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U.S. DEPARTMENT OF AGRICULTURE

Better Management Could Increase Effectiveness of FAS Export Operations

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Financial Institutions and International Trade
General Government Division

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U.S. DEPARTMENT OF AGRICULTURE:
Better Management Could Increase Effectiveness of
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Summary of Statement by Allan I. Mendelowitz, Director
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Agricultural trade issues have been a major concern for the past decade. Subsidized agricultural export competition has intensified and agriculture trade has become a point of friction between the United States and its major trading partners. At the same time, the number and costs of U.S. agricultural export programs have risen. The current tight budget environment and the substantial resources devoted to agriculture export programs make good management of the programs critical. GAO has concerns about a number of cross-cutting program and management weaknesses that diminish the efficiency and effectiveness of the U.S. Department of Agriculture's (USDA) Foreign Agricultural Service's (FAS) export operations.

FAS manages about $10 billion a year in agricultural export assistance programs. These programs are designed to increase U.S. agricultural exports, and develop and maintain foreign agricultural markets for U.S. products. GAO's 1988 and 1992 transition reports on agriculture and international trade issues urged greater management control over USDA's export programs--including preparing better funding criteria, providing written guidelines and recommendations, and developing an evaluation methodology. GAO also said that improvements in other internal controls were needed. While some improvements have been made in the management of FAS' export programs, GAO believes other changes continue to be necessary.

GAO has also expressed concerns about the extent to which considerations beyond expanding exports have affected the FAS's operations. For example, GAO reviews of the extension of agricultural export credit guarantees to Iraq and the former Soviet Union highlighted how foreign policy and national security considerations can substantially influence the operations of the programs. In such circumstances, creditworthiness considerations can be given too little weight. When this happens, the U.S. government and taxpayers can be exposed to large financial losses.

GAO also continues to believe that a long-term agricultural trade strategy (LATS) is essential in order to efficiently allocate funds for agricultural export programs. Congress mandated the development of such a LATS in 1990. While the law called for the completion of the LATS by October 1991, FAS only completed its strategy several weeks ago. GAO's initial impression of LATS is that substantial additional work will be needed to make it a useful management tool.

Furthermore, problems with the U.S. government's export promotion programs cannot be fully corrected one agency at a time. A governmentwide export promotion plan with governmentwide budget priorities is also required. Such a plan is mandated by the Export Enhancement Act of 1992. In order to provide coherence to U.S. government export promotion efforts and help ensure that export promotion funding is channeled into areas with the greatest potential returns, an improved LATS must be integrated into the governmentwide plan.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to provide observations on a number of cross-cutting program and management weaknesses that diminish the effectiveness of U.S. Department of Agriculture (USDA) Foreign Agricultural Service (FAS) export operations and programs. These include the Market Promotion and Cooperator Foreign Market Development Programs; the operation of agricultural trade offices and trade shows abroad; the increasing importance of high-value agricultural exports; the implementation of the Title I Public Law-480 provisions in the Food, Agriculture, Conservation, and Trade Act of 1990; the operations and effectiveness of the Export Credit Guarantee Programs (GSM-102/103); and the continuing need for a long-term agricultural trade strategy, as well as a governmentwide trade strategy and budget priorities. My observations are based primarily on GAO reports and testimony issued over the past 3 years. App. I contains a list of relevant GAO reports, and app. II contains a list of relevant GAO testimony.

MARKET PROMOTION PROGRAM

Last spring we testified before the Subcommittee on Government Information, Justice, and Agriculture of the House Committee on Government Operations, regarding the operations of the Market Promotion Program (MPP). Our work involved program-supported activities in Japan, where we examined activities of five MPP participants. We plan to publish a new report on this program shortly.

MPP was created to encourage the development, maintenance, and expansion of exports of U.S. agricultural products.[1] Established by the Food, Agriculture, Conservation, and Trade Act of 1990, the program is open to a wide variety of exporters but gives priority to participants adversely affected by unfair foreign trade practices.[2] MPP became the successor to the Targeted Export Assistance Program (TEA), which was established in 1986. From fiscal year 1986 to 1993, over $1.25 billion has been authorized

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[1]The Cooperator program--another FAS program in operation since the mid-1950s--has broad goals that are similar to those of MPP. Some Cooperator program participants have transferred their activities to, and now only participate in, MPP; others continue to participate in both programs.

[2]The Act defines an unfair foreign trade practice as any act, policy, or practice of a government that (1) violates, is inconsistent with, or otherwise denies benefits to the United States under any trade agreement to which the United States is a party; (2) is unjustifiable, unreasonable, or discriminatory and burdens or restricts U.S. commerce; or (3) is otherwise inconsistent with a favorable Section 301 determination by the U.S. Trade Representative.

for TEA and MPP. For fiscal year 1993, Congress reduced MPP funding from the prior year's $200 million to $147.7 million. For fiscal year 1993, MPP will operate through about 66 organizations that either run market promotion programs themselves or pass the funds along to companies to spend on their own market promotion efforts. About two-thirds of all program activities involve generic promotions; the remaining one-third involves "branded" (brand-name) promotions. MPP focuses primarily on high-value products such as fruits, nuts, and processed goods.

Market Development Activities Yield Mixed Results

Market development strategies and their activities are directed toward a variety of goals such as overcoming trade barriers, entering a new market, or expanding exports to existing markets. Some program activities did not achieve their objectives. For example, efforts by the California Raisin Advisory Board to introduce raisins as a snack food were not successful in Japan, partially due to inadequate market research and management problems. The "dancing" raisins used by the advertisers were reported to be too frightening for Japanese children--a targeted audience--thereby defeating the purpose of the advertising campaign. Furthermore, the U.S. Confectionery Industry's generic advertising efforts in Japan for Valentine's Day did not succeed as a result of inadequate market research. The industry was marketing inexpensive items in a market that preferred premium items.

Other program activities have achieved their objectives. For example, efforts by the U.S. Meat Export Federation to increase consumer awareness of U.S. beef in Japan supported U.S. trade negotiations to remove restrictions on beef imports. After import restrictions were modified, the Federation carried out activities that helped U.S. beef exporters enter the Japanese market or expand exports.

Long-Term MPP Plans Have Not Been Developed

Among other problems, the USDA's planning process emphasizes what can be achieved for each activity in a year, while program participants see their efforts as part of a long-term market development strategy. For example, the Cotton Council International is conducting a multimedia advertising campaign to make U.S. cotton synonymous with quality. This project has been under way since 1989 and is expected to continue for many more years. However, USDA's 1-year approval period disrupts these long-term efforts to develop markets. In the past, approvals were sometimes given late or well into the activity year, thereby breaking the continuity and momentum of promotional programs.

Under the 1992 MPP regulations, however, participants will be required to submit a strategic plan covering 3 or more years. Nevertheless, since activity plans must still be approved annually, difficulties could still result if delays occur in the USDA's approval of activity plans.

FAS Program Evaluations Are Inadequate

Although required to do so, FAS has conducted few formal evaluations of MPP participants' programs. During fiscal years 1986-91, 87 organizations participated in the program. However, during this period, FAS conducted overall evaluations of only 10 participants, including just 7 of the 23 who have received cumulative funding of $10 million or more from 1986 to 1991.

Furthermore, program regulations state that program participants must prepare activity evaluations for FAS. Based on our current work, we found that participants are submitting activity evaluations, but we noted several weaknesses. In some cases, the activity descriptions lack measurable goals and objectives, thus making evaluation difficult, if not impossible. Also, evaluations provide descriptive rather than analytical information. In addition, three participants we interviewed told us that FAS does not provide them with feedback on the evaluations.

Market Promotion Program Lacks Funding Criteria

MPP regulations do not include criteria as to when funding for specific program activities should be phased out, as we suggested in our 1990 report on the predecessor TEA program.[3] Without these criteria, funding for specific activities could continue indefinitely. Government funding may be of particular importance in some situations, but not in others. For example, assistance may be needed to overcome particularly burdensome barriers. However, once these barriers are overcome and the market is developed, federal funding may no longer be justified. In such circumstances, we believe that government funding should be phased out, and exporters should assume the full cost of promoting their products.

Moreover, recently there has been considerable debate in Congress and the press about whether program funds should be provided to private for-profit companies to promote their products overseas. We have suggested that FAS better define which companies should be assisted based on their size or other criteria and that standards be devised to ensure that companies eventually take over the cost of their market development activities themselves.

We believe that providing for the phase-out of government funding for specific activities would make clear that these funds are not an entitlement. Furthermore, such action would give the taxpayer

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[3]AGRICULTURAL TRADE: Improvements Needed in Management of Targeted Export Assistance Program (GAO/NSIAD-90-225, June 27, 1990).

greater assurance that public funds supporting MPP are being used to help firms enter new markets. In addition, MPP funds could be available to a larger number of program participants, particularly export-ready smaller firms that arguably have a greater need than many of the larger for-profit private participants currently receiving public funding under the program.

FAS Has Not Clarified Other Issues

As we stated in our 1990 report, we believe FAS should clarify the following issues in order to use its MPP funds more effectively:

-- the percent of total funding that should be allocated to generic and or brand-name promotions;

-- the emphasis to be placed on exports representing high-value products versus bulk commodities (i.e., cotton, corn, soybeans, and wheat);

-- the division of funding between new market development and/or established markets; and

-- the participation levels of large, well-established private firms compared to small and new-to-market firms.

AGRICULTURAL TRADE OFFICES

In January 1992, we completed our review of the USDA's worldwide network of agricultural trade offices (ATO).[2] Our review focused on (1) activities performed by these offices in carrying out their market development mission, (2) criteria used to select trade office sites, (3) USDA efforts to evaluate the effectiveness of trade office activities, and (4) the adequacy of program management and operations. Our report recommended that the Secretary of Agriculture undertake several actions to improve the effectiveness of ATO operations. I would like to summarize the results of this review and report on the USDA's progress in responding to our recommendations.

FAS operates a network of 15 ATOs worldwide at an annual operating cost of about $9.1 million. These offices are located in Europe, Latin America, the Middle East, and Northern Africa. Since the time of our review, FAS has opened two additional ATOs.

Since the FAS' inception in 1953, its mission has been to expand foreign markets for U.S. agricultural commodities through commodity reporting, trade policy work and representation, and market

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[2]See U.S. Department of Agriculture: Agricultural Trade Offices' Role in Promoting U.S. Exports Is Unclear (GAO/NSIAD-92-65, Jan. 16, 1992).

development. Until the establishment of ATOs in 1978, agricultural attaches were responsible for carrying out this mission. Legislative history indicates that ATOs were to act as catalysts for an aggressive export promotion effort to develop markets, provide services and facilities for foreign buyers and U.S. trade representatives, and consolidate export development activities carried out by private, nonprofit agricultural trade organizations participating in the Cooperator program and, later, MPP.

Agricultural Trade Offices Focus on Market Development

ATOs generally oversee Cooperator activities, facilitate U.S. participation in trade exhibits and other promotional functions, and provide trade services to foreign buyers and U.S. sellers. Many of these activities are also carried out by attache posts, but trade offices generally devote more of their total time to market development activities. At the time of our review, 6 of the 13 trade offices were the USDA's sole representatives in a foreign country and were identified by USDA as "de facto" attache posts. Three of these six trade offices spent less than half of their time on market development because there were few market development opportunities in their countries. FAS now plans to redesignate two of these ATOs as attache posts.

Our review recommended that the Secretary of Agriculture establish specialized market development courses; hold annual marketing conferences; and reassess the length of overseas assignments. We found that although the greatest strength of ATOs was considered to be their trade officers, USDA did not have a core curriculum devoted to market development or a forum in which ATO directors could exchange market-development related experiences. Some FAS staff and Cooperators noted that the current rotational cycle was too short and impairs program continuity. In response to our recommendations, FAS has sponsored several market development workshops and marketing conferences, and is reassessing the length of overseas assignments. Although FAS has not committed itself to sponsoring annual marketing conferences, we believe that its initial efforts to increase contact among trade officers is a step in the right direction.

Formal Site Selection Criteria Need to be Developed

USDA established specific criteria and a methodology for selecting the first six trade office sites in 1979 and 1980. However, since 1980, there has been no indication that FAS has used these criteria and the methodology in selecting other sites. In many cases, documentation of decisions on where to locate these offices is no longer available. As a result, USDA could not readily demonstrate that existing or proposed ATOs were in the best locations for maximizing market development opportunities for U.S. products. USDA officials said that factors such as a critical mass of market activity, the potential for market development, and the need to facilitate a U.S. trade presence were considered when selecting a site. In our view, these factors are so broad that USDA can justify placing an ATO almost anywhere in the world.

We found that two other factors have influenced ATO site selections since the program's inception --the ability to locate off embassy grounds and the ability to co-locate with Cooperators. Most trade offices are located off embassy grounds, and about half have Cooperators that are co-located with them. The agricultural trade officers and Cooperators we interviewed favored the physical separation of ATOs from embassies and generally supported co-location. However, neither U.S. trade officials nor Cooperators considered co-location an essential element for market development.

In response to our recommendation to review the criteria and methodology used in selecting the first six trade office sites and develop written criteria and a methodology for evaluating current and proposed sites, FAS formed an ATO task force to review the original criteria and develop specific written criteria to evaluate ATOs. Subsequently, FAS assigned the task of developing written criteria and a methodology for evaluating current and proposed sites to the current ATO Coordinator.

Overall ATO Effectiveness Has Not Been Assessed

We found that the ATOs we visited were focusing on market development as required by the Agricultural Trade Act of 1978. However, USDA has not attempted to evaluate its ATOs' overall effectiveness since 1981. USDA has only evaluated individual staff performance and projects carried out by ATOs (e.g., trade shows, trade leads, and consumer promotions). While this information enables USDA to comment on the success of individual events or services, it does not address the relative value of the various activities or the effectiveness of overall ATO operations. As a result, little feedback can be given to ATOs on which activities are most effective in meeting long-range goals and objectives.

In our report, we recommended that the Agriculture Secretary establish benchmarks to evaluate the effectiveness of ATOs in implementing the USDA's market development programs. In response to our recommendation, FAS revised the elements and standards used to rate the performance of trade officers to more accurately assess each officer's accomplishments in market development. However, FAS still does not evaluate the effectiveness of ATO operations individually or collectively.

In our report, we also recommended that the Secretary of Agriculture define the role and activities of ATOs in USDA's required long-term agricultural trade strategy. We did not believe that FAS could adequately assess the overall effectiveness of its ATOs until this action took place. Although the trade strategy was completed in January 1993, it did not contain any specific references to ATOs. An FAS official advised us that ATOs are considered to be part of the FAS' general organizational resources and that it was unnecessary to make distinctive references to ATOs within the trade strategy. FAS believes that there is no need to further define the role of ATOs in promoting U.S. exports because their role is clearly set out in the 1978 legislation. We do not agree with this position and continue to believe that the role of ATOs needs to be further defined.

THE TRADE SHOW PROGRAM

Our March 1992 report on USDA's Trade Show Program assessed FAS' administration of the program.[3] We examined (1) the Trade Show Program's role in promoting U.S. agricultural exports, (2) the USDA's program management, (3) the subsidies provided to trade show exhibitors, and (4) the USDA's effort to evaluate the program. I would like to briefly discuss our findings in the report.

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[3] See U.S. Department of Agriculture: Better Trade Show Management Can Increase Benefits to Exporters (GAO/NSIAD-92-122 Mar. 10, 1992).

Recognizing that trade shows can help increase exports, many countries, including the United States, use these shows to promote exports of their consumer-oriented agricultural products. These are basically retail-ready products that require little or no additional processing for consumption such as fruits, nuts, milk, and chocolate. During the 1980s, world exports of these products increased from $92 billion to $149 billion, or by about 62 percent. By 1989, world exports of consumer-oriented products represented about 53 percent of world agricultural trade.

In fiscal year 1991, USDA spent about $1.9 million to participate in four international shows, to sponsor a show for U.S. products only, and to support four agent shows for overseas agents for U.S. companies. However, this funding represents only a small part of USDA's overall trade show effort, which involves outlays of about $19 million for trade show participation. Most of these funds ($14.25 million) come from the MPP budget. In comparison to the United States, trade shows play a much more significant role in the export promotion efforts of our major competitors--countries of the European Community (EC).

Program Management Is Diffused

FAS headquarters has responsibilities for administering certain tasks for the Trade Show Program. However, USDA does not manage the Trade Show Program from its headquarters office. FAS' overseas staff manage most actual trade show tasks. These responsibilities include managing pavilion design, overseeing booth and pavilion construction, and suggesting the level and nature of USDA participation.

By way of comparison, major European competitors manage their participation in trade shows in a more centralized manner. For example, the headquarters management of some competitor countries have standardized pavilions and booths that reduce the cost of designing trade show facilities and assure greater quality control.

FAS' Washington, D.C., staff assigned to the Trade Show Program consist of only three full-time trade show coordinators. They consolidate exhibitor sample shipments, design recruitment brochures, recruit and assist U.S. exhibitors, and provide some preshow preparation assistance. We believe that with its current Washington staff, the Trade Show Program does not have sufficient people to comprehensively recruit and prepare U.S. exhibitors for trade show participation. These functions are essential to having a successful trade show.

Trade Show
Subsidies Have Been High

USDA subsidizes trade shows by providing 55-60 percent of the cost of a U.S. trade show pavilion. In contrast, the Department of

Commerce does not provide any subsidies for participants in its trade show program. USDA charges exhibitors for the remaining costs; however, the charges generally do not take into consideration a company's size, export expertise, or frequency of participation in trade shows. Past experience suggests that lowering the subsidy did not deter experienced exhibitors but did discourage exhibitors that were new to exporting.

Program Evaluation
Is Limited

FAS has expanded its evaluation process to assess program effectiveness and trends over time rather than only examining individual show effectiveness. FAS focuses its evaluation efforts substantially on whether or not exhibitors achieve their participation objectives. However, we believe that weaknesses in the questionnaire design and questionnaire collection procedures affect data quality and reliability. These weaknesses limit how data can and should be interpreted and also skew evaluation results.

FAS does not explore the reasons why companies say they will participate in future trade shows but frequently do not do so. USDA does not know why 87 percent of exhibitors said they would participate again in a particular trade show but only 38 percent actually did return.

Because trade shows are significant to U.S. exporters in showcasing consumer-oriented agricultural products, we made a number of recommendations to the Secretary of Agriculture to strengthen the program, including the following:

-- Reprogram funds to enhance headquarters management of trade shows;

-- Provide a reduced fee for a participant's first few shows; otherwise recoup all direct costs;

-- Improve the evaluation of U.S. participation in trade shows in order to enhance future trade show efforts.

In response to the above recommendations, FAS said it does not believe that it should reallocate resources for trade shows. It states that it plans to do more with less by cutting costs and raising exhibitor participation fees. According to FAS, the Washington staff is currently exerting a stronger management influence over site selection, pavilion design and decor, and other matters related to the trade show program. With respect to preparing exhibitors for trade show participation, FAS reports that it is already taking concrete steps to prepare exhibitors for success at its shows. It notes that exhibitors now receive valuable information about the market for their products, including market studies and importer listings.

FAS reports that at recent trade shows they have collected questionnaires from all the exhibitors' booths. FAS also notes the questionnaire has been revised to more sharply define the quality aspects of a show and the utility of preshow briefing materials. With respect to follow-up of exhibitors after a period of time, FAS plans to contract out for an evaluation of its program.

EMERGING IMPORTANCE OF HIGH-VALUE AGRICULTURAL EXPORTS

High-value products (HVP)[4] constitute a growing proportion of world agricultural exports, having increased from 66 percent in 1962 to 75 percent in 1990. They represent the leading growth sector in world and U.S. agricultural trade, according to USDA. However, while HVPs play a dominant role in world markets, as late as 1985 they constituted less than 50 percent of U.S. agricultural exports. In 1990, the United States exported $25 billion in high-value products, which constituted 56.1 percent of the total agricultural exports for the United States. In contrast, the EC exported $37 billion in HVPs in 1990, which accounted for 90.9 percent of its total agricultural exports (these figures exclude intra-EC trade).

USDA provides a variety of credit and subsidy programs, as well as export assistance and services, for buyers and sellers of U.S. agricultural commodities. While these programs and services are available to exporters of HVPs, USDA has traditionally emphasized promoting bulk commodities. Bulk commodities account for the vast majority of export sales occurring under the USDA's Export Enhancement Program (EEP) (93 percent) and its export credit guarantee programs -- GSM-102 (77 percent) and GSM-103 (82 percent). According to FAS officials, these programs tend to lend themselves to bulk commodities which are price sensitive and sold in large volumes. HVP exports, on the other hand, are usually sold

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[4]HVPs include a wide variety of items, most of which have value added to their original state through specialized handling, transportation, marketing, processing, or packaging. High-value agricultural products are generally classified into three groups: semiprocessed products (e.g. flour, oilseed meal, and animal fats); highly processed consumer-oriented products (e.g., processed meats and dairy products); and high-value unprocessed consumer-oriented products (e.g, fresh fruit, eggs, and nuts). Bulk commodities, which are raw agricultural products, have little value added after the farmgate besides relatively uncomplicated transportation and handling costs. Some typical bulk commodities are wheat, corn, rice, oilseeds, raw tobacco, and raw cotton.

in smaller volumes and rely on product differentiation. For these and other reasons (e.g., U.S. content requirements) the EEP and GSM programs may not be conducive to promoting HVP exports, according to FAS officials. Smaller USDA programs, such as the export incentive programs for cottonseed oil, sunflowerseed oil, and dairy products, are dedicated exclusively to the promotion of HVP exports. In addition, MPP devotes almost 80 percent of its funding to support efforts to develop international markets for high-value exports.

There are a number of good reasons why HVP exports should be considered by the U.S. government for export promotion assistance:

-- World HVP trade is continuing to grow more rapidly than bulk trade, although HVP exports are expanding more slowly than world trade in nonagricultural products. And, HVP export growth is expected to continue as world income rises. It makes sense to pursue growing markets.

-- HVP products are more easily differentiated through advertising, marketing, and product development. These are activities in which the United States may have a comparative advantage.

-- Some HVP products may be subject to fewer swings in price and demand as compared to bulk products, and thus may offer more stable market outlets.

-- Promoting HVP exports offers the United States an opportunity to redirect its approach to agricultural exports from a production orientation, which moves surplus production to overseas markets, toward one that is market based and responsive to international demand and U.S. competitiveness.

However, several other considerations may influence the government's decision to reallocate support to HVP exports. To the extent that HVPs rely on further processing, the benefit of increased government assistance for HVP exports may primarily accrue to manufacturers and not farmers. In addition, increased HVP employment may consist of unskilled and low-wage labor, depending on the specific commodity promoted. The government may prefer to invest in promoting other exports that employ skilled and higher-wage labor.

THE IMPLEMENTATION OF PUBLIC LAW 480 TITLE I PROVISIONS

The Food, Agriculture, Conservation, and Trade Act of 1990 required that we evaluate Public Law 480's three commodity assistance programs: Trade and Development Assistance (Title I), Emergency and Private Assistance Programs (Title II), and Food for Development (Title III). We are specifically required to submit a report to the House Committee on Agriculture, the House Committee on Foreign Affairs, and the Senate Committee on Agriculture, Nutrition, and Forestry. Today, I will discuss the preliminary findings resulting from our current review of USDA's Title I commodity assistance program which includes an export market development objective; we plan to address the Title II and III programs in a separate report.

The 1990 legislation directed us to evaluate the uses of Title I funds with respect to agricultural and trade development, and program administration in five countries in three geographical areas. We have completed our work in Washington, D.C., and our field work in seven case study countries -- Egypt, El Salvador, Guatemala, Jamaica, Morocco, the Philippines and Sri Lanka. We have several preliminary observations, including those related to agricultural and economic development, market development, and the Food Assistance Policy Council. Since we have not completed our audit work, we will address additional topics in our final report. These topics include an examination of the criteria FAS used to select eligible Title I recipients and an explanation of why FAS did not implement the Section 104 local currency program.[5]

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[5]Section 104 authorizes but does not require the Secretary of Agriculture to implement a local currency program. Such a program would permit foreign currencies received as payments for Title I commodities to be deposited in a separate account and used to promote a variety of agricultural and trade development activities.

Overview of Food for Peace Programs

The Food, Agriculture, Conservation, and Trade Act of 1990 reauthorized and added activities to one of the oldest U.S. export assistance programs -- Public Law 480, also known as Food for Peace. Public Law 480's objectives are to promote the foreign policy of the United States by enhancing the food security of the developing world through the use of agricultural commodities and local currencies to (1) combat world hunger and its causes; (2) promote sustainable development, including agricultural development; (3) expand international trade; (4) develop and expand export markets for U.S. agricultural commodities; and (5) encourage the development of private enterprise and democratic participation in developing countries.

The 1990 Act reauthorized Title I government-to-government concessional sales of U.S. agricultural commodities,[6] with maximum repayment terms of 30 years and provision for discretionary repayment in local currencies. A major result of the 1990 legislation was to designate USDA as the lead agency for administering the Title I program responsibility in place of the Agency for International Development (AID).

In fiscal year 1992, Title I commodities valued at about $372 million were programmed with 22 countries. The primary commodities shipped under the fiscal year 1992 Title I program were wheat, corn, soybean meal, rice, and vegetable oil; wheat accounted for almost half of the value of total shipments. Six of the newly independent successor states to the former Soviet Union became first time recipients of Title I assistance late in fiscal year 1992, a milestone made possible because Egypt turned back $110 million of its $150 million Title I allocation. To date in fiscal year 1993, agreements valued at $145 million have been signed with six countries, including a $50-million agreement with Egypt.

Title II and Title III programs of Public Law 480 are operated by AID. The 1990 legislation reauthorized the Title II emergency and private assistance donations program and authorized a new Title III Food for Development program. The new Title III program provides government-to-government grant food assistance to least developed countries and permits local sales proceeds to be used to support a variety of economic development and related activities. In fiscal year 1992, Title II commodities valued at about $482 million were programmed with 68 countries and Title III commodities valued at about $240 million were programmed with fourteen countries.

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[6]The Title I program is considered concessional because it combines interest rates below prevailing market rates and long-term payment provisions.

USDA also administers the section 416 and the Food for Progress programs. Section 416 of the Agricultural Act of 1949, as amended, provides for the donation of food and feed commodities owned by the USDA's Commodity Credit Corporation (CCC) and is focused on poor people in developing countries. In fiscal year 1992, the U.S. government programmed commodities valued at about $308 million with 21 countries and the World Food Program. The Food for Progress Program (FFP) provides commodities to needy countries to encourage agricultural reform and is carried out using the authority of Public Law 480 or section 416. In fiscal year 1992, FFP commodities valued at about $127 million were programmed with 10 countries; about 60 percent of these commodities used Title I funding.

Title I Benefits May Not Be Long Term

One of the major objectives of the Public Law 480 program is to enhance a country's food security by facilitating the host country's sustainable economic development, including its agricultural development. Based on our field work in seven case study countries, we found that most U.S. and host country officials considered the saving of foreign exchange provided by the Title I concessionary loan provision to be its most important benefit.

Although Public Law 480 Title I concessional loans contribute to a country's food security in the short run by providing food imports without the expenditure of scarce foreign exchange, we believe that its contribution to sustainable agricultural or economic development in the long run is uncertain. In our view, the foreign exchange relief provided by the Title I program could contribute to sustainable development. This could happen if the money saved by not having to pay immediately for food imports were invested in infrastructure, trade promotion, or agriculture projects that have a positive, long-term impact on development.

According to U.S. and foreign government officials, the Title I program alone generally does not exert sufficient leverage upon recipient countries to ensure that they will undertake specific development-oriented reforms or projects. In most countries receiving Title I aid, Title I provides smaller financial benefits than other U.S. or international assistance programs and carries correspondingly less weight. Consequently, Title I does not always give the United States sufficient leverage to induce the beneficiary countries to undertake development strategies that they would not otherwise undertake.

Market Development Is Not A Guaranteed Outcome Under Title I

Market development has always been one of the stated objectives of the Title I program. According to USDA, a major objective of the Public Law 480 program is to establish a U.S. presence in the markets of developing countries. Once Title I establishes a U.S. market presence, Title I can serve as a market maintenance tool as long as its commodity prices are competitive or the country is in need of concessional credit.

Most FAS field officers told us that Title I was primarily useful as a market maintenance tool, although others said that it was not even that useful. In Morocco, Jamaica, and Egypt, field officers said that the Title I program functioned as a market maintenance tool and did not contribute significantly to creating or expanding opportunities for U.S. agricultural commodities. In other countries, FAS field officers advised us that their countries would continue buying Title I commodities with or without Title I assistance. On the other hand, in the Philippines, there is some evidence that Title I was instrumental in introducing a new U.S. produce -- soymeal -- into the market.

According to FAS officials, long-term market expansion in most Title I countries is constrained by those countries' limited purchasing power. Due to chronic foreign exchange shortages and large debt burdens, Title I countries tend to import only the most essential food items and seek the lowest bidder when purchasing agricultural commodities. Therefore, although the United States is able to export a narrow range of commodities on concessional terms through Title I, this ability does not guarantee that the United States will also capture Title I countries' more profitable commercial markets for these or other commodities.

Elimination of the Development Coordinating Committee Has Streamlined Title I Program Operations

In March 1990, as part of our testimony on the Public Law 480 Food for Peace Program, we reviewed the operational effectiveness of the Development Coordination Committee (DCC). We reported that although the committee provided a mechanism for integrating Public Law 480 agricultural trade and food aid objectives, its decision-making process caused delays in negotiating and signing country agreements. As part of our current review, we have found that the elimination of the DCC and the Act's designation of USDA as the lead administrator of the Title I program, has streamlined the administration of Title I. In 1991, the DCC was replaced by another interagency council, the Food Assistance Policy Council (FAPC), which has met about twice a year since its inception.

Before the 1990 legislative changes, Title I was administered by the DCC, whose members included USDA, AID, the State Department, the Office of Management and Budget (OMB), and the Treasury. Two working committees of the DCC met on a staggered biweekly basis to allocate Public Law 480 assistance, review agreements, and monitor the implementation of the program in each country. Since all decisions had to be reached by consensus, the DCC's efforts to implement Public Law 480's three separate titles were cumbersome because of the law's multiple objectives and each agency's separate interests in fulfilling them.

DCC has been replaced by the Food Aid Policy Council (FAPC), an interagency body that oversees, rather than administers, the Public Law 480 program. FAPC meets once a year to review and approve the FAS' proposed country lists and allocations. The FAPC does not have much involvement with Title I beyond the initial allocation process; ongoing administration is primarily the responsibility of FAS. According to the FAS' staff representative to FAPC, the interagency group may also meet on an ad hoc basis when issues involving more than one Title I Public law 480 request need to be discussed. So far, FAPC has held only one ad hoc meeting, in order to consider an AID request to transfer some Public Law 480 funds from Title I to Title III.

FAS' ADMINISTRATION OF THE COMMODITY CREDIT CORPORATION'S EXPORT CREDIT GUARANTEE PROGRAMS

Under the Export Credit Guarantee programs (GSM-102/103) financial institutions in the United States provide financing for agricultural export sales to specified countries. The United States government, through CCC, guarantees the financial institutions that if the foreign country fails to repay the debt, CCC will pay.[7] The GSM-102 program guarantees repayment on credits having repayment periods of up to 3 years, and the GSM-103 program guarantees repayment on credits having repayment periods of between 3 and 10 years. Legislation requires that for each of the fiscal years 1991 through 1995, not less than $5 billion in GSM-102 credits be made available and not less than $500 million in GSM-103 credits be made available. Legislation also requires that in addition to those amounts, not less than $1 billion in GSM-102/103 credits be made available for each fiscal year 1991 through 1995 for emerging democracies.

The GSM-102 program began in 1981, and the GSM-103 program began in 1986. Since these programs were established, CCC has provided over $41 billion in credit guarantees and paid out approximately $4.2 billion to banks due to defaults by the borrowing countries. About $1.5 billion of the amount paid out was for defaults by Iraq following the beginning of Operation Desert Shield in 1990.

The amount CCC has paid out thus far under its repayment guarantees represents about 10 percent of the total guarantees provided. However, our recent analysis of the CCC's $13.55 billion in outstanding guarantees as of June 30, 1992, concluded that cumulative program costs would be closer to 48 percent, assuming the programs were terminated on June 30, 1992.[8]

Past operations of the programs have incurred significant high costs because CCC has provided a large amount of guarantees to high-risk countries, such as Iraq and the former Soviet Union. Guarantees had been extended to such high-risk countries because of market development concerns and foreign policy considerations.

On the question of whether the GSM-102/103 programs have increased U.S. exports worldwide, we were unable to obtain any empirical evidence that answers this very difficult question. However, program officials did present us with some case studies and examples that show that these programs have helped boost U.S. agricultural exports to individual countries at specific times.

Iraq's Participation in the GSM-102/103 Programs

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[7]CCC generally guarantees repayment of 98 percent of the principal due and a portion of the interest amount due. The banks making the loans accept the remaining risk. In some cases, when banks have been reluctant to accept a 2-percent risk on principal, CCC has guaranteed 100 percent of the principal due. This situation has occurred with loans to Mexico and the former Soviet Union.

[8]See Loan Guarantees: Export Credit Guarantee Programs' Costs Are High (GAO/GGD-93-45, Dec. 22, 1992).

Iraq began participating in the GSM-102/103 programs in 1983. Between 1983 and November 1989, Iraq was provided approximately $5 billion in export credit guarantees. These credits were the cornerstone of the U.S. policy towards Iraq during the time of its war with Iran, and thereafter. However, beginning in 1985, questions about Iraq's creditworthiness and ability to repay began to surface. And by the fall of 1989, when the news of an investigation into loans to Iraq provided by the Atlanta, Georgia, branch of the Banca Nazionale del Lavoro (BNL) became public, GSM-102/103 credits for Iraq came under intense government scrutiny. On August 2, 1990, following Iraq's invasion of Kuwait, the President announced a trade embargo on Iraq, including a prohibition on granting credits for the purchase of U.S. agricultural commodities. At that time, CCC had about a $2-billion liability under its Export Credit Guarantee programs covering private bank loans to Iraq.

Our November 1990 report[9] on Iraq's participation in U.S. agricultural export programs found that even though the FAS' risk analysis documents for fiscal years 1989 and 1990 rated Iraq as a high-risk market for granting substantial credit guarantees, USDA continued to approve credit guarantees through fiscal year 1990. We noted that the U.S. desire to build a strategic and agricultural trade relationship with Iraq outweighed the apparent financial risks involved. In that report, we also pointed out that evidence of Iraq's human rights violations was discounted. Our report and subsequent testimony before Congress also raised questions about the interagency and departmental decision-making processes that sanctioned U.S. government credit guarantees to Iraq. We are currently in the process of completing a series of congressionally requested follow-up reviews of Iraq's involvement in the Export Credit Guarantee programs.

Long before the problems involving Iraq's participation in the GSM programs surfaced, we were critical of FAS' management and lack of internal controls over these programs. For example, in a report issued almost 5 years ago we recommended that FAS officials perform on-site inspections to ensure that only U.S. agricultural commodities were exported under the programs.[10] FAS has maintained that such measures are not needed because the GSM export sales are private, commercial transactions subject to the normal controls that exist in the marketplace. We disagreed with FAS' position because the GSM export credit guarantee programs include a taxpayer-financed contribution. Because the U.S. government is

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[9]INTERNATIONAL TRADE: Iraq's Participation in U.S. Agricultural Export Programs (GAO/NSIAD-91-76, Nov. 14, 1990).

[10]INTERNATIONAL TRADE: Commodity Credit Corporation's Export Credit Guarantee Programs (GAO/NSIAD-88-194, June 10, 1988).

incurring a contingent liability when CCC guarantees repayment of the GSM loans, we believe that FAS has the responsibility to take measures to ensure that these guarantees are used properly. One way to help ensure this is to physically spot-check the financed commodities' shipment and delivery.

FAS, at its own initiative or under the direction of the Congress, has taken action on some of our other recommended changes to program management. However, an area that we are still concerned about is the monitoring by FAS of the participation of U.S. financial institutions in the GSM-102/103 programs. In testimony we provided in November 1989 before several subcommittees of the House Agriculture Committee, we pointed out that two banks, the National Bank for Cooperatives and the Banca Nazionale del Lavoro, had provided a significant percentage of GSM-102/103 loans.[11] Together the two banks provided approximately one-third of the GSM-102 loans over a 5-year period and almost three-fourths of the GSM-103 loans over a 3-year period. In addition, both banks were significant lenders to just one country--Iraq. When we questioned FAS officials about whether or not it was appropriate to allow two banks to participate to such a large extent, their response was that the risk to the program is unaffected irrespective of whether one bank or multiple banks provide the loans to any particular country. We continue to believe that there is a risk in allowing just one or two banks to participate to such a large extent in the programs.

In summary, FAS has consistently maintained that it has a limited role in monitoring and overseeing the GSM programs despite significant U.S. government sponsorship and government exposure to large financial losses.

Former Soviet Union Participation in The Export Credit Guarantee Programs

Another example of the difficulties associated with management of the GSM programs has been the increasingly significant participation of the former Soviet Union (FSU). A December 1990 U.S. government decision to provide agricultural export credit guarantees to the Soviet Union was a major, precedent-setting agricultural trade initiative. The initial approval of U.S. credit guarantees was made possible by evidence of Soviet emigration liberalization and the temporary waiving of restrictions under the Jackson-Vanik amendment to the 1974 Trade Act that had made credit

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[11] Status Report on GAO's Reviews of the Targeted Export Assistance Program, the Export Enhancement Program, and the GSM-102/103 Export Credit Guarantee Programs (GAO/T-NSIAD-90-12, Nov. 16, 1989).

guarantees to the Soviet Union contingent upon the enactment into law of liberalized emigration policies.

Since the approval of the first credit guarantees to the Soviet Union, the Commodity Credit Corporation has made available credit guarantees for the former Soviet Union and its successor states equal to $5.95 billion. Of this amount, nearly $5 billion has been used, about $450 million is apparently no longer available, and almost $520 million is held up owing to defaults on payments due.[12] Of guaranteed sales registered to date, the former Soviet Union received $3.74 billion, Russia $1.06 billion, and Ukraine $179 million.

GSM-102 credit guarantees offered to the former Soviet Union, Russia, and Ukraine during FY 1991 and FY 1992 accounted for approximately 29 percent of all GSM-102 commitments offered during the FY 1990-92 period. For FY 1991 and FY 1992 combined, the FSU and successor states purchased 72 percent of all GSM-102/103 exports of soybean meal, 71 percent of corn, 67 percent of barley, 64 percent of poultry meat, 51 percent of wheat, 21 percent of soybeans, and 100 percent of hops, almonds and chicken franks.

Since the inception of the GSM export credit guarantees to the Soviet Union, the issue of creditworthiness has dominated the discussion. As we observed in our June, 1991 report, questions about Soviet creditworthiness have been raised by executive and legislative branch officials, as well private sector analysts. We also noted that the extension of U.S. agricultural credit guarantees has been problematic in light of the restriction in Title XV of the Food, Agriculture, Conservation, and Trade Act of 1990. This restriction prohibits the Secretary of Agriculture from issuing export credit guarantees to any country that the Secretary determines cannot adequately service the debt associated with such a sale. The act also prohibits the issuance of export credit guarantees for foreign aid, foreign policy, or debt rescheduling purposes.

Last fall the Congress passed and the President signed into law measures that reinforced U.S. Government support for the states of the former Soviet Union and reiterated support for extending credit guarantees to these new nations.[13] However, since late November,

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[12]Of the $520 million in unused commitments, about $390 million are for Russia and $130 million for Ukraine. The Russian program has been suspended because of Russian defaults on GSM-102 payments for former Soviet and Russian debt. According to a USDA official, the Ukrainian credits are not likely to be registered for sale until the defaults on the former Soviet Union's GSM debt are resolved.

[13]FREEDOM Support Act of 1992, Public Law 102-511, Oct. 24, 1992.

1992, Russia has defaulted on scheduled payments on GSM-102 guaranteed debt. As of January 29, 1993, defaults totalled almost $241 million.

The new Secretary of Agriculture recently said that USDA considers Russia and Ukraine to be very important markets and that loss of these markets would have a detrimental impact on domestic markets and U.S. commodity support programs. The Secretary said he would like to find a way to keep selling grain to Russia, but the taxpayers have a right to know that countries to which we extend credit guarantees can pay for the purchases. The Secretary indicated that the issue of how to continue grain sales to the successor states is currently being examined by the administration and that the issue includes national security as well as market considerations.

GAO MANAGEMENT REVIEW OF FAS

As you know, over the years, FAS programs and practices have been the subject of many of our audits and investigations, as well as those of the USDA's Inspector General, the Justice Department, and various congressional committees. The resulting reports have disclosed substantial loan guarantee defaults, lack of program criteria and evaluation, program abuse, and other questionable FAS management practices. The many weaknesses in FAS programs and practices revealed in these reports raise fundamental questions regarding FAS organization, operations, and management. Until now, we have not reviewed agencywide management issues in FAS.

At the request of the Chairman of a House Agriculture Subcommittee, we are conducting a general management review of FAS. The primary objective is to review how the agency's management affects its ability to accomplish its mission of promoting agricultural exports. Our management reviews generally examine organizational structure, strategic planning, objectives, and various management systems. These management reviews often link weaknesses in management systems (such as human resources management) with agency problems in meeting its objectives.

Some of the issues being addressed in our management review include (1) the mission of FAS and its structure and activities; (2) the allocation of human resources among its diverse activities, including commodity reporting and trade policy; and (3) the management of its foreign service employees. Completion of this assignment is expected before the end of 1993.

NEED FOR A LONG-TERM AGRICULTURAL TRADE STRATEGY

The Food, Agriculture, Conservation, and Trade Act of 1990 required the Secretary of Agriculture to develop a long-term agricultural trade strategy (LATS) and report to Congress on it before October 1, 1991.

The stated goals for the strategy are to ensure:

-- the growth of exports of U.S. agricultural commodities;

-- the efficient, coordinated use of federal programs for promoting the export of U.S. agricultural commodities;

-- the provision of food assistance and an improvement in the commercial potential of markets for U.S. agricultural commodities in developing countries; and

-- the maintenance of traditional markets for U.S. agricultural commodities.

The act further mandated that USDA designate priority growth markets and include individual market development plans for each priority market beginning October 1991. USDA did not submit the long-term agricultural trade strategy until January 15, 1993. While we have had the opportunity to give the LATS only a cursory review, our initial impression is that substantial additional work will be needed to make it a useful management tool.

AGRICULTURE'S PROGRAMS ARE NOT LINKED TO A GOVERNMENTWIDE EXPORT PROMOTION PLAN

In evaluating the USDA's export promotion activities, it is worthwhile to consider how they fit into governmentwide efforts to promote U.S. products in world markets. Ten federal government agencies currently offer programs to help business begin exporting or to expand their exports. In fiscal year 1991, these agencies spent about $2.7 billion on export promotion programs. However, these export promotion programs are not funded on the basis of any governmentwide strategy or set of priorities. Consequently, taxpayers do not have reasonable assurances that the public's money is being effectively used to emphasize sectors and programs with the highest potential returns.

For example, USDA spent about $2 billion on export promotion in fiscal year 1991. Thus, while agricultural products constitute only about 10 percent of U.S. exports, USDA spends almost three-quarters of the government total outlays on export promotion.

By itself the USDA's MPP received more funds in fiscal year 1991--$200 million--than was spent by the Commerce Department on all its export promotion programs put together. The Department of Commerce spent about $91 million to support exports of nonagricultural products through its U.S. and Foreign Commercial Service (US&FCS). This money had to support a large network of 131 posts in 67 countries and 47 domestic offices.

Commerce's US&FCS staff in Japan operated in fiscal year 1991 on a budget of $4.3 million. In contrast, USDA budgeted almost $64 million for MPP in Japan during the same year.

Improving the USDA's export promotion programs, as well as all the government's export promotion programs, is important. However, the most significant progress cannot be achieved one agency or one program at a time. In our January 1992 report to the House Committee on Government Operations reviewing the funds of all the federal government agencies involved in export promotion, we recommended that Congress require that all export promotion programs be integrated into a governmentwide strategic plan and funded in a manner consistent with the priorities given them under the plan.[14]

The Export Enhancement Act of 1992 (P.L. 102-429) incorporated our recommendations for developing a governmentwide strategic plan to promote exports and for establishing governmentwide budget priorities for export promotion programs. Hence, we believe that future funding for the programs discussed today should be considered in the context of governmentwide export promotion efforts. As part of this effort, in order to provide coherence to U.S. government export promotion efforts and help insure that export promotion funding is channeled into areas with the greatest potential returns, an improved LATS must be integrated into the governmentwide plan.

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Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or other Members of Subcommittee may have.

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