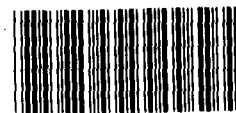


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COMMODITY CREDIT CORPORATION'S
EXPORT CREDIT GUARANTEE PROGRAMS

Statement of
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Finance Issues

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



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the status of our current review of the Foreign Agricultural Service's (FAS) management of the Commodity Credit Corporation's (CCC) GSM-102 and GSM-103 export credit guarantee programs. On June 10, 1988, we issued a comprehensive report¹ on the programs citing significant management problems. At your request we are continuing our work in this area. This is my third appearance before the Subcommittee testifying on these problems. Although more program improvements are needed, FAS has made some progress since I last testified before the Subcommittee on March 1, 1989.²

In March we reported on FAS foreign content policies and suggested that FAS assess the impact of different foreign content requirements on the value and volume of U.S. agricultural exports covered under the programs. We also discussed FAS efforts to conduct compliance checks to assure that loan guarantees are used to obtain U.S. agricultural commodities and the suspension or debarment of exporters found to have violated program regulations.

¹ INTERNATIONAL TRADE: Commodity Credit Corporation's Export Credit Guarantee Programs (GAO/NSIAD-88-194).

² Commodity Credit Corporation's Export Credit Guarantee Programs (GAO/T-NSIAD-89-9).

Our statement today provides a further status report on our ongoing review.

FAS EFFORTS TO DEVELOP FOREIGN CONTENT POLICY

Until September 21, 1988, FAS general policy was to provide export credit guarantee coverage under the GSM-102 and GSM-103 programs for only those agricultural commodities or products containing 100 percent U.S. origin content. While this policy was in effect, credit guarantees were provided for exports of tobacco that were subsequently revealed to contain substantial amounts of foreign tobacco. Also, other products such as grocery items, leather hides and skins, and soft drink concentrates containing some degree of foreign origin content were provided with guarantee coverage under the programs.

On September 21, 1988, FAS announced a new policy that provided credit guarantees for the export of agriculture products that were a mixture of U.S. and foreign origin. The new policy allowed the value of exports under the programs to include up to 25 percent imported agricultural commodities. However, only the value of the U.S. portion of the agricultural commodities would receive the CCC guarantee. This proved to be a highly contentious policy change. Forty Members of Congress questioned this new policy and wrote to the Secretary of Agriculture on October 12, 1988, asking that it be reversed.

During our October 1988 testimony³ before your Subcommittee, we pointed out that the new policy, while setting a ceiling on the value of foreign content, established no limit on the volume of foreign content. If the foreign content of a sale were priced lower than the U.S. content, the foreign content could be substantially more than 25 percent of the export's volume. We later identified a tobacco export sale made under this new policy which U.S. Customs officials inspected and believe contained over 80 percent foreign tobacco by volume.

On February 15, 1989, FAS discontinued the new policy and notified exporters that beginning February 16 only commodities certified by the exporters to contain zero percent foreign content value would be eligible for program coverage. This policy is still in effect; however, when the February change was made, FAS also announced that it would reevaluate the content policy issue.

Based on our work thus far, we believe that the current zero percent foreign value content policy may be appropriate for exports of bulk commodities such as wheat, corn, and barley. However, that policy may be inappropriate for processed agricultural products, many of which may contain small amounts of foreign origin ingredients. For example, powdered infant formula containing

³ Commodity Credit Corporation's Export Credit Guarantee Programs (GAO/T-NSIAD-89-2, October 6, 1988).

foreign origin ingredients that account for only two percent of the total value of the product is excluded from coverage under the current policy. Similarly, soft drink concentrate with a small percent of imported content is also excluded from coverage under the current policy. A comprehensive evaluation of the foreign content issue should include an assessment of how to handle such products.

FAS is evaluating the previous policy of permitting up to 25 percent of the value of commodities or products to be of foreign origin. As we stated in March, the history of the foreign content issue and the fact that the last two program policy announcements were made by FAS without comprehensive evaluations makes it all the more important that FAS conduct its current assessment of the foreign content question in a comprehensive and systematic manner. A positive aspect of the evaluation is that on May 22, 1989, FAS published a Federal Register notice soliciting public comment on the foreign content issue. However, more needs to be done.

One way to help achieve a comprehensive evaluation of the policy issues is to establish a working group of representatives of interested parties to review and debate the issues and to develop options for FAS consideration. The Export-Import Bank used such a group several years ago when it was wrestling with a similar policy concern and the result was a policy in which all concerned parties had input and one that the Bank's officials believe is

working well. The working group idea was even presented to the Department of Agriculture's Undersecretary for International Affairs and Commodity Programs in May 1987 by the FAS Administrator. In the memo he stated that

"We may be able to benefit from the experience of the Export-Import Bank, which found the issue to be controversial. The Bank developed the new policy over a two-year period in coordination with its advisory committee, comprised of industry, labor, and state government representatives."

We believe there is a definite advantage to FAS in establishing a similar working group that would (1) focus on clearly defined objectives, (2) operate under realistic timeframes, and (3) produce policy options and recommendations. The working group could include representatives of producers, agriculture exporters, and financial institutions. The working group should solicit input from all interested and affected parties. It should assess the impact of different options on the value and volume of U.S. agricultural exports and consider whether uniform guidance for all commodities is appropriate or whether commodity-specific guidance may be more desirable. FAS should also solicit public comments before it finalizes any further policy changes.

COMPLIANCE REVIEW EFFORTS HAVE BEGUN

In our March testimony, we reported that FAS, in response to our June 1988 report, had directed its compliance review staff to perform compliance checks on the export credit guarantee programs. We also reported, however, that compliance checks had not yet been

made and the compliance review staff was too small to handle the added responsibilities. We stated that more resources for compliance checks were needed. FAS has recently increased the Compliance Division's budget by two staff years to conduct reviews of the GSM-102 and GSM-103 programs. Since April, one compliance review staff member has been conducting trial compliance checks in the areas of export sales and shipment verification and the origin of contents. He is also developing a methodology to be used in conducting further compliance reviews. The Director expects to have the GSM-102 and GSM-103 compliance check system fully operational by the end of this fiscal year.

UPDATE ON THE SUSPENSION AND DEBARMENT ISSUE

Considerable attention has focused on the suspension and debarment issue because a number of tobacco exporters who have shipped large quantities of foreign tobacco as U.S. tobacco under the export credit guarantee programs continue to participate in the programs. In our March testimony, we reported that FAS informed us that it had referred to Agriculture's General Counsel the issue of the appropriateness of bringing suspension or debarment actions against such companies who are under investigation by the U.S. Attorney in North Carolina. We also noted that FAS does not intend to initiate such proceedings while the U.S. Attorney's investigation continues so as not to impair his case.

A question was also raised by Agriculture's Inspector General about the applicability of suspension and debarment regulations to the GSM-102 and GSM-103 programs. Agriculture's Office of General Counsel concluded, and we agree, that CCC's and Agriculture's current regulations appear to apply to the programs, as do parts of the Federal Acquisition Regulation (FAR) referred to by Agriculture regulations.

FAS has not yet taken any suspension or debarment actions against companies found to violate GSM program requirements; however, it has taken another action. In May of this year, the Director of CCC's Operations Division wrote letters to 31 tobacco exporting companies representing 92 different GSM guarantees stating that as a result of Agriculture's Inspector General's audit, it had been determined that the exporters may have violated GSM program requirements by exporting non-U.S. commodities. The letters put the exporters on notice that they may be liable to CCC for any amounts paid or that may be paid by CCC under the payment guarantees.

Due to the seriousness of the issue, that is, numerous tobacco exporting companies shipping large amounts of foreign origin tobacco under guarantee programs designed to promote the export of U.S. agricultural goods, we continue to believe that suspension or debarment proceedings would be the appropriate agency response and

that Agriculture should be prepared to initiate such action when the U.S. Attorney completes his work on the case.

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