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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

MAR 23 1970

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Dear Mr. Frick

The General Accounting Office has made a review of the circumstances surrounding a decision made by the Department of Agriculture in June 1969 to rescind an announcement involving a reduction in the Commodity Credit Corporation (CCC) price-support rate on wheat at Gulf port terminal warehouses. Our review included (1) an examination of selected aspects of the price-support regulation pertaining to the 1969 wheat crop, (2) a determination of the quantity of 1969 wheat crop stored at the Gulf as loan collateral, and (3) discussions with Department officials in Washington, D. C.

The review indicated a need for CCC to adopt a policy providing for prompt elimination of inconsistencies, in price-support regulations, resulting from changes in freight or other factors. Our comments on this matter follow.

NEED TO ADJUST PRICE-SUPPORT RATES FOR CHANGED CIRCUMSTANCES WITH REASONABLE PROMPTNESS

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In a press release dated June 18, 1969, the Department of Agriculture announced a proposed change in CCC wheat price-support regulations reducing the price-support rate for wheat at Gulf port terminal warehouses. The basic function of these warehouses is to accumulate grain for loading into ships.

According to agency officials, the proposed change stemmed from an unexpected availability of substantial space at the Gulf for storing loan collateral. Previously, space for wheat stored as loan collateral had not been available to any significant extent at Gulf ports. Further explanations regarding the proposed change in regulation and its recision as provided by agency officials follows.

The price-support loan rate at the Gulf exceeds the loan rate at interior points to the extent of the domestic interstate freight rate charged by railroads and handling charges. Due to the availability of

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substantial storage space at the Gulf combined with transportation (barge, truck, export rail) charges that were lower than the interstate rail rates, there was an advantageous margin of about 15 to 20 cents a bushel by placing wheat under price-support loan at Gulf rather than at inland points.

To discourage this direct flow of wheat to the Gulf for price-support purposes, the Department proposed to reduce the loan rate at the Gulf to the extent of this difference. The Department estimated that, otherwise, the total direct movement of wheat to the Gulf for price-support could run as high as 15-20 million bushels. On the basis of such a movement to the Gulf, CCC could disburse about $3 million of additional price-support in loans on wheat stored at port locations due to the freight differential.

The recovery of such additional investment would ultimately depend on export sales and the extent to which value had been added to the wheat by virtue of its location. The Department also wanted to discourage the direct flow of wheat for storage as loan collateral to the Gulf because it believed that wheat handlers who had Gulf storage space available and who controlled barge transportation facilities were in an advantageous competitive position.

The Department, two days after announcing the proposed change in wheat price-support regulations, rescinded it on the basis of verbal information received from farm and trade groups indicating that the movement of about 2 or 3 million bushels of wheat had already been negotiated. Agency officials informed us that at this stage the Department, after considering the advisability of a cut-off date for the applicability of the port price-support rate originally established, decided that such action would result in inequities among producers. On this basis, it was decided to withhold any adjustment action until the 1970 crop.

We noted that at September 30, 1969, the quantity of 1969-crop loan wheat recorded by CCC as in storage at Gulf locations was about 2,900,000 bushels. The quantity in storage increased to about 5,100,000 bushels at December 31, 1969. This increase of 2,200,000 bushels during the quarter ended December 31 indicates that a timely reduction in the price-support rate for wheat at Gulf port terminal warehouses, as was originally contemplated, could have precluded CCC from making a greater investment in wheat loans.

CONCLUSION AND RECOMMENDATION

We agree that there should be no inequities in CCC's treatment of producers. We believe, however, that an excessive loan rate for a particular geographical area should be adjusted to the proper level as soon as practicable. Such adjustment would not deny producers the price-support to which they are entitled and would avoid extra outlays of CCC funds.

We recognize that isolated inconsistencies may develop in wheat price-support loan rates, as a result of unforeseen changes in freight or other localized factors, and that producers must be able to rely on the stability of program regulations, including established price-support rates. We believe, however, that when an inconsistency in the regulations develops, it should be eliminated as soon as practicable after allowing for a reasonable, temporary interval to enable commercial commitments, based on the earlier regulation, to be carried out. Adoption of such a policy, in our opinion, would preclude damage to agricultural and commercial interests who had relied on the CCC price-support regulations.

We recommend that CCC adopt a policy which would provide for the prompt elimination of inconsistencies, in price-support regulations, resulting from changes in freight or other factors, with due consideration for commitments already made by the trade.

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We would appreciate being advised of any action taken on our recommendation. A copy of this letter is being sent today to the Inspector General, Department of Agriculture.

Sincerely yours,

Arland W. Berry for

Victor L. Lowe
Associate Director

Mr. Kenneth E. Frick
Executive Vice President
Commodity Credit Corporation
Department of Agriculture