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GAO

Briefing Report to the Honorable Byron L. Dorgan, House of Representatives

June 1987

INTERNATIONAL TRADE

Implementation of 1985 Food Security Act Barter Provisions

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GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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June 30, 1987

The Honorable Byron L. Dorgan
House of Representatives

Dear Mr. Dorgan:

This report responds to your request of May 13, 1987 in which you asked us to investigate the failure of the Department of Agriculture (Agriculture) to implement the pilot barter program as required by Section 1129 of the Food Security Act of 1985. The pilot barter program requires Agriculture to complete by September 30, 1987 barter agreements with at least two countries to trade surplus agricultural commodities for "...strategic or other materials...for which national stockpile or reserve goals established by the law are unmet..."

Until recently, the Administration gave little priority to this requirement of the Food Security Act of 1985. In recent months, it has given more attention to this provision and we were advised by Administration officials that these efforts are intended to achieve the goals of this program before the end of fiscal year 1987. The Administration is developing a barter arrangement to trade surplus agricultural commodities for petroleum for the Strategic Petroleum Reserve (SPR). While it is possible to enter into barter agreements with two countries by the end of fiscal year 1987, remaining obstacles and necessary work will make it difficult to meet the statutory deadline.

The information we developed in response to your questions follows:

1. To what extent has the Administration's refusal to meet statutory stockpile requirements hindered the implementation of the barter program?

   Agriculture officials advised us that they had taken no action to implement the barter program in fiscal year 1986 due to the Administration's assessment of stockpile requirements. This lack of action was acknowledged in an Agriculture report to the Congress, dated January 2, 1987, on the status of the program. The Administration has proposed major reductions in stockpile requirements and concluded that the United States has excess quantities of strategic materials in the national defense stockpile with no shortfalls, except for one (germanium). We discussed the assessment of stockpile needs in our August 1986 report "National Defence Stockpile: Adequacy of National Security Council Study for Setting Stockpile Goals" (GAO/NSIAD-86-177BR). As a result, based on the Administration's assessment, stockpile needs did not offer much opportunity to export commodities owned by Agriculture under a barter arrangement. Commodities could be bartered for only the one strategic material. By contrast, the Congress did not concur with the Administration's assessment and in the

Defense Authorization Act of 1986 prohibited any reduction in the stockpile below 1984 levels until October 1, 1986. The Authorization Act for 1987 extended the prohibition until October 1, 1987.

2. To what extent have inter-departmental disputes over reimbursement and accounting procedures hindered the implementation of the program?

We found that both Agriculture and other agency officials believe that reimbursement and accounting issues cause inter-departmental problems, but they did not expect these to prevent the completion of the barter deals. For example, disagreements over accounting procedures have surfaced over the Agriculture proposal to barter farm commodities for oil for the SPR. Agriculture and the Department of Energy (Energy) disagree about when reimbursement is to be made. Agriculture wants to be reimbursed immediately for the value of its commodities. However, Energy favors reimbursing Agriculture in installment payments as the oil is actually drawn out of the SPR. While both admit it is a problem, Agriculture and Energy officials believe it can be resolved in negotiations between the two agencies.

This position seems credible since similar disagreements relating to reimbursement and accounting procedures had surfaced in previous barter arrangements made prior to the passage of the legislation creating the pilot barter program. However, this did not prevent the completion of the barter deals. For example, in a series of three Jamaica bauxite barter agreements that are discussed in our March 1987 report "International Trade: Alternative Grain Trading Practices for International Grain Trade" (GAO/NSIAD-87-90BR) both the General Services Administration(GSA), which manages the stockpile, and Agriculture differed as to how much and when GSA should reimburse Agriculture for the bartered goods. A memorandum of understanding between GSA and Agriculture called for payment to Agriculture over the 1988-90 time frame. However, GSA did not make provisions for payment of any of this debt in its budget for FY 1988. This omission was brought to the attention of the Office of Management and Budget (OMB). OMB officials advised us that GSA has been asked to include provisions for payments to Agriculture in a revised budget in order to retire the debt: 40 percent in 1988; 40 percent in 1989; and the remaining 20 percent in 1990.

As this issue illustrates, there are budgetary implications to the current proposal to barter farm commodities for petroleum for the SPR. Section 1167 of the 1985 Food Security Act among its other provisions stipulates that the terms and conditions of an oil for commodities exchange, including provisions for full reimbursement to the Commodity Credit Corporation, would be determined by the Secretary of Energy and the Secretary of Agriculture. The budgetary implications arise from the fact that Energy would have to reimburse Agriculture for the bartered commodities.

3. Which values Agriculture used for inventory commodities could be used in barter transactions and what impact did these valuations have on Agriculture's ability to conclude barter transactions?

This question raises the issue that if Agriculture attempted to recoup a commodity's acquisition and storage costs, no country would be interested in bartering to obtain a commodity they can get cheaper in the market place.

Concerning values used to price inventory commodities in barter transactions, Agriculture told us that it would price its commodities at world market prices. Consequently, Agriculture would not attempt to recoup acquisition and storage costs in barter deals. Therefore, price considerations should not impair Agriculture's ability to conclude barter transactions.

4. Why was the previous inter-agency working group on barter disbanded and should a new inter-agency group be specifically identified to carry out the pilot barter and other barter projects?

   The inter-agency working group on barter was disbanded because the National Security Council (NSC) determined that the group's work had essentially been completed. The decision was formalized in an NSC directive issued in December 1985. That directive ordered the general disbanding of all working groups that had been established to address a variety of mobilization issues, including the barter group. The groups were asked to complete their work on any open projects and to submit close-out reports to NSC concerning their activities. The NSC then created a senior inter-agency working group of key agencies to address all mobilization issues, including barter. On May 21, 1987, an NSC official told us that the NSC had not received any new barter proposals since the disbanding of the barter working group and, therefore, the NSC sees no reason to create another barter working group. The official told us that the results of Agriculture's and Energy's current barter efforts might affect NSC's decision as to whether such a group is needed.

5. What other problems, if any, have impeded the completion of the two barter deals required by law?
   Why has the Administration continued to resist the mandated pilot barter program when it has itself initiated barter deals with Jamaica for bauxite?

   Officials with several agencies cited a variety of reasons why they believed the pilot barter program, specifically, and barter deals in general have proven difficult to implement. OMB officials pointed out that the delay in implementing the pilot barter program was probably due to the fact that the 1985 Farm Bill was among the most complicated farm bills ever enacted and that Agriculture had its "hands full" carrying out the various mandates of the bill. The OMB officials further stated that the pilot barter program probably did not have a high priority and Agriculture did not have enough people to give it sufficient attention until some of the higher priority items in the bill had been completed.

   Additional problems with the barter program cited by OMB officials were:

   -- barter was not seen as the best way to do business;

   -- problems exist in interagency cooperation;

   -- disagreements over the relative value of the commodities to be exchanged have arisen in previous barter deals (for example, the Jamaican bauxite agreement).

   -- OMB was particularly opposed to mandating a barter program because it might force Agriculture to accept less than desirable deals in order to comply with the pilot barter provisions.

Agriculture officials told us that they did not believe that barter was the most practical or efficient way to do business. They told us that it is complex, cumbersome and requires a lot of administrative effort to implement.

Nevertheless, Agriculture officials advised us that they are not resisting the mandated provisions of the pilot barter program. The Agriculture officials provided us with a copy of a barter proposal now under review that they believe would be feasible and enable it to comply with the pilot barter program provisions before the September 30, 1987 deadline. The proposed arrangement to be developed jointly with Energy calls for the exchange of Agriculture-owned agricultural commodities for petroleum for the Strategic Petroleum Reserve. Agriculture has identified several countries that meet the requirements of the Food Security Act (i.e., countries short of foreign exchange), although officials informed us that none had yet been approached.

The proposal would be carried out on a government-to-government basis and structured with a competitive bid approach. Each country would be invited to submit a bid. Agriculture and Energy would jointly review and select the bid(s) which best meet the criteria of the Food Security Act and provide the most benefits to the United States.

The proposal has been approved by the Agriculture Under Secretary for International Affairs and Commodity Programs. Agriculture officials have met with Energy to discuss the proposal and received a favorable reaction.

6. Can the Department of Agriculture still hope to meet the requirements of the Food Security Act before the September 30, 1987, deadline, and how might the various obstacles be overcome to enable completion of the required two deals?

   Agriculture is actively pursuing what it hopes will be the successful completion of a barter arrangement with Energy involving commodities for petroleum. We believe that it is still possible for Agriculture to complete the two pilot barter deals before the September 30, 1987, deadline. However, as noted earlier, we were advised that there is still much work to be done. Also, there are several problems between Agriculture and Energy that might delay implementation of the barter arrangements past the end of Fiscal Year 1987. These problems include structuring of the bid invitation and terms of inter-agency payment.

<u>Objective, Scope and Methodology</u>

Our objective was to respond to specific questions concerning the Department of Agriculture's efforts to implement the pilot barter program as mandated under Section 1129 of the 1985 Food Security Act.

We interviewed officials of the Departments of Agriculture and of Energy; General Services Administration; Federal Emergency Management Agency; Office of Management and Budget; and National Security Council. We met with staff members of the Congressional Research Service(CRS) to obtain information on the pilot barter program and obtained relevant CRS reports. We obtained and reviewed various background material, including federal legislation; Congressional correspondence; agency memoranda; and policy reports.

It should be noted that due to the extremely short amount of time available, we had limited opportunity to employ usual auditing techniques such as testing the contents of documents and reports obtained during the review. We verified oral statements as time allowed and obtained corroborating documentation whenever readily available. Except as noted above, the work was done in accordance with generally accepted government auditing standards.

As requested by your office, we did not obtain agency comments.

Please call me if you have any questions about the information in this report. I can be reached on
(202) 275-4812.

Sincerely yours,

Allan I. Mendelowitz

Allan I. Mendelowitz
Senior Associate Director

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