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Report to Congressional Requesters

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INTERNATIONAL TRADE

Commodity Credit Corporation's Export Credit Guarantee Programs

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National Security and
International Affairs Division

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June 10, 1988

The Honorable Patrick J. Leahy, Chairman
Committee on Agriculture, Nutrition, and Forestry
United States Senate

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

Representative Charles E. Schumer
House of Representatives

At your requests, we reviewed the management and operations of CCC's export credit guarantee programs administered by the Foreign Agricultural Service of the Department of Agriculture. We are recommending that the Secretary of Agriculture implement program management changes to improve the efficiency and effectiveness of program operations.

As arranged with your office, 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 we will send copies to the Secretary of Agriculture, Administrator of the Foreign Agricultural Service, and cognizant congressional committees and subcommittees. We will also make copies available to others upon request.

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Assistant Comptroller General

principal. CCC also pays the claimant interest as indicated in CCC's payment guarantee. As of June 30, 1987, CCC paid $2.3 billion in credit guarantee claims.

Results in Brief

GAO could not quantify the extent to which the programs generated new exports. However, it does appear that the programs enhance U.S. agricultural exports. They enable buyers with limited hard currency to purchase commodities and they offset the impact on U.S. agricultural exports of credit provided by other exporting countries.

GAO concluded that management improvements are needed to better administer CCC's export credit guarantee programs. These improvements are needed so that CCC can (1) accurately account for outstanding guarantees, (2) ensure that U.S. agricultural commodities are being purchased with guarantees provided, and (3) provide adequate program guidance to all program participants.

Principal Findings

CCC cannot accurately account for outstanding guarantees because it does not adequately enforce program regulations requiring that exporters include payment schedules with their reports of export. The payment schedules are used to determine the amount of outstanding guarantees, but many reports do not include them and CCC takes no action to obtain the missing schedules. GAO found the absence of an accurate accounting of outstanding guarantees has resulted in CCC reporting inaccurate information to the Congress and rescheduling foreign debt guaranteed without always knowing the amounts outstanding.

GAO also found CCC lacks sufficient controls to ensure that U.S. agricultural commodities are purchased through its export credit guarantee programs. Although exporters submit reports of export to CCC, no supporting documentation (i.e., bills of lading) is submitted unless claims are filed. A report of export is required to include a statement that the agricultural product has been exported to the country specified in the payment guarantee, but CCC has no process to verify that the product reported was actually exported to the specified country.

Program officials were concerned that GAO had not recognized that normal controls used by buyers and sellers have existed in commerce for years and that additional controls to ensure that commodities actually reached their destinations would be burdensome. GAO does not view normal controls used between buyers and sellers as adequate because CCC is

Abbreviations

ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
EC	European Community
FAS	Foreign Agricultural Service
GAO	General Accounting Office
GSM	Prefix used for General Sales Manager Programs
GSM-101	Non-Commercial Risk Assurance Program
GSM-102	Export Credit Guarantee Program
GSM-103	Intermediate Export Credit Guarantee Program

The programs are intended to permit countries to buy U.S. agricultural commodities when guarantees are needed to get private financing. CCC usually guarantees 98 percent of the principal amount of the credit extended by U.S. lenders.[1] It also guarantees the interest on covered principle at the eligible rate indicated in the payment guarantee[2] or the payment interest due from the foreign borrower, whichever is lower.

CCC started providing export credit financing in 1956 under authority of the Commodity Credit Corporation Charter Act (Public Law 80-806). The Act authorizes CCC to use its general powers to export or cause to be exported or aid in the development of foreign markets for agricultural commodities. CCC used the Export Credit Sales Program to provide direct credit with 3-year financing from 1956 to 1980 and again from 1983 to 1985.

CCC started providing export credit guarantees in fiscal year 1979 to facilitate commercial financing of agricultural exports. In fiscal years 1979 through 1981, CCC's Non-Commercial Risk Assurance Program (GSM-101) provided political risk guarantee coverage for failure to pay due to warfare, expropriation, government order or regulation, and exchange controls, or a wholly owned foreign government bank's failure to pay for any reason. CCC currently facilitates private lending that assists foreign buyers of U.S. agricultural commodities by providing guarantees to U.S. lenders with its GSM-102 and GSM-103 programs. The GSM-102 program was initiated in fiscal year 1981, and the GSM-103 program completed its first full year of operations in fiscal year 1987.[3] Both programs guarantee against loan payment defaults for any reason by CCC-approved foreign banks. The programs also provide economic benefits to foreign governments and their use can be influenced by U.S. foreign policy considerations.

From fiscal year 1983 to 1985, CCC provided direct credit and credit guarantees under its Blended Credit Program, which combined GSM-102 credit guarantees with interest-free direct credit in a credit package

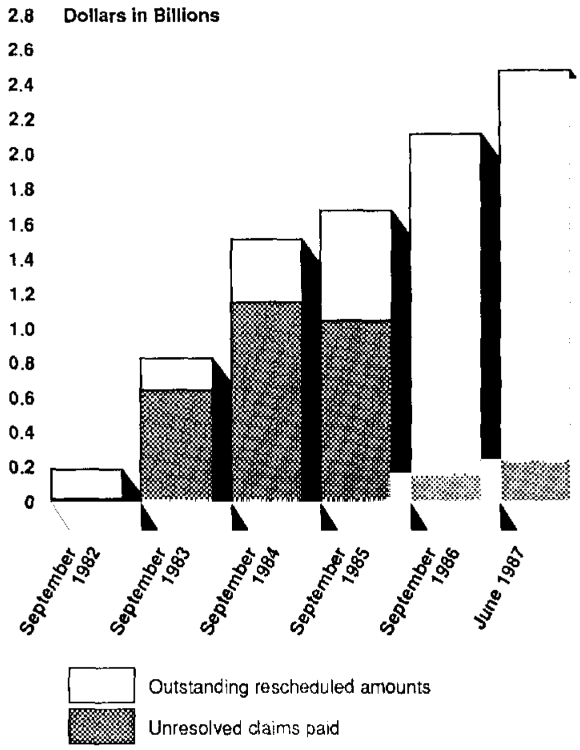
[1] In September 1982, CCC made available guarantees to cover 100 percent of the principal for export credit sales to Mexico.

[2] FAS officials told us on May 20, 1988, that the eligible interest rate for GSM-102 guarantees was a fixed 4.5 percent and for GSM-103 guarantees was automatically adjusted during the term of the credit but was limited to 80 percent of the coupon equivalent yield average of the latest 52-week Treasury bill auction.

[3] GSM-103 guarantees were made available late in fiscal year 1986, but only Ecuador used them and the program's reported exports for the year were less than $1 million.

policy of accruing interest and refinancing debt rather than having countries default on loans due the United States.

Figure 1.1: Growth in Outstanding Claims Paid by CCC



Although CCC's position is that the unresolved claims paid and the rescheduled debt will eventually be repaid, its value is clearly impaired. Since this debt is not traded, there is no direct basis for measuring its market value. However, there is a market (secondary market) in which commercial debt whose value is impaired is traded. If the October 1987 prices paid on the secondary market were used as a measure of value, the $2.5 billion owed CCC as a result of claims paid would have a market value of about $1.0 billion. The following table provides a detailed description of claims paid by CCC under its credit guarantee programs. As of June 30, 1987, the $2.5 billion owed CCC consisted of $236.7 million in unresolved claims paid and $2,234.3 million in reschedulings.

of balanced and adequate supplies of agricultural commodities and facilitate their orderly distribution. The broad powers contained in CCC's charter enable it to adapt its operations to changing conditions in the execution of U.S. policies. Its commodity export programs are designed to aid in developing export markets for U.S. agricultural commodities and products through such operations as financing, sales, barter, and credit guarantees.

CCC does not have its own operating personnel or facilities. Different agencies in the Department of Agriculture assist CCC in carrying out its authorities and responsibilities. The Agricultural Stabilization and Conservation Service (ASCS) administers most CCC activities. However, the General Sales Manager, FAS, is responsible for administering CCC's export credit guarantee programs.

The General Sales Manager's Program Development Division develops the annual credit guarantee program plans and allocates guarantees to participating countries. The Division has three branches, each with an area manager responsible for a specific region of the world. Other FAS units work with the Division in developing country allocations. For example, FAS' International Agricultural Statistics office provides financial risk data for participating countries and the Commodity and Marketing Programs office identifies potential markets for U.S. agricultural commodities.

The General Sales Manager's Operations Division directs and coordinates all export program sales through its Credit Sales Registration Branch and records these sales through its Regulations, Procedures and Reports Branch.

Program Operations

Program operations begin with FAS area managers developing credit guarantee allocations for countries with potential markets for U.S. agricultural commodities. In developing allocations, information is obtained from foreign officials and FAS representatives in importing countries. Initial allocations are developed as part of the program plan and revised throughout the year. The International Agricultural Statistics office also provides information on financial risk. Area managers then confer with personnel from the Commodity and Marketing Programs office and make a joint list of countries and allocations that until fiscal year 1988 were usually commodity specific.[6] This list then goes to the National

[6] Prior to fiscal year 1988, a portion of the allocations provided to Korea was not commodity specific.

An exporter submits its guarantee application to the Operations Division for review and approval. If approved, CCC issues a payment guarantee in favor of the exporter, registers the sale, and reduces the country's commodity allocation by the amount guaranteed. A registered sale is entered as a commitment into the CCC computer system used to monitor the outstanding export credit guarantees. The delivery period, which is also required on the application, is also entered in the system to identify shipping dates.

Exporters can register sales by telephone and follow up with written applications and payments of the guarantee fees. The fees are based on the guarantee coverage (i.e., 98 percent), credit terms, and sales amounts guaranteed. Currently GSM-102 fees range from 0.153 to 0.670 percent of the guaranteed amounts and GSM-103 fees range from 1.17 to 5.0 percent of the guaranteed amounts.

The ASCS Fiscal Division establishes letter of credit limits for foreign banks participating in the programs and enters the limits in the computer system that monitors outstanding guarantees. FAS also requests that each participating country issue a credit guarantee assurance stating that the country stands behind the letters of credit issued by designated banks in the country. Some countries, however, do not issue credit guarantee assurances, in which case their banks' credit limits are adhered to unless the General Sales Manager waives them.

CCC regulations note that the exporter shall provide a written report of export to the Assistant General Sales Manager, Export Credits, FAS, within 30 days following each export covered by the payment guarantee. Upon receiving a report, the Operations Division records the data by commodity and country into its own data base, which is maintained separately from the CCC export credit guarantee monitoring system.

Exporters usually assign the proceeds payable under their guarantees to U.S. financial institutions so they can realize the proceeds of their sales prior to the agreed payment dates. Written notices of assignment must be signed by the exporters and assignees and filed by the assignees with the CCC Treasurer, who is the Deputy Director of the ASCS Fiscal Division. Receipt of the notices is acknowledged by a CCC officer.

Operations personnel send copies of reports of export to the ASCS Fiscal Division, which monitors CCC's outstanding guarantees. Commitments entered upon registration of a sale are maintained as undisbursed (i.e., guarantees issued with shipments pending) in the data base until ASCS

- Seoul, Korea;
- Mexico City, Mexico;
- Rabat, Morocco;
- Lisbon, Portugal;
- Ankara, Turkey; and
- Belgrade and Ljubljana, Yugoslavia.

In reviewing the programs, we examined CCC's processes for allocating guarantees, monitoring their use, accounting for country risk, and ensuring that commodities are shipped. We discussed the programs with officials representing U.S. banks, U.S. exporters, foreign banks, foreign importers, and the governments of Australia, Brazil, Canada, Egypt, Iraq, Korea, Mexico, Morocco, Portugal, Turkey, and Yugoslavia. We analyzed CCC's repayment data and reviewed selected country files maintained for the programs. We also sent letters to 123 U.S. banks and 231 exporters that have participated in the programs, soliciting information on CCC's program operations and suggestions for improvement.

Using available market data, we estimated the market value of the foreign debt resulting from program claims paid by CCC. We were asked to determine the increase in total U.S. agricultural exports attributable to the credit guarantee programs, called additionality, but we were unable to quantify program benefits because of the many variables involved.

We discussed the report with Department of Agriculture officials responsible for CCC's export credit guarantee programs and their comments were incorporated where appropriate. As requested, we did not obtain official agency comments.

Our work was conducted in accordance with generally accepted government auditing standards.

Our March 17, 1987, report on the Export Enhancement Program[1] concluded that increases in exports to targeted markets probably could be attributed largely to the fact that the program, coupled with sufficient export credit guarantees, was available. In fiscal years 1986 and 1987, $967.2 million in export credit guarantees was used for exports made with the Export Enhancement Program to 10 countries. This represented 18.6 percent of the $5.2 billion in CCC export credit guarantees used for the 2-year period.

Major Program Participants

Mexico, Korea, Iraq, Portugal, Brazil, Poland, and Egypt were the top seven users of CCC export credit guarantee programs through fiscal year 1987, accounting for $14.5 billion, or 74 percent of the $19.6 billion in total export credit guarantees used from fiscal year 1979 through 1987. (See fig. 2.1.) Iraq and Mexico started using the GSM-102 program in fiscal year 1983, and CCC export credit guarantee sales to them for the 5-year period ending in fiscal year 1987 totaled $2.1 billion and $3.3 billion, respectively.

Some of the larger program users have balance-of-payment problems or foreign currency shortages. For example, credit provided by the guarantee programs is a key factor in U.S. agricultural sales to Egypt, Morocco, Mexico, and Iraq. Credit also allows U.S. exporters to compete in markets where other foreign countries offer financing. Foreign officials said that U.S. exports to their countries would decline if the guarantee programs were reduced or eliminated. Some said that alternatives, including using more competitors' credit, would have to be pursued if CCC credit guarantees were reduced or eliminated. Appendix II provides an overview of program use in nine recipient countries.

[1] Implementation of the Agricultural Export Enhancement Program, (GAO/NSIAD-87-74BR).

covers freight costs but that their guarantee fee rates are higher than those for the GSM-102 program.

Australia offers credit for wheat and other grains. Loans are guaranteed at market rates for a maximum of 3 years. The guarantees cover 85 percent of a loan for the first year and 95 percent for the remaining years.

Credit is also offered by members of the European Community (EC). For example, France offers credit guarantees for terms up to 3 years. The guarantees cover 100 percent of the contract value for sales in markets where it competes directly with the GSM-102 program.

All other things being equal (e.g., price, quality, etc.), CCC credit guarantees do not give U.S. agricultural exporters a competitive advantage in a market if foreign exporters offer comparable credit. U.S. exporters would be at a disadvantage, however, if no credit were available and competitors continued to provide credit.

CCC Program Flexibility

The broad powers contained in CCC's charter enable it to adapt its program operations to changing conditions in implementing U.S. policies. We identified several examples where CCC used its flexibility to make exceptions to normal program operations, including (1) increasing the 98-percent guarantee coverage to 100 percent, (2) incorporating shipping costs under the guarantee, and (3) providing guarantee allocations to countries that are not commodity specific.

In September 1982, at Mexico's request, CCC provided 100-percent export credit guarantees to Mexico. A 1985 report by Agriculture's Inspector General disclosed that CCC did not develop the criteria to justify the additional risk. However, CCC's position is that the risk it assumes on foreign debt does not affect its financial condition. FAS officials stated that the strong political interest in Mexico's request had prompted the decision to provide the 100-percent coverage and that the request concerned a unique situation which had broad financial implications. While it may be questionable whether the additional 2-percent coverage was necessary, this action demonstrates CCC's flexibility in enhancing U.S. agricultural exports.

Mexico requested 100-percent coverage again in 1986, and some program participants suggested increasing the programs' coverage to 100 percent. CCC, however, determined there was no need to provide the additional coverage again. Information obtained from program users where credit provides an incentive to buyers with cash shortages. If other exporting countries offer credit, the credit provided with CCC's guarantees can neutralize this competitive advantage.

system to automatically deduct the amounts due on the scheduled payment dates from the disbursed guarantees, thus reducing outstanding guarantees as appropriate. Unfortunately, reports of export received by CCC do not always include payment schedules. The ASCS official responsible for the report of export data in the CCC guarantee system showed us 45 reports received in one day that arrived without payment schedules and could not be recorded. She said that since reports without payment schedules cannot be entered into the computer to track the outstanding guarantees, she discards them. Therefore, outstanding guarantees are understated because the registered guarantee amounts remain in the tracking system as undisbursed, and the system cancels them 180 days after the registered last date to export. As a result, while some canceled guarantees are actual cancellations, others are outstanding guarantees that the system canceled because payment schedules were not received and the necessary data were not entered into the system.

The Operations Division Director said that the CCC guarantee system's recorded guarantee cancellations of $2.9 billion as of September 30, 1986, were overstated because CCC gets few program cancellations. This $2.9 billion represented approximately 18.7 percent of total program commitments as of the same date and indicates the extent to which outstanding CCC guarantees could be understated.

The ASCS official who attends the negotiations to reschedule foreign countries' credit[1] told us that because the system does not have accurate data on outstanding credit guarantees, she improvises by bringing a system printout to the negotiations which includes a country's undisbursed guarantees and cancellations. As noted, some are actual cancellations but others are outstanding guarantees that the system canceled because payment schedules were not received.

CCC has an important financial management responsibility to have an accurate accounting of its outstanding credit guarantee amounts to all debtors. An accurate accounting of these amounts is important (1) for new credit decisions which should consider CCC's total credit guarantee exposure to countries and (2) to U.S. negotiators who reschedule countries' debt which includes CCC outstanding guarantees. The CCC Controller[2] agreed to review these issues. However, to accurately report outstanding guarantees, she said that the Operations Division needed to

[1] Debtor and creditor nations negotiate rescheduling of official (i.e., country to country) debts in a multilateral environment, called the Paris Club.

[2] The CCC Controller is also the Director of ASCS' Fiscal Division.

Without adequate controls, CCC does not have sufficient assurances that programs are used as intended. Exporters are required to submit all the required documentation, but no checks are in place to verify such things as shipments and costs. Regulations for the programs define an exporter as an individual, group of individuals, partnership, corporation, association, cooperative, or any other entity that is (1) financially responsible, (2) engaged in the business of buying or selling commodities for export and for this purpose maintains a bona fide business office in the United States, its territories or possessions, and has someone on whom service of judicial process may be had within the United States, and (3) not suspended or disbarred from contracting with or participating in any program administered by CCC on the payment guarantee issuance date.

Without controls to ensure that sales actually take place, CCC cannot verify exporters' reports. FAS officials said that control is achieved through the lender, because a lender will not receive payment for a guarantee claim unless it can verify shipment. However, supporting documentation is provided by the exporters, not the lenders. Furthermore, the documentation is not verified and no documentation is required to prove that commodities actually arrived at the intended destinations.

The Operations Division Director said that additional internal controls for the programs were not needed because they were commercial programs. He said program controls focused on obtaining adequate documentation to support guarantee payment claims that are filed for CCC payments. Unless claims are filed, he said, it is not important to have additional controls to ensure that U.S. agricultural commodities were actually sold. He said that the guaranteed loans that did not result in claims were repaid with no cost to CCC.

While there is no cost to CCC if there are no claims, financing provided by these guarantees should be used only for approved purposes. If the credit guarantees are used for other than approved purposes and the loans are paid back, controls are not in place to deter such actions because no payment claims would be filed with CCC—and no checks could be made. In such circumstances, very low-cost credit which may not have been attainable by other means could be used for any purpose. The absence of appropriate management controls opens the program to such potential misuse.

We also asked CCC officials about its controls on shipping cost guarantee limits for sales to selected markets, as described in chapter 2. (See p.

Refund Policy

In our August 19, 1987, report on refunds of export credit guarantee fees, we stated that CCC could assist U.S. exporters by clarifying the circumstances that must exist to obtain credit guarantees. For example, including the need for and definition of a firm sale in the program regulations would clarify requirements that must be met for exporters to obtain guarantees and to be considered for subsequent refunds of guarantee fees. Program officials told us that exporters must have firm sales at the time of registration. However, we concluded that additional steps could be taken to ensure that program users understand the guarantee registration policy.

Exporters pay CCC a fee when registering sales, to pay for risk insurance and to deter exporters from speculating. CCC's refund policy is to retain these fees in the event exporters did not have firm sales at the time they obtained their guarantees, to keep exporters from speculating on possible future sales.

Information on guarantee fee refunds is available in CCC's export credit guarantee program regulations, in a program leaflet, and in correspondence with Operations Division personnel. The regulations state that, once an application is approved, the fee is non-refundable unless in the interest of CCC but do not specify the circumstances that must exist for exporters to be considered for refunds; the leaflet states that the fee is non-refundable.

CCC could take steps to better assure that guarantee applicants understand that fees are not refunded unless certain circumstances exist, such as the existence of firm sales at the time they pay the fees. Guarantee applicants are not asked to disclose any conditions or contingencies affecting sales, even though our review of a selected number of refund files indicated that such circumstances existed. CCC cannot always determine at the time it is reviewing an application whether the applicant meets its firm sale requirement.

Our report recommended that the Secretary of Agriculture direct the General Sales Manager, FAS, to amend the credit guarantee program regulations to (1) clarify the circumstances that must exist for users to obtain credit guarantee application approvals, including the need for and definition of firm sales, (2) provide that a user must have a firm sale to be considered for a guarantee fee refund should an export sale not be consummated, and (3) require that program users acknowledge their understanding of the application requirements and refund policy on the guarantee applications.

exported for processing, and then imported back to the United States for export under the program. Bank officials involved in the transaction questioned CCC about the sale's eligibility. The bank officials noted that, were it not for the bank's query, the guarantee would have been approved. Operations Division officials said that claims would not have been paid to the bank if the commodity did not qualify. However, the ASCS Fiscal Division official responsible for receiving and paying claims said that no checks are made to determine whether commodities qualify before she pays a claim.

Members of Congress have introduced several bills to deal with the U.S. content issue. One would require verification of 100-percent U.S. content, and another would offer a guarantee for the percentage of a product that is of U.S. origin. The Assistant Administrator, Export Credits, agreed with our conclusions that better guidance on the definition of a U.S. agricultural commodity needs to be provided to users but said that FAS has no current plans to initiate a specific definition for a U.S. agricultural commodity. He said that Congress should decide on the credit guarantee programs' definition for a U.S. agricultural commodity because of the varying concerns that would have to be resolved.

Guidance to Importers

We identified a situation where importers were not sure what U.S. commodities could be purchased under the CCC export credit guarantee programs. While this situation was only identified in one country, it could indicate a need for CCC to increase emphasis on assuring that importing countries are aware of commodities that qualify for program usage.

During one of our meetings with Mexican government officials, we discussed commodities that qualified under the programs. Mexican officials told us that they were unaware that the program could be used for items that would not be consumed in Mexico. For example, they said they had turned down an importer's proposal to use GSM-102 financing for wheat flour that the importer intended to use to manufacture cookies for export. After this meeting, CCC made the allocation, and the FAS staff in Mexico identified wheat flour as an example of a new commodity market generated by the GSM-102 program. Subsequently, Mexican bank officials asked the agricultural attaches to give them a list of commodities that could qualify for export credit guarantee financing because they said this data was not available for importers.

CCC cannot accurately account for outstanding guarantees because it does not enforce program regulations that require that exporters include payment schedules with their reports of export. The payment schedules are used to determine the amount of outstanding guarantees, but many reports are received without payment schedules and CCC takes no action to obtain them. It is, however, important for CCC to know its total foreign exposure in outstanding guaranteed credit when it makes important program decisions, such as providing countries with additional guarantee amounts and rescheduling future guaranteed payments.

CCC officials need to better assess whether U.S. agricultural commodities are being purchased with loans obtained with CCC guarantees. CCC lacks the internal controls needed to adequately ensure that commodities are shipped from U.S. ports and received at their destinations.

CCC guidance for program users is not clear enough to ensure that program requirements are adequately communicated. In our August 19, 1987, report, we stated that CCC could better serve program users by clarifying the circumstances that must exist to obtain credit guarantees. The report noted that communicating the need for and definition of firm sales in the program regulations would clarify requirements that exporters must meet to be considered for refunds.

CCC also needs to clarify its program regulations by better defining a U.S. agricultural commodity. Although the FAS Administrator noted that only U.S. agricultural commodities are sold under the programs and the Assistant General Sales Manager told us that CCC interprets the requirement to mean commodities 100-percent grown, processed, and packaged in the United States, exporters are not provided with a specific definition and CCC does not review sales unless complaints on noncompliance are received.

Corrections sought by users due to paper work errors is an area that FAS management needs to deal with more effectively. CCC may also need to provide additional information on products that qualify under the programs to foreign governments, importers, and banks. Our review identified situations in one country where additional information would have assisted program users.

We recommend that the Secretary of Agriculture direct the General Sales Manager, FAS, to take the following actions.

Country	Fiscal Year 1979	1980	1981	1982	1983	1984	1985	1986	1987	Totals
Yemen	0	0	0	0	33.2	11.0	0	6.7	38.1	**89.0**
Yugoslavia	0	6.0	22.3	0	161.3	79.1	73.5	23.9	16.1	**382.2**
Zanzibar	0	0	0	0	0	0	0	0	3.2	**3.2**
Total	**$63.2**	**$698.1**	**$1,862.2**	**$1,386.5**	**$3,940.0**	**$3,695.8**	**$2,755.5**	**$2,416.5**	**$2,784.5**	**$19,602.3**

these guarantees with the Blended Credit program. As of April 1, 1988, CCC committed $200 million in GSM-102 guarantees to Egypt for fiscal year 1988 and approved $94.6 million of this amount in sales. Egypt has used the GSM-102 program allocations for a variety of commodities, including cotton, feedgrains, oilseeds, protein meals, tallow, tobacco, wheat, and wheat flour.

The Egyptian government agencies, which are the principle users of CCC guaranteed credit, prefer using GSM-102 with the full 3-year credit, according to the U.S. Agricultural Counselor in Egypt. He said when the United States offered less than the maximum 3-year credit, it was mostly unused. For example, in fiscal year 1985, Egypt had 1-year credit allocations for vegetable oils, soybeans, and cotton but used only the allocation for cotton. In fiscal year 1986, credit allocations for cotton were available for both 2-year and 3-year terms and Egypt only used the 3-year credit. In fiscal year 1987, all the allocations announced were for 3 years.

The Agricultural Counselor said CCC credit has succeeded in developing markets for some commodities but not for others. For example, he said GSM-102 generated sales for U.S. cotton and soybeans but not for vegetable oils and lentils. This was largely because the prices for these U.S. commodities are higher than competitors' prices.

Credit is a key factor in U.S. agricultural sales to Egypt, and sales to Egypt without credit are rare. According to the Regional Director of U.S. Wheat Associates, without GSM-102 the United States would sell wheat to Egypt only under the Public Law 480 program. He said that the EC and Australia would sell the rest.

Egypt has also used credit offered by countries which compete with the United States for agricultural sales. Australia offers 3-year credit terms for wheat, guarantees 85 percent of the sale, and offers a somewhat better interest rate than available under GSM-102. In fiscal year 1985, France offered Egypt financing to purchase wheat flour and Canada offered 3-year financing which was comparable to the GSM-102 program.

GSM-102 sales of U.S. cotton to Egypt are particularly interesting, because Egypt is an exporter of cotton. According to the U.S. Agricultural Counselor, Egyptian cotton does not directly compete with U.S. cotton, because Egyptian cotton is a better quality long staple cotton, which commands a higher price than the short staple U.S. cotton. U.S.

the request and in fiscal year 1988 is guaranteeing credit provided to Iraq for freight costs.

Korea

Korea is the largest user of CCC's export credit guarantee programs. From fiscal year 1980 through fiscal year 1987, it used almost $3.4 billion in CCC export credit guarantees. As of April 1, 1988, CCC committed $560 million in GSM-102 guarantees to Korea for fiscal year 1988 and approved $395.6 million of this amount in sales.

GSM-102 credit has been very attractive to Korean industry because of the length of the loans, low interest rates, and the appreciation of Korea's currency against the dollar. The 3-year credit term helps to provide liquidity to Korean industry by stretching out the repayments. Some Korean industries use GSM-102 credit to provide working capital. The textile industry has been using credit for the past few years and has become dependent upon its availability.

Representatives of Korean importers and related associations would like to see more GSM-102 credit available, but the Korean Ministry of Finance is currently trying to reduce short-term credit. The Korean economy has improved and in 1986, for the first time, Korea had a current account surplus. As a result, the government is concerned about inflation and is working to reduce credit. As the economy improves and industry expands, the Korean government would like to see industry use its own capital to finance imports but is concerned about its trade surplus with the United States and how it can increase imports to offset the surplus. According to a Korean Ministry of Finance official, the continuation of the GSM-102 program is a way to help alleviate the trade surplus.

Currently, GSM-102 helps to maintain existing Korean markets for U.S. agricultural commodities. As the Korean economy improves, commodity prices will likely become a larger factor, and in the last few years U.S. commodity prices have not been competitive. Therefore, according to the U.S. Agriculture Counselor in Korea, the continuity of the GSM-102 program is important because it helps to sell U.S. commodities when prices are less competitive. For example, he said GSM-102 credit helped to sell cotton to Korea in 1986, when U.S. cotton was priced 30 to 40 percent higher than that of competitor countries. According to the Executive Vice President, Spinners and Weavers Association of Korea (SWAK), while the U.S. share of the Korean cotton market declined from over 90 percent to 60 percent in 1986, without the reduction in price initiated by the Food Security Act of 1985 and the availability of GSM-

The funds generated by Mexican banks in these transactions are limited by the Mexican government to (1) finance Mexican exports, (2) finance public sector projects, or (3) deposit with the Central Bank, Banco de Mexico. Thus, the Mexican government benefits from the 3-year financing provided by the GSM-102 because it recirculates funds into the banking system for use in export expansion, public projects, or debt servicing.

The GSM-102 program has helped to maintain the U.S. market share of Mexican imports. Most officials we talked to said that if the GSM-102 credit were reduced or eliminated, U.S. exports to Mexico would decline. U.S. commodities are not always price competitive, but the availability of CCC credit guarantees sometimes offsets price and makes U.S. commodities attractive.

Because of Mexico's financial situation, without the GSM program, Mexican importers would be forced to look for alternatives (e.g., comparable credit, barter agreements, etc.). It is difficult to determine, however, how much U.S. exports would decline, since its proximity to Mexico has made the United States a primary supplier of agricultural commodities to Mexico.

Mexico benefits from credit offered by foreign countries. Specifically, the GSM-102 program benefits the Mexican government by providing new international lending. The Mexican government, through the issuance of import licenses, requires that private importers use CCC credit or comparable credit when importing commodities for which credit is available. As a result, other exporting countries, such as Canada and Argentina, have moved to match the credit provided by CCC guarantees. Canada provides 100-percent credit guarantees that also cover freight costs. In fiscal year 1986, Canada offered $200 million in credit guarantees and Mexico used about $120 million. Argentina offers credit through a Latin American cooperative bank that supports Latin American exports. Mexico has also purchased non-fat dried milk from New Zealand and France, using 1-year credit financing.

Morocco

Morocco is the eighth largest user of CCC's export credit guarantee programs. From fiscal year 1981 through fiscal year 1987, it used almost $700.6 million in CCC export credit guarantees ($268.7 million with the Blended Credit Program in fiscal years 1983 and 1984). As of April 1, 1988, CCC committed $30 million in GSM-102 guarantees to Morocco for fiscal year 1988 and approved $3.1 million of this amount in sales. CCC a balanced current account. However, further reschedulings of its large foreign debt remain likely in the near future and Morocco will continue to need credit for agricultural imports.

Portugal

Portugal is the fourth largest user of CCC's export credit guarantee programs. Although Portugal did not use the programs in fiscal year 1987, it used almost $1.9 billion in GSM-102 guarantees from fiscal year 1981 through fiscal year 1986. As of April 1, 1988, CCC had not committed any export credit guarantees to Portugal for fiscal year 1988.

Portugal used GSM-102 for several commodities yearly from fiscal year 1981 through fiscal year 1986. The greatest use of the program has been for corn and wheat. Through fiscal year 1984, Portugal used almost 90 percent of its allocation each year and in 1984 it used 99.5 percent of the $441 million allocation. Use then declined to $282 million in fiscal year 1985 and $129.9 million in fiscal year 1986.

The Portuguese government required imported commodities to be financed with credit, even if the importer had the cash to pay for the commodity. In the early years of CCC credit in Portugal when the country was having balance-of-payments problems, importers were required to use 36-month credit. This was later dropped to 30-month credit, and then to 6-month credit.

Grain imported by Portugal is financed with credit, as required, but it is usually purchased with commercial credit, which is cheaper than the credit provided with CCC guarantees. Officials of Portugal's central buying office for wheat and feedgrains provided the U.S. Agricultural Counselor there with comparison costs of CCC credit and commercial credit showing that 6-month CCC guaranteed credit financing for $1 million cost $5,307 more than commercial credit. Most of this cost difference is related to fees associated with the letter of credit—including a fee for opening the letter of credit, a tax on the opening fee, and government stamps on the value of the credit. No letter of credit is required for commercial credit available to Portuguese importers.

Portugal's agricultural imports will change as the country transitions to full membership in the EC, when it will be subject to EC import levies and duties. The U.S. Agricultural Counselor expects Portugal's imports of wheat and corn from non-EC suppliers to decrease, as the EC has import duties on these products, but is hopeful that U.S. exports to Portugal of effect if the credit guarantee programs were reduced or eliminated for Turkey. The general manager said that Turkey may continue to buy U.S. commodities and finance them with commercial credit. The U.S. Agricultural Attache agreed, stating that CCC credit guarantees alone are not sufficient to influence Turkey to buy U.S. products.

Yugoslavia

Yugoslavia started using CCC export credit guarantees in fiscal year 1980. From fiscal year 1980 through fiscal year 1987, it used $382.2 million in CCC export credit guarantees. As of April 1, 1988, CCC committed $20 million in GSM-102 guarantees to Yugoslavia for fiscal year 1988 and approved $15.4 million of this amount in sales.

In fiscal year 1983, Yugoslavia used $161.3 million in guarantees, but its program usage declined in subsequent years. In fiscal years 1984, 1985, 1986, and 1987, it used $79.1 million, $73.5 million, $23.9 million, and $16.1 million, respectively.

Yugoslav government and industry officials said that limited program use after 1983 was due to high U.S. commodity prices and to financial problems Yugoslavia was facing because of its high inflation. These officials told us that the problem with using the credit provided with the CCC guarantees was the difficulty of repaying the loans in hard currency; because of the high inflation in Yugoslavia, importers had to generate considerably more local currency to repay foreign loans. Consequently, Yugoslavia has attempted to reduce its foreign borrowing and has been more conservative by using less credit. For example, credit is not allowed for agricultural commodities which are consumed incountry. Also, if an importer of raw materials, such as cotton, wants to use credit it has to show that it has a buyer for the finished product that will generate sufficient hard currency to pay for the credit.

Yugoslavia is currently interested in establishing barter or countertrade arrangements with other countries which, in essence, limits their hard currency expenditures. The U.S. embassy's 1985 foreign economic trends report stated that Yugoslavia could be expected to give favorable consideration to firms willing to engage in the nontraditional forms of trade, such as barter, countertrade, or import-for-export agreements. Countries with which Yugoslavia has these types of trade arrangements include the Soviet Union, Egypt, Sudan, and China.

The U.S. Agricultural Counselor in Belgrade told us that many U.S. traders are not structured to engage in these types of transactions. For

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example, U.S. cotton traders normally do not sell textiles, so they would not be in a position to accept finished textiles in payment for the cotton. Similarly, a U.S. meat packing firm is a major supplier of hides and skins to Yugoslavia but is not interested in taking leather goods in payment.

Despite Yugoslavia's limited use of CCC export credit guarantees, its officials would like to see the programs continued because they provide them with a favorable alternative as needs and conditions change.

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corn gluten feed, on which there is no EC import levy, will continue at current levels or will increase.

The Agricultural Counselor predicted that use of CCC credit would decrease as Portugal's private traders import more grain. Portugal is privatizing its grain imports as part of its accession into the EC. Private traders are gradually importing more grain and the former state grain monopoly is importing smaller amounts. The private traders are not interested in CCC credit and are not using it.

Until Portugal's accession into the EC and the progressive privatization of grain imports, the only importers of grain and the only users of CCC credit, with one exception, were state monopolies. The one private user of CCC credit was a textile manufacturer that used the credit to finance a purchase of U.S. cotton. This company had the unfortunate experience of repaying the CCC-guaranteed credit when Portugal devalued its currency. Although the Bank of Portugal covered the state monopolies from exchange rate risks, the private cotton importer did not have this coverage when Portugal's currency was devalued.

Turkey

Turkey did not use CCC export credit guarantees until fiscal year 1984. From fiscal year 1984 through fiscal year 1987 it used $180.7 million in CCC guarantees. As of April 1, 1988, CCC committed $97 million in GSM-102 guarantees to Turkey for fiscal year 1988 and approved $24.5 million of this amount in sales. CCC also committed $15 million in GSM-103 guarantees and approved $4.7 million of this amount in sales.

Turkey has used GSM-102 for feedgrains, wheat, soybeans, and vegetable seeds. The greatest use of the program has been for wheat. Turkey also used GSM-103 in fiscal year 1987 to purchase breeding cattle. In fiscal year 1986, Turkey used CCC credit guarantees only to import wheat purchased with the Export Enhancement Program. The general manager of Turkey's central buying office for grains told us that had the Export Enhancement Program not been offered, Turkey probably would not have used any CCC credit guarantees that year.

The United States used to be one of Turkey's main suppliers of agricultural products, but it lost sales to third-country competitors. The general manager of the central buying office said that CCC credit guarantees encourage that office to buy U.S. commodities but that its main criteria is price. Thus, it has bought from other suppliers despite the availability of GSM-102 credit guarantees. Therefore, there probably would be little also committed $170 million in GSM-103 guarantees and approved $84.9 million of this amount in sales.

The CCC guarantees for Morocco have been allocated almost entirely for wheat purchases. Wheat accounted for 100 percent of all the CCC guarantees that Morocco used through fiscal year 1986. For fiscal year 1987, Morocco also used the program for rice and barley imports. Morocco also had a GSM-103 allocation in fiscal year 1986 which it did not use.

CCC credit guarantee programs, especially the Blended Credit Program, developed a market for U.S. wheat but not for the other commodities for which credit was offered—rice, vegetable oil, or feedgrains. Before using CCC credit guarantee programs, Morocco imported wheat mostly from France. Even as CCC credit programs expanded U.S. wheat sales to Morocco, it continued to buy French wheat with credit but in smaller quantities. The importance of credit to Moroccan wheat buyers was evident when the United States suspended credit to Morocco in January 1985. Morocco turned to the French for wheat and resumed buying U.S. wheat only when the United States reinstated credit and offered the Export Enhancement Program as well. The availability of credit and competitive prices are necessary to sell wheat to Morocco. Moroccan wheat buyers want to use both the Export Enhancement and GSM-102 programs. One without the other would not be enough to make sales for the United States.

France offers Morocco credit for French wheat. We were told that the exact rates and terms of the French credit vary, but it is competitive with CCC credit and is available for 3 years.

In 1983 and 1985, Morocco rescheduled its foreign debt (private debt through the London Club and government debt through the Paris Club). Morocco incurred substantial late payment penalties, especially for late payment of Blended Credit loans, during negotiations for its 1985 debt rescheduling. Morocco discontinued payment on its foreign debts, including repayment of CCC loans. In response, the United States imposed late payment penalties and suspended all further CCC guaranteed credit to Morocco in January 1985. This suspension lasted until November 1985, when Morocco rescheduled its debts.

Morocco's ability to repay its debt looks more promising, according to the U.S. embassy in Rabat. Indicators of a more optimistic economic forecast for Morocco include 2 years of decent rains after 5 years of severe drought, the fall in the price of oil (which Morocco imports), and

102, the U.S. share of the cotton market would have dropped to 20 to 30 percent.

Both government and private sector officials told us that if GSM-102 credit for Korea was reduced, the United States would lose agricultural exports to Korea. However, most said that the loss would not be substantial. For example, the Director of the U.S. Feedgrains Council said the GSM-102 program has helped the Korean feedgrain industry to expand and as a result has helped to increase cash sales for feedgrains to Korea.

According to Korean officials, Korean industry does not receive credit for agricultural imports from U.S. competitor countries. However, the Australian government has offered credit if the Korean government would make a commitment to buy wheat. Korean industries' alternative to GSM-102 credit is commercial credit or the Korean Foreign Exchange Program issuance fund, which is the government-controlled foreign exchange. The issuance fund is less attractive than GSM-102 credit, because the terms have recently been reduced to 2 months and it carries a higher interest rate.

Mexico

Mexico is the second largest user of CCC's export credit guarantee programs. Although Mexico did not use CCC export credit guarantees until fiscal year 1983, it used $3.3 billion in GSM-102 guarantees from fiscal year 1983 through fiscal year 1987. As of April 1, 1988, CCC committed $770 million in GSM-102 guarantees to Mexico for fiscal year 1988 and approved $380.1 million of this amount in sales. CCC also committed $20 million in GSM-103 guarantees but had not approved any sales.

The GSM-102 program is used by Mexico's public and private sectors. Both sectors get credit guarantees through the nationalized Mexican banks that provide the letters of credit. Public sector usage is by CONASUPO, the government's food agency, which repays the 3-year credit in U.S. dollars to the Mexican banks. Private sector importers, on the other hand, pay back the Mexican banks in Mexican pesos. The peso loans are usually extended for up to 6 months at an interest rate lower than prevailing commercial rates (i.e., the average cost of money plus 6 points, compared with the average cost of money plus 10 to 12 points for the cheapest commercial loans), and the Mexican government takes the exchange rate risk for the 6 months. The Mexican banks repay the GSM-102 credit in dollars in 3 years to U.S. lenders.

Department of Agriculture officials recommended that the Egyptian cotton trade import U.S. cotton for domestic use, and export the better quality Egyptian cotton. The Agricultural Counselor said U.S. suppliers were interested in developing a market in Egypt and GSM-102 was offered to facilitate sales.

The CCC program in Egypt has had some difficulties, but Egypt will continue to need credit for its agricultural imports. The CCC credit guarantee program for Egypt has been suspended on several occasions because of nonpayment of previous CCC-guaranteed loans. The program suspensions have been lifted upon payment of the overdue installments. Short-term credit, including CCC-guaranteed credit, has helped Egypt to finance balance-of-payment problems and foreign currency shortages. As Egypt continues toward its long-term goal of achieving economic stability, it will probably continue to need and use credit.

Iraq

Iraq is the third largest user of CCC's export credit guarantee programs. Although, Iraq did not use CCC export credit guarantees until fiscal year 1983, it used $2.1 billion in CCC export credit guarantees from fiscal year 1983 through fiscal year 1987. As of April 1, 1988, CCC committed $825 million in GSM-102 guarantees to Iraq for fiscal year 1988 and approved $471.4 million of this amount in sales. CCC also committed $90 million in GSM-103 guarantees and approved $37.8 million of this amount in sales.

The credit guarantee programs alone do not make sales to Iraq; price is very important. For example, Iraq has purchased EC wheat and wheat flour because the combination of commodity prices, packaging costs, and credit terms provided by the EC were more attractive than those provided with the GSM-102 program. However, the Export Enhancement Program has countered this advantage by effectively reducing U.S. commodity prices and has increased U.S. wheat sales to Iraq. Iraq also purchases wheat and wheat flour from Australia and Canada because they offer attractive credit programs.

Iraqi officials told us that freight cost is a major problem with importing commodities. They said Iraq pays 25 to 30 percent of the value of the commodity for shipping and up to 40 percent for overland transportation. Because of Iraq's war with Iran, commodities are diverted through Jordan or Turkey, resulting in high transportation costs. Iraqi officials requested that CCC also guarantee credit for shipping costs and indicated that Iraq could then afford to purchase more commodities. CCC approved

Summary of Nine Recipients of CCC's Export Credit Guarantee Programs

Brazil

Brazil is the fifth largest user of CCC's export credit guarantee programs. From fiscal year 1981 through fiscal year 1987, it used $1.7 billion in GSM-102 guarantees. Its usage, however, declined from $443.4 million in fiscal year 1985 to $62.0 million and $52.3 million for fiscal years 1986 and 1987, respectively. As of April 1, 1988, CCC committed $100 million in GSM-102 guarantees to Brazil for fiscal year 1988 but had not approved any sales.

Brazil has used the GSM-102 program primarily to import U.S. wheat. Private corn millers were interested in importing U.S. corn using GSM-102, but the Brazilian government was unwilling to accept the foreign exchange risk for private importers.

The United States is used as the residual wheat supplier to Brazil. The Brazilian Wheat Board functions as an arm of the government and controls the distribution of all domestic and imported wheat. It imports wheat to supplement Brazil's domestic production. The Wheat Board has multi-year agreements with Argentina and Canada, and Brazil attempts to fulfill these agreements before purchasing U.S. wheat. In the past, however, the Wheat Board has purchased U.S. wheat because Argentina was unable to meet the agreed delivery dates. The Argentina wheat agreement is a countertrade agreement—no hard currency is exchanged. The Canadian agreement includes 3-year financing.

The GSM-102 program has helped to maintain a U.S. wheat market in Brazil. According to the President of the Wheat Board, Brazil would probably purchase wheat from the EC at a lower price if the credit were not available. Price is the primary factor to Brazil in purchasing commodities, but financing helps to offset higher U.S. prices. If the GSM-102 program for Brazil was reduced or eliminated, sales of U.S. wheat would be likely to decrease.

As of January 1987, the EC was offering Brazil one year financing to purchase wheat and there have been discussions of making 3-year financing available. Australia is also considering 3-year credit for Brazil, but transportation costs from Australia are high and result in less competitive prices.

Egypt

Egypt is the seventh largest user of CCC's export credit guarantee programs. It did not use CCC credit guarantees until fiscal year 1983, but from fiscal year 1983 through fiscal year 1987, it used $1.1 billion in GSM-102 guarantees. In fiscal years 1983-85, Egypt used $158 million of

CCC Export Credit Guarantees Used by Countries

Dollars in millions

Country	1979	1980	1981	1982	1983	1984	1985	1986	1987	Totals
	Fiscal Year									
Algeria	$0	$0	$0	$0	$0	$0	$0	$46.1	$219.5	**$265.6**
Argentina	0	0	0	0	0	0	0	0	0.3	**0.3**
Bangladesh	0	0	0	0	35.8	27.2	41.6	0	16.6	**121.2**
Brazil	0	0	197.9	283.3	331.0	341.6	443.4	62.0	52.3	**1,711.5**
Chile	0	0	0	0	72.9	120.2	34.3	32.4	21.2	**281.0**
Colombia	0	0	0	0	0	60.5	87.8	42.0	52.8	**243.1**
Costa Rica	0	0	4.1	15.7	0	2.8	0	0	0	**22.6**
Dominica	0	0	0	0	0.6	0	0	0	0	**0.6**
Dominican Republic	0	38.7	51.4	59.6	30.7	52.9	0	0	0	**233.3**
Ecuador	0	0	0	0	63.2	91.3	89.6	52.6	46.7	**343.4**
Egypt	0	0	0	0	204.3	73.7	218.4	348.1	228.7	**1,073.2**
El Salvador	0	0	14.3	26.5	19.3	30.7	23.1	12.1	16.7	**142.7**
Guatemala	0	0	0	0.5	32.1	51.9	39.4	20.5	9.2	**153.6**
Haiti	0	0	0	0	7.5	5.0	3.4	7.1	4.8	**27.8**
Honduras	0	0	1.0	0	4.0	0	5.7	5.0	3.3	**19.0**
Hungary	0	0	0	0	39.9	3.6	40.8	20.8	23.7	**128.8**
Indonesia	0.8	0	0	0	0	0	0	0	0	**0.8**
Iraq	0	0	0	0	298.8	488.2	385.7	354.3	573.4	**2,100.4**
Jamaica	0	0	16.8	34.1	60.0	78.3	31.8	23.7	0	**244.7**
Jordan	0	0	0	0	0	0	0	33.8	15.7	**49.5**
Korea	0	205.4	477.2	436.9	444.8	472.9	454.0	367.5	511.6	**3,370.3**
Mexico	0	0	0	0	1,164.7	645.4	178.7	579.8	751.5	**3,320.1**
Morocco	0	0	51.2	76.4	95.9	213.1	67.9	99.5	97.0	**700.6**
Nigeria	0	0	0	2.2	23.7	5.1	0	0	0	**31.0**
Pakistan	0	0	15.5	50.7	63.9	44.6	69.8	83.1	9.8	**337.4**
Panama	0	0	0	0	2.7	3.3	0	0	0	**6.0**
Peru	0	53.9	127.8	43.8	127.7	92.9	37.7	0	0	**483.8**
Philippines	0	0	0	0	24.2	143.1	71.4	0	0	**238.7**
Poland	62.4	364.3	644.6	26.2	0	0	0	0	0	**1,097.5**
Portugal	0	0	149.4	301.1	560.8	441.4	282.0	129.8	0	**1,864.5**
Romania	0	0	26.1	24.0	0	0	0	0	0	**50.1**
Senegal	0	0	0	0	0	0	0	0	4.5	**4.5**
Sierra Leone	0	0	0.5	0	0	0	0	0	0	**0.5**
Sri Lanka	0	0	6.4	0	0	0	0	0	0	**6.4**
Sudan	0	19.8	30.1	0	0	0	0	0	0	**49.9**
Thailand	0	10.0	25.6	5.5	18.4	4.8	4.9	1.6	0	**70.8**
Tunisia	0	0	0	0	19.0	62.3	26.3	6.4	38.0	**152.0**
Turkey	0	0	0	0	0	48.9	44.3	57.7	29.8	**180.7**

(continued)

- Enforce compliance with the requirement that exporters must submit complete reports of exports to ensure the accurate accounting of outstanding guarantees.
- Design, develop, test, and implement internal controls, including random on-site verifications, to ensure that loan guarantees are used to obtain U.S. agricultural commodities.
- Clarify program regulations with specific definitions for a U.S. agricultural commodity and a firm sale and require acknowledgement of these requirements on guarantee applications.
- Provide timely and accurate decisions on document revisions requested by exporters or their assignees.

Guidance to U.S. Banks

We discussed concerns about the program with selected U.S. bank officials. Some bank officials stated that CCC is reluctant to make decisions and provide timely written responses to inquiries. For example, a bank was holding a landing certificate for a guaranteed sale which had an error. With such an error a guarantee claim would not have been paid. Bank officials were able to get supporting documentation to support a correction to the certificate, but said CCC officials were not responsive to making the change that would assure the bank that it had a valid guarantee. Bank officials said that they need assurance that a guarantee exists throughout the life of the loan because they have to account for their foreign debt exposure.

The ASCS Fiscal Division official responsible for claims said she tells bank officials that claims will not be paid if there are any errors on the required supporting documentation. The Director of the CCC Operations Division, however, said that changes are discouraged because he does not have the resources necessary to be making changes that are only important if claims are filed. He said that many mistakes were the fault of the exporters or their assignees and needed to be worked out between them and the foreign banks issuing the letters of credit.

In another case, however, a U.S. bank official said the bank tried for 8 months to change the name of a foreign bank on a CCC guarantee. He said that rather than make a minor revision, CCC officials wanted his bank to get the foreign bank to provide written assurance that it would honor the wrong name that CCC had put on the guarantee. The bank official said that CCC finally changed the name on the payment guarantee but that too much time and effort was expended for an error that was made by CCC. Although the concern was not raised often, it indicates that CCC may need to be more responsive to user requirements.

Conclusions and Recommendations

Although the Office of the General Sales Manager, FAS, has made CCC export credit guarantees available to various foreign markets, it is not adequately managing CCC's export credit guarantee programs. More specifically, it has taken a hands-off management approach because it views the programs as commercial programs that are the responsibility of the private sector. This has resulted in CCC not adequately (1) accounting for outstanding guarantees, (2) ensuring that guarantees are used for U.S. agricultural commodities, and (3) providing guidance to program users.

In its official response to our report, Agriculture said that it addressed one of our recommendations by sending a notice to exporters that clarified program regulations, and it stated that this notice will be included in a package given to exporters that are new to the program. It disagreed with the need to add an acknowledgement of the refund policy on CCC's guarantee application, because it noted that a program applicant normally would be a person or entity knowledgeable and sophisticated in the area of international sales and financing and need not be treated as if the participant had little education or sophistication. We continue to believe the acknowledgment on the application would help to ensure that all users, including smaller exporters that lack the resources of large firms, understand that the policy exists.

Definition of U.S. Agricultural Commodity

CCC's definition of a U.S. agricultural commodity is not adequately communicated to program users. At 1988 appropriations hearings, the FAS Administrator told the Subcommittee on Rural Development, Agriculture and Related Agencies of the House Committee on Appropriations that only U.S. agricultural commodities were guaranteed under the export credit guarantee programs. The Assistant Administrator, Export Credits, FAS, told us that CCC defines this to mean 100-percent grown, processed, and packaged in the United States.

CCC regulations and guidance provided to exporters does not specify this 100-percent qualification, and because of this, CCC has no assurance that exporters are aware of its definition. For example, we identified one situation in which CCC reviewed and approved a sale of cola concentrate that contained foreign agricultural contents. The manufacturer's representative told us that CCC never told the manufacturer that the concentrate could not contain some foreign agricultural contents.

While reviewing the programs' Iraq file, we identified another situation where buyers claimed that foreign commodities were mixed in their purchase. An internal FAS memorandum noted that Iraqi buyers were concerned that Brazilian tobacco was mixed in with a credit guarantee sale of U.S. tobacco. While this allegation was not verified, the lack of a specific definition leaves the interpretation of the definition to U.S. exporters.

In another example, we identified a situation where an exporter was in disagreement with CCC's definition. A U.S. bank brought to CCC's attention a seed sale that CCC determined did not qualify as a U.S. commodity. The exporter claimed that the seeds were grown in the United States, 22.) They told us that no controls on shipping costs were imposed. Program officials said that in a case where the shipping cost is guaranteed, an exporter receives a guarantee for the total sales amount, which includes the commodity plus shipping (i.e., cost and freight, or cost, insurance, and freight), without CCC approving or having limits on the shipping cost amount.

Prior to CCC's decision to expand its shipping cost coverage, we were concerned that CCC did not check the validity of commodity prices to ensure that importers were not using exporters to obtain a portion of the loan for other purposes. The Chief of the Credit Sales Registration Branch, CCC Operations Division, told us that because the guarantee programs are considered commercial, CCC does not review commodity prices. He also said that CCC did not provide shipping cost credit guarantee coverage because of the lack of control over foreign shipping companies. However, if the recent revision to provide this coverage to selected markets continues, CCC should develop the controls needed to ensure that only reasonable shipping costs are being covered by the program.

Program officials were concerned that we had not recognized that normal controls used by buyers and sellers have existed in commerce for years and that additional controls to ensure that commodities actually reached their destinations would be burdensome. We do not view normal controls used between buyers and sellers as adequate because CCC is a third party providing a guarantee that benefits both the buyer and seller. Controls are needed to ensure that the buyer and seller only obtain the benefits as intended by CCC. We believe that a system designed to randomly verify scheduled arrivals of U.S. agricultural exports in destination countries does not have to be burdensome. Such a system, however, would give CCC some assurance that guarantees are used to support U.S. agricultural exports and would also serve as a deterrent against potential program misuse.

Need for Better Guidance

FAS management has taken a hands-off approach in providing guidance to U.S. exporters and their assignees (i.e., U.S. financial institutions) and foreign importers. Although some information is usually available to users, improvements can be made to provide them with better information on (1) the need for firm sales, (2) CCC's guarantee fee refund policy, (3) the definition of a U.S. agricultural commodity, (4) commodities that are covered by the programs, and (5) guarantee revisions.

ensure that payment schedules are submitted with exporters' reports of export.

As an alternative, the Operations Division Director said that CCC's guarantee monitoring system could be configured to estimate outstanding guarantees. He expressed the view that actual amounts are only important when lenders submit claims. However, CCC would not have to reconfigure its system to estimate outstanding guarantees if it enforced regulatory compliance regarding submission of required documentation by exporters. Furthermore, the data would not have the errors that would be inevitably contained in estimates.

Agricultural Export Shipments Are Not Verified

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. CCC, however, does not have sufficient internal control procedures to verify that commodities purchased under the program reach the designated buyers.

The reports of export are the only documents received by CCC that support export credit guarantee shipments, unless claims are filed by lenders. If claims are filed, exporters or their assignees are required to provide CCC with shippers' bills of lading. CCC, however, does not have procedures in place to review bills of lading for guarantees that do not result in claims or to check that commodity exports reported are actually shipped.

Our October 26, 1979, report on the direct credit provided with CCC's Export Credit Sales Program[3] identified the need for CCC to (1) ensure that entry documents were submitted and (2) establish and implement procedures to physically verify on a selected basis the entry of commodities into designated countries. Unlike its direct credit program, CCC's export credit guarantee programs have no requirements for landing certificates, except when claims are filed for commodities that were shipped by rail or truck, as are most shipments to Mexico. CCC also has no process to physically verify on a selected basis the entry of commodities into designated countries to ensure that U.S. agricultural commodities are actually being delivered.

[3]Stronger Emphasis on Market Development Needed in Agriculture's Export Credit Sales Program, (ID-80-01).

Program Management Improvements Are Needed

The export credit guarantee programs enable CCC to facilitate private financing of U.S. agricultural exports without budget outlays, except for program administrative costs, unless it pays guarantee claims to U.S. lenders. These programs are considered commercial by CCC managers because they involve private financing. Nevertheless, CCC assumes contingent liabilities under these programs which result in outlays and impose real costs on the U.S. government. Therefore, these programs should be subject to appropriate management controls.

During our review, we found deficiencies in the operations of CCC's export credit guarantee programs. Specifically, we found that CCC needs to

- accurately account for outstanding guarantees;
- implement controls to ensure that guarantees are provided only for U.S. agricultural commodities and approved associated costs (e.g., shipping); and
- improve guidance to program participants.

CCC Does Not Adequately Account for Its Outstanding Guarantees

CCC cannot accurately identify its outstanding export credit guarantees. CCC understates its outstanding loan guarantees because it receives incomplete data from exporters and has not taken action to obtain the missing data.

Program regulations require that exporters submit reports of export to the Assistant General Sales Manager, Export Credits, FAS, within 30 days following each export covered under the payment guarantee. These reports are required to include payment schedules showing the payment dates and amounts due to the U.S. lenders. The payment schedules are needed by CCC to accurately account for its outstanding guarantees. The reports of export are sent to CCC's Operations Division which uses the reports to monitor the types and quantities of commodities exported with the programs. It also forwards the reports to ASCS Fiscal Division which puts the data into the CCC system that tracks guarantees. The Operations Division does not, however, ensure that payment schedules needed to accurately account for the outstanding guarantees are included.

When a report of export is entered into the CCC guarantee data base, a registered guarantee commitment is converted to a disbursed guarantee. In addition, the report's payment schedule enables the CCC guarantee indicates that banks are actively competing to provide financing with the credit guarantees and that participating foreign countries have had no difficulty obtaining loans with CCC's 98-percent coverage. Active competition for the guaranteed loans has created low interest rates. For example, banks have provided credit with interest rates at 1/16 and 1/8 percent over the London Interbank Offered Rate.[2] In fact, some U.S. bank officials said that they could not compete with the lower rates offered by foreign affiliate banks because the rates would not cover their costs.

CCC has provided guarantee coverage on shipping costs for breeding animals and, for fiscal year 1988, is providing it to support other agricultural commodities in selected export markets. Shipping cost coverage can be provided upon approval by CCC when commodities are sold on a cost and freight basis or on a cost, insurance, and freight basis. This recent change again illustrates CCC's flexibility in supporting agricultural exports. Some program users noted that providing shipping cost coverage would make CCC export credit guarantee programs more attractive. For example, Iraqi officials said they had cash problems and shipping coverage would make more agricultural commodities available to their markets. Mexican officials noted that some markets would benefit with shipping cost coverage because Canada was providing shipping cost coverage to selected markets.

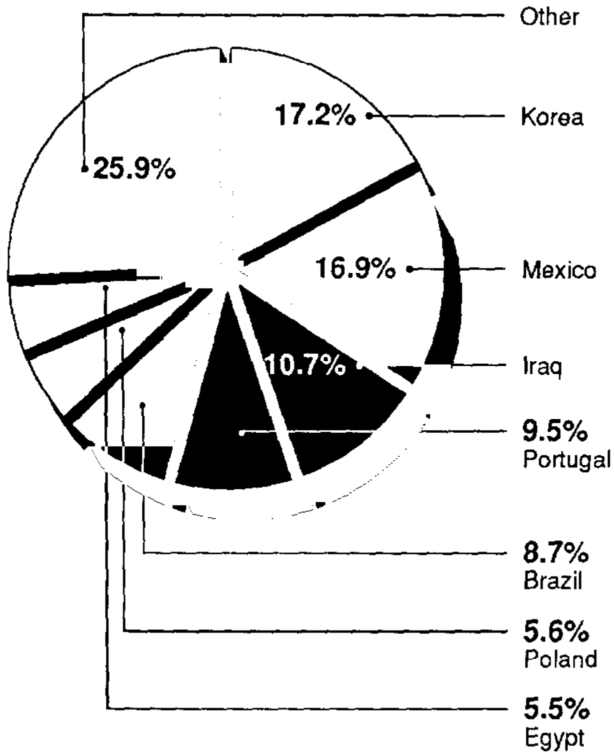
Some program participants stated that sometimes CCC takes too long to approve a reallocation from one commodity to another and that offering allocations that are not commodity specific may enhance the program. Undesignated allocations can alleviate the problem because country participants may use the undesignated portion of their allocations without getting CCC approval each time. We discussed this with CCC officials and they began offering undesignated allocations to a number of countries in fiscal year 1988. CCC officials explained that the undesignated amounts can be used for any approved commodity on the country's list.

Conclusions

CCC appears to have used its program flexibility to adapt to changes and needs in export markets. Although we cannot quantify program benefits, we believe that U.S. exporters and their foreign customers benefit from CCC's credit guarantee programs. Credit guarantees appear to help sell U.S. commodities because they help exporters to sell in markets

[2]Referred to as LIBOR, it is a measure of what major international banks charge each other for large volume loans of Eurodollars or dollars on deposit outside the United States.

Figure 2.1: Guarantee Use of $19.6 Billion, Fiscal Years 1979-87



Other Countries Provide Credit

Although little information is available on credit guarantees offered by other agricultural exporting countries, we identified some that offer credit guarantees to assist their agricultural exports. For example, Canada, Australia, and France all support agricultural exports with credit guarantees. We did not identify all the details concerning this credit, but their programs did not appear to cover the large range of products supported by CCC's programs.

Canada's Export Development Corporation offers credit guarantees if competitor credit is offered in one of its agricultural export markets. A Mexican official indicated that Mexico benefits from CCC's guarantee programs because other suppliers, such as Canada and Australia, have moved to match CCC credit. Both Canada's Wheat Board and Export Development Corporation offer credit to promote Canadian agricultural exports. Credit offered is similar to the CCC credit guarantee programs; however, Canada's guarantees cover 100 percent of the gross invoice value and interest. Some recipients told us that Canadian credit also

Credit Guarantees Appear to Enhance Agricultural Exports

CCC's export credit guarantee programs are intended to increase or maintain U.S. agricultural exports in foreign markets that need credit. Although we were unable to quantify additional exports resulting from the CCC programs, the CCC credit guarantees appear to enhance agricultural exports because they enable buyers with limited financial resources to purchase commodities. Furthermore, other exporting countries also provide credit to support their agricultural exports and the CCC guarantees help offset this foreign advantage.

Program users said that the CCC programs enhance U.S. agricultural exports by facilitating the availability of private credit for countries with hard currency shortages and offsetting higher U.S. commodity prices. CCC's flexibility in administering the programs has been a useful aspect; for example, in specific cases CCC has initiated program changes to help U.S. exports by guaranteeing shipping costs and increasing guaranteed levels (i.e., 100 percent of principal) when it determined a change was needed to maintain or develop an export market.

Program Benefits

We could not quantify CCC's export credit guarantee programs' additions to total U.S. agricultural exports, called additionality, because of the many variables involved and because knowledge about foreign private and governmental behavior is imprecise. For example, the extent to which credit guarantee sales displace U.S. cash sales is unknown as is the extent to which other countries' credit programs offset the benefits of the CCC programs. Additionally, if the CCC guarantee programs displace another agricultural exporting country's sales in one market, the country could displace U.S. sales in other importing countries.

Interviews with exporters and foreign purchasers indicate that the credit guarantee programs help to increase U.S. agricultural exports. However, credit is not the only factor in decisions to purchase U.S. commodities; it is the total package—credit and prices—that often result in sales. Some foreign officials said that financing provided by CCC's guarantee programs does help to offset higher U.S. agricultural commodity prices.

Export credit guarantees have been provided with CCC's Export Enhancement Program since fiscal year 1986. An objective of the program is to make U.S. agricultural commodities more price competitive in the world market by using CCC-owned commodities as export bonuses.

Fiscal receives the reports and records the amounts as disbursed. Remaining amounts continue as undisbursed. Several reports may be received for each guarantee issued, therefore requiring several entries for disbursements. The CCC data base that monitors guarantees is programmed to cancel the undisbursed amounts 180 days after the recorded final shipping date.

When a U.S. lender does not receive a scheduled payment from a foreign bank, it must notify the CCC Treasurer within 10 days of the nonpayment. CCC thereupon discontinues new export credit guarantee sales to the foreign country. An exporter or assignee must file a claim within 30 days after its notice of default, unless an extension is granted. However, a claim for a loss is not accepted if it is made later than 6 months from the date of default. When a claim is submitted properly, CCC pays the lender 98 percent of the payment's principle and the covered interest. Claims are paid from CCC funds (including its earnings and appropriations from Congress) and borrowings from the U.S. Treasury under a statutory borrowing authorization of $30 billion.

Objectives, Scope, and Methodology

The Chairman of the Subcommittee on Department Operations, Research and Foreign Agriculture, House Committee on Agriculture, requested that we examine CCC's export credit guarantee programs. Our September 30, 1986, testimony provided the Subcommittee with a preliminary status report on our review. Subsequently, the Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry and Representative Charles E. Schumer expressed interest in receiving the results of our review.

Our review focused on the efficiency and effectiveness of the export credit guarantee programs, including FAS' program management and internal controls. Our audit work was performed from April 1986 through December 1987 in

- Washington, D.C.;
- Atlanta, Georgia;
- Chicago, Illinois;
- Denver, Colorado;
- New York, New York;
- Canberra, Australia;
- Brasilia and Rio de Janeiro, Brazil;
- Ottawa and Winnipeg, Canada;
- Cairo, Egypt;

Advisory Council on International Monetary and Financial Policies for review.

The Council, among its responsibilities, coordinates the policies and practices of all U.S. government agencies that participate in making foreign loans. The Secretary of the Treasury chairs the Council, and other members include the Secretaries of State and Commerce; the U.S. Trade Representative; Chairman, Federal Reserve; Chairman, Export-Import Bank; and Director, International Development Cooperation Agency. The Council operates mainly through a staff committee, composed of economists and other professional staff members of participating agencies.

Informal communications between Council and CCC staffs occur prior to the Council's review, so CCC usually knows what advice will be provided by the Council. Once the Council's advice is received CCC decides whether to approve allocations to countries. The Program Development Division announces approved allocations and provides guarantee information to exporters (e.g., country name, commodity, and length of the guarantee).

After credit guarantees are approved by CCC, a foreign buyer normally (1) arranges financing through a U.S. financial institution, (2) purchases an agricultural product from a U.S. exporter, and (3) arranges for a letter of credit issued in favor of the exporter by a CCC-approved foreign bank in the buyer's country. After the product is shipped, the exporter assigns the guaranteed account receivable to a U.S. financial institution in exchange for a cash payment. The U.S. financial institution then collects scheduled payments from the foreign bank. If the foreign bank fails to make a payment as agreed, the U.S. lender can file a claim with CCC, which then pays the guaranteed amount to the claimant. The U.S. lender in return assigns the delinquent loan payment to CCC.

Exporters can notify the Sales and Registration Branch of actual or impending commodity sales. If an exporter is unfamiliar with the credit guarantee programs, CCC answers questions and/or sends the exporter an information package. This package includes CCC regulations, a program leaflet, a question and answer sheet, and an FAS announcement clarifying the requirements for a firm sale and guarantee fee refund.[7]

[7]This FAS announcement was in response to our August 1987 report, Commodity Credit Corporation's Refunds of Export Guarantee Fees (GAO/NSIAD-87-185) which recommended that CCC better communicate firm sale and guarantee fee refund requirements to exporters.

Table 1.1: Claims Paid and Rescheduled as of June 30, 1987

Dollars in millions

Country	Claims paid by CCC	Status of Claims Paid: Repaid	Rescheduled	Unresolved	Reschedulings Outstanding[a]
Brazil	$219.1	$0	$219.1	$0	$195.7
Chile	110.0	0	110.0	0	71.6
Dominican Republic	140.2	0	118.3	21.9	126.2
Jamaica	85.4	(b)	51.7	33.7	49.5
Mexico	196.3	0	196.3	0	196.3
Morocco	172.9	2.6	170.4	0	147.1
Nigeria	1.5	1.4	0	0.1	0
Panama	3.2	(b)	3.2	0	1.6
Peru	261.4	1.2	79.4	180.9	79.3
Philippines	29.2	0.9	28.2	0.1	27.3
Poland	1,011.7	15.9	995.8	0	1,277.4
Romania	34.5	10.2	24.3	0	0
Sudan	54.2	0	54.2	0	62.5
Total	**$2,319.5**	**$32.0**	**$2,050.8**	**$236.7**	**$2,234.3**

[a]Some outstanding amounts are higher than claims rescheduled because of accrued interest.

[b]Payments of less than $40,000 were made.

CCC assesses the likelihood of nonpayment on guaranteed loans. A July 6, 1987, internal FAS memorandum from the Assistant Administrator, International Agricultural Statistics, to the Assistant Administrator, Export Credits, stated that an estimated 13 of 28 countries analyzed were likely to reschedule their debt within a 24-month period. Outstanding credit guarantees to the 13 countries totaled $3.4 billion, or 71 percent of CCC's reported outstanding credit guarantees on June 30, 1987. CCC's 1988 credit guarantee allocations to 24 countries totaled $4.2 billion as of January 29, 1988. CCC allocated $2.4 billion of the total amount, or 57.2 percent, to 9 of the countries identified as likely to reschedule.

Decisions to provide guarantees to countries that are likely to reschedule their debt are made for broader trade policy and foreign policy considerations in addition to promoting agricultural exports.

CCC Organization

CCC is a government corporation established in 1933 to stabilize, support, and protect farm income and prices and assist in the maintenance which lowered the effective interest rate and made the financing more favorable. However, in 1985 a court decided that the Cargo Preference Act, as amended, 46 U.S.C. 1241, (b),[4] applied to the Blended Credit Program. As a result of the impact of increased transportation costs from the use of U.S. registered vessels, CCC discontinued the program. About $1.0 billion of GSM-102 guarantees was used through CCC's Blended Credit Program.[5]

The Food Security Act of 1985 requires that CCC make available not less than $5.0 billion in guarantees a year through fiscal year 1990 for GSM-102 and at least $500 million a year through fiscal year 1988 and not more than $1.0 billion in each of fiscal years 1989 and 1990 for GSM-103. According to program officials, however, CCC has not been able to allocate the full $5.5 billion in guarantees to importing countries because (1) U.S. agricultural prices have not been competitive in the world market, (2) credit and credit guarantees are also offered by other exporting countries, and (3) CCC is unwilling to provide guarantees to some countries that are high credit risks.

In fiscal year 1987, U.S. agricultural exports totaled $27.86 billion—$26.73 billion in commercial sales and $1.13 billion in government programs. Commercial sales include commodities exported using the credit guarantee programs. In fiscal year 1987, credit guarantees were used for $2.78 billion, or 10.4 percent of commercial sales and 10.0 percent of total U.S. agricultural exports. From fiscal year 1979 through fiscal year 1987, 41 countries have used $19.6 billion in CCC export credit guarantees. (See app. I.)

Growth in Foreign Amounts Due to CCC

The outstanding amounts due to CCC as a result of claims paid on guarantees have grown from about $178 million in September 1982 to almost $2.5 billion as of June 30, 1987. (See fig. 1.1.) At 1988 appropriations hearings, the Administrator, FAS, told the Subcommittee on Rural Development, Agriculture and Related Agencies of the House Committee on Appropriations, that as of March 2, 1987, future claims for existing GSM-102 guarantees were expected to be $714 million, or 22 percent of the total guarantees, but that FAS fully expected that this amount would be rescheduled and eventually paid. This position reflects U.S. government

[4]At the time the Act required that 50 percent of the gross tonnage of cargo generated by certain U.S. government programs must be transported in privately owned U.S. flag vessels to the extent that they are available at fair and reasonable transportation rates.

[5]The term "used" refers to guarantees covering export shipments reported to CCC.

Introduction

The U.S. agricultural position in the world market is changing. Global changes in agricultural production and trading policies, accelerated improvements in and adoption of new agricultural technologies, and an increased emphasis on food self-sufficiency in many developing countries have all contributed to increased agricultural production worldwide. Increased production together with changing economic conditions in the 1980s, such as the strong dollar and the heavy international debt service burden of less developed countries, lessened the demand for and competitiveness of U.S. agricultural exports. As a result, the United States experienced declining export volume and foreign market share and rising commodity surpluses. In 1985, Congress enacted legislation that includes provisions to counter these trends.

The Food Security Act of 1985 introduced several export initiatives to increase the competitiveness of U.S. agricultural exports and counter competitors' unfair trade practices. Department of Agriculture programs affected include the Export Enhancement Program, the Targeted Export Assistance program, and two export credit guarantee programs. Under the Export Enhancement Program, U.S. exporters use Agriculture's Commodity Credit Corporation (CCC) commodities or certificates as subsidies in kind to expand sales of U.S. agricultural products in selected markets characterized by unfair competition. The Targeted Export Assistance program uses CCC resources to counter or offset the effects of subsidies or other unfair trade practices. CCC's export credit guarantee programs support U.S. agricultural exports with commercial financing that is not available without the guarantees. While the credit guarantee programs have assisted in increasing the competitiveness of agricultural exports, the extent of their influence is unclear because of the many variables involved. For example, the other export initiatives, sharp decline in the dollar, and imposition of lower loan rates have also improved the competitiveness of agricultural exports.

Credit Guarantee Programs

The General Sales Manager of Agriculture's Foreign Agricultural Service (FAS) administers CCC's two export credit guarantee programs. Under the first, the Export Credit Guarantee Program, referred to as GSM-102, CCC enters into guarantee agreements with U.S. exporters for the sale of agricultural commodities with credit terms of up to 3 years. Under its Intermediate Export Credit Guarantee Program, referred to as GSM-103, guarantee agreements can extend up to 10 years. The program participants are usually U.S. exporters and their assignees (i.e., U.S. financial institutions), and foreign governments, importers, and banks.

Contents

a third party providing a guarantee that benefits both the buyer and seller. Controls are needed to ensure that the buyer and seller only obtain the benefits as intended by CCC. GAO believes that a system designed to randomly verify scheduled arrivals of U.S. agricultural exports in destination countries does not have to be burdensome. Such a system, however, would give CCC some assurance that guarantees are used to support U.S. agricultural exports and would also serve as a deterrent against program misuses.

Finally, GAO concluded that guidance provided to U.S. exporters, foreign importers, and guarantee assignees could be improved. For example, although regulations for the export credit guarantee programs note that they are intended to increase commercial exports of U.S. agricultural commodities, they provide no definition of a U.S. agricultural commodity. Program officials said that for credit guarantee purposes they interpret the definition to be 100-percent grown, processed, and packaged in the United States, but GAO found that some exporters have interpreted the definition differently and have obtained guarantees for products that did not meet the 100-percent requirement.

Recommendations

GAO recommends that the Secretary of Agriculture direct the General Sales Manager of the Foreign Agricultural Service to

- enforce compliance with the requirement that exporters must submit complete reports of exports to ensure the accurate accounting of outstanding guarantees;
- design, develop, test, and implement internal controls, including random on-site verifications, to ensure that loan guarantees are used to obtain U.S. agricultural commodities; and
- clarify program regulations with a specific definition for a U.S. agricultural commodity and require acknowledgement of this requirement on guarantee applications.

Agency Comments

As requested, GAO did not obtain official agency comments on a draft of its report. However, GAO did discuss its findings with Department of Agriculture officials responsible for CCC's export credit guarantee programs and their comments were incorporated where appropriate.

Executive Summary

Purpose

The Foreign Agricultural Service, Department of Agriculture, manages two Commodity Credit Corporation (CCC) credit guarantee programs which promote U.S. agricultural exports. These programs facilitate private financing to foreign buyers by protecting exporters or their assignees against nonpayments. The Export Credit Guarantee Program provides payment guarantees for loans of up to 3 years, and the Intermediate Export Credit Guarantee Program provides payment guarantees for longer term loans of up to 10 years.

The Food Security Act of 1985 requires that CCC make available not less than $5.0 billion in guarantees to countries each year through fiscal year 1990 for the Export Credit Guarantee Program and at least $500 million in guarantees each year through fiscal year 1988 and not more than $1.0 billion in fiscal years 1989 and 1990 for the Intermediate Export Credit Guarantee Program.

The Chairman of the Subcommittee on Department Operations, Research, and Foreign Agriculture, House Committee on Agriculture, asked GAO to review the efficiency and effectiveness of CCC's export credit guarantee programs. Subsequently, the Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry and Representative Charles E. Schumer also asked GAO to review the programs.

Background

The United States and other countries provide credit or credit guarantees to foreign buyers to support their agricultural exports. CCC started providing financing in 1956 for U.S. agricultural exports under authority of its Charter Act (Public Law 80-806). Initially, direct credit was provided by CCC under its Export Credit Sales Program.

CCC has provided export credit guarantees since fiscal year 1979. From fiscal year 1979 to 1981, CCC supported exports with political risk guarantees under its Non-Commercial Risk Assurance Program. CCC currently provides export credit guarantees that cover all types of credit risk with its two export credit guarantee programs. For fiscal years 1979-87, countries used $19.6 billion in CCC guarantees for recorded shipments of U.S. agricultural exports.

If a foreign borrower fails to make a payment as agreed, the U.S. lender can file a claim for the payment guarantee with CCC. After the claim is approved, CCC usually pays the claimant 98 percent of the payment's