United States General Accounting Office

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Report to the Chairman, Committee on Agriculture, House of Representatives

June 1990

CARGO PREFERENCE REQUIREMENTS

Their Impact on U.S. Food Aid Programs and the U.S. Merchant Marine

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National Security and
International Affairs Division

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The Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

In response to your September 14, 1989, request, we have reviewed how cargo preference laws, which require that significant portions of U.S. food aid be shipped on U.S.-flag vessels, have affected (1) the cost and timeliness of U.S. food aid shipments and (2) the amount of government cargo transported on U.S.-flag vessels. We also provide information on changes in the number of U.S. merchant marine vessels and support personnel over the past 10 years.

Background

The United States has cargo preference laws that require significant portions of government cargo to be shipped on U.S.-flag vessels.[1] One of the main purposes of the laws is to ensure that an adequate and viable merchant marine fleet is maintained in the interest of national security.

Cargo preference provisions contained in the Food Security Act of 1985 require that at least 75 percent of government food aid provided to foreign countries under Titles I, II, or III of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) or under section 416 of the Agricultural Act of 1949, be shipped on U.S.-flag vessels. In prior years, only 50 percent of government food aid was required to be shipped on U.S.-flag vessels.

The cost to the government of shipping P.L. 480 or section 416 food aid on U.S.-flag vessels, rather than on generally less expensive foreign flag vessels, has amounted to about $150 million in each of the past 3 cargo preference years. (A cargo preference year spans from April 1 of one year to March 31 of the next year.) The U.S. Department of Agriculture (USDA) pays the differential cost on the first 50 percent of tonnage shipped on U.S.-flag vessels, and the Maritime Administration (MARAD) pays the differential cost on the next 25 percent. The remaining 25 percent may be shipped on foreign flag vessels, in which case there is no differential cost.

[1] The legal definition of U.S.-flag vessels is set forth in app. I.

Titles I and III of P.L. 480 are concessional sales programs involving sales of mostly bulk commodities, e.g., wheat or corn. Title II of P.L. 480 is a grant program involving donations of processed commodities, e.g., milled rice or cornmeal. Section 416 is also a grant program, involving donations of surplus government bulk commodities. USDA, the Agency for International Development (AID), and MARAD share responsibility for ensuring that food aid shipments comply with the cargo preference provisions contained in the Food Security Act of 1985, but USDA has lead responsibility. USDA monitors the ocean transportation contracting activities of importing countries and private voluntary organizations (PVO) and determines when U.S.-flag vessels should be used. AID helps USDA monitor cargo preference requirements for the Title II and section 416 programs.

MARAD is responsible for ensuring that oceangoing shipments under all government programs, food aid or otherwise, are conducted in compliance with cargo preference laws. It provides government agencies with ocean transportation guideline rates to be used in contracting services of U.S.-flag vessels and monitors agencies' shipping activities.

Results in Brief

Although it still generally costs more to ship food aid to foreign countries on U.S.-flag vessels, rather than on foreign flag vessels, the average cost differential has decreased over the past several years. Since 1981, the average cost differential has decreased by more than 50 percent due to (1) liberalizing the method by which cargo preference compliance is computed and (2) efficiencies in shipping. The cost differential now accounts for less than 10 percent of food aid program expenditures. U.S.-flag vessels, however, do not always provide timely service. For example, during cargo preference year 1988-89, 22 to 44 percent of Title II tonnage was loaded on U.S.-flag vessels late, depending on whether the USDA or PVO standard is used for measuring lateness.

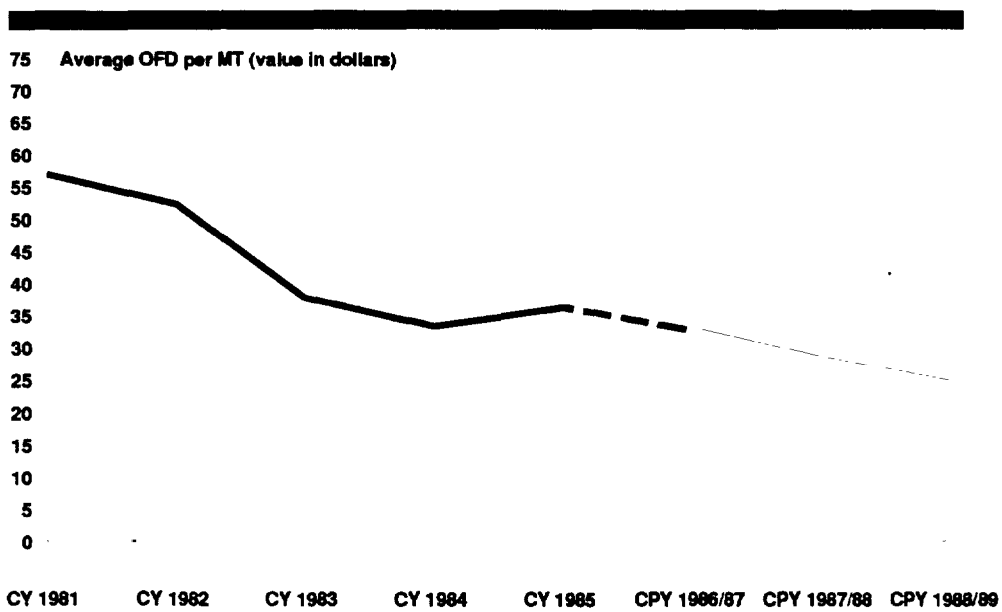
The amount of government cargo transported on U.S.-flag vessels has increased by about 67 percent since 1980, and the food aid portion has doubled from almost 3 million metric tons to almost 6 million metric tons, now accounting for about one-third of all government cargo. Despite these increases, over the past 10 years, the number of U.S.-flag vessels has decreased by 24 percent, and the number of support personnel has decreased by about 31 percent. However, active shipping capacity has only decreased by 6.5 percent because the newer ships are larger and can hold more cargo. The newer ships also require fewer personnel to load, operate, and maintain them.

Ocean Freight Differential Has Decreased by More Than 50 Percent

Since 1981, the average cost differential between U.S. and foreign flag shipping rates, referred to as the ocean freight differential, for shipping food aid under Titles I and III of P.L. 480 has decreased by more than 50 percent. This decrease is due largely to (1) administrative changes that now allow USDA to compute cargo preference compliance on an annual basis rather than on the basis of each commodity purchase authorization, and (2) greater efficiencies in shipping. For the past 3 cargo preference years, ocean freight differentials for P.L. 480 shipments have totaled less than 10 percent of program expenditures.

According to MARAD records, the average ocean freight differential per metric ton for Titles I and III food aid decreased from $56.72 in calendar year 1981 to $24.65 in cargo preference year 1988-89. This change in cost differential subsidy translates into a 56.5 percent decrease over nearly 8 years (see fig. 1). When inflation is taken into consideration, the decline in the real cost of the subsidy is even greater.

Figure 1: Titles I and III Ocean Freight Differentials (1981-1989)



Note. The period between calendar year 1985 and cargo preference year 1986-87 (Jan. 1986 to Mar. 31, 1986) is not reflected in this figure
Source: Maritime Administration

There are two primary explanations for the decrease in ocean freight differential. First, cargo preference compliance used to be computed on each commodity purchase authorization. Computing compliance in this manner limited the USDA's ability to be flexible when scheduling the use of U.S.-flag vessels to carry food aid. Computing cargo preference compliance annually, as is now done, allows USDA additional flexibility to schedule more cargoes on U.S.-flag vessels when U.S. rates are low and more cargoes on foreign flag vessels when U.S. rates are high. The second reason for the decrease in ocean freight differentials is that U.S.-flag vessels today are generally larger, more fuel efficient, and less labor intensive.

For the past 3 cargo preference years, total expenditures for ocean freight differentials have ranged from 8.9 percent to 9.7 percent of the total expenditures for P.L. 480. USDA's portion of the total ocean freight differential bill has been between 6.0 percent and 7.5 percent. For example, in fiscal year 1988, the government spent $1,341.7 million on the P.L. 480 program. The total cost differential was approximately $117.8 million, or 8.8 percent. USDA paid approximately $80.6 million of that amount, or 6.0 percent of the total P.L. 480 program. (See app. II.)

Effects of Increase in Requirements May Have Resulted in Less Timely Lifting of Cargo

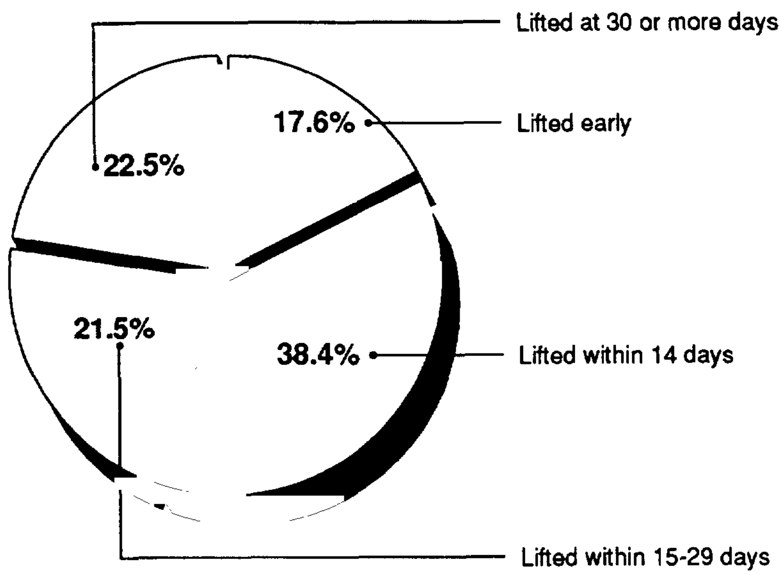
PVO officials, who help administer Title II food aid programs, believe that the increase in cargo preference requirements from 50 to 75 percent has resulted in less timely lifting of Title II commodities. Officials from USDA and the PVOs have different standards for measuring timely lifting, but using either standard, the PVO officials believe that the percentage of late lifting has increased.

PVO officials voiced concern about lateness more often than the USDA officials responsible for monitoring vessel transportation of Titles I and III commodities. One explanation may be that Title II shipments are generally made on liner vessels. Liners provide regularly scheduled service to several ports and will typically carry cargoes for four or five different shippers to four or five different locations. A delay at any one location could adversely affect remaining deliveries. Conversely, Titles I and III commodities are generally shipped in bulkers or tankers. Bulkers and tankers are generally chartered by one shipper to transport a commodity from point A to point B, so possibilities for delay are fewer.

In cargo preference year 1988-89, U.S.-flag liners lifted 22.5 percent of the Title II tonnage late under USDA's standard for lateness. For that same period, U.S.-flag liners lifted 44 percent of Title II tonnage late under the PVOs' standard for lateness. Neither USDA nor PVO officials provided similar data for periods when cargo preference requirements were at 50 percent, but PVO officials believe the timeliness of lifting Title II cargo has worsened.

USDA considers cargo to be lifted late if it is lifted 30 days after the lifting date promised. According to USDA officials, the 30-day standard is appropriate because Title II shipments are often shipped on less-frequently-traveled trade routes. However, PVOs consider Title II cargo to be lifted late if it is lifted more than 14 days after the lifting date promised. PVOs believe 14 days is a more appropriate standard because carriers are familiar with foreign port and trade route limitations and should build these limitations into their estimated lifting dates. (See fig. 2.)

Figure 2: Title II Vessel Performance: U.S.-Flag Liners (CPY 1988-89)



Note: These figures reflect the percentage of tonnage lifted.
Source: U.S. Department of Agriculture.

Greater Capacity Utilization of U.S.-Flag Vessels

The increase in the U.S.-flag requirement to 75 percent meant that there would be greater capacity utilization of U.S.-flag vessels. The increased demand for U.S.-flag vessels would also help account for the reported poorer service and has made it difficult for USDA to take actions against U.S.-flag shippers who provide poor service.

The increase in the U.S.-flag requirement meant that there would be greater demand for, and thus greater capacity utilization of, U.S.-flag vessels because there would be a larger amount of cargo to be lifted without any increase in the number of U.S.-flag vessels.

Both USDA and PVO officials stated that the additional demand for U.S.-flag vessels discourages USDA from taking actions against U.S.-flag carriers when the carriers' performance is unsatisfactory, e.g., when a carrier consistently lifts cargo late. They told us that at peak demand times, the suspension of even one carrier could have a negative impact on the availability of U.S.-flag vessels. However, poorer U.S.-flag service and USDA's reluctance in taking action against U.S.-flag carriers should have been anticipated.

Some food aid administrators believe that a return to a 50-percent cargo preference requirement would permit more flexibility for taking punitive actions against poor performers and improve the timeliness in lifting cargo.

Government Cargo Transported on U.S.-Flag Vessels Has Increased Since 1980

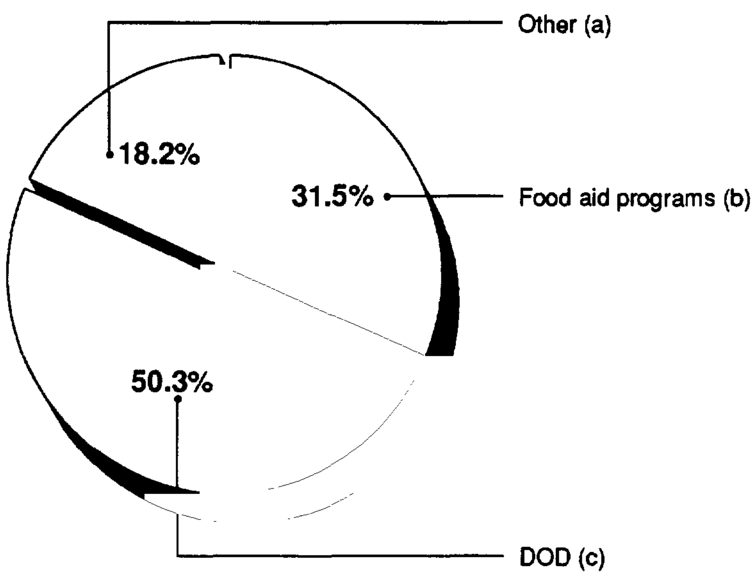
There are several laws that affect cargo preference (see app. III). These laws generally require that 100 percent of Department of Defense (DOD) cargo, at least 75 percent of food aid cargo, and at least 50 percent of other government cargo tonnage be shipped on U.S.-flag vessels, depending upon the prices that are charged for the use of such vessels. From calendar years 1980 to 1987,[2] the amount of all government cargo transported on U.S.-flag vessels increased by about 67 percent. The amount of cargo that was government food aid doubled between 1980 and 1987. Government food aid now constitutes about one-third of all government cargoes, and most of the food aid is transported on U.S.-flag vessels.

In 1980, total government cargo tonnage shipped on U.S.-flag vessels amounted to 12,616,688 metric tons (MT). In 1987, total government cargo shipped on U.S.-flag vessels amounted to 20,985,483 MTs, an increase of about 67 percent. Of the total government cargo shipped on U.S.-flag vessels, the amount of food aid transported about doubled, from 2,993,136 MTs in 1980 to 5,978,488 MTs in 1987. The doubling in food aid shipments represents an increase from 23.7 percent of all government cargo on U.S.-flag vessels in 1980 to 28.5 percent in 1987.

[2]Calendar year 1987 is the last year for which MARAD has final published statistics.

In 1987, total government cargo, whether shipped on U.S.-flag vessels or foreign flag vessels, amounted to 26,813,737 MTS. Government food aid accounted for 8,447,559 MTS of that total, or 31.5 percent. (See fig. 3.) Almost 71 percent of the food aid cargo was shipped on U.S.-flag vessels in 1987.

Figure 3: Government Preference Cargoes by Percent of Tonnage Shipped
(CY 1987)



[a]Excludes Eximbank, includes all other agencies, in addition to non-P L. 480 and non-section 416 USDA and AID cargoes

[b]Food aid programs include P L 480 and section 416 tonnages only

[c]DOD figures reflect P L 664 and the Cargo Preference Act of 1904 requirements.
Source: Maritime Administration

In 1986, U.S.-flag vessels carried about 4 percent of all oceanborne cargo coming into or going out of the United States, or approximately 37.8 million MTS. More than 40 percent of that amount, or 16.4 million MTS, was government cargo.

Differing Views on How to Fund Shipping Costs

Officials representing agricultural interests claim that the dollar amounts of food aid provided by Congress are misleading because those amounts must cover shipping costs as well as commodity costs. They, therefore, believe that the additional costs of shipping food aid on U.S. rather than on foreign flag ships results in less funding being available for food aid. Officials representing maritime interests, on the other hand, believe that exempting food aid from cargo preference requirements would not necessarily mean that savings in shipping costs would be used for acquiring additional food, but that food aid appropriations would be reduced accordingly.

One official suggested, as an alternative way of funding transportation, replacing cargo preference requirements with a direct subsidy to the maritime industry. Another alternative would be to provide for the additional costs of cargo preference requirements by establishing a separate budget line item.

Numbers of Merchant Marine Vessels and Personnel Have Significantly Decreased Over the Past 10 Years

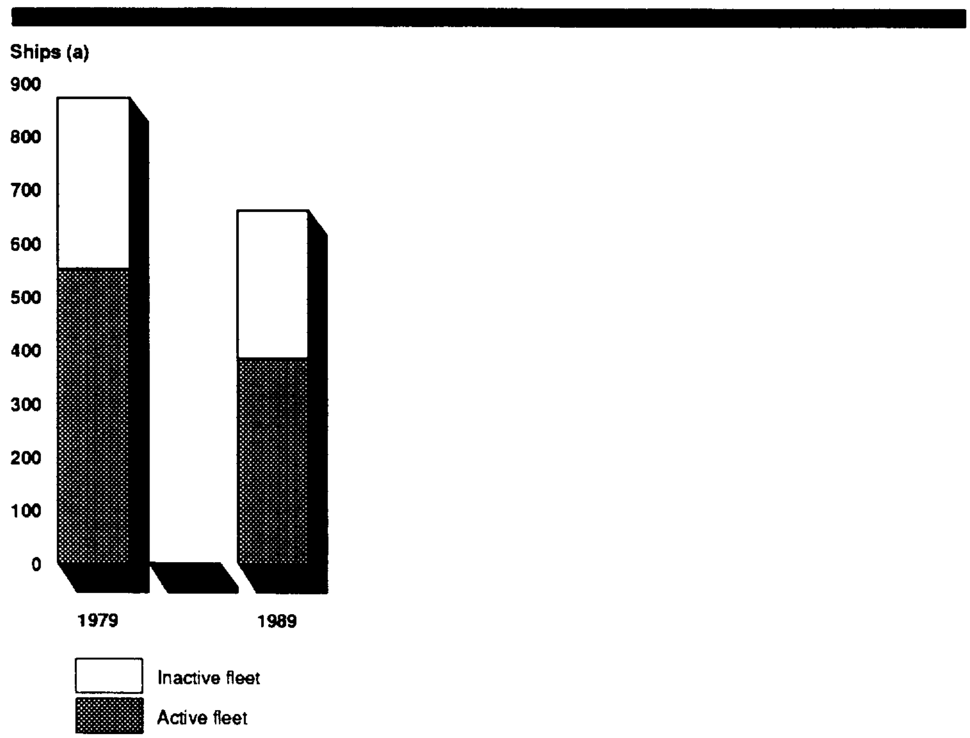
The U.S. merchant marine fleet consists of several types of vessels, many of which participate in the food aid preference trade. Since 1979, the number of these vessels and of the support personnel has decreased significantly while the tonnage capacity of ships in operation has also decreased. However, if both active and inactive ships are considered, capacity has slightly increased during that time. The Department of Transportation (DOT) stated that it is clear that federal programs, including cargo preference, have not succeeded in meeting maritime objectives.

According to MARAD, as of October 1, 1989, the U.S. oceangoing merchant marine fleet consisted of 661 active and inactive vessels (see app. IV). Of these, 383 are active ships,[3] 109 of which participated in the food aid preference trade in cargo preference year 1987-88. The 109 ships consist of 70 liners that carry processed goods; 22 tankers and 16 bulk carriers, both of which carry bulk commodities; and 1 integrated tug/barge. (In addition, 44 oceangoing tug/barges also participated in food aid shipments.)

Since September 30, 1979, the total U.S. oceangoing merchant marine fleet has decreased by 210 ships, or 24.1 percent. Of that decrease, 151 ships were active and privately owned. According to MARAD officials, the decrease is due largely to the replacement of smaller, World War II vintage ships with larger, increased cargo capacity ships during the past 10 years. (See fig. 4.)

[3]There are 8 government owned and 375 privately owned vessels.

Figure 4: U.S. Oceangoing Merchant Marine Fleet: Number of Ships (1979, 1989)



Note The fleet includes privately owned and government owned ships

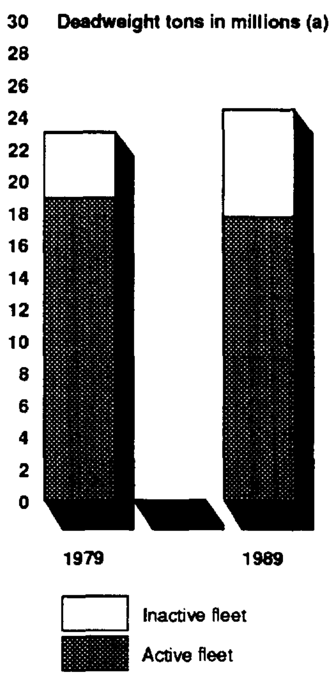
[a]Tugs and barges are not included

Source Maritime Administration.

Also since 1979, average monthly employment in the merchant marine work force has decreased by 30.6 percent. (See app. V.) The work force positions that decreased include seafaring shipboard, shipyard, and longshore positions. According to MARAD officials, the decrease is due largely to the placement in service of newer ships during the last 10 years. Officials said the newer ships require fewer personnel to load, operate, and maintain.

Despite the significant decreases in ships and personnel, active shipping capacity has decreased by only 6.5 percent, and if active and inactive ships are considered, capacity has actually increased by 6.3 percent. According to MARAD officials, the newer ships are larger and can hold more cargo than the older ships that were replaced. (See fig. 5.)

Figure 5: U.S. Oceangoing Merchant Marine Fleet: Deadweight Ton Capacity (1979, 1989)



Note The fleet includes privately owned and government owned ships.

[a]Tugs and barges are not included.
Source: Maritime Administration

The DOT February 1990 policy report, Moving America, New Directions, New Opportunities, asserts that federal programs, including cargo preference rules, have not kept the U.S. merchant marine fleet viable and competitive in world trade. Further, DOT says that the U.S. merchant marine has declined to the point where the nation's ability to meet military sealift needs has been impaired. DOT advocates reform of U.S. maritime programs to assist the U.S. merchant marine in meeting its world trade and military sealift demands.

One of the maritime industry's major concerns is its dependence on the food aid cargo preference trade. As discussed previously, food aid now represents almost one-third of all government cargo. Furthermore, if U.S. assistance to Eastern Europe increases over the coming years and additional food aid is made available, food aid will likely grow as a percentage of all government cargo.

We provide information on recent food aid shipments to Poland in appendix VI and on special legal provisions related to shipments from

Great Lakes ports in appendix VII. Our objectives, scope, and methodology are in appendix VIII. As agreed with you, we did not obtain official agency comments on this report. However, we discussed the contents with cognizant government agency officials. Comments received during the discussions were incorporated in the report as appropriate.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of this letter. At that time, we will send copies to the Secretaries of Agriculture and Transportation; the Administrator of the Agency for International Development; appropriate congressional committees; the Director of the Office of Management and Budget; and other interested parties. We will make copies available to others upon request. If you have any questions regarding this report, please call me at (202) 275-4812. Major contributors to this report are listed in appendix IX.

Sincerely,

Allan I. Mendelowitz

Allan I. Mendelowitz, Director
Trade, Energy, and Finance Issues

Contents

Abbreviations

AID	Agency for International Development
CY	Calendar Year
CPY	Cargo Preference Year
DOD	Department of Defense
DOT	Department of Transportation
MARAD	Maritime Administration
MT	Metric Ton
OFD	Ocean Freight Differential
PVO	Private Voluntary Organization
USDA	U.S. Department of Agriculture

Definition of U.S.-Flag Vessels

According to section 3 of Title 1, United States Code, the word "vessel" includes every description of watercraft or other artificial contrivance used, or capable of being used, as a means of transportation on water. To become a U.S.-flag vessel, the vessel must be measured, documented, and registered in the United States.

Vessels that have been measured in the United States, are of at least 5 net tons, and are not registered under the laws of a foreign country are eligible for documentation if the vessel is owned by

1. An individual who is a citizen of the United States,

2. An association, trust, joint venture, or other entity,

   a. all of whose members are citizens of the United States, and

   b. that is capable of holding title to a vessel under the laws of the United States or of a state,

3. A partnership whose general partners are citizens of the United States and the controlling interest in the partnership is owned by citizens of the United States,

4. A corporation established under the laws of the United States or of a state, whose president or other chief executive officer and chairman of its board of directors are citizens of the United States and no more of its directors are noncitizens than a minority of the number necessary to constitute a quorum,

5. The U.S. government, or

6. The government of a state.

Vessels eligible for documentation may be issued a certificate of documentation by the Secretary of Transportation. The certificate of documentation identifies and describes the vessel; identifies the owner of the vessel; and contains any additional information prescribed by the Secretary of Transportation.

Once documented, vessels can be registered with the Secretary of Transportation as U.S.-flag vessels and may engage in foreign trade or trade with Guam, American Samoa, Wake Island, Midway Island, or Kingman Reef.

According to section 901(k) of the Merchant Marine Act of 1936, as amended, the definition of a U.S.-flag vessel eligible to carry preference cargoes is as follows:

> ...a vessel, as defined in section 3 of title 1, United States Code, that is necessary for national security purposes and, if more than 25 years old, is within five years of having been substantially rebuilt and certified by the Secretary of Transportation as having a useful life of at least five years after that rebuilding.

If the vessel is privately owned and was either (1) built or rebuilt outside the United States, or (2) documented under any foreign registry, then it must be documented under the laws of the United States for a period of 3 years before it is eligible to carry preference cargo.[1]

[1] Exceptions to the 3-year documentation period for foreign built or rebuilt vessels have been allowed in the past by legislation.

Ocean Freight Differential as a Percentage of Total P.L.480 Expenditures

Dollars in millions

	1986-87[a]	Percent of total expenditures	1987-88[b]	Percent of total expenditures	1988-89[c]	Percent of total expenditures
Total P.L. 480 expenditures (by FY)	$1.534.4	100 0	$1,349 5	100.0	$1,341 7	100.0
Total P.L 480 OFD costs (by CPY)	136.0	8 9	130.5	9.7	117.8	8 8
USDA portion of total OFD	115.0	7 5	95.4	7.1	80.6	6 0

Legend

CPY = Cargo preference year

FY = Fiscal year

OFD = Ocean freight differential

USDA = U S Department of Agriculture

[a]Represents CPY 1986-87 and FY 1986.

[b]Represents CPY 1987-88 and FY 1987

[c]Represents CPY 1988-89 and FY 1988.

Sources USDA and Maritime Administration

Cargo Preference Laws

There are several cargo preference laws in the United States. The primary laws are the Cargo Preference Act of 1904, the Merchant Marine Act of 1936, and the Cargo Preference Act of 1954. In addition, the Food Security Act of 1985 contains significant cargo preference requirements.

The Cargo Preference Act of 1904

The Cargo Preference Act of 1904 (P.L. 58-198) states that only vessels of the United States may be used in the transportation by sea of supplies bought for the Army, Navy, Air Force, or Marine Corps. However, if the President finds that the freight charged by those vessels is excessive or otherwise unreasonable, contracts for transportation may be made as otherwise provided by law. In effect, the law generally requires that 100 percent of DOD cargo be shipped on U.S.-flag vessels.

The Merchant Marine Act of 1936

The Merchant Marine Act of 1936 (P.L. 74-858) was implemented largely to further the development and maintenance of an adequate and well-balanced American merchant marine to aid in the national defense. The act requires that government employees traveling on official business overseas use ships registered under U.S. laws. It was amended by the Cargo Preference Act of 1954 and the Food Security Act of 1985 to specify the percentages of cargo tonnage that should be transported on U.S.-flag vessels.

Cargo Preference Act of 1954

The Cargo Preference Act of 1954 (P.L. 83-664) amended the Merchant Marine Act of 1936 and requires that at least 50 percent of all government cargo tonnage transported on ocean vessels shall be transported on privately owned, U.S.-flag commercial vessels, to the extent such vessels are available at fair and reasonable prices.

Food Security Act of 1985

The Food Security Act of 1985 (P.L. 99-198) also amended the Merchant Marine Act of 1936 and requires that, by calendar year 1988, and for every year thereafter, an additional 25 percent of commodity tonnage exported under P.L. 480, section 416 of the Agricultural Act of 1949 and the Food Security Wheat Reserve Act of 1980, be transported on privately owned, U.S.-flag commercial vessels. The Department of Transportation, through the Maritime Administration, is required to fund the OFDs for the additional 25-percent tonnage. In addition, the act requires that P.L. 480 Title II waterborne cargoes exported from Great Lakes ports be preserved at the calendar year 1984 levels for calendar years

1986 through 1989. This provision of the act is known as the "Great Lakes Set-Aside."

U.S. Oceangoing Merchant Marine Fleet Components

(Dwt[a] In Thousands)

	1979		1989		Percent change in	
	Ships	**DWT**	**Ships**	**DWT**	**Ships**	**DWT**
Active Fleet						
Passenger	9	75	7	55	−22.2	−26.7
General cargo	130	1,756	38	575	−70.8	−67.3
Intermodal	133	2,685	126	3,730	−5.3	38.9
Bulk carriers	22	701	22	972	0.0	38.7
Tankers	258	13,731	190	12,388	−26.4	−9.8
Subtotal	552	18,948	383	17,720	−30.6	−6.5
Inactive Fleet						
Passenger	64	413	13	107	−79.7	−74.1
General cargo	198	2,142	171	2,034	−13.6	−5.0
Intermodal	11	153	41	955	272.7	524.2
Bulk carriers	4	88	4	298	0.0	238.6
Tankers	42	1,254	49	3,343	16.7	166.6
Subtotal	319	4,050	278	6,737	−12.9	66.3
Total	**871**	**22,998**	**661**	**24,457**	**−24.1**	**6.3**

[a]Deadweight tons

Source Maritime Administration

Average Monthly Maritime Employment-1979 and 1989

Maritime employment	1979	1989	Percent change
Seafaring shipboard jobs	26,979	14,268	−47.1
Shipyard jobs	115,174	90,179	−21 7
Longshore jobs	49.103	28,339	−42.3
Total	**191,256**	**132,786**	**−30.6**

Source Maritime Administration

Recent Food Aid Shipments to Poland

In recent months there has been much discussion among officials representing U.S. food aid and maritime interests about shipping food aid to Eastern Europe and to Poland in particular. Also, there has been considerable debate in Congress on the subject. Food aid advocates fear that significantly higher U.S.-flag rates will seriously affect the amount of food aid available to Poland. MARAD officials point to the fact that in two out of three recent bids, U.S.-flag carriers underbid their foreign competitors. However, some food aid officials believe that the U.S. competitive pricing was an aberration in the market and will not continue.

Congress authorized $125 million in food aid to Poland for fiscal year 1990. Three tenders for freight services have already been made, and all three tenders were awarded to U.S.-flag carriers. The first was for a shipment of 11,500 MTs of sorghum. The accepted U.S.-flag rate was $84.95/MT, even though the foreign flag rates were between $49.95/MT and $63.00/MT. To comply with cargo preference laws, however, the shipment was awarded to a U.S.-flag carrier. The additional cost to use a U.S.-flag carrier was approximately $402,500.[1] MARAD believes that if the shipment had been larger, and if there had been more time for advance planning, the cost differential would not have been so great.

The second tender was for 50,000 MTs of corn. In this case, the accepted U.S.-flag rate was $36.25/MT. Foreign flag carriers required two ships to carry the cargo, at an average rate of $54.53/MT. The shipment was awarded to the U.S.-flag carrier who was offering the lowest landed cost. The lowest landed cost is the combination of the commodity price and the ocean freight rate that results in the lowest total cost to deliver the commodity to the importing country.

The third tender was for 180,000 MTs of corn. The accepted U.S.-flag rates were $33.88/MT and $35.35/MT for four shipments from two different carriers. Foreign flag offers ranged from $35.75/MT to $39.32/MT. Again, the tender was awarded to the lower-cost U.S.-flag carrier.

Overall, MARAD was pleased with the performance of the U.S. carriers in competing for the Polish food aid shipments. Food aid program officials also were pleased to see the lower U.S.-flag rates for two of the shipments. However, they believe a number of factors in both the U.S. and foreign markets played a role in the lower U.S.-flag rates for the Polish

[1] This is an approximate cost, because the P.L. 480 and section 416 agreements allowed for a small tolerance in the amount of commodity loaded.

shipments. These factors include the improved efficiencies in U.S. shipping and the high level of competition among U.S.-flag ships due to the limited number of preference cargoes made available at the time of the Polish food aid tenders. Also, foreign flag carriers may have been largely unavailable at the time of the Polish food aid tenders, due to heavy demand for the limited number of foreign flag bulk carriers.

The Great Lakes Set-Aside

The Food Security Act of 1985 requires that exports of Title II waterborne cargoes from ports in the Great Lakes be preserved during calendar years 1986 through 1989 at the levels exported from those ports in calendar year 1984. The act also requires that this "Great Lakes Set-Aside" be implemented without detriment to any other port range.

The Great Lakes set-aside provision, now expired, came about because few U.S.-flag vessels service the Great Lakes ports, and it was believed that increasing the cargo preference requirements from 50 percent to 75 percent would adversely affect the food aid exports from those ports.

Few U.S.-flag vessels service the upper Great Lakes ports, partly because many U.S.-flag vessels are too large to transit the Welland Canal, which connects Lake Erie and Lake Ontario. As a result, the upper Great Lakes are serviced largely by foreign flag vessels. When cargo preference requirements were set at 50 percent, the Great Lakes ports were able to compete for the other 50 percent of exports allowed to be shipped on foreign flag vessels. However, when the cargo preference requirements were increased to 75 percent, the Great Lakes ports were able to compete only for the other 25 percent. The cargo preference increase, in effect, cut the Great Lakes potential Title II export business in half. The 4-year set-aside was supposed to give the Great Lakes ports time to adjust to the decrease in shipping levels that were expected to occur due to the increase in cargo preference requirements.

Objectives, Scope, and Methodology

The Chairman, House Committee on Agriculture, asked us to review (1) the cost and timeliness of delivering U.S. food aid to foreign countries under the cargo preference requirements, and (2) the extent to which U.S. food aid helps strengthen and sustain our merchant marine. We did not look at other agricultural export programs, nor did we look at maritime assistance programs other than cargo preference. Also, we did not conduct a management review and did not include transportation management issues in the scope of this study.

We interviewed government officials involved in monitoring or administering cargo preference requirements at USDA, AID, and MARAD. In addition, we met with officials representing PVOs, ocean transportation companies, and freight forwarders. We obtained and analyzed relevant data from 1979 to the present, where available.

We did not verify these data. However, where possible, we compared figures available from different agencies. Our data analysis was complicated by the fact that the different agencies do not maintain records in the same format. Also, within each agency, we found that reporting formats vary from year to year. Comparisons were made even more difficult because some agencies record data by calendar years (January 1 through December 31), some by fiscal years (October 1 through September 30), and some by cargo preference years (April 1 through March 31). For clarity, throughout this report we have identified the type of year used when presenting data.

Our review work was performed from October 1989 to March 1990. All of our work was conducted in accordance with generally accepted government auditing standards.

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