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Report to Congressional Requesters

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INTERNATIONAL TRADE

Changes Needed to Improve Effectiveness of the Market Promotion Program

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July 7, 1993

The Honorable Kent Conrad
The Honorable Thomas A. Daschle
The Honorable Byron L. Dorgan
The Honorable Tom Harkin
United States Senate

The Honorable Tim Johnson
The Honorable Timothy J. Penny
The Honorable Robert E. Wise
House of Representatives

As requested, we have reviewed the Foreign Agricultural Service's (FAS) administration of the Market Promotion Program (MPP) in the U.S. Department of Agriculture. Specifically, you asked us to assess whether (1) MPP funds result in increased promotional expenditures by commercial firms participating in the program; (2) FAS has criteria for the length of time firms can remain in the program before they assume the sole responsibility for their export activities; (3) FAS has defined the conditions under which foreign firm participation is desirable; (4) FAS has encouraged the participation of small firms in the program; and (5) FAS considered the extent of a product's U.S. content and processing in awarding MPP funds. Interim results of our work were provided in recent testimony and a report.[1] Appendix III contains a detailed discussion of our objectives, scope, and methodology.

Results in Brief

FAS does not require commercial firms to demonstrate that MPP funds will be used to increase their promotional efforts. Thus, the government has no assurance MPP funds result in any promotional activity beyond what would be undertaken without MPP funding.

In addition, FAS has no criteria as to how long commercial firms should participate in the program or the conditions under which successful commercial firms should assume the sole responsibility for their own market promotional expenditures. As a result, MPP funds may be going to commercial firms and products that no longer need government assistance.

[1] U.S. Department of Agriculture: Improvements Needed in Market Promotion Program (GAO/T-GGD-93-17, Mar. 25, 1993); International Trade: Effectiveness of Market Promotion Program Remains Unclear (GAO/GGD-93-103, June 4, 1993); and U.S. Department of Agriculture: Market Promotion Program Could Be More Effective (GAO/T-GGD-93-38, June 23, 1993).

FAS has not defined the conditions under which the participation of foreign firms in the program is desirable. Instead, FAS allows the 64 not-for-profit organizations administering the program for FAS to develop and use their own criteria regarding the participation and funding of foreign firms.

Moreover, the fiscal year 1993 agriculture appropriation conference report directed FAS to encourage the participation of small, medium-sized, and new-to-export firms in the program. However, FAS did not have information on the size of firms participating in the program, and therefore did not adjust its funding process to address the conference report directive.

In response to congressional concerns, FAS considered U.S. content and processing in its application approval process for allocating fiscal year 1993 program funds among the various applicants. However, in doing so, FAS relied on unverified information on U.S. content and did not have the information needed to accurately determine the extent of U.S. processing of products promoted with MPP funds.

Lastly, FAS officials told us they see a conflict between MPP's primary objective—to increase exports—and the Appropriation Committee's 1993 direction regarding the types of firms and products to be served by MPP.

Background

Since 1986, MPP and its predecessor, the Targeted Export Assistance (TEA) program, have provided funds to commercial firms and not-for-profit organizations for the promotion of U.S. agricultural commodities and products in foreign markets. The TEA program was authorized by the Food Security Act of 1985 (P.L. 99-198) to reverse the decline in U.S. agricultural exports and to counter the unfair trade practices of foreign competitors. Only commodities adversely affected by unfair foreign trade practices were eligible for funding under the TEA program.

The Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624) established MPP as the replacement for the TEA program. MPP, like its predecessor, was created to develop, maintain, and expand U.S. agricultural exports. It focuses primarily on high-value products such as fruits, nuts, and processed goods. Unlike the TEA program, MPP funding is not limited to commodities adversely affected by unfair foreign trade practices.

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From fiscal year 1986 through fiscal year 1993, over $1.25 billion has been awarded to not-for-profit organizations and commercial firms to promote U.S. agricultural products. About 60 percent of MPP funds currently support generic promotions. The remaining 40 percent of MPP funds support brand-name promotions.

Generic promotions are undertaken by not-for-profit organizations to increase the total market for a specific commodity (e.g., Washington State apples) with no emphasis on a particular brand. The not-for-profit organizations typically are trade associations that represent a particular agricultural commodity or industry. The Cotton Council International and National Forest Products Association were the two largest not-for-profit organizations in terms of fiscal year 1992 MPP funding, receiving $15.8 million and $14.7 million, respectively.

FAS operates the brand-name program through the not-for-profit organizations. Brand-name promotions are intended to establish consumer loyalty for a commercial firm's brand-name products. It is the not-for-profit organizations, operating under interim program regulations, who decide which commercial firms receive funds and how much they receive. In making the funding determinations, not-for-profit organizations use annual promotion plans submitted by commercial firms.

During fiscal year 1992, approximately 600 commercial firms conducted brand-name promotions with MPP funds. Commercial firms are generally reimbursed for up to 50 percent of their eligible expenses for promoting their brand-name products. Of the 600 firms funded during fiscal year 1992, a relatively small number received the majority of the program funds. In fiscal year 1992, MPP funds awarded to individual commercial firms ranged from a low of $500 to a high of about $8 million.

FAS had a three-stage application approval process for the 1992 and 1993 program. In the first stage, a committee of senior marketing specialists reviewed each application to determine compliance with the requirements specified in the MPP interim regulations. In the second stage, the commodity divisions analyzed the content of each proposal and prepared recommendations for the allocation level, required cost-share level, and ceiling levels by country and generic versus brand-name activities. The commodity divisions used criteria specified in the interim regulations to arrive at their funding allocation recommendations. In the final stage, a committee chaired by the FAS Assistant Administrator for Commodity and Marketing Programs made adjustments to the divisions' funding recommendations, because the total recommended funding allocations exceeded the funds available.

FAS Has No Assurance That MPP Funds Are Used to Increase Promotional Activity

FAS does not require commercial firms to demonstrate that MPP funds will be used to increase prior promotional activity. The lack of such a requirement affords commercial firms the opportunity to substitute MPP funds for promotional expenditures they would have otherwise undertaken with their own funds. FAS currently has no way of knowing the extent to which this practice may be occurring. However, we believe that the participation of firms in the program with significant prior export experience and with multimillion dollar advertising budgets suggests that the opportunity to substitute funds exists.

Other government incentive programs restrict the provision of government assistance to covering those expenses that are greater than previous expenditure levels. For example, the research and development tax credit provides a 20-percent tax credit for certain expenditures, but only to the extent that current-year expenditures exceed the average annual amount of such expenditures in the specified base-period. The base-period for the credit is generally the average amount of the prior 3 years' expenditures. No such criterion exists for MPP.

FAS officials believe ensuring that MPP funds are used to increase a firm's exporting efforts is a desirable goal; however, they are concerned about their ability to administer such a requirement. For example, if a requirement were on a per-market or per-product basis, firms could shift funds between products and markets to receive program funding and still not increase their overall export promotional expenditures. However, without some assurance that MPP is resulting in firms increasing their promotion efforts, the effectiveness of the program in increasing U.S. agricultural exports cannot be demonstrated. For example, even if a brand-name promotion effort results in identifiable increases in exports, unless FAS can convincingly demonstrate that the promotion effort would not have been undertaken without MPP assistance, those increases in exports cannot be attributed to the program.

While FAS does not collect sufficient information to determine whether funding substitution is occurring, there is some evidence that suggests it may be taking place. For example, we reviewed the files for 16 firms funded by one of the not-for-profit organizations we visited. Of the 16 firms, 15 requested MPP funds in 1992 for markets in which they were already promoting their brand-name product. In one case, a firm with 14 years of export experience requested MPP funds for a total of 31 markets. In eight of the markets, the firm had at least 10 years of promotional experience with the brand-name product prior to participation in MPP. These situations raise questions as to MPP's effectiveness. However, it is unlikely that FAS can answer these questions because firms are not required to provide FAS with the information needed to assess whether MPP funding has led to an increase in promotional efforts or merely replaced company funding of existing marketing activities.

We also found that MPP funds make up a relatively insignificant proportion of the advertising budgets of some firms in the program, thus raising a question as to whether MPP program funds are substantial enough to cause them to undertake promotional activity in addition to that which they had already planned. For example, we found that 13 of the 200 largest corporate advertisers listed in the 1992 Standard Directory of Advertisers received MPP funds during 1992. The 13 firms received a total of $9 million in MPP funds for fiscal year 1992. The advertising budgets of each of these firms ranged from $45 million to $538 million. On average, the MPP funds represented less than 1 percent of their advertising budgets for 1992. However, due to the lack of available information, we were unable to determine the share that MPP funds represented of the above firms' export promotional budgets.

No Criteria to Phase Out MPP Support

FAS has no restrictions on the length of time that commercial firms can continue to receive MPP funds. FAS believes that market promotion is a long-term effort and opposes eliminating funding to firms showing success in meeting FAS-approved export goals. This view is counter to congressional concerns that certain restrictions are necessary. In the Food, Agriculture, Conservation, and Trade Act of 1990, Congress directed FAS to evaluate the effectiveness of MPP recipients in developing and maintaining foreign markets and to determine whether MPP assistance was necessary to maintain such markets.

A relatively small number of firms (17) have received TEA/MPP funds for 7 straight years—since the programs' inception. Many more (119) have participated in the program for 5 or 6 years. The 136 firms that have participated in the program for 5 to 7 years received the bulk of the brand-name program funds. While these firms represented only 11 percent of the total number of participating firms, they received 66 percent of the funds allocated for brand-name promotions from fiscal years 1986 to 1992 (see table 1).

Table 1: Number of Years Firms Participated in the TEA/MPP Brand-Name Program From Fiscal Years 1986 Through 1992

(Dollars in millions)

Years funded	Number of firms	Percent of all firms	Total funds (actual dollars)	Total funds (1992 dollars)	Percent of total brand-name program[a]
7	17	1.4	$146.9	$162.6	35.6
6	55	4.4	71.6	76.8	17.3
5	64	5.1	54.1	59.1	13.1
4	129	10.2	49.6	52.9	12.0
3	149	11.8	37.9	40.2	9.2
2	287	22.8	31.3	33.1	7.6
1	560	44.4	21.6	22.9	5.2
Total	**1,261**	**100.0**	**$413.1**	**$447.6**	**100.0**

[a]Percentages calculated using actual dollars.

Source: FAS.

FAS stated in an April 1993 letter to Congress that it was opposed to limits on the length of program participation. FAS explained that the approach it preferred was to phase out firms with ineffective activities and to continue to fund indefinitely firms that had effective promotional activities. FAS contended that market development was a long-term effort requiring continued promotional support. Many of the not-for-profit organizations we spoke to voiced similar arguments and were opposed to a graduation requirement.

While Congress continues to support export promotion, it is important in the current tight budget environment that MPP funds not go to firms for which government funding may no longer be needed or justified. In this regard, we believe that MPP funds should not be used to continue the funding of a firm's promotional activities after its products are established in a market. We recognize that entry into a new market represents special risks and difficulties. In such a situation, government assistance can help encourage firms to assume the risks of trying to export to new markets. However, once exports begin, these sales should provide the basis for continued market development efforts funded entirely by the commercial firms. Therefore, available government assistance may be more usefully applied to helping U.S. firms break into other export markets. Similarly, if after a reasonable period of time, government-supported market development efforts do not lead to export sales, there may be other markets for which government assistance would be more effectively used. Having such considerations built into MPP regulations would help assure that MPP funds are used in the most effective manner possible.

Acceptability of Foreign Firm Participation Has Not Been Defined

Over the last several years, some Members of Congress have expressed concern over the participation of foreign firms in MPP. Available data suggest that foreign firms are receiving a significant proportion of MPP funds. FAS argues that foreign firms can help create demand for U.S. agricultural products in foreign markets. While foreign firms may facilitate access to certain foreign markets, funding of foreign firms can make it difficult for competing U.S. firms to break into those markets.

The issue of foreign firm participation in MPP was debated by Members of Congress during the hearings on the 1993 agriculture appropriations. Concern was expressed about the possibility of MPP subsidizing a foreign firm in a market in which a U.S. corporation was trying to compete without MPP support. FAS officials acknowledged this possibility but made no changes to the program to address this concern because they felt that this event happens only in rare circumstances.

The conference report accompanying the 1993 agriculture appropriation directed that MPP "funds should be allotted to U.S.-based participants which export agricultural products." However, for fiscal year 1993, FAS allocated funds to eight not-for-profit organizations that support foreign-based firms. FAS officials stated they believed that the report language did not exclude foreign firms from the program. FAS officials added that increased emphasis in the funding process on U.S. content and processing contributed to meeting the conference report's objective of encouraging more U.S.-based participation.

In the early part of 1992, FAS asked not-for-profit organizations to provide information on the domestic and foreign ownership of commercial firms funded under MPP. Information they provided showed that at least $78 million (or $84.6 million in 1992 dollars) of MPP funds went to foreign-based firms for fiscal years 1986 through 1992. This amount represented nearly 20 percent of the total funds allocated for brand-name promotions during the 7-year period. (See app. I.)

Total funding of foreign firms would be even higher if U.S. subsidiaries of foreign corporations were included. While FAS does not collect this information, we found that 5 of the top 50 commercial firms receiving MPP funds during fiscal year 1992 were U.S. subsidiaries of foreign corporations. (See app. II.)

Some not-for-profit organizations fund foreign firms exclusively, while others fund few, if any, foreign firms. Not-for-profit organizations determine the degree of foreign firm participation.[2] FAS requires only that the criteria for distributing program funds be objective and reasonably related to the organization's worldwide promotional goals. Of the 64 not-for-profit organizations active in the MPP brand-name program from fiscal years 1986 to 1992, 9 provided funds to foreign corporations. These nine promoted products containing U.S. cotton, raisins, peanuts, soybeans, rice, honey, seafood, sunflower seeds, or walnuts.

According to representatives of FAS and not-for-profit organizations, providing MPP funds to foreign firms is consistent with the program's goals and objectives. They stated that the primary goal of MPP is to help U.S. farmers by increasing U.S. agricultural exports. They maintain that the use of foreign firms increases export demand for U.S agricultural products, since products marketed by foreign firms with MPP funds are made with U.S. commodities. They explained that foreign firms are sometimes better situated to promote and export U.S. agricultural products in certain foreign markets because they have greater name recognition, superior distribution networks, and more knowledge of the foreign market than domestic companies. In addition, they said that foreign firm participation can be particularly useful in cases where U.S. access to a foreign market is restricted.

While the goal of MPP is to benefit U.S. farmers, the program can also benefit other enterprises. By funding foreign firms, we believe that MPP may make it more difficult for U.S. firms to compete and obtain a foothold in foreign markets. The funding of foreign companies may produce short-term gains in the exporting of U.S. agricultural commodities, but those gains may come at the expense of U.S. firms trying to compete in those foreign markets.

[2]The only exceptions are commercial firms that participate in MPP's Export Incentive Program (MPP/EIP). FAS provides these firms directly with funds for brand-name promotions. According to MPP regulations, all of the firms participating in MPP/EIP must be U.S. commercial entities.

Small Firm Participation Levels Not Known

In an attempt to focus program funding, the conference report accompanying the fiscal year 1993 agriculture appropriation recommended that FAS change the program to encourage the participation of small, medium-sized, and new-to-export firms. However, FAS does not collect information on the size of firms participating in the program. Therefore, it did not have the information needed to assess whether fiscal year 1993 funding increased for small, medium-sized, and new-to-export firms.

Because FAS does not collect information on the size of firms receiving MPP funds, we used various business directories to obtain information on the size characteristics of the top 50 firms funded during fiscal year 1992. Collectively, the top 50 firms received nearly 64 percent, or $48.5 million, of the $76.4 million allocated to brand-name promotions that year. We found 11 firms that appear to meet the Small Business Administration's (SBA) size standards for small businesses.[3]

The 11 firms received a total of $8.5 million, or 17.6 percent, of MPP funding for the top 50 firms during fiscal year 1992. Our analysis did not include the other 558 firms receiving MPP funding for brand-name promotions during fiscal year 1992, nor whether the firms were new-to-export, because information was not readily available. The overall MPP participation rate of small businesses is probably higher than observed in the top 50 firms because smaller firms are generally not likely to be the recipients of the largest MPP allocations.

To evaluate current representation, FAS plans to survey firms participating in the program to obtain information on, among other things, the size of firms currently receiving MPP funding. FAS plans to use the information obtained as the basis to respond to the conference report language requesting FAS' recommendations regarding changes to MPP eligibility requirements to address small, medium-sized, and new-to-export firm participation.

FAS and representatives of not-for-profit organizations were concerned that the emphasis on smaller and new-to-export firms would exclude larger companies from the program. They explained that larger companies with significant export experience can often use program funds more efficiently and effectively than smaller or new-to-export firms. As a result, they felt the participation of larger firms benefits U.S. agricultural producers more

[3]SBA established standards by industry using Standard Industrial Classification codes to define companies that meet its criteria for federal assistance for small firms. The size standards are specified either as the maximum number of employees or annual receipts for a business to be considered small.

significantly because they could export a larger volume of agricultural products or commodities than smaller firms.

Furthermore, they noted that the participation of large firms also benefits smaller firms. For example, they pointed to the activities of a large winery participating in the program. According to FAS officials, this winery purchases much of its grapes from hundreds of smaller grape growers. Accordingly, this large winery's success in increasing its exports also benefits smaller growers.

In our opinion, whether a firm should receive government funding for export promotion should depend on both the ability to effectively use the funds, and the demonstrated need for the funds. While large firms may more effectively use MPP funds to increase exports of U.S. agricultural products, the resources available to such firms may indicate they have no demonstrable need for government assistance. Such firms generally have the capability to fund their own foreign market development programs. Smaller firms typically have a greater need for government assistance because of their more limited infrastructure for marketing overseas.

Limited Assurance MPP Promotes Predominantly U.S.-Grown and Processed Products

The conference report accompanying the fiscal year 1993 agriculture appropriations directed FAS to ensure that MPP promotes agricultural products that are predominantly U.S. grown and manufactured. While FAS developed criteria for using content in funding MPP recipients a year earlier and modified the criteria to meet this directive, FAS relied on unverified information to make its funding decisions. FAS also included U.S. processing as one of the factors considered during the fiscal year 1993 funding process. However, FAS did not obtain information on U.S. processing and had to make assumptions regarding the extent of U.S. processing.

In response to the conference report, FAS changed its funding allocation process for fiscal year 1993. FAS added a factor that lowered the score for not-for-profit organizations that represented products containing less than 100-percent U.S. content. FAS also for the first time recognized U.S. processing as a factor in the allocation process.

These changes in the allocation process were significant because program applicants had requested $349.2 million from MPP, which had an appropriation of $147.7 million. After reviewing applications for compliance with program regulations and for the adequacy of the applicant's marketing plan, FAS used seven factors to allocate funds to MPP applicants. The seven factors were (1) the presence of an unfair foreign trade practice, (2) the proposed level of the applicant's commitment of its funds, (3) the proposed budget in relation to exports and expected change in exports, (4) the applicant's 1992 export performance, (5) the applicant's expected change in market share, (6) the degree of U.S. content, and (7) the extent of U.S. processing.

U.S. Content Statements Not Verified

In 1991, a year before the conference report was published, FAS required that the amount of MPP funding be linked to the amount of U.S. content in products. Although FAS has begun to verify U.S. content statements in its audits of the not-for-profit organizations receiving MPP funds, we believe its verification methods lack sufficient depth to ensure accuracy.

MPP regulations issued in August 1991 limit full funding to products that have at least 50-percent U.S. content by weight (exclusive of added water). Products that have less than 50-percent U.S. content are eligible for proportionally less funding. MPP regulations require applicants to state the U.S. content of the products in their application for MPP funds. Some applicants meet this requirement through submitting a broad statement, such as "products contain at least 50-percent U.S. content," while others provide an exact percentage or range of U.S. content.

In fiscal year 1992, practically all not-for-profit organizations stated in their MPP applications that the brand-name products they funded had at least 50-percent U.S. content. Of the 59 MPP applicants, 37 said that the U.S. content was 100 percent; 7 stated that the U.S. content was at least 50 percent; 5 stated that the U.S. content ranged somewhere between 50 and 100 percent; and 1 stated that the U.S. content ranged from 14 to 100 percent. There were nine applicants who did not state the U.S. content of their products; however, based upon the nature of their products they appeared to us to contain predominantly U.S. content. For example, one such application was for the generic promotion of apples grown in western New York State.

FAS officials told us that they did not verify U.S. content of brand-name products before 1993. Instead, they relied on statements made in MPP applications. Starting in 1993, FAS' compliance review staff began to review the support for the certifications made regarding U.S. content during their audits of participants.

However, FAS compliance review staff typically limit their work to the not-for-profit organizations and do not as a rule audit the commercial entities performing brand-name promotions. This situation severely limits the ability of the Compliance Review staff to assess the accuracy of statements regarding the U.S. content of brand-name products promoted with MPP funds.

Representatives of most of the not-for-profit organizations we contacted told us that they did not require commercial firms to provide support for their U.S. content statements. Instead, they relied on statements made by the commercial entities in their applications for MPP funds regarding the U.S. content of their products. They explained that they only reviewed the U.S. content of a product on an "exception" basis. For example, some of the commercial entities will request assistance from the not-for-profit organizations to determine if their product meets the minimum 50-percent U.S. content required for full funding.

While FAS and, to a more limited extent, not-for-profit-organizations have taken steps to verify certification claims, FAS' efforts may not be thorough enough to assure that U.S. content requirements are being met. We found problems related to the U.S. content of exports assisted by other FAS-administered programs in previous audits.[4] Despite exporter certifications that the commodities that received assistance were of 100-percent U.S. origin, foreign-origin commodities were being exported with U.S. government assistance. In one instance, Customs officials believed that over 80 percent of a product being shipped was of foreign origin. Consequently, we recommended that FAS improve its internal controls, in part by initiating random verification of U.S. content.

No Data Obtained on the Extent of U.S. Processing

FAS does not have the information needed to accurately determine the U.S. processing of products promoted with MPP funds because FAS does not ask for nor require this information. In the absence of this information, FAS officials made assumptions on U.S. processing in order to decide on fiscal year 1993 funding. FAS officials assumed the level of U.S. processing by the nature of the product and the presence or absence of foreign brands in the program. For example, FAS assumed that a product did not have 100-percent U.S. processing if the product was being marketed under a foreign firm's brand name. Conversely, FAS assumed a product was

[4]U.S. Department of Agriculture: Issues Related to the Export Credit Guarantee Program (GAO/T-GGD-93-28, May 6, 1993).

100-percent U.S. processed based on its knowledge of the industry and firm.

In examining MPP records, we found an example of why FAS cannot simply rely on its assumptions regarding U.S. processing. In its 1992 application, one applicant indicated that some of its products underwent additional processing overseas before being sold to customers. However, in the 1993 allocation process, FAS categorized the applicant as representing products incorporating 100-percent U.S. processing. Because FAS did not request information on U.S. processing, we were unable to systematically test the accuracy of other assumptions made by FAS regarding U.S. processing.

FAS Confusion Over MPP Guidance

FAS officials indicated in recent congressional hearings, as well as in discussions with us, that it would be beneficial for Congress to clarify the intent of MPP. They stated that in their view the direction provided by the conference report accompanying the fiscal year 1993 agriculture appropriation bill conflicts with the guidance provided in the 1990 legislation enacting MPP. Specifically, FAS officials believe that the primary goal of MPP is to help U.S. farmers by increasing U.S. agricultural exports.

They told us that certain direction provided by the conference report limits their ability to increase U.S. agricultural exports. For example, to make their point, officials referred to the conference report requirement that MPP funds be allocated to small businesses. They observed that MPP was not originally intended to be a small business development program. While these officials recognize the existence of more specific guidance in the conference report, they continue to believe that increasing U.S. agricultural exports is the MPP's overriding goal.

Conclusions

While the Foreign Agricultural Service has taken steps to focus and tighten requirements for MPP funding, additional changes are needed to ensure that MPP funds are being effectively used. We believe that the current funding process for MPP does not address a number of important factors. Specifically, FAS has no assurance that MPP funds are used to increase the overseas promotional activities of commercial firms participating in the program rather than simply replacing funds that would have been spent anyway. In addition, there are no criteria addressing the graduation from MPP of commercial firms in the program. FAS also has not developed criteria regarding the participation of foreign versus domestic firms and large versus small firms. Lastly, FAS has only limited information regarding the U.S. content and processing of products promoted with MPP funds, one of the criteria used in the funding decision.

FAS believes that it has received conflicting direction from Congress. FAS sees the MPP authorizing legislation as directing it to increase agricultural exports as its overriding goal without regard to the size, number of years in the program, or nationality of the participant. FAS views the direction regarding the types of firms and products to be served by MPP provided by the conference report accompanying the 1993 agricultural appropriation as limiting its ability to effectively increase agricultural exports. FAS believes it would benefit from explicit legislative direction to clarify the objectives of the program.

Recommendations

In order to ensure that Market Promotion Program funds are used most effectively, we recommend that the Secretary of the Department of Agriculture direct the Administrator of the Foreign Agricultural Service to

- require that MPP funds be used to increase expenditures for foreign market development activities over those that would take place without MPP support;
- develop criteria on the maximum length of time commercial firms can continue to receive MPP funds for a particular market;
- define the conditions under which foreign firms will be allowed to participate in the program to ensure that U.S. firms are not adversely affected;
- establish criteria and procedures for the allocation of program funds to small and new-to-export firms; and
- require that MPP applicants submit and that FAS periodically evaluate the accuracy of (1) the support for statements regarding the U.S. content of brand-name products to be promoted with MPP funds and (2) the support for the extent of the brand-name products' U.S. processing.

Matter for Congressional Consideration

If Congress believes that the current structure of the Market Promotion Program needs more explicit legislative direction, it may wish to make its desires more explicit by amending the program's authorizing legislation.

Agency Comments and Our Evaluation

We discussed the results of our work with FAS, and its comments were incorporated into our report where appropriate. We also considered and incorporated FAS comments provided in an April 1, 1993, letter to the

Chairman of the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, House Committee on Appropriations, on GAO's earlier testimony on MPP.

FAS agreed with the basic thrust of our findings and agreed, in principle, that MPP could be made more effective by ensuring that the program results in increased overseas promotional activities; that unsuccessful firms graduate from the program; that conditions under which foreign and large firms can participate in the program are better defined; and that verification of U.S. content and processing certifications are improved.

While agreeing in principle, FAS was concerned that the previously mentioned changes would adversely affect its ability to effectively increase agricultural exports and/or be difficult for FAS to administer. Specifically, FAS expressed concern that establishing a fixed period of time for program participation and establishing program goals for smaller firms would eliminate flexibility to adjust program funding to meet the needs of rapidly changing markets. FAS also believed that graduation should only apply to firms that have not established a successful export marketing program.

We recognize the need for program flexibility; however, we do not consider such changes to improve the effectiveness of the program as restricting FAS' ability to adjust to changing markets. We believe that FAS needs to be more aggressive in seeking out program participants that have the greatest need for the limited funds available to help ensure that the program promotes exports that otherwise would not be made. In regard to only graduating firms that have not been successful in increasing exports, we believe that successful firms should also be graduated because these firms, during their time in the program, have acquired foreign market experience and are generating export revenues to justify continuing their overseas promotional efforts without MPP assistance.

In addition, FAS stated that it lacked sufficient resources to verify information on overseas promotional expenditures, U.S. content, and U.S. processing. While this may be the case, we are not suggesting that FAS directly undertake a 100-percent verification. However, we believe that FAS must provide a thorough enough compliance review to ensure that the government's interest is protected.

As agreed with you, unless you announce the contents of this report earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, copies will be made available to the Secretary of Agriculture and other interested parties. Copies will also be made available to others upon request.

Please call me on (202) 512-4812 if you or your staff have any questions about this report. The major contributors to this report are listed in appendix IV.

Allan I. Mendelowitz

Allan I. Mendelowitz, Director
International Trade, Finance, and
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Contents

Abbreviations

EIP	Export Incentive Program
FAS	Foreign Agricultural Service
MPP	Market Promotion Program
SBA	Small Business Administration
TEA	Targeted Export Assistance program

Distribution of Market Promotion Program Funds to Foreign and Domestic Firms

During the early part of 1992, the Foreign Agricultural Service (FAS) began obtaining information on the domestic/foreign ownership of commercial firms receiving Market Promotion Program (MPP) funds for brand-name promotions. Not-for-profit organizations were asked to categorize firms receiving MPP/Targeted Export Assistance (TEA) program funds during fiscal years 1986-92 using one of three designations: (1) U.S. firms; (2) subsidiary of U.S. firms; and (3) foreign-owned firms. Not-for-profit organizations were not asked to identify U.S. companies that were subsidiaries of foreign corporations. Instead, these companies were reported as U.S. firms. The following two tables combine U.S. firms and subsidiaries of U.S. firms into a single category.

FAS did not verify the information provided by the not-for-profit organizations. FAS officials noted that the not-for-profit organizations sometimes contacted the commercial firms or relied on their best judgment when categorizing firms.

Table I.1: MPP Funds Provided to U.S. and Foreign Firms, Fiscal Years 1986-92 In Actual Dollars

Dollars in millions

	U.S. firms		Foreign firms		
Fiscal year	**Dollars**	**Percent**	**Dollars**	**Percent**	**Total MPP funds**
1986	$17.3	90.6	$1.8	9.4	**$19.1**
1987	30.4	83.3	6.1	16.7	**36.5**
1988	29.7	79.0	7.9	20.9	**37.6**
1989	61.3	83.9	11.8	16.1	**73.1**
1990	59.8	79.7	15.2	20.3	**75.0**
1991	76.8	80.6	18.5	19.5	**95.3**
1992	59.1	77.4	17.3	22.7	**76.4**
Total	**$334.4**	**80.9**	**$78.6**	**19.0**	**$413.0**

Source: FAS.

Table I.2: MPP Funds Provided to U.S. and Foreign Firms, Fiscal Years 1986-92 in 1992 Dollars

Dollars in millions

	U.S. firms		Foreign firms		
Fiscal year	Dollars	Percent	Dollars	Percent	Total MPP funds
1986	$21.6	90.8	$2.2	9.2	**$23.8**
1987	36.7	83.2	7.4	16.8	**44.1**
1988	34.6	79.0	9.2	21.0	**43.8**
1989	68.3	85.8	13.2	16.2	**81.5**
1990	63.9	79.7	16.3	20.3	**80.2**
1991	78.8	80.6	19.0	19.4	**97.8**
1992	59.1	77.4	17.3	22.6	**76.4**
Total	**$363.0**	**81.1**	**$84.6**	**19.0**	**$447.6**

Source: FAS.

Table I.3: Number of U.S. and Foreign Firms Receiving Funds, Fiscal Years 1986-92

	U.S. firms		Foreign firms		
Fiscal year	Number	Percent	Number	Percent	Total
1986	91	91.0	9	9.0	**100**
1987	176	61.3	111	38.7	**287**
1988	172	55.5	138	44.5	**310**
1989	350	74.6	119	25.4	**469**
1990	385	77.3	113	22.7	**498**
1991	462	77.5	134	22.5	**596**
1992	446	73.6	160	26.4	**606**

Source: FAS.

Characteristics of the Top 50 Firms Funded During Fiscal Year 1992

The top 50 firms, in terms of the dollar amount of their fiscal year 1992 MPP award, collectively received $48.5 million, or 63.5 percent, of the $76.4 million allocated to brand-name promotions during that fiscal year. The average amount awarded to the top 50 firms was $1 million. Amounts awarded ranged from a low of $300,000 to a high of $7.8 million. Using standard business directories, such as those published by Dun & Bradstreet, we obtained information to determine whether the firm was a subsidiary of another corporation and, if applicable, the location of the ultimate parent corporation. We also used standard business directories to determine the number of employees and the amount of sales of the firm receiving MPP funds.

Table II.1: Numbers of and Funding for the Top 50 Foreign and Domestic Firms Participating in MPP, Fiscal Year 1992

Type of firm	Number	MPP funding (millions)	Percent of top 50 funding
Foreign corporation	15	$6.7	13.9
Foreign corporation's U.S. subsidiary	5	4.4	9.0
U.S. corporation	28	36.5	75.2
U.S. corporation's foreign subsidiary	2	0.9	1.9
Total	**50**	**$48.5**	**100.0**

Source: FAS and various business directories.

Tables II.2 and II.3 categorize U.S. subsidiaries of foreign corporations as foreign firms.

Table II.2: Annual Sales of the Top 50 Firms, Fiscal Year 1992

Total sales	U.S. firms	Foreign firms	Total number of firms
Less than $50 million	9	3	**12**
$50 to $500 million	9	12	**21**
$501 million to $1 billion	7	0	**7**
$1.1 billion to $5 billion	2	4	**6**
$5.1 billion and greater	2	0	**2**
Unknown	1	1	**2**
Total	**30**	**20**	**50**

Source: FAS and various business directories.

Table II.3: Number of Employees of the Top 50 Firms, Fiscal Year 1992

Total number of employees	U.S. firms	Foreign firms	Total number of firms
Less then 100	3	3	**6**
101 to 500	10	9	**19**
501 to 1000	7	4	**11**
1,001 to 5,000	4	1	**5**
5,001 and greater	6	3	**9**
Total	**30**	**20**	**50**

Source: FAS and various business directories.

Objectives, Scope, and Methodology

The objectives of our report were to assess whether (1) MPP funds result in increased promotional expenditures by commercial firms participating in the program; (2) FAS has criteria for the length of time firms can remain in the program before they assume the sole responsibility for their export activities; (3) FAS has defined the conditions under which foreign firm participation is desirable; (4) FAS has encouraged the participation of small firms in the program; and (5) FAS considered the extent of a product's U.S. content and processing in awarding MPP funds.

To determine if MPP funds result in increased promotional expenditures by commercial firms, we reviewed information contained in the MPP applications for fiscal years 1992 and 1993. This analysis included reviewing data at FAS headquarters in Washington, D.C., and at four judgmentally selected not-for-profit organizations participating in the program—three in California and one in Washington, D.C. The not-for-profit organizations that we visited were selected because they receive large dollar awards from the program and include a mix between those that fund foreign firms (2) and those that fund U.S. firms exclusively.

In addition, we contacted FAS officials and representatives of 10 not-for-profit organizations to determine if they obtained information on the advertising budgets of commercial firms before and after MPP participation, the size of companies receiving funding (employees and sales), the support and verification policies for the U.S. content of the brand-name products, and the extent of U.S. processing of the brand-name products promoted with MPP funds. We also used the 1992 Standard Directory of Advertisers, published by the National Register Publishing Company, to obtain information on the advertising budgets of commercial firms.

We analyzed MPP regulations governing program eligibility to assess whether FAS (1) has criteria for the length of time firms can remain in the program before they assume the sole responsibility for their export activities, (2) has defined the conditions under which foreign firm participation is desirable, or (3) has encouraged the participation of small firms in the program. In addition, we interviewed FAS officials and representatives of not-for-profit organizations to obtain information on the process used to fund commercial firms for brand-name promotions.

We obtained and analyzed summary information maintained by FAS on commercial firms funded by the program from fiscal years 1986 to 1992. We did not verify the accuracy of the information maintained by FAS. We also researched the size and ownership characteristics of the top 50 firms funded during fiscal year 1992, using standard business directories to determine if they were a foreign or domestic company or subsidiary of another corporation (and, if so, the location of the ultimate parent corporation); their total employees; and their annual sales.

To evaluate whether FAS considers the extent of a product's U.S. content and processing in awarding MPP funds, we reviewed documentation supporting FAS' fiscal years 1992 and 1993 funding process. We also reviewed information contained in the applications and marketing plans submitted by MPP applicants for those 2 fiscal years. We held discussions with FAS' compliance review staff and selected not-for-profit organizations participating in the program to determine what verification is performed of the U.S.-content statements made by commercial firms receiving MPP assistance.

We did our work between June 1992 and April 1993 in accordance with generally accepted government auditing standards.

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