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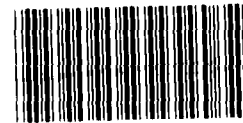
BY THE COMPTROLLER GENERAL  
Report To The  
Chairman, Subcommittee On Preparedness  
Committee On Armed Services  
United States Senate  
OF THE UNITED STATES

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## Conditions That Limit Using Barter And Exchange To Acquire National Defense Stockpile Materials

The National Defense Stockpile is maintained to prevent U.S. dependence on foreign sources of strategic and critical materials during national emergencies. Limited appropriated funds to meet stockpile goals have created interest in barter and exchange as alternatives to cash purchases. These alternatives involve trading federal property for needed stockpile materials.

Federal agencies have the legislative authority to use barter and exchange. However, they have used these methods sparingly because of restrictive legislative requirements and competing national interests, such as programs having potential needs for commodities that could be bartered. Thus, the current potential for using barter and exchange appears to be limited. GAO recommends that the Emergency Mobilization Preparedness Board, as part of its review of national defense stockpile goals and policies, assess the role barter and exchange can play in meeting stockpile needs and propose legislative changes if necessary.



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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON D.C. 20548

B-207627

The Honorable Gordon J. Humphrey  
Chairman, Subcommittee on Preparedness  
Committee on Armed Services  
United States Senate

Dear Mr. Chairman:

On June 28, 1982, you asked us to look at alternative financing methods of acquiring materials for the National Defense Stockpile. (See app. III.) On December 2, 1982, we issued a report to you on the actual and proposed stockpiling programs of other industrialized countries which included methods of financing being used.<sup>1</sup> In this final report, we address your interest in how barter and exchange--barter and exchange involve trading federal property for needed stockpile materials--are currently provided for in law and how they have been used to acquire stockpile materials.

We found that federal agencies have the legislative authority to use barter and exchange to acquire needed stockpile materials. (See app. I.) They have, however, been able to use this legislative authority only sparingly because of restrictive legislative requirements and competing national interests, such as other programs having potential needs for commodities that could be bartered. Thus, the current potential for using barter and exchange as alternatives to direct cash purchases of needed stockpile materials appears to be limited. We recommend that the Emergency Mobilization Preparedness Board, as part of its review of national defense stockpile goals and policies, assess the role barter and exchange can play in meeting stockpile needs and propose legislative changes if necessary.

BACKGROUND

In an April 5, 1982, report to the Congress,<sup>2</sup> the President stated that the United States must implement materials and minerals policy programs to ensure that America's capacity

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<sup>1</sup>"Foreign Governments' Stockpile Policies--Actual and Proposed"  
GAO/ID-83-16, Dec. 2, 1982.

<sup>2</sup>National materials and minerals program plan and report to Congress required by the National Materials and Minerals Policy, Research and Development Act of 1980 (Public Law 96-479.)

to field and sustain fighting forces in the event of war or national emergency is not curtailed by a shortage of critical raw materials. Prior to this report, the President had established the Emergency Mobilization Preparedness Board on December 17, 1981, to ensure this capability. The Board's purpose is to ensure that a capability exists to respond rapidly and effectively to meet national needs in the event of major peacetime and wartime emergencies. The Board consists of representatives from 23 key federal departments, agencies, and executive offices at the deputy or under secretary level and is chaired by the Assistant to the President for National Security Affairs.

One of the mobilization preparedness issues to be addressed by the Board is the National Defense Stockpile, which is comprised of 61 individual and related groups of materials. These materials are maintained to prevent a dangerous and costly dependence on foreign supply sources during national emergencies. The stockpile goal for each material represents estimated requirements, above the supply expected to be available from domestic production and reliable imports, for the first 3 years of a national emergency. Revised goals were last announced on May 2, 1980.

To fill the 1980 goals would require the purchase of additional materials valued at approximately \$12.5 billion. Yet, projected stockpile acquisitions for fiscal years 1983 through 1987 total only \$660 million or about 5 percent of the funds required. Barter and exchange are alternatives to using appropriated funds to acquire needed stockpile materials.

Barter and exchange literally mean to swap or trade one item for another without the use of money. The General Services Administration (GSA) is responsible for managing the stockpile, and is legislatively authorized to barter and exchange for needed stockpile materials. GSA defines "barter" as trading federally owned property, including agricultural commodities, for stockpile materials and "exchange" as trading excess stockpile materials for needed stockpile materials. The Strategic and Critical Materials Stock Piling Act, as amended (50 U.S.C. 98 et seq.), includes exchange under the definition of barter. This act provides the basic statutory authority for the acquisition and retention of stockpile materials. In this report, however, we use GSA's definition of barter and exchange to clearly delineate between the two terms.

The U.S. Department of Agriculture (USDA) also has legislative authority to barter. During the 1950's and 1960's, USDA's Office of Barter acquired about \$1.2 billion worth of stockpile materials from 50 countries through barter of surplus agricultural commodities. By the late 1960's, when many of the

stockpile goals had been met and surplus agricultural commodities depleted, the Office of Barter ceased its contracting. The barter program was suspended in 1973. Currently, no ongoing federal barter program exists.

GSA was first granted exchange authority in fiscal year 1969. However, use of this authority has been limited and no formal exchange program similar to the barter program within USDA's Office of Barter has been established.

Barter and exchange for needed stockpile materials have been used only once in the last decade. Under a 1981 presidential directive, 1.6 million tons of metal grade Jamaican bauxite was acquired--about 600,000 tons by direct cash purchase, 400,000 tons by barter, and 600,000 tons by exchange. The exchange was not an actual swap of materials; rather GSA sold excess stockpile materials on behalf of the Jamaican government. The President has also directed that another 1 million tons of Jamaican bauxite be acquired by barter in fiscal year 1984.

On November 5, 1981, the Chairman of the Subcommittee on Seapower and Strategic and Critical Materials, House Committee on Armed Services, asked the Department of Defense (DOD) to assist in initiating a program to barter surplus agricultural commodities for needed stockpile materials. DOD officials said that they had established an ad hoc working group comprised of DOD, GSA, USDA, Federal Emergency Management Agency (FEMA), and Department of State officials. This group was tasked with identifying countries with a potential interest in bartering needed stockpile materials for surplus U.S. dairy products. The group has had limited success in identifying potential barter transactions.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were to determine how barter and exchange are currently provided for in law and how they have been used to acquire stockpile materials. The scope of our review included identifying (1) conditions that affect the efficient and effective use of surplus agricultural commodities, surplus federal property, and excess stockpile materials to acquire needed stockpile materials, (2) the position on barter and exchange of the two federal agencies, GSA and USDA, having specific legislative responsibility, and (3) related actions by the administration. Because it is the only transaction completed since USDA's barter program was suspended in 1973, we evaluated, as a case example in the context of stockpile policy, the acquisition of bauxite from Jamaica.

We contacted officials at the various Federal agencies involved with the stockpile and/or barter and exchange. These agencies included FEMA, responsible for planning, programming, and reporting on the stockpile; GSA, responsible for purchasing,

storing, maintaining, transferring, rotating, distributing, protecting, and disposing of the stockpile materials; DOD, responsible, in part, for the war scenario on which the stockpile goals are based and for special defense requirements for materials; the National Security Council, which provides FEMA with guidance on developing stockpile policy; the Department of the Interior, which provides supply and capacity projections; the Department of State, responsible for economic and political reliability assessments of foreign suppliers and the probable effects of stockpile policy on foreign relations; and USDA, which provides the surplus agricultural commodities to barter for stockpile materials and operated the former barter program. In addition, we analyzed and evaluated pertinent authorizing legislation, reviewed agency files, and examined reports and studies on barter.

Our audit work was conducted primarily from August 1982 through November 1982. However, applicable sections of this report have been updated based on agency actions taken through September 15, 1983. Our review was performed in accordance with generally accepted government audit standards.

FEDERAL AGENCIES HAVE USED  
BARTER AND EXCHANGE SPARINGLY

Federal agencies are explicitly encouraged by the Strategic and Critical Materials Stock Piling Act, as amended, and the Agricultural Trade Development and Assistance Act of 1954, as amended, to use barter and exchange to acquire and dispose of stockpile materials when otherwise authorized by law, practicable, and in the best interest of the United States. Further, the President's April 5, 1982, program plan and report to the Congress stated that the administration will seek cases where barter and exchange "are more efficient and effective mechanisms than open market transactions" in acquiring needed stockpile materials. The report pointed to the Jamaican bauxite transaction as a "large and cost-effective acquisition program" indicative of the administration's plan to use all appropriate and cost-effective means to fill stockpile deficiencies. However, federal agencies have used these methods only sparingly because of legislative conditions governing their use, such as those addressed below and in more detail in appendix II and other competing national interests and priorities.

Of the numerous federal agencies involved with the stockpile and/or barter and exchange, authority and responsibility lie primarily with USDA and GSA. Of the three types of barter and exchange, the most common--bartering surplus agricultural commodities--involves both agencies. The other two--bartering surplus federal plants and equipment, and exchanging excess stockpile materials for needed stockpile materials--involve primarily GSA.

USDA

The Commodity Credit Corporation (CCC)<sup>3</sup> a federally owned corporation within USDA, is authorized by the CCC Charter Act to barter agricultural commodities owned by the CCC for stockpile materials. The Agricultural Trade Development and Assistance Act of 1954 also authorizes the Secretary of Agriculture to barter agricultural commodities for stockpile materials. (See app. I, p. 1.) However, USDA has not initiated such a transaction over the last decade.

The USDA Chief Negotiator for Barter and CCC Sales said that USDA does not favor barter in general but would consider it on a case-by-case basis. The USDA Administrator, Foreign Agricultural Service, said that USDA is interested in barter only if it does not displace U.S. cash sales of agricultural commodities on the world market and only if CCC is reimbursed for the commodities bartered, as currently provided for by law. (See p. 7.)

USDA officials identified legislative requirements that must be considered in determining the viability of any barter transaction involving surplus agricultural commodities. The Agriculture and Food Act of 1981 established a minimum price at which certain CCC-owned wheat, corn, and other feed grains can be sold. (See app. II, p. 3.) According to a USDA staff attorney, this minimum price may also apply to barter transactions which affect the cash market in the same way a normal cash sale would, but this must be decided by USDA's general counsel on a case-by-case basis. If the minimum price in the Agriculture and Food Act of 1981 applies to a barter transaction, the grains would currently have to be valued at a price higher than the world market price, making them possibly unattractive to some potential barter partners.

The Agricultural Trade Development and Assistance Act of 1954, as amended, requires the Secretary of Agriculture to (1) take reasonable precautions to assure that barter will not displace U.S. cash sales on the world market (see app. II, p. 4), (2) endeavor to cooperate with other exporting countries in preserving normal patterns of commercial trade (see app. II, p. 4), and (3) restrict barter to bilateral transactions between the United States and one other country, that is, each barter transaction can involve no more than one foreign country (see app. II, p. 5). Also, the CCC Charter Act requires that, insofar as practicable, normal commercial trade channels be used

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<sup>3</sup>CCC supports prices of agricultural commodities through loans, purchases, payments, and other operations and disposes of surplus agricultural commodities.

and that priority be given to commodities easily storable and those which serve as prime incentive goods to stimulate production of strategic and critical materials.

Legislation has been introduced in the 98th Congress to amend the CCC Charter Act by inserting, among other requirements, a bilateral restriction whenever agricultural commodities are bartered. The bill, S. 822, has been placed on the Senate legislative calendar and referred to a House committee. As of September 1983, no further action had been taken. Conversely, S. 1683 has also been introduced to amend the Agricultural Trade Development and Assistance Act of 1954 to, among other things, eliminate the bilateral restriction from the statute.

USDA officials told us that, in addition to the above legislative requirements, competing national interests and priorities must also be considered. As a result, all surplus agricultural commodities are not available for barter. For example, as of December 31, 1982, CCC owned about 185 million bushels of wheat of which 147 million bushels, or almost 80 percent, were committed to the Food Security Wheat Reserve.<sup>4</sup> The remainder was committed to export sales and the recently established payment-in-kind (PIK) program where farmers reduce their acreage in return for free CCC-owned grain. Also, as of December 31, 1982, CCC held 1.1 billion bushels of wheat as collateral for about \$3.9 billion in outstanding price support loans. Since this wheat is not owned by CCC, it is not available for barter. Further, CCC owned about 2.4 billion pounds of dairy products, including butter, cheese, and nonfat dry milk, and 354 million bushels of corn. The availability of these commodities for barter, however, is contingent on satisfying the legislative requirements identified above and the availability of the CCC-owned corn is also contingent on the PIK program.

In a November 5, 1981, "Report to the President and the Congress of the Potential for Expansion of United States Agricultural Export Markets," the Secretary of Agriculture concluded that, "aside from assurance that a natural resource or other commodities would be delivered, nothing is gained from participation in a barter agreement." The report stated that barter agreements in agricultural commodity trade markets reduce the number of sellers and buyers in each market, making prices in those markets fluctuate more widely. This would happen because changes in the amounts bought and sold would have to be absorbed by a smaller number of buyers and sellers. The report concludes that this would not promote favorable trade trends for the United States.

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<sup>4</sup>A reserve established under title III of the Agricultural Act of 1980 (Public Law 96-494) to meet emergency humanitarian food needs in developing countries.



GSA

GSA is authorized to participate in barter transactions involving surplus agricultural commodities and federal property as well as in exchanges of excess stockpile materials to acquire needed stockpile materials. However, like USDA, GSA has used these methods sparingly because of legislative conditions governing their use and unfavorable market conditions.

Bartering surplus agricultural commodities

The CCC Charter Act, as amended, states that CCC shall be reimbursed (by GSA) at the fair market value of the materials transferred to the stockpile that were acquired by bartering CCC-owned agricultural commodities. Because of this reimbursement provision, GSA officials told us that they would prefer to make direct cash purchases rather than use the limited funds appropriated for stockpile acquisitions to reimburse CCC for bartered agricultural commodities. GSA believes that direct purchase is a more efficient way of acquiring needed materials. They have proposed that the CCC Charter Act be amended to waive reimbursement, and S. 1683 (see p. 6) would amend the act to eliminate this reimbursement provision. Conversely, USDA officials are opposed to any legislation that would eliminate reimbursement for CCC-owned commodities bartered for stockpile materials. If the applicable legislation is amended to eliminate this reimbursement requirement, additional funds may ultimately have to be appropriated to the CCC to continue supporting agricultural commodities' prices. In other words, the funds that would now have to be appropriated to GSA to reimburse CCC for the agricultural commodities bartered for stockpile materials may ultimately have to be appropriated directly to CCC. This obstacle does not apply, however, to bartering other federally owned property for stockpile materials and exchanging excess stockpile materials for needed stockpile materials.

Bartering surplus federal property

GSA has attempted to barter surplus federal property, including DOD plants and equipment, for stockpile materials twice in the past decade. The Federal Property and Administrative Services Act of 1949, as amended, authorizes the acceptance of stockpile materials in lieu of cash as payment for surplus federal property. However, GSA's two attempts to use this authority were unsuccessful.

In 1982, GSA made one proposal to accept aluminum and another proposal to accept titanium sponge as payment for two separate surplus Air Force industrial plants. Although the potential buyers expressed some interest in barter, congressional

committees criticized the proposed disposals because they had been informed that the plants were to be sold for cash but not the possibility of accepting materials in lieu of cash. Eventually, rather than risk the loss of these sales, both barter proposals were set aside and the plants sold for cash in April and June 1982. According to GSA officials, they now have no definitive plans to barter surplus Federal property for stockpile materials.

#### Exchanging excess stockpile materials for needed ones

The stockpile contains excess materials that are available for exchange to acquire needed materials. As of March 31, 1982, materials having a market value exceeding \$3.8 billion were considered excess to stockpile goals. However, although GSA has had exchange authority since fiscal year 1969, GSA officials informed us that no successful commodity-for-commodity exchanges have occurred. A GSA analysis pointed to unfavorable conditions, including (1) difficulty in establishing the value of the excess stockpile materials to be exchanged due to their various grades and quality, (2) rapidly fluctuating market conditions which affect the value of the materials to be exchanged, making this method a less attractive form of payment than direct cash purchases, and (3) lack of demand by potential exchange partners for the excess stockpile materials. Therefore, GSA-initiated solicitations have been limited. Furthermore, we noted during our review that GSA had not established a process to regularly solicit, evaluate, and respond to exchange proposals for excess stockpile materials authorized for disposal.

In August 1981, GSA did, however, solicit proposals to acquire vanadium for the stockpile using stockpile tin and/or tungsten as payment. An offer was accepted to exchange tin for vanadium. However, according to GSA's Director of Stockpile Acquisitions, no award was made because the transaction could have disrupted the world tin market. GSA believed that this would have been contrary to the Strategic and Critical Materials Stock Piling Act, as amended, which requires that, in disposing of stockpile materials, efforts be made, to the maximum extent feasible, to avoid undue disruption of the usual markets of producers, processors, and consumers of such materials. The act exempts barter transactions from this requirement but it does require that the transaction be "practical and in the best interest of the United States."

We found that commercial interest in exchanging for excess stockpile materials, while limited, did exist in mid-1981 and late 1982. For example, one domestic producer had proposed to exchange nickel for excess tin while another expressed interest in exchanging nickel or cobalt for excess tungsten. One

international trading company wished to exchange cobalt for tin and another vanadium for excess lithium. GSA's Director of Stockpile Acquisitions stated that GSA had taken no action on any of these proposals because it prefers to initiate exchange solicitations itself rather than respond to unsolicited ones. But as noted above, GSA has not developed a process to handle such proposals.

GSA has, however, sold stockpile materials on behalf of an exchange partner in implementing a presidential directive. In November 1981 the President directed that Jamaican bauxite be acquired through the exchange of excess stockpile materials authorized for disposal. However, the Jamaican government did not want any of the excess stockpile materials. Therefore, GSA sold the stockpile materials on behalf of the Jamaican government and buyers made payments directly to the Jamaicans. These payments and a 2-percent fee based on the selling price to cover GSA's costs associated with selling and shipping the materials eliminated the amount GSA owed for the bauxite.

GSA also plans to implement a November 29, 1982, presidential directive to upgrade stockpile manganese and chromium ores by using excess stockpile materials as partial payment. Under the directive, domestic ferroalloy<sup>5</sup> producers will produce approximately 577,000 short tons of high-carbon ferromanganese and 519,000 short tons of high-carbon ferrochromium during the next 10 years from the stockpiled ores. The cost of upgrading is estimated at \$40 million a year, excluding transportation. GSA plans to finance the first 3 years of upgrading by providing domestic producers excess stockpile materials as payment.

AD HOC BARTER WORKING  
GROUP HAS HAD LIMITED  
SUCCESS

The ad hoc working group established by DOD (see p. 3) has also addressed barter. This group was to identify countries with potential interest in bartering U.S. dairy products for needed stockpile materials. However, it has had only limited success in identifying potential barter partners. The group identified China and Nigeria as the only countries with a potential interest in bartering needed stockpile materials for surplus U.S. dairy products. But, American Embassy officials in these countries believed that these countries were doubtful or not worthwhile barter prospects. The Embassy officials also noted that

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<sup>5</sup>A ferroalloy is any of various alloys of iron, used in manufacturing steel, named for the added metal, such as ferrochromium and ferromanganese.

stockpile materials that the United States needs, such as titanium and bauxite, are cash sale items in these countries. Therefore, these countries would have little, if any, interest in bartering for them.

THE EMERGENCY MOBILIZATION  
PREPAREDNESS BOARD ACTIVITIES  
ON BARTER AND EXCHANGE

The Emergency Mobilization Preparedness Board established by presidential directive in December 1981, is charged with the responsibility of producing a national policy on emergency mobilization and an action plan to improve emergency mobilization preparedness. As part of its responsibilities, the Board is to address the goals for the National Defense Stockpile and the overall strategies for achieving these goals. The Board is also responsible for monitoring federal agency implementation of these policies and resolving mobilization preparedness issues, including stockpiling of strategic and critical materials. Since its inception, the Board has devoted most of its time to addressing other mobilization issues and has just recently begun addressing stockpile goals. Since the Board transcends the missions and specific interests of executive agencies and also has the authority to direct action that crosses agency lines, we believe the Board seems to be a more appropriate forum for addressing the issues affecting the use of barter and exchange.

CONCLUSIONS

Federal agencies have the legislative authority to use barter and exchange to acquire needed stockpile materials and are explicitly encouraged to do so by two acts. Further, the President has stated that the administration will seek cases where barter and exchange "are more efficient and effective mechanisms than open market transactions" in acquiring needed stockpile materials. However, due to restrictive legislative requirements and competing national interests and priorities, federal agencies have used barter and exchange sparingly to acquire stockpile materials. For example, a major obstacle to bartering raised by the agencies involved is the requirement that CCC be reimbursed at the fair market value of the stockpile materials acquired with CCC-owned agricultural commodities when such materials are transferred to the stockpile. This, in effect, reduces the limited funds appropriated for stockpile acquisitions.

Barter and exchange are inherently complex undertakings that often involve more than one federal agency--each with different interests to promote--and foreign governments. Thus, they must be considered within the context of national and international interests and priorities. As such, barter and exchange

transactions are not easily achieved. The Jamaica bauxite transaction is an example of the complexity and the intervention by higher authority necessary to initiate and complete these undertakings. Because of the complexities involved, barter and exchange would probably best be handled by an authority above the individual agencies. In our view, if left to the individual agencies, future barter and exchange transactions may be limited to those conducted at the request of the President. However, the Emergency Mobilization Preparedness Board has the authority to address barter and exchange within the context of overall stockpile and national mobilization preparedness policies. Therefore, we believe that the Board's mobilization policy and action plan would be the more preferable vehicle for defining the role of barter and exchange in acquiring needed stockpile materials.

Once the role of barter and exchange has been better defined, specific barter and exchange transactions anticipated or being explored should be identified. The Strategic and Critical Materials Stock Piling Act, as amended, requires the President to submit to the Congress every 6 months a written report detailing stockpile operations, including information on the acquisition and disposal of stockpile materials by barter and exchange during the preceding 6 months. It does not, however, require the President to identify specific barter and exchange transactions anticipated or being explored. We believe that the Board should identify these transactions in the President's report to assist the Congress in its stockpile deliberations.

RECOMMENDATIONS TO THE  
ASSISTANT TO THE PRESIDENT  
FOR NATIONAL SECURITY AFFAIRS

We recommend that the Assistant to the President for National Security Affairs, as Chairman of the Emergency Mobilization Preparedness Board, take the following actions:

- Assess the role barter and exchange can play in acquiring needed stockpile materials within the context of the Board's national mobilization preparedness policy and action plan. In making this determination, the legislative requirements and competing national interests and priorities related to their use should be considered, such as the requirement that CCC be reimbursed for the agricultural commodities bartered for stockpile materials. The Board should propose legislative changes if necessary.
- Assign and monitor agency responsibilities for barter and exchange.

--Identify specific barter and exchange transactions anticipated or being explored in the President's written report to the Congress detailing stockpile operations.

AGENCY COMMENTS AND  
OUR EVALUATION

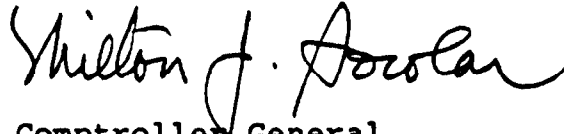
We requested and obtained official comments on our draft report from USDA, GSA, and the National Security Council acting on behalf of the Assistant to the President for National Security Affairs as Chairman of the Emergency Mobilization Preparedness Board. Both GSA (see app. V) and the National Security Council (see app. VI) concurred in general with the views stated in the draft report. The Council stated that it "is a positive contribution to the discussion of these topics . . ." and that the Board will assess the proper role of barter and exchange in its comprehensive review of overall stockpile policy. As of September 30, 1983, the Board is addressing the revision of stockpile goals and will address barter and exchange next with expected completion by mid-1984. USDA, while neither agreeing nor disagreeing with the report's conclusions and recommendations, recommended two minor changes, which we made. (See app. IV.)

GSA concluded that the future use of barter in acquiring stockpile materials will greatly depend on the resolution of the reimbursement issue. It suggested that we recommend that the Secretary of Agriculture determine methods by which USDA could pursue reimbursement from sources other than the funds appropriated to GSA for stockpile acquisitions. We agree that the reimbursement issue is a major obstacle to bartering. But we believe the matter of reimbursement could be adequately addressed by the Board when it defines what role barter and exchange can play in acquiring stockpile materials.

The Council, in turn, stated that the administration is utilizing materials exchange to the extent practicable given prevailing materials markets. Our evaluation indicated that the potential disruption of exchange transactions on currently depressed materials markets was indeed one of the reasons currently limiting their use but that other conditions and legislative requirements were also contributing factors. The Council also stated that agricultural barter deals are complex and that agencies have to consider how the barter would affect U.S. agriculture and trade interests before entering into them. We agree that barter transactions are complex and must consider the array of conditions identified in this report.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of its issuance. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Milton J. Fowler". The signature is written in dark ink and is positioned above the typed name.

Acting Comptroller General  
of the United States





## C o n t e n t s

	<u>Page</u>	
<b>APPENDIX</b>		
I	<b>BARTER AND EXCHANGE LEGISLATION</b>	1
	Barter	1
	Exchange	2
II	<b>LEGISLATIVE REQUIREMENTS WHICH MUST BE CONSIDERED IN BARTER AND EXCHANGE TRANSACTIONS</b>	3
	GSA must reimburse USDA for stockpile materials acquired	3
	CCC-owned grains may be valued at more than the world market price	3
	Barter should not displace U.S. cash sales on the world market	4
	Normal commercial trade patterns should be preserved	4
	Barter may be limited to bilateral transactions	5
III	Letter dated June 28, 1982, from the Chairman, Subcommittee on Preparedness Senate Committee on Armed Services	6
IV	Letter dated June 9, 1983, from the Administrator, Foreign Agricultural Service, U.S. Department of Agriculture	7
V	Letter dated June 17, 1983, from the Deputy Administrator, General Services Administration	9
VI	Letter dated June 13, 1983, from the Executive Secretary, National Security Council	10

### ABBREVIATIONS

CCC	Commodity Credit Corporation
GAO	General Accounting Office
GSA	General Services Administration
USDA	U.S. Department of Agriculture



BARTER AND EXCHANGE LEGISLATION

Several different acts authorize the President and federal agencies to use barter and exchange in acquiring and disposing of stockpile materials. The legislation authorizes (1) acquiring stockpile materials in lieu of cash when surplus federal property is disposed of, (2) trading federally owned surplus agricultural commodities for stockpile materials, and (3) exchanging stockpile materials in excess of goals for needed stockpile materials. Specific legislation is addressed below.

BARTER

Section 6(c) of the Strategic and Critical Materials Stock Piling Act, as amended (50 U.S.C. 98e), emphasizes the use of barter as authorized in this and other legislation. Section 6(c)(1) states that the President shall encourage the use of barter in acquiring strategic and critical materials for, and disposing of materials from, the stockpile when acquisition or disposal by barter is authorized by law, is practical, and is in the best interest of the United States. Section 6(c)(3) states that property owned by the United States may be bartered for needed stockpile materials.

Under subsection 204(f) of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 485(f)), federal agencies entitled to receive cash under any contract covering the lease, sale, or other disposition of surplus property are authorized to accept strategic materials instead of cash. Likewise, the President is authorized under the provisions of the Foreign Assistance Act, as amended (22 U.S.C. 2423), to furnish under the Foreign Military Sales Act (22 U.S.C. 2751) defense articles or services for any necessary or strategic natural material he determines is in short supply for the United States.

The Commodity Credit Corporation (CCC) Charter Act (15 U.S.C. 714b(h)) authorizes CCC to barter agricultural commodities it owns for strategic and critical materials produced abroad. CCC serves to support prices of agricultural commodities through loans, purchases, payments, and other operations as well as dispose of, or deal in the disposal of, surplus agricultural commodities.

The Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1727g), broadened the Secretary of Agriculture's barter authority to include not only strategic materials, but also materials, goods, and equipment required for foreign assistance and offshore construction programs. The act states that the Secretary shall, whenever he determines that such action is in the best interest of the United States, and "to the maximum extent practicable," barter and exchange CCC-owned commodities.

EXCHANGE

While barter can involve trading federally owned property, including agricultural commodities, exchange is limited by the General Services Administration's (GSA's) definition to trading excess stockpile materials for needed stockpile materials. GSA regulations define exchange as "the acquisition of strategic and critical materials for the National Defense Stockpile by using as payment stockpile materials, the disposition of which is authorized by law."

GSA's fiscal year 1969 appropriation act authorized the use of exchange for the first time. This authority was extended in subsequent fiscal year appropriation acts through 1979. The Strategic and Critical Materials Stock Piling Revision Act of 1979 (Public Law 96-41) amended the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98 et seq.) to permit the President to exchange excess materials in the National Defense Stockpile for needed stockpile materials.

LEGISLATIVE REQUIREMENTS WHICH MUST  
BE CONSIDERED IN BARTER AND  
EXCHANGE TRANSACTIONS

Although the legislation identified in appendix I provides broad legislative authority to barter and exchange, it also imposes some requirements which must be considered in determining the viability of any barter or exchange transaction. The inability or unwillingness to comply with legislative requirements is one reason why GSA and U.S. Department of Agriculture (USDA) are not using these methods to acquire needed stockpile materials.

GSA MUST REIMBURSE USDA FOR  
STOCKPILE MATERIALS ACQUIRED

The CCC Charter Act requires that CCC be reimbursed an amount equivalent to the fair market value, as determined by the Secretary of the Treasury, of the materials transferred to the stockpile. Thus, the barter of surplus agricultural commodities ultimately results in the expenditure of funds appropriated to GSA for stockpile acquisitions.

For example, to comply with the CCC Charter Act, an August 10, 1982, memorandum states that GSA will reimburse CCC \$13 million not later than the end of fiscal year 1984 for 400,000 tons of Jamaican bauxite acquired by bartering CCC-owned dairy products. In addition, GSA paid the Jamaican government about \$3.9 million to transport and handle the bauxite.

On the one hand, this means that bartering surplus agricultural commodities may (1) permit GSA to acquire stockpile materials in one fiscal year and defer reimbursement to CCC to a later fiscal year, (2) permit CCC to dispose of deteriorating surpluses and save storage costs, and (3) help the U.S. balance of payments since commodities rather than cash were exported. On the other hand, the reimbursement provision still requires spending funds appropriated for stockpile acquisitions. While this did not present a problem during the 1950's when appropriations were adequate to effectively meet stockpile goals, current fiscal budget constraints severely limit the funds available for barter as well as for cash purchases.

CCC-OWNED GRAINS MAY BE VALUED AT  
MORE THAN THE WORLD MARKET PRICE

The Agriculture and Food Act of 1981 (Public Law 97-98) requires that during certain periods of time CCC-owned wheat, corn, and other feed grains be sold at a price which is not less

than 110 percent of the release price set in the farmer-owned reserve program.<sup>6</sup> Thus, selling prices for certain CCC-owned commodities are legislatively tied to farmer price-support programs. Although the legislation refers only to selling commodities and does not mention barter, USDA officials told us that if a barter transaction will affect the cash market the way a normal cash sale would, then the barter would be, in effect, considered a sale and the minimum statutory price restriction would apply. Wheat and corn, if available for barter, would have to be valued at a minimum sale price under the act. Currently, in the case of wheat, this price is considerably higher than the world market price. Such a price would discourage the use of these commodities for barter, according to the officials.

BARTER SHOULD NOT DISPLACE U.S.  
CASH SALES ON THE WORLD MARKET

During the 1950's and 1960's, USDA's Office of Barter contracted with private dealers to barter CCC-owned grains abroad for stockpile materials. However, the Agricultural Trade Development and Assistance Act of 1954, as amended, requires the Secretary of Agriculture to take reasonable precautions to assure that barter will not displace U.S. cash sales on the world market. This legislative requirement specifically affects the use of wheat and other feed grains as barter items because the United States is now a major exporter of these items. Thus, before any barter transaction of feed grains can be made, it would have to add to, not displace, existing U.S. cash export grain sales.

NORMAL COMMERCIAL TRADE PATTERNS  
SHOULD BE PRESERVED

The Agricultural Trade Development and Assistance Act of 1954, as amended, states that the Secretary of Agriculture shall endeavor to cooperate with other exporting countries in preserving normal patterns of commercial trade. Barter transactions which disrupt these patterns can lead to criticism from countries exporting the commodities involved.

For example, New Zealand has criticized the Jamaican bauxite transaction. The country expressed its concern in a diplomatic letter to the Department of State which stated that the dairy products bartered would disrupt its normal commercial trade pattern since New Zealand is a regular exporter of dairy products to Jamaica. Since the world dairy market is limited to a few countries, bartering surplus U.S. dairy products for stockpile materials could easily disrupt normal trade patterns.

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<sup>6</sup>Grains held by CCC as collateral for farm loans.

BARTER MAY BE LIMITED TO  
BILATERAL TRANSACTIONS

Before 1968 the United States participated in multilateral barter transactions of agricultural commodities involving more than one other country. However, in 1968 the Agricultural Trade Development and Assistance Act was amended to restrict barter to bilateral transactions. The amendment states that barter or exchange for strategic or other materials for which the United States does not domestically produce its requirements shall be limited to exchange for materials which originate in the country to which the surplus agricultural commodities are exported and to arrangements which will prevent resale or transshipment of the agricultural commodities to other countries. According to the House Conference Report accompanying the Agricultural Trade Development and Assistance Act, the amendment was passed to limit bartering "to bilateral agreements between our country and other friendly nations of the world."

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## United States Senate

COMMITTEE ON ARMED SERVICES

WASHINGTON, D.C. 20510

June 28, 1982

Honorable Charles A. Bowsher  
 Comptroller General of the United States  
 General Accounting Office  
 441 G Street N.W.  
 Washington, D.C. 20548

Dear Mr. Bowsher:

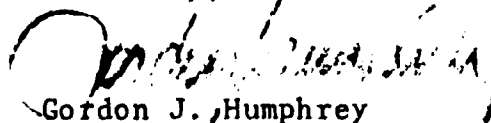
The Preparedness Subcommittee of the Senate Armed Services Committee held hearings on matters surrounding the National Defense Stockpile on 9 and 10 June 1982. On June 10, 1982 several witnesses from the private sector testified before the Subcommittee. Included in their testimony were alternate methods of financing materials for the National Defense Stockpile than is currently allowed by law.

I would like for the General Accounting Office to review alternate methods of financing such materials for the Stockpile. Apparently, Sweden and Switzerland offer tax incentives to industry for maintaining stocks of critical materials. Bond sales were mentioned, but no examples were provided. I also would like for the review to cover the methods of financing and stockpiling critical materials presently employed by our NATO allies. Additionally, please address barter as is currently provided for in law and how it has been employed.

I would appreciate an interim response from you indicating the length of time necessary to complete these actions. Members of the Committee staff have communicated with the Energy and Minerals Division of GAO. If they have any further questions, they may contact Mr. Ken Johnson of the Committee staff at 224-8629.

Thank you for your assistance.

Sincerely,



Gordon J. Humphrey  
 Chairman  
 Subcommittee on Preparedness

cc: Honorable Carl Levin (D-MI)  
 Ranking Minority Member  
 Subcommittee on Preparedness





United States  
Department of  
Agriculture

Foreign  
Agricultural  
Service

Washington, D.C.  
20250

JUN 9 1983

Mr. J. Dexter Peach  
Director  
Resources, Community, and Economic  
Development Division  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Peach:

We have reviewed the draft of the GAO report RCED-83-125 entitled "Using Barter and Exchange to Acquire National Defense Stockpile Materials" and recommend the following changes:

BARTERING SURPLUS AGRICULTURAL COMMODITIES (Page 7)

Recommendation: Delete the following sentence: "Further, handling and transportation costs relating to the agricultural commodities bartered may be added, increasing the price paid by GSA above that of a direct cash purchase."

Reason. The Charter Act of the Commodity Credit Corporation (CCC) provides that when materials are transferred to the national stockpile, CCC will be reimbursed in an amount equal to the fair market value of the materials, as determined by the Secretary of the Treasury. The fair market value would be determined at the time transfer of title is made to the General Services Administration (GSA). Any CCC costs for handling and transportation of the agricultural commodity would not be added to the fair market value of the material transferred to GSA.

BARTER AND EXCHANGE ARE BEING STUDIED BY THE ADMINISTRATION (Page 9)

Recommendation: Delete the following two sentences in the first full paragraph: "Two other countries, Indonesia and Kenya, have contacted the group and expressed an interest in bartering for dairy products. These prospects are being pursued by the group."

Reason. None of the countries that have expressed an interest in the barter of materials for agricultural commodities have contacted the ad hoc working group directly. Contacts by foreign governments or foreign trade representatives concerning barter arrangements were made with the responsible officials in each U.S. Government agency. Indonesia has not contacted USDA concerning a possible barter arrangement for dairy products.

On several occasions, officials of the Government of Kenya have made inquiries about a possible barter arrangement involving pyrethrum for agricultural commodities. The Government of Kenya has been advised that all interested U.S. Government agencies involved with the national stockpile are now assessing the need to continue pyrethrum on the national stockpile list. The request by the Government of Kenya cannot be considered until such time as the review is complete and a decision made regarding the need to maintain pyrethrum on the stockpile list. We do not anticipate a decision until early 1984.

We appreciate having had the opportunity to review and comment on the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard A. Smith". The signature is written in a cursive, somewhat stylized font.

Richard A. Smith  
Administrator

[GAO NOTE: Page numbers have been changed to correspond with the final report. Also, the caption on page 9 has been changed. The GAO report number was changed to reflect report issuance in fiscal year 1984.]



General  
Services  
Administration

Washington, DC 20405

JUN 17 1983

Honorable Charles A. Bowsher  
Comptroller General of the United States  
General Accounting Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Mr. Bowsher:

Thank you for the opportunity to comment on your draft Audit Report 25-3025-D, Using Barter and Exchange to Acquire National Defense Stockpile Materials (GAO/RCED-83-125).

The General Services Administration (GSA) concurs in general with the views stated in the draft report. We would emphasize, as noted in the draft report, that GSA has made some substantial efforts to use excess Stockpile materials for the acquisition of needed Stockpile materials. This method of acquisition, however, has not proven to be an effective and efficient use of the limited resources available to this agency, mostly for the reasons stated in your draft report.

Future use of barter in acquiring material for the Stockpile will depend, in substantial part, on resolution of the issue of reimbursement to the bartering agency. Comparison of the current situation to the barter program previously conducted by the U.S. Department of Agriculture (USDA) could be misleading, due to numerous changes in overall program constraints in both that agency and GSA. For instance, twenty years ago USDA was reimbursed by direct appropriation. We suggest that your recommendation to the Secretary of Agriculture be expanded to include determining methods by which USDA could pursue recovery of funds from sources other than the National Stockpile Transaction Fund.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ray Kline', written over a faint, larger version of the signature.

Ray Kline  
Deputy Administrator

[GAO NOTE: The GAO report number was changed to reflect report issuance in fiscal year 1984. Also, in the draft report commented on by GSA, we proposed that the Secretary of Agriculture take certain actions to clarify the bilateral restriction issue. We have deleted this proposal in our final report because we believe the issue is one that is better dealt with in the broader context of the Emergency Mobilization Preparedness Board's review.]

NATIONAL SECURITY COUNCIL  
WASHINGTON, D.C. 20506

June 13, 1983

MEMORANDUM FOR J. DEXTER PEACH  
Director, Resources, Community and Economic  
Development Division  
General Accounting Office

SUBJECT: GAO Draft Report, "Using Barter and Exchange to  
Acquire National Defense Stockpile Materials"

We have reviewed your draft report on the use of barter and exchange to acquire strategic materials. In general, we believe your report is a positive contribution to the discussion of these topics, but the report should note the following:

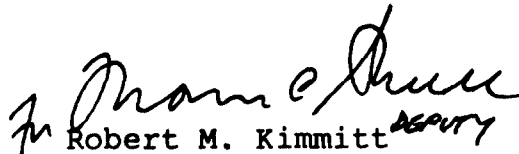
-- Given prevailing materials markets, the Administration is utilizing materials exchange to the extent practicable, noting that by law the USG seeks to avoid being disruptive to materials markets.

-- There are adequate lines of communication--in place--to the EMPB from Government agencies and from outside entities that wish to propose agricultural barter procurements for consideration. The report should further underscore that agricultural barter deals are extremely complex and may, if entered into by the USG without a full review of the facts and implications, harm US agriculture and trade interests. The Administration through the Jamaican bauxite barter and exchange has gained valuable experience with these means of materials acquisition, noting that more than fifteen years had elapsed since these acquisitions methods were last used by the USG. As such, the Administration can now better assess the real merits of future barter or exchange options.

-- The EMPB has already begun a comprehensive review of overall USG stockpile policy. The proper role of barter and exchange along with appropriate implementation procedures will be assessed in this review.

-- A technical note: On page 3 of the draft, the numbers should read:

... approximately 600,000 tons by direct  
cash purchase, 400,000 tons by barter, and  
approximately 600,000 tons by exchange ...

  
Robert M. Kimmitt  
Executive Secretary



26830

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