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Report to Congressional Requesters

May 1995

U.S. DEPARTMENT OF AGRICULTURE

Foreign-Owned Exporters' Participation in the Export Enhancement Program

GAO/GGD-95-127

GAO

United States
General Accounting Office
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General Government Division

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May 11, 1995

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
House of Representatives

As you requested, we reviewed the participation of foreign-owned companies in the Export Enhancement Program (EEP) and the Market Promotion Program, which are administered by the U.S. Department of Agriculture's Foreign Agricultural Service (FAS). We provided the results of our Market Promotion Program analysis in a prior report.[1] This report assesses whether (1) providing bonuses[2] to foreign-owned exporters (i.e., either exporters headquartered in foreign countries or the U.S. subsidiaries of foreign companies) is consistent with EEP's goals and objectives and (2) restricting foreign-owned exporters from participation would adversely affect the program. In addition, this report discusses whether relying on current FAS internal controls adequately protects against unauthorized diversions of EEP shipments to countries other than those originally targeted.

Results in Brief

We found that foreign-owned exporters' participation in EEP was consistent with the program's basic objectives: discouraging unfair trade practices[3] of other countries and increasing the competitiveness of U.S. agricultural commodities. Exporters, both foreign and domestically owned, help achieve these objectives by facilitating the sale of U.S. agricultural products in targeted countries. Moreover, we found that the 1990 Food, Agriculture, Conservation, and Trade Act, under which EEP is currently authorized, does not preclude foreign-owned exporters from EEP participation. According to FAS officials, changes to EEP contained in the

[1]International Trade: Changes Needed to Improve Effectiveness of the Market Promotion Program (GAO/GGD-93-125, July 7, 1993).

[2]Bonuses are cash payments FAS makes to exporters that allow specified U.S. commodities to be sold in targeted export markets at competitive prices.

[3]Under the 1990 Food, Agriculture, Conservation, and Trade Act (P.L. 101-624, Nov. 28, 1990), the term "unfair trade practices" means "any act, policy, or practice of a foreign country that (1) violates, or is inconsistent with the provisions of, or otherwise denies benefits to the United States under, any trade agreement to which the United States is a party; or (2) is unjustifiable, unreasonable, or discriminatory and burdens or restricts U.S. commerce."

implementing legislation for the Uruguay Round of the General Agreement on Tariffs and Trade (GATT)[4] do not exclude them from the program.

Restricting EEP participation by foreign-owned exporters would reduce the effectiveness of the program, if domestic-owned exporters did not replace foreign-owned exporters' volume of exports at the same price. Eliminating foreign-owned exporters would reduce the number of bidders for EEP bonuses. Economic analysis suggests that a reduction in the number of bidders would reduce competition and could result in higher program costs—in this case, larger EEP bonus amounts. Larger EEP bonuses per ton of EEP-supported agricultural exports would also result in a smaller volume of commodities exported under the program for any given level of EEP appropriation. Given the number of variables that affect whether an exporter participates in EEP, we could not determine if domestic-owned exporters could easily replace foreign-owned exporters.

Internal FAS controls devised to detect unauthorized diversions of EEP shipments may not have detected all such diversions. These controls consisted primarily of FAS checking documents provided by exporters. However, the information submitted by exporters may not be reliable or accurate. For example, our review of 125 EEP shipments made during fiscal year 1992 showed that some exporters had submitted erroneous information to FAS on EEP shipments regarding the names of the vessels used to transport EEP commodities and the dates that the commodities arrived in the destination countries. FAS has contracted for information on the movement of marine vessels from an on-line database service that could provide FAS with a greater ability to monitor for possible diversions. However, FAS' ability to detect unauthorized diversions of EEP shipments will be affected by limitations in the database service, such as its inability to track vessels in some parts of the world.

Background

In May 1985, the Secretary of Agriculture established EEP to address, in part, continuing declines in U.S. agricultural exports and to pressure foreign nations to reduce trade barriers and eliminate trade-distorting practices. Subsequently, the Food Security Act of 1985 (P.L. 99-198, Dec. 23, 1985) specifically authorized EEP as an export subsidy program. The program was reauthorized by the Food, Agriculture, Conservation, and Trade Act of 1990, which extended EEP through 1995.

[4]Established in 1948, GATT is a multilateral accord subscribed to by 115 countries that has the basic aim of liberalizing world trade. Before the Uruguay Round, there were seven other rounds of GATT negotiations.

From May 1985 to May 1994, FAS awarded bonuses valued at $7.1 billion (in constant 1993 dollars) to EEP exporters to sell mainly bulk commodities, such as wheat or rice.[5] To qualify for EEP funding, proposed commodities and countries must be approved under an interagency process.

FAS receives oral and written recommendations for countries and commodities to target under EEP; most of the recommendations come from trade associations and from within FAS. Recommendations are also submitted by importing countries, exporters, U.S. and foreign government officials, and other members of the U.S. agricultural community.

EEP regulations outline four criteria to be used, among other things, by FAS in determining if commodities and countries proposed for EEP participation meet the program's objectives.

- How will the proposal contribute to furthering trade policy negotiations with foreign competitor nations that use unfair trade practices?
- How will the proposal contribute toward developing, expanding, or maintaining U.S. agricultural export markets?
- What will be the impact on countries that do not subsidize their agricultural exports?
- What is the cost of the proposal compared to the expected benefits?

FAS recently changed the emphasis in its review of EEP proposals from furthering trade policy negotiations to market development. According to FAS, the implementing legislation for the GATT Uruguay Round agreement made furthering trade policy negotiations with competitor nations less significant.

If FAS recommends approving the proposal, the proposal must then be approved by the Department of Agriculture's Under Secretary for Farm and International Trade Services and by the interagency Trade Policy Review Group. The Group includes representatives from agencies with an interest in foreign trade issues.

Once a proposal is approved, FAS issues invitations for bids specifying the targeted country or countries, the commodity, the maximum quantity of the commodity eligible for a bonus, the eligible buyers, and the other terms and conditions of the sale. Exporters can then bid for an EEP bonus award. First, exporters must negotiate a sales price with an eligible buyer

[5]Before November 1991, bonus payments were made in the form of generic commodity certificates redeemable for surplus agricultural production held by the U.S. government. Since that time, bonuses have been paid in cash.

in the target country. After determining what bonus amount is needed to close the gap between the going price for the commodity in the targeted country (world price) and the U.S. price, the competing exporters then submit this information to FAS as bids. Next, FAS reviews the bids to determine if the price and bonus amounts are within FAS' acceptable ranges.

FAS calculates the prevailing price for the commodity in the target market using various information sources. FAS rejects bids proposing prices that undercut the world price it calculated for the commodity as well as those proposing bonus amounts that exceed the difference between the world price and the U.S. market price. FAS then awards bonuses starting with the lowest bonus amount requested per unit of the commodity and proceeds to the next highest bonus amount until the quantity of the commodity eligible for EEP bonuses is exhausted.

Scope and Methodology

To assess whether providing EEP bonuses to foreign-owned exporters is consistent with program goals and objectives, we researched the legislative and regulatory history of the program to identify (1) the objectives of the program and (2) the intended role of exporters in the program. We also interviewed FAS headquarters officials to discuss those issues and whether changes to EEP contained in legislation recently passed by Congress would alter the role of exporters in the program.

To assess whether restricting foreign-owned exporters from participation would adversely affect EEP, we obtained and analyzed fiscal year 1992 FAS data on EEP bids and awards for eight commodities.[6] Fiscal year 1992 data were used because they were the most current and complete fiscal year data available at the start of our review. We also obtained and analyzed data from FAS on exporters participating in the program from May 1985 to May 1994. We did not verify the accuracy of data obtained from FAS. Because there is no standard definition of what constitutes a foreign- or domestic-owned firm, we used the location of company headquarters and parent company headquarters to categorize exporters as foreign- or domestic-owned. If the company was headquartered outside the United

[6]There were nine commodities covered by EEP in fiscal year 1992. The eight commodities whose EEP bidding we reviewed were wheat, barley, barley malt, rice, wheat flour, frozen poultry, eggs, and canned peaches. We were unable to review the EEP bids for vegetable oil, the other commodity active in fiscal year 1992, because of the lack of available data. We present the data on awards for vegetable oil in figure 1.

States or if it was the U.S. subsidiary[7] of a company headquartered outside the United States, we classified the exporter as foreign-owned.

We then used these data to determine (1) the extent to which foreign-owned exporters bid for and received EEP bonuses and (2) the quantity of EEP commodities exported by these foreign-owned companies on a commodity- and country-specific basis. We also reviewed economic literature regarding the relationship between the number of bidders and the extent of competition.

To identify FAS' internal controls for detecting unauthorized diversions of EEP shipments, we reviewed EEP regulations and FAS written guidelines and procedures on controls over EEP shipments. We also interviewed officials from FAS headquarters in Washington, D.C., and the Agricultural Stabilization and Conservation Service in Kansas City, Missouri, about features of the control system. To assess the adequacy of the controls, we initially tested the controls by reviewing 25 judgmentally selected EEP shipments. The shipments reviewed were selected to cover the various commodities exported under EEP and to provide a mix of foreign- and domestic-owned exporters. On the basis of our preliminary results, we expanded our testing by randomly selecting 100 shipments from the 3,356 shipments that occurred under EEP during fiscal year 1992. During our testing, we compared data provided by exporters on EEP shipments with data maintained by Lloyd's Maritime Information Services, Inc., on the movement of marine vessels.

We did our review from July 1993 to September 1994 in accordance with generally accepted government auditing standards.

We received written comments on a draft of this report from the FAS Administrator. They are summarized on page 13 and presented in full in appendix II.

[7]A subsidiary company is one in which another company (referred to as the "parent company") has at least a 50-percent ownership.

Participation of Foreign-Owned Exporters Is Consistent With EEP's Objectives

FAS' award of EEP bonuses to foreign-owned corporations is consistent with program objectives set forth in the Food, Agriculture, Conservation, and Trade Act of 1990. These objectives are to "discourage unfair trade practices by making U.S. agricultural commodities competitive."[8] The nationality of an exporter's ownership is not germane to the pursuit of these objectives, since both foreign- and domestic-owned EEP exporters act as intermediaries in the program's sales of U.S. agricultural commodities in overseas markets. Exporters help ensure that U.S. agricultural commodities compete on the world market by negotiating sales and prices with potential foreign buyers and by arranging for commodity deliveries to foreign buyers.

The 1990 statute does not preclude foreign-owned exporters from receiving cash payments or commodities under the program as long as such payments serve the stated purpose of discouraging unfair foreign trade practices by making the prices of U.S. agricultural commodities competitive. In addition, the statute does not make a distinction regarding the treatment of domestic- and foreign-owned exporters under the program.

Pending changes to EEP resulting from the implementation of the GATT Uruguay Round agreement are unlikely to alter the role of exporters in the program, according to FAS officials. In April 1994, U.S. officials joined delegates from more than 100 other countries in signing the GATT Uruguay Round agreement. The agreement, among other things, requires participating developed countries to reduce their subsidies for agricultural exports by 36 percent in budgetary outlays and reduce the quantities of subsidized exports by 21 percent. The agreement also prohibits member nations from introducing or reintroducing subsidies for agricultural products that were not subsidized during the 1986 to 1990 base year period.[9]

In December 1994, Congress enacted implementing legislation for the Uruguay Round agreement (P.L. 103-465, Dec. 8, 1994). The legislation extended EEP through 2001 and refocused EEP so that it would not be limited to countries where the United States faces unfair foreign trade practices. While the Uruguay Round agreement established annual ceilings

[8]With respect to the agricultural commodities exported under EEP, the Food, Agriculture, Conservation, and Trade Act of 1990 defines "U.S. agricultural commodities" as those products that are entirely produced in the United States.

[9]For a more comprehensive discussion of the agricultural subsidy provisions contained in the Uruguay Round agreement, see International Trade: Impact of the Uruguay Round Agreement on the Export Enhancement Program (GAO/GGD-94-180BR, Aug. 5, 1994).

on the use of subsidies, it did not prohibit the use of agricultural export subsidies. Therefore, the Clinton administration recommended, and Congress agreed, that it was necessary to maintain EEP and other U.S. agricultural subsidy programs as a means of inducing other nations to negotiate further reductions on the use of agricultural export subsidies. According to FAS officials, the implementing legislation allows EEP to be used to export U.S. agricultural commodities to a greater number of countries. FAS officials we spoke with did not yet know how the change in EEP's objectives would affect the program's operation. However, they did not anticipate changes being made to the role of exporters in the program.

Eliminating Foreign-Owned Exporters' Participation Could Adversely Affect the Program

Eliminating foreign-owned exporters from EEP participation could impair competition for EEP bonuses, which could ultimately lead to higher subsidies being paid for each unit of commodity exported under the program. In addition, our analysis of EEP award data suggested that restricting foreign-owned exporters from EEP participation could significantly lower the amount of barley malt, barley, and wheat exported under EEP unless the extent of foreign-owned exporter participation could be replaced by domestic-owned exporters. However, we could not determine whether domestic-owned exporters could easily replace foreign-owned exporters in the program.

Currently, foreign-owned exporters receive a substantial portion of EEP bonuses—over 39 percent—as shown in table 1.

Table 1: EEP Bonus Awards to Foreign-Owned and Domestic-Owned Companies, May 1985 to May 1994

Dollars in millions (constant 1993 dollars)

Company ownership	Number of exporters	Bonus amount awarded	Percent of total bonuses
Foreign	38	$2,795	39.3
U.S.	95	4,309	60.7
Total	**133**	**$7,104**	**100.0**

Note: There were 135 companies that received EEP bonuses from May 1985 to May 1994. However, we were unable to categorize two companies because ownership information was not readily available for these companies, which are no longer in business.

Source: GAO analysis of data obtained from FAS and business directories and databases.

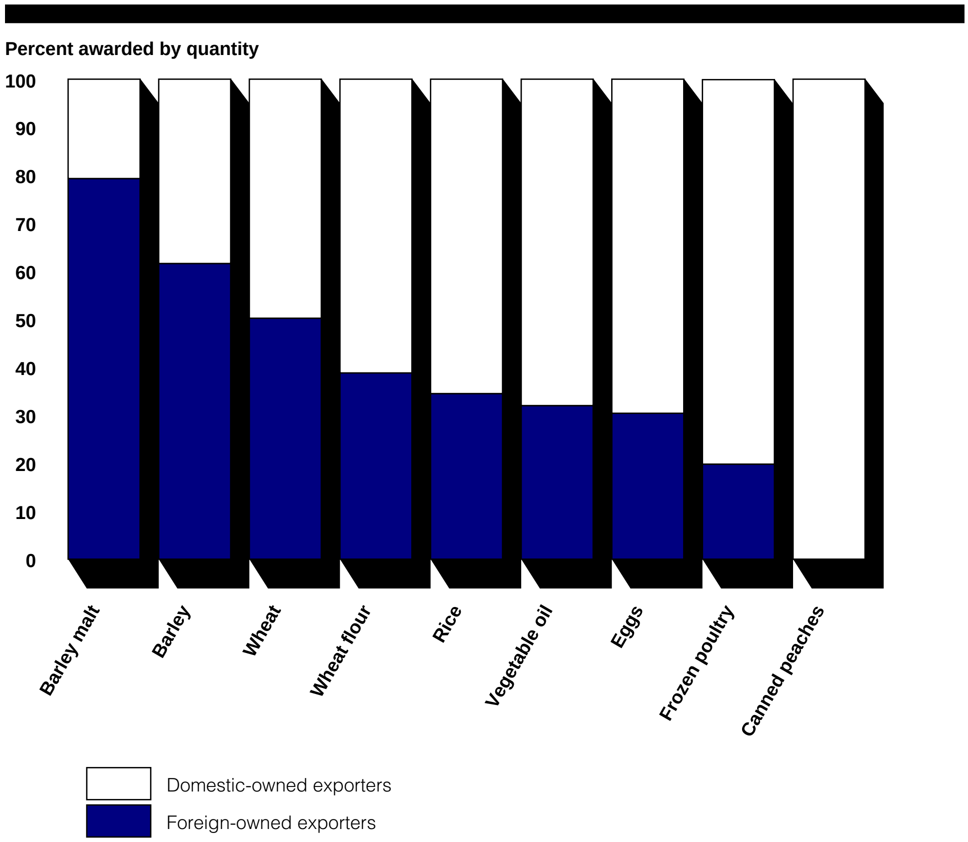
It is important to note that of the 38 exporters we classified as foreign owned, 36 are the U.S. subsidiaries of parent companies located outside of the United States. Many of these U.S. subsidiaries have a substantial presence in the United States. For example, the Pillsbury Company, which is the subsidiary of a British firm, is headquartered in Minnesota and employs 8,000 workers throughout the United States. (See app. I for a complete listing of EEP exporters participating in the program from May 1985 to May 1994 and their ownership classification.)

Eliminating foreign-owned exporters from the program would reduce the number of bidders for EEP bonuses. The economic studies we reviewed suggested that eliminating potential bidders from participating in EEP would reduce competition for EEP bonuses. Reduced competition among a smaller pool of bidders for EEP bonuses could lead to payment of larger EEP bonuses per unit of commodity subsidized under the program. FAS officials hold a similar view. They explained that strong competition for bonuses should result in smaller bonus awards as exporters vie for a fixed amount of EEP bonuses. These smaller awards per unit of export should allow FAS to subsidize a greater quantity of EEP commodities since lower bonus payments per unit of export enable FAS to subsidize more exports with available EEP funds.

Our analysis of bidding activity by exporters during fiscal year 1992 for eight commodities showed that foreign-owned exporters submitted over one-third of the bids for bonus awards. Foreign-owned exporters were particularly active bidders for wheat and barley malt bonuses, submitting 44 and 72 percent, respectively, of the bids for those commodities during fiscal year 1992.

Foreign-owned exporters received a significant share of the winning bids, with foreign-owned exporters being more important for some commodities than others. As shown in figure 1, foreign-owned exporters accounted for about 79 percent of the quantity of barley malt sold under EEP during fiscal year 1992.

Figure 1: Percent of Commodity Quantities Awarded Under EEP to Domestic- and Foreign-Owned Exporters During Fiscal Year 1992



Source: GAO analysis of data provided by FAS.

As with barley malt and barley, a major portion (50 percent) of the quantity of wheat sold under EEP during fiscal year 1992 was exported by foreign-owned exporters. This is significant because wheat exports have overshadowed all other commodities in the EEP program. During fiscal year 1992, bonuses for wheat shipments accounted for about 84 percent of all EEP funds.

Given the number of variables that affect whether an exporter participates in and receives bonuses under EEP, we could not determine if domestic-owned exporters could easily replace foreign-owned exporters in the program. For example, FAS does not know whether the domestic-owned exporters currently participating in the program would bid for the volume of EEP commodities currently exported by foreign-owned exporters. Domestic-owned exporters would still need to meet FAS' price and bonus thresholds for EEP bonuses. FAS also does not know to what extent domestic-owned exporters not currently participating in EEP would enter into the program and compete successfully for EEP bonuses.

Currently, exporters must provide FAS with documentation showing their experience in selling at least a minimal amount of the targeted commodity during the previous 3 calendar years to qualify for EEP participation. FAS issued a proposed rule on January 18, 1995, that would eliminate this requirement. According to FAS officials, some exporters have complained that the experience requirement prevented them from otherwise qualifying for program participation. FAS officials told us that eliminating the experience requirement should increase the number of exporters eligible to participate in the program. However, they stated that the number of additional exporters that would actually receive bonuses under the program and the extent of their participation are not known.

Internal Controls to Detect Unauthorized Diversions of EEP Shipments Are Not Completely Reliable

FAS has only a limited ability to detect unauthorized diversions of EEP shipments. Unauthorized diversions occur when commodities do not arrive at the destination country and, instead, are sent to another country. Unauthorized diversions of EEP shipments are both illegal and counter to the current targeting aspects of the program. Internal FAS controls to detect unauthorized diversions primarily consisted of examining exporter-provided documentation to determine if EEP commodities arrived at the destination country. However, information the exporters provided was not reliable or accurate in some cases. While FAS is attempting to improve its monitoring of EEP shipments, key limitations hinder its ability to verify that shipments were not diverted.

The possibility of unauthorized diversions of EEP shipments has long concerned Congress. The Food, Agriculture, Conservation, and Trade Act of 1990, which prohibits such diversions, requires exporters to maintain proof that EEP commodities arrived at the intended destination. The act also requires FAS to ensure that the agricultural commodities arrived at the intended destination country as provided for in the EEP agreement.

FAS relied primarily on information supplied by exporters to monitor for possible unauthorized diversions. FAS required EEP exporters to provide bills of lading[10] to document the export of EEP commodities. FAS also required exporters to provide documentation showing the receipt of EEP commodities in the intended destination countries. FAS officials told us that their staff then compared the certificates of entry[11] to the bills of lading to monitor for possible diversions of EEP shipments and to ensure that EEP bonuses were paid only for commodities that actually had arrived at the intended destination.

Our review of individual EEP shipments showed that exporters did not always provide reliable and accurate information regarding the arrival of EEP commodities in destination countries. To assess the reliability of documents submitted by exporters, we first reviewed the documentation provided by exporters in support of 25 EEP shipments made in fiscal year 1992. During our review of the 25 shipments, we found discrepancies that led us to question the accuracy and validity of the documentation provided by the exporters. For example, we compared the information on the bills of lading to the certificates of entry and found that one exporter had provided certificates of entry showing the arrival of the ship in the destination country before the cargo loading date shown on the bills of lading. We then expanded our analysis to include a review of 100 randomly selected fiscal year 1992 shipments.

Although we did not find any discrepancies between the bills of lading and the certificates of entry upon our review of the 100 shipments, we did find 6 shipments for which the exporters had submitted questionable or inaccurate information. We used an on-line data service, known as SeaData, subscribed to by FAS, to verify the accuracy of the certificates of entry. FAS had been testing and using the SeaData system, which is maintained by Lloyd's Maritime Information Services, Inc., since January 1992 to obtain information on the movement of commercial trading vessels worldwide. We found six cases in which SeaData had reported that the vessels shown on the certificates of entry had been in different areas of the world and had not visited the ports or countries shown on the certificates of entry.

[10]Bills of lading are documents signed by the captain, owner, or agent of a carrier, furnishing written evidence of commitment to convey and deliver the merchandise. They are both a receipt and a contract to deliver merchandise. The bills of lading must show (1) the identification of the export carrier, (2) the date and place of issuance, (3) the quantity of the eligible commodity, (4) the date the commodity was loaded on the ship, and (5) the name of the eligible country for which the eligible commodity was destined.

[11]Certificates of entry are required to identify (1) the name of the export carrier, (2) the quantity of the commodity unloaded, (3) the specifications of the commodity, and (4) the date and place of unloading of the commodity in the eligible country.

At our request, FAS contacted the exporters for the six shipments and verified that five of the shipments had been taken off the vessel shown on the bill of lading and loaded onto another vessel for delivery to the target country. It also verified that the certificates of entry did not list the vessel from which the EEP commodity had actually been unloaded in the destination country. Instead, the certificates of entry showed the name of the vessel that the EEP commodity had been transferred from. The remaining case was not resolved because the exporter was unable to supply additional documentation to support the arrival of the EEP commodity in the destination country. FAS subsequently notified exporters of the need to provide further documentation whenever EEP commodities are transferred from one vessel onto another for delivery to the target country. Given that five of the six discrepancies identified in our random sample were resolved, we would not expect many of the 3,356 shipments to have unresolvable discrepancies.

Any unauthorized diversion of EEP shipments undermines the targeting aspect of the program. According to FAS, EEP's targeting aspect was intended to (1) demonstrate a direct response to subsidized competition; (2) minimize the impact on foreign competitor nations that do not subsidize their agricultural exports; and (3) provide a more focused and, therefore, effective use of EEP funds. By targeting markets where foreign nations are providing subsidized exports, EEP is intended to pressure subsidizing foreign nations to eliminate the use of subsidies and other trade-distorting practices. Although the United States has made progress in obtaining foreign competitor nations' commitment to reduce the use of agricultural export subsidies, FAS officials told us that EEP is still necessary to induce foreign competitor nations to negotiate further reductions. As a result, any unauthorized diversions of EEP shipments reduce the program's effectiveness as a trade policy tool.

FAS plans to use SeaData to strengthen its ability to ensure that unauthorized diversions of EEP shipments do not occur. FAS officials told us that they will randomly select EEP shipments and use SeaData to verify the accuracy of the data provided by the exporters. However, SeaData has some significant limitations. The SeaData system provides information on ship movement but not on whether commodities were unloaded from the ship in the ports it visited. In addition, the SeaData system does not provide data on ship movement in certain parts of the world. For example, the SeaData system cannot be used to verify whether ships bound for some ports in the former Soviet Union arrived as shown on the exporter's certificate of entry.

FAS officials told us they were exploring other methods of verifying the arrival of EEP commodities in the destination countries. They said that random on-site inspections of EEP shipment arrivals were not feasible because of resource constraints and because some foreign countries would not allow U.S. government officials physical access to their ports. However, they said they were considering more cost-effective alternatives to on-site inspections. For example, FAS staff may be able to perform on-site reviews of documents maintained by some large EEP buyers in foreign countries.

Agency Comments

The Foreign Agricultural Service provided written comments on a draft of this report. It said that FAS had recently shifted the emphasis of its review of EEP proposals from the impact on furthering trade policy negotiations to market development. FAS said that the shift in emphasis was in accordance with the implementing legislation for the GATT Uruguay Round agreement. FAS pointed out that the draft report did not acknowledge that it had been testing and using the SeaData system for over a year before making it available to GAO.

FAS provided some additional information on its efforts to obtain reliable third-party sources of information that could be used to verify the quantity of commodity discharged at the destination port. Lastly, FAS said that one of the EEP exporters shown in the draft report as being foreign-owned was currently owned by a U.S. company.

Where appropriate, FAS' comments have been incorporated into the text of the report. The complete text of FAS' comments, along with our specific responses, is included in appendix II.

We are sending copies of this report to the Secretary of Agriculture and other interested parties. Copies will be made available to others on request.

The major contributors to this report are listed in appendix III. Please contact me at (202) 512-4812 if you have any questions concerning this report.

Allan I. Mendelowitz, Managing Director
International Trade, Finance, and
Competitiveness

Contents

Abbreviations

EEP	Export Enhancement Program
FAS	Foreign Agricultural Service
GATT	General Agreement on Tariffs and Trade

EEP Exporters and Their Ownership Classification

Exporter name	Exporter's headquarters location	Ultimate parent company	Parent location	Ownership
A. Luberski, Inc.	United States	N.P.	N.P.	Domestic
ADM Malting Division	United States	Archer Daniels Midland Company	United States	Domestic
ADM Milling Company, Inc.	United States	Archer Daniels Midland Company	United States	Domestic
AGP Grain Cooperative	United States	AG Processing, Inc.	United States	Domestic
AGP, L.P.	United States	AG Processing, Inc.	United States	Domestic
AJC International, Inc.	United States	N.P.	N.P.	Domestic
Alfred C. Toepfer International, Inc.	United States	Intrade Toepfer U.S. Holdings	United States	Domestic[a]
Alliance Grain Company, Inc.	United States	ConAgra, Inc.	United States	Domestic
Amber, Inc.	United States	N.P.	N.P.	Domestic
American Marketing Services, Inc.	United States	N.P.	N.P.	Domestic
American Poultry Intl., Ltd.	United States	N.P.	N.P.	Domestic
Archer Daniels Midland Company	United States	N.P.	N.P.	Domestic
Artfer, Inc.	United States	Ferruzzi Finanziaria, S.p.A.	Italy	Foreign
Balfour MacLaine Corp.	United States	N.P.	N.P.	Domestic
Bartlett and Company	United States	N.P.	N.P.	Domestic
Boro Hall Export Corporation	United States	Boro Hall International, Ltd.	United States	Domestic
Boro Hall International, Ltd.	United States	N.P.	N.P.	Domestic
Bunge Corporation	United States	Koninklijke Bunge BV	The Netherlands	Foreign
Brown Swiss Enterprises, Inc.	United States	Brown Swiss Cattle Breeders Association of the U.S.A.	United States	Domestic
CAM U.S.A., Inc.	United States	CAM S.A.	France	Foreign
CTC North America, Inc.	United States	ConAgra, Inc.	United States	Domestic
Cafcrown Limited	United States	N.P.	N.P.	Domestic
Carey Agri-International, Inc.	United States	Carey Cattle Company	United States	Domestic
Cargill, Inc.	United States	N.P.	N.P.	Domestic
Cargill Rice, Inc.	United States	Cargill, Inc.	United States	Domestic
Central States Enterprises, Inc.	United States	N.P.	N.P.	Domestic
Cereal Foods Processors	United States	N.P.	N.P.	Domestic
Chilewich Corp.	United States	N.P.	N.P.	Domestic
Columbia Grain, Inc.	United States	Marubeni Corporation	Japan	Foreign
Comet Rice, Inc.	United States	Erly Industries, Inc.	United States	Domestic
Commodity Specialists Co.	United States	N.P.	N.P.	Domestic
ConAgra Grain Processing Export Company	United States	ConAgra, Inc.	United States	Domestic

(continued)

Exporter name	Exporter's headquarters location	Ultimate parent company	Parent location	Ownership
ConAgra International, Inc.	United States	ConAgra, Inc.	United States	Domestic
ConAgra International Fertilizer Co.	United States	ConAgra, Inc.	United States	Domestic
ConAgra Poultry Company	United States	ConAgra, Inc.	United States	Domestic
Connell Rice and Sugar Company	United States	Connell Company, Inc.	United States	Domestic
Continental Grain Company, Inc.	United States	N.P.	N.P.	Domestic
Coprostates, Inc.	United States	Coprosol	Switzerland	Foreign
DSH Livestock International, Inc.	United States	Dreamstreet Holsteins, Inc.	United States	Domestic
DeBruce Grain, Inc.	United States	N.P.	N.P.	Domestic
Decoster Egg Farms	United States	N.P.	N.P.	Domestic
Dekker North America, Inc.	United States	BV w/h Firma Dekker	The Netherlands	Foreign
Dolphin Shipping and Trading	United States	Dolphin Reefer Lines Co., Ltd.	United Arab Emirates	Foreign
Elders Grain, Inc.	United States	Foster's Brewing Group Limited	Australia	Foreign
Entrade International, Ltd.	United States	N.P.	N.P.	Domestic
Esmah Nevada, Inc.	United States	Unknown[b]	Unknown[b]	Unknown[b]
Euro-Maghrib, Inc.	United States	Euro-Maghrib, Inc.	United Kingdom	Foreign
Exodus Holsteins	United States	N.P.	N.P.	Domestic
Farmland Industries, Inc.	United States	N.P.	N.P.	Domestic
Fast Foods Merchandisers, Inc.	United States	Imasco Limited	Canada	Foreign
Ferruzzi Trading USA, Inc.	United States	Ferruzzi Finanziaria S.p.A	Italy	Foreign
First Interstate Trading Co.	United States	First Interstate Bancorp	United States	Domestic
Forum Import-Export, Inc.	United States	N.P.	N.P.	Domestic
Froedtert Malt Corporation	United States	Le Saffre et Compagnie	France	Foreign
Garnac Grain Company, Inc.	United States	Norfoods, Inc.	United States	Domestic
Global Rice Corporation, Ltd.	United States	Tomen Corporation	Japan	Foreign
Gold Kist, Inc.	United States	N.P.	N.P.	Domestic
Goldberg Commodities	United States	N.P.	N.P.	Domestic
Golden Genes, Inc.	United States	N.P.	N.P.	Domestic
Granplex, Inc.	United States	Nichimen Corporation	Japan	Foreign
Great West International, Inc.	United States	Great West Holdings, Inc.	United States	Domestic
Great Western Malting Company	United States	Canada Malting Company, Ltd.	Canada	Foreign
Gress Foods, Inc.	United States	N.P.	N.P.	Domestic

(continued)

Exporter name	Exporter's headquarters location	Ultimate parent company	Parent location	Ownership
Gulf Pacific Rice Company, Inc.	United States	N.P.	N.P.	Domestic
Haig Enterprises, Inc.	United States	N.P.	N.P.	Domestic
Hans Olsen Eggs Company, Inc.	United States	N.P.	N.P.	Domestic
Harvest States Cooperatives	United States	N.P.	N.P.	Domestic
Hefler and Company	United States	N.P.	N.P.	Domestic
Holstein-Friesian Services, Inc.	United States	U.S. Holstein Association	United States	Domestic
Horizon International, Inc.	United States	N.P.	N.P.	Domestic
ITOCHU International, Inc.	United States	C. Itoh & Company Limited	Japan	Foreign
Incotrade, Inc.	United States	Selshire BV	The Netherlands	Foreign
International Multifoods Corp.	United States	N.P.	N.P.	Domestic
Interstate Grain Corporation	United States	N.P.	N.P.	Domestic
Italgraini USA, Inc.	United States	Italgraini S.p.A.	Italy	Foreign
J. Aron and Company	United States	Goldman Sachs Group Limited Partnership	United States	Domestic
Kanematsu USA, Inc.	United States	Kanematsu Corporation	Japan	Foreign
Ladish Malting Co.	United States	Cargill, Inc.	United States	Domestic
Lamex Foods, Inc.	United States	L & M Food Group Limited	United Kingdom	Foreign
Land O' Lakes, Inc.	United States	N.P.	N.P.	Domestic
Louis Dreyfus Corp.	United States	Louis Dreyfus et Cie, S.A.	France	Foreign
Luzza International Livestock Corporation	Canada	N.P.	N.P.	Foreign
M.G. Waldbaum Company	United States	North Star Universal, Inc.	United States	Domestic
Marshall Durbin Farms, Inc.	United States	Marshall Durbin Food Corp.	United States	Domestic
Marubeni America Corporation	United States	Marubeni Corporation	Japan	Foreign
McCall Sanders Marketing	United States	N.P.	N.P.	Domestic
Midwest Livestock Producers	United States	N.P.	N.P.	Domestic
Minnesota Malting Company	United States	N.P.	N.P.	Domestic
Mitsubishi International Corporation	United States	Mitsubishi Corporation	Japan	Foreign
Mitsui & Co. USA, Inc.	United States	Mitsui & Co. Limited	Japan	Foreign
Mitsui Grain Corporation	United States	Mitsui & Co. Limited	Japan	Foreign
National Food Corporation	United States	N.P.	N.P.	Domestic
National Sun Industries, Inc.	United States	Neiborg BV	The Netherlands	Foreign
Nichimen America, Inc.	United States	Nichimen Corporation	Japan	Foreign
Nissho Iwai America Corporation	United States	Nissho Iwai Corporation	Japan	Foreign
North American Trading Corporation	United States	N.P.	N.P.	Domestic

(continued)

Exporter name	Exporter's headquarters location	Ultimate parent company	Parent location	Ownership
OleoStates, Inc.	United States	Oleo Trading, S.A.	Switzerland	Foreign
P.S. International	United States	N.P.	N.P.	Domestic
Peavey Company	United States	ConAgra, Inc.	United States	Domestic
Phillipp Brothers, Inc.	United States	Salomon, Inc.	United States	Domestic
Pilgrim's Pride Corporation	United States	N.P.	N.P.	Domestic
Pillsbury Company	United States	Grand Metropolitan PLC	United Kingdom	Foreign
Porky Products, Inc.	United States	N.P.	N.P.	Domestic
Premium Rice Trading Company	United States	N.P.	N.P.	Domestic
Quaker Run Farms, Inc.	United States	N.P.	N.P.	Domestic
Rahr Malting Company	United States	N.P.	N.P.	Domestic
Red Rock Commodities, Ltd.	United States	N.P.	N.P.	Domestic
Riceland Foods, Inc.	United States	N.P.	N.P.	Domestic
Richo Grain, Ltd.	Switzerland	N.P.	N.P.	Foreign
Romar International Georgia, Inc.	United States	N.P.	N.P.	Domestic
Ronald A. Chisholm (USA), Inc.	United States	N.P.	N.P.	Domestic
Rosscape Food Industries	United States	Rosscape, Inc.	United States	Domestic
Schouten USA, Inc.	United States	Schouten Group NV	The Netherlands	Foreign
Seaboard Corporation	United States	Seaboard Flour Corporation	United States	Domestic
Smith Packing Company, Inc.	United States	N.P.	N.P.	Domestic
Sunrice, Inc.	United States	N.P.	N.P.	Domestic
T.K. International, Inc.	United States	N.P.	N.P.	Domestic
The Scoular Company	United States	N.P.	N.P.	Domestic
The Supreme Rice Mills, Inc.	United States	N.P.	N.P.	Domestic
Toshoku America, Inc.	United States	Toshoku, Ltd.	Japan	Foreign
Tradecom	United States	Unknown[b]	Unknown[b]	Unknown[b]
Tradigrain, Inc.	United States	Farmlands Industries, Inc.	United States	Domestic
Tri-Valley Growers	United States	N.P.	N.P.	Domestic
Tyson Foods, Inc.	United States	N.P.	N.P.	Domestic
U.S. Gulf Coast Trading Company	United States	N.P.	N.P.	Domestic
USAgri Corporation	United States	N.P.	N.P.	Domestic
Uncle Ben's, Inc.	United States	Mars, Inc.	United States	Domestic
United Grain Corporation	United States	Mitsui and Company, Ltd.	Japan	Foreign
United States Egg Marketers	United States	N.P.	N.P.	Domestic
Voest-Alpine Trading USA Corporation	United States	Republik Osterreich	Austria	Foreign
Western Export Services, Inc.	United States	N.P.	N.P.	Domestic

(continued)

Exporter name	Exporter's headquarters location	Ultimate parent company	Parent location	Ownership
Wisconsin Holstein Service, Inc.	United States	N.P.	N.P.	Domestic
Woodhouse Corporation	United States	Place Vendome Nominees, Ltd.	United Kingdom	Foreign
Woodhouse, Drake, and Carey (Trading), Inc.	United States	Place Vendome Nominees, Ltd.	United Kingdom	Foreign
World Links, Incorporated	United States	N.P.	N.P.	Foreign

Legend

N.P. = No parent company indicated in the source data.

[a]Intrade Toepfer U.S. Holdings is shown in business directories as being headquartered in the United States, with no parent corporation. However, other data sources indicated that this company is 50-percent owned by the U.S. firm Archer Daniels Midland and 50-percent owned by cooperatives based in Germany, the Netherlands, France, and Canada.

[b]No information on the ownership was readily available for these companies, which are no longer in business.

Source: Foreign Agricultural Service data, business directories, and business databases.

Comments From the Foreign Agricultural Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United States Department of Agriculture | Foreign Agricultural Service | Washington, D.C. 20250

MAR 17 1995

Mr. Allan I. Mendelowitz
Managing Director
International Trade, Finance and Competitiveness
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Mendelowitz:

We are pleased to offer the following comments in response to the GAO's Draft Report on "Foreign-Owned Exporters' Participation in the Export Enhancement Program" in order to clarify certain issues raised in the report.

See comment 1.

1. On page 5, paragraph 3, GAO states that "FAS uses four criteria in its review of proposed commodities and countries to determine if they meet EEP's trade policy objectives."

While it is true that the EEP Regulations, dated July 3, 1991, prescribes the use of four criteria in evaluating EEP proposals, the emphasis has shifted to the second criterion, regarding market development, in accordance with the implementing legislation on agriculture under the Uruguay Round of the GATT. Because of the implementing legislation, the first criterion, regarding trade policy negotiations with competitor nations, now has less significance.

See comment 2.

2. On page 20, GAO describes how they used the SeaData system to verify exporter's arrival documentation submitted to CCC. This discussion does not acknowledge that FAS had been using and testing the SeaData system for more than a year prior to making it available to GAO for its audit. FAS had employed SeaData checks on approximately 100 vessels prior to GAO's study.

See comment 3.

3. On page 22, paragraph 1, GAO states that "SeaData has some significant limitations." While we agree that SeaData does not show the commodity or quantity aboard the vessel, CCC routinely examines normal commercial documentation in its review prior to payment of the EEP bonus. Such documents include bills of lading, and weight and grade certificates. The most difficult information to verify from a reliable third-party source is the quantity of commodity discharged at destination. Currently, no database service provides such information. FAS has discussed the need for such information with representatives of PIERS, a service provided by the Journal of Commerce. PIERS has begun assembly of data from Customs import receipts in a limited number of countries.

Mr. Mendelowitz 2

GAO also states that "the SeaData system cannot be used to verify whether ships bound for the former Soviet Union arrive at the port shown on the exporter's certificate of entry." In our experience, the problem of sporadic reports or failure to report vessel movements to the SeaData system is limited to some lesser-known Black Sea ports, such as Poti in Georgia and Reni and Yughanny in the Ukraine. In these cases, SeaData will only show when the vessel entered and exited the Black Sea.

See comment 4.

4. On page 37, Appendix I, GAO shows the British Petroleum Company, PLC, of the United Kingdom as the ultimate parent company for Tradigrain, Inc. According to Tradigrain, Inc., Tradigrain is currently owned by Farmland Industries which would make Tradigrain a domestic company.

I hope that the responses provided clarify our work and intent with respect to certain matters raised in your draft report.

Sincerely,

AUGUST SCHUMACHER, JR.
Administrator

The following are GAO's comments on FAS' letter dated March 20, 1995.

GAO's Comments

1.The report was amended to show that FAS now emphasizes market development in its review of EEP proposals.

2.We changed the report to recognize FAS' earlier use of the SeaData system.

3.We acknowledged in our draft report that FAS routinely examined the bills of lading and other documents it receives to monitor for possible diversions. However, we believe that additional information is needed to show what was actually received at the export destination. We encourage FAS to continue its efforts to identify additional sources of information that will allow it to monitor for possible diversions of EEP shipments.

4.Appendix I and the corresponding statistics used in this report were modified to reflect the change in the ultimate parent company for Tradigrain.

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