

GAO

Testimony



137063

For Release
on Delivery
Expected at
11:30 a.m. EDT
Thursday
October 6, 1988

Commodity Credit Corporation's
Export Credit Guarantee Programs

Statement of
Allan I. Mendelowitz
Senior Associate Director
National Security and International Affairs
Division

Before the
Subcommittee on Tobacco and Peanuts
Committee on Agriculture
House of Representatives



043535/137063

Mr. Chairman and Members of the Subcommittee.

We are pleased to be here today to discuss our reviews of the Commodity Credit Corporation's (CCC) Export Credit Guarantee Program and Intermediate Export Credit Guarantee Program, referred to as the GSM-102 and GSM-103 programs, respectively. Two of our reports¹ on these programs identified management deficiencies and recommended improvements in the Foreign Agricultural Service's (FAS) administration of both programs.

The credit guarantee programs are intended to increase or maintain U.S. agricultural commodity exports to foreign buyers by making available federal guarantees for commercial financing with credit terms up to 10 years. In our June 1988 report, we stated that FAS needed to improve its management of CCC's export credit guarantee programs. More specifically, we reported that FAS took a hands-off management approach because it viewed the programs as commercial programs that are the responsibility of the private sector. We recommended that FAS clarify program regulations by defining a U.S. agricultural commodity, requiring acknowledgement of program requirements by exporters, and developing and implementing internal controls to ensure that loan guarantees are used to export U.S. agricultural commodities and that they reach their destination.

¹INTERNATIONAL TRADE: Commodity Credit Corporation's Refunds of Export Guarantee Fees (GAO/NSIAD-87-185, Aug. 19, 1987) and INTERNATIONAL TRADE: Commodity Credit Corporation's Export Credit Guarantee Programs (GAO/NSIAD-88-194, June 10, 1988).

The programs' regulations make the export of a "U.S. agricultural commodity" eligible for a credit guarantee. FAS management considered a "U.S. agricultural commodity" as a commodity that is 100-percent grown, processed, and packaged in the United States-- and FAS has testified to that effect. However, not all exporters were provided with this specific definition. As the program supported more processed agricultural products, this lack of clarity became problematic. For example, we identified a case in which an exporter sold cola concentrate that contained foreign agricultural contents. We also identified a case of a U.S. exporter who tried to qualify for the program with an export sale of U.S. seeds that had been processed overseas. The request for an export credit guarantee for the sale of the seed was rejected by CCC only because the bank providing the financing questioned whether it qualified under the program. In yet another example, we identified a situation where buyers complained to FAS that foreign tobacco was mixed with their purchase of U.S. tobacco. In this case, FAS was notified in May 1986. The FAS Administrator told us that the allegation was reviewed and no problem was identified.

However, Agriculture's Office of the Inspector General has recently reviewed a large share of the GSM-102 and GSM-103 programs' tobacco exports for fiscal years 1986 through 1988 and found that large quantities of imported tobacco have been exported with CCC's export credit guarantee programs. The Inspector General has provided preliminary information to the Department of Justice for

possible criminal prosecution and is continuing its investigation of the programs' tobacco exports.

Our June 1988 report also noted that CCC does not have sufficient control procedures to verify that commodities purchased under the programs reach the intended destinations and that the financing made available was used for the intended purposes. FAS officials took the position that normal controls used by buyer and seller have existed in commerce for years and that additional FAS controls to ensure that commodities actually reached their destinations would be burdensome. We disagreed with this assessment because CCC is a third party providing a financial guarantee that benefits both the buyer and the seller. Accordingly, we recommended that the Secretary of Agriculture direct the FAS General Sales Manager to design, develop, test, and implement internal controls, including random on-site verifications, to ensure that commodities reach their destinations.

In response, in part to our recommendation that the FAS General Sales Manager clarify the definition of a U.S. agricultural commodity and require an acknowledgement of the requirement of what qualifies on each guarantee application, FAS on September 21, 1988, issued a Notice To Exporters clarifying commodity eligibility under the programs. It also included a policy change that allows the programs' exports to include imported agricultural commodities. The new policy allows up to 25 percent of a guaranteed sale's port

value to be imported; however, only the value of the U.S. portion will receive the CCC guarantee. For example, if an agricultural export valued at \$1 million contains an imported agricultural product valued at \$250,000, or 25 percent, then CCC guarantees apply only to the \$750,000. Although the Notice sets a maximum of 25 percent on the value of the imported commodities, the volume of the foreign amount can be substantially greater than 25 percent if the imported commodities are cheaper than the U.S. commodities. This change makes it more difficult for FAS to ensure that only U.S. agricultural commodities are supported by the programs. The Notice also requires exporters to certify to FAS the percentage of imported commodities in each export sale.

FAS did not solicit comments from program users regarding this policy change and does not plan to include the change in the programs' regulations. Agriculture's Inspector General commented that the change should be codified in the regulations because it is a way of educating the trade and detecting unforeseen operational problems. It seems to us that such an important change might better have been made as part of a formal rule-making procedure in which comments had been publicly solicited and the impact on exports had been more fully assessed.

This change could also further complicate oversight of the programs. The FAS position is that industry tends to police itself and FAS will monitor implementation of the new policy

through self-certification by exporters. We are concerned that FAS might not adequately enforce its new requirement that all reports of exports contain a certification of import content. In our June 1988 report, we said that CCC could not accurately account for outstanding guarantees because it did not adequately enforce program regulations requiring that exporters include payment schedules with their reports of export. Payment schedules are used to determine the amount of outstanding guarantees, but many reports of export do not include them, and CCC takes no action to obtain the missing schedules. FAS officials said that they had no new procedures in place to respond to incomplete reports of export--reports that are now supposed to include an import certification.

In closing, we note that the objective of our reviews has been to improve the efficiency and effectiveness of CCC's export credit guarantee programs. Our recommendations were developed to protect U.S. interests, to provide FAS managers with the tools needed to ensure that program objectives are being pursued, and to deter future misuses of the programs.

Mr. Chairman, this concludes my statement, and I will be happy to respond to any questions you may have.