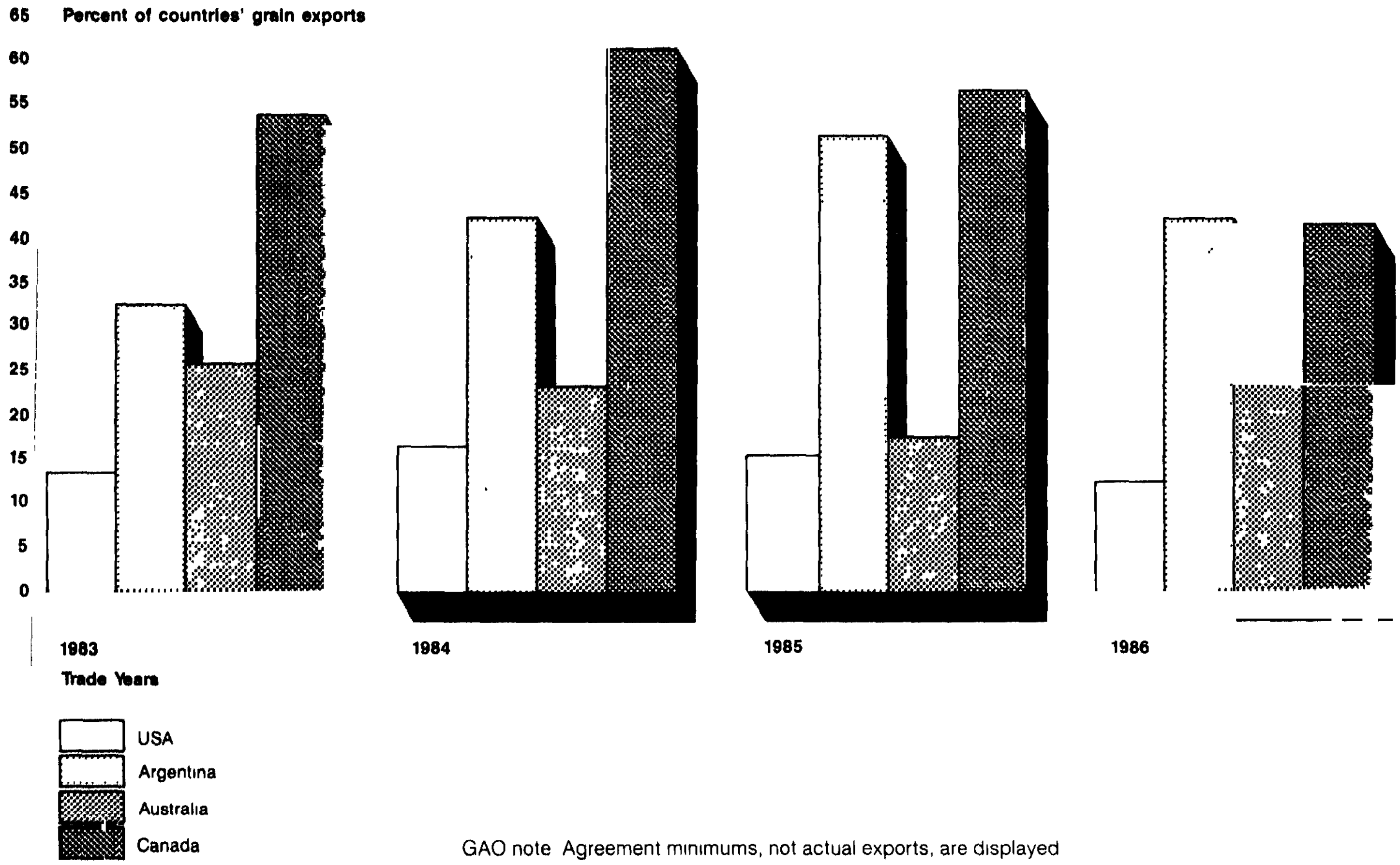
Since the late 1970's, major grain exporters have made extensive use of long-term bilateral agreements in grain trade as competition in the trade increased and exporting countries were under pressure to at least maintain, if not improve, their market shares. For example, from 1973-74 to 1977-78, the minimum quantities stipulated in the bilateral grain agreements of Canada, Australia, Argentina, and the United States increased from 6 to 25 percent of their combined total exports. Exports under U.S. bilateral agreements increased from zero to nearly a third of U.S sales.

Figure 1.2 compares the minimum grain export quantities specified under U.S. long-term bilateral grain agreements with those of major competitors.[2] Many U.S. and foreign officials acknowledge that these agreements have declined in importance as a result of a buyer's market

[2]We compared minimum quantities because accurate data on actual sales occurring under foreign government bilateral grain agreements is not collected by either the U S government or the International Wheat Council and is difficult to obtain because of the inherently proprietary nature of such information Actual grain quantities sold under U S bilateral grain agreements are maintained by USDA and listed in tables 3 6, 3 7, and 3 8

in grain trade over the last few years. Despite a slight decrease since 1985 due in large part to the oversupply of grain in the world market, the use of long-term bilateral grain agreements by major U.S. competitors remains an important aspect of international grain trade.

Figure 1.2: Minimum Grain Exports Specified Under LBGA's of the U.S. and Major Competitors as a Percentage of Each Country's Total Grain Exports



GAO note Agreement minimums, not actual exports, are displayed
Source USDA—Foreign Agriculture Service

Countertrade is increasing as grain imports secured by developing and centrally planned economy countries rise. The increased use of this trading tool is often attributed to the increased debt problem and the austerity measures enacted by developing countries which need to import agricultural and other products, although they lack foreign exchange.

Overview of Long-Term Bilateral Grain Agreements and Countertrade

Long-Term Bilateral Grain Agreements

Nature

Long-term bilateral agreements are one of several trading practices used to conduct international grain trade. Although no universally accepted definition of this trading practice exists, for the purpose of this briefing report, we use the following definition:

Long-term Bilateral Grain Agreement.[1] A contract between two countries specifying the quantity of a commodity to be traded over a certain period of time. These agreements generally run for a period of 3 to 5 years, although they may be simple 1-year agreements that are renewed annually. The agreements normally specify the minimum quantity to be purchased and the maximum quantity to be supplied. Generally, no provisions exist with regard to the price to be paid.

Objectives

Generally, exporters employ long-term bilateral grain agreements to ensure product demand, minimize market disruptions caused by abrupt and unexpected demand shifts, and maximize export volume and market control. Importers engage in long-term grain agreements to enhance product supply and reliability, minimize import costs, and maximize buyer control.

Structure

Long-term bilateral grain agreements generally consist of three important elements: (1) quantity to be traded, (2) duration, and (3) pricing mechanism. Enforcement clauses are generally not contained in the agreements.

Agreements do not specify the quantity to be traded in a standard manner. Approximately half (29) of the 59 agreements in force at some time between January 1983 and August 1986 specified fixed quantities to be traded. The others either specified minimum quantities (6) or annual ranges (11) to be traded, or a combination (13) of the terms.[2]

[1] As used in U S Senate Committee on Agriculture, Nutrition and Forestry, "Trade Policy Perspectives Setting the Stage for 1985 Agricultural Legislation"

[2] The combination terms include agreements in which the terms were not specified or agreements where the amount committed is specified over the life of the agreement

Agreements are negotiated for time frames ranging from 1 year to 4 years or more. As shown in table 2 1, the average duration of these 59 agreements was about than 3.3 years.

Tab e 2.1: Number of Long-Term Bilateral Grain Agreements by Duration
(January 1983 to August 1986)

Exporter	1 year	2-4 years	Over 4 years	Total number	Average length (years)
Argentina	1	9	3	13	3 62
Australia	7	5	4	16	3 00
Canada	4	8	4	16	3 00
EC	0	2	0	2	3 00
United States	0	1	2	3	5 33
Others	0	7	2	9	3 67
Total	**12**	**32**	**15**	**59**	**3.36**[a]

[a]This is the actual average of all long-term bilateral agreements, not the mean of the averages

Source Data extracted from International Wheat Council listings, "Long-term Agreements Involving Grain," 1983-1986

Discussions with officials and a review of available literature indicate that most agreements contain a provision stating that price will be negotiated at the time of purchase and will reflect the prevailing world market price. However, according to the Argentine agricultural counselor in the United States, Argentine agreements sometimes contain price ranges subject to annual negotiation.

Opinions differ concerning the enforceability of long-term bilateral agreements. Most foreign and U.S. government officials we interviewed agreed that the agreements are not legally binding and their fulfillment depends on the willingness of the participants to abide by terms or accept modification. Some officials stated that due to the omission of an enforcement provision, the agreements are "not worth the paper they are written on." The Argentine agriculture counselor in the United States stated that Argentina's agreements are generally fulfilled, while a Canadian embassy official stated that agreements are generally successful due to low minimum export quantities.

Advantages and Disadvantages

From an importer's perspective, long-term bilateral grain agreements have several advantages; for instance, they can

- help ensure adequate supply, or at least priority access, during periods of supply deficit; for example, Japan often uses these agreements to guarantee supplies for domestic use;

- facilitate planning and coordination of imports for domestic food needs;
- provide potential access to credit when the terms of the agreement include credit provisions;
- offer diversification of sources of supply; and
- complement national policies on food reserves, domestic production, and internal grain distribution.

From an exporter's perspective, long-term bilateral grain agreements also offer advantages. For example, they can

- provide market development opportunities;
- help to speed product movement by ensuring at least a basic market for commodities;[3]
- facilitate the planning of exports;
- diversify markets; and
- aid in meeting foreign aid objectives.

On the other hand, long-term bilateral grain agreements have some potential disadvantages in that they:

- lack enforcement clauses which may diminish their use as an export marketing strategy;
- may strain political relationships if one party does not adhere to the agreement; and
- may impose severe constraints on the residual market thereby substantially increasing prices in times of shortage when there is an overcommitment to bilateral agreements.

Extent

The Department of Agriculture does not formally monitor the extent of long-term bilateral grain agreements. It is not required to do so and feels it has higher priorities for staff resources. Officials from private and international organizations informed us that they do not maintain detailed statistics on the results of such agreements. We estimated the volume of grain covered by long-term bilateral grain agreements by analyzing information provided by the USDA's Foreign Agricultural Service and Economic Research Service and the International Wheat Council.

[3]For example, the Argentine agricultural counselor said that due to the lack of adequate storage capacity, harvested grain must be transported quickly to minimize spoilage In addition, assuring a basic market for their grain assists in the servicing of large foreign debt obligations.

For all bilateral grain agreements on which we have information, the minimum wheat export volumes ranged from 5 percent of total world wheat trade in 1973 to 21 percent in 1982. Minimum amounts of wheat and coarse grain estimated under all bilateral agreements remained close to 20 percent of total world wheat and coarse grain trade between 1983 and 1986 (see table 2.2).

Table 2.2: Estimated Minimum Volume of Wheat and Coarse Grain Traded Under Long-Term Bilateral Grain Agreements

Year	Total world wheat and coarse grain trade (mmt)	Minimum volume specified under LBGAs (mmt)	Minimum volume as a percent of world wheat and grain trade (percent)
1983/4	193 7	39 4	20
1984/5	207 1	42 7	21
1985/6	168 6	37 4	22
1986/7[a]	164 3	35 2	21

[a]Projected

Source Total world wheat and coarse grain figures are from Foreign Agriculture Service Circular "Grains World Situation and Outlook", Oct 1986, p 27 Minimum volumes and percentages were derived by GAO (rounded to nearest 100,000 mt)

Countertrade

Nature

Countertrade, like long-term bilateral agreements, offers an alternative trading practice to conduct international grain trade. For this report, countertrade is defined as follows:

Countertrade.[4] Any contractual commitment imposed as a condition of purchase by the importer on the exporter. It generally involves the exchange of goods and/or services and currency, although in one instance, barter, it excludes the use of currency.

The six major practices falling under the category of countertrade are described below.

[4]See Pompiliu Verzariu, Countertrade, Barter and Offsets New Strategies for Profit in International Trade, (New York 1985), Stephen Jones, North/South Countertrade Barter and Reciprocal Trade with Developing Countries, The Economist Intelligence Unit Special Report No 174, (London 1984), Dee Linse, "Trend Toward Countertrade Poses a Delicate Policy Dilemma for U S ," in Choices, (Washington D C.., 1986).

1. Counterpurchase. An agreement where one party sells products to a second party and in turn agrees to purchase products unrelated to the original sale from the second party over a specified period of time. Each party is paid in currency upon delivery of its goods.

2. Buy-back. An agreement which involves the sale of equipment, technology, or a turnkey plant[5] by one party (usually a private Western firm) to a second party (usually a government) and the subsequent purchase by the first party of the output produced from that equipment, technology, or plant.

3. Offset. Trade arrangements made as a condition of foreign sales. This includes agreements detailing the trade of very high value goods, such as military or civil aircraft.

4. Barter. An agreement detailing the exchange of goods without cash

5. Clearing agreement. An agreement whereby two parties[6] agree to purchase goods of equal value from each other over a set period of time. Clearing accounts are opened at international banks, and balances are kept of the quantities exchanged. At the end of the period, the two parties balance their accounts. If they are not in balance, switch trading is used.

6. Switch trading. A highly complex manipulation of a clearing agreement's debits and credits, whereby the country in debt at the end of a clearing agreement is able to dispose of the goods that must be purchased under the terms of the clearing agreement.

Objectives

In general, the objectives of countertrade depend on the nature and role of the participants, the type of transaction, and the political and economic environment in which the participant operates. In a broad sense, however, countertrade is employed for financial, marketing, and developmental purposes.

Financial objectives include:

[5] A plant which a private contractor builds and installs for operation or occupancy then sells it to the customer at a prearranged price

[6] When the two parties are a government and a private firm in another country, these agreements are sometimes referred to as evidence accounts When the two parties are governments, the agreements are clearing agreements

- Trade financing if the importer is unable to finance imports through conventional means (e.g., cash and/or credit) due to a shortage of convertible foreign exchange or a poor credit rating.
- Continuing product imports without further disrupting the foreign exchange balance, and continued trading while meeting International Monetary Fund (IMF) restrictions on the use of foreign currency.[7]

Marketing objectives include:

- Increasing exports and regularizing commercial trade flows, improving the country's (or the firm's) competitive position in the world market, broadening export production lines, stimulating export industries, and opening new markets for the country's (or the firm's) products.
- Enhancing market development.

Foreign assistance objectives include:

- Providing assistance to development programs.
- Providing political or economic support for trading partners.

Structure

It is difficult to state concisely the structure of countertrade agreements, as each transaction is unique to the particular circumstance. Countertrade practitioners state that each contract should contain as much specific information as possible so that all costs, risks, potential problems, and realistic returns are identified early on.

According to these practitioners and the literature we reviewed, countertrade contracts would generally include the

- time frame of the agreement,
- percent of value of the original export assigned as the value of the subsequent import,[8]
- price of the take back product or counterdelivery,
- penalties for noncompliance,
- take back product options for the exporter,

[7]The IMF requires that any foreign exchange generated as a result of exports be used to repay foreign debts rather than to purchase certain imports

[8]For example, a Western company exports goods worth $1 million to a government and in turn is obligated to import goods worth part of that $1 million

- additionality[9] and product destinations, and
- assignment of the take back product to a third party, if necessary.

The number of contracts for a given countertrade transaction may vary, depending on the complexity of the transaction. A common arrangement is a contractual triangle consisting of (1) a sales contract for the western export, (2) a countertrade contract setting out the western company's obligations, and (3) a protocol linking the two contracts.[10]

Advantages and Disadvantages

Advantages

- Saves scarce foreign exchange and allows a country that has an inconvertible currency or a poor credit rating to engage in international trade.
- Enhances market development by providing "incremental sales" (additionality) and information on relevant markets in other countries; for countries inexperienced in international marketing, countertrade also may create new markets through transferring marketing responsibilities to a third party such as an international trading house.
- Maintains political ties.
- Assures access to supply.
- Reduces excess supplies of agricultural commodities and, therefore, storage costs.
- Permits savings in the national budget by allowing for the acquisition of necessary materials without the appropriation of additional funds.

Disadvantages

- Is inefficient, costly, cumbersome, risky, time-consuming, and complex.
- Requires establishing a double coincidence of wants between traders.
- May displace cash sales rather than providing additionality.
- Weakens the multilateral trading system and disrupts normal trade flows.
- Circumvents IMF policy.
- May have a downward push on commodity prices.

[9]In a number of cases, countertrade agreements include a provision mandating additionality—the final distribution of the take back product must provide for sales in addition to existing cash sales, without displacing such sales.

[10]Jones, p 131

- May lead to the dumping of inferior goods on the market.
- Is particularly difficult for commodity trading. Given the low profit margin (2 to 3 percent) of such trading, the choice of the counterdelivery must be carefully defined so that marketing costs of this product do not eliminate the already low profit margin.

Extent

Determining the extent of countertrade in world trade, including grain trade, is very difficult because it lacks the transparency often associated with conventional trading — "it is difficult to find out exactly what is being traded, for how much, when, and through whom, and whether the whole transaction is actually increasing world trade."[11] In addition, there is no central data clearing house for such information. Countertrade transactions are not separately identifiable in official trade statistics because these statistics do not distinguish between trade flows arising out of countertrade contracts and those that do not have such conditions attached. Thus, estimates can be made only on the basis of countertrade agreements that have been publicly announced. Further, the inherent secrecy that surrounds such agreements does not lend itself to the formation of a reliable and comprehensive data base. To reveal details on price and volume traded would be to reveal business secrets that could hamper later negotiations. And lastly, many of those who estimate the extent of countertrade do not define the scope of their subject—what they include and what they exclude as countertrade.

Because of these difficulties, estimations of the extent of countertrade vary from 1 to 40 percent[12], with a rough consensus falling around 5 to 10 percent. According to Organization for Economic Cooperation and Development (OECD) information, countertrade has been estimated to account for not more than 5 percent of OECD trade with non-oil producing developing countries, 10 percent of the trade between developing countries and 30 percent of developing countries' trade with Eastern Europe. In total, OECD estimates that countertrade could represent a maximum of 4.5 percent of all world trade. We found only 21 of 634 countertrade agreements cited in the literature (3.3 percent) from the early 1950's to 1984, involved grain. (See app. II for a complete list).

[11] Donna Vogt, "Barter of Agricultural Commodities Among Developing Countries," in Barter in the World Economy, Bart S Fisher and Kathleen M Harte, eds , (New York, 1985), p 121

[12] Emerging Issues in Export Competition A Case study of the Brazilian Market (GAO/NSIAD-85-121) Sept 26, 1985

Foreign and U.S. Experiences With Long-Term Bilateral Grain Agreements and Countertrade

Long-Term Bilateral Grain Agreements

Our analysis of long-term bilateral grain agreements as reported by the International Wheat Council showed that 59 bilateral grain agreements were in effect between January 1983 and August 1986 (see app. I). The United States entered into three of these agreements, two with the Soviet Union and one with the People's Republic of China (PRC).

Foreign Experiences

Argentina

The Argentine agricultural counselor in the United States stated that Argentina uses bilateral agreements because of Argentina's (1) lack of an adequate infrastructure which prevents it from storing a large quantity of grain for any length of time, and (2) burden of large external debt which obligates it to sell grain as soon as possible to honor financial obligations. The Argentines view bilateral agreements as a tool ensuring a basic export market which enables them to export wheat and coarse grain shortly after harvest and to raise needed capital. The agricultural counselor stated that bilateral agreements have generally been honored and believes that Argentina has been quite successful in achieving its goals. However, he stated that under a new agreement recently signed with the Soviet Union, the Soviets are not honoring their commitment to purchase the required quantity of grain. The counselor believes that the Soviets are "price shopping," or waiting until the price falls before they purchase any grain.

Table 3.1 summarizes information on Argentina's 13 agreements.

Table 3.1: Summary of Argentina's Long-Term Bilateral Grain Agreements

Number of agreements	13	
Commodity specification	3	wheat only
	4	coarse grain only
	5	wheat and coarse grain
	1	not specifically reported
Terms of agreement	10	fixed annual quantity
	2	annual ranges
	1	minimum quantity
Minimum quantity to be traded annually	7	less than 0 5 mmt
	3	0 5 mmt to 1 mmt
	3	more than 1 mmt
Percent of minimum wheat and coarse grain exports specified under bilateral agreements[a]	1983	32%
	1984	42%
	1985	51%
	1986	42%

[a]Due to the manner in which the data is collected, we used trade year (i e , July/June and October/September) export figures in these calculations To derive percentages, minimum quantities under the agreements were divided by total trade year exports

Australia

According to the Australian agriculture counselor in the United States, Australia continues to enter into bilateral grain agreements because it has become a normal trading practice.

Table 3.2 summarizes the information on Australia's 16 agreements.

Table 3.2: Summary of Australia's Long-Term Bilateral Grain Agreements

Number of agreements	16	
Commodity specification	15	wheat only
	1	wheat and coarse grain
Terms of agreement	7	fixed annual quantity
	3	annual ranges
	3	minimum quantity
	3	combination/other[a]
Minimum quantity to be traded annually	7	less than 0 5 mmt
	5	0 5 mmt to 1 mmt
	4	more than 1 mmt
Percent of minimum wheat and coarse grain exports specified under bilateral agreements[b]	1983	26%
	1984	23%
	1985	17%
	1986	23%

[a]Includes any combination of the three agreement terms, agreements in which the terms were not specified, or agreements where the amount committed is specified over the life of the agreement

[b]Minimum agreement amounts as percentage of total trade year exports for the country

Canada

The Canadian agricultural counselor in the United States stated that the Canadians employ bilateral grain agreements for two primary reasons. First, the Canadians wish to affirm the perception that Canada is a reliable supplier. Secondly, they view such agreements as a means of maintaining their share of the export market. The counselor stated that in regard to these objectives, Canada's bilateral agreements have been quite successful.

Table 3.3 summarizes information on Canada's 16 agreements.

Table 3.3: Summary of Canada's Long-Term Bilateral Grain Agreements

Number of agreements	16	
Commodity specification	8	wheat only
	7	wheat and coarse grain
	1	not specifically reported
Terms of agreement	5	fixed annual quantity
	4	annual ranges
	1	minimum quantity
	6	combination/other[a]
Minimum quantity to be traded annually	4	less than 0 5 mmt
	3	0.5 mmt to 1 mmt
	9	more than 1 mmt
Percent of minimum wheat and coarse grain exports specified under bilateral agreements[b]	1983	54%
	1984	61%
	1985	56%
	1986	41%

[a]Includes any combination of the three agreement terms, agreements in which the terms are not specified, or agreements where the amount committed is specified over the life of the agreement

[b]Minimum agreement amounts as percentage of total trade year exports for the country

European Community

The European Community does not actively participate in bilateral agreements, and the two agreements signed were officially termed "agreements in principle" between France and the USSR and between France and the PRC. The EC agricultural counselor in the United States stated that the EC is not adverse to using bilateral agreements; for example, it employs them for such products as sugar and cocoa. However, it has not officially entered into any bilateral grain agreements to date.

Table 3.4 summarizes information on these two "agreements in principle".

Table 3.4: Summary of European Community's Long-Term Bilateral Grain Agreements

Number of agreements	2	
Commodity specification	1 1	wheat only not specifically reported
Terms of agreement	1 1	annual range terms not specified
Minimum quantity to be traded annually	1 1	0 5 mmt to 1 mmt not specified
Percent of minimum wheat and coarse grain exports specified under bilateral agreement[a]	1983 1984 1985 1986	1 47% Undeterminable[b] Undeterminable Undeterminable

[a]Minimum agreement amounts as percentage of total trade year exports for the country

[b]Quantity was undeterminable because it was an agreement in principle and no grain quantity was agreed upon at the time of signing

Other Nations[1]

Table 3.5 summarizes information on the nine agreements used by other nations.

Table 3.5: Summary of Other Nations' Long-Term Bilateral Grain Agreements

Number of agreements	9	
Commodity specification	5 2 2	coarse grain only wheat and coarse grain not specifically reported
Terms of agreement	7 1 1	fixed annual quantity minimum quantity combination/other[a]
Minimum quantity to be traded annually	4 2 2 1	less than 0 5 mmt 0 5 mmt to 1 mmt more than 1 mmt not specified
Percent of minimum wheat and coarse grain exports specified under bilateral agreements	1983 1984 1985 1986	Not determined Not determined Not determined Not determined

[a]Includes any combination of the three agreement terms, agreements in which the terms were not specified, or agreements where the amount committed is specified over the life of the agreement

U.S. Experiences

Historically, the United States has opposed long-term agreements on the grounds that they run counter to free trade policies and represent a significant non-competitive trade practice. The exception to this policy has been its agreements with the centrally planned economies of the Soviet Union (USSR) and the People's Republic of China (PRC) to provide grain

[1]Includes the Following Exporters Hungary, South Africa, Brazil, Austria, Uruguay, China and Turkey

over extended periods through the private sector at prevailing market prices. Since 1976, the United States has had an ongoing grain agreement with the USSR; a similar agreement existed with the PRC from 1980 to 1984.

U.S. agriculture policy goals are similar under both the USSR and the PRC grain agreements. The central purposes of these agreements were to (1) establish a mechanism for close communication for agricultural trade with these countries; (2) minimize the occurrence of large unexpected, erratic, and disruptive sales; (3) stabilize U.S. domestic prices; and (4) develop an expanding agriculture export market.

U.S.-USSR Grain Agreements

The first U.S.-USSR bilateral grain agreement was in effect from October 1, 1976 to September 30, 1981. Under this agreement, the Soviets could purchase annually at least 6 mmt of U.S. wheat and corn in approximately equal proportions, at market price, for a 5 year period. Moreover, the Soviets could purchase an additional 2 mmt of grain without consulting the U.S. government unless U.S. carry over and forward grain estimates were less than 225 mmt. The agreement stipulated that sales were to be made from U.S. private commercial sources at the market price prevailing at the time of the purchase. Consultations to discuss the implementation of the agreement were required every 6 months and whenever either party wished to buy or sell over the 8 mmt agreement maximum. The Soviets were also required to space their grain purchases as evenly as possible throughout each year; moreover, all grain purchased from the United States was to be used only for domestic consumption. This first agreement was extended twice beyond the lapse date of September 1981; each time for an additional year covering the period from October 1981 to September 1983.

As shown in table 3.6, the Soviet purchases exceeded the 6 mmt minimum specified in the 1976 agreement and, in several of the years actually totaled two or three times the minimum. In those years, U.S. grain exports to the Soviets represented a significant percentage of total U.S. grain exports; however, the minimum agreement amounts themselves represented less than 10 percent of total annual U.S. exports.

Table 3.6: U.S. Grain Exports to the USSR During the First Bilateral Grain Agreement (10-1-76 to 9-30-83)

Figures in thousand metric tons

Agreement year	Total wheat purchased	Total corn purchased	Total grain purchased	Percent of total U.S. grain exports[a]
1976/77	3,064	3,052	6,116	8 0
1977/78	3,453	11,132	14,585	17 0
1978/79	3,971	11,530	15,501	16 8
1979/80	2,171	5,768	7,939	7 3
1980/81	3,780	5,738	9,518	8 5
1981/82	6,097	7,772	13,869	12 8
1982/83	2,999	3,208	6,207	6 6

[a]Calculated by GAO as a percentage of total U S grain exports (wheat and coarse grain) for corresponding marketing years

Source USDA trade statistics, includes agreement extensions made in 1981/82 and 1982/83

Soviet purchases of U.S. grain were adversely affected between January 1980 and March 1981 by a U.S. grain embargo imposed by President Carter in response to the Soviet invasion of Afghanistan. During this period, total Soviet grain purchases were limited to 8 mmt, the maximum quantity specified in the 1976 agreement. The embargo effectively stopped the export of 17 mmt of U.S. grain which the Soviets had planned to purchase prior to the embargo announcement. The Soviets, facing a poor harvest, immediately sought alternative wheat and corn suppliers. Other major grain producers—Canada, Australia, Argentina, and the EC — expanded their own production and gained in the USSR grain market during this period. As a result, the embargo affected the United States' reputation as a reliable grain supplier and contributed to the loss of Soviet grain market shares to major competitors. Despite the current administration's termination of the embargo in April 1981, the United States has not been successful in regaining Soviet wheat and coarse grain market shares approximating the pre-embargo period.[2]

The second five-year grain agreement with the Soviets was initiated in 1983 and contained many of the same conditions as the previous 1976 agreement concerning the spacing of purchases re-export restrictions, semiannual consultations, and purchase prices. New features included (1) a 9 mmt annual purchase quantity of wheat and corn, with minimum quantities of wheat and corn at no less than 4 mmt each, (2) the ability

[2]The U.S. share of Soviet wheat imports was 65.5 percent in 1978/79; the highest share since the embargo termination has been 31.5 percent in 1981/82 U S wheat market shares have dropped consistently since 1983/84 to an estimated 1.3 percent in 1985/86. The U.S share of the Soviet coarse grain import market was 83.3 percent in 1978/79, this share has averaged 55 percent since 1983

of the Soviets to substitute soybeans and/or soybean meal in the ratio of 1 ton of soybeans for 2 tons of grain, (3) the ability of the Soviets to purchase annually an additional 3 mmt of grain without prior notification or consultation; and (4) a grain quality assurance clause. Since July 1986, the Soviets have added new grain quality provisions to all grain sales/purchase contracts which allow them to either return grain to sellers or deduct all costs associated with shipment shortweight or contamination if Soviet officials determine grain imports to be of an unacceptable quality.

Table 3.7 shows U.S.-Soviet grain sales under the second bilateral agreement. In 1983/84, Soviet purchases significantly exceeded the minimum quantities. In 1984/85, total grain purchases were twice the minimum quantity; however, this was due to unusually large corn purchases as wheat purchases actually fell below the required 4 mmt portion. In 1985/86, the Soviets did not adhere to either the required total grain purchase amount or the minimum wheat portion. With the large overall Soviet purchases during 1983/84 and 1984/85, grain exports under this bilateral agreement represented a sizable percentage of total U.S. grain exports.

Table 3.7: U.S. Grain Exports to the USSR During the Second Bilateral Grain Agreement (Beginning 10-1-83)

Figures in thousand metric tons

Agreement year	Total wheat purchased	Total corn purchased	Total grain purchased[a]	Percent of total U.S. grain exports[b]
1983/84	7,593	6,476	14,485	15 2
1984/85	2,887	15,750	18,637	19 5
1985/86	153	6,539	8,211	13 4

[a]Excludes soybean purchases in 1983/84 (416 tmt) and 1985/86 (1,519 tmt)

[b]Calculated by GAO as a percentage of total U S grain exports (wheat and coarse grain) for corresponding marketing years

Source USDA trade statistics

Since 1984, the Soviets have been reluctant to buy minimum quantities of U.S. wheat under the 1983 agreement due to large variances between the U.S. and world market prices. The Soviets have been successful in buying wheat on the world market from foreign competitors at prices well below those offered by U.S. suppliers. Since the agreement merely stipulates that sales are to be made at "prevailing market prices," the Soviets have interpreted this phrase to mean world market prices, while the U.S. position is that the wording refers to U.S. domestic prices

U.S.-PRC Grain Agreement

The 4-year U.S.-PRC grain agreement beginning in January 1981 required annual grain purchases between 6 and 8 mmts of wheat and corn, with corn representing 15 to 20 percent of total sales. The PRC could purchase 1 mmt over the maximum of 8 mmt without prior notice, but any purchases over 9 mmt required advanced notification. Transactions were to be made at prevailing market prices in accordance with commercial terms. In addition, the agreement contained an escape clause that released the PRC from buying minimum quantities and released the United States from selling the minimum quantities by virtue of "exceptional circumstances." However, the reductions were to be proportional to U.S. grain exports to all other customers and to grain purchased from other foreign suppliers by the PRC.

As shown in table 3.8, U.S. grain exports to the PRC under the agreement were above maximum levels during the first two years of the agreement However, these sales dwindled significantly during the final 2 years to less than half prior year purchases and well under total minimum quantities.[3] It is generally believed that unexpected increases in PRC grain production, complicated by problems between the United States and the PRC over textile imports, resulted in the Chinese not buying the minimum grain amounts and ultimately not renewing the agreement. More recently, Chinese concerns over the high price and quality of U.S. grain have resulted in reduced purchases.

Table 3.8: U.S. Grain Exports Under the PRC Bilateral Grain Agreement (1-1-81 to 12 31-84)

Figures in thousand metric tons

Agreement Year	Total Wheat Purchased	Total Corn Purchased	Total Grain Purchased	Percent of total U.S. grain exports[a]
1981	7,855	529	8,384	8 5
1982	7,026	1,631	8,657	10 0
1983	2,447	1,381	3,828	4 4
1984	4,119	0	4,119	4 8

[a]Calculated by GAO as a percentage of total U S grain (wheat and coarse grain) exports for corresponding marketing years

Source FAS trade statistics

Summary of U.S. Experience

Until 1981, minimum grain export quantities required under LBGA's represented under 10 percent of total U.S. grain exports. After 1981, the

[3]Only in 1982 did the PRC meet both the total grain purchase minimum (6 to 8 mmt) and the provision that of this total amount, 15 to 20 percent would be corn (900 tmt to 1 2 mmt)

minimum amounts represented significantly larger percentages of total U.S. grain exports, but this was occurring during a period of declining U.S. grain exports. In years when Soviet purchases far exceeded total quantity minimums (1977/78, 1978/79, 1981/82, 1983/84, and 1984/85), the bilateral grain sales represented significant percentages of overall U.S. grain exports.[4]

During 1983 to 1986, minimum grain export quantities specified under LBGA's of major foreign grain exporters (Australia, Argentina, and Canada) represented, on average, approximately 40 percent of their total grain exports. In comparison, for the same time frame, minimum grain export quantities specified under U.S. LBGA's represented only 14 percent of total U.S. grain exports. In short, minimum purchase quantities under the three U.S. long-term bilateral grain agreements represent a much smaller proportion of its total grain exports than those in agreements of major foreign exporters.[5]

Countertrade

Foreign Experiences

Countertrade has been widely adopted by the USSR and by the communist countries of Eastern Europe to promote the ambitious economic growth programs adopted since the 1970s. It is also widely used by developing countries as a method of trade finance. According to a Commerce Department official, at least 33 other countries — 13 Latin American, 10 African and Middle-Eastern, and 10 Asian — are practicing some form of countertrade. In addition, many private firms and financial institutions in Western Europe, the United States, and Canada occasionally engage in countertrade or provide related services. Traded products range from bulk agricultural commodities to high technology equipment.

[4]Even though overall Soviet grain purchases exceeded the total minimum quantities specified in the agreements for these years, required minimum quantity purchases of wheat were not met for some years

[5]While we were not able to obtain actual export data for foreign LBGA's, such data is readily available from USDA for the United States If actual exports under U S LBGA's are used in the computation, the U S percentage rises Using total U.S exports through 1985/86, this figure is 19 percent. If the estimate for total U S exports through 1986/87 is used, however, the figure drops to 14 5 percent since no grain exports from the United States to the USSR have occurred since May 1986

Through searches of available literature, we have gathered 21 examples of countertrade transactions[6] from the early 1950's to 1984 involving grain (see app. II). Of these 21 transactions, only one involved the United States as an exporter; the other 20 involved 23 other countries, as shown in table 3.9.

Table 3.9: Foreign Countries Involved in Grain Countertrade

Countertrade Used to Export	Countertrade Used to Import	Countertrade Used to Import & Export
Spain	Egypt	India
France	Iran	Pakistan
Argentina	USSR	China
Hungary	Poland	
Thailand	Vietnam	
South Africa	Peru	
Turkey	Romania	
Australia	Iraq	
United Kingdom	Tunisia	
Brazil	Venezuela	

Of the 21 countertrade transaction examples, nine were between developing countries and centrally planned economies (43%); seven were between developing countries (33%); three were between developing countries and developed countries (14%); and two were between developed countries and centrally planned economies (10%). The commodities most commonly traded for wheat, corn or barley were crude oil/petroleum and minerals.[7]

U.S. experiences[8]

The United States officially opposes government-mandated countertrade because it is contrary to current U.S. trade policy and support for the multilateral trading system. Nevertheless, Congress recently has supported the use of voluntary barter/countertrade for expanding the U.S. share of the international grain market. As stated in the Food Security Act of 1985, barter is considered an effective secondary method of

[6]This is not an all-inclusive list of countertrade transactions, it is impossible to determine accurately the total universe of countertrade transactions and these figures are illustrative only

[7]Other goods traded for grain included fertilizer (10%) and miscellaneous goods such as cotton, coffee, and fishmeal (14%)

[8]Information obtained from Donna U Vogt, "U S Government International Barter," Congressional Research Service Report No 83-211 ENR, December 6, 1983, from Donna Vogt, Cathy Jabara, Dee A Linse, "Barter of Agricultural Commodities," IED Staff Report, April 1982; and from Donna U Vogt, "The Reagan Administration's Response to Barter," Congressional Research Service Report No 84-648 ENR

reducing excess supplies of agricultural commodities and adding needed strategic and critical materials to the National Defense Stockpile.

The U.S. government has in fact used countertrade to dispose of surplus agricultural commodities through the Barter Program of 1950-73 [9], and the United States-Jamaica barter agreements of 1982 and 1983. In addition, the U.S. government does not oppose the use of countertrade by the private sector, unless such use could have a negative impact on national security. In fact, the government provides advisory services and market information to prospective U.S. exporters who want to use countertrade.

The Barter Program: 1950-73

The Barter Program of 1950-73 authorized the Secretary of Agriculture to reduce inventories of surplus agricultural commodities owned by the Commodity Credit Corporation (CCC) through barter agreements to obtain strategic and critical materials for the National Defense Stockpile or to obtain foreign-produced supplies and services for U.S. agencies operating abroad.

From 1950 to 1954, very little happened in the barter program. From 1954 to 1962, it was used to exchange CCC-owned agricultural commodities for strategic materials. By 1962, stockpile goals were decreased, and the program shifted to the barter of agricultural commodities for (1) foreign-produced supplies and services for overseas military installations and (2) projects of the Agency for International Development. The program was suspended in 1973 when CCC stocks were largely depleted, stockpile goals changed, and the strong foreign commercial export market no longer justified the need for a barter program.[10]

The three objectives of the program, (1) disposal of surplus U.S. agricultural commodities, (2) acquisition of strategic material for the National Defense Stockpile, and (3) acquisition of goods and services "offshore" that were needed by U.S. development programs or for military purposes, were satisfied. The value of the agricultural commodities exported from 1950 to 1973, based on export market value, was $6.65 billion.[11] Despite these successes, there were problems with the program.

[9]Established by the Commodity Credit Corporation Charter Act of 1949 and section 303 of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480).

[10]Although the program was suspended in 1973, exchanges of already committed materials continued until 1975

[11]Of this amount, $1 84 billion was exchanged for strategic materials and $4 81 billion for goods and services of the "offshore" program.

Negotiations were complex and time-consuming. In addition, there were concerns that commodities were resold, thus displacing cash sales, and that the program, in essence, was providing subsidies to exports.

U.S.-Jamaica Barter Agreements

On February 25, 1982, the United States signed two barter agreements with the Bauxite and Alumina Trading Company, Ltd (BATCO), of Jamaica. The first agreement, signed by the CCC and BATCO, was for the exchange of 400,000 tons of Jamaican bauxite for 7,238 metric tons of nonfat dry milk and 1,905 metric tons of anhydrous milk fat (oil). The total value of the agricultural commodities was estimated at $13 million. The second agreement, signed by the General Services Administration (GSA) and BATCO, was for the exchange of 1.2 million tons of Jamaican bauxite for cash and excess stockpile materials (tin and tungsten).[12]

According to a CCC official, the agreements were a success in a number of respects. First, the U.S. stockpile inventory for bauxite was below the desired level. Second, the USDA was able to barter dairy products that it would not have been able to sell otherwise. Third, it promoted regional foreign policy goals.

There were a number of problems with the agreements, however. First, a considerable amount of time was spent finding a material or commodity at acceptable prices to which Jamaica would agree. Second, determination of the value of the bauxite was problematic. Third, there was a lack of competitive market conditions in the negotiations; since Jamaica knew that President Reagan had announced the exchange, it "struck a hard bargain" during negotiations.

On November 17, 1983, a third agreement was signed with BATCO, exchanging dairy products for 1 million tons of bauxite for the National Defense Stockpile. The total value of all the agreements with Jamaica was $47 million.

Administration Task Forces

The current administration has formed at least two groups to consider the issue of countertrade, the Inter-Agency Working Group of the Trade

[12]Title to the bauxite is vested with the CCC until GSA appropriations pay for it; until then, the CCC cannot sell the bauxite GSA was to have paid the CCC by September 30, 1984; however, USDA officials informed us that the CCC has not yet received the payment According to a Congressional Research Service staffer, the reimbursement issue was supposedly settled with a memorandum of understanding, detailing a payment plan over 3 years starting in 1988

Policy Review Group (chaired by the U.S. Trade Representative)[13] and the Working Group on Barter (chaired by USDA)[14]. This latter group is the administration's most recent response to the barter issue.

The Inter-Agency Working Group reviewed countertrade and barter in 1983 to create a government consensus and policy on the matter. The group concluded that the U.S. government generally views countertrade as contrary to an open, free trading system. However, as a matter of policy, it will not oppose U.S. companies' participation in countertrade arrangements unless such action could have a negative impact on national security. Thus the U.S. government will provide advisory and market intelligence services to U.S. businesses, including information on the application of U.S. trade laws to countertrade goods; continue to review financing for projects containing countertrade on a case-by-case basis, taking account of the distortions caused by these practices; continue to oppose government-mandated countertrade and will raise these concerns with the relevant governments; participate in reviews of countertrade in the International Monetary Fund, the Organization for Economic Cooperation and Development, and the General Agreement of Tariffs and Trade; and exercise caution in the use of barter authority, reserving it for those situations which offer advantages not offered by conventional market operations.

The Working Group on Barter, established in January 1984 by an executive order, was charged with determining whether particular countertrade proposals were in the best interest of the country. According to an official statement of the working group, "the barter review process will assure that barter proposals are thoroughly reviewed and that barter proposals will receive attention at not only the requisite departments/agencies, but at the highest levels of government."

[13]The Group consisted of representatives from the Departments of Commerce, Agriculture, State, Treasury, Labor, Justice, Defense, Interior, Transportation, and Energy, the Office of Management and Budget, the Council of Economic Advisors, the National Security Council, and the International Development Cooperation Agency

[14]The working group was part of the Emergency Mobilization Preparedness Board (EMPB), which was charged by the President with emergency mobilization for national security It was chaired by the National Security Advisor and included representatives from the following government agencies the Departments of Agriculture, State, Treasury, Defense, Commerce, Interior, Transportation, Energy, Health and Human Services, Housing and Urban Development, and Labor, Office of the Counsellor of the President, Office of Management and Budget, National Security Council, Council of Economic Advisors, Federal Emergency Management Agency, General Services Administration, and Office of the United States Trade Representative

According to a USDA official, the working group has considered two countertrade proposals: (1) a Mexican proposal to exchange fluorspar for CCC dry milk, and (2) a Department of Defense proposal to exchange U.S. scrap metal for materials needed for the National Defense Stockpile. In both cases, the working group rejected the proposals, although Defense Department actually withdrew its proposal due to the time-consuming review process. According to a USDA official, the group has disbanded in accordance with a National Security Council directive calling for the disbandment of all groups conducting work related to the National Defense Stockpile.

Pilot Barter Provision

Section 1129 of the Food Security Act of 1985 provides for a pilot barter program to be carried out during fiscal years 1986 and 1987. The program, to be carried out with at least two nations which have food and currency reserve shortages, calls for the barter of surplus CCC commodities for strategic or other materials that the United States does not produce domestically in amounts sufficient for its requirements and for which national stockpile reserves or goals established by law are unmet. Normal commercial trade channels must be used and commercial marketings must not be disrupted.

Section 1167 of the Food Security Act of 1985 amends the CCC Charter Act to provide that if the Strategic Petroleum Reserve falls below prescribed levels, and upon request from the Secretary of Energy, the CCC must, to the maximum extent practicable and with approval from the Secretary, make available CCC commodities worth at least $300 million to barter for petroleum products (including crude oil). This section also requires the Secretary of Agriculture to provide technical assistance relating to bartering of agricultural commodities and products to U.S. exporters who request such assistance.

As reported to Congress on January 2, 1987 by the Secretary of Agriculture, no agreements have been concluded for the pilot barter program. USDA stated in its report that it intends to continue efforts to initiate substantive discussions with several countries having food and currency reserve shortages which offer potential for obtaining strategic minerals.

In more recent discussions with Agriculture officials, they reiterated that the Department could not report any progress on barter initiatives; however, they emphasized their commitment to complete the projects. Complications regarding division of authority, agency coordination, and reimbursement between federal agencies involved in potential barter transactions have contributed to a lack of action. Additionally, Agriculture officials informed us that compliance has been hampered by the requirement that the barter be initiated with a less developed country which has limited foreign exchange and which also has a strategic mineral the United States needs in its stockpile. These officials reported that USDA had met on several occasions with Department of Energy and GSA representatives without successfully reaching agreement on a means for carrying out the provisions of the law.

Objectives, Scope, and Methodology

On the basis of a March 7, 1986, letter from the chairman of the House Agriculture Subcommittee on Research and Foreign Agriculture, and subsequent discussions with subcommittee staff, we agreed to obtain certain information on long-term bilateral grain agreements and countertrade. Specifically, we agreed to (1) obtain information concerning the nature, extent, and structure of long-term bilateral grain agreements and countertrade, (2) list the advantages and disadvantages of employing such alternative policy trading tools, and (3) analyze and compare selected U.S. and foreign experiences with long-term bilateral grain agreements and countertrade in the international grain market.

Our review was performed in accordance with generally accepted government auditing standards. For long-term bilateral grain agreements, we interviewed officials from private trading organizations, international grain companies, government agencies, and Washington representatives of foreign governments involved in bilateral grain agreements. We also obtained and reviewed various background material on long-term bilateral grain agreements, including U.S. government documents (statistical and analytical reports, memoranda, and legislation), academic research papers, and reports prepared by international organizations.

For countertrade, we interviewed officials from private U.S. banks and trading organizations, various government agencies, and Washington representatives of foreign governments involved in countertrade. We also gathered extensive background literature on countertrade and reviewed the files at the Congressional Research Service.

Long-Term Bilateral Grain Agreements in Effect During January 1983 to August 1986

Importer	Date Signed	Date Effective	Length (years)	Quantity[a] (mmt)
Argentina				
Iraq	Apr-80	Dec-80	3	0 300
PRC	Sep-80	Jan-81	4	1 000
USSR	Jul-80	Jan-80	6	4 500
Algeria	Sep-81	Jan-82	5	0 120
Cuba	Sep-82	Jan-82	4	0 138
Angola	NA[b]	Jan-83	3	0 100
Czechoslovakia	NA	Jan-83	3	0 200
Haiti	NA	Jan-83	3	0 150
Iran	Mar-83	Dec-83	2	1 500
Peru	Mar-85	Jan-85	4	0 700
Bulgaria	Oct-85	Jan-86	1	0 600
Mexico	Mar-85	Jan-85	4	NA
USSR	Jan-86	Jan-86	5	4 000
Australia				
Qatar	Jan-80	Jan-80	11	0 044
Yemen, AR	May-81	Dec-81	3	0 250
Yemen, AR	Dec-85	Jan-86	1	0 400
Yemen, PDR	Aug-83	Jan-84	1	0 120
Yemen, PDR	NA	Jan-85	1	0 120
Abu Dhabi	Dec-81	Jan-82	3	0 070
Egypt	Feb-81	Jan-82	5	1 000
PRC	Nov-81	Jan-82	3	1 500
Iraq	Nov-82	Jan-83	3	0 750
Abu Dhabi	Apr-85	Jan-85	3	0 070
Egypt	Oct-84	Jan-85	5	2 000
Iraq	Nov-85	Jan-86	5	1 200
Japan	Feb-83	Jan-83	1	0 900
Japan	Feb-84	Jan-84	1	0 965
Japan	Feb-85	Jan-85	1	0 900
Japan	Feb-86	Jan-86	1	0 900
Canada				
USSR	May-81	Aug-81	5	5 000
Algeria	Apr-82	Aug-82	3	0 600
Jamaica	1981[c]	Jan-82	3	0 023
PRC	May-82	Aug-82	3	3 500
Brazil	Jul-82	Jan-83	3	1 667
Iraq	Nov-82	Jan-83	3	0 350
Egypt	Apr-85	Jan-85	5	0 500
Egypt	Jan-86	Jan-86	3	0 025

Importer	Date Signed	Date Effective	Length (years)	Quantity[a] (mmt)
Brazil	Jan-86	Jan-86	3	1 500
German Dem Rep	Sep-83	Jan-84	3	1.000
Iraq	Mar-86	Jan-86	5	0.660
Japan	Nov-82	Jan-83	1	2.200
Japan	Nov-83	Jan-84	1	2 200
Japan	Nov-84	Jan-85	1	2 100
Japan	Nov-85	Jan-86	1	2 050
USSR	Dec-85	Aug-86	5	5 000
European Community				
PRC	Sep-80	Aug-80	3	0 500
USSR	Oct-82	Jan-83	3	NA
United States				
PRC	Oct-80	Jan-81	4	6 000
USSR	Oct-75	Oct-76	7	6 000
USSR	Jul-83	Oct-83	5	9 000
Others				
Hungary/USSR	NA	Jan-83	3	0 400
S Africa/Taiwan	1982	Jun-82	3	0 600
Brazil/USSR	Mar-82	Jan-83	4	0 500
Austria/GDR	May-84	Jan-84	3	0 350
Uruguay/Mexico	Jan-85	Jan-85	3	0 100
Uruguay/Taiwan	Jan-85	Jan-85	6	0 369
China/Japan	Mar-85	May-85	2	2 300
China/USSR	Jan-86	May-85	4	1 500
Turkey/USSR	Mar-85	Jan-86	5	NA

[a]Represents the average annual minimum quantity over the lifetime of the agreement

[b]Not available

[c]Specific month not available from source

Countertrade Agreements Involving Grain

Country		Product Exported from Country			
A	B	A	B	Time Frame	Source
UAR (Egypt)	Spain	cotton	wheat wheat flour	1953	FAO[a]
India	U S A. (CCC)	ferrous manganese ore (112,000 tons) manganese ore (150,000 tons)	wheat	in the 1960s	(a)
South Africa	USSR	corn (200,000 tons)	fertilizer urea	one time-1982	CRS[b]
Romania	South Africa	urea fertilizer (208,000 tons)	corn (200,000 tons)	May 1982 Dec 1982	(b)
Pakistan	Iran	wheat (130,000 tons) sugar (50,000 tons) rice chemical fertilizer	crude oil	1983	(b)
France	Poland	grain mostly wheat (160,000 tons)	coal (500,000 tons)	not specified	(b)
France	Vietnam	wheat & wheat flour (400,000 MT annually) fertilizer (400,000 MT)	rice (100,000 MT) coal (500,000 MT)	5 years	(b)
India	Iran	construction equipment railway equipment rice wheat tea	crude oil raisins almonds	1980/81- one year	(b)
Turkey	Iran	barley wheat horticultural items	crude oil	1980/81- one year	(b)
Brazil	USSR	soybeans, beans (500,000 tons) meal (400,000 tons) oil (40,000 tons) cocoa beans (10,000 tons) liqueur (10,000 tons) corn (500,000 a year, began in 1983)	petroleum (20,000 b p d for 5 months- 8/81-12/81)	5 years	(b)
India	USSR	rice (500,000 tons) barley (100,000 tons) peanuts (20,000 tons) corn (300,000 tons) alumina (50,000 tons) sesame seeds (10,000 tons) semi-tanned goat skins (2 medium pieces)	crude oil (1 MMT) petroleum products (350,000 MT)	4-3-81- 6-30-81	(b)

Country		Product Exported from Country			
A	B	A	B	Time Frame	Source
Argentina	Iraq	wheat (300,000 MT) rice (40,000 MT)	crude oil	1982	(b)
PRC	Thailand	shengli crude oil (600 TMT- 800 TMT) diesel oil (100-200 TMT) jet petrol (50 TMT)	rice (100,000 MT) maize (200,000 MT) black matupe (40,000 MT) rubber (30,000 MT) tapioca flour (50,000 MT) tobacco (2500 MT)	1981	(b)
Venezuela	Argentina	iron ore (150,000 MT)	wheat (200,000 MT) grain, sorghum or corn (100,000 MT)	1976	(b)
Peru	Argentina	copper iron ore cotton	wheat corn beef offal	1976-78	(b)
Peru	Hungary	fishmeal cotton coffee minerals	wheat equipment	1977-80	(b)
Thailand	USSR	corn (100,000 MT)	fertilizer	12-17-81	(b)
Thailand	Romania	corn (200,000 MT)	fertilizer (123,834 MT)	12-25-81 3-82-6-82	(b)
China	Tunisia	wheat (150,000 tons) cotton	phosphates	signed since late 1984	OECD[c]
Austral a	Pakistan	wheat (550,000 tons)	cotton & other commodities	late 1984	(c)
United Kingdom	Poland	wheat (70,000 tons)	coal	late 1984	(c)

[a]Promoting agricultural trade among developing countries, Food and Agricultural Organization of the United Nations, Economic and Social Development Paper No 41, (Rome, 1984)

[b]Donna U. Vogt, U S Government International Barter Congressional Research Service Report No 83-211 ENR, (Washington, D C , Dec 6, 1983)

[c]"Ministerial Mandate on Agricultural Trade, Part III Bilateral and Multilateral Agreements," Organization for Economic Development Working Paper, (Paris Oct 18, 1985)

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