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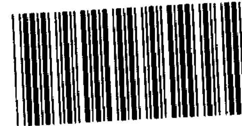
U.S. DEPARTMENT OF AGRICULTURE

Issues Related to the Export Credit Guarantee Programs

Statement of Allan I. Mendelowitz, Director
International Trade, Finance, and Competitiveness Issues
General Government Division



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U.S. DEPARTMENT OF AGRICULTURE:
ISSUES RELATED TO THE EXPORT CREDIT GUARANTEE PROGRAMS

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, DIRECTOR
INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS ISSUES
GENERAL GOVERNMENT DIVISION

Under the U.S. Department of Agriculture (USDA), the Export Credit and Intermediate Export Credit Guarantee Programs are the major agricultural export promotion programs. Based on legislative requirements, USDA makes a total of $5.7 billion in government loan guarantees available each year to foreign country buyers of U.S. agricultural commodities.

Since the programs began in the 1980s, the government has paid out approximately $4.2 billion because of loan repayment defaults by foreign country buyers. However, we estimate future program costs will be much higher if risky foreign buyers continue to participate in these loan guarantee programs.

There is a history of poor management control of these programs, principally because USDA officials viewed the export credit guarantee programs as "commercial" programs that are subject to the normal controls that exist for commercial sales transactions. Through legislative direction and other encouragement, USDA has taken action to improve management of the programs, but additional steps are still necessary.

Current legislation restricts the programs from being used for foreign policy purposes or whenever the Secretary of Agriculture determines that a borrowing country cannot adequately service the debt associated with specific program sales. We found that these restrictions have limited impact on the operation of the programs. Program initiatives for a particular country, which may be desired for foreign policy purposes, can usually be justified on market development grounds. Furthermore, determinations on the likelihood of repaying a guaranteed loan are judgment calls for which the Secretary of Agriculture has considerable discretion to approve credit guarantees for even very risky countries. Overall creditworthiness of a country is only one factor considered by the Secretary in assessing the likelihood of repayment of a specific credit guarantee.

The Export Enhancement Program, established in 1985, supports U.S. exports facing competition from subsidized foreign exports. Its primary value is as a trade policy tool. The credibility of the United States in countering unfairly subsidized agricultural trade depends on a willingness to continue this program as long as needed.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the operations of the U.S. Department of Agriculture's (USDA) Export Credit and Intermediate Export Credit Guarantee Programs. These programs are also known as the General Sales Manager (GSM) 102/103 programs. I plan to provide a brief overview of the programs--describing how they work, what type of agricultural commodities and products are sold under the programs, and who the participants are. Then I will discuss some of the program issues we have reviewed over the past few years. My observations are based primarily on GAO reports and testimony issued over the last several years, as well as agency responses to our recommendations.[1]

BACKGROUND

USDA's Foreign Agricultural Service (FAS) administers the GSM-102/103 programs. These programs aid U.S. commercial agricultural exports to countries experiencing hard currency constraints. These countries may not be able to purchase U.S. agricultural commodities without credit. FAS cites these programs in its November 1992 Fact Sheet as being "fully commercial" in that private U.S. financial institutions extend financing at interest rates that reflect prevailing market levels. The programs also serve to help a country make the transition from receiving U.S. agricultural commodities on a highly concessional (subsidized) basis to purchasing U.S. agricultural commodities on an unassisted basis.

The programs were established in the 1980s by USDA's Commodity Credit Corporation (CCC), in accordance with authority given in CCC's charter. Program accounting services are provided by staff of the USDA's Agricultural Stabilization and Conservation Service.

OVERVIEW OF THE PROGRAMS

The Export Credit and Intermediate Export Credit Guarantee Programs are government loan guarantee programs. Financial institutions in the United States actually provide the export credit financing for individual commodity sales to foreign buyers. For a small fee, paid by the exporting company, the government provides a written guarantee that if the foreign buyer fails to make its repayments as scheduled, then the government--through CCC--will repay the financing institution. The larger program of the two, the GSM-102 program, provides credit repayment guarantees for export sales having repayment terms of up to 3 years. The GSM-103 program provides credit repayment guarantees for export sales having repayment terms of more than 3 years but not exceeding 10 years.

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[1]A listing of related GAO products on agricultural trade issues is attached.

Usually, the guarantee covers 98 percent of the principal amount financed and a portion of the interest. The remainder of the risk is assumed by the U.S. financing institution. However, CCC has the flexibility to adjust the percentage of guarantee coverage and has, in fact, provided 100-percent principal coverage on prior GSM-102 sales to Mexico and the former Soviet Union and its successor states.

The Food, Agriculture, Conservation and Trade Act of 1990 (P.L. 101-624) directs CCC to make available for each of the fiscal years 1991 through 1995 not less than $5 billion in GSM-102 credit guarantees. The act also directs CCC to make available for each of those years not less than $500 million in GSM-103 credit guarantees. In addition to those amounts, the act directs CCC to make available, for the fiscal years 1991 through 1995, not less than $1 billion of export credit guarantees for exports to countries that have emerging democracies. The act states that a portion of these export credit guarantees shall be made available for the establishment or improvement--by U.S. persons--of facilities in emerging democracies to improve handling, marketing, processing, storage, or distribution of imported agricultural commodities and products if the Secretary of Agriculture determines that such guarantees will primarily promote the export of U.S. agricultural commodities.

The GSM-102 program was started in 1981--the GSM-103 program in 1986. Together, these programs have made available over $40 billion in credit guarantees for commodity export sales to approximately 40 different countries. The major program participants during fiscal year 1992 were the former Soviet Union ($1.8 billion), Mexico ($1.3 billion), Russia ($644 million), Algeria ($580 million), and South Korea ($478 million). Together, these countries accounted for approximately 85 percent of the total $5.7 billion of guarantees approved during fiscal year 1992.

Traditionally, the commodity sales financed under the GSM-102/103 programs have largely been bulk commodities such as wheat, corn, and soybeans. However, sales of nonbulk commodities, such as lumber, hides and skins, and livestock, are also financed under the programs.

U.S. farmers are considered to benefit from the programs because the programs promote agricultural exports. U.S. program participants who benefit from the GSM-102/103 guaranteed sales include large agricultural exporting companies in the United States, such as Continental Grain and Louis Dreyfus, as well as smaller exporters, who make export sales that they may not otherwise get. Other beneficiaries are financial institutions in the United States, which tend to be U.S. agencies or branches of foreign banks. Also benefiting from the programs are foreign countries, such as Algeria, Ecuador, and Zimbabwe, that are able to

address some of their domestic food requirements by purchasing commodities on highly favorable credit terms.

Later, I will provide more specific observations on the various program participants. But first I will discuss program management weaknesses that we have identified in previous reviews of the GSM-102/103 programs.

PROGRAM MANAGEMENT WEAKNESSES

Since 1988, we have reported on several weaknesses in FAS' management of the GSM-102/103 programs. FAS officials have addressed many of our concerns, but we believe they need to do more in the following areas:

--FAS should ensure that only U.S.-origin commodities are financed under the GSM-102/103 programs.

--FAS should better monitor the extent to which individual financial institutions participate in the programs.

--FAS should attempt to reduce estimated program costs by adjusting the mix of higher- and lower-risk countries and the amount of guarantees made available to them.

Need to Verify U.S.-Origin Commodities

In June 1988, we reported that CCC was not ensuring that only U.S. agricultural commodities were being financed under the GSM-102/103 programs.[2] We recommended that FAS officials conduct spot-check inspections of the commodities at the U.S. port of export. FAS officials, at that time, disagreed with the need for implementing this recommendation. Their rationale was that the GSM-102/103 programs are primarily commercial sales programs and, as such, are subject to the controls that exist over any other commercial sales transaction.

We disagreed with FAS' position and stated that (1) the programs are not strictly commercial, because without the government's repayment guarantee the sales would likely not occur; and (2) since the government is assuming a contingent liability for each loan repayment guarantee it provides, the government has the responsibility to ensure that the guarantees are being used properly, e.g., covering the credit sales of only U.S.-origin agricultural commodities.

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[2]See Commodity Credit Corporation's Export Credit Guarantee Programs (GAO/NSIAD-88-194, June 10, 1988).

In 1989, GAO visited the port of Norfolk, Virginia, and, with the assistance of U.S. Customs officials, inspected sea-freight containers holding tobacco and awaiting export under the GSM-102/103 programs. We found that the tobacco was packed in cardboard boxes, many of which were clearly marked as containing foreign-origin tobacco. Further inspection verified that sales of foreign-origin tobacco were being made under the GSM-102/103 programs and that this practice was both long-standing and widespread among many tobacco exporting companies in the United States.

The U.S. Attorney in Raleigh, North Carolina, prosecuted the case against several tobacco exporting companies. The companies pleaded guilty and agreed to pay a fine and restitution to the U.S. government for any defaults associated with their GSM-102/103 tobacco sales.

The discovery of the foreign tobacco exports further supported our recommendation that FAS officials perform spot-check inspections. However, we later broadened our recommendation and encouraged FAS to also spot-check the commodities at the foreign port of destination. We believe spot-checks at the foreign ports are necessary because of the possibility that GSM-102/103-financed sales can be transshipped to third countries in exchange for other products or cash. This possibility came to light in the case of Iraq's participation in the programs: Allegations surfaced that Iraq was bartering its GSM-102/103-financed commodities for armaments. While we know of no evidence to support those allegations, it would be relatively simple to deter such occurrences by performing spot-checks at foreign ports of entry.

However, while FAS officials have directed their compliance review staff to investigate export sales documentation on a regular basis, they still are not conducting the recommended spot-checks either at the U.S. ports of export or at the foreign ports of import.

Need to Better Monitor Participation by Financial Institutions in the United States

In previous congressional testimony we reported that two financial institutions in the United States were providing the lion's share of financing under the GSM-102/103 programs. We suggested that FAS examine the issue of bank participation in the programs. For example, in November 1989 we reported that the National Bank for Cooperatives in Denver, Colorado, and the Atlanta, Georgia, agency of the Banca Nazionale Del Lavoro (BNL) together had provided approximately one-third of the money lent under the GSM-102 program during the preceding 5 years and approximately three-fourths of the

money lent under the GSM-103 program for the preceding 3 years.[3] The remainder of the GSM-102/103 loans had been provided by numerous other financial institutions.

We questioned the wisdom of allowing two banks to participate in the programs to such a large extent. FAS officials responded that the risk to the program was not in the financing institution in the United States, but in the foreign buyer's overseas bank that is supposed to make the repayments. FAS officials also told us that they are not bank regulators and they rely on the Federal Reserve System to monitor U.S. banks. However, we were unable to find any record of regular communications between FAS and the Federal Reserve System.

We agree that the credit risk lies primarily with the borrower's overseas bank that is supposed to make the repayment. However, we also believe that allowing the program's loans to be concentrated within one or two banks presents a greater opportunity for those banks to establish a cozy relationship with the borrowing countries. This relationship can, in turn, lead to less-than-arm's-length government-guaranteed loan transactions. For example, in further analyzing BNL's participation in the programs, we determined that the majority of the financing it provided under the programs was for sales to one country--Iraq. We reported that BNL/Atlanta had provided approximately $830 million in GSM-102/103-guaranteed loans to Iraq over a period of about 5 years. Later, we learned that only about $130 million of that amount had been authorized by higher-level BNL officials.

The U.S. Attorney's Office in Atlanta charged that BNL officials in Atlanta had (1) not obtained the proper authorization for making most of those loans, (2) not properly reported the loans to bank regulatory agencies, and (3) participated with Iraqi purchasing officials and a Turkish exporting company in a scheme to defraud BNL of approximately $4.5 billion in unauthorized loans to Iraq, including most of those that were guaranteed under the GSM-102/103 programs.

Several former BNL/Atlanta officials have pleaded guilty to their participation in the scheme to hide the loans and defraud the bank. The alleged ringleader--the former Manager of BNL/Atlanta--has pleaded not guilty to the charges and is awaiting trial. Following the beginning of Operation Desert Shield in August 1990, Iraq stopped making repayments on its $1.9 billion in GSM-102/103 guaranteed loans, about $350 million of which was owed to BNL.

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[3] See Status Report on GAO's Reviews of the Targeted Export Assistance Program, the Export Enhancement Program, and the GSM-102/103 Export Credit Guarantee Programs (GAO/T-NSIAD-90-12, Nov. 16, 1989).

We do not mean to imply that the BNL problem would necessarily have been detected by FAS officials alone. However, had they better monitored the program participation of financial institutions and had more lenders participated in the programs, the likelihood of less-than-arm's-length transactions between a lender and a borrower would have been reduced.

Need to Reduce Estimated Program Costs

Several estimates of GSM-102/103 program costs exist. Each estimate is based on different assumptions, using different methodologies. The common denominator among all the estimates, however, is the riskiness of the borrowing countries. In general, to the extent that CCC can reduce the average riskiness of the countries in its GSM-102/103 portfolio, the lower the estimated program costs will be.

Earlier, I said that since the GSM-102/103 programs were established in the 1980s, a total of over $40 billion in credit guarantees has been made available to some 40 different countries. Since the programs started, CCC has paid out approximately $4.2 billion in claims. According to the CCC, that amount results in an historical CCC payout rate of about approximately 10.5 percent.

In our April 1991 report, we estimated the long-run costs of the GSM-102/103 programs to be much greater than the CCC's estimate of 10.5 percent. Our estimate was 60 percent, or $6.7 billion, of $11.2 billion in loan guarantees and accounts receivable outstanding as of May 1990.[4]

In our April 1991 report, we also said that CCC included in its financial statements for the fiscal year ending September 30, 1989, a cost estimate of 36 percent of all of its foreign loans outstanding at year end, including its Public Law-480 loans. In estimating the 36-percent cost figure, CCC assumed that as credit guarantees and loans are repaid, new ones will not be provided. This approach is a generally accepted method for accounting for the financial position of an operation at a specific point in time.

In December 1992, we updated our cost estimate for the GSM-102/103 programs. We estimated the cumulative costs of the programs at

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[4]Our analysis of riskiness was based on an examination of the values of country loans traded in the secondary market. Our estimate was based on the assumption that the outstanding loans and guarantees remain at the same level for about 18 years and that their average risk remains unchanged as new guarantees replace old ones. Because new guaranteed loans are generally provided each year as older loans are paid off, it is reasonable to assume a relatively lengthy life of the GSM-102/103 portfolio.

about $6.5 billion, or 48 percent of the total guarantees and accounts receivable outstanding as of June 30, 1992. The reasons for the change in our percentage cost estimates reported in April 1991 and in December 1992 are several, including changes in the GSM-102/103 portfolio, overall improvement in the prices of country loans on the secondary market, and refinements to our estimating methodology.

In addition to these estimates, USDA now provides a GSM-102/103 program cost estimate in its fiscal year budget request to Congress. According to USDA officials, the Federal Credit Reform Act of 1990 requires that each government agency include in its budget submission a program cost estimate for each loan, loan guarantee, or insurance program. In its fiscal year 1984 budget submission, USDA included an estimated cost of $403 million for the GSM-102/103 programs, based on an expected $5.7 billion in guaranteed loan activity. USDA also provided a current cost estimate of $388.2 million for its fiscal year 1993 GSM-102/103 programs, which is also based on an expected $5.7 billion in guaranteed loan activity.

This concludes my comments on the GSM-102/103 program management weaknesses we believe still need attention. Now, I would like to comment on several other program issues that the Subcommittee requested we address.

LEGISLATIVE RESTRICTIONS ON THE GSM-102/103 PROGRAMS

Section 202(e) of the Agricultural Trade Act of 1978, as amended by section 1531 of the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624), says that export credit guarantees authorized by this section shall not be used for foreign aid, foreign policy, or debt rescheduling purposes. Also, section 202(f), as amended, says that CCC shall not make credit guarantees available in connection with sales of agricultural commodities to any country that the Secretary determines cannot adequately service the debt associated with such sale.

We have been told by FAS officials that the GSM-102/103 programs have been used in the past for political or foreign policy purposes. We examined the effectiveness of the foreign policy and ability to repay restrictions by reviewing the case of the former Soviet Union and Russia's participation in the GSM-102/103 programs.

Former Soviet Union's Participation in the GSM-102/103 Programs

In December 1990, the Bush administration decided to provide $1 billion in GSM-102 export credit guarantees to the Soviet Union.[5] Before the administration's decision to grant the original $1 billion in agricultural export credit guarantees, there was considerable discussion within USDA about the Soviet Union's creditworthiness and its ability to service the debt associated with the GSM-102 purchases. Despite USDA's concern over the Soviet Union's creditworthiness, the Agriculture Secretary did not make a determination that the Soviet Union would be unable to adequately service the new GSM-102 debt, and the credit guarantees were provided.

The credits were quickly exhausted, and in June 1991 the administration agreed to provide the Soviets with an additional $1.5 billion in credit guarantees. The White House Press Secretary stated that the recent allocation of additional export credit guarantees for the Soviet Union reflected the administration's desire to promote a continued positive evolution in the U.S.-Soviet relationship.

Before the President's June 1991 decision, there were extensive debates in both the House and Senate over whether to extend credit guarantees to the Soviet Union. The issues that were debated focused on foreign policy and market development concerns, as well as on whether or not the Soviet Union would be able to repay the GSM-102 debt. More specifically, the issues debated were (1) the temporary easing of food shortages and whether this action would improve the public's opinion of its President, thus preventing his demise and the ascendancy of a more repressive regime; (2) the crackdowns on the new republics' independence and democracy movements; (3) the impact of extending credit guarantees on U.S. balance of trade and farm incomes; (4) the effect on U.S. market retention and expansion; (5) the impact on Soviet eligibility for food aid; (6) the future of market reforms in the Soviet Union; and (7) the deteriorating economy of the Soviet Union and its ability to repay future debt.

The Senate's position on providing the former Soviet Union with additional GSM credit guarantees was expressed in May 1991, when the Senate passed a nonbinding resolution (S. Res. 117) that recommended extending the additional $1.5 billion in credit

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[5]The initial approval of U.S. credit guarantees was made possible by evidence of Soviet emigration liberalization and the temporary waiving of restrictions under the Jackson-Vanik amendment to the 1974 Trade Act. The act had made credit guarantees to the Soviet Union contingent upon the enactment into law of liberalized emigration policies.

guarantees. In June 1991, a bipartisan group of 36 House Agriculture Committee members cosigned a letter to the Secretary of Agriculture that sought to clarify the restrictions in the legislation regarding a country's eligibility for export credit guarantees.

Given the circumstances, we believe an argument could be made that the credit guarantees were being provided for foreign policy purposes; however, the market development considerations were sufficient to justify the extension of the GSM credit guarantees.

Soviet Union Successor States' Participation in the GSM-102/103 Programs

Since the announcement of the first credit guarantees to the Soviet Union in 1990, CCC has made available credit guarantees for the former Soviet Union and its successor states equal to $5.95 billion. Of this amount, nearly $5 billion has been used, about $450 million is apparently no longer available, and almost $520 million is held up owing to defaults on payments due.[6] Of guaranteed sales registered to date, the former Soviet Union received $3.74 billion, Russia $1.06 billion, and Ukraine $179 million.

Since the dissolution of the Soviet Union, Russia has assumed principal responsibility for repaying the former Soviet Union's GSM-102 debt. However, beginning in late November 1992, Russia began defaulting on its scheduled repayments on GSM-102 guaranteed debt. As of April 17, 1993, financial institutions in the United States had filed almost $553 million in claims on Russian defaults, and CCC had paid almost $500 million of the claims.

The new Secretary of Agriculture recently said that USDA considers Russia to be a very important market and that the loss of this, and other former Soviet Union markets, would likely have a detrimental impact on domestic markets and U.S. commodity support programs. The Secretary said he would like to find a way to keep selling grain to Russia, but the taxpayers have a right to know that countries to which we extend credit guarantees can pay for the purchases. The Secretary indicated that the issue of how to continue grain sales to the successor states is currently being examined by the administration and that the issue includes national security as well as market considerations.

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[6]Of the $520 million in unused commitments, about $390 million are for Russia and $130 million for Ukraine. The Russian program has been suspended because of Russian defaults on GSM-102 payments for former Soviet and Russian debt. According to a USDA official, the Ukrainian credits are not likely to be registered for sale until the defaults on the former Soviet Union's GSM debt are resolved.

Last month, an agreement was reached between Russia and 19 of its official creditor nations, including the United States, to reschedule about $15 billion of former Soviet Union and Russian official debt. Included was approximately $1.1 billion in GSM-102 debt. The GSM-102 debt that was agreed to be rescheduled is debt associated with 1991 GSM-102 sales to the former Soviet Union and Russia. It included arrearages on principal and interest payments as of December 30, 1992, and payments coming due during calendar year 1993. (A summary of the rescheduling is in app. I.)

Our examination of the impact of the 1990 Farm Bill restrictions on the GSM-102 program in the cases of the former Soviet Union and Russia's participation in the program reveals that the restrictions did not prevent GSM-102 credit guarantees from being provided. While extension of new credit guarantees for the former Soviet Union may have been desired for foreign policy reasons, there were sufficient market development objectives to justify the extension of new credit guarantees. Furthermore, determinations on the ability to repay are judgment calls for which the Secretary of Agriculture has considerable discretion to approve new credit guarantees for very risky countries. Overall creditworthiness of a country is only one factor considered by the Secretary in assessing the likelihood of repayment of a specific credit guarantee.

DO THE GSM-102/103 PROGRAMS RESULT IN ADDITIONAL EXPORTS OF U.S. AGRICULTURAL COMMODITIES?

Proponents of the GSM-102/103 programs generally believe that the programs result in additional exports of U.S. agricultural commodities. By "additional" exports, we mean increases in total U.S. exports of agricultural commodities that would not have occurred without the assistance of the GSM-102/103 programs. However, attributing additional exports specifically to the intervention of the GSM-102/103 programs is difficult to prove.

On the other hand, empirical evidence does exist that demonstrates that the programs have helped increase U.S. market share in specific foreign country agricultural markets. However, the permanency of some of those markets have been sensitive to the continuation of GSM-102/103 credits.

The principal problem in developing empirical evidence of "additionality" involves a multitude of variables, other than the intervention of the GSM-102/103 programs, that can contribute to increases (or decreases) in U.S. agricultural exports. For example, changes in the value of the dollar, prices of U.S. agricultural commodities versus competitors' prices, the quality of the commodities, other U.S. export promotion programs, competitor countries' export promotion and subsidy programs, foreign trade restrictions, and bilateral purchasing agreements are some of the many variables that can directly affect the levels of U.S.

agricultural exports. Isolating the effects of each of these, and all of the other factors, in an effort to attribute the impact they have on U.S. exports would be a very difficult, if not impossible, task.

Those that are critical of the GSM-102/103 programs--mainly our competitor countries--claim that the programs do not result in additional U.S. exports. Competitor countries say the programs instead create market inefficiencies and higher commodity transportation costs by displacing traditional suppliers to specific countries and forcing those suppliers to market their commodities elsewhere. We agree that this is an unfortunate cost. However, we believe the cost is not attributable solely to the GSM-102/103 programs but is a result of competitor country programs as well, which operate in much the same fashion.

Finally, I would like to briefly comment on another CCC export promotion program--the Export Enhancement Program--because it is often implemented simultaneously with the GSM-102/103 programs in specific countries.

EXPORT ENHANCEMENT PROGRAM

The Export Enhancement Program (EEP) is designed to make U.S. agricultural exports competitive with the subsidized exports of other countries, in particular, the European Community (EC). When EEP was first started, in May 1985, USDA would give exporters of U.S. agricultural commodities in-kind bonuses out of CCC stocks. These bonus commodities enabled U.S. exporters to lower their selling price to levels that would be competitive with the heavily subsidized export prices of the EC. Since 1985, the program has grown from supporting exports to 4 countries, to helping U.S. exports to more than 71 countries or regions. Almost $5.4 billion in bonuses have been awarded under the program to promote $18 billion in agricultural exports. Today, there are no excess commodities in the CCC's warehouses, so USDA now pays cash bonuses to exporters of U.S. agricultural commodities. (An historical summary of authorized bonus levels is in app. II.)

The Reagan administration--in using EEP to bolster U.S. agricultural exports--was hoping not only to recapture markets that had been gained by the EC through its export subsidies, but also to encourage the EC to negotiate reductions in agricultural subsidies. Since 1985, EEP has helped recapture targeted markets previously held by the EC. However, EEP has also become more of a permanent subsidy program; and while EEP has encouraged members of the EC to negotiate agricultural subsidy issues, final agreement on reducing agricultural subsidies has not been reached.

In several markets, CCC permits the EEP program to be used simultaneously with the GSM-102/103 programs. In such

circumstances, the importing country is not only buying U.S. agricultural commodities on credit terms, but it also is obtaining close to the lowest, if not the lowest, commodity sales price available.

We have issued several reports and testimonies on EEP during the past several years addressing USDA's weaknesses in managing the program, as well as the effectiveness of the program in meeting its objectives. While the ability of EEP to expand U.S. exports overall is debatable, its value as a trade policy tool remains as long as U.S. exporters face subsidized competition. Furthermore, the credibility of the United States in countering subsidized exports depends on continued willingness to adequately fund this effort as long as foreign agricultural subsidies continue. If the Uruguay Round of multilateral negotiations is successful, EEP will need to be reevaluated.

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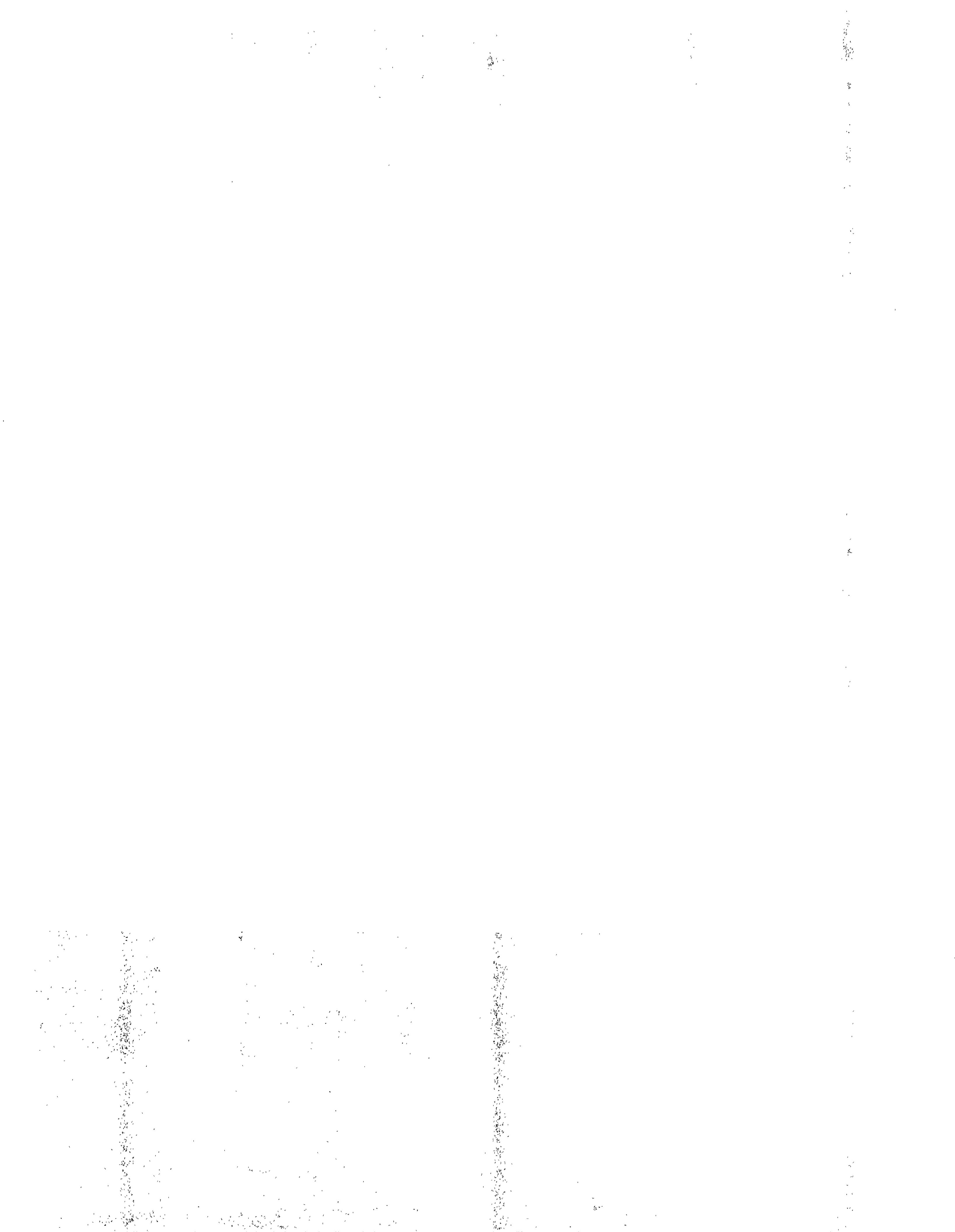
Mr. Chairman and Members of the Subcommittee, this completes my prepared statement. I would be happy to try to answer any questions you might have.

SUMMARY OF U.S. RESCHEDULING OF THE SOVIET UNION AND ITS SUCCESSOR STATES' $1.1 BILLION IN GSM-102 DEBT

Description of debt	Amount of debt to be rescheduled	Repayment terms
Arrears accumulated in 1992	$133	10 semi-annual repayments beginning 1/1/95 and ending on 7/1/99
Arrears accumulated and payments coming due in 1993	895	10 semi-annual repayments beginning 1/1/96 and ending on 7/1/00
Interest that continues to accrue on debt being rescheduled	70	40% is due as scheduled; 60% is due in 10 semi-annual repayments beginning 1/1/96 and ending on 7/1/00
Total rescheduling	$1,098	



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U.S. COMMODITY VALUES OR FUNDING PROVIDED FOR EEP

Legislation or announcement	Commodity values or funding provided	Period when commodity values or funds are available
Food Security Act of 1985	Total of $2 billion of surplus agricultural commodities	October 1985 thru September 1988
Food Security and Improvements Act of 1986	Changed total commodity availability to not less than $1 billion nor more than $1.5 billion of surplus agricultural commodities	October 1985 thru September 1988
USDA announcement in July 1987	CCC, under authority from its charter act, would continue to provide EEP bonuses once the $1.5 billion in surplus agricultural commodities was exhausted	
Omnibus Trade and Competitiveness Act of 1988	Additional $1 billion in surplus agricultural commodities	Through fiscal year 1990
Omnibus Budget Reconciliation Act of 1989	Limited amount of EEP bonus commodities to $566 million for the fiscal year	Fiscal year 1990
Food, Agriculture, Conservation and Trade Act of 1990	$500 million in commodities or cash annually	Fiscal years 1991 through 1995

Legend

CCC = Commodity Credit Corporation

RELATED GAO PRODUCTS

Transition Series: International Trade (GAO/OCG-93-11TR, Dec. 1992).

Loan Guarantees: Export Credit Guarantee Programs' Costs Are High (GAO/GGD-93-45, Dec. 22, 1992).

Progress in GATT Negotiations (GAO/GGD-92-6R, July 31, 1992).

U.S. Department of Agriculture: High-Value Products and U.S. Export Promotion Efforts (GAO/T-GGD-92-64, July 28, 1992).

International Trade: Canada and Australia Rely Heavily on Wheat Boards to Market Grain (GAO/NSIAD-92-129, June 10, 1992).

Agriculture's Export Credit Programs: Delays in Accessing Records Relating to Iraq (GAO/T-GGD-92-47, May 29, 1992).

U.S. Department of Agriculture: Improved Management Could Increase the Effectiveness of Export Promotion Activities (GAO/T-GGD-92-30, Apr. 7, 1992).

International Trade: Better Trade Show Management Can Increase Benefits to Exporters (GAO/NSIAD-92-122, Mar. 10, 1992).

International Trade: Agricultural Trade Offices' Role in Promoting U.S. Exports Is Unclear (GAO/NSIAD-92-65, Jan. 16, 1992).

International Trade: Soviet Agricultural Reform and the U.S. Government Response (GAO/NSIAD-91-152, June 28, 1991).

U.S. Efforts to Increase Export of High Value Agricultural Products (GAO/T-NSIAD-91-43, June 25, 1991).

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