

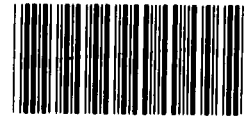
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STATEMENT OF

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BEFORE THE
SUBCOMMITTEE ON SEAPOWER AND STRATEGIC AND
CRITICAL MATERIALS
HOUSE COMMITTEE ON ARMED SERVICES



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ON
USING BARTER TO ACQUIRE NEEDED STOCKPILE
MATERIALS

Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to comment on using barter to acquire strategic and critical materials for the National Defense Stockpile and on H.R. 3544 which is intended to facilitate the use of barter in acquiring these materials. My testimony is based on our report to the Chairman of the Subcommittee on Preparedness, Senate Committee on Armed Services. This report, issued today, addresses how barter is currently provided for in law and how it has been used to acquire stockpile materials.

Our work showed that federal agencies have the legislative authority to use barter to acquire needed stockpile materials. They have, however, used this method sparingly because of restrictive legislative requirements and competing national interests. Thus, the current potential for using barter is

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limited and, if left to the individual agencies, future barter transactions may be conducted only at the request of the President.

H.R. 3544 addresses several of the restrictive legislative requirements we identified. I will comment further on this bill after briefly summarizing our report.

FEDERAL AGENCIES HAVE BEEN
ABLE TO USE BARTER ONLY
SPARINGLY

Barter literally means to swap or trade one item for another without the use of money. As such, barter includes trading federally owned property, such as surplus plants, equipment, land, and agricultural commodities, for stockpile materials and exchanging excess stockpile materials for needed stockpile materials.

Of the numerous federal agencies involved with the stockpile and/or barter, the Department of Agriculture and the General Services Administration (GSA) have primary authority and responsibility. These agencies are explicitly encouraged by the Strategic and Critical Materials Stock Piling Act, as amended, and the Agricultural Trade Development and Assistance Act of 1954, as amended, to use barter to acquire and dispose of stockpile materials when it is otherwise authorized by law, practicable, and in the best interest of the United States. They have, however, used this method sparingly because of restrictive legislative requirements and competing national interests for surplus federal property, including agricultural commodities.

One example of a restrictive legislative requirement is contained in the Commodity Credit Corporation Charter Act, as

amended. It states that the Commodity Credit Corporation (CCC)¹ shall be reimbursed at the fair market value of the materials transferred to the stockpile that were acquired by bartering CCC-owned agricultural commodities. Because of this provision, GSA officials informed us that they would prefer to make direct cash purchases rather than use the limited funds appropriated for stockpile acquisitions to reimburse CCC for bartered agricultural commodities.

Other legislative requirements must also be considered in determining the viability of any barter transaction involving surplus agricultural commodities. For example, the Agricultural Trade Development and Assistance Act of 1954, as amended, requires the Secretary of Agriculture to (1) take reasonable precautions to assure that barter will not displace U.S. cash sales on the world market, (2) endeavor to cooperate with other exporting countries in preserving normal patterns of commercial trade, and (3) restrict barter to bilateral transactions between the United States and one other country.

Other national interests also affect the amount of surplus agricultural commodities available for barter. For example, as of December 31, 1982, CCC owned about 185 million bushels of wheat, of which almost 80 percent was committed to the Food Security Wheat Reserve to meet emergency humanitarian food needs in developing countries. The remainder was committed to export sales and the recently established payment-in-kind (PIK) program where farmers reduce their acreage in return for free CCC-owned grain.

¹The Commodity Credit Corporation is a federal corporation in the Department of Agriculture that supports prices of agricultural commodities through loans, purchases, payments, and other operations and disposes of surplus agricultural commodities.

Also, CCC held 1.1 billion bushels of wheat as collateral for outstanding price support loans. Since this wheat is not owned by CCC, it is not available for barter.

In addition to surplus agricultural commodities, other surplus federal property, such as defense-owned plants, equipment, and land, as well as excess stockpile materials, may be exchanged for needed stockpile materials. The Federal Property and Administrative Services Act of 1949, as amended, authorizes the acceptance of stockpile materials in lieu of cash as payment for surplus federal property. GSA's two attempts to use this authority, however, were unsuccessful primarily because the decision was made after congressional committees had been informed that the plants were to be sold for cash. This created some confusion and, rather than risk the loss of these sales, GSA sold the plants for cash. According to GSA officials, they now have no definitive plans to barter surplus federal property for stockpile materials.

Similarly, GSA has had authority to exchange excess stockpile materials for needed stockpile materials since fiscal year 1969. However, GSA officials informed us that no successful commodity-for-commodity exchanges have occurred even though materials having a market value exceeding \$3.8 billion were considered excess to stockpile goals as of March 31, 1982.² They pointed to unfavorable conditions, including (1) difficulty in establishing the value of the excess stockpile materials to be exchanged due to their various grades and quality, (2) rapidly fluctuating market

²GSA had, however, in implementing a presidential directive, sold stockpile materials on behalf of the Jamaican government, with the proceeds used to acquire Jamaican bauxite for the stockpile.

conditions which affect the value of the materials to be exchanged, making this method a less attractive form of payment than direct cash purchases, and (3) lack of demand by potential exchange partners for the excess stockpile materials. Therefore, GSA-initiated solicitations have been limited. Furthermore, we noted during our review that GSA had not established a process to regularly solicit, evaluate, and respond to exchange proposals for excess stockpile materials authorized for disposal.

H.R. 3544 ADDRESSES SOME OF
THE CONDITIONS LIMITING THE
USE OF BARTER

The proposed "National Defense Stockpile Amendments of 1983," H.R. 3544, addresses several of the restrictive legislative requirements that have limited bartering federally owned property for needed stockpile materials. The barter provisions of the bill apply to "materials and defense industrial property." While the bill does not expressly refer to agricultural commodities, it appears that these commodities would be included in the definition of "materials." This would eliminate the requirement that GSA reimburse CCC at the fair market value of the materials transferred to the stockpile that were acquired by bartering CCC-owned agricultural commodities. The Congress, however, in its deliberations on this section, needs to recognize that eliminating the reimbursement requirement could ultimately require that additional funds be appropriated to the CCC in order for it to continue supporting agricultural commodities' prices. In other words, the funds that would now have to be appropriated to GSA to reimburse CCC for the agricultural commodities bartered for stockpile materials may ultimately have to be appropriated directly to CCC.

Moreover, since H.R. 3544 appears to include agricultural commodities, it would also eliminate the restriction on multi-lateral bartering imposed by a 1968 amendment to the Agricultural

Trade Development and Assistance Act of 1954. Thus, the bill would permit consideration of transactions between the United States and two or more other countries similar to those entered into by the United States prior to 1968.

Finally, H.R. 3544 proposes to establish a "Barter Coordination Council" in the Executive Office of the President to promote and expedite barter. We believe that barter could be adequately addressed by the Emergency Mobilization Preparedness Board, established by presidential directive in December 1981. The Board's purpose is to ensure that a capability exists to respond rapidly and effectively to meet national needs in the event of major peacetime and wartime emergencies. The Board consists of representatives from 23 key federal departments, agencies, and executive offices at the deputy or under secretary level and is chaired by the Assistant to the President for National Security Affairs. The Board includes the six departments and agencies to be represented on the proposed Barter Coordination Council.

The Board is not only responsible for developing an overall policy and a plan of action that will immediately improve the Nation's preparedness capabilities, but it is also responsible for monitoring federal agency implementation of these actions and resolving mobilization preparedness issues. One of the mobilization preparedness issues to be addressed by the Board is the National Defense Stockpile. Therefore, we believe that the Board's mobilization policy and action plan would be the preferred vehicles for promoting and expediting barter in acquiring needed stockpile materials.

In commenting on our draft report, the National Security Council stated that the Board will assess the proper role of barter in its comprehensive review of overall stockpile policy.

As of September 30, 1983, the Board was addressing the revision of stockpile goals, but intended to complete its review of barter by mid-1984.

The National Security Council also stated that there are adequate lines of communication in place to the Board from federal agencies and outside entities that wish to propose agricultural barter procurements for consideration. We believe that these lines of communication need to be expanded to include barter proposals from private industry and foreign suppliers for materials authorized to be acquired for and disposed from the stockpile. This would be similar to the responsibility assigned the Barter Coordination Council under H.R. 3544 to establish a procedure to systematically identify barter opportunities, including a process to regularly solicit, evaluate, and respond to barter proposals from private industry and foreign suppliers.

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In summary, we have found that barter is an inherently complex undertaking that often involves more than one federal agency--each with different interests to promote--and foreign governments. Thus, barter must be considered within the context of national and international interests and priorities. As such, barter transactions are not easily achieved.

We believe that H.R. 3544 addresses several of the restrictive legislative requirements that have limited bartering federally owned property for needed stockpile materials. We also share this Subcommittee's concern that barter should be elevated to a level having broader policy making authority regarding its use. We believe that the Emergency Mobilization Preparedness Board has such authority. Therefore, we believe that the

Board's mobilization policy and action plan would be the more preferable vehicles for defining the role of barter in acquiring needed stockpile materials and monitoring federal agency implementation.

Mr. Chairman, that concludes my statement. I welcome any questions the Subcommittee may have.