0957!8

1.52

71-258

REPORT TO THE CONGRESS

Balance-Of-Payments Benefits Achieved By The Department Of Agriculture Through An Increased Agricultural Barter Program

B-163536

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

FEB. 12, 1971

~~700519~~ 095718

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

B-163536

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the balance-of-payments benefits achieved by the Department of Agriculture through an increased agricultural barter program.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Agriculture.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

BALANCE-OF-PAYMENTS BENEFITS ACHIEVED BY THE DEPARTMENT OF AGRICULTURE THROUGH AN INCREASED AGRICULTURAL BARTER PROGRAM
B-163536

DIGEST

WHY THE REVIEW WAS MADE

The barter program, administered by the Department of Agriculture under the Commodity Credit Corporation Charter Act and the Agricultural Trade Development and Assistance Act and other statutes, has varied purposes including the increase of exports of American agricultural commodities and the reduction of the adverse impact of foreign procurement on the balance of payments.

Under the program, agricultural commodities are used in place of dollars to acquire goods and services needed in U.S. overseas operations. Dollars that would be spent abroad for this purpose are kept in the United States.

During a prior review of this program, the General Accounting Office (GAO) identified nearly $700 million worth of Government expenditures abroad as qualifying for payment from barter transactions annually compared with $260 million worth actually bartered. GAO believed that a relaxation of existing barter constraints would increase American agricultural exports and thereby benefit our balance-of-payments position.

From that review, GAO concluded that the Department should adopt a policy of letting market conditions determine the size of the barter program rather than attempt to hold the size below a theoretical or administrative limit. The thrust of GAO's report was that the Department should accept a higher percentage of bids even if that meant some increase in the barter premiums paid. The purpose of this review was to determine whether the administrative restrictions had been relaxed so as to permit an increase in agricultural exports through the barter program. GAO's examination was limited to contracts awarded under AID and DOD funding arrangements. (See p. 22.)

FINDINGS AND CONCLUSIONS

The Department has taken certain actions to increase agricultural exports through the barter program thereby benefiting our balance-of-payments position. These actions include increasing the size of the barter program by increasing the barter premium that the Department is

Tear Sheet

FEB. 12, 1971

willing to pay, including additional free market stocks to the list of commodities eligible for barter, and revising the destination list to which the commodities may be exported. These actions have resulted in an increased barter program.

During fiscal year 1970, barter contracts awarded under funding arrangements amounted to $429 million, compared with $181 million for fiscal year 1969. The contracts signed during fiscal year 1970 are the highest amount for any period in the history of the program. (See p. 20.)

RECOMMENDATIONS OR SUGGESTIONS

The actions taken by the Department, in GAO's opinion, are satisfactory and eliminate the need for additional actions or studies at this time.

AGENCY ACTIONS AND UNRESOLVED ISSUES

Department officials agreed, in general, with the contents of this report and had no major comments or suggestions. (See app. V, p. 31.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO believes that this report has congressional significance because of the size of the barter export accomplishments achieved over the past year and a half.

Contents

ABBREVIATIONS

AID	Agency for International Development
CCC	Commodity Credit Corporation
DOD	Department of Defense
GAO	General Accounting Office
IGA	International Grains Arrangement
USDA	United States Department of Agriculture

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

BALANCE-OF-PAYMENTS BENEFITS ACHIEVED BY THE DEPARTMENT OF AGRICULTURE THROUGH AN INCREASED AGRICULTURAL BARTER PROGRAM
B-163536

D I G E S T

WHY THE REVIEW WAS MADE

The barter program, administered by the Department of Agriculture under the Commodity Credit Corporation Charter Act and the Agricultural Trade Development and Assistance Act and other statutes, has varied purposes including the increase of exports of American agricultural commodities and the reduction of the adverse impact of foreign procurement on the balance of payments.

Under the program, agricultural commodities are used in place of dollars to acquire goods and services needed in U.S. overseas operations. Dollars that would be spent abroad for this purpose are kept in the United States.

During a prior review of this program, the General Accounting Office (GAO) identified nearly $700 million worth of Government expenditures abroad as qualifying for payment from barter transactions annually compared with $260 million worth actually bartered. GAO believed that a relaxation of existing barter constraints would increase American agricultural exports and thereby benefit our balance-of-payments position.

From that review, GAO concluded that the Department should adopt a policy of letting market conditions determine the size of the barter program rather than attempt to hold the size below a theoretical or administrative limit. The thrust of GAO's report was that the Department should accept a higher percentage of bids even if that meant some increase in the barter premiums paid. The purpose of this review was to determine whether the administrative restrictions had been relaxed so as to permit an increase in agricultural exports through the barter program. GAO's examination was limited to contracts awarded under AID and DOD funding arrangements. (See p. 22.)

FINDINGS AND CONCLUSIONS

The Department has taken certain actions to increase agricultural exports through the barter program thereby benefiting our balance-of-payments position. These actions include increasing the size of the barter program by increasing the barter premium that the Department is willing to pay, including additional free market stocks to the list of commodities eligible for barter, and revising the destination list to which the commodities may be exported. These actions have resulted in an increased barter program.

During fiscal year 1970, barter contracts awarded under funding arrangements amounted to $429 million, compared with $181 million for fiscal year 1969. The contracts signed during fiscal year 1970 are the highest amount for any period in the history of the program. (See p. 20.)

RECOMMENDATIONS OR SUGGESTIONS

The actions taken by the Department, in GAO's opinion, are satisfactory and eliminate the need for additional actions or studies at this time.

AGENCY ACTIONS AND UNRESOLVED ISSUES

Department officials agreed, in general, with the contents of this report and had no major comments or suggestions. (See app. V, p. 31.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO believes that this report has congressional significance because of the size of the barter export accomplishments achieved over the past year and a half.

CHAPTER 1

INTRODUCTION

The General Accounting Office has reviewed the procedures and policies being followed by the Department of Agriculture in managing its program for bartering agricultural commodities abroad.

Our purpose was to learn whether revisions had been made in the management of the program since issuance of the GAO report on management of the program entitled "Opportunity to Improve United States Balance of Payments Through An Increased Agricultural Barter Program" (B-163536, May 1968).

The 1968 report discussed operations of the program through June 1967 and concluded that the program was being operated at a level well under its potential because of restrictive bid evaluation procedures being followed by the Department of Agriculture. It recommended a study to explore the best ways and means of maximizing benefits from the program and made some specific suggestions which, GAO believed, the Cabinet Committee on Balance of Payments should take into account.

The scope of review is shown on page 22.

Principal officials having responsibility for the administration of the matters discussed in this report are listed in Appendix V.

CHAPTER 2

NATURE AND MECHANICS

OF THE BARTER PROGRAM

The barter program is carried out under the authority contained in the Commodity Credit Corporation (CCC) Charter Act and the Agricultural Trade Development and Assistance Act of 1954, as amended.

Major goals of the program are to

--increase exports of U.S. agricultural commodities,
--realize balance-of-payments advantages, and
--help in achieving international policy goals.

Between 1955 and 1962, the barter program was primarily used as a means of paying for foreign raw materials needed in strategic stockpiles. It was a way of paying for these materials with surplus agricultural products rather than dollars. Today, however, few transactions involving strategic materials take place.

Starting in 1963, the program took a new turn. Since that time, the idea was to use proceeds from bartered agricultural commodities to help pay overseas costs of the U.S. military establishment and to finance commodities under the U.S. foreign aid program.

Appendix I presents details on contracts negotiated, by type, from fiscal year 1967 through fiscal year 1970.

Barter transactions are carried out through contracts between CCC and private U.S. companies. Under the terms of the contracts, CCC either makes agricultural commodities available to the contractors for export or compensates the contractors for the value of the commodities exported from private stocks. The contractors in turn are required to either (1) use proceeds from the sales to buy materials for delivery to the Government agencies or (2) provide funds directly to the Government agencies for their use in making the procurements abroad. These agencies then pay CCC for the agricultural commodities, and dollars that would otherwise be spent abroad are kept in the United States.

Most barter transactions provide funds directly to Government agencies for their use in making offshore procurements. As shown in our earlier report, well over half the barter contracts in fiscal years 1967 were of this type. This pattern continued in fiscal years 1968 through 1970. During that period, about 90 percent of the barter transactions were of the type which provided funds directly to the government agency to be used, in lieu of dollars, for offshore procurements.

For the most part, these offshore procurements are made by the Department of Defense (DOD). The Agency for International Development (AID) also participates. The following table illustrates the extent to which each of these agencies have participated in the barter-funding-type arrangements.

	AID	DOD	Total
	(millions)		
Fiscal year 1968	$37.6	$149.5	$187.1
" " 1969	17.9	163.9	181.8
" " 1970	-	439.3	439.3

A barter-funding transaction starts, for example, when a DOD installation abroad advises the Department of Agriculture that it plans to acquire abroad supplies and services of a specified dollar amount over a designated period, such as a fiscal year. DOD is required to assure USDA that dollars will be expended abroad in the absence of barter funds.

After advising the overseas installation that the planned procurements are of a type susceptible to barter-funding arrangements, USDA publicly invites offers of the lowest barter cost (premium) for which a U.S. firm will agree to export agricultural commodities and to make an equivalent amount of funds available to the overseas installation.

After evaluating bids, USDA then awards contracts on the basis of the lowest proposed barter premium. As previously mentioned, USDA agrees to either provide the necessary agricultural commodities from surplus stocks or reimburse the contractor if the commodities are acquired from private stocks. USDA agrees also to pay the barter contractor the premium specified in its bid. The premium is stated in terms of a percentage of the funds provided by the barter contractor.

One restriction placed upon barter transactions is stated in section 303 of Public Law 85-931 (U.S.C. 1962) which directs the Secretary of Agriculture to take reasonable precautions to safeguard usual marketings (i.e., usual levels of commercial sales) of the United States and to ensure that barters or exchanges do not unduly disrupt world prices for agricultural commodities or replace cash sales for dollars.

It probably is not possible to establish any system which will guarantee absolutely that barter exports will not displace any commercial exports. This was a conclusion of the Cabinet Committee on Balance of Payments after a 1964 study of barter activities and the conclusion holds true today.

It is possible, however, to take measures which effectively minimize the likelihood that barter transactions displace commercial sales and the Department of Agriculture has established a rather elaborate system for so doing. The system is summarized in more detail in Appendix IV.

Considering the requirement of the law and the system established by USDA, there can be little doubt that barter sales are largely additional to other commercial sales of U.S. agricultural commodities.

The benefits to be derived from the additional commercial sales, however, are not without certain drawbacks. Some of the benefits and drawbacks are discussed in greater detail in a subsequent section of this report.

CHAPTER 3

DYNAMICS AFFECTING THE OVERALL

LEVEL OF THE BARTER PROGRAM

Much confusion about the barter program arises because the term "barter" does not accurately describe its nature. The term implies that agricultural commodities are swapped for goods and services. Actually most of the commodities are sold abroad and sales proceeds are remitted to the U.S. Government for use in reducing dollar expenditures abroad.

The only real difference between a barter transaction and an outright commercial sale is that the barter contractors are allowed discounts (premium payments) averaging between 2 and 3 percent to make it worth their while to enter into the transactions. The barter contractors are private U.S. firms which deal directly with foreign buyers. They can, if necessary, pass on part or all of the discounts to the foreign buyers and capture sales that they otherwise might not have been able to make.

The advantages of barter transactions are obvious and may be summarized as follows:

--To the extent that a barter sale does not displace sales that otherwise would be made, American exports of agricultural commodities are increased.

--The increase in agricultural exports helps the international balance-of-payments position of the United States. The proceeds from barter exports reduce dollar expenditures of the Department of Defense and the Agency for International Development abroad.

--U.S. balance-of-payments advantages are achieved at less cost than other Government programs. The additional premium costs associated with barter transactions are a fraction of the premium costs associated with "Buy America" programs.

--Overall, the United States achieves budgetary savings when surplus agricultural commodities are exported under the barter program. The Department of Agriculture makes the commodities available to barter contractors who sell them abroad and remit the proceeds to U.S. Government agencies, such as the Department of Defense and the Agency for International Development. These agencies pay their expenses abroad with the sales proceeds and pay the Department of Agriculture with an equivalent amount of dollars. Thus, appropriated funds which would have been paid to sources outside the Government are transferred from one Government agency to another and no overall budgetary cost is incurred. (As noted below, the Department of Agriculture does have to absorb an additional cost in the form of a barter premium.)

--The barter program helps expand agricultural markets on a selective basis. It can be an effective device for increasing American exports to countries which historically have bought little or no American agricultural commodities on commercial terms. It can act as a transitional device for shifting from foreign currency programs and long-term dollar sales programs (under title I, Public Law 480) to commercial sales. It can be used to build up trade relationships between foreign importers and American exporters.

These advantages are sound arguments for a large barter program; however, there are associated disadvantages which are less obvious but which must be taken into consideration in managing the program. The disadvantages may be summarized as follows:

--The discount allowed to barter contractors is little more than a form of export subsidy. Like any export subsidy, the danger exists that other countries may retaliate, that less subsidized American commercial exports may be displaced, and that world market prices may be lowered.

--It is difficult to measure the impact of barter transactions on commercial exports and world market prices. It probably is not possible to establish any system which will guarantee absolutely that barter exports will not displace <u>any</u> commercial exports.

--If the barter transaction replaces a commercial export, the cost to the United States will be increased to the extent of the barter premium but there will be no balance-of-payment gain.

COMPETITIVE POSITION OF U.S. CONTRACTORS AS A RESULT OF THE BARTER PROGRAM

To the extent that the barter premiums are passed on to the foreign buyer in the form of reduced prices, the barter program undoubtedly permits the U.S. contractor to be more competitive in the world market.

Depending upon the world market price and the amount of the premium awarded by USDA, barter contractors may be able to sell the commodities at less than the world market price. Under such circumstances it appears that U.S. exports would continue to increase until the market became saturated, or until other exporting nations complained or took some form of retaliatory action. Such was the case of U.S. wheat being exported under the barter program.

At the end of fiscal year 1967, the maximum barter premium being awarded by USDA was about 2 percent. Since that time, however, the premium has increased and was at about the 2.5-percent level at the end of December 1969. During our review, we noted that, in December 1969, USDA initiated action to limit the premium on wheat to around 1 percent. USDA personnel stated that this action was taken because of complaints by other wheat-exporting nations.

The United States is a member of the International Grains Arrangement (IGA). Other IGA members, also major wheat exporters, complained that U.S. exporters were undercutting world market price for wheat. Rather than have the complaining members take some form of retaliatory action, USDA limited the premium which would be awarded for wheat exports. USDA personnel stated that they had evaluated the situation and had concluded that the action taken would still permit U.S. exporters to be competitive in the world market.

The action taken by USDA did not apply to barter contracts in existence at that time. Therefore, in some instances, wheat may still be exported under contracts which provided for the higher premium. Because of this, and the fact that the limitation was just recently set, the effect of the action on barter exports of wheat could not be determined at the time of our review.

Assuming that the premiums awarded by USDA are sufficiently high, the barter program no doubt helps the U.S. exporters in their attempts to compete for the world market. This apparently prompted the complaints by the IGA members. In our opinion, however, the position of the U.S. exporters, as a result of the barter program, is no better than that of foreign exporters. Certain foreign exporters enjoy privileged positions in some markets because of bilateral trade agreements which exist with other nations. U.S. exporters are effectively excluded from competing for these markets.

Foreign exporters also receive assistance in the form of export subsidies. An example of this is the subsidy paid to grain-exporting members of the European Community. The amount of the subsidy is roughly equal to the difference between the domestic price in the European Community exporting country and the price at which the grain can be sold in third-country markets. The following details of the European Community export subsidy were explained in a USDA publication[1] dated October 1969.

Export subsidy rates vary not only by type of grain but also by destination of the shipment. Following is an example of how the export subsidy per metric ton of barley is calculated.

Destination	South America	Japan
Price f.o.b. Rouen	$ 94.50	$ 94.50
Freight	9.50	13.00
Miscellaneous charges	1.00	1.00
Price c.i.f.	105.00	108.50
Price of competing barley	61.50	60.50
Export subsidy needed	$ 43.50	$ 48.00

[1]"The European Community's Common Agricultural Policy - Implication for U.S. Trade."

The extent to which the European Community is willing to subsidize grain to move it onto the world market is illustrated by the sales of French wheat to Communist China in February and March 1968. The prevailing price for soft wheat at that time was $109.70 a metric ton, f.o.b. French port. The export subsidy rate announced by the European Community Commission for wheat destined for Communist China was $52.90 a metric ton. The French then received permission from the Commission to grant a special subsidy of $11 and a freight subsidy of $2 a metric ton on offers totaling 600,000 metric tons. Therefore, the total subsidy on this sale was $65.90 a metric ton, or 60 percent of the f.o.b. price, and the wheat arrived in Communist China at $43.80 a metric ton. If the Chinese purchase the entire amount, the total expense to the European Agricultural Guidance and Guarantee Fund will amount to $39.5 million. Although such extremely low prices for wheat would now be inconsistent with the International Grains arrangement price range, the European Community may still apply as large a subsidy as necessary to export feed grains.

From this illustration of export subsidies paid to foreign exporters, it can readily be seen that U.S. exporters face stiff competition in their attempt to export, for example, feed grains. We believe, therefore, that, rather than placing U.S. exporters in a more favorable position, the barter program merely helps them to compete more effectively for markets.

REGULATION OF THE BARTER PROGRAM LEVEL THROUGH PREMIUM PAYMENTS ALLOWED

One of the tools available to USDA in regulating the size of the barter program is the amount of premiums it is willing to pay to move any given amount of commodities. The higher the premium, the higher the amount of commodities that can be exported.

During the period fiscal year 1967 through fiscal year 1969, USDA limited the dollar amount of barter exports to a predetermined level. Contracts were awarded to the low bidders (premium) so as to export a predetermined quantity and the remainder of the bids were rejected. The desired level, about $180 million, was reached for each of the fiscal years 1967 through 1969. The desired level of barter exports was reached without much difficulty in fiscal years 1967 and 1968, and over half the bids (dollar amount) were rejected. The desired level was reached again in fiscal year 1969; however, the bidder response was not so great as in prior years. Consequently, only about 15 percent of the bids were rejected. Since fiscal year 1969, USDA has expanded the program. As shown below, fiscal year 1970 has exceeded the level for prior years by more than 133 percent and only slightly over 2 percent of all bids were rejected. (See p. 17 of this report.)

	AID and DOD Funding Arrangements			
	Contracts awarded		Bids rejected	
	Dollar Amount (note a)	Average Premium	Dollar Amount (note a)	Average Premium
FY 1967	$177.8[b]	2.146%	$179.6	2.273%
FY 1968	183.3	2.047	226.5	2.073
FY 1969	181.1	2.470	31.8	2.678
FY 1970	429.0	2.417	10.2	2.550

[a]Millions.

[b]An additional $6.7 million in funding arrangements awards was made by AID; the total amount awarded in fiscal year 1967 amounted to $184.5 million.

As indicated on the preceding page, the average premium bid accepted decreased to near the 2.4-percent level in fiscal year 1970. This decrease from the fiscal year 1969 level, however, is the result of the 1-percent premium level placed on wheat by USDA. (See p.10 of this report.)

When the "wheat only" contracts awarded during fiscal year 1970 at the 1-percent premium limit were excluded from the above tabulation, the average premium for contracts awarded remained near the 2.5-percent level of fiscal year 1969. The average premium rejected was higher than the acceptable level of 2.5 percent. During fiscal year 1970, USDA accepted all but a few premium bids under the 2.5-percent acceptable level. In some cases where the premium bid was just above 2.5 percent, USDA has negotiated with the contractors to reduce the bid to an amount just below the acceptable level--say 2.495 percent.

By accepting nearly all the bids received, USDA has expanded the barter program and increased commercial exports of agricultural commodities. To do this, USDA has increased the premium it was willing to accept at the time of our 1968 report. Although this perhaps has resulted in somewhat greater barter costs to CCC, it has also resulted in a benefit to our balance-of-payments position by avoiding offshore expenditure of dollars for goods and services.

CHAPTER 4

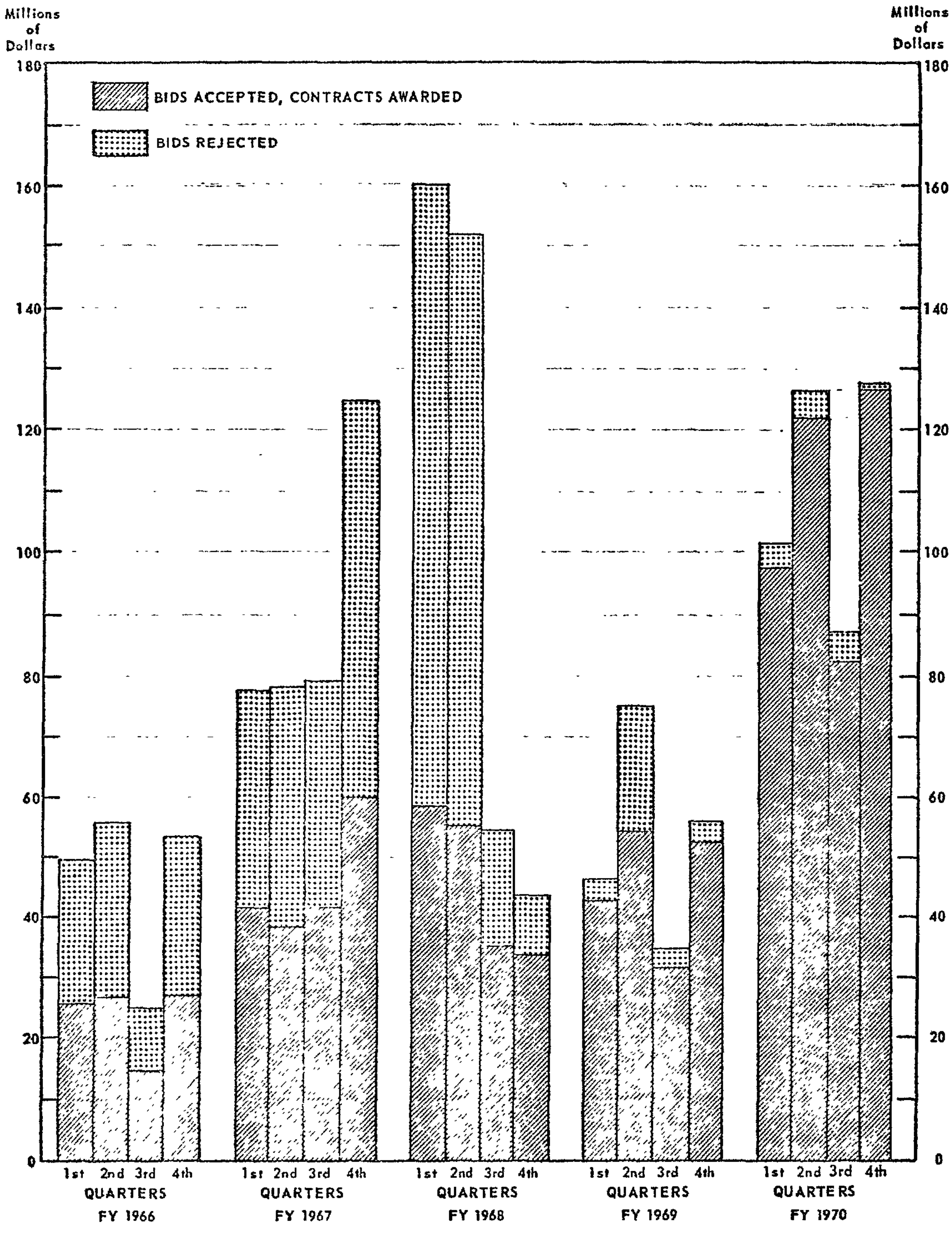
AGENCY ACTIONS TAKEN SINCE ISSUANCE OF PRIOR REPORT

In our earlier report, we concluded that USDA should adopt a policy of letting market conditions determine the size of the barter program rather than attempt to hold the size below a theoretical level or administrative limit. The thrust of our report was that USDA should accept a higher percentage of bids even if this meant some increase in the barter premiums paid. A draft of that report, soliciting the agency's comments, was furnished USDA in February 1968. Immediately prior to that time, the market was such that the contractors' bids were much greater than the limit set by USDA, and about half of the bids received were being rejected. Contractors' bids fell off sharply in the last half of fiscal year 1968--apparently because of the market situation for the various commodities.

The chart, as shown on the following page, illustrates, by quarters, the extent to which USDA has accepted and rejected bids for the period fiscal year 1966 through fiscal year 1970. As can be seen by the illustration, during the last half of fiscal year 1968 and fiscal year 1969, the bidder response was not too great and fewer bids had to be rejected to maintain the predetermined level of barter exports.

Subsequent to issuance of our earlier report, USDA has taken certain actions designed to expand the barter program. These actions include (1) increasing the size of the program, by increasing the barter premium it is willing to pay, (2) adding additional private stock to the list of commodities eligible for barter, and (3) revising the destination list to which bartered commodities may be exported.

BIDS RECEIVED AND CONTRACTS AWARDED IN RESPONSE TO SOLICITATIONS FOR FUNDING-TYPE BARTER EXPORTS



INCREASING THE SIZE OF THE PROGRAM BY INCREASING THE BARTER PREMIUM

Throughout fiscal years 1968 and 1969, USDA continued to limit the barter program to a predetermined level. As shown in a preceding section of this report, the amount of contract awards was limited to about $180 million for each of the fiscal years 1967 through 1969. These limitations, however, have been relaxed. During fiscal year 1970, USDA awarded barter contracts amounting to about $429 million--over twice the amount awarded during fiscal year 1969.

Prior to fiscal year 1970, USDA limited the program by rejecting bids. As previously mentioned, in some years over half of the bids received (dollar amount) were rejected. During fiscal year 1970, however, USDA accepted about $429 million or 98 percent of a total of about $439 million in barter contract bids received.

As noted in our earlier report, the amount of barter premium paid during fiscal year 1967, averaged about 2.1 percent. Throughout most of fiscal year 1968 the premium rate remained almost constantly in the 1.8- to 2-percent range. In the second half of fiscal year 1968, the quantity of bids received fell off sharply and, within a few months, the premium rate rose to 2.49 percent. During fiscal years 1969 and 1970, the premium rate averaged about 2.43 percent.

In commenting on the decline in the number of bids received and awarded, USDA officials stated that there had been two major causes for the decline. First, the export market had declined for U.S. grains, especially wheat, because of exceedingly good crop years in most importing countries. Second, just prior to February 1968, U.S. contractors had large outstanding obligations to meet under existing barter contracts.

Starting in February 1968, the outstanding obligations declined, indicating that the contractors were exporting these commodities. A USDA official advanced the theory that this caused the foreign markets to become saturated thus resulting in a reduced export market for U.S. agricultural commodities. Under such circumstances, many contractors would not submit bids and others would obligate themselves only for a higher premium. The higher premium was needed so that the contractor could offer a more competitive price.

ADDING FREE MARKET STOCKS TO LIST OF ELIGIBLE BARTER COMMODITIES

Commodities eligible for export under the barter program consist of CCC-owned commodities and private stock commodities. In the case of private stock commodities, the barter contractor may already hold stocks of the desired commodity or may acquire them in the commercial market.

Private stock commodities eligible during fiscal year 1967 were corn, grain sorghum, wheat and wheat flour, cottonseed and soybean oil, and tobacco. These commodities have continued to be available since 1967.

Additional private stock commodities have since been made eligible for export. These commodities and the dates they were made eligible are as follows:

Commodity	Date
Oats	Mar. 1968
Cotton	Apr. 1968
Barley	July 1968
Rice	Jan. 1969
Inedible tallow and grease	May 1969

Of the private stock commodities added to the list as eligible for barter export, only rice and inedible tallow and grease have shown any noticeable increase. As shown in appendix III, barter exports of oats and barley have been minimal; and barter exports of cotton decreased after being added as a private stock commodity eligible for export. A USDA official stated that there had been various reasons for the decline of cotton exports during fiscal year 1969. He stated that our cotton crops had been good, but the yield was less than anticipated. This forced the prices up and did not enhance our export prospects. Another reason for the decline was the lengthy dock workers strike at gulf ports, from which most cotton is shipped. As shown in appendix III, however, barter exports of cotton have shown a substantial increase during fiscal year 1970.

REVISING THE DESTINATION RESTRICTION LIST TO WHICH COMMODITIES MAY BE EXPORTED

Appendix IV points out that countries to which bartered commodities may be exported are designated as countries to which barter exports may be made only after "additionality" has been determined by the USDA, countries to which there are no barter export restrictions, or countries to which no barter exports are allowed.

The destination restriction list, "Commodity - Country Designations for Exportation of Agricultural Commodities," has had four revisions during the past 6 years. These revisions took place in August 1964, March 1965, June 1967, and July 1969. Since the July 1969 revision there have been three interim changes as follows: (1) during the period from June 19, 1969, through December 31, 1969, private stocks of wheat and wheat flour were made eligible for export to Argentina without an "additionality' determination" by USDA, (2) as of September 17, 1969, tobacco was made eligible for export to Austria, Denmark, Ireland, and Norway without an additionality determination by USDA, and (3) during the period November 25, 1969, through June 30, 1970, feed grains were made eligible for export to Spain under barter contracts involving reimbursable procurements of U.S. Government agencies without prior approval of individual export proposals.

With regard to exports of cotton, the July 1969 revision modified existing restriction by (1) making all countries, to which barter cotton exports were previously prohibited, eligible to receive bartered cotton and (2) allowing barter contractors to export cotton to all countries without an additionality determination by USDA. The only requirement of the contractors was to inform USDA of their intention to ship to certain countries. The revision recognized the sharp drop in U.S. cotton exports and was intended to stimulate U.S. cotton sales abroad, thereby improving our balance-of-payments position.

EFFECTS OF THE ACTIONS TAKEN

The graphic illustration presented earlier in this chapter shows that barter exports have increased sharply during fiscal year 1970 when compared with the exports of the preceding years. In this regard, a USDA press release dated February 17, 1970, noted that the barter contracts signed during the first half of fiscal year 1970 was the highest amount for any 6-month period in the history of the agricultural export program.

On the basis of our analysis, we believe that the increased premium USDA was willing to pay represented the main factor resulting in an expanded barter program which is a benefit to our balance-of-payments position.

CONCLUSION

In our earlier report, we recommended that a study be undertaken to explore the best ways and means of maximizing benefits from the barter program. We concluded that the Cabinet Committee on Balance of Payments would be the most logical body to undertake the study.

Our follow-up review, however, shows that USDA has taken certain actions, since the issuance of our earlier report, to increase agricultural exports through the barter program thereby benefiting our balance-of-payments position. These actions include (1) increasing the size of the barter program by increasing the barter premium, (2) adding free market stocks to the list of commodities eligible for barter, and (3) revising the destination list to which the commodities may be exported.

These actions have resulted in increased barter exports. The contracts signed during fiscal year 1970 are the highest in dollar amounts for any period in the history of the barter program.

The actions taken by USDA, in our opinion, are satisfactory and eliminate the need for additional actions or studies at this time.

COMMENTS BY USDA

Copies of our draft report were sent to USDA. Its reply agreed, in general, with the contents of our draft report. USDA stated that the draft report reflected a good understanding of the barter program and a thoughtful analysis of its effects on the U.S. balance of payment. (See app. V, p. 31.)

The Department had no major comments or suggestions on the draft report.

CHAPTER 5

SCOPE OF REVIEW

Our review was directed toward obtaining data on barter activities since the time of our last review and to determine whether administrative restrictions, existing at that time, have been relaxed to permit an increase in exports under the barter program.

Our review was carried out at USDA headquarters in Washington, D.C., and included (1) discussions with responsible officials and examination of documents concerning current policy on administrative restrictions on the barter program, (2) examination of agency records containing data on solicitations, contract awards, and barter exports, (3) discussions in Washington with private export firms regarding their response to USDA solicitations for barter contracts.

Our examination was limited to contracts awarded under AID and DOD funding arrangements.

APPENDIXES

BARTER PROGRAM CONTRACTS NEGOTIATED

BY DEPARTMENT OF AGRICULTURE

(FISCAL YEAR 1967 THROUGH FISCAL YEAR 1970)

Fiscal year	Stockpile material	Offshore procurement: Funding arrangements (note a) AID	DOD	Direct barter (note b)	Supplier type (note c)	Total
	(millions)					
1967	$8.8	$ 6.9	$181.6	$33.9	$28.4	$259.6
1968	-	37.6	149.5	35.8	61.6	284.7
1969	-	17.9	163.9	24.1	66.4	272.3
1970	-	-	443.2	15.6	27.8	486.6

[a]Amounts listed under funding arrangements include items that were subsequently withdrawn and/or canceled and differ in that respect from the amounts actually awarded. (See app. II.)

[b]Under direct barter the U.S. barter contractor agrees to procure offshore and deliver a specific commodity needed by the U.S. Government in a designated country, rather than just furnish funds as under the funding arrangements. The contractor is furnished the agricultural commodities for export equal to the unit price quoted by him for delivery of the needed procurement. The premium paid by CCC is included in this unit price bid by the contractor.

[c]Supplier-type barter contracts are similar to the funding-type contracts in that the barter contractors respond to solicitations with a premium they would be willing to accept. The supplier-type contracts, however, are usually for a specific service or supplies needed by DOD at a specific foreign designation. The U.S. barter contractor deals directly with the foreign supplier rather than furnishing DOD with the needed funds.

SOLICITATIONS FOR DOD AND AID FUNDING ARRANGEMENTS, BIDS RECEIVED, CONTRACTS AWARDED, AND BIDS REJECTED

FISCAL YEAR 1968

Bid solicitation date	Amount in bid solicitation	Total of bids received	Contracts awarded: Amount (note a)	Contracts awarded: Barter premium percentage range	Contracts awarded: Dollar barter premium	Bids rejected: Amount	Bids rejected: Barter premium percentage range	Bids rejected: Dollar barter premium
	(in thousands of dollars)							
7- 7-67	$ 7,500	$ 33,500	$ 7,500	1.89 to 1.98	$ 144.7	$ 26,000	1.98 to 2.15	$ 534.1
7-14-67	15,000	41,000	15,000	1.93 to 1.977	293.4	26,000	1.977 to 2.20	540.1
7-25-67	10,000	26,000	10,000	1.90 to 2.033	198.9	16,000	2.033 to 2.20	336.3
8- 7-67	10,000	22,000	10,000	1.98 to 2.08	202.7	12,000	2.08 to 2.20	255.2
8-18-67	3,500	10,000	3,500	1.94 to 1.985	69.0	6,500	1.99 to 2.10	133.6
8-30-67	10,000	19,750	10,000	1.908 to 2.027	195.6	9,750	2.027 to 2.20	205.5
9-14-67	10,000	4,750	2,500	1.98 to 2.06	50.8	2,250	2.141 to 2.171	48.5
9-29-67	7,500	3,000	-		-	3,000	2.069 to 2.19	63.6
10-25-67	7,500	30,250	7,500	1.875 to 1.945	144.1	22,750	1.945 to 2.14	450.8
11- 6-67	12,000	13,250	6,750	1.90 to 2.01	131.2	6,500	2.052 to 2.16	136.9
11-16-67	5,500	20,000	5,500	1.85 to 1.895	103.5	14,500	1.902 to 2.05	281.8
12- 1-67	7,500	35,000	7,500	1.77 to 1.829	135.9	27,500	1.829 to 1.976	515.6
12- 8-67	10,000	20,750	10,000	1.70 to 1.94	181.6	10,750	1.949 to 2.38	226.9
12-18-67	10,000	14,250	10,000	1.735 to 1.98	187.8	4,250	1.98 to 2.15	86.5
12-29-67	5,000	9,750	5,000	1.84 to 1.975	96.9	4,750	1.975 to 2.05	95.6
12-29-67	3,500	8,500	3,500	1.84 to 1.915	65.8	5,000	1.915 to 1.96	96.8
1- 6-68	6,000	5,350	5,350	1.95 to 2.05	106.4	-		-
1-17-68	10,000	1,500	1,000	1.999 to 2.10	20.6	500	2.18	10.9
1-31-68	10,000	15,000	10,000	2.038 to 2.15	208.8	5,000	2.18 to 2.19	109.1
2-13-68	10,000	17,750	10,000	1.925 to 2.15	209.7	7,750	2.15 to 2.45	177.1
2-23-68	10,000	1,000	-		-	1,000	2.19	21.9
3- 6-68	10,000	2,000	2,000	1.995	39.9	-		-
3-20-68	12,000	11,750	6,750	2.07 to 2.33	151.5	5,000	2.48	124.0
4- 5-68	9,000	4,500	1,500	1.98 to 2.29	33.5	3,000	2.49	74.7
4-19-68	12,000	16,000	12,000	2.29 to 2.43	283.7	4,000	2.49 to 2.54	100.6
5- 1-68	4,370	5,800	4,370	2.30 to 2.425	104.2	1,430	2.425 to 2.49	35.3
5-10-68	10,000	4,000	3,000	2.44	73.2	1,000	2.49	24.9
5-22-68	10,000	6,750	6,500	2.40 to 2.44	158.1	250	2.47	6.2
5-31-68	10,000	3,000	3,000	2.44	73.2	-		-
6-14-68	12,000	3,700	3,600	2.333 to 2.495	88.4	100	2.60	2.6
6-27-68	12,000	-						
Total FY 1968	$281,870	$409,850	$183,320	Average - 2.047	$3,753.1	$226,530	Average - 2.073	$4,695.0

SOLICITATIONS FOR DOD AND AID

FUNDING ARRANGEMENTS, BIDS RECEIVED, CONTRACTS

AWARDED, AND BIDS REJECTED

FISCAL YEAR 1969

Bid solicitation date	Amount in bid solicitation	Total of bids received	Contracts awarded: Amount (note a)	Contracts awarded: Barter premium percentage range	Contracts awarded: Dollar barter premium	Bids rejected: Amount	Bids rejected: Barter premium percentage range	Bids rejected: Dollar barter premium
	(in thousands of dollars)							
7-10-68	$ 12,000	$ 3,200	$ 3,200	2.45 to 2.495	$ 79.8	-		-
7-25-68	12,000	9,500	8,500	2.449 to 2.495	210.0	$ 1,000	2.56	$ 25.6
8- 7-68	15,000	15,250	12,750	2.45 to 2.49	314.2	2,500	2.50 to 2.54	63.3
8-19-68	10,000	4,800	4,800	2.473 to 2.48	119.0	-		-
8-30-68	12,000	500	500	2.48	12.4	-		-
9-10-68	12,000	9,700	9,700	2.47 to 2.496	241.5	-		-
9-17-68	1,000	-	-		-	-		-
9-20-68	10,000	3,500	3,500	2.49 to 2.50	87.4	-		-
10- 1-68	1,000	-	-		-	-		-
10- 1-68	10,000	6,000	4,000	2.49	99.6	2,000	2.54	50.8
10-11-68	10,000	11,500	10,000	2.49 to 2.492	249.1	1,500	2.50 to 2.60	38.2
10-14-68	1,000	2,000	1,000	2.49	24.9	1,000	2.494	24.9
10-18-68	10,000	3,000	3,000	2.48 to 2.495	74.6	-	-	-
10-29-68	7,000	9,000	7,000	2.481	173.7	2,000	2.495 to 2.50	50.0
11-14-68	10,000	11,500	10,000	2.435 to 2.468	244.4	1,500	2.468 to 2.495	37.3
11-14-68	2,800	4,050	2,800	2.35	65.8	1,250	2.49 to 2.495	31.2
11-22-68	17,600	4,000	4,000	2.39 to 2.44	96.6	-		-
12- 4-68	13,600	3,500	3,500	2.495	87.3	-		-
12-17-68	10,100	4,000	4,000	2.482	99.3	-		-
12-18-68	5,000	5,000	1,200	2.49	29.9	3,800	2.75 to 2.95	109.7
12-19-68	10,000	11,500	4,000	2.49	99.6	7,500	2.75 to 2.95	217.3
1- 3-69	6,100	1,800	1,800	2.494 to 2.495	44.9	-		-
1-16-69	7,000	2,000	2,000	2.465	49.3	-		-
1-30-69	5,000	3,000	3,000	2.49	74.7	-		-
2-11-69	4,300	4,150	4,150	2.39 to 2.500	102.9	-		-
2-26-69	5,000	4,000	4,000	2.401 to 2.48	97.0	-		-
2-26-69	10,000	3,500	3,500	2.467 to 2.49	86.4	-		-
3-11-69	6,500	10,200	6,500	2.462 to 2.47	160.1	3,700	2.48 to 2.51	92.2
3-20-69	15,000	6,250	6,250	2.44 to 2.495	155.5	-		-
4- 3-69	10,000	3,500	3,500	2.485 to 2.495	87.1	-		-
4-14-69	10,000	1,000	1,000	2.500	25.0	-		-
4-25-69	10,000	3,100	3,100	2.45 to 2.495	77.1	-		-
5- 8-69	10,000	12,000	12,000	2.48 to 2.49	298.2	-		-
5-16-69	12,000	3,720	3,720	2.299 to 2.495	92.2	-		-
5-28-69	8,000	15,600	13,600	2.43 to 2.48	335.6	2,000	2.55	51.0
5-28-69	3,000	3,600	3,600	2.43 to 2.49	89.1	-		-
6-10-69	12,000	8,200	8,200	2.30 to 2.485	200.5	-		-
6-26-69	10,000	5,760	3,760	2.309 to 2.49	91.6	2,000	2.94	58.8
Total FY 1969	$336,000	$212,880	$181,130	Average - 2.470	$4,476.3	$ 31,750	Average - 2.678	$ 850.3

SOLICITATION FOR DOD AND AID FUNDING ARRANGEMENTS, BIDS RECEIVED, CONTRACTS AWARDED, AND BIDS REJECTED

FISCAL YEAR 1970

Bid-solicitation date	Amount in bid solicitation	Total of bids received	Contracts awarded			Bids rejected		
			Amount (note a)	Barter premium percentage range	Dollar barter premium	Amount	Barter premium percentage range	Dollar barter premium
	(in thousands of dollars)							
7- 9-69	$ 12,000	$ 11,800	$ 11,800	2.24 to 2.490	$ 280.4	-		-
7-18-69	15,000	1,800	1,800	2.488 to 2.49	44.8	-		-
7-18-69	10,000	300	300	2.488	7.5	-		-
7-29-69	15,000	1,100	1,100	2.413 to 2.486	27.3	-		-
7-29-69	1,800	1,800	1,800	2.500	45.0	-		-
8-13-69	10,000	6,300	6,300	2.475 to 2.498	156.9	-		-
8-27-69	10,000	28,220	28,220	2.473 to 2.495	701.1	-		-
8-27-69	3,200	1,020	480	2.49	11.9	$ 240[b]	2.99	$ 7.2
9- 5-69	12,000	23,160	22,680	2.458 to 2.488	560.2	480	2.675 to 2.875	13.3
9-16-69	15,000	9,140	6,740	2.459 to 2.493	166.8	2,400	2.52	60.5
9-24-69	15,000	16,500	16,400	2.47 to 2.496	408.3	100	2.525	2.5
10- 3-69	15,000	10,920	10,920	2.47 to 2.498	270.3	-		-
10-10-69	10,000	9,350	9,150	2.40 to 2.498	226.3	200	2.52	5.0
10-17-69	15,000	9,300	9,200	2.35 to 2.49	228.8	100	2.6	2.6
10-24-69	10,000	5,700	5,700	2.489 to 2.500	142.0	-		-
10-31-69	15,000	1,500	300	2.487	7.5	1,200	2.564	30.8
11- 7-69	10,000	9,445	9,445	2.47 to 2.498	235.3	-		-
11-14-69	10,000	12,100	11,950	2.48 to 2.49	297.5	150	2.524	3.8
11-21-69	12,000	21,900	18,900	2.48 to 2.49	469.3	(note c)		
11-28-69	10,000	17,350	17,110	2.444 to 2.48	421.2	(note c)		
12-12-69[d]	12,000	3,280	3,280	.96 to .998	32.4	-		-
12-19-69	15,000	25,950	25,950	2.38 to 2.49	637.3	-		-
1- 6-70[d]	10,000	2,000	2,000	.989	19.8	-		-
1- 6-70	15,000	4,120	4,120	2.40 to 2.492	102.5	-		-
1- 9-70	5,500	924	924	2.465 to 2.477	22.8	-		-
1- 9-70	10,000	2,200	2,200	2.49 to 2.494	54.9	-		-
1-23-70	15,000	4,317	4,317	2.479 to 2.49	107.3	-		-
1-23-70	4,000	-	-		-	-		-
2- 3-70	6,000	12,341	8,541	2.45 to 2.478	209.8	3,800	2.49 to 2.495	94.8
2- 6-70[d]	6,000	3,400	3,400	.98 to .995	33.5	-		-
2- 6-70	10,000	10,900	10,900	2.46 to 2.475	268.9	-		-
2-17-70	15,000	10,885	10,885	2.47 to 2.48	269.8	-		-
2-27-70	10,000	16,400	16,400	2.44 to 2.48	404.2	-		-
2-27-70[d]	3,000	4,000	4,000	.987 to .998	39.6	-		-
3- 6-70	15,000	7,904	7,904	2.47 to 2.48	195.5	-		-
3-13-70	15,000	4,600	3,600	2.47	88.9	1,000	2.495	25.0
3-13-70[d]	5,000	3,400	3,400	.98 to .998	33.5	-		-
4- 1-70	15,000	18,535	18,535	2.46 to 2.49	460.1	-		-
4-10-70	10,000	9,368	9,368	2.419 to 2.484	231.6	-		-
4-22-70	10,000	29,910	29,910	2.40 to 2.48	732.3	-		-
5- 1-70	15,000	12,500	12,500	2.45 to 2.49	309.7	-		-
5-11-70	10,000	14,204	14,204	2.46 to 2.49	351.6	-		-
5-18-70	15,000	3,804	3,304	2.477 to 2.49	82.2	500	2.75	13.8
5-25-70	10,000	8,310	8,310	2.47 to 2.49	205.8	-		-
6- 3-70	15,000	10,100	10,100	2.48 to 2.49	251.0	-		-
6-10-70	10,000	9,300	9,300	2.47 to 2.49	230.7	-		-
6-18-70	15,000	11,320	11,320	2.48 to 2.495	282.1	-		-
Total FY 1970	$ 572,500	$ 442,677	$428,967	Average - 2.417	$10,366.2	$ 10,170	Average - 2.550	$ 259.3
Total 7-67 through 6-70	$1,140,370	$1,065,407	$793,417		$18,595.6	$268,450		$5,741.2

[a]Although awarded in the fiscal year as shown, actual export of some commodities may have taken place in the subsequent fiscal year. (See app. III.)

[b]An additional contract for $300,000 was awarded but later canceled.

[c]Because of a change in USDA policy disallowing wheat to be exported except under a separate solicitation the contractors were given the option to withdraw their bids. Bids amounting to $3.24 million were withdrawn on these solicitations.

[d]This solicitation was for wheat only. The barter premium was about 1 percent for wheat as compared with 2.5 percent for other commodities.

DOLLAR VALUE OF AGRICULTURAL COMMODITIES

EXPORTED UNDER THE BARTER PROGRAM

DURING FISCAL YEARS 1967 THROUGH 1970

(in thousands of dollars)

	Fiscal year 1967		Fiscal year 1968		Fiscal year 1969		Fiscal year 1970	
Commodity	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Wheat	$114,927	38.9	$139,327	46.1	$ 84,765	31.8	$ 89,351	19.1
Corn	14,569	4.9	27,158	9.0	37,644	14.1	50,429	10.7
Tobacco	84,609	28.6	75,324	24.9	91,524	34.3	140,002	29.9
Cotton	44,469	15.0	42,144	13.9	30,078	11.3	78,967	16.8
Soybean oil	20,404	6.9	7,573	2.5	6,681	2.5	36,932	7.9
Cottonseed oil	5,584	1.9	3,523	1.2	6,832	2.6	7,439	1.6
Grain sorghum	7,210	2.4	3,094	1.0	2,923	1.1	6,659	1.4
Wheat flour	3,875	1.3	3,926	1.3	782	.3	50	(note a)
Oats (note b)	NA	NA	125	(note a)	113	(note a)	222	(note a)
Barley (note b)	NA	NA	NA	NA	1,744	.6	1,206	.3
Rice (note b)	NA	NA	NA	NA	1,942	.7	10,551	2.3
Inedible tallow and grease (note b)	NA	NA	NA	NA	1,841	.7	46,788	10.0
Total	$295,647		$302,194		$266,873		$468,596	

[a]Less than one tenth of 1 percent.

[b]These commodities were made eligible from free market sources under the barter program on the dates shown:

Commodity	Month
Oats	Mar. 1968
Cotton	Apr. 1968
Barley	July 1968
Rice	Jan. 1969
Inedible tallow and grease	May 1969

Source: Office of the Assistant Sales Manager, Barter Export Marketing Service: USDA

SUMMARIZATION OF THE DEPARTMENT OF AGRICULTURE'S SYSTEM WHICH IS TO MINIMIZE THE LIKELIHOOD THAT BARTER TRANSACTIONS DISPLACE COMMERCIAL SALES

In a publication entitled "The Barter Export Program," USDA noted that it had been necessary to devise a system that would provide reasonable assurance that barter exports would not displace cash sales that would otherwise be made.

The system, adopted to channel barter exports to markets where they will accomplish the program's objective, works as follows:

> An analysis is made of international trade in each agricultural commodity that is eligible for barter export. Taken into account are each potential importing country's external financial position, its history of cash imports from the United States of the commodity under study, its probable import of the commodity from the United States in the near future, and its pattern of exports of the commodity if it is a major producer.
>
> The designation is "X" (no barter exports allowed) for certain major U.S. markets where there is little or no likelihood that barter exports would increase total sales.
>
> The designation is "A" (barter exports permitted only after case-by-case review) if it appears that U.S. exports can be increased or maintained through barter, but there is a history of substantial cash sales. An "A" designation is automatic if the country is a substantial exporter of the commodity.
>
> The designation is "B" (no barter export restrictions) when the country is in a fair to poor external financial position or has not been a substantial cash market for the commodity and can not be expected to become one in the near future.

UNITED STATES DEPARTMENT OF AGRICULTURE
EXPORT MARKETING SERVICE
WASHINGTON, D. C. 20250

DEC 14 1970

Mr. Oye V. Stovall
Director, International Division
Attention: Mr. G. F. Stromvall
Associate Director
U.S. General Accounting Office

Dear Mr. Stovall:

The Assistant Secretary for International Affairs and Commodity Programs has asked me to respond to your letter of October 29, 1970, forwarding a draft audit report on the barter export program. We have carefully reviewed the draft report, and appreciate its favorable comments on barter export accomplishments over the past year and a half.

The draft report reflects a good understanding of the barter program and a thoughtful analysis of its effect on the U.S. balance of payments. We have no major comments or suggestions on it. However, we are enclosing for your consideration a list of minor comments on certain statistical and editorial aspects of the report, including program data that has been updated since your audit was performed. [See GAO note.]

Sincerely,

Frank G McKnight

Frank G. McKnight
Acting General Sales Manager

Enclosure

GAO note: The minor comments are not included in this report. GAO considered the comments and made appropriate changes.

PRINCIPAL OFFICIALS

HAVING RESPONSIBILITY FOR THE MATTERS

DISCUSSED IN THIS REPORT

	Tenure of office From	To
SECRETARY OF AGRICULTURE:		
Clifford M. Hardin	Jan. 1969	Present
Orville L. Freeman	Jan. 1961	Jan. 1969
ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, USDA (note a):		
Raymond A. Ioanes	Apr. 1962	Present
GENERAL SALES MANAGER, EXPORT MARKETING SERVICE, USDA (note a):		
Clifford G. Pulvermacher	Apr. 1969	Present
ASSISTANT SALES MANAGER, BARTER EXPORT MARKETING SERVICE, USDA (note a):		
Thomas R. Rawlings	Apr. 1961	Present

[a]In April 1969, responsibility for the barter program was shifted from the Foreign Agricultural Service to the Export Marketing Service.

U.S. GAO Wash., D.C.