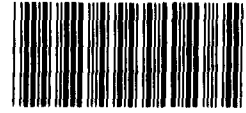


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Testimony



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Use of Surplus Dairy Products in the National
School Lunch Program

June 14, 1989

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Resources, Community, and Economic
Development Division

Before the Subcommittee on Nutrition
and Investigations,
Committee on Agriculture, Nutrition,
and Forestry
United States Senate



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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before this Subcommittee to present information on (1) trends in quantities of surplus dairy products that have been donated by the U.S. Department of Agriculture (USDA) to the National School Lunch Program, (2) impacts that recent reductions in such donations have had on the program, and (3) the quantities of dairy products needed for the program. This is part of the information we are developing in response to a February 1989 request from the Chairman, Senate Committee on Agriculture, Nutrition and Forestry concerning various aspects of USDA's dairy and nutrition programs.

In summary, we found that, until recently, USDA's dairy price support program resulted in large federal purchases of surplus butter, cheese, and nonfat dry milk. USDA has traditionally donated most of these surpluses to foreign and domestic nutrition programs, one of which is the National School Lunch Program. Donations for school lunches peaked in 1987 when USDA's Food and Nutrition Service (FNS) distributed about 275 million pounds of dairy products to the program. Recent declines in surplus purchases, however, have reduced the availability of dairy products for school lunches. More specifically, from the peak year of 1987, donated dairy products declined in 1989 by 24 percent to about 208 million pounds.

For a perspective on how these reductions have affected the school lunch program across the nation, we contacted 20 state food distribution officials--individuals responsible for distributing the federally donated dairy products to local school districts. Although most of these officials believed the declines have had at least a moderately serious impact on school lunch programs, most also stated that the nutritional value of school lunches had been largely unaffected. Further, in almost all states, the price of lunches to the students had not been raised as a result of

declines in donated dairy products. Most state officials, however, believed that school lunch prices will be increased next year.

You were also interested in information concerning the amounts of dairy products needed for the nation's school lunch program. We attempted to define such needs in terms of quantities of dairy products necessary to provide a nutritionally sound diet. However, according to health and nutrition experts with whom we spoke, many variables affect individual nutritional needs for dairy products. As a result, it would be very difficult to develop meaningful estimates of dairy needs for the school lunch program as a whole.

BACKGROUND

Before I discuss trends in surplus dairy donations, it might be useful to provide some background information on the purpose of and relationships between USDA's dairy price support and school lunch programs. The dairy price support program, which began in the 1940s, was intended to ensure an adequate supply of milk to the nation by stabilizing milk prices. Under the program, USDA's Commodity Credit Corporation (CCC) purchases, at designated prices, all quantities of butter, cheese, and nonfat dry milk that cannot be used commercially. Thus, the more that milk production exceeds commercial use, the more butter, cheese, and nonfat dry milk CCC purchases and the greater the federal cost.

Because dairy production grew faster than commercial use, CCC purchases of surplus dairy products under the price support program grew dramatically during the early 1980s. From 1980 to 1983, CCC price support purchases more than doubled from 8.2 billion pounds to 16.6 billion pounds. Similarly, federal costs for these purchases jumped from \$1.3 billion to \$2.6 billion. In 1983, the Congress attempted to reduce the price support purchases through (1) a Milk Diversion Program, which paid farmers to reduce dairy production; (2) reductions in price supports, which were intended

to reduce incentives for milk production; and (3) a Dairy Promotion Program, which was intended to increase consumption of dairy products. In 1985, the Congress took additional steps to deal with the dairy surplus problem by authorizing a Dairy Termination Program and further price support cuts. The termination program was intended to reduce milk production by paying farmers to export or slaughter their entire herds. By 1988, surpluses had decreased from the 1983 peak of 16.6 billion pounds to about 9.7 billion pounds, or by 42 percent.

USDA disposes of most surplus dairy purchases through donations to foreign and domestic nutrition programs. One of these programs, the National School Lunch Program, was created in 1946 to safeguard the health and nutrition of the nation's children and encourage domestic consumption of agricultural products. To meet these objectives, USDA's Food and Nutrition Service encourages the implementation of food service programs in elementary and secondary schools. FNS subsidizes school lunches in the form of cash payments and donated commodities--known as entitlement commodities--purchased under USDA's price support programs. In addition to entitlement commodities, schools can also receive bonus commodities. These do not count against a school's total cash and commodity subsidy and, if available, can be ordered in any quantities that can be used. Because of the large inventories of dairy products purchased under the price support program, most of the dairy donations were provided as bonus commodities during the 1980s.

TRENDS IN DONATED DAIRY PRODUCTS

Between 1978 and 1987, the total quantities of dairy products donated to the school lunch program rose from about 141 million pounds to 275 million pounds. Of the three types of donated dairy products, cheese increased most significantly from about 60 million pounds in 1978 to 165 million pounds in 1987. The growth in

overall dairy donations took place during a time of extremely large dairy surpluses created through CCC purchases under the price support program. By 1989, the quantities of dairy products donated to the school lunch program decreased to about 208 million pounds. This decrease is partly a consequence of the success in reducing surplus purchases.

During the 1980s the quantities of dairy products offered to schools as bonus commodities grew significantly. In fact, from 1982 through 1988, virtually all dairy donations were distributed as bonus rather than entitlement commodities. Thus, schools could obtain large quantities of these products without charging them against their cash and commodity school lunch subsidy. In 1989, the availability of bonus cheese and nonfat dry milk commodities declined, and FNS officials told us that by 1990 these products will be offered only as entitlement commodities. This is important to school districts because the cheese and nonfat dry milk that were once "free" as bonus commodities must now be charged against their school lunch subsidy or purchased commercially.

IMPACTS OF DECLINES IN DONATED DAIRY PRODUCTS

To obtain a perspective on how reductions in bonus dairy products have affected school lunch programs, we talked to officials from 20 states who were responsible for distributing donated products to school districts. Our questions focused on (1) how declines in bonus dairy commodities affected the nutritional value of meals served at school, (2) what actions school districts have taken to deal with such declines, and (3) what actions school districts plan to take to deal with the declines.

Eleven of the officials said that the reductions in bonus commodities had neither a positive nor a negative effect on the nutritional value of school lunches served. For example, eight

officials noted that regardless of the availability of federally donated dairy products, schools are required to serve nutritionally balanced meals as a condition for participating in the school lunch program. Only five officials said that the decline in dairy donations had negatively affected the nutritional value of school lunches. Their concerns stemmed from possible declines in the calcium and protein that dairy products provide.

The most common action taken in response to decreased dairy donations was to reduce either the quantities of dairy products used in school lunches or how often they were served. Thirteen state officials said that their school districts had taken such actions, but most classified the reductions, at worst, as moderate. In addition, eight indicated that school districts had purchased additional dairy products with state or local funds in order to compensate for decreases in dairy donations. Only two state officials told us that some schools had increased the price of student lunches. However, 14 state officials estimated that school lunch prices will be raised next year to purchase additional dairy products. Estimates of the increases ranged from 5 to 25 cents.

DAIRY PRODUCTS NEEDED FOR THE SCHOOL LUNCH PROGRAM

It is difficult to estimate the quantities and types of dairy products needed for the school lunch program because of problems in defining dairy needs. An examination of historical trends in the quantities of dairy products used in the school lunch program may or may not reflect such needs. These trends may reflect availability of dairy products rather than need--the more that was available, the more that was used. In an attempt to develop an acceptable definition of dairy needs from a nutritional perspective, we spoke with health and nutrition experts at the National Institutes of Health, Food and Nutrition Service, and National Academy of Sciences. These experts noted that many

variables can affect the minimum amounts of specific dairy products necessary for a nutritionally sound diet and, consequently, it would be difficult if not impossible to develop an estimate. For example, an official from the National Academy of Sciences noted that the need for dairy products would have to be viewed in the context of the total diet. Therefore, a large number of assumptions would have to be made about what quantities and types of foods were being consumed outside the school lunch program. Additionally, a National Institutes of Health official noted that the recommended dietary allowances of nutrients for individuals can vary by sex, age, and amount of physical activity.

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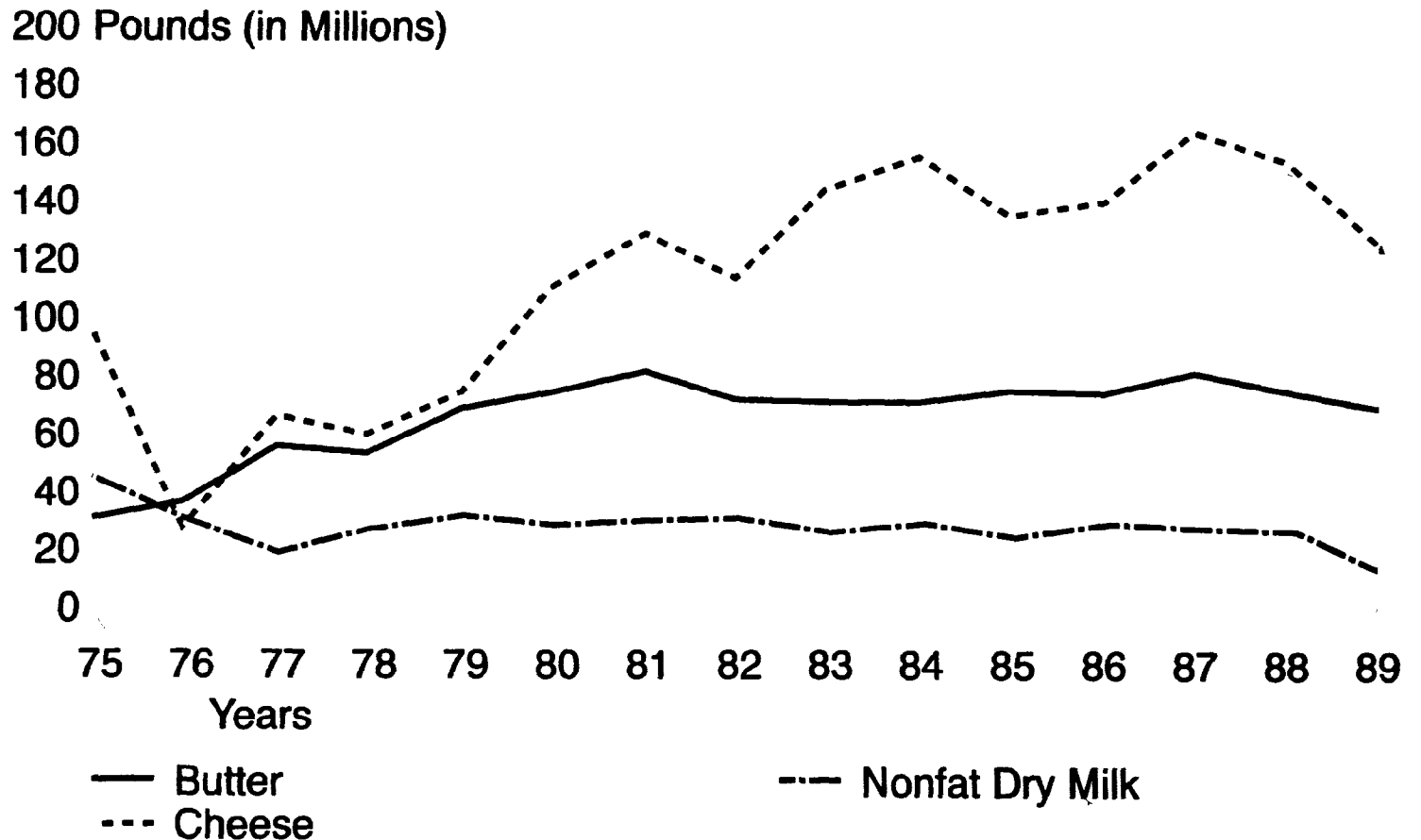
Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you may have.

GAO CCC Surplus Purchases (Dairy)

20 Pounds (in Billions)



GAO Dairy Donations to the School Lunch Program (Bonus and Entitlement)



GAO Cheese Donations to the School Lunch Program (Bonus Vs. Entitlement)

