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**REPORT TO THE
COMMITTEE ON FINANCE
UNITED STATES SENATE**

RELEASED

**Alleged Discrimination
Against U.S. Ships In The
Carriage Of Coffee** B-175530

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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JUNE 13, 1973

COMPTROLLER GENERAL'S REPORT TO THE
HONORABLE HENRY B. GONZALEZ
HOUSE OF REPRESENTATIVES

ACTIVITIES OF THE ECONOMIC
OPPORTUNITIES DEVELOPMENT
CORPORATION OF SAN ANTONIO AND
BEXAR COUNTY, TEXAS
Office of Economic Opportunity
B-130515

D I G E S T

WHY THE REVIEW WAS MADE

Congressman Gonzalez asked the General Accounting Office (GAO) to examine activities of programs funded by the Office of Economic Opportunity (OEO) and administered by the Economic Opportunities Development Corporation, the community action agency for San Antonio and Bexar County, Texas.

Background

In 1969 and 1970 the agency established seven neighborhood corporations which were to serve as extensions of the agency by carrying the war on poverty into the neighborhoods.

Congressman Gonzalez asked GAO to:

- Determine whether OEO funds were allocated equitably to these corporations.
- Evaluate the administrative efficiency and accomplishments of the corporations' programs.
- Determine the circumstances surrounding the agency's selection of one of its corporations for a mobilization of resources grant.
- Determine whether the agency was complying with the 15-percent administrative cost limitation re-

quired by section 244(7) of the Economic Opportunity Act, as amended. (See p. 5.)

At the time of GAO's review, the agency was directly operating one of the corporations. For this reason GAO did not include it in its review of the corporations' administrative efficiency and accomplishments.

In the program year ending March 31, 1972 (1971-72 program year), the agency expended Federal funds totaling \$8.1 million, \$2.6 million of which OEO provided. The agency used about \$740,000 of the OEO funds to finance the neighborhood corporations. (See p. 6.)

FINDINGS AND CONCLUSIONS

Allocation of OEO funds to neighborhood corporations

OEO funds available for the corporations have historically been divided according to the number of program planning and operating areas in each corporation's service area because, on the basis of the 1960 census, the poverty population of each of the 15 areas was about the same. Assuming that poverty populations of equal sizes are equally needy, GAO believes that the agency's allocation method was reasonable.

At the time of GAO's review, the agency was analyzing 1970 census data to see if the poverty populations had shifted to a degree that would warrant a reallocation of funds or revision of corporation boundaries. (See p. 10.)

Administrative efficiency and accomplishments of neighborhood corporations

The neighborhood corporations were responsible, within their designated boundaries, for (1) mobilizing the resources of other community organizations in a concerted and unified effort to combat poverty, (2) informing neighborhood residents of the services available to them, and (3) organizing and sustaining resident participation in community action. They were to achieve these objectives through:

1. Community organization, which involved educating neighborhood residents about pressing problems in their communities and organizing them to solve them.
2. Coordination of services, outreach, intake, referral, and followup, which involved identifying social services available and seeing that the residents were made aware of and benefited from them.
3. Special projects to provide needed services which were not readily available to the neighborhood residents.

Although the corporations carried out a number of worthwhile projects which provided some benefits to community residents, they generally did not achieve the goals as set forth in their contracts with the agency for the 1971-72

program year. These goals, however, may have been overly optimistic when compared to the resources available to the corporations and the magnitude of the problems which had to be overcome.

Community organization--The corporations planned to organize neighborhood advisory groups to identify priority needs and develop plans to solve them. In some cases the corporations could not establish the number of groups planned; in other cases membership goals were not attained. (See p. 12.)

The corporations planned to perform area surveys and feasibility studies to update knowledge of current community needs. Three corporations told GAO that they had made surveys and studies, but they were unable to provide documentation to support their statements. The other three corporations did not make any surveys or studies. (See p. 13.)

Five corporations planned to publish monthly newsletters to inform residents of available services, corporation projects, priority issues, and current events. None of the corporations published the newsletters because they were too expensive. (See p. 14.)

The corporations were to provide community residents with an opportunity to elect their own representatives to the corporations' boards of directors and to be heard at board meetings. These objectives were not being satisfactorily realized, either because of the residents' lack of interest or the boards' failure to carry out their responsibilities. (See p. 15.)

Coordination of services--Although the corporations told GAO they



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-175530

The Honorable Russell B. Long
Chairman, Committee on Finance *Section*
United States Senate

Dear Mr. Chairman:

You requested on March 14, 1972, that we participate in a comprehensive study of the International Coffee Agreement. Our report on alleged discrimination against U.S. ships in the carriage of coffee is attached as an appendix to this letter. On April 30, 1973, we transmitted reports on the International Coffee Agreement and its impact on coffee prices and on the ability of the International Coffee Agreement to deal with unforeseen supply and demand conditions.

We have thus completed and transmitted reports on three of the four assignments on the International Coffee Agreement which we agreed to undertake. The remaining report on the soluble coffee controversy is in process.

We were told that during 1968 through 1972 no complaints of discrimination were filed with the Department of State, the Federal Maritime Commission, and the Department of Commerce against U.S. ships in the carriage of coffee. However, two U.S. shipping lines told us that they have some problems of discrimination in their coffee trade.

Because of the Committee's interest in receiving the report as soon as possible, we have not obtained formal comments on the report, but we discussed an earlier draft informally with officials of the Department of State, the Department of Commerce, the Department of Agriculture, and the Federal Maritime Commission. We wish to note the cooperation our staff received from these agencies in making the review.

We do not plan to distribute this report further unless you agree or publicly announce its content.

Sincerely yours,

A handwritten signature in black ink that reads "James B. Stacks".

Comptroller General
of the United States

ALLEGED DISCRIMINATION AGAINST U.S. SHIPS

IN THE CARRIAGE OF COFFEE

INTRODUCTION

Preventing discrimination against U.S.-flag ships in shipping coffee to the United States is provided for in section 306 of the International Coffee Agreement Act of 1968 (46 U.S.C. 876). Upon complaint of any interested party, the President of the United States shall make an investigation to determine whether any exporting country which is a member of the International Coffee Organization discriminates against vessels registered under U.S. laws. If the President finds that discrimination exists, he shall notify the Federal Maritime Commission (FMC) which shall make appropriate rules and regulations. If, within a reasonable time thereafter, the effect of discrimination still exists, the authority to carry out and enforce the provisions of the International Coffee Agreement would cease to apply until the President finds that the effect of discrimination has ceased to exist.

EXISTENCE OF COMPLAINTS

We were told that during 1968 through 1972 no complaints of discrimination were filed with the Department of State, the Federal Maritime Commission, and the Department of Commerce against U.S.-flag vessels by exporting members of the International Coffee Organization. However, two of the five U.S. shipping lines accounting for the bulk of U.S. coffee shipments to the United States told us that they had some problems of discrimination in their coffee trade.

SHIPMENTS FROM BRAZIL TO
U.S. ATLANTIC AND GULF COASTS PORTS

Two U.S.-flag lines--Moore-McCormack Lines, Incorporated, serving the U.S. Atlantic coast ports and Delta Steamship Lines, Inc., serving the U.S. gulf coast ports--have traditionally been the predominant coffee carriers from Brazil.

During 1956 Moore-McCormack carried 47 percent of the coffee exported from Brazil to the U.S. Atlantic coast, but its share steadily decreased and was 26 percent in 1968. During 1969 its share dropped to 17 percent.

Before 1957 Delta carried over 70 percent of the coffee exported each year from Brazil to the U.S. gulf coast. From 1957 to 1968 its share decreased to about 29 percent and dropped to 17 percent in 1969.

Because of rebating, the United States was losing its share to other lines participating in the trade. Both Moore-McCormack and Delta complained informally to FMC, and on October 28, 1968, FMC initiated an investigation and hearing into malpractices which primarily involved trade between Brazil and the U.S. Atlantic and gulf ports. (Federal Maritime Commission docket number 68-44, Malpractices--Brazil and United States Trade).

FMC's presiding examiner, in his initial decision (March 16, 1971), found that:

"* * * rebating is, and has been since 1964, a practice in the northbound trade between Brazil and the United States."

Specifically, he found three Brazilian lines, one Argentine line, and one Swedish line that violated sections 16 Second, and 18(b)(3) of the Shipping Act of 1916 (46 U.S.C. 801 et seq.) for rebating in the northbound Brazil and U.S. coffee trade. However, he found that no shipper was victim of prejudice or disadvantage.

FMC adopted the examiner's decision on December 13, 1971, and found the carriers in violation of the act and ordered them to:

"* * * henceforth cease and desist from transporting coffee at less or different compensation than that specified in the applicable tariff."

FMC recovered civil penalties from each of the five carriers involved.

Before FMC adopted the examiner's decision, the situation concerning trade between the United States and Brazil had changed to the satisfaction of U.S. lines because of arrangements made by Brazil. In May 1970 the Brazilian Government took unilateral action to eliminate the widespread rebating alleged to exist in the trade by allocating 40 percent of coffee and cocoa shipments to the United States to Brazilian lines, 40 percent to U.S. lines and 20 percent to third-flag lines.

On June 1, 1971, the Brazilian Government changed the northbound coffee and cocoa allocations from the 40-40-20 formula to a 50-40-10 formula. It also announced a willingness to restore the 20-percent allocation to third-flag lines

if the Inter-American Freight Conference¹ members concluded an agreement for allocating the market shares.

In a letter to FMC, Moore-McCormack, Delta, Companhia De Navegacao Lloyd Brasileiro (Brazilian), and Companhia De Navegacao Maritima Netumar (Brazilian) urged that "* * * all allegations now be discontinued and the malpractice proceeding be dismissed." They stated that, on malpractices themselves:

"* * * heresy charges and countercharges of alleged malpractice and wrongdoing between carriers are things of the past and academic from a realistic standpoint."

We discussed Brazil's action of allocating coffee cargoes with several U.S. coffee roasters and importers. Generally they felt that Brazil's action had not adversely affected them. Some said that occasionally they were unable to ship coffee on the carrier they wished because the carrier did not have a sufficient allocation. The general opinion was that Brazilian-flag lines have improved their service in recent years. They would prefer to choose the carrier on the basis of service considerations alone.

In December 1972 nine international shipping companies, involved in coffee shipments from Brazil to the U.S. Atlantic and gulf coast ports, agreed to split the revenues of the trade. The agreements--one for the Atlantic ports and one for the gulf coast ports--must be approved by Brazil and FMC. These actions are expected to be only procedural since the agencies in both countries have been apprised of the negotiations. The agreements provide that 80 percent of the revenues from the movement of shipments northbound from Brazil be split equally between the American-flag lines and the Brazilian-flag lines. The remaining 20 percent will be apportioned among third-flag lines.

During the last half of 1970, the U.S. share of coffee carriage improved from its dramatic downward trend which began

¹Shipping conferences are agreements entered into by private shipping lines designed to regulate service, fix freight rates, and seek to control access to the freight market on established liner routes. The Inter-American Freight Conference covers northbound and southbound movements of all cargo between the U.S. Atlantic and gulf ports and the east coast of South America.

in 1967. By 1971 the U.S. carriers' share of coffee cargoes to the Atlantic and gulf ports approached its traditional level. Although the data for 1972 is not complete, the favorable trend in the U.S. carriers' share seems to be continuing. (See tables 1 and 2.)

The U.S. shipping lines serving the gulf and Atlantic ports told us that they were maintaining an adequate share of the Brazilian coffee trade. They said that they were not being discriminated against in the carriage of coffee by any country.

SHIPMENTS FROM BRAZIL TO THE U.S. PACIFIC COAST

Although the rebating charges apparently applied to only the shipments of coffee from Brazil to the U.S. Atlantic and gulf coast ports, the Brazilian allocation of coffee shipments was made applicable to the U.S. Pacific coast as well.

Prudential-Grace Lines, Inc., the only U.S. line involved in the carriage of coffee from Brazil to the Pacific coast, said that the Brazilian allocation of 40 percent of coffee cargoes to the United States had hurt it. It said that its ships could carry at least 50 percent of total coffee shipments from Brazil to the Pacific coast.

According to Prudential, the agreements concluded in December 1972 for allocating market shares among the carriers of coffee from Brazil to U.S. Atlantic and gulf coast ports would leave the 40-percent allocation of coffee cargoes to the Pacific coast unchanged. It requested an increase in its share, but Brazil decided to retain the 50-40-10 allocation formula for coffee shipments to the U.S. Pacific coast.

OTHER PROBLEMS OF DISCRIMINATION

Prudential expressed dissatisfaction to us about coffee shipments from Peru to the U.S. Pacific coast and sent us data showing that its share of coffee cargoes had declined from 82.5 percent in 1970 (Jan. through Dec.) to 43.7 percent in 1972 (Jan. through Nov.). It attributes the decline to the preferences given to Peruvian ships.

An equal access agreement for southbound government-controlled cargo between Prudential and the Peruvian shipping company was approved by FMC in January 1973, although it has not yet been approved by the Peruvian Government. The company said that the agreement should improve conditions in its northbound trade and hopefully will give it a better position in coffee cargoes from Peru.

Farrell Lines, Incorporated, which ships coffee from Africa to U.S. Atlantic ports, told us that it had had difficulties in securing coffee cargoes in reasonable relation to the service which they offered from several producing African countries. Farrell suggests that this is "* * * flag discrimination contrary to the provisions of the ICA [International Coffee Agreement]," and it believes that rebating exists for coffee cargoes from the Cameroons and Angola. It also noted that foreign-flag operators, operating within the American-West African Conference group, alleged that rebating exists for coffee shipments from the Ivory Coast. However, Farrell indicated that a great deal of the evidence was circumstantial and could not be considered definitive or conclusive in establishing U.S. flag discrimination.

TABLE 1

COFFEE CARRIED TO U.S. ATLANTIC PORTS FROM BRAZIL
FROM 1960 THROUGH 1972

Year	Total number of bags	U.S.-flag ships		Brazilian- flag ships		Third-flag ships	
		Number of bags	Percent	Number of bags	Percent	Number of bags	Percent
1960	5,410,621	2,390,250	44.2	808,852	14.9	2,211,519	40.9
1961	4,865,517	1,869,533	38.4	677,516	13.9	2,318,468	47.7
1962	5,007,748	1,899,033	37.9	602,686	12.0	2,506,029	50.1
1963	5,117,211	1,970,178	38.5	624,901	12.2	2,522,132	49.3
1964	3,993,931	1,868,554	46.8	423,399	10.6	1,701,978	42.6
1965	3,391,085	1,117,432	32.9	778,805	23.0	1,494,848	44.1
1966	3,863,675	1,669,196	43.2	265,256	6.9	1,929,223	49.9
1967	3,617,139	1,033,286	28.6	1,210,869	33.5	1,372,984	37.9
1968	4,787,734	1,228,694	25.7	2,218,138	46.3	1,340,902	28.0
1969	3,526,702	593,480	16.8	1,576,155	44.7	1,357,067	38.5
1970	2,963,356	380,315	12.8	2,024,331	68.3	558,710	18.9
1971	3,247,224	1,243,218	38.3	1,782,351	54.9	221,655	6.8
1972	3,908,689	1,286,590	32.9	2,459,661	62.9	162,438	4.2

Source: FMC and Moore-McCormack Lines, Incorporated.

TABLE 2

COFFEE CARRIED TO U.S. GULF PORTS FROM BRAZIL
FROM 1960 THROUGH 1972

Year	Total number of bags	U.S.-flag ships		Brazilian- flag ships		Third-flag ships	
		Number of bags	Percent	Number of bags	Percent	Number of bags	Percent
1960	2,656,349	1,409,350	53.1	187,510	7.0	1,059,489	39.9
1961	2,507,121	1,441,349	57.5	233,364	9.3	832,408	33.2
1962	2,562,414	1,475,194	57.6	114,571	4.5	972,649	37.9
1963	2,631,893	1,340,092	50.9	224,203	8.5	1,067,598	40.6
1964	2,126,945	1,161,941	54.6	114,606	5.4	850,398	40.0
1965	1,881,942	1,151,345	61.2	257,183	13.7	473,414	25.1
1966	2,031,085	1,018,772	50.2	157,166	7.7	855,147	42.1
1967	1,759,893	615,214	35.0	712,730	40.5	431,949	24.5
1968	2,546,331	727,494	28.6	1,070,947	42.0	747,890	29.4
1969	1,682,657	287,083	17.1	666,724	39.6	728,850	43.3
1970	1,385,634	355,057	25.6	662,370	47.8	368,207	26.6
1971	1,986,812	853,303	43.0	964,237	48.5	169,272	8.5
1972 ^a	634,537	350,325	55.2	223,419	35.2	60,793	9.6

^aBased on 3 months.

Source: Delta Steamship Lines, Inc.

RUSSELL B. LONG, LA., CHAIRMAN
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United States Senate

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

March 14, 1972

The Honorable
Elmer B. Staats
Comptroller General
of the United States
General Accounting Office
Washington, D. C.

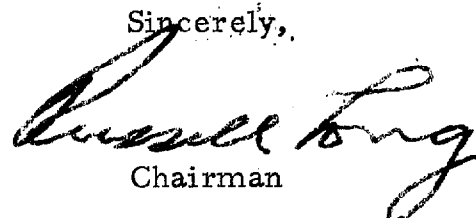
Dear Mr. Staats:

When the Committee on Finance acted to extend United States participation in the International Coffee Agreement it directed its staff, with the cooperation of the Comptroller General, United States Tariff Commission, and the Federal Trade Commission, to commence a comprehensive study on this Agreement. The staff has already held a meeting with Messrs. Dziadek and Brady of your staff to discuss the perimeters of the study and how best each agency can make a contribution.

I sincerely hope and expect that this study will prove helpful to the Committee when it deals with this issue again, and your cooperation to that end will be gratefully appreciated. I am enclosing a copy of the Committee report which discusses this study in greater detail.

With every good wish, I am

Sincerely,


Chairman

Enclosure

To comply with the OEO recommendation, EODC defined its poverty target area and divided it into 15 program planning and operating areas. Using the 1960 census, EODC included in the poverty target area all census tracts in Bexar County which (1) had at least 15 percent of the populations earning annual incomes below \$3,000, (2) were adjacent to a tract with a high percentage of its population earning under \$3,000, or (3) were surrounded by tracts which met the 15-percent criteria.

In its second recommendation, OEO suggested that EODC develop an experimental neighborhood services system involving two corporations with clearly defined geographical boundaries; one was to be placed on the west side of San Antonio, and the other on the east side. In August 1969 the EODC board created UCDC on the west side of San Antonio and SNAC on the south side of San Antonio.

East side residents objected to this decision on the grounds that the data used to select the locations was distorted and that funds from EODC east side delegate agencies were reduced to finance the project. The EODC board yielded to these pressures in September 1969, after OEO became involved in the controversy, and created an east side corporation, CCADC. The three corporations begin operating in December 1969.

In early 1970 a management consulting firm analyzed EODC's structure and recommended further improvements. The consultant pointed out that SANYO neighborhood centers were interfering with and duplicating the efforts of the three corporations.

To alleviate these problems, the consultant recommended that EODC discontinue the SANYO neighborhood center program and expand the neighborhood service system to include from five to seven corporations which would serve the entire poverty target area. The EODC board adopted this recommendation in March 1970 and added BBDC, UCPOC, PCDC, and MWCC by September of that year while phasing out the SANYO neighborhood center program.

BASIS FOR ALLOCATING OEO FUNDS

According to EODC officials, OEO funds available for the corporations have historically been divided according to the number of program planning and operating areas in each corporation's service area. The funds were divided in this way because, on the basis of the 1960 census, the poverty population of each of the 15 areas was about the same.

The following table shows the budgeted funds allocated to the corporations for the 1971-72 and 1972-73 (April 1, 1972, to March 31, 1973) program years.

<u>Corporation</u>	<u>Planning and operating areas</u>	<u>Poverty population per 1960 census</u>	<u>Program year</u>	
			<u>1971-72</u>	<u>1972-73</u>
UCDC	1 and 9	25,066	\$ 91,968	\$ 83,000
PCDC	2 and 8	25,171	91,968	83,000
MWCC	4 and 5	27,767	91,968	83,000
BBDC	6 and 10	25,124	91,968	83,000
UCPPOC	3 and 15	25,936	91,968	83,000
CCADC	7 and 14	24,663	91,968	83,000
SNAC	11, 12, and 13	<u>36,946</u>	<u>137,952</u>	<u>124,500</u>
Total		<u>190,673</u>	<u>\$689,760</u>	<u>\$622,500</u>

In these two years the funds were divided into 15 equal shares; the first six corporations received two shares each and the seventh corporation received three shares. At the time of our review, EODC was analyzing 1970 census data to see if the poverty populations among the planning and operating areas had shifted enough to warrant a reallocation of funds or revision of corporate boundaries.

Assuming that poverty populations of equal sizes are equally needy, we believe that EODC's method of allocating the funds to the corporations was reasonable.