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AGRICULTURAL TRADE

Review of Targeted Export Assistance Program



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The Honorable George Brown, Chairman
Subcommittee on Department Operations,
Research and Foreign Agriculture
Committee on Agriculture
House of Representatives

Representative Leon E. Panetta
House of Representatives

Representative Charles E. Schumer
House of Representatives

At your request, we reviewed the management and operations of the Targeted Export Assistance Program administered by the Foreign Agricultural Service of the Department of Agriculture. We are recommending that the Secretary of Agriculture implement program management changes to improve the efficiency and effectiveness of program operations.

We are sending copies of this report to the Secretary of Agriculture, Administrator of the Foreign Agricultural Service, and cognizant congressional committees and subcommittees. We will also make copies available to others upon request.

A handwritten signature in cursive script that reads 'Frank C. Conahan'.

Frank C. Conahan
Assistant Comptroller General

According to FAS guidelines, to be eligible for the program, a U.S. agricultural commodity group must (1) have been adversely affected by a foreign unfair trade practice, (2) a commodity must be in adequate supply, and (3) if processed, be at least 50-percent U.S. origin, with preference given to commodities of 100-percent U.S. origin. Section 1124 gives priority consideration to U.S. commodities which received favorable decisions under Section 301 of the Trade Act of 1974 or have been adversely affected by retaliatory actions related to such decisions.

Results in Brief

Agriculture is implementing TEA with insufficient accountability and management controls, showing little evidence of applying consistent application solicitation, funding allocation, participant contribution level, and evaluation criteria. These problems take on additional significance with the tripling of the annual TEA minimum required funding level in the program's latter 2 years.

GAO's Analysis

Solicitation of Applications Limited

At the inception of the TEA program the principal means of public dissemination involved press releases and articles in trade journals. Although enacted in December of 1985, TEA was not announced in the Federal Register until April 1987; requests for applications and a complete list of funding allocation criteria were not announced until June 1987, in time for the fiscal year 1988 funding cycle.

Some potential applicants, especially smaller private firms, complained that they were unaware of TEA or unsure of requirements to apply until after the application deadline. Former or current participants in the Cooperator Market Development program appear to have had an advantage in receiving TEA funds over non-participants, because of their previous relationship with FAS.

Funding Allocation Not Clearly Documented

FAS bases allocations upon a variety of criteria but has not adequately documented how it has applied or prioritized that criteria. This makes it difficult to ensure that the TEA funds were allocated equitably among all qualified applicants. In addition, in some cases, the TEA application contains insufficient information for FAS to adequately judge the feasibility of the proposed funding.

market analyses for program commodities and countries to ensure that TEA funds are allocated to achieve the greatest benefit.

- Establish reasonable participant contribution levels and document the justification for the form and level of all contributions according to specific criteria in the TEA program guidelines.
- Include specific guidance in the TEA guidelines for conducting TEA evaluations and time the funding decisions to incorporate the results of the TEA evaluations for the previous fiscal year. Document the progress and results of the evaluations including their impact on the funding decision.

Views of Agency Officials and GAO Evaluation

GAO did not obtain agency comments on this report. The draft report was reviewed by agency officials responsible for the program, and their views were considered and incorporated where appropriate.

FAS officials stated that the report was factually correct and provided a very clear and accurate account of how the program operates. They stated that our recommendations were worthy of serious consideration but that they would not accept or reject them at this time.

FAS officials were concerned that the report created the impression that FAS had no viable system in place to administer program funds. They stated that although documentation was important, it would not in itself ensure that funds were allocated equitably. They believed they had a workable management system, but would review carefully our points on documentation. They also acknowledged that FAS has considered using means other than market development to implement the program due to the increased minimum funding level requirement in 1989 and 1990, but emphasized they would have no problem allocating the full amount.

FAS generally supports the need to establish program evaluation criteria and apply evaluation results to funding allocation decisions.

GAO believes that FAS does not provide adequate documentation for its funding allocation decisions. The lack of documentation makes it difficult to assess whether funding criteria were applied equitably and consistent with FAS criteria. FAS needs to establish a management approach that includes adequate information and documentation on major decisions to ensure effective and efficient program operation, and prevent potential abuse.

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Abbreviations

CCC	Commodity Credit Corporation
EHP	Export Enhancement Program
EIP	Export Incentive Program
FAS	Foreign Agricultural Service
GATT	General Agreement on Tariffs and Trade
HVEIP	High Value Export Incentive Program
MPS	Marketing Programs Staff
OIG	Office of the Inspector General
PROC	Planning, Review and Operations Committee
TEA	Targeted Export Assistance Program
USAEDC	United States Agricultural Export Development Council
USDA	United States Department of Agriculture

supervision, and execution of approved market development projects. Section 1124 gives priority consideration to U.S. agricultural commodities that have received a favorable decision under Section 301³ of the Trade Act of 1974 or have been adversely affected by retaliatory actions related to such decisions.

TEA Program Modeled After Cooperator Program

Agriculture has chosen to implement the TEA program as a foreign market development program modeled after its existing Cooperator program⁴ for several reasons. First, FAS contended that market development activities were not being adequately funded under the Cooperator program. The Assistant Administrator of FAS for Commodity and Marketing Programs stated that FAS decided not to use TEA funds for export subsidies like the Export Enhancement Program (EEP)⁵ does, because FAS wanted to retain control of the program and avoid the interagency approval process required under the EEP.

Second, FAS wanted TEA to assist such high value horticultural crops as fruits and nuts, whose commodity groups claimed that their export problems had not been addressed in recently established export programs. These groups maintained at congressional hearings that programs under recent farm bills had mostly focused on the bulk commodities such as wheat, corn, and rice. Third, FAS believed that, as a market development program, TEA would be less likely to be considered an export subsidy.

³Section 301 of the Trade Act of 1974 expanded the President's discretionary authority to respond to unfair trade practices of foreign governments. The President can respond to any act, policy or practice of a foreign government which he determines to be unjustifiable, unreasonable, or discriminatory, or contrary to an existing trade agreement obligation. The statute also allows the private sector to petition the U.S. government to act in its behalf against unfair practices.

⁴The Agriculture Trade Development and Assistance Act of 1954 (Public Law 480), as amended, and the Agriculture and Food Act of 1981 (Public Law 97-98), as amended, authorized market development activities and the use of federal funds to develop, maintain, or expand foreign markets for U.S. agricultural commodities. FAS determined that this should be accomplished through private, non-profit agricultural organizations, known as cooperators, which should be required to share in the financial expense of the market development programs. See our March 1987 report, Review of Effectiveness of FAS Cooperator Market Development Program, (GAO/NSIAD-87-89) for details on the Cooperator program.

⁵In May of 1985, the Secretary of Agriculture announced the establishment of the EEP under which the CCC was to make available over a 3-year period bonuses to U.S. exporters to expand sales of specific U.S. agricultural commodities in specific markets. In practice, the bonuses were subsidies-in-kind to enable exporters to lower the prices of their commodities to be competitive with subsidized foreign agricultural exports. As of April 1988, Agriculture has awarded \$2 billion in bonuses at market value. See our March 1987 report, Implementation of the Agricultural Export Enhancement Program (GAO/NSIAD-87-74BR).

consumer promotion, which is designed to change consumers' attitudes toward or make them aware of the advantages of U.S. agricultural products. The majority of the TEA projects have been consumer promotion only or consumer promotion in combination with technical assistance and trade servicing.

During fiscal years 1986-88, FAS entered into a total of 117 agreements with program participants over the 3 years. (Appendix I lists TEA participants and funding levels.) In fiscal years 1986-88 about 60 percent of the TEA projects have taken place in Asia, approximately 30 percent in Western Europe, and the remaining in other parts of the world. Examples of TEA projects in fiscal year 1987 include:

- The California Avocado Commission found that Japanese consumers are generally not sure of the uses of avocados. The Commission placed the avocado in the vegetable section of Japanese stores and advertised the avocado's nutritional qualities, potential uses and proper handling (consumer promotion) (\$420 thousand).
- The Florida Department of Citrus is stressing the sweetness and juiciness of Florida grapefruits through TV and print media, public relations, in-store demonstrations and displays, and food service activities in Western Europe, the Pacific Rim, and Canada (consumer promotion) (\$7 million).
- The U.S. Feed Grains Council is conducting activities worldwide, particularly in China and South Korea, including sending grain samples (trade servicing); conducting educational programs on the U.S. marketing system, quality, and standards in selected emerging markets (technical assistance); demonstrating feed preparation and use at existing feed milling and production units in China (technical assistance); consumer promotion campaign (\$2.8 million).
- The Leather Industries of America are conducting activities in Asian and Western European countries including trade show participation (technical servicing); printed media promotion in trade journals and research studies to identify markets and develop effective themes (consumer promotion) (\$1.5 million).
- The U.S. Meat Export Federation is conducting activities in Japan, Hong Kong, Taiwan, the Middle East, Western Europe and the Caribbean which are concentrating on educating consumers about the quality of U.S. meats and influencing the media and opinion leaders. This is being done through advertising in electronic and print media and product sampling, seminars, menu promotions, and fairs (trade servicing activities) (\$7 million).

under the producer's brand name. Generic promotion may or may not identify the product as being of U.S. origin and its goal is to expand the entire market for the product, including U.S. and foreign sellers.

TEA/Export Incentive Program (EIP) Agreements

This agreement is between the CCC and private profitmaking firms which promote only brand identified products. Through fiscal year 1988, four commodities have qualified for EIP: citrus, almonds, mink, and processed corn. (See ch. 3) Commodities qualify as EIP's if they do not have a nonprofit organization to represent them or their cooperators' membership does not encompass a large enough portion of the U.S. market.

TEA/High Value Export Incentive Program (HVEIP) Agreements

TEA/HVEIP agreements are between the CCC and U.S. nonprofit or state-related organizations which promote both generic and brand identified high value agricultural commodities and products. The agreement defines commodities and products as any U.S. produced brand identified food, beverage, seafood, food supplement, or pet food. Consumer-ready products, such as fresh fruits and vegetables, are eligible but reimbursement is limited to the activities that promote the U.S. exporter's brand.

The TEA/HVEIP program is administered through four cooperators representing the state departments of agriculture. FAS has been working with these cooperators on generic promotion for about 15 years to facilitate, centralize and coordinate the states' efforts with those of FAS to export agricultural commodities. They are (1) Western U.S. Trade Association (WUSATA), (2) Eastern U.S. Agricultural and Food Export Council (EUSAFEC), (3) Southern U.S. Trade Association (SUSTA), and (4) Mid-America International Agri-trade Council (MIATCO). Each council does its own generic promotion. The councils apply for TEA funds to FAS and administer brand identified promotion by working with the state departments of agriculture and private profit making firms in the states within their region. The firms apply for TEA funds through the export councils and work with their respective state departments of agriculture to formulate marketing strategies

Use of CCC Generic Certificate Premiums

The TEA provisions of the Food Security Act of 1985 require the Secretary of Agriculture to use CCC commodities or funds to carry out the program. Commodities are provided to program participants in the form of generic commodity certificates, which are negotiable financial instruments, that can be redeemed for CCC owned commodities, exchanged for

We interviewed FAS officials responsible for management and oversight of TEA and reviewed FAS documents and files pertaining to the solicitation, review, approval, funding, monitoring, and evaluation of the program. We also consulted with governmental and private sector evaluation experts regarding evaluation methodologies. We interviewed TEA program participants. We also interviewed members of USDA's Office of the Inspector General, which conducted a concurrent review of TEA.

We attended the annual U.S. Agricultural Export Development Council meetings in November 1986 and November 1987 and the International Food Show sponsored by the National Association of State Departments of Agriculture in April 1987, where we discussed issues concerning TEA and market development with federal and state government and private sector participants. We also talked with TEA participants from cooperators, cooperatives, trade associations, state-related organizations, and private firms. We reviewed the USDA's Office of Inspector General's Audit of the TEA program released in March 1988. Whenever possible, we coordinated our TEA review with that of the Office of the Inspector General.

Our work was conducted in accordance with generally accepted government auditing standards.

Once the unfair trade practice has been verified and the commodity and applicant eligibility confirmed, the cognizant commodity division head pools all of the division's approved applications and conducts a series of meetings with marketing analysts to determine funding allocation levels for each applicant. The divisions compile these funding recommendations into a one or two page internal document called the TEA proposal.

All divisions submit their TEA proposals to the FAS Commodity and Marketing Programs Assistant Administrator and Deputy Assistant Administrator, who weigh all individual funding proposals from the divisions and make their own funding recommendation for each proposal. These recommendations go next to the Undersecretary for International Affairs and Commodity Programs, who has the authority to accept or reject the final funding decisions.

Once the UnderSecretary makes the final funding decision, the Office of the Commodity and Marketing Programs Assistant Administrator, or Marketing Program Staff (MPS), drafts TEA program agreements to be signed by the Administrator of FAS and the participants, and notifies the participants of the disposition of their applications. TEA program agreements describe the performance obligations and financial contributions of each party. TEA participants are encouraged to contribute matching funds for some percent of the amount of TEA funds they are allocated.

The commodity divisions then request from the applicants their activity plans, which are annual planning documents containing the details of how TEA activities will be implemented and budgeted. The budget includes both the CCC supplied funds and TEA participant funds that are to be spent in carrying out the activities. Upon receipt of an activity plan, MPS reviews and approves it and sends a copy to U.S. foreign agricultural attaches in countries in which TEA activities are to take place. The attaches provide FAS with their assessment of the feasibility of the proposed TEA activities.

An approved activity plan actually authorizes the expenditure of TEA resources available under the TEA program agreement. Upon approval of the activity plan, FAS releases an advance equal to 40 percent of the amount of the TEA funds budgeted in the current fiscal year's activity plan and the balance of the allocated funds is available on a reimbursement basis; that is, participants spend the funds available in their activity plans, then request reimbursement from FAS. Participants can elect to receive their advance in 10 percent increments during the period covering the advance. Each increment must be spent within 90 days or be

TEA Places Administrative Burden on FAS

Senior FAS management officials responsible for the day to day operation of the program state that they do not have enough staff to operate the TEA program with sufficient management controls and that TEA applications are often reviewed inadequately and approved with great uncertainty. The MPS administers both TEA and the Cooperator Market Development programs. The TEA program was administered without benefit of additional authorized staff from March 1986, after the passage of the Food Security Improvements Act of 1986, to July of 1987 when a budget supplemental was passed. FAS had requested the budget supplemental in July 1986, but it was not passed until a year later in July 1987.

It is difficult to determine precisely what portion of FAS resources are devoted to the TEA program since almost any issue dealing with marketing or trade could be considered related to TEA. Realizing these limitations, MPS estimates it spends approximately 70 percent of its time administering TEA and 30 percent on the Cooperator Program, while the marketing branches of the commodity divisions spend from 50 percent to 90 percent of their time on TEA.

Efforts to Solicit TEA Participants Are Limited

In fiscal year 1986, the program's first year, TEA funds were not actually available until the passage of the Food Security Improvements Act in March. Agriculture informed potential participants through the trade press, advertising, and other news media. There was no formal TEA announcement in the Federal Register. Cooperators and larger organizations were aware of TEA through their congressional sources during the debates on the Food Security Act of 1985 and their relationship with FAS through the Cooperator Market Development program and other FAS export programs. TEA applications were accepted throughout the last half of the fiscal year on a first-come, first-served basis.

For the fiscal year 1987 TEA authorization, FAS did announce and describe TEA in the Federal Register in April 1987 but, due to FAS time constraints and staff shortages, FAS did not solicit applications or include an application deadline as it had originally intended. Also, FAS had received TEA applications in excess of available TEA funds by the time it placed the TEA announcement in the Federal Register. FAS approved about 31 percent of the applications individually on a first-come first-served basis. The balance was approved all at once as a package, comparing one to the other, both to make the process more equitable and because the application amounts were in excess of available TEA funds.

its benefit to help develop program guidelines, not to allow participants to have an impact on those guidelines, this system gives PROC committee members an advantage in influencing the contents of the TEA guidelines.

Eligibility Rules Allow Variety of Participants/Activities

The elimination of an unfair trade practice, in most cases, is not the focus of the TEA program. Due to the lack of a specific definition of unfair trade practices other than subsidies, USDA interprets unfair trade practices broadly. In addition, FAS does not require TEA promotions to take place in a country imposing an unfair trade practice.

FAS considers virtually any restriction on imports of U.S. agricultural products an unfair trade practice. Other than section 301 cases, USDA does not prioritize unfair trade practices either by actual or potential damage to U.S. exports. This broad definition allows participants to qualify for TEA in virtually any foreign market for a variety of commodities.

According to the Assistant Administrator for Commodity and Marketing Programs, FAS is allowing TEA commodities to be promoted in countries other than those imposing the unfair trade practice. FAS defines "counter" as promoting the commodity suffering a loss in the same country imposing the unfair trade practice and "offset" as promoting the commodity in a second country to compensate for the effects of the unfair trade practice in the first country. FAS has chosen to concentrate its efforts on offsetting rather than countering because if a country's trade barriers are severely limiting, market development in that country would have minimal impact. For example, for fiscal year 1987, to help offset the adverse effects of the European Community's tariff preferences and Korea's import restrictions, the California Avocado Commission proposed using TEA funds to expand sales in Japan, where it has been successfully promoting avocados since 1977.

Agriculture gives commodities affected by section 301 cases priority by making them automatically eligible for TEA, though not necessarily for the amount requested by the applicant. According to the TEA provisions of the Food Security Act of 1985, commodities which have received favorable 301 decisions or for which exports have been affected by retaliatory actions related to a favorable decision are given priority.

The term "favorable decision" does not appear in section 301 of the Trade Act of 1974. FAS elected to consider a favorable 301 decision as a

Commodity

- Total U.S. exports worldwide measured in both the dollar value and quantity of the commodity for the most recent 12 month period.
- Nature of the unfair trade practice and the country imposing it.
- Total dollar value of the actual or potential export loss over a certain period, usually 10 years and average annual loss based on this same figure.
- Origin of the commodity or product and adequacy of supply.

Participant

- Statement of the extent to which the cooperator or firm represents the industry nationwide.
- Resources and ability to fund project.
- Market development experience.

TEA Proposal

- Amount and duration of funding.
- Contribution of U.S. participant and foreign third party⁴.

Proposed Program

- Expected value of increased U.S. exports of commodity.
- Benefit/cost ratio.
- Short description of the activities and countries in the TEA project.
- Amount of funds requested as well as the division recommendation.
- Extent to which premiums or interest received on generic certificates have been applied to market development activities.
- Applicant's current spending status of any previous year's TEA allocation.
- Brief discussion of the status of evaluations of prior or current year TEA activities.
- Prior year TEA funding.
- Current year cooperator market development or EIP funding.

In our review of the TEA commodity files, we found they often did not contain the complete picture of how and why one commodity received more funding than another. One FAS official stated that some of the transactions with TEA applicants consisted of undocumented phone conversations and informal notes.

⁴According to TEA guidelines, a third-party participant is a foreign government or private organization which has entered into a TEA or TEA/EIP program agreement with a U.S. participant to assist in promoting the export of U.S. agricultural commodities. These third parties are encouraged to contribute to the projects in which they participate.

applicants were necessarily biased in favor of the applicants. The official said that such statistics were important but could not stand alone and that FAS used them in a very broad manner to obtain an overview of the market situation while keeping in mind the biases and noncomparability of the numbers.

In some cases, FAS commodity divisions did compare their own trade statistics to those of the applicants to make some determination as to whether the markets in question were experiencing decreasing exports or to verify export value numbers and estimate expected export gains from the program. But FAS does not necessarily perform indepth market analyses of the commodities and countries in which TEA promotions are to take place. The TEA application is not always country-specific, sometimes mentioning only a region such as Europe. The detail necessary to do such an in-depth analysis is not usually in the application but is contained in the activity plan, which is received after the funding allocation decision.

The Activity Plan Is Not Required to Allocate Funds

The activity plan should be an important tool for FAS to use to judge the feasibility and potential success of the proposed activity and the reasonableness of the amount of funds being requested. Although funds are not released until after approval of the activity plan, it has no significant impact on the allocation amount. Instead, FAS' allocation decision is based upon the contents of the TEA application, in some cases a relatively brief description of the project.

For example, the U.S.A. Poultry and Egg Export Council submitted a 5-page narrative application for fiscal year 1986 to conduct a \$7-million market development program (the first year of a multi-year project) in Japan, Hong Kong, and Singapore; and a \$3-million program in Egypt, Iraq, Saudi Arabia, Kuwait, United Arab Emirates, Yemen and Bahrain. The application identified poultry as a Section 301 case, covered the nature of the foreign unfair trade practice, provided some poultry trade data and described generally the Council's proposed consumer promotion campaign. The application did not offer details on how the TEA funds would be spent to carry out the project.

In contrast, the Council's activity plan included a breakdown of the funds budgeted per country, the third-party contribution, and the participant contribution (this is often in the application as well). Also included is the amount budgeted for media and promotion materials,

Implications of Increased TEA Funding Authorization

TEA's required minimum funding level will almost triple in fiscal years 1989 and 1990 to \$325 million a year, (up from \$110 million for each of fiscal years 1986, 1987 and 1988). The increased funding generates several important questions.

- Do FAS and participants have the capacity to manage the TEA program on an expanded basis?
- Can the existing participants use such a major increase in funding by expanding their current projects or creating new ones?
- Can FAS find new participants to absorb the increase?
- Should the existing standards for TEA eligibility, funding and allowable expenditures be broadened to ensure the use of expanded TEA funds?
- Can participants continue to contribute the same ratios?

FAS is considering several options for handling the increased funding. Because TEA funds currently cannot be used for administrative support domestically or abroad, FAS may expand the types of expenditures allowable, such as covering more travel or the salaries and living expenses of participant employees overseas. A more significant and less likely change being examined by FAS is to implement TEA through a vehicle other than market development.

FAS is concerned that, to compensate for lack of staff and expertise, participants will contract out their projects to consultants and advertising firms to a greater extent creating control problems for both the participants and FAS. Since contractors often do not keep proper records or follow TEA guidelines as closely as TEA participants, increased use of contractors would make it difficult for FAS to perform compliance reviews and ensure that funds are spent effectively and properly. Similarly, the more that participants carry out their projects through consultants and other outside parties, the less direct influence they have over the effectiveness of those projects.

The Director of the FAS Compliance Review Staff stated that contractors hired by TEA participants to carry out their activities have provided inadequate documentation on how they actually spent the TEA funds, and therefore participants have in turn provided the Compliance Review Staff with inadequate documentation on TEA expenditures. In addition, the Director maintained that consultants hired by TEA participants have charged fees well above the accepted rate of a GS-15 or \$250 per day rate. FAS has informed participants that it lacks the staff and resources to provide program information and guidance to consultants.

- conduct ongoing, in-depth marketing analyses for all TEA commodities and their countries or regions of promotion to ensure that TEA funds are allocated for those commodities and markets with the greatest potential for successful market development; and
- provide all TEA participants with an opportunity to review and comment on proposed TEA guideline additions and changes, including a written record of any such proceedings.

Views of Agency Officials and Our Evaluation

GAO did not receive agency comments on this report but agency officials reviewed the draft report and their views were considered and incorporated where appropriate.

FAS officials stated that adequate documentation in itself does not ensure that funds are allocated equitably and that FAS' 30 years of market development experience was more significant than any level of documentation. They believed that their program management, including periodic reviews by the Compliance Review Staff, was viable. However, they stated that they would carefully review our points on documentation.

FAS officials maintained that, although TEA was an increased burden on FAS staff and was straining its resources, this was not a serious problem.

FAS officials stated that the PROC was not a formal system by which participants could comment on the program, but an aid to FAS in formulating and changing program guidelines. However, they conceded that some formal participant advisory input on program guidelines might be appropriate. FAS officials acknowledged that they had considered means other than market development to implement the program, due to the tripling of the minimum funding level requirement in 1989 and 1990. However, they emphasized that they would have no problem allocating the full amount for both years.

We believe that FAS management of the TEA program does not adequately document funding allocation decisions. This lack of documentation makes it difficult to assess whether FAS funding criteria were applied consistently and equitably among program participants. TEA participants that are not members of the USAEDC cannot participate in the PROC, an informal group of USAEDC members and FAS upper management which has input into TEA guideline changes and additions. FAS lacks a formal TEA participant advisory group which gives all TEA participants an opportunity to review and comment on proposed TEA guideline additions

FAS Management Controls in Two Key Areas Are Inadequate

We found that FAS management controls over two additional areas which could have a significant impact on TEA funding level allocations and activities need improvement. First, contribution level requirements vary among participants and justifications for such variations are not adequately documented. Second, FAS has not closely monitored the nonprofit trade associations' brand identified promotion resulting in some potential TEA participants not receiving information about the program.

Participant Contributions

Neither the provisions of the legislation authorizing the TEA program nor the TEA guidelines specify the amount of contributions required of the participant. FAS contribution guidelines for the TEA/EIP and TEA/HVEIP are more specific.

TEA Participants

FAS has not documented the reasons for the variation in level and form of contribution among TEA participants. The participant's contribution level is specified in each TEA program agreement. The amount of the contribution is a judgement made by FAS and depends, in part, on the participant's past productivity and sales. The participant will often offer to contribute a certain amount in its TEA application and FAS will take this into consideration. The contribution can be in the form of cash or in goods and services.

At a minimum, the participants are expected to make a cash contribution which consists of cash outlays for domestic support such as personnel expenses, office equipment and rent. The other type of contribution is what FAS TEA guidelines refer to as "goods and services contributions". These are the participant's estimate of contributions made by a U.S. industry member for which the TEA participant made no cash reimbursement. For example as part of its TEA project, a trade association may tour an industry member's facility. The resources expended by the industry for that tour without reimbursement by the trade association, could be claimed as a goods and services contribution by the TEA participant. These contributions are in many cases estimates, and therefore are difficult to verify.

FAS stated that there is no consistent requirement for matching contributions in cash or goods and services because TEA participants represent injured industries which cannot always afford to contribute a set amount. Participant contribution levels have varied. One participant contributed only goods and services in the first year of the program while receiving \$9 million in TEA funds that year. Participants may also

TEA/EIP contribution requirement is more liberal because the commodities represent injured industries.

TEA/HVEIP Participants

TEA/HVEIP involves no goods and services contributions, only cash. The contribution is basically a cash matching fund system. The TEA/HVEIP guidelines state that up to 50 percent of participants' promotional costs may be reimbursed by FAS. In practice, private profitmaking participants have generally been reimbursed for 50 percent of their TEA promotional costs.

Third Party Contributions

According to TEA guidelines, third-party participants are encouraged to contribute substantially to all projects in which they participate. There is, however, no requirement that they contribute. Our March 1987 report on the effectiveness of the Cooperator Market Development program, (GAO/NSIAD-87-89) criticized FAS verification of third-party contributions, noting that cooperators have inflated these contributions in the applications.

In its March 1988 Audit Report on TEA, the USDA Office of the Inspector General (OIG) criticized FAS for the lack of signed agreements between third-party participants and TEA applicants upon submission of the activity plan. The OIG contended that, since FAS allows TEA participants to submit third-party contribution figures as part of their justification for TEA funding, such figures should be verifiable by signed contracts.

FAS maintains that such agreements would expose participants to unnecessary financial risks, as they would be binding while TEA funding was still uncertain (FAS can reduce the TEA allocation based upon the activity plan). However, FAS agrees with the OIG that the method by which third-party contribution levels are derived and the identities of the parties involved should be documented in writing, subject to audit, and reported to FAS at the end of the activity plan year.

The OIG has also criticized FAS' reimbursement policy for TEA/EIP participants and third-party contributors. TEA/EIP private firms submit vouchers to FAS for authorized expenditures on their TEA projects, and FAS reimburses them as much as 75 percent of the total submitted amount. However, FAS will also reimburse the TEA/EIP participants the same percentage for the activities and expenses of the third-party participant on the project.

members. At the November 1986 workshop with the USAEDC, FAS stated that:

“Cooperators would have to assume the same burden currently assumed by FAS of announcing the availability of a US brand-identified program to every conceivable US participating firm — through trade journals, private mailings, newspapers, trade associations, etc. Cooperators may not limit participation to firms who are members of their organization.”

In delegating the administration of brand identified promotion under TEA to the nonprofit participants, FAS remains responsible for ensuring the quality of that administration. Some potential applicants have complained that they did not receive adequate or timely information about the TEA program from their cooperators. In the walnut industry, some private profitmaking firms who were potential TEA applicants through their cooperator, the Walnut Marketing Board, complained that a few larger firms also members of the Board monopolized the TEA funds available for brand identified promotion and that they were denied an equal chance to apply for funds.

Brand identified promotion has some advantages in that it provides additional exposure to foreign markets for the firms that will ultimately be making the sales. Some foreign markets may also prefer brand identified products on certain types of commodities, making brand identified promotions relatively more effective.

Using U.S. government funds for brand identified promotion is somewhat problematic. Market development is geared toward long-term market expansion, not immediate sales. Unless there is very wide promotion of U.S. firms in a market, brand identified promotion gives receiving profitmaking firms a potentially unfair competitive advantage over firms not receiving TEA funds.

Conclusions

Contributions vary among participants both in magnitude and from cash to goods and services but FAS does not document the basis for its required contributions. Third-party contributors are not adequately identified in activity plans and the method by which such contribution levels are derived is not fully documented. According to both the USDA OIG and the FAS Compliance Review Staff, this lack of third-party contribution documentation has resulted in one TEA/EIP participant being reimbursed for third party contribution expenditures it did not incur.

FAS Needs TEA Evaluation Guidelines

Evaluation of market development efforts has historically been difficult for FAS due to the multiple variables that affect U.S. access to foreign markets and the many types of market development projects. These factors make it difficult to design evaluations that adequately reflect the impact of market development. However, program evaluation can be used as a management tool to determine whether particular TEA market development activities are accomplishing the specific objectives set out in activity plans without addressing the more global issue of whether the activity has increased U.S. exports. A participant's final or interim TEA evaluation results can also be applied toward future funding allocation decisions.

In order to ensure arms-length objectivity, FAS is requiring that periodic evaluations be carried out by independent third parties hired by the TEA participants. Under the TEA/EIP and TEA/HVEIP, FAS is not requiring independent third-party evaluations but only that participants provide export data for the proposed commodities and countries before and after the completion of their TEA projects. FAS states this is due to the proprietary nature of the promotional strategies of profitmaking firms and the fact that these participants make matching cash contributions.

Although FAS is requiring evaluations of most TEA participants, it has provided virtually no guidelines on what constitutes an independent third-party or on evaluation criteria, scope, purpose, or cost limitations. Until recently, FAS made no formal connection between the evaluation requirement and future funding allocation decisions. This lack of guidance has created confusion among participants as to the proper elements and overall purpose of the TEA evaluations and has undermined the importance of program evaluation in general.

FAS' Previous Experience With Evaluation of Market Development

In the late 1960s, FAS used advertising, industry and media experts to conduct lengthy internal evaluations of selected current market development activities. These evaluations were expensive due to the high cost of data collection.

In the early 1980s, FAS' Planning and Analysis Division developed for the Cooperator program the strategic planning process designed to identify commodity/market combinations that offered the greatest potential for increased exports. The Division was disbanded shortly before FAS began funding projects under the TEA program.

Programs stated that TEA evaluations were not meant to be success stories but to be used by participants as management tools. FAS presented orally several criteria for an acceptable evaluation, stating that the activity plan should clearly identify the goals, target audiences and strategies of the TEA project and the activity plan should in turn direct the focus of the evaluation. The evaluation should assess the extent to which the TEA activity is meeting its stated objectives and make recommendations on how the activity could be improved and whether it should be continued. FAS further stated that it would consider the evaluation results in making future funding allocation decisions.

In 1987, we interviewed most of the cooperator participants in the TEA program and all but one of the EIP participants, discussing their plans for and perceptions of the evaluation requirement. All of them were aware of the requirement to submit evaluations but few had completed and several had not even begun the actual evaluations. Several evaluations were submitted to FAS in the last couple of months of calendar year 1987, and FAS is encouraging participants to submit their evaluations by the 1989 fiscal year funding allocation cycle.

Participants Need Clarification

FAS lacks formal written TEA evaluation guidelines. It did provide oral evaluation guidance at the November 1987 USAEDC workshop, but this would not be readily available to non-USAEDC member TEA participants.

Many TEA participants at the conference expressed confusion regarding FAS expectations for the evaluation requirement while emphasizing that any evaluation guidelines should allow them the flexibility to control how they run their programs. FAS agreed during the conference that its evaluation instructions and guidelines to date were somewhat lacking. It made evaluation a prominent item on the conference agenda but underscored its reluctance to dictate format. FAS warned against over-regulation and said that different commodities, markets, and activities demanded different evaluation techniques.

FAS is now asking TEA participants that have completed evaluations to submit them with the TEA applications for fiscal year 1989, with the intention of applying the results to the funding process. Such a request should strengthen FAS' ability to ensure that TEA projects accomplish their stated objectives.

FAS is now considering requiring some type of modified activity plan from EIP participants.

Some Evaluation Criteria Can Be Applicable to All Activities

Despite the diverse types of projects funded under TEA market development, the multiple variables affecting its success, and FAS' concern about over-regulation, evaluation guidelines can contain basic elements applicable to all types of activities. These elements should help the participants to use evaluations to improve their use of TEA funds and should help FAS make the most of the evaluations in administering the program. In addition, FAS should (1) define what is an acceptable independent third-party evaluation entity, (2) at what stage in the project one should be hired, and (3) the entity's required level of involvement throughout the life of the project.

Within a general evaluation framework applicable to all projects, TEA evaluations can also be designed to focus on the three different types of market development, consumer promotion, technical assistance and trade servicing, by taking into account their unique characteristics. Appendix III provides some possible evaluation criteria both applicable to all TEA activities and focusing on the three types of market development.

Commodity Divisions Need an Evaluation Review System

Ideally, FAS should require that the evaluator submit a copy of the evaluation directly to FAS and one to the participant to use in preparing for the next fiscal year's TEA application. This would allow evaluation results to be applied to the subsequent fiscal year's funding allocation decisions. If the full evaluation cannot be completed by the funding allocation period for the next year, the participant should submit an interim evaluation assessing the progress and quality of the project thus far.

FAS commodity divisions have been uncertain as to how to review completed TEA evaluations as FAS has not created a uniform set of criteria by which to judge the quality of evaluations and apply their results. FAS should devise a formal system of internal controls for collecting, tracking, and documenting the progress of the TEA evaluations, and ensuring that all participants comply with the evaluation guidelines. FAS should document its assessment of the TEA evaluations, particularly how their results affect its funding allocation decisions.

FAS can ultimately use the TEA evaluations in combination with other trade data to assess whether TEA projects have helped in part to increase

-
- Develop specific criteria to be included in the TEA guidelines for evaluating the TEA program.
 - Require that the TEA evaluations be completed to coincide with the FAS application approval and funding allocation process.
 - Implement a formal system of internal controls for collecting, tracking and documenting the progress and results of the TEA evaluations, including their impact on funding allocation decisions.

Views of Agency Officials and Our Evaluation

GAO did not receive agency comments on this report but agency officials reviewed the draft report and their views were considered and incorporated where appropriate.

FAS officials generally agreed with our recommendations on evaluation criteria and stated that FAS is establishing similar criteria for their new Marketing Programs Division's Program Evaluation Section.

We support the new FAS Program Evaluation Section and encourage FAS to apply the program evaluation criteria provided in appendix III of this report. We would like to emphasize the importance of applying evaluation results to future funding allocation decisions, including adequate documentation of how those results impacted such decisions. This process helps to ensure that TEA funds are allocated to the market development activities most likely to achieve their stated goals.

**Appendix I
Funding Allocations**

Participant	Commodity	Fiscal Year Funds		
		1986	1987	1988
National Council of Farmer Cooperatives	Not applicable	0	0	.35
National Dry Bean Council	Beans	0	0	.50
EIP:				
California Almond Growers Exchange	Almonds (301)	.85	3.51	
California Independent Almond Growers	Almonds (301)	.01	0	
Tenneco West	Almonds (301)	.03	.05	
California-Almond Inc.	Almonds (301)	0	a	
Mariani Nut Co.	Almonds (301)	0	.17	
Saulsbury Orchard & Almond Proc. Inc.	Almonds (301)	0	.04	
Hansa-Pacific Assn. Inc.	Almonds (301)	0	.17	
T.M. Duche Nut Co. Inc.	Almonds (301)	0	20	6.50 Total
Nicolaysen Farms	Almonds (301)	.01	.04	almond 1988
Dole Food Company	California Citrus (301)	.53	.80	
Sun Pacific Shippers Inc.	California Citrus (301)	.03	.03	
Sun World Inc.	California Citrus (301)	.02	.11	
Sunkist Growers Inc.	California Citrus (301)	7.93	9.55	
Cecelia Orchard Packing Corp.	California Citrus (301)	0	.02	10.50 Total citrus 1988
Seattle Fur Exchange Inc	Mink	0	.70	
Moyle Mink Farms	Mink	0	.20	
Schumacher Fur Co.	Mink	0	.05	0.70 Total
Hudson's Bay Co. Sales Inc.	Mink	0	.55	mink 1988
Processed Corn	Processed Corn	0	0	1.50
HV/EIP:				
East U.S. Agric. Trade Assn.	Processed Food	1.10	1.00	1.10
Midam Intnatl. Agric. Trade Council	Processed Food	.80	1.20	1.10
Natl. Assn. State Dept Agric.	Processed Food	.50	0	0
South U.S. Trade Assn.	Processed Food	.80	.80	1.10
West U.S. Agric. Trade Assn.	Processed Food	2.20	1.95	1.60
Total		\$110.00	\$110.00	\$110.00

^aCalifornia-Almond Inc. received \$3,000 in TEA funds in 1987 which is not shown on table due to decimal rounding.

Appendix II
U. S. Market Development Cooperators (49)
and Targeted Export Assistance Participants
(38)

USA Poultry and Egg Export Council¹
U.S. Beef Breeds Council²
U.S. Meat Export Federation¹

National Forest Products Association¹

Forest Products

High Value Products

Chocolate Manufacturers Association of America¹
Eastern U.S. Agricultural and Food Export Council, Inc. (EUSAFEC)¹
Mid-America International Agri-Trade Council (MIATCO)¹
National Association of State Departments of Agriculture (NASDA)¹
National Pasta Association¹
Southern United States Trade Association (SUSTA)¹
Western United States Agricultural Trade Association (WUSATA)¹

Grain and Feed

Millers National Federation³
National Council of Farmer Cooperatives¹
National Dry Bean Council¹
National Hay Association, Inc.¹
Protein Grain Products International³
Rice Council for Market Development¹
USA Dry Pea and Lentil Council, Inc.¹
U.S. Feed Grains Council¹
U.S. Wheat Associates, Inc.¹

¹Participates in Cooperator Market Development and TEA program.

²A world organization for cotton research and promotion of which the United States is a member.

³Participates in Cooperator Market Development program only.

⁴Participates in TEA program only.

Source: Foreign Agricultural Service.

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- should have survey questionnaires that contain representative and statistically valid (random) samples;
 - should provide a thorough justification of target audience, advertising media (television, newspapers, magazines, point of purchase materials), and geographic placement to FAS.

Technical Assistance

Examples of technical assistance include seminars on animal health and nutrition, demonstration processing facilities, feeding trials, and fine tuning of processing facilities. Technical assistance may indirectly influence the decision to purchase the U.S. commodities; for example, the goal of the TEA project coordinated by the American Soybean Association and the U.S. Feed Grains Council (an animal feeding trial intending to show that animals fed on purchased feed grains are more profitable to the farmer than those fed on local grasses) is to increase the use of feed grains generally and U.S. feed grains more specifically.

Due to a lengthier completion time of such projects, the evaluation may be in the form of a progress report or a checklist of whether the project has completed its milestones on time, used the assigned equipment and personnel as planned, and provided safeguards for equipment use and repair.

Trade Servicing

This type of market development includes trade shows and general trade promotion activities directed at wholesalers, distributors, retailers, and restaurateurs, who handle the commodity before it is purchased by the final consumer. For example, the objectives of a promotion could be to increase the amount of shelf space devoted to the commodity in a chain of supermarkets or to increase the sales of a U.S.-identified commodity in certain restaurants.

Contacts between commodity groups and importers can lower the cost of acquiring information about potential buyers, making market entry less expensive, and can decrease a purchaser's uncertainty about the product or producer. In evaluating trade servicing, criteria should include specific measurements of the targeted groups and objectives, such as shelf-space, and improved delivery times, and a timetable for periodic progress checks. Surveys of visitors to trade shows should include individual reactions to the commodity displayed and any sales leads that resulted from the shows.

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TEA Program Evaluation Criteria

The following suggested evaluation criteria, derived partly from experts in the evaluation field and partly from FAS, are a basic framework from which FAS can create a complete evaluation system.

- Clearly relate the evaluation back to the objectives of the activity plan. The activity plan and the evaluation should be a self-contained package with which the participant, FAS or an outside party could determine the results of the evaluation.
- Clearly identify the activity being evaluated and its goals.
- Clearly state the objectives of the evaluation, what is being measured, and why.
- Indicate to what extent the target audience was reached and consumption patterns changed.
- State the methodology used by the evaluator.
- Recommend changes in future activities of the type evaluated.
- Show the cost-effectiveness of the project and where cost could have been saved and should be saved in the future.
- Identify weaknesses or problems with the projects and how they could be alleviated.
- Summarize conclusions and recommendations.

The following TEA evaluation criteria focus on the three different types of market development by taking into account their unique characteristics.

Consumer Promotion

This type of market development

- directly targets the consuming public, such as in-store promotions and consumer advertising;
- can be more easily evaluated for effectiveness because it lends itself to consumer questionnaires and surveys;
- according to market research experts we consulted, can be measured for effectiveness in seven stages
 1. Product/brand awareness.
 2. Recognition of benefits.
 3. Predisposition to purchase.
 4. Motivation to purchase.
 5. Actual purchase.
 6. Reinforcement of satisfaction with purchase.
 7. Repeat buying.

U. S. Market Development Cooperators (49) and Targeted Export Assistance Participants (38)

Tobacco, Cotton, and Seeds

American Seed Trade Association¹
 Cotton Council International¹
 International Institute for Cotton²
 Tobacco Associates, Inc.¹

Oilseeds and Products

American Soybean Association¹
 National Cottonseed Products Association³
 National Peanut Council¹
 National Sunflower Association³

Horticultural and Tropical Products

American Horticultural Marketing Council³
 California Avocado Commission¹
 California Cling Peach Advisory Board¹
 California Kiwifruit Commission⁴
 California Pistachio Commission¹
 California Prune Board⁴
 California Raisin Advisory Board¹
 California Table Grape Commission¹
 Florida Department of Citrus¹
 National Pecan Marketing Council³
 National Potato Promotion Board¹
 Northwest Horticultural Council¹
 Papaya Administrative Committee³
 Walnut Marketing Board¹
 Western Growers Association³
 Wine Institute¹

Dairy, Livestock, and Poultry

Alaska Seafood Marketing Institute⁴
 American Jersey Cattle Club¹
 American Quarter Horse Association³
 Appaloosa Horse Club, Inc.³
 Brown Swiss Cattle Breeders Assn., Inc.³
 Catfish Farmers of America¹
 Holstein-Friesian Association of America³
 Leather Industries of America, Inc.¹
 Livestock Exporters Association³
 Mohair Council of America³
 National Association Animal Breeders³
 National Association of Swine Records³
 National Renderers Association, Inc.³

Funding Allocations

Dollars in millions

Participant	Commodity	Fiscal Year Funds		
		1986	1987	1988
TEA:				
American Soy Assn./Feed Council	Feed Grains	\$9.00	\$0	\$0
American Soybean Assn	Soybeans	8.50	0	9.80
American Seed Trade Assn.	Seeds	0	0.35	0
California Kiwi Fruit Commission	Kiwi Fruit	0	.50	0.50
California Pistachio Commission	Pistachios	.20	20	0
California Raisin Advisory Board	Raisins (301)	6.30	9.80	9.80
California Table Grape Commission	Grapes	.35	.45	.75
California Cling Peach Advisory Board	Peaches (301)	2.50	5.60	5.70
California Avocado Commission	Avocados	0	.42	.45
California Prune Board	Prunes	4.00	4.50	5.50
Chocolate Manufacturers Assn.	Chocolate	2.50	0	2.50
Cotton Council Inc.	Cotton	7.00	6.80	1.45
Florida Department of Citrus	Citrus (301)	4.60	7.00	7.00
Leather Industries of America	Leather (301)	0	1.50	1.50
National Hay Assn.	Hay	0	.30	0
National Peanut Council	Peanuts	4.50	4.50	1.50
National Sunflower Assn.	Sunflower	0	3.00	0
National Potato Promotion Board	Potatoes	2.00	2.55	2.40
Northwest Horticultural Council	Apples	1.40	1.50	2.00
Northwest Horticultural Council	Cherries	0	.12	.45
Northwest Horticultural Council	Pears	.30	.40	.50
Tobacco Associates	Tobacco	0	.90	.40
USA Dry Pea & Lentil Council	Peas/Lentils	2.50	2.50	3.30
USA Poultry Egg Export Council	Egg/Poultry(301)	6.00	6.50	4.25
U.S. Feed Grains Council	Feed Grains	2.10	2.80	2.40
U.S. Meat Export Federation	Red Meat	7.00	7.00	4.50
U.S. Rice Council	Rice	3.50	3.50	4.50
U.S. Wheat Associates	Wheat	3.10	3.10	1.20
California Wine Institute	Wine	4.80	2.60	3.00
Alaska Seafood Market Institute	Seafood (301)	0	1.50	1.95
American Plywood Assn	Plywood	1.95	1.98	1.20
National Pasta Assn	Pasta (301)	2.10	0	0
Walnut Marketing Board	Walnuts (301)	9.00	7.00	6.50
Catfish Farmers of America	Catfish	0	0	.05

(continued)

U.S. agricultural exports, both as the program progresses and near the end of the TEA authorization period. This would involve a more long-term, retrospective evaluation of the impacts of market development on sales and prices. FAS is establishing a Program Evaluation Section which will conduct and coordinate program evaluation for both TEA and the Cooperator Market Development program.

Conclusions

FAS has had difficulty in evaluating the impact of its market development efforts in the past due to the many variables affecting foreign demand for U.S. agricultural commodities and products and the numerous types of market development activities. By requiring that TEA participants hire independent third parties to evaluate TEA projects, FAS is (1) allocating a portion of the TEA minimum funding level to program evaluation, (2) assigning the TEA participants a relatively greater role in the evaluation process, and (3) attempting to enhance the objectivity of program evaluation under TEA. However, beyond simply requiring evaluations, FAS has provided no formal written guidance on evaluation content, focus, cost or characteristics of an acceptable third-party evaluator.

Properly designed and conducted program evaluation can be a tool used by both FAS and the participants to increase the effectiveness of the TEA projects, and help them meet the goals specified in the activity plans, and fulfill the intent of the program.

Despite the difficulties in evaluating the diverse types of activities involved in a market development program and the many variables affecting U.S. access to foreign markets, it is possible to set general evaluation criteria which measures the extent to which all types of TEA projects are meeting their stated objectives. Evaluation criteria can also be designed more narrowly for the three types of market development, consumer promotion, technical assistance, and trade servicing. FAS is in the process of drawing up TEA evaluation guidelines containing some of the criteria suggested in appendix III for its newly formed Program Evaluation Section.

Recommendations

To help in the establishment of FAS' new Marketing Programs Division's Program Evaluation Section, we recommend that the Secretary of Agriculture direct the Administrator of FAS to take the following actions.

FAS has not established a maximum cost for each evaluation nor has it defined a policy that establishes guidelines for the total activity cost to be allocated to the evaluation.

FAS plans to establish a Program Evaluation Section in June 1988 under the newly established Marketing Programs Division, consisting of a staff of five. The section will oversee program evaluation including developing evaluation criteria and other measurement techniques to evaluate the progress of TEA and cooperator marketing projects against market development goals and objectives.

The FAS official in charge of drawing up evaluation guidelines for the new section has reviewed several evaluations submitted by participants and stated that the quality of the evaluations varied widely and that a relatively small number of them met all of his evaluation criteria. In our review of several evaluations, we found their quality to be somewhat inconsistent.

Requirements Differ for EIP and HVEIP Participants

FAS currently requires no formal, independent evaluations from EIP and HVEIP participants. Private profitmaking companies do provide FAS with export data, such as export levels, at the beginning and the end of their projects.

An FAS official gave three reasons for not requiring the EIP firms to conduct evaluations: (1) these firms might have to reveal proprietary information in the evaluations which could jeopardize their marketing strategies, (2) the profit motive should encourage firms to make the projects work in the best way possible, and (3) the firms invest their own resources into the projects by being reimbursed for a specified percentage of their promotional expenses. We believe FAS could take measures to ensure that any proprietary information would remain confidential. FAS is considering requiring formal evaluations from TEA/EIP participants but since TEA/HVEIP projects are for relatively small dollar amounts (under \$100,000), FAS maintains they do not warrant formal evaluations.

Neither the EIP nor the HVEIP participants are required to submit activity plans. FAS maintains that the TEA/EIP agreement "is self-sufficient to the extent that it identifies all eligible activity countries, the limited expenses that are eligible for reimbursement and the percentage of those expenses that will be reimbursed". The OIG has recommended that TEA/EIP guidelines require activity plans. We support the OIG position.

In our March 1987 report (GAO/NSIAD-87-89), we identified problems with the strategic planning process, including incomplete market development plans, flawed evaluation data, and inadequate guidance from FAS to commodity division staff and cooperator personnel on the conduct of evaluations. We recommended that FAS improve its evaluation methods, particularly its measurement of short term performance against program objectives. FAS responded in part that it was difficult to draw a correlation between promotional activities and export levels and that the strategic planning process was not meant to stand on its own as FAS' sole evaluation technique but was meant to "improve the level of informed judgement." FAS also stated that it intends to improve the current cooperator program evaluation process as additional resources become available.

TEA Evaluations

FAS decided not to apply the strategic planning process to the TEA program, stating that strategic planning was designed for a long term program such as the Cooperator Market Development program, not a finite 5 year program such as TEA. FAS also maintained that strategic planning was very time consuming to both FAS and program participants, making it impractical given the shortage of FAS resources to implement TEA.

The TEA guidelines for evaluation state that:

"Periodic evaluations of TEA program activities help determine whether they should be continued, changed, or terminated. The Participant has the primary responsibility for continuously evaluating the program and its activities. FAS may also undertake evaluations, by FAS specialists or independent consultants, of selected programs."

FAS provided further guidance on TEA evaluations at the annual workshop with the USAEDC in November of 1986 where it stated that TEA evaluations will be conducted by "an arm's-length objective third party (neither the cooperator nor the public relations, advertising or other firm involved in the conduct of the activity)." More recently, FAS specified that the participants shall not delegate the hiring of third parties to a firm that is responsible for the conduct of the TEA activities being evaluated.

In the November 1987 workshop with the USAEDC, FAS focused more on the TEA evaluation requirement, although it had not provided any further written guidance to participants since the November 1986 conference. The Assistant Administrator of FAS for Commodity and Marketing

The use of TEA funds to promote private brand identified products raises several difficulties for FAS. The nature of such promotion implies that unless all brands have a chance to apply for TEA, organizations which do not receive TEA funds will be at a disadvantage, and therefore organizations receiving funding may have an unfair advantage. Organizations in the walnut industry have complained that they have been unfairly excluded from receiving TEA funds. Relative to generic promotion, brand identified promotion tends to focus more on immediate sales.

Recommendations

We recommend that the Secretary of Agriculture direct the Administrator of FAS to take the following actions.

- Document in writing the basis for the form and level of contributions for each TEA participant.
- Define the importance of third-party contributions in the funding decision process and more closely enforce the FAS guideline that the participants document the method by which third party contributions are derived and the identities of the parties involved.
- More closely monitor TEA funds allocated for brand identified promotion to ensure that all eligible private firms receive timely information about the program and have an opportunity to apply for TEA funds.

The OIG and FAS Compliance Review Staff found that Sunkist Growers, Inc., a TEA/EIP, claimed and was reimbursed for \$2,431,548 incurred by foreign licensees (the third party) for promotional activities on behalf of Sunkist. However, Sunkist never reimbursed these licensees for their expenses and was essentially claiming reimbursement for expenditures it never incurred. In addition, the licensees had been doing this promotion before TEA existed. Sunkist maintained that the TEA agreement does not specify that it cannot claim third-party contributions in all cases.

In August of 1987, FAS amended its TEA/EIP agreements to require the following language.

“Promotion costs of any third party Participant for eligible activities may also be included in the TEA claim, provided that the Participant expended funds to reimburse the third party for such costs, or is obligated to make such reimbursement pursuant to an agreement with the third party participant.”

Sunkist agreed to reimburse FAS the \$2.4 million. FAS also said that it would better enforce the TEA guidelines which state that all contributions must be in addition to what would have been spent if there had been no TEA program. However, this issue illustrates the problem that arises when the wording in the guidelines and the TEA agreements is vague and incomplete.

Funding for Brand Identified Promotion

FAS does not closely monitor the nonprofit trade association’s administration of brand identified promotion resulting in some potential TEA participants not receiving timely information about the program. FAS maintains that it lacks adequate resources for such monitoring and that the Office of the Inspector General and the Compliance Review Staff would discover any problems in their program audits.

FAS gives the nonprofit trade associations autonomy to administer brand identified promotion through their producer members and requires no specific ratio of generic to branded promotions. Upon FAS approval of its funding request, the cooperator solicits applications from its membership and other firms in the industry, and decides based upon its own criteria, which firms will do branded promotions and for how much. Then the cooperator includes a section on its branded promotion program (the firms, the individual projects, and funding) in the activity plan to be approved by FAS. Essentially the cooperator is performing the same function as FAS does under the TEA program, with FAS giving the final approval for the branded promotions conducted by the producer

count any third-party contribution as part of their required contribution level.

At the November 1986 FAS annual workshop with the cooperator's professional organization, USAEDC, FAS stated that it encourages some contribution by the TEA participant, in order to reflect

"FAS' policy that this be a 'joint program' and, although the contribution is not legislatively required and is expressed in terms of being a 'best effort' rather than a minimum requirement, failure to meet the contribution goal would give FAS cause to question the industry's commitment to the market development effort."

However, FAS also stated at the conference that the contribution ratios were not considered matching funds and that commodities identified in the legislation as receiving priority consideration in particular may have no contribution ratio at all beyond having to provide sufficient staff and resources to conduct and supervise activities.

FAS' basis for the various types and levels of contributions among TEA participants should be justified in writing to help assure that participants are treated equitably.

TEA/EIP Participants

The TEA/EIP guidelines do not specify the basis upon which the contribution levels are set for each commodity. During fiscal years 1986-88 firms marketing almonds, citrus, processed corn, and mink have participated in the TEA/EIP. FAS specifies the same percentage contribution level in cash only, for every participant within each commodity. Goods and services contributions are disallowed. For example, all firms marketing almonds under TEA would be required to make the same percentage contribution. FAS actually sets the contribution level for each commodity in advance when it announces the availability of TEA/EIP funds. (This differs from TEA nonprofit participants, where the applicant offers a contribution level in the TEA application and FAS then approves or alters that amount.) For instance, if a 25-percent contribution is required, the EIP participant submits its authorized TEA expenditures to FAS, and FAS then reimburses the EIP participant in the form of generic certificates for 75 percent of those total expenditures.

Examples of contribution levels in fiscal year 1988 include citrus at 25 percent and almonds at 33 percent. It should be noted that the Cooperator Market Development program also has an EIP and requires a 50-percent matching contribution from all participants. According to FAS, the

Chapter 2
TEA Program Implementation
Lacks Accountability

and changes. FAS needs to establish a management system which includes adequate documentation of major program decisions to ensure effective and efficient program operation, and prevent potential abuse.

FAS is in fact considering hiring a contract specialist to deal with the complexities of the participants' increasing use of contractors.

Finally, since existing TEA participants are finding it difficult to spend their allocated funds within 3 years and FAS is changing the limitation to 5 years effective October 1, 1988, the larger authorization will pose an even greater problem. In essence, the increased funding authorization in the last 2 years of the TEA program, may result in some TEA guideline changes or even policy changes in implementing the program.

Conclusions

FAS' management of the TEA program does not provide adequate documentation for its funding allocation decisions. FAS did not adequately solicit TEA applications at the onset of the program, which appeared to give former or current participants in the Cooperator Market Development program an advantage in applying for TEA funds.

The lack of documentation of FAS funding allocation decisions makes it difficult to assess whether funding criteria were applied equitably and consistently. FAS bases its funding allocation decisions mostly on the general TEA application and not on the more detailed activity plan. Some TEA applications do not contain the necessary data for FAS to conduct in-depth marketing analyses of the proposed commodities and countries. Such analyses would help to ensure that the proposed projects represented an optimal use of TEA funds for market development.

Members of the cooperator professional organization, USAEDC, have an advantage over nonmembers in that they are eligible to be members of the PROC committee, which reviews TEA guideline changes.

Management problems will be exacerbated by the tripling of TEA funding in the program's last 2 years. This increase raises several questions as noted earlier.

Recommendations

We recommend that the Secretary of Agriculture direct the Administrator of FAS to

- document the funding allocation decision process to clearly show how funding criteria were applied and prioritized and the basis for those decisions;
- base the funding allocation decisions, not only on the applications and TEA proposals, but also on the activity plans;

international travel, consultants and supervision of the project. In addition, the activity plan contains poultry export data by individual country and region as well as more details on the nature of the market development activities. In other words, the activity plan contains more details upon which FAS could make a more informed funding allocation decision.

FAS officials believe they have sufficient information to make a funding allocation decision without the activity plan. These officials said they are familiar with cooperator activities, since FAS frequently works with cooperators. FAS officials also stated that (1) it would be too expensive for the applicant to prepare an activity plan without knowing that a certain amount of TEA funds will be provided and (2) the more general information in the TEA application is sufficient.

One senior management FAS official pointed out that since the activity plan reflects the amount of the third party contribution, without prior knowledge of the total funds awarded for the TEA project, the applicant would not be able to determine the dollar amount of the third party contribution to include in the activity plan. Another FAS official commented, however, that funding recommendations are made with limited data and that, ideally, the decisions should be based on the more detailed activity plan, although this would be unrealistic due to the high preparation cost to the applicant.

However, we believe that the benefits of relating the funding decision to the activity plan justify increased preparation costs to the applicant, particularly in light of the large sums of government funds awarded to many participants. When applying for TEA funds, applicants should be able to at least estimate the amount of their third-party contributions.

Also, although FAS can alter its announced funding allocation level upon review of the activity plan, it would perhaps be under some pressure to honor its original funding allocation amount, having already signed the TEA Program Agreement with the applicant for that amount. Early in the program's first year, FAS did in some cases provide the 40-percent advance before receiving the activity plans, and participants earned generic certificate premiums without beginning their TEA projects. At the time, some participants stated that they had not determined how they would spend the funds when they received the advances.

We attempted to trace FAS' funding decision process by reviewing some of this funding criteria, including the commodity's total U.S. export value, expected gain in U.S. exports from the TEA funds, and average annual loss in exports.

It was not clear how FAS actually applied these statistics to the funding allocation decision process. For example, FAS might decide to allocate relatively more TEA funds to commodities with comparatively low export values if those commodities have been more severely damaged by unfair trade practices. On the other hand, FAS might choose to concentrate TEA funding on commodities with higher export values, since their larger representation could potentially increase U.S. agricultural exports more significantly. We are not suggesting that one of these approaches is preferable, only that FAS showed no evidence of how it considered the data.

FAS also compared the estimated export potential among TEA recipients. The TEA applicants provided an estimate of the expected gain in exports in value terms for their commodities from their proposed TEA projects. However, these statistics were not readily comparable because some were for a fiscal year, some were averaged over several fiscal years, and others were for total export potential at the end of several years.

Applicants also estimated the average annual loss in exports of their commodities over the past 10 years. Even considering that FAS has compared the statistics to its own data and recognizes that the applicants' data may exaggerate average losses, these statistics appear to have little bearing on FAS funding allocation decisions. TEA recipients that received the highest level of funding did not necessarily experience the greatest annual losses. Again, for good reason, export loss may have been a minor factor in FAS funding allocation decisions, but it was not clear how these statistics were applied.

Finally, it was difficult to determine how FAS weighed these criteria against all other criteria considered in its funding decisions. While the criteria were available, their application occurred during undocumented meetings of the commodity divisions and Office of the Administrator.

FAS acknowledges that it is difficult to obtain uniform statistics from all the commodity groups due to the diversity of crop years, even within the same commodity, and the different time frames traditionally used for tracking the various commodities. An FAS official stated that such numbers as "expected gain" and "annual export loss" provided by TEA

case in any stage of the 301 complaint process, including an investigation initiated by the U.S. Trade Representative (USTR) pursuant to a petition, consultations with a foreign government, Presidential determination, invocation of GATT³ dispute settlement, or termination of the investigation. Thus, to qualify for priority eligibility for TEA funds, a commodity may have completed the first step in the grievance process, have an investigation initiated by USTR, or be involved in a later phase, such as a Presidential determination.

For fiscal years 1986-88 TEA funding, FAS has considered citrus, raisins, eggs/poultry, peaches, almonds, seafood, leather, walnuts and pasta as qualified for section 301 priority assistance. Citrus, raisins, pasta, leather, walnuts and peaches have received presidential determinations, but poultry, seafood, and almonds were at earlier stages in the section 301 process, while the eggs investigation was terminated.

Funding Allocation Decisions Not Clearly Documented

Although FAS considers a number of criteria in allocating TEA funds, there is little documentation as to how FAS applies these criteria. Commodity divisions stated that decisions are based primarily on judgement and years of experience in working with cooperators under the Cooperator Market Development program. Funding decisions by the divisions and the Office of the FAS Administrator are made through a series of meetings whose proceedings are not documented.

The USDA Office of the Inspector General's recent audit of the TEA program recommended that FAS better document its reviews of TEA participant proposals, activity plans, and agreements to assure accountability. The Commodity and Marketing Programs Assistant Administrator, concerned about lack of uniform documentation throughout the commodity divisions, is implementing in consultation with the FAS Compliance Review Staff, a new and improved filing system to better track the TEA application process.

The major criteria considered by FAS in making its funding allocation decisions are shown below.

³GATT was created following World War II as one of three international organizations intended to oversee postwar economic relations. It is both a multilateral agreement and an organization with 96 member countries. The principal focus of the GATT is to work for reduction in trade barriers among member countries and to establish a freer more open world trading system.

For fiscal year 1988 funding, FAS both announced and solicited applications in the Federal Register in June of 1987 and included 10 formal criteria FAS would consider in its funding allocation decisions and a July 30th deadline for application.

Former or current participants in the Cooperator Market Development program have an advantage over non-participants for several reasons. The same FAS staff is responsible for both the Cooperator and TEA programs. Cooperators can participate in both programs but cannot carry out identical activities under both programs. Many cooperators are in frequent contact with FAS marketing analysts. Some cooperators were contacted by FAS and told to apply for a certain amount of TEA funds.

In fiscal year 1986, 27 of the 35 TEA participants were concurrent participants in the Cooperator Market Development and TEA programs. However in fiscal year 1987, 11 of 27 participants switched all their remaining projects under the Cooperator Market Development program over to TEA because it provides greater funds for expansion of their activities. (Appendix II lists the Cooperator program participants and the TEA participants as of January 1988, indicating which participants are in one or both programs.)

Another advantage the cooperators have in receiving information on TEA and having some influence over the contents of TEA guidelines is through their professional organization, the U.S. Agricultural Export Development Council (USAEDC). In its November 1986 and 1987 workshops with the USAEDC, FAS discussed in detail the TEA program, providing some written materials and reviewing the TEA guidelines. Noncooperator TEA participants can join the USAEDC by virtue of their TEA agreements with FAS. Nonetheless, some TEA participants may not choose to be USAEDC members, including the California Almonds Inc., Hansa Pacific, and Mariana Nut Company. FAS has not held procedural meetings such as the USAEDC workshops specifically for the benefit of all TEA participants.

FAS lacks a formal mechanism for reviewing TEA guideline changes which ensures the participation of all TEA participants including non-USAEDC members. The USAEDC, Planning, Review and Operations Committee (PROC), consists of FAS upper management and representatives of the USAEDC member organizations. The PROC is responsible for jointly reviewing policies and procedures for FAS programs including, as in the March 1988 meeting, reviewing FAS proposed changes to the TEA guidelines. The PROC, however, is only open to members of the USAEDC and the proceedings are not documented. Although FAS maintains that the PROC exists for

returned to FAS plus any income generated from investment of the funds or generic certificate premiums.

Participants currently have 3 years from October 1st or the date of the TEA program agreement whichever comes first, to incur expenses on their allocated funds for single and multi-year TEA projects. Resources not expended at the end of the 3 years will expire for obligational purposes and revert to the CCC (this time limit will change to 5 years as of October 1, 1988). FAS changed this requirement from a 1-year limitation in fiscal year 1986 because TEA participants found it extremely difficult to spend the large sums of money they were authorized in one year. For multi-year TEA projects, a new activity plan must be submitted each year. Although FAS authorizes the full amount for the entire multi-year project in the first year, the participant can receive the 40-percent advance and reimbursement only for expenditures budgeted in the current year's activity plan. For example, in fiscal year 1988 the participant cannot expend funds budgeted for activities in fiscal year 1989 and must submit a new activity plan for funds budgeted for fiscal year 1989.

If all funds budgeted in the current fiscal year's activity plan for multi-year projects are not expended by the end of that year, the commodity divisions have the discretion to allow the funds to be carried over to the next fiscal year's activity plan budget. Although participants have 3 years to expend their TEA funds, they must incur expenses within the time frames budgeted in their activity plans. This helps FAS to track to what extent participants are following their activity plan timetables for incurring expenses to carry out project activities.

For compliance review purposes, TEA participants are required to retain financial records, supporting documents, and all other pertinent data for 3 years after termination of the TEA program agreement. The Compliance Review Staff, an entity within FAS, periodically reviews participant records to ensure that TEA funds are being expended according to the terms of the TEA agreements and any related contracts.

FAS also requires that TEA program participants arrange for annual independent third-party evaluations of their activities. The evaluator is to be a disinterested third party not connected in any way with carrying out the TEA project. According to FAS, these evaluations will eventually help to determine whether selected market development activities should be continued, changed, or terminated. (See ch. 4.)

TEA Program Implementation Lacks Accountability

The TEA program has insufficient accountability and management controls for funding allocation decisions. TEA applications have not been adequately solicited, and funding allocations have been made with little documentation of how funding criteria were applied and without a detailed activity plan which defines and budgets the activities. Because unfair trade practices are broadly defined, a wide variety of commodity groups are eligible for TEA funds.

Overview of the Selection, Application and Funding Process¹

TEA applications are solicited in the Federal Register, trade journals, and FAS press releases. Interested parties submit applications to the appropriate commodity division in FAS. Applications are not required to be in any particular format, but basically must contain the information below.

- Evidence that U.S. exports for the commodity will be adequate for the life of the program.
- Description of the foreign unfair trade practice and the manner and extent to which it has affected exports of the commodity.
- Description of the proposed activities, who will conduct them and how they will mitigate or offset the effects of the unfair trade practice.
- Level of TEA resources required and the participant's expected contribution level.
- Articles of incorporation and Internal Revenue Service tax exempt identification number.
- Degree to which the applicant's membership represents national production.

Under the TEA provisions, priority is given to commodities which have received favorable decisions under section 301 of the Trade Act of 1974 and/or which have been adversely affected by retaliatory action as a result of such decisions.

FAS assists applicants in completing the applications and sometimes actually rewrites them to add information it needs. FAS commodity division² marketing analysts examine the applications to ensure eligibility and then forward them to the International Trade Policy Group within FAS to verify the unfair trade practice.

¹This section does not pertain to the EIP or the HVEIP, which are described in chapters 1 and 3.

²FAS has 7 commodity divisions: Dairy, Livestock and Poultry; Forest Products; Grain and Feed; Horticultural and Tropical Products; Oilseeds and Products; and Tobacco, Cotton and Seed; High Value Products Division.

crops under price-support loans, sold to other interested parties, or sold back to the CCC for cash. See our March 1987 report, Cost and Other Information on USDA's Commodity Certificates (GAO/RCED-87-117BR).

The TEA participants we spoke with have sold their certificates for cash in an active open market. Certificates have been selling at a premium over their face value (the value shown on the certificate). FAS found that premiums were 6 to 10 percent of face value in early January 1988 and 2 to 3 percent in March 1988. This is down significantly from a peak of 25 to 30 percent in October 1986.

At the inception of the program, the Undersecretary for International Affairs and Commodity Programs determined that certificate premiums issued under TEA should be treated similarly to those issued under the domestic agricultural programs which permit farmers to use the certificate premiums they receive with no government restrictions. FAS has advised but not formally required, TEA participants to use the premiums they earn from selling the generic certificates for market development.

Certificate prices will rarely fall below face value, since the original certificate holders may exchange them with the CCC at face value for cash during the 6th through the 8th month of the life of the certificates. However, for certificates issued as payments for 1986 crops, CCC deducted 4.3 percent from the face value to meet the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985. Certificates issued as payments for 1987 crops can be exchanged for full face value. Because evidence indicates that recipients have been able to sell certificates at prices exceeding face value to other buyers, there has been little need to rely on the exchange of certificates for cash from CCC.

Objectives, Scope, and Methodology

The Chairman, Subcommittee on Department Operations, Research and Foreign Agriculture, House Committee on Agriculture, and Congressmen Leon E. Panetta and Charles E. Schumer asked us to review the management and operations of the Department of Agriculture's Targeted Export Assistance program.

We focused on two issues. First, we examined the management of the program, especially FAS' documentation of its participant eligibility and funding allocation decisions. Second, we examined the adequacy of FAS' TEA evaluation process, how those evaluations affect present and future funding allocation decisions, and the commodities, activities and geographical markets receiving TEA funds.

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- In the United Kingdom, Japan, and Argentina, the American Plywood Association is conducting technical evaluations of building codes, standards and construction systems. Promotions are taking place at demonstration homes furnished with U.S. hardwood furniture and are being coordinated with a campaign targeting architectural and design journals (technical assistance) (\$1.98 million).

TEA is now in its third year of funding, and FAS and TEA participants have already characterized the program as a success. Participants maintain that during 1987, exports of U.S. wine into Japan increased 56 percent in value during the first 6 months of the year, prune exports have increased almost 33 percent despite a reduced U.S. crop, walnut exports are up 20 percent over last season and raisin exports to South Korea have tripled. USDA reports that exports of many of the commodities promoted under TEA have increased to a greater degree than exports to markets receiving no TEA promotion. FAS contends that greater gains are expected as TEA becomes more established and as funding levels increase.

It should be noted, however, that it is difficult to confirm the relationship between increased exports and TEA in view of the complexity of the international market, the long-term nature of market development activities, and the numerous market variables affecting individual importer's buying decisions. The Administrator of FAS noted in testimony that although FAS has drawn an association between TEA assistance and increased exports, devaluation of the dollar, reduced import restrictions, pricing policies and other market variables play important roles.

Types of Program Agreements

TEA participants can qualify to participate in three types of agreements as discussed below.

TEA Program Agreement

This is an agreement between the CCC and U.S. nonprofit or state-related organizations. Some state-related organizations include the Florida Department of Citrus, the California Raisin Advisory Board, the California Table Grape Commission, and the California Prune Board.

Nonprofit organizations can use TEA funds for generic promotion. Cooperator nonprofit organization producer members may do brand identified promotion. Brand identified promotion is marketing a commodity

Although FAS officials characterize the TEA program as an expanded Cooperator Market Development program, the two programs differ in several areas. TEA requires that an unfair trade practice be demonstrated and requires that the Undersecretary for International Affairs and Commodity Programs, who is also the president of the CCC Board give final approval. TEA involves substantially larger funding and uses CCC commodity certificates or CCC funds, not appropriated funds as in the Cooperator program. FAS fiscal year 1986 budget authority totaled \$34.7 million for the Cooperator program, compared with \$110 million for TEA.

The use of TEA funds is also more restrictive. Cooperator program funds can be applied to salaries of U.S. personnel abroad, the travel of U.S. personnel and their dependents including home leave and the shipping of household effects abroad. In view of TEA's expiration at the end of 1990, FAS disallowed funding such expenditures, not wishing to encourage participants to create a permanent infrastructure abroad.

Unlike the Cooperator program, TEA funds cannot be used for sales and trade related expenses, which include breakfasts, luncheons, dinners, receptions, and refreshments at official foreign market development events and tipping, taxi fares, or decorations for dining places. Television advertising is an allowable expense under both TEA and the Cooperator program but has been prohibitively expensive under the latter.

In light of the projected increase in TEA's required minimum funding level, from \$110 million per fiscal year to \$325 million in fiscal years 1989 and 1990, FAS is considering reimbursing salaries for foreign employees working on the TEA program and their travel expenses. This is basically because many participants lack the administrative support to handle these much larger sums.

Program Coverage

Market development activities are intended to develop new markets and maintain or expand existing ones. They are aimed at increasing both consumer and commercial uses of U.S. agricultural commodities and products by surmounting constraints to exports. They are not meant to sell agricultural products directly and are divided into three categories: (1) technical assistance, which addresses technical problems in selling, moving, processing, marketing and using U.S. agricultural products, (2) trade servicing, which influences foreign traders, importers, wholesalers, and foreign government officials involved with importing, distributing, and marketing agricultural commodities and products, and (3)

Introduction

Background

Competition between the United States and other major agricultural exporters, including the use of unfair trade practices, has intensified in recent years. The Targeted Export Assistance program, (TEA), authorized by section 1124 of the Food Security Act of 1985, states that funds or commodities of the Commodity Credit Corporation (CCC) shall be used by the Secretary of Agriculture to counter or offset the adverse effect of subsidies, import quotas or other unfair trade practices of foreign countries on exports of U.S. agricultural commodities or products. The TEA provisions did not specify the means by which the program was to be implemented. TEA's principal congressional sponsor and some commodity groups believed that TEA should provide direct compensation to commodity groups injured by unfair trade practices. The Department of Agriculture (USDA) chose to implement the statute by using a market development approach.

TEA is administered by USDA's Foreign Agricultural Service (FAS). The Secretary of Agriculture authorized FAS to carry out TEA through an overseas market development program for specific U.S. agricultural commodities which have been adversely affected by foreign unfair trade practices. TEA participants promote U.S. agricultural commodity exports in exchange for dollar-denominated generic commodity certificates¹ issued by the CCC and include private nonprofit agricultural trade organizations (such as cooperators²), state-related organizations and private profit making U.S. firms.

TEA is a \$980-million program funded over a 5-year period with an annual minimum required funding level of \$110 million for fiscal years 1986-88 and \$325 million annually for fiscal years 1989 and 1990.

According to FAS TEA guidelines, to be eligible for targeted export assistance, an agricultural commodity must (1) have been adversely affected by an unfair foreign trade practice, (2) be in adequate supply, and (3) if processed, be of at least 50-percent U.S. origin, with preference given to commodities of 100-percent U.S. origin. FAS guidelines also give preference to nonprofit trade organizations having national or industrywide scope and the ability to share costs and ensure adequate development,

¹CCC generic certificates are issued as a form of payment by the CCC and bear a dollar denomination. They may be exchanged for CCC inventory in the form of surplus commodities, or exchanged for cash.

²Cooperators are nonprofit commodity groups representing producers, farmers, and farmer-related interests or trade associations which have agreements with FAS under the Cooperator Foreign Market Development program. They normally promote either single commodities or groups of related commodities.

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No Documentation on Contribution Amounts and Form

TEA activities are funded by program funds and participant contributions. FAS has not documented the reasons for the variations in level and form of contribution among TEA participants. Participant contribution levels and form depend on the terms of TEA agreements and range from cash (outlays by participant in domestic personnel and resources devoted to TEA activities) to goods and services (value of time of personnel employed by the U.S. industry groups who work on TEA activities of participants with no cash outlay by TEA participant).

No Evaluation Guidelines

FAS is requiring independent, third-party evaluations of all TEA projects but has provided no formal guidance on what constitutes an independent third party or on evaluation criteria, scope, purpose, or costs. Until recently, FAS had not linked the evaluation requirement to its funding allocation decisions. Lack of guidance created confusion among TEA participants about the proper focus and purpose of TEA evaluations. Only recently have several evaluations been submitted covering fiscal year 1986 activities. FAS is taking steps to create evaluation guidelines.

TEA Funding Increase Poses Problems

The tripling of the annual TEA required minimum funding level in fiscal years 1989 and 1990 from \$110 million to \$325 million, will probably exacerbate existing management problems and create additional control and accountability difficulties. FAS has questioned whether TEA participants have the resources to absorb greater funds and can continue to contribute the same ratios. It is considering broadening the allowable expenditures and has expressed concern about the relation between program size and participant resources available. It has not ruled out the possibility of using other ways of implementing the program.

Recommendations

Because of the deficiencies GAO identified in FAS' TEA program management and in view of the projected tripling of the required minimum funding level in the last 2 years of the program, it is important that FAS provide sufficient documentation of its funding decision process and clarify and document its contribution level requirements. In addition, FAS should monitor the effectiveness of the TEA program by providing guidance on evaluations. GAO recommends that the Secretary of Agriculture direct the Administrator of FAS to take the following actions.

- Document the TEA funding allocation process to clearly show how funding criteria were applied and prioritized and the basis for allocation decisions. Require sufficient information from participants and conduct

Executive Summary

Purpose

At the request of the Chairman, Subcommittee on Department Operations, Research, and Foreign Agriculture, House Committee on Agriculture, and of Congressmen Leon E. Panetta and Charles E. Schumer, GAO reviewed the management and operations of the Department of Agriculture's Targeted Export Assistance (TEA) program.

GAO examined the management of the program, especially the Foreign Agricultural Service's (FAS) documentation of participant eligibility and funding allocation decisions. GAO also reviewed the adequacy of the FAS evaluation process, how those evaluations affect present and future funding allocation decisions, and the commodities, activities and geographical markets receiving TEA funds.

Background

Section 1124 of the Food Security Act of 1985 authorized the TEA program, which empowered the Secretary of Agriculture to make funds or commodities available to counter or offset the adverse effect of subsidies, import quotas or other unfair trade practices of foreign competitors on U.S. agricultural exports.

The law says the Secretary shall use not less than \$980 million for fiscal years 1986 through 1990. As amended by section 5 of the Food Security Improvements Act of 1986, the minimum required funding level is \$110 million each for fiscal years 1986-88 and \$325 million each for 1989 and 1990.

TEA provisions of section 1124 do not specify the means by which the program should be implemented. FAS administers TEA and has determined that the provisions should be implemented through foreign market development, modeled to some extent after the existing Cooperator Market Development program.

TEA provides foreign market development assistance through single and multi-year government agreements with (1) U.S. private nonprofit organizations, (2) state-related organizations, and (3) private profitmaking firms, which promote U.S. agricultural commodities and products through consumer promotion, trade servicing, and technical assistance. Financial support is provided in the form of generic commodity certificates issued by the Commodity Credit Corporation (CCC). The certificates bear a dollar denomination and may be exchanged for CCC inventory in the form of surplus commodities, or exchanged for cash. During fiscal years 1986-88, FAS entered into a total of 117 agreements and has used the full amounts authorized for all 3 years.

