114158

BY THE COMPTROLLER GENERAL

Report To The Chairman, Subcommittee On Limitations Of Contracted And Delegated Authority, Senate Committee On The Judiciary

OF THE UNITED STATES

RELEASED

Competition Among Suppliers In The P.L. 480 Concessional Food Sales Program

114158

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Since fiscal year 1969, seven major grain firms have supplied most of the grain sold under the federally financed P L 480 program Other firms and farmer cooperatives have been important suppliers in several years, but recent bidding statistics show that they compete only sporadically

Program regulations basically provide all suppliers an opportunity to participate, and the Department of Agriculture has acted to encourage wider supplier participation GAO identified several barriers to greater industry participation and recommended remedies to the Secretary of Agriculture

GAO analyzed two alternative legislative approaches for increasing participation Each would require changes in the philosophy of the program and would involve disadvantages as well

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D C 20548

B-199688

The Honorable Max Baucus, Chairman
Subcommittee on Limitations of Contracted
and Delegated Authority
Committee on the Judiciary
United States Senate

Dear Mr. Chairman:

This report responds to certain questions you raised concerning supplier competition for U.S. Government-financed grain sales under Title I of Public Law 83-480. You specifically asked us to determine: whether other firms and farmer cooperatives successfully competed against seven major grain firms for these sales since fiscal year 1969; if the Department of Agriculture has actively and effectively promoted competition by other suppliers; and what changes in the legislation or management of the program might increase supplier competition and make the program more effective and efficient.

In order to answer your questions, we did the following: to determine the extent that cooperatives and other firms have successfully competed for these sales, we analyzed available sales statistics for fiscal years 1969 through 1978. We also analyzed bid data for fiscal years 1978 and 1979 to ascertain the extent that these other suppliers have attempted to compete. To assess USDA efforts to broaden supplier competition, we reviewed the various legislation involved to determine what is required, and reviewed pertinent USDA records and discussed their policy and activities with the USDA agencies and offices primarily responsible for the Public Law 480, small business, and farmer cooperative programs. Finally, concerning your request for our legislative or management recommendations, we sought views, comments, and suggestions from more than 60 title I suppliers and other industry sources on how to make the program more attractive to potential suppliers. We also used the results of our own analyses of title I bidding procedures and program operations, as well as discussions with USDA officials and prior USDA studies.

With respect to the above questions, our report shows the following.

--In several years, other firms and export cooperatives have supplied significantly more grain or rice than several of the seven

major firms; but the seven major firms have collectively supplied 70 to 90 percent of all title I grains and rice in 8 of the 11 fiscal years from 1969 through 1979. For a variety of reasons, however, other firms and cooperatives only bid sporadically for these sales whereas the seven major firms bid aggressively for most commodities. (See app. I.)

--The Department of Agriculture has acted to encourage greater participation by other suppliers. The Department's basic policy and position is that title I regulations, which require open, competitive bids and allow suppliers to offer any quantity, meet the requirement in the title I legislation to afford all suppliers an adequate and fair opportunity to participate in these sales. In our opinion, USDA policy and regulations basically meet the requirements of the existing legislation. If the Congress desires that USDA be required to do more, changes in the legislation would be needed. As requested, we have identified two possible legislative approaches. Further study would be required before implementing either approach, and each would involve changes in the basic philosophy of title I, and each would involve disadvantages as well as advantages. (See app. II.)

--Grain firms are experiencing problems with certain title I procedures and requirements. These problems are acting as barriers to greater industry participation, particularly by smaller firms or cooperatives. Accordingly, we are recommending that the Secretary of Agriculture direct the General Sales Manager, who has responsibility for this program, to take appropriate action to:

--standardize performance bond requirements (see p. 21);

--improve procedures to provide earlier payment to suppliers (see p. 23);

--simplify bid bond requirements (see p. 24);

--standardize the letter-of-credit procedures (see p. 25);

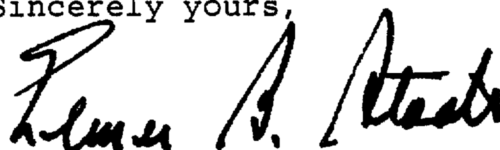
--develop standardized Invitations for Bids (see p. 26);

--limit the size of individual sales and seek to develop a more orderly sales distribution (see p. 28).

In commenting on our draft report, the General Sales Manager generally agreed with the above recommendations with one exception. The General Sales Manager agreed that procedures should be changed to provide earlier payment to suppliers of bagged commodities. However, he commented that since bulk grains are fungible--that is, they can be freely substituted or traded while in export elevators--they do not present as much risk of loss to the supplier as do bagged commodities. He stated that until the problems of inspecting and documenting bulk grains while in export elevators can be resolved, USDA could not support implementation of our recommendation for bulk grain sales.

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 the report. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



Comptroller General
of the United States

Contents

APPENDIX		Page
I	To what extent are smaller firms and farmer cooperatives successfully competing for sales of grain and related food commodities under Title I, Public Law 83-480, and what percentages of these sales have been purchased from the following major grain firms since 1969--Cargill Co., Inc., the Continental Grain Co.; Bunge Corporation; Louis Dreyfus Corporation; Garnac Grain Company, Inc.; Cook Industries; and Connell Rice and Sugar Co., Inc.?	1
	Title I sales	1
	Title I bidding	4
II	Has the Department of Agriculture actively and effectively solicited participation by smaller grain companies and farmer cooperatives as P L. 480, title I suppliers? What changes does GAO believe might be made in the legislation governing title I that might encourage broader supplier competition, return a greater share of the profits to the American farmer, and make the program more efficient and effective?	7
	What the legislation requires	8
	Small business requirements	8
	Cooperative legislation requirements	9
	USDA Policy and efforts	10
	Office of the General Sales Manager	10
	Foreign Agricultural Service	11
	Agricultural Cooperative Service	12
	Other USDA organizations	13
	Two legislative approaches for increasing supplier participation	14
	1 Establish set-aside programs	14
	2. Have USDA procure and sell title I commodities	16
	Agency comments and our evaluation	17

		Page
III	What changes would GAO recommend in the management of the P.L. 480, Title I program that might (a) encourage greater competition, (b) enable U.S. grain farmers to gain a higher share of the profits, and (c) make the program more effective and reduce the financing costs to the Government?	19
	Opportunities to increase competition and foster a more effective and efficient title I program	20
	1 Standardize performance bond requirements	21
	2. Improve payment procedures	23
	3. Simplify bid bond requirements	24
	4. Standardize letter-of-credit	25
	5. Develop standardized IFBs	26
	6. Establish more orderly commodity flow	28
	7. Cargo preference	30
	Recommendation	31
	Agency comments and our evaluation	32
EXHIBITS		
A	Foreign Agricultural Service, USDA, comments dated October 28, 1980	34
B	Agricultural Cooperative Service, USDA, comments dated October 2, 1980	37
C	Agricultural Stabilization and Conservation Service, USDA, comments dated November 12, 1980	40
D	Office of Small and Disadvantaged Business Utilization, USDA, comments dated October 2, 1980	41
E	Office of Inspector General, USDA, comments dated September 25, 1980	43

ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
f.a.s.	free alongside ship
FCA	Farm Credit Administration
f.o.b.	free on board
IFBs	Invitations for Bids
OGSM	Office of the General Sales Manager
OSDBU	Office of Small and Disadvantaged Business Utilization
SBA	Small Business Administration
USDA	United States Department of Agriculture

> To what extent are smaller firms and farmer cooperatives successfully competing for sales of grain and related food commodities under Title I, Public Law 83-480, and what percentages of these sales have been purchased from the following major grain firms since 1969 Cargill Co., Inc., the Continental Grain Co., Bunge Corporation, Louis Dreyfus Corporation, Garnac Grain Company, Inc., Cook Industries, and Connell Rice and Sugar Co., Inc.?

Collectively, these seven firms have supplied from 70 to 90 percent of the grain and rice purchased under title I in 8 of the 11 years from fiscal year 1969 through 1979. There have been significant annual fluctuations, by commodity, in both collective and individual market shares. In some years other suppliers, including Japanese trading companies and large export cooperatives, have supplied significantly more grain or rice than several of these major firms Nevertheless, our analysis indicates that the firms identified in your request have historically been the dominant title I suppliers.

Our analysis of bidding for fiscal years 1978 and 1979 further shows that the seven major firms compete more aggressively than other suppliers for title I sales As discussed on page 19, this limited bidding by other suppliers does not appear to be wholly related to the size or capacity of the individual firms. Limited bidding is also attributable to a variety of other factors, including: a reluctance to assume the high risks of grain exporting (particularly true of cooperatives); dissatisfaction with certain title I risks, procedures, and requirements, a lack of sufficient title I sales volume in certain commodities or the qualities being sold; and the desire of individual firms to concentrate on other, more lucrative markets

Title I sales

The Department of Agriculture (USDA) does not regularly prepare analyses of title I sales by individual suppliers. However, on occasion, Agriculture has prepared such analyses in response to congressional and other requests. In response to your direct request, Agriculture officials prepared and transmitted to your subcommittee annual statistics for the 10-year period from fiscal year 1969 through fiscal year 1978 showing the value of shipments by each major firm. We have summarized these statistics to show these firms' collective share.

MAJOR FIRMS' COLLECTIVE SHARE

GRAIN AND GRAIN-RELATED PRODUCTS a/		BULK GRAINS b/	
FY	Percent of value	FY	Percent of value
1969	53	1974	90
1970	65	1975	87
1971	70	1976+T.Q.	82
1972	70	1977	83
1973	79	1978	86

a/Primarily wheat, rice, corn, sorghum, and wheat flour.
b/Primarily wheat, rice, corn, and sorghum; excludes wheat flour.

Agriculture statistics for these 10 years are not strictly comparable because wheat flour is included in the 1969-73 data and excluded from the 1974-78 information. Because wheat flour is predominantly supplied by the milling industry (only one major firm, Cargill, supplies this commodity), its inclusion in the statistics for the earlier period lowers the major firms' market share. Notwithstanding this lack of strict comparability, the statistics show that, with the exception of fiscal years 1969 and 1970, the major firms collectively supplied 70 to 90 percent of the grain and rice sold under title I during the 10 years ending with fiscal year 1978. This collective share is consistent with an earlier Agriculture analysis which showed that six of the major firms (excluding Connell) supplied about 76 percent of the title I grain and grain-related products (including flour, but excluding rice) from the inception of the program in 1954 through December 1966.

For an additional and more detailed comparison, we analyzed a third set of supplier statistics, which had been prepared by Agriculture for fiscal years 1969-75. Our summary of these statistics shows significant annual variation in the market shares of the major firms, farmer cooperatives, and, implicitly, all other title I suppliers of the following grain and grain-related products.

MARKET SHARE BY COMMODITY

FY	WHEAT AND PRODUCTS a/		FEEDGRAINS AND PRODUCTS b/		RICE	
	Majors	Cooperatives	Majors	Cooperatives	Majors	Cooperatives
	(Percent of value)					
1969	55.2	9.4	64.9	18.5	47.4	35.3
1970	58.2	15 0	67.5	15.4	86.8	2.2
1971	58.6	13.3	76 0	9.0	90.5	0.0
1972	60.7	7 6	58.7	9.1	96.1	1.1
1973	61.9	2.9	70.7	9.6	98 1	1.7
1974	77.3	3 0	74.8	7 9	96.1	0.0
1975	81.0	0 0	25.3c/	0.0	91.3	5.1

a/Primarily wheat and wheat flour
b/Primarily corn and sorghum.
c/FY 1975 feedgrain exports were minimal

As the above table shows, the major firms' share was the most pronounced and consistent for rice, and their share of wheat shows a rising trend. The detailed supplier statistics further show that two firms--Connell and Continental--accounted for almost all of the rice supplied by the majors in this period and that Connell alone supplied from one-half to two-thirds of all title I rice in most of these years. By contrast, cooperatives' collective shares of rice ranged from 0 to 5 percent, except for fiscal year 1969. In that year, one cooperative supplied almost 35 percent of all title I rice--more than any other supplier.

The major firms' share of title I sales of wheat, wheat products, and feedgrains was generally lower and fluctuated more than their share of rice during this period. However, their overall share shows a rising trend throughout most of the period. The detailed statistics also showed that in some years other firms, including Japanese trading companies and large export cooperatives, supplied significantly more of these commodities than did several of the major firms.

To provide the latest available and more detailed information, we analyzed title I sales for fiscal year 1979. We analyzed these sales on a tonnage basis, by commodity. This method eliminates the influence of price differences among the various commodities. For example, long grain rice in 1979 often sold for over double the price of wheat. Because Cook Industries was no longer operating in the grain industry, only the five other major grain exporters and Connell are included in the following statistics.

FISCAL YEAR 1979 SALES

Commodity	Major firms (thousands of metric tons)	Percent	Cooperatives (thousands of metrics tons)	Percent	Other firms (thousands of metric tons)	Percent	Total (thousands metric tor
Wheat	2,066.9	78	159.2	6	428.5	16	2,654.6
Flour	53.6	11	--	-	423.5	89	477.1
Corn	204.7	47	45.2	10	183.2	43	433.1
Rice	355.5	88	10.0	2	40.7	10	406.2
Other	33.5	51	.7	1	32.0	48	66.2
Total	2,714.2	67	215.1	5	1,107.9	28	4,037.2

These statistics basically confirm the concentration seen in Agriculture's earlier statistics. The six major firms supplied 67 percent of all title I grains and other (primarily vegetable oil and blended foods) food commodities. If flour, which is principally supplied by milling firms and not the major grain exporters, were eliminated from the total, the majors' collective share of all title I food commodity sales would rise to about 75 percent.

Title I bidding

To determine the extent of competition by cooperatives and other firms with the major firms for title I sales, we analyzed the bids for fiscal years 1978 and 1979. In fiscal year 1978, a total of 108 "Invitations for Bids" (IFBs) were issued to the industry, and 553 bids were received from 60 suppliers

The seven majors submitted 343 bids or 62 percent of the overall bids and, with the exception of flour, submitted a major percentage of the bids for each commodity as follows: wheat (72%); corn (82%); other commodities (56%); rice (55%); and flour (16%). Three of the majors--Cargill, Continental, and Bunge--each bid on at least 55 of the 108 IFBs

Bidding by cooperatives, however, was minimal. Six cooperatives submitted a total of 17 bids (3% of total bids) as follows: rice, seven bids (9%); wheat, seven bids (2%); and other commodities, three bids (3%)

Forty seven other grain and milling firms submitted the remaining 193 bids Collectively, they accounted for 84 percent of all bids for flour IFBs However, only one of the seven major firms and none of the cooperatives competed for flour sales. Bidding on the other commodities by these 47 firms was light to moderate: rice (36%), wheat (26%); corn (18%); and other commodities (41%)

In fiscal year 1979, 137 IFBs were released, with 64 suppliers submitting 619 bids. The six majors 1/ accounted for 49 percent of the bids received and again bid aggressively for most commodities: wheat (60%); other commodities (56%); corn (45%); rice (41%); and, lastly, flour (13%). Cooperatives again bid lightly, accounting for only 29 bids or 5 percent of total bids submitted, and 25 of the 29 bids were for one commodity--wheat. The other firms again submitted a heavy percentage of the bids on flour and a lesser percentage elsewhere: flour (87%); rice (58%); corn (52%); wheat (32%); and other commodities (43%).

The above bidding results for fiscal years 1978 and 1979 indicate that the six major firms are aggressively pursuing title I sales for most commodities. Conversely, collective bidding by the rest of the grain exporters, including cooperatives, has been relatively light to moderate, particularly when one considers that more than 50 firms are involved and a large proportion of them are older, relatively large, and well-established grain exporters and grain exporting cooperatives.

To determine the frequency with which firms bid, we did an analysis for fiscal years 1978 and 1979, as follows:

Fiscal Year 1978/1979 BIDS

Number of bids	Number of firms		Percent of all firms		Percent of total bids	
	1978	1979	1978	1979	1978	1979
15 or more	6	10	10	16	58	59
11 - 14	4	7	7	11	9	15
7 - 10	9	10	15	16	14	12
4 - 6	10	7	17	11	8	6
1 - 3	31	30	51	46	11	8
	60	64	100	100	100	100

The above table demonstrates that bidding by most title I suppliers is, at best, sporadic. Each year about 50 percent of the suppliers bid on only three or less IFBs, and these firms submitted an average of only about two bids each in fiscal year 1978 and about 1.5 bids each in fiscal year 1979.

1/Cook Industries did not bid in Fiscal year 1979.

Moreover, if those firms who bid on four to six IFBs are added, about two-thirds of the firms who bid in fiscal year 1978 and 57 percent of those in fiscal year 1979 bid on six or less IFBs. Conversely, those firms who bid 15 or more times in fiscal year 1978 were the majors, excluding Cook Industries which was phasing out its grain operations. Again in fiscal year 1979, the 6 major firms were represented among the 10 firms who bid on 15 or more IFBs, and two of the remaining 4 firms--Pillsbury and Archer-Daniels-Midland--were the primary suppliers of title I flour. To determine the reasons for this bidding pattern, we interviewed 56 grain firms and cooperatives. (See app. III.)

> Has the Department of Agriculture actively and effectively solicited participation by smaller grain companies and farmer cooperatives as P.L. 480, Title I suppliers? What changes does GAO believe might be made in the legislation governing title I that might encourage broader supplier competition, return a greater share of the profits to the American farmer, and make the program more efficient and effective?

The Department of Agriculture has taken some actions to encourage greater participation by other firms and cooperatives in sales under the title I program The Department policy and position is that the title I regulations, which require open competitive bids and allow suppliers to offer any quantity, meet the requirement in the legislation to afford all suppliers an adequate and fair opportunity to participate in these sales. It is also the Department's view that other provisions of P L 480 prevent it from actively favoring cooperatives or any other supplier group over other suppliers, and that the legislation would need to be amended to permit this.

In our opinion, the USDA policy of evenhandedness and the title I regulations basically meet the requirements of the existing legislation Conversely, the Congress and USDA have been concerned about broadening supplier competition for title I sales since at least 1966 and, to date, there does not appear to have been any substantial broadening of competition for title I sales (See app I.) In view of the high-risk nature of grain exporting in general and given the existing industry structure, it is not clear that cooperatives and smaller firms will be able to compete more effectively with major firms even under existing open, competitive bidding procedures

Therefore, if the Congress desires that USDA be required to do more to actively promote the interests of cooperatives and smaller firms, changes in the legislation will be needed. As requested, we have identified two possible legislative approaches One approach involves establishing a special "set-aside" type program; the other approach consists of having USDA assume all procurement responsibility under title I. We should note that each approach involves some change in the philosophy of the P.L. 480 legislation. Further, each approach would result in disadvantages as well as advantages and, at least in the short run, not all subcommittee objectives would likely be fulfilled equally or simultaneously. We are not making any recommendations on

these approaches. The basic question is whether the Congress would want to change the legislation to achieve additional objectives. We believe that this is an issue for the Congress to decide.

WHAT THE LEGISLATION REQUIRES

In analyzing what the existing legislation requires, it is important to note that differing legislation is involved for small business and for cooperatives.

Small business requirements

The only legislation we are aware of that specifically requires action by USDA regarding small business interests in P.L. 480, title I procurements is the act itself. Specifically, section 103(e) of title I requires, in part, that USDA "take appropriate steps to assure * * * that small business has adequate and fair opportunity to participate in sales made under the authority of this Act * * *."

This section was added to P.L. 480 (80 Stat. 1526) in 1966 because of congressional concern that the economics offered by large shipments were making it easier for large exporting companies to bid and receive title I sales awards, in effect giving them a competitive advantage over smaller companies As a result, USDA changed the title I regulations to provide that IFBs cannot establish minimum quantities to be offered. USDA also required that a copy of each purchase authorization be made available to the Small Business Administration (SBA) to better give small business firms a fair opportunity to participate.

Although USDA no longer notifies SBA of each purchase authorization, the USDA position is that changes in title I regulations as a result of the 1966 amendment meet the intent of section 103(e). We believe that the USDA interpretation of this legislation is reasonable. Moreover, USDA officials cite other changes in the P.L 480 legislation in 1977 as further assuring all suppliers of a fair opportunity to compete.

Largely because of irregularities in the bidding and award of contracts, the Congress in 1977 added a new Section 115 to Title I, P L 480 which, in part, provides that

> " * * * No purchases of food commodities shall be financed under this title unless they are made on the basis of an invitation for bid publicly advertised in the United States. All awards

in the purchase of commodities financed under this title shall be consistent with open, competitive, and responsive bid procedures, as determined by the Secretary of Agriculture * * *."

Officials of the USDA Office of the General Sales Manager (OGSM), which administers the P.L. 480 program, cite the above 1977 amendment as further strengthening the ability of all suppliers to compete. We agree that open and competitive bid procedures should provide a fairer opportunity for all potential suppliers. In fact, many suppliers told us that this amendment in particular improved their ability to compete for title I sales.

As concerns other legislative requirements, USDA has stated that the requirements of the Small Business Act (15 U.S.C. 631 et seq.), that provide for set-asides for smaller firms, do not apply to Title I, P.L. 480 because these are not procurements by a Federal agency but are sales contracts between private suppliers and foreign governments that are only financed by the Commodity Credit Corporation (CCC) of USDA Officials of SBA expressed the same basic view We agree.

Further, the Federal Procurement Regulations (41 CFR Ch. 1), which prescribe overall procurement policy and procedures for Federal agencies as provided by the Federal Property and Administrative Services Act of 1949, as amended (41 U.S C. 751 et seq.), state it to be the policy of the Government "* * * to place with small business concerns a fair proportion of the total Government purchases and contracts." For the reasons discussed previously, title I sales are also not subject to these regulations, again, because they do not constitute Government procurements as defined by the regulations or the underlying legislation

Cooperative legislation requirements

The primary legislation which seeks to promote the interests of farmer cooperatives and associations is the Cooperative Marketing Act of 1926 (7 U.S C. 451). This act authorized and directed the Secretary of Agriculture to establish an organization within USDA to assist farmers and other producers of agricultural commodities to organize into cooperatives to market and distribute their farm products. The act directed the new organization to assist farmers in five ways and those missions have remained basically the same: (1) conduct research; (2) provide technical assistance;

(3) provide information and education; (4) assist cooperative organization and development; and (5) conduct statistical and historical analyses.

It is clear that the language of the Cooperative Marketing Act provided for exports by cooperatives. For example, in defining agricultural products, the act refers to:

> "* * * any and all products raised or produced on farms and processed or manufactured products thereof, transported or intended to be transported in interstate and/or foreign commerce * * *."

Legislative initiatives over the years, and particularly since 1978, have also sought to stimulate greater cooperative participation in the export market. For example, the Congress included $300,000 specifically earmarked for studies of export markets for cooperatives in Agriculture's appropriations for 1978.

Although predated considerably by the Cooperative Marketing Act of 1926, P.L. 480 contains Section 103(e) on small business interests but does not have a comparable section regarding cooperatives. Therefore, other than the broad mandate in the 1926 Cooperative Marketing Act, there are no specific links in the existing legislation to require USDA to actively promote or give preference to the interests of cooperatives under Title I of P L. 480.

USDA POLICY AND EFFORTS

Efforts by USDA organizations to specifically encourage or promote greater participation by cooperatives and smaller or small buiness in title I sales have been limited and indirect. In addition, little coordination or link has existed between OGSM and the activities of other USDA organizations responsible for promoting cooperatives and small and disadvantaged business.

Office of the General Sales Manager

OGSM officials told us that, in administering the title I program, they follow a basic policy of not favoring or discriminating against any supplier or supplier group. They also believe that the changes made in the regulations pursuant to the 1966 and 1977 amendments provide all suppliers a fair and adequate opportunity to compete. OGSM officials further stated that they are not basically opposed to giving some sort

of preference to, or active promotion of, cooperative participation in title I sales. They feel that this would be consistent with current congressional and administration policy of returning a greater share of the profits to the farmers. They noted, however, that there is nothing in the P.L. 480 legislation to indicate that they should be doing this. On the other hand, they see no basis for giving any special preference to private grain firms, whether small or not.

Thus, OGSM efforts to promote greater competition have been aimed at all potential suppliers. For example, for the last several years, OGSM has participated in various conferences and a series of regional seminars designed to encourage any and all U.S. firms to participate in export markets and to identify problems which limit participation. Officials of the National Council of Farmer Cooperatives corroborated OGSM statements to us that USDA has also been seeking ways and soliciting suggestions over the last several years on how to get cooperatives more involved in title I as well as in exports in general Further, many of the cooperatives and grain firms we talked to were complimentary of the advice and information provided by OGSM in response to their questions and problems OGSM also assists suppliers in resolving disputes with buyers This OGSM assistance is generally provided on a case-by-case basis.

Foreign Agricultural Service

We also discussed the question of promoting cooperatives and small business with officials of the Foreign Agricultural Service--the USDA agency charged with coordinating, formulating, and implementing programs to develop and expand export markets for U.S. agricultural products. A few of the Service's diverse activities include: sponsoring trade shows and exhibits; working with industry trade associations, conducting export incentive programs; and, as a result of the Agricultural Trade Act of 1978, establishing a series of agricultural trade offices in major trading areas around the world. In addition, since December of 1979, the Service Administrator has represented USDA on the Interagency Committee on Small Business, Export and Investment

We were informed that, like OGSM, the Service policy is not to target its programs and activities to any one group of exporters, although Service officials maintain that these programs tend to attract smaller firms and newer or potential exporters, because larger, established exporters already tend to have established markets and contacts. Service officials, as did OGSM, stated that to target or single out any one industry segment for special assistance would be to give it

preference over other segments, and that they seek to involve all industry segments in its programs. Thus, the OGSM policy of not giving special assistance to any industry segment is also being applied to other major USDA export promotion programs.

Agricultural Cooperative Service

Until recently, the Economics, Statistics, and Cooperatives Service was the USDA agency charged with assisting cooperatives. It was the result of a December 1977 consolidation of the former Farmer Cooperative Service and two other USDA organizations. On October 1, 1980, the Cooperative unit of the agency was itself converted to agency status within USDA. It is now known as the Agricultural Cooperative Service (ACS).

ACS provides research, management, and educational assistance to cooperatives. For years, USDA, through ACS and its predecessors, has been assisting farmers to organize and market their production through cooperatives, but most of this assistance has been for the domestic activities of cooperatives. Only in recent years has the cooperative program included assistance in the international trade area.

In 1976, the first major study of export potential for cooperatives was completed and showed significant potential for improving cooperatives' ability to become direct exporters of U.S. grains. Beginning in fiscal year 1978, the Congress directed USDA to conduct further studies of export markets for cooperatives. Since then, a number of research studies have been undertaken on such topics as ocean freight chartering, cooperatives' share of export marketing activity, and multinational cooperative potential. ACS officials anticipate an increase in requests from cooperatives for related technical assistance projects once the current studies are completed and the feedback process begins working. To date, they cite these research studies as their major work concerning export potential for cooperatives

Regarding the Title I, P.L. 480 program, officials indicate that they have had only occasional contacts with OGSM. Officials of both organizations readily acknowledge that there is little substantive link between ACS efforts to encourage increased exports of grains by cooperatives and OGSM title I activities. Although the ACS officials believe that P.L. 480 is an area that would be appropriate for them to study for cooperatives, they noted that actual direct promotion of cooperative interests in the title I program would fall to OGSM, the administering organization. They added that although ACS is charged with assisting cooperatives, the ACS mandate

is primarily one of research and information development and dissemination and does not include any authority to directly promote cooperative interests in P.L. 480 or other export programs. Thus, USDA activities are not designed or coordinated with a view to specifically increasing cooperatives' shares of P.L. 480 exports. This is due in part to the legislation and in part to the division of responsibilities between ACS and OGSM.

Other USDA organizations

Although the above organizations are the primary agencies, the activities of two other USDA organizations also relate to the promotion of cooperative and small business interests. These are the recently consolidated Office of Small and Disadvantaged Business Utilization (OSDBU) and the Farm Credit Administration (FCA).

Amendments to the Farm Credit Act of 1971 were introduced in the 96th Congress that would broaden considerably the authority of FCA and its Banks for Cooperatives to assist export activities of cooperatives. Currently, the Banks extend financial assistance to a cooperative to finance facilities or operations up to the U.S. port of export. The amendments, however, sought to broaden that authority to permit, among other things, financing of facilities in other countries, and to expand legal and financial assistance for cooperatives. Various USDA and cooperative officials were hopeful that these amendments would lead to a further increase of interest and an expansion in cooperatives' exports.

OSDBU is charged with administering provisions of the Small Business Act under USDA procurement contracts and subcontracts Officials of this office informed us that most of their recent efforts have been focused on seeking opportunities for minority and disadvantaged business, rather than small businesses in general. As they noted, the Small Business Act does not apply to the title I program; however, they also noted that USDA has not been successful to date in implementing the minority and disadvantaged programs for the Title II, P L. 480 program, to which the Small Business Act does apply.

TWO LEGISLATIVE APPROACHES FOR INCREASING SUPPLIER PARTICIPATION

As the foregoing discussion shows, USDA efforts to promote greater supplier competition in the title I program are basically consistent with the existing legislation. Therefore, if the Congress desires that USDA be required to do more

to promote greater participation by cooperatives and smaller firms, the legislation would need to be changed. In accordance with the subcommittee request, we have identified two possible approaches to changing the legislation to achieve these objectives. The two approaches are to (1) establish special set-aside programs designed to attract sales by smaller businesses and cooperatives or (2) have USDA assume total responsibility for all title I procurements and subsequent resales to the foreign buyers. It should be noted that either approach would involve some changes in the philosophy of title I and that each has not only advantages but also disadvantages. At least in the short run, the subcommittee's multiple objectives of reducing program costs and broadening competition would likely not be fulfilled equally or simultaneously because scale economies may enable large firms to consistently bid lower than small ones.

(1.) Establish Set-Aside Programs

One advantage of a title I set-aside for smaller businesses and cooperatives is that some proportion of title I sales would be reserved exclusively for sale by these organizations. Moreover, this would provide them an opportunity to gain contacts and develop useful experience in exporting, which should help to develop their capability for generating other private export sales. Another advantage is that increased export sales by cooperatives should help to return more of the profits to the farmer who produced the commodities. Further, increased competition in the title I program may lead to lower prices over the long term as more firms become competitive.

To implement such a program, special eligibility criteria would have to be established. At present, there is no objective standard or criteria for cooperatives, and a decision would be needed as to whether all cooperatives, including the very large cooperatives, should be eligible. One export cooperative, for example, is reportedly the fourth largest grain exporter in the United States.

The eligibility criteria of SBA could be used for private grain firms. However, many of the firms which now bid for title I sales substantially exceed the current SBA size criteria. On the other hand, if a special set-aside program were restricted to smaller business firms or to small firms as now defined by SBA, the high capital requirements and risks of grain exporting would tend to work against the objectives of that program. To illustrate, OGSM officials cited the difficulties in obtaining bank financing as a major factor in limiting small firm participation in the title I program. Financing for even a relatively small title I sale of 5,000

tons of wheat, for example, would amount to about $700,000 (1979 price of about $140 per ton), and the equivalent quantity of long-grain rice would involve about $1.75 million.

The high risks associated with grain exporting were consistently cited by industry and USDA officials. These risks include shipping problems and delays, lack of available export elevator space, payment delays, supplier's risk of loss due to infestation and other commodity damage, and other risks unique to title I sales. (See pages 19 to 31.) Although we are recommending that USDA act to reduce or remove some title I risks, it must be recognized that, due to their greater scale of operations, the larger grain exporting firms are better able to assume most risks than are smaller firms. Moreover, reductions in the risks would also benefit the larger firms as well. However, a number of firms and cooperatives we talked with believed that smaller organizations would tend to benefit more than proportionately because some of these risks are viewed as a partial or total barrier to participation by smaller organizations.

In view of the risks involved, several knowledgeable individuals suggested to us that a special set-aside or preference program would not be adequate and that an insurance or guarantee program should also be established to protect small firms or cooperatives from serious losses. Another suggestion was to have USDA provide financing or credit for title I suppliers because it can be difficult for a smaller firm to obtain the level of financing involved in a single title I sale. These suggestions would probably have to be carefully studied.

One disadvantage of a set-aside program is that the costs of each sale and of the overall title I program would tend to rise, at least in the short run. As our analyses of the recent title I sales under the open, competitive bidding procedures show, smaller firms and cooperatives have difficulty competing with larger firms whose large scale of operations enables them to consistently offer large quantities at low prices. Because the foreign buyer ultimately pays for the commodities, 1/ USDA officials have cautioned that these buyers would likely strongly resist such a program. Therefore, one SBA official suggested that a solution would be for the U.S. Government to absorb any additional costs.

In summary, although there are a number of potential advantages to establishing a special set-aside scheme for the title I program, it is also clear that there are obstacles and disadvantages.

(2.) Have USDA Procure and Sell Title I Commodities

In discussing the problems in the title I program, OGSM officials commented that they have considered the possibility of USDA assuming responsibility for all procurements of title I foods, just as title II foods are presently procured from the industry by the Agricultural Stabilization and Conservation Service (ASCS). These commodities would then be resold to the title I countries. OGSM noted that the chief advantage of this change would be the greater degree of control that USDA could exercise over the entire procurement and sales process. OGSM officials believed that if USDA had this control, they could eliminate some of the problems in the program.

OGSM officials, however, say that they are reluctant to propose this change for several reasons First, they believe it would run counter to the basic nature and provisions of the P L. 480 legislation. P.L. 480, as amended declares it to be the policy of the United States to develop and expand export markets, and Section 103(e) further requires that private trade channels be used to the maximum extent possible under title I. Therefore, the basic legislation would need to be changed. Second, the benefits of this proposal would need to be weighed against the increased staff and other costs that USDA would incur if it were to administer the program.

We believe that USDA's arguments against having it assume responsibility for procuring the title I commodities have merit and warrant careful consideration. On the other hand, it may be argued that title I, section 102 already specifically permits USDA to act as the purchasing and shipping agent for countries who request this, and that USDA already is directly procuring the commodities donated for free distribution abroad under the P.L. 480, Title II program. Therefore, there is some basis for having USDA take over title I procurements. Also, if USDA were directly purchasing these commodities, then the Small Business Act would apply and a set-aside program could be established. However, the primary issue is, as USDA notes, whether the Congress would want to change the P.L. 480 legislation to achieve other objectives and whether such objectives could achieve significant results in this highly concentrated industry.

1/The U.S. Government finances the initial cost of the commodities and the foreign government repays this loan at highly concessional interest rates at periods up to 40 years.

AGENCY COMMENTS AND OUR EVALUATION

The full comments of various USDA organizations are included in Exhibits A through E, beginning on page 34. Concerning the above legislative approaches, their views differ.

OGSM (see Exhibit A) stated that more study and comparison of costs versus probable results is needed before taking a position on either of these approaches. Similarly, the new Agricultural Cooperative Service (ACS) cited (see Exhibit B) a need for more analysis to determine the causes of the high concentration in the program and a need to survey and document the degree of interest by target groups. On the other hand, ASCS and the OSDBU favor making USDA responsible for procuring title I commodities.

ASCS commented (see Exhibit C) that the high risks of grain exporting and large amounts of capital required work to eliminate all but the very largest exporters from participating in the program. ASCS stated that procurement by USDA under the system now used for the purchase and shipment of title II commodities could achieve substantial savings; encourage competition through small and/or minority business set-asides; and permit many smaller suppliers to bid since USDA would assume responsibilities which only the very largest firms now have the resources to undertake.

OSDBU commented (see Exhibit D) that the Congress, in enacting the Small Business Act, recognized that small and disadvantaged business have an equal opportunity to compete for many procurements, but minimal chances of winning. OSDBU further stated that the history of title I clearly reveals that an equal chance of winning has never existed. In its view, this could be corrected only by a set-aside, preferably combined with USDA assumption of the procurement process, which would allow small and disadvantaged businesses to compete with similar firms for a fair proportion of the procurements.

Finally, the Office of the Inspector General concurred (see Exhibit E) with the overall thrust of our report and noted that it had also discussed similar approaches in prior reports on title I rice marketing.

We agree with OGSM that further consideration should be given to the costs but, more importantly, to the probable results prior to implementing either legislative approach. As concerns the potential cost, we believe that program and commodity costs would tend to rise, at least in the short-run, if set-asides were implemented. On the other hand, ASCS

believes that it could reduce costs if it were to assume responsibility for title I procurement. Therefore, the net result could be either an increase or decrease in costs.

We believe, however, that the probable results should be the primary consideration in any decision to change the Public Law 480 legislation. In this regard, our report has noted that many of the firms that now compete for title I sales would not be eligible to participate in set-asides established under current SBA criteria. Conversely, our report notes, and ASCS has corroborated, the fact that the high-risk, capital intensive nature of this highly concentrated industry works against smaller firms or cooperatives. While ASCS notes that set-asides would ensure that small firms and/or cooperatives could gain a designated proportion of these sales, it remains to be seen whether the use of set-asides would result in significant beneficial results for these suppliers and for title I, particularly since Public Law 480 exports have constituted less than 5 percent of total U.S. agricultural exports in the last few years.

As concerns ACS's comments, we agree that the interest of the target groups should also be documented prior to implementing either approach. During our review, several smaller private firms suggested the need for set-asides to enable them to compete effectively for title I sales. However, our report notes that cooperatives in general appear to be more reluctant to assume the risks of direct exporting. Also, ACS has commented that due to their nature and different market orientation, cooperatives may find title I sales less attractive than other markets.

For the above reasons, we believe that, ultimately, any decision to implement either legislative approach would likely be based primarily on policy considerations, and not on cost factors, and that the basic policy issue is whether the Congress would want to change Public Law 480 to achieve other objectives. We believe that this decision is properly reserved to the Congress.

> What changes would GAO recommend in the management of the P.L. 480, title I program that might (a) encourage greater competition, (b) enable U.S. grain farmers to gain a higher share of the profits, and (c) make the program more effective and reduce the financing costs to the Government?

We sought views and suggestions on this subject from 65 grain firms and cooperatives who have either bid on or have been successful title I suppliers in the last several years. Responses from 56 firms and cooperatives identified a number of problem areas in the procedures or requirements that present barriers to greater industry participation. In addition, our own analyses of title I practices and requirements identified several other opportunities for improving participation.

Some of the more significant problems involve: unreasonable performance bond requirements; cumbersome bid bond procedures; restrictive and unusual procurement specifications; procedures which do not allow suppliers to bid reasonable alternatives; procedures which permit delays in payment to suppliers for reasons not of the suppliers' fault; letter-of credit requirements that vary from buyer to buyer, causing delays and additional work or expense to suppliers; vessels that oftentimes do not meet the specified arrival dates for loading; and large individual procurements and a sporadic sales flow that is often contrary to the annual availability cycle for particular commodities. Higher commodity prices resulting from supplier reluctance to offer commodities for shipment on certain less desirable types of U.S.-flag vessels is also a problem, but existing legislation requires that such vessels be used, and we are therefore not making any recommendations in this area.

The grain firms we talked with indicated, and OGSM agreed, that resolving the above problem areas should contribute to greater industry participation. Some grain firms further noted that this would particularly benefit smaller firms or cooperatives who can least afford any delays in being paid and contractual or other problems, and that some of these changes should also contribute to lowering program costs to be financed by the U.S. Government.

Conversely, it is also clear from our industry discussions that, for a variety of reasons, some of the 56 firms and cooperatives apparently would not be willing to participate in title I to any greater extent, even if the cited problems were resolved to their satisfaction. For some of them, the type or

grade of commodities sold under title I is not a major portion of their overall business. Some rice exporters, for example, specialize in selling high-grade rice under private brand names. These exporters stated that they would find it less profitable to sell the lower grade rice sold under title I.

Some grain firms cited the lack of a sustained volume of title I sales in certain commodities, such as corn, to warrant aggressively pursuing title I as an important market. Some flour and rice millers indicated that they must produce and sell their products on a continuous basis and that, due to their limited capacity, they must service their regular customers before they can participate in title I sales

Cooperatives in particular seem to be less interested in title I and direct exporting in general than are private grain firms Spokesmen for several large cooperatives told us that they are reluctant to accept the high degree of risk associated with direct exporting and prefer to sell directly to the major firms at a firm price today, with full payment assured at point of sale. Several cooperatives told us that since they already are members of and ship portions of their grains to one of the large exporting cooperatives, they do not have any interest in becoming an exporter themselves. Too, in commenting on our draft report, USDA's Agricultural Cooperative Service (ACS) noted that a firm with foreign offices may be able to bid more aggressively on a large title I sale than a larger cooperative because of better market intelligence. ACS further noted that cooperatives' marketing orientation--that is, marketing whatever grain is grown by their members and obtaining the best possible price for those farmers--might make participation in title I less attractive than other markets, because title I often involves large quantities of lower quality grains

Therefore, it must be recognized that not all grain firms or cooperatives would be interested in aggressively pursuing title I sales, even if the program were made more attractive. Nonetheless, a number of the firms and cooperatives we talked to identified certain problem areas as barriers to further industry participation in the title I program. Following are those problem areas, other opportunities for improvement, and our specific recommendations and suggestions.

OPPORTUNITIES TO INCREASE COMPETITION AND FOSTER A MORE EFFECTIVE AND EFFICIENT TITLE I PROGRAM

We have concluded that the Secretary of Agriculture should direct the General Sales Manager to take appropriate action in each of the following areas:

1. Standardize Performance Bond Requirements. A number of grain firms cited varying and unreasonable performance bond requirements as a serious problem area. First, the requirements vary from buyer to buyer, with different countries desiring certain specific requirements. USDA does attempt to weed out some of these requirements, but the grain firms stated that because of the risks associated with such requirements, they will either be reluctant to bid on such sales or will include factors in their bid prices to compensate for those risks.

Second, perhaps the major problem cited is that the language commonly used in these bonds constitutes an unconditional liability on the part of the suppliers subjecting them to the whims of the buyers. To illustrate, the title I performance bond usually amounts to 5 percent of the sales price and, in essence, provides that, except in cases of force majeure, 1/ the buyers, (the purchasing countries) may draw down on the seller's bonds simply because the sellers have not performed according to all the terms and conditions of the contracts, including without limitations, times and places of deliveries, quantities, grades, and/or quality of commodities, or that sellers have failed to perform at all.

In essence, this type of bond constitutes an unlimited and unconditional commitment or liability on the part of the U.S. grain firms. The buyers may draw down--that is, demand payment from the bank--on the full amount of the bonds without being required to substantiate or provide documentary evidence regarding the amount of damages or loss they have incurred or expect. OGSM officials told us that, in the last 2 weeks of April 1980 alone, they had two cases where buyers threatened to draw down on performance bonds for reasons not of the supplier's fault, but that OGSM was able to dissuade the buyers from such action.

A 5-percent bond represents a substantial risk of financial loss to the suppliers, and the general consensus is that smaller firms in particular will tend to be much more seriously affected by drawdowns than would larger firms, which can spread these risks over a greater sales volume. Using fiscal year 1979 sales figures, for example, a fairly typical sale of 25,000 tons of wheat at $140 per ton would result in a total sales value of $3.5 million and require the supplier to post a bond of about $175,000. Depending on the price of the commodity and the tonnage involved, of course, the amount of the bond can be substantially higher or lower. However, even a relatively small sale of 5,000 tons of flour, again using fiscal year 1979 statistics, would require a $52,500 bond.

1/strikes, embargoes, etc.

Many suppliers we talked to are not opposed to performance bonds. Indeed, such bonds are also used in some segments of the commercial market and many of those grain firms who complained about the bonds used under title I felt that there is a strong need for a performance bond to keep out "fly-by-night" firms and help maintain the reputation of the U.S. industry.

However, some suppliers also noted that they would not accept an unlimited liability bond or other unusual requirements in their commercial sales, as is being currently done under title I. In fact, the Vice President of one large export cooperative told us that just the day previous, he had refused to bid on a large title I tender because of this very reason. In addition, a number of grain firms flatly stated to us that they do not intend to bid on some of these IFB's until the performance bond problems are resolved.

A third major problem has been that some bonds have not always been returned to the banks for cancellation on schedule. In these cases, U.S. suppliers have been asked to agree to extend the bonds, at the suppliers' expense, and threatened with a draw down of the bond if they refuse. Countries may have been doing this for several reasons, including a desire to gain additional protection for the commodities if vessels are late or until the food has safely reached their home ports. Two suppliers, for example, complained that one country had forced them to extend their performance bond for over a year, a period far beyond the time when the commodities should have been delivered, and these suppliers had to pay the additional bank charges involved.

USDA has been assisting the grain suppliers in individual cases, and we recognize that buyers also need a means of protecting their legitimate interests. However, we believe that a standardized performance bond can and should be developed that will be fair to, and provide adequate protection for, both the seller and buyer and that will also provide a systematic way for resolving disputes before they escalate into confrontational situations.

We believe that consideration should be given to developing a bond that:

---automatically declines in amount equivalent to the value of each shipment or partial shipment;

--states the specific amounts and terms and conditions for which the bond may be drawn down (For example, minimum and maximum penalties or ranges could be specified for shortweights or for the number of days late in arrival of commodities at U.S. ports);

--provides for an independent arbitration mechanism to settle disputes, such as the American Arbitration Association now provides for commercial sales (under this mechanism, three arbitrators are appointed to settle the dispute and their decision is binding and final); and

--expires, in the case of f.a.s. (free alongside ship) contracts, when the commodities have been inspected and placed in an f.a.s. position.

In the case of f.o.b. (free on board) contracts, we suggest that the bond should also provide for expiration to preclude the supplier from being held liable when the vessel, which is contracted for by the buyer under title I, presents late for loading. Another suggestion that would probably assist small suppliers in particular would be to either have USDA develop, or develop with the banking industry, an annual performance bond program. Perhaps smaller bonds could be permitted and suppliers saved the expense and difficulty of establishing a separate bond for each sale, and this would particularly benefit smaller firms more.

2. Improve Payment Procedures. This was perhaps the next most consistent and serious problem cited in our industry survey. Bulk grains are contracted for on an f.o.b. basis, under which the supplier is not entitled to payment until the commodities are loaded on the vessel. Bagged commodities, such as rice and flour, are generally sold on an f.a.s. basis, under which the supplier should be paid as soon as the commodities are inspected, in place at the port, and ready for loading. In practice, however, f.a.s. suppliers are being penalized under title I because current procedures provide that payment will only be made upon presentation of the same on-board bill of lading required for f.o.b sales. Both OGSM and suppliers noted that vessels often do not present for loading on time. In contrast, suppliers noted that on commercial f.a.s. sales, they are paid as soon as the commodities are in position on the docks and that on other commercial sales, they prefer to charter vessels themselves.

This problem is not new. In fact, in 1975, USDA's Inspector General issued an audit report on rice sales under title I that recommended that OGSM change its procedures to pay f.a.s. suppliers on a true f.a.s. basis, and as of late 1978, OGSM developed a draft of a proposed change to the title I regulations that would have permitted f a s. suppliers of title I rice to be paid on the basis of "dock receipts"--that is, soon after the commodities were inspected and received by a buyer's or shipper's agent. That procedure, however, has not been implemented or developed further.

Our industry survey shows that both f.o.b. and f.a.s. suppliers are at an additional disadvantage under title I because vessels are contracted for by the buying country. Neither type of supplier has any control over the vessel's arrival or the shipping contract, and neither will be paid until the commodities are safely loaded aboard the vessel. Therefore, when vessels are late, the suppliers incur storage costs as well as interest or "carrying charges" on the amount of the grain financed through the banks, and these charges will ultimately be reflected in their prices.

OGSM noted that suppliers are permitted to assess the buyer carrying charges due to such factors as late vessel presentation, and that one country regularly pays such charges. Several suppliers, however, noted that other countries pay only reluctantly if at all, and that it has taken years to collect such amounts. These costs are ultimately being passed through in the sales price and we believe that, again, the proper solution is to change the title I procedures.

We have concluded that OGSM should develop and implement procedures, along the lines of the dock receipt proposal, to require payment to f.a s. suppliers when the commodities have been inspected and placed in an f.a s. position, and in the case of f o.b. suppliers, when the commodities have been inspected and the vessel has not presented for loading within the time specified.

3. <u>Simplify Bid Bond Requirements</u>. Although industry sources were not as concerned about bid bond requirements as they were with others, some firms commented that the procedures could be simplified to make it easier for all firms, particularly smaller firms, to bid Currently, the bidder usually must post a bond with his bid in the amount of 2 percent of the dollar value of the bid. This bond is intended to ensure that the bidder will meet that bid price if he receives the award. Grain exporters told us that while

it is not very expensive to open such a bond, administratively it does pose a problem. Firms must make the necessary arrangements through their own banks approximately 24 to 36 hours in advance for the bid bond to be received by the buyer before the bid opening--even though they oftentimes do not know at that time whether they will bid on the title I sale. In reviewing bids, we have noted instances where apparent low bidders failed to deliver a bid bond to the purchasing embassy prior to the bid opening time, and those bids were rejected. To simplify matters, one suggestion we received was to have OGSM administer an annual bid bond program for all suppliers and develop one for performance bonds as well. OGSM officials, however, are reluctant to involve USDA in the process of resolving contract disputes between buyers and suppliers.

Another alternative would be for USDA to arrange for an annual bid bond for all suppliers to be administered by the banking industry. We believe that having a bid assurance program along either of the above lines would offer several advantages. Suppliers and particularly smaller firms could more easily bid on title I sales. The program would also prevent bids from being rejected due to the physical problems involved in posting bonds and ensuring that they reach the buyers before the opening Finally, the program should also tend to reduce supplier costs which are now being passed on to buyers of title I commodities. We conclude that OGSM should simplify bid bond requirements and procedures, and we suggest that OGSM develop, perhaps with the banking industry, a bid bond program.

4. Standardize Letter-of-Credit. The suppliers stated that the letters-of-credit are another serious problem. These letters are the basic legal documents by which suppliers receive payment for their commodities. We were told that the problems here vary and include, for example, the buyer's failure to get the letter-of-credit opened on time, unusual wording or requirements on the part of the buyer or its foreign bank that are not acceptable in U.S. banking circles, and slight variances in the requirements of different U.S. banks. These problems cause the U.S. suppliers a number of problems, including extra costs and administrative problems having documents processed, and additional time and delays in payment and the attendant carrying charges on their investment. In fact, two suppliers stated flatly that because of their past experiences in this area, they now will not load or ship any title I commodities to port for certain countries until they assure themselves that these documents are all in proper order.

We discussed this issue with OGSM and suggested that OGSM seek to develop a standardized letter-of-credit procedure that would be acceptable to the banking industry. One supplier's suggestion, for example, was that buyers be penalized for delays in opening letters-of-credit by canceling the sale. We were informed that OGSM also considers this a major problem area. Although OGSM officials believe that they have been successful in eliminating some of the more unusual and unreasonable requirements desired by countries which are not normal to the U.S. grain or banking industries, they further noted that some countries' own laws specify certain requirements and therefore they say that they cannot negotiate on those issues. OGSM is also not at all certain that a standardized letter could be developed because of variances in the U.S banks' own requirements, and further noted that OGSM does not possess the necessary expertise in-house that would be needed to develop a pro forma letter-of-credit However, OGSM has agreed that it should at least explore this issue.

We recognize that buyers have their own individual requirements. However, under title I buyers are essentially purchasing U.S. grain on highly concessional terms, and these sales are financed by the U.S. Government. We believe that USDA has the authority and responsibility to determine and enforce the basic terms and conditions of these sales, and that buyers would find themselves willing to agree to a reasonable pro forma letter-of-credit. We believe that OGSM should try to standardize the title I letter-of-credit procedures, and suggest that OGSM explore this possibility with the banking industry

5 Develop Standardized IFBs. Currently, OGSM reviews and must approve IFBs before the buyers release them to the industry for actual bidding. However, suppliers complained to us that the terms and specifications of many IFBs were nonstandard They cited, for example, cases of IFBs for nonstandard, unusual commodity requirements, specialized packing requirements, and varying or tight shipping lead times or requirements. They noted that these variations are not only difficult for some suppliers to fulfill (thus sometimes limiting the number of firms who are able to bid on any one IFB), but they result in higher costs for the sales which must then be financed by the U S. Government Our own review of the bidding and awards also indicated that premiums are being paid for specialized requirements, and that bidders clearly prefer to offer more normal industry specifications.

We further believe that IFBs should be made standard, but in a way that provides suppliers a wider range of IFB options In our review of IFBs, we noted for example, that countries

requested rice bids on three different bases--long grain rice, long or medium-grain rice, or long, medium or short-grain rice. Long grain rice, the most expensive variety, costs up to 50 percent more than medium-grain rice. Similarly, some will request delivery in only one period whereas others will allow several delivery periods. We observed that when wider options were specified in IFBs, the market worked more efficiently, leading to lower bid prices.

Under the title I bidding procedures, the suppliers may not offer any options that are not specified in the IFB. Therefore, we suggested that USDA develop reasonable ranges of options, and require that these be specified in the standardized IFBs.

OGSM officials have been working on this area and feel that they have made some progress, but they stated that some countries still want to retain certain special requirements and do not want to negotiate on these issues. In addition, OGSM officials maintain that allowing individualized requirements is in keeping with the market development objectives of title I, and they say they would not want to ignore these aspects. On the other hand, OGSM officials acknowledge that their primary objectives under title I are to move the greatest possible physical volume of U.S. commodities and stretch the country's buying power by delivering a maximum volume of commodities to better contribute to improving the health and nutrition of the poorer people of that country. OGSM further acknowledged and agreed that there is need for a lot more standardization in the IFBs, and they stated that their top priority for title I is developing a pro-forma, standard IFB.

We recognize that some countries will invariably want specialized requirements, but we believe that every effort should be made to develop a standard IFB or IFBs for each commodity to avoid negotiating such changes with each buyer. More importantly, in keeping with the U.S. objectives, making the terms and conditions of the IFBs standard, and providing suppliers a wider range of specified options on which to bid under the IFBs, will allow more firms to participate in these sales, will promote greater competition, and will help reduce financing costs to the U.S. Government.

We conclude that OGSM should standardize IFBs for title I sales. We suggest that one pro-forma IFB or a separate IFB be developed for each commodity, with uniform terms and conditions, that it call for standard U.S. commodity grades and specifications, and that it provide suppliers with a wider range of specified options to bid on than at present.

6 Establish More Orderly Commodity Flow Another complaint of suppliers is that there is not an orderly or consistent enough flow of business under title I to generate adequate industry interest. One rice miller that we interviewed in February 1980 noted, for example, that the last previous rice IFB was awarded on November 21, 1979, and that he could not rely on such sporadic sales. Flour and rice suppliers in particular also noted a tendency for too many sales of these commodities to be held in the summer, near the end of the crop year when available supplies are low. They said they must market these commodities on a regular basis consistent with their milling capacity, and they expressed a strong desire for more sales in late fall and winter when supplies are high.

Our own analysis of the bidding and awards indicates that there are a number of options and opportunities in this area that USDA could explore in order to both increase industry interest and potentially lower the prices being paid for title I foods We too noted the concentration of tender openings late in the fiscal year. For example, of the 137 fiscal year 1979 tender openings, 25 occurred in July 1979, another 31 openings occurred in August 1979, and 3 more occurred in September 1979--a total of 59 IFB openings or 43 percent of all fiscal year 1979 tenders. In contrast, during the first 3 months (Oct -Dec. 1978), there were only 17 tender openings. In the case of rice, the contrast is even more pronounced: of the 18 IFBs in fiscal year 1979, 11 were awarded between June 12 and September 5, 1979.

In addition to the uneven month to month distribution, we also noted a tendency toward large individual IFBs. Although in theory lower prices should be obtainable on larger procurements due to quantity discounts, in title I the reverse tends to be more the case, particularly for flour and rice. The basic trend seems to be that most suppliers raise bid prices for incremental tonnage. The price increments vary by commodity. For example, we noted relatively wide spreads in flour prices Each additional increment of 2,000 to 5,000 tons of flour is often offered at a $1-2 per ton premium. Moreover, the full tonnages requested on flour and rice IFBs are sometimes not purchased, often because not enough quantities are offered by the industry or at reasonable prices.

We believe that USDA should explore the possibility of breaking down large IFBs into smaller increments. In pure numbers alone, a single IFB of 100,000 or 150,000 tons affords suppliers only one opportunity for an award whereas 3 IFBs of 50,000 tons each, or 6 IFB's of 25,000 tons each, offer more opportunities for suppliers to bid, particularly smaller firms who may for any number of reasons not be in a position to bid on a particular day.

Our review of the bidding and awards for wheat indicates that large individual IFBs may favor the major firms. We noted that a few firms were able to capture all or the major portions of a substantial number of the wheat IFBs. To illustrate, included among the 48 wheat tenders awarded in fiscal year 1979 were 18 individual sales of 50,000 tons or more. Of those 18 sales, 17 were made by the major firms, and one major firm made 10 sales of 50,000 tons or more, including 3 sales of 100,000 tons.

In discussing our views, OGSM officials stated that they have been trying to establish a more orderly sales flow but that this depends first of all on achieving early executive branch consensus on individual country title I allocations and second on U.S. embassies achieving early signings of the title I agreements with the recipient countries. They noted that they have achieved some success in getting allocations released for the major countries like Egypt, where it is clear that we will have a substantial annual program. They noted that tentative fiscal year 1980 country allocations were released on October 2, 1979, and although only 16 IFBS were released in the first 3 months through December 31, 1979, we noted that they included 6 large IFBs for Egypt.

OGSM further agreed that the breaking up of large IFBs in favor of a series of smaller ones is a technique worth exploring, but they noted that this will go against the desires of some countries which send teams from their capitals to the United States specifically to evaluate each IFB and which therefore prefer to purchase as much tonnage as possible on each trip. They also noted that changing the commodity distribution rate may be a problem since these countries have to synchronize the arrival of title I foods with other commodities to avoid port congestion and unloading delays, and that, in some cases, the water levels in the receiving ports or navigable rivers may limit shipping at certain times of the year.

We recognize that several factors will determine when countries wish to receive title I food, and that some of them, such as low port water levels, may restrict shipping times somewhat. However, many of these countries are constantly in the market for title I food and USDA has basic responsibility for prescribing the terms and conditions under which title I food is sold.

We believe that OGSM should establish limits on the size of individual sales and seek to develop a more orderly distribution of sales throughout the year. Such distribution should, as far as possible, be more in keeping with the annual

cycle for each commodity. We would suggest several alternatives for achieving these objectives: OGSM could have clauses inserted into the title I country agreements in which countries agree to an orderly sales distribution or OGSM could change the regulations to prohibit sales in excess of a certain tonnage level in any particular IFB or month As still another alternative, OGSM could refuse to approve individual IFBs on a case-by-case basis.

Cargo preference

One other problem area cited by suppliers in our industry survey is noteworthy. This concerns the problems and additional costs associated with the requirement, under law, to ship at least 50 percent of title I commodities in U.S. flag vessels

Under the Cargo Preference Act of 1954 (46 U.S.C. 1241(b)), USDA is required to ship at least 50 percent of title I cargoes in U.S.-owned flag vessels to the extent that such vessels are available at fair and reasonable rates. Essentially, USDA has implemented this by attempting to ship 50 percent of the tonnage value of title I foods in U.S. bottoms (vessels) and, on sales of bulk grains, also requires that each title I bidder must offer against 4 types of U.S.-flag vessels used to carry title I grain--dry bulk carriers, tankers, barge-carrying vessels (known as LASH vessels), and multi-deck freighters. The U.S. fleet contains few dry bulk carriers, the most preferred type of vessel for carrying grains and the type of vessel commonly offered by foreign flags The rest of the U.S fleet consists of the latter 3 types of vessels. Multi-deckers and particularly LASH are those least preferred by the grain industry because of their difficulty of loading and unloading.

The use of these U S.-flag vessels is causing the U S Government to pay two premiums for their use, and is also beginning to have a negative effect on the willingness of suppliers to bid on title I sales. As required by the Cargo Preference Act and P.L. 480, the primary and largest premium USDA pays is the differential or excess costs of using a U.S. flag over that of a foreign flag vessel. These premiums can be substantial For example, during the first 9 months of fiscal year 1980, the premium averaged about $37 a ton for title I shipments on U S. vessels On a 50,000 ton shipment, the total premium would be in excess of $1 8 million, USDA pays the premium.

A smaller and newer premium associated with the use of U.S.-flags, however, is the higher commodity costs being bid by suppliers due to the requirement to load the less-preferred vessel types. OGSM officials indicated that $3.80 per ton has been about the highest premium they have paid to date to grain suppliers for this purpose. In our review of bid files, we noted examples where grain firms often bid $8 or $9 per ton more if LASH vessels were to be used instead of dry bulk carriers. OGSM officials told us of some very recent IFBs where major firms bid up to $40 per ton premiums to load their grains aboard these types of vessels. These bids were not accepted because they were not the low bids. However, USDA views this situation as an indication that some suppliers are basically becoming reluctant to bid on such requirements. In fact, several suppliers told us that they deliberately bid unreasonable premiums for these less desirable types of vessels to ensure that they were not selected as awardees for the sales using those types of U.S. flag vessels.

These premiums may indicate the beginning of a trend whereby many U.S. grain firms will request larger premiums or may not be willing to bid on title I sales if these less desirable types of vessels continue to be used. However, the 50-percent U.S. shipping requirement is dictated by law to develop and maintain an adequate U S.-flag merchant marine for commerce and national defense. Therefore, we are not making any recommendation on this matter.

RECOMMENDATION

We recommend that the Secretary of Agriculture direct the General Sales Manager of USDA to take appropriate action to

- standardize performance bond requirements (see p 21);
- improve procedures to provide earlier payment to suppliers (see p. 23);
- simplify bid bond requirements (see p. 24);
- standardize the letter-of-credit procedures (see p. 25);
- develop standardized IFBs (see p. 26); and
- limit the size of individual sales and seek to develop a more orderly sales distribution (see p 28)

AGENCY COMMENTS AND OUR EVALUATION

In commenting (Exhibit A, page 34) on our recommendations, OGSM noted the need for some flexibility in implementing several of them, and also cited some of the progress it has recently made in reducing some of these requirements and problem areas. Overall, however, OGSM agreed with the thrust of our recommendations. The one exception is our recommendation that OGSM improve procedures to provide timely payment to f.o.b. suppliers. OGSM commented that it has made earlier payment a top priority for f.a.s. sales, on the grounds that these are bagged commodities easily identified and separated for inspection, documented for quality, quantity and condition, and subsequent storage. In the case of f o.b. sales, however, OGSM stated that bulk grains are fungible--that is, they can be freely substituted and traded to other suppliers while in the elevator--and therefore do not present the degree of risk encountered by suppliers of bagged commodities in the event of late vessels. OGSM concluded that until these problems (of inspection and documentation) and others can be satisfactorily resolved, they are unable to support implementation of our recommendation as it pertains to f.o.b. sales.

In our view, OGSM has raised a number of valid points as concerns f.o.b. sales, and we agree that resolving them would take some effort and consideration. We also agree that the degree of risk to f.o.b. suppliers would be somewhat less due to the fungibility of bulk grains. However, it is also clear that when a buyer's vessel does not arrive for loading within the alloted time, or for other reasons of the buyer's fault, f.o.b. suppliers will likely incur losses due to interest charges on their investment as well as storage costs or, in the case of smaller suppliers in particular, may be placed in a "distress-sale" position and forced to sell at a loss. We believe that USDA could devise procedures to prevent these problems One alternative would be to arrange payment to f.o b. suppliers for most of the sales price at such time as the buyer's vessel should have completed loading per the contract terms, and the remainder upon actual inspection and loading. Another alternative would be for USDA to ensure payment by buyers of carrying, storage, or other necessary expenses when the supplier is prevented from completing f.o.b. delivery for reasons of the buyer's fault. In any event, we believe that f.o.b. suppliers, no less than f.a.s. suppliers, should be paid promptly or be compensated by buyers where delays are due to the buyer's fault.

The Office of the Inspector General was the only other USDA agency commenting on our recommendations. As previously mentioned, the Office concurred with the overall thrust and recommendations and cited similar recommendations which had been made in prior reports on the marketing of rice under title I.

UNITED STATES DEPARTMENT OF AGRICULTURE
FOREIGN AGRICULTURAL SERVICE
WASHINGTON D C 20250

October 2, 1980

TO J K Fasik, Director
International Division
United States General Accounting Office

FROM Administrator
Foreign Agricultural Service

SUBJECT GAO Draft Report Entitled "Competition Among Grain Suppliers in the P.L 480 Title I Programs," File No ID-80-61

We have completed our review of the subject report and find that, with some clarifications, it is a fairly accurate portrayal of the competitive situation existing among grain suppliers in the P L 480, Title I programs Regarding the recommendations listed on page 41 of the Report, we offer the following comments and clarifications

Standardize Performance Bond Requirements

We agree in principal with this recommendation and have made considerable progress in developing a standard performance bond requirement for inclusion in invitations for bids since the background data for this report was developed We are continuing these efforts as time and resources permit, taking into consideration those suggestions on pages 28 and 29 of the Report

Improve Procedures to Provide Earlier Payment to Suppliers

We have made this one of our top priorities as it relates to f a s suppliers of bagged or packaged commodities Such commodities can be easily inspected and documented for quality, quantity, condition, etc , in order to substantiate payment They can also remain physically stored in dockside warehouses after payment and risk and title passed to the buyer Bulk grains under f o b contracts, however, cannot be inspected for grade, quality, etc , until it is moving out of the elevator Also, bulk grains are fungible and do not present the degree of risk encountered by suppliers of packaged commodities in the event of late vessels Therefore, until these problems and others can be satisfactorily resolved we are unable to support the implementation of the recommendation as it pertains to f o b contracts

Simplify Bid Bond Requirements

It appears that a number of grain exporters are not paying close attention to changes that have evolved in invitations for bids During the past 18

months or so we have persuaded nearly all buyers to change the terms of invitations so that bids need only to be "supported" by, not "accompanied" by, a bid bond. This enables late-deciding bidders to advise the buyer in his offer that a bid bond has been opened in his favor at a specified bank but does not have to physically accompany the bid. If the bid is low, the buyer confirms the advice by contacting the bank before making the award.

We agree with the intent of this recommendation but find details lacking in the Report regarding the suggestions on how it should be accomplished. There is no explanation, for instance, to indicate what an "annual bid bond program" ought to be. Although we are not in a position to agree to implement an annual bid bond program at this time, we will explore, with the banking industry and others, the feasibility of such a program.

Standardize the Letter of Credit Procedures

We agree with this recommendation and note that shipping agents of several countries have developed pro-forma letters of credit that will serve as good examples to work with The problem of timing, however, still remains as the most critical factor in this problem area. The timely opening of credits can be accomplished only with a more orderly signing of agreements and scheduling of commodity purchases

Develop Standardized Invitations for Bids (IFB's)

Here again, we agree with the general thrust of this recommendation and are continuing our efforts in this regard. We emphasize, however, that while our goal is to provide suppliers a wide range of IFB options we must still recognize justified end-use requirements It would be unfair to cause suppliers to go to the expense of submitting offers of long and medium grain rice if we know the buyer will purchase only the cheaper short grain rice preferred by the consumer. Other countries purchase the more expensive long grain rice to meet the demands of the urban population in order to quickly generate the local currencies which finance self-help projects benefiting the poorest of the poor.

We would like to clarify also that maximizing the physical volume of commodities under Title I is only one of our primary objectives and that market development, end-use limitations and plain old common sense sometimes takes precedence over possible minimal increases in quantities

Limit the Size of Individual Sales and Seek to Develop a More Orderly Sales Flow

We agree with the overall goal of this recommendation With regard to early signing of agreements to allow a more orderly commodity flow, we agree completely Limiting the size of individual sales does tend to limit the number of successful bidders to a few of the major suppliers We must, therefore, aim for a happy medium

EXHIBIT A

Lastly, with regard to the two legislative approaches for increasing supplier participation, we feel that much more study and comparison of costs versus probable results is needed before taking positions for or against such approaches

The statement on page 21 attributed to OGSM officials indicates that most, if not all, of the problems limiting small supplier participation in the Title I program could be eliminated if USDA had control of the entire procurement and sales process Unfortunately, this statement was misinterpreted to imply that an increase in small supplier participation would be synonymous with USDA control over making all purchases on Title I. However, this would not necessarily be the case Some problems would disappear, others would just become the sole responsibility of USDA New problems could also be created, especially with the addition of a set-aside program Furthermore, USDA already makes all the purchases under the Title II program and yet has not been able to achieve greater small supplier participation

We are enclosing copies of comments received from ASCS, ACS and OSDBU for your further consideration

Enclosures

EXHIBIT B

United States Department of Agriculture

Agricultural Cooperative Service

Washington, D C 20250

October 2, 1980

SUBJECT GAO Draft Report Entitled "Competition Among Grain Suppliers in the P L. 480, Title I Program"

TO J J Hudgins
Foreign Agricultural Service

Enclosed are comments from ACS on the subject report

As you know, the Cooperatives Unit of the former ESCS became known as the Agricultural Cooperative Service effective yesterday We are, therefore, responding to this report instead of the newly named Economics and Statistics Service ESS Administrator, Ken Farrell, has been informed and concurs with this procedure.

I've enclosed (1) a memo to me from Bruce Reynolds which raises some general issues about the report, and (2) marked up copies of four pages which corrects verbage concerning the recent organizational change and the functions of ACS.

In general, we feel this is a fair and accurate report and, therefore, offer no substantive changes I am available to discuss further our comments.

Jim Haskell

JAMES E HASKELL
Director, Cooperative Marketing
and Purchasing Division

Enclosures

United States Department of Agriculture

Agricultural Cooperative Service

Washington, D C 20250

October 2, 1980

SUBJECT Comments on GAO Report

TO James E Haskell
Director, CMPD

The GAO draft of a proposed report, "Competition among Grain Suppliers in the P L 480, Title I, Program," identifies some of the problems that raise per-unit transaction costs for participants These problems affect all exporters, and, as pointed out in the report, create some barriers to there being more participation by cooperatives and small firms The report also mentions factors other than firm size that may affect the number of participants, but more analysis is needed in order to determine the causes of the high concentration of participants There are four points that would improve the report

1 The issue of firm size should be analyzed with some measurements

2 The discussion of other factors besides firm size should be expanded to include such topics as differences in objectives between cooperatives and proprietary firms

3 Some discussion is needed of historical relationships between government marketing programs and cooperatives

4 The degree of interest by target groups in the two legislative approaches needs to be surveyed and documented

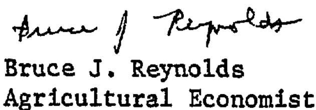
The report uses three categories for examining the effect of firm size on participation in Title I, P L. 480 major firms, cooperatives, and other firms It does not define how firm size is measured, whether it is in terms of total sales, net worth, or export volume A highly diversified firm may have a smaller annual export volume than a cooperative, but have a greater capacity to spread risks over other operations Another business characteristic that is related to firm size, but not perfectly correlated, is the access to market intelligence A firm with several foreign offices may be able to bid more aggressively on a large P L 480 tender than a cooperative with larger annual export sales because of better market information The fact that one export cooperative is the fourth largest grain exporter in the United States, as reported on page 19, might be irrelevant in determining eligibility for a special program

Cooperatives have a different marketing orientation from proprietary firms Cooperatives attempt to obtain the highest price for farmers The marketing orientation of proprietary firms is to capture as large a

margin as possible. The cooperatives' orientation is not a disadvantage to an overall marketing strategy, but might make participation in Title I, P.L. 480 tenders a less attractive alternative than other market outlets. The major concern of a cooperative is to merchandize products for members of whatever quality or grade Title I, P L. 480 tenders require procurement of large volumes, often of relatively low quality grains, which would require cooperatives to do substantial buying from a wide alternative area of nonmember sources Cooperatives operate with a member orientation and have less expertise than the major firms in supply procurement in the international marketplace

In order to gain sufficient understanding of the problems being considered, some review of past government marketing programs for cooperatives is needed. For example, during the period of 1929-38, grain cooperatives operated under the direction of the Farmers National Grain Corporation (FNGC), a government-sponsored organization The FNGC helped implement an orderly marketing system during a period of depression in the world grain market The FNGC was dissolved in 1938 because it was believed to be stifling the growth of cooperative enterprise FNGC has influenced cooperative attitudes toward government involvement in marketing.

The interest and opinions of the target groups toward the two legislative approaches discussed on pages 18-22 should be substantiated before being included in the report There is no indication that an adequate sample of the affected population was surveyed in regard to the legislative alternatives.



Bruce J. Reynolds
Agricultural Economist

United States Department of Agriculture
Agricultural Stabilization and Conservation Service
P O Box 2415 Washington, D C 20013

TO Administrator, Foreign Agricultural Service

FROM Administrator, Agricultural Stabilization and Conservation Service

SUBJECT GAO Draft Report "Competition Among Grain Suppliers in the P L 480, Title I Program (1540-80-141)"

We note that although no specific recommendation is made, considerable discussion has been devoted to the proposal that CCC assume responsibility for the procurement of Title I foods, just as Title II foods are presently procured by CCC The advantages and disadvantages of this proposal are discussed in the report and we concur in them However, we would like to make these further observations

The high degree of risk associated with the export of grain, grain products and rice, coupled with the large amounts of capital required, works to eliminate all but the very largest of the commercial export firms from participating in the program Procurement by CCC would permit many of the smaller suppliers to bid, enhancing competition

We believe that substantial savings in the overall operation of the program could be achieved by utilizing the same procurement process now used in the purchase and shipment of Title II commodities The small and/or minority business set-asides (which do not now apply to Title I procurements) could be handled by CCC in the same manner now applied to Title II procurements, which would also encourage competition

Under the system now in use for Title II procurement, CCC is responsible for condition, penalty assessment (if any), quantity, inspection and checkloading requirements between the time commodity is delivered to port until it is actually loaded aboard ship (this could be a month or more) Suppliers of Title I commodities now handle these matters themselves Only the very largest firms have the resources to do this Those who do not cannot compete

We estimate that assumption by CCC of the responsibility for Title I procurement would require the employment of a minimum of six additional personnel (merchandisers, freight forwarders and clerks)

Enclosure

EXHIBIT D

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D C 20250

October 2, 1980

SUBJECT. GAO Draft Report Entitled "Competition Among Grain Suppliers in the P.L. 480, Title I Program"

TO. John S. Hudgins
Audit Assistant to the
Administrator
Foreign Agricultural Service

THROUGH Joan S. Wallace
Assistant Secretary
for Administration

This is in response to the GAO Draft Report, dated September 17, 1980, pertaining to competition among suppliers in the P.L. 480, Title I Program.

On page 18 and 21 of Appendix II of the draft, GAO has proposed two legislative approaches for increasing supplier participation (1) establish set-aside programs, and (2) have USDA procure and sell Title I commodities.

Assuming that the second proposal will cause all Federal Government procurement preference programs to apply, this office strongly supports both GAO proposals The rationale presented by GAO in their discussion of the advantages and disadvantages appears to be sound. Certainly, we can anticipate a few initial additional problems when preference programs are implemented so as to increase competition.

The Federal Government encountered extreme opposition to the implementation of the Small Business Act, and all subsequent legislation amending that law. However, then as now, Congress recognizes that small and disadvantaged business have an equal opportunity to compete in many procurements, but they have minimal chances of winning, because large businesses can generally under bid them. They only have an equal chance of winning when large business is removed from the competitive arena for a fair proportion of the procurements solicited. This allows small and disadvantaged businesses to compete with other firms that operate under similar economic circumstances.

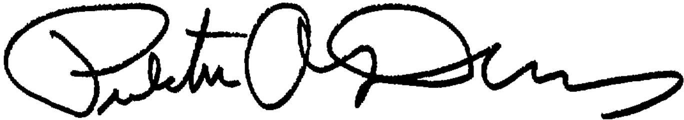
This office prefers the proposal of enabling USDA to take over the complete procurement mission in the P.L. 480, Title I area. Also, it is our opinion that all preference programs would then be applicable. If this opinion is in error, then additional legislation would be needed to cause the preference programs to apply. Further, if our first preference is not possible, we recommend, as a minimum, that set-asides be established to allow small and disadvantaged businesses an equal chance of winning, as opposed to just competing.

The history of procurements in this area clearly reveals that the equal chance of winning has never existed.

The loans that finance this program are made possible by tax revenues collected from all U.S. citizens; therefore, we propose a program that affords all an equal chance of success.

When foreign countries are obtaining loans for up to 40 years, at concessional rates of interest, we do not believe that their personal desires should work to the continued disadvantage of small and disadvantaged Americans, that collectively labor to make such terms available.

We appreciate the opportunity to comment on the draft report.



PRESTON A. DAVIS, Director
Office of Small and Disadvantaged
Business Utilization

United States Department of Agriculture

Office of Inspector General

Washington, D C 20250

September 25, 1980

SUBJECT: GAO Draft Report "Competition among Grain Suppliers in the PL 480, Title I Program"

TO: J. K. Fasick, Director, International Division, GAO

OIG has reviewed the draft report and concurs with the overall thrust and recommendations We have previously reviewed this area as respects PL 480 Title I Rice Marketing (60207-9-Hy, 6/23/75, and 36603-1-Hy, 5/26/77) and had similar comments and recommendations in several areas.

Similar type recommendations were made as respects payment of suppliers and orderly marketing With respect to alternative approaches, direct USDA purchases of Title I Rice and establishment of a set-aside program for small business were discussed You may wish to include this information in your final report

Attached for informal purposes are copies of our two prior reports Also attached is a highlighted excerpt from the Congressional Record about FOB basis for payment.

HUBERT N. SPARKS
Director, Foreign Operations
Staff

Attachments

(483150)

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