Foreign Food Assistance Programs and The Commodity Credit Corporation's Role in Their Operations, Procurement and Shipment of Commodities

GENERAL

The U. S. Department of Agriculture (USDA) and the Agency for International Development (AID) are responsible for several foreign food assistance programs where U. S. agricultural commodities are donated abroad for humanitarian and developmental purposes. The food assistance is provided through three channels: The P. L. 480 Program (Title II and Title III), which is administered by AID, and the Section 416 (b) Program, and the Food for Progress Program, both of which are administered by USDA.

The Farm Service Agency's (FSA) Kansas City Commodity Office (KCCO), through the Commodity Credit Corporation (CCC), is responsible for procuring or supplying commodities from CCC inventory for all the food assistance donation programs. The same procedures described here are used when supplying commodities from inventory or when procuring commodities from commercial sources.

The foreign food assistance programs are designed to address nutritional problems throughout the world with speed and efficiency. This requires coordination among commodity suppliers, package manufacturers, domestic transportation carriers, ocean carriers, and input from private voluntary organizations (PVOs), the United Nations World Food Programme (WFP), and foreign governments (Cooperating Sponsors). This cooperation has resulted in meeting program needs efficiently.

The following describes the various foreign food assistance donation programs and the scope and complexity of the procurement and shipment processes.

FOOD ASSISTANCE PROGRAMS

Title II, P. L. 480
Emergency and Private Assistance Programs

Legislative Authority: Agricultural Trade Development and Assistance Act of 1954, as amended.

Funding: Appropriated funds. The Act also permits the limited transfer of funds among the various P.L. 480 program Titles.

Program Description: Provides for the donation of agricultural commodities to meet emergency and nonemergency food needs. AID is responsible for the overall administration of the Title II program and provides guidance to the various cooperating sponsors. FSA is responsible for procuring the commodities and serves as a technical advisor to AID for the program.

The Secretary of Agriculture determines the types and quantities of commodities that are available for use in the P.L. 480 program. Most of the commodities are distributed through nonprofit PVOs such as CARE, the Catholic Relief Services, or through WFP, which is the humanitarian feeding organization of the United Nations. Approximately 75 percent of the nonemergency food-aid under Title II must be distributed by these types of organizations. Commodities provided under Title II are used for: 1) direct feeding for refugees and children; 2) payment to workers for labor performed on public projects; and 3) sales or barter by the cooperating sponsors to cover authorized expenses.

Title III, P.L 480
Food for Development

Legislative Authority: Agricultural Trade Development and Assistance Act of 1954, as amended.

Funding: Appropriated funds. The Act also permits the limited transfer of funds among the various P.L. 480 program Titles.

Program Description: Provides for government-to-government grants to support long-term growth in agriculture and related activities in the lesser developed countries. AID is responsible for the overall administration of the Title III program. However, the Secretary of Agriculture determines the types and quantities of commodities that are available for use in the P.L. 480 program. FSA is responsible for procuring the commodities and serves as a technical advisor to AID for the program. The commodity uses include: 1) direct feeding programs that include activities dealing with the special health needs of children and mothers consistent with the Foreign Assistance Act of 1961, relating to the Child Survival Fund; 2) development of emergency food reserves; and 3) in-country sales with proceeds used for economic development activities.

Section 416(b)

Legislative Authority: Section 416(b) of the Agricultural Act of 1949, as amended.

Funding: CCC borrowing authority.

Program Description: Permits donations of food and feed commodities owned by CCC for humanitarian assistance overseas. USDA's Foreign Agricultural Service (FAS) is responsible for the overall administration of the Section 416(b) program. These donations are not permitted to: 1) disrupt normal commercial sales of CCC stocks; 2) reduce the amounts of commodities that are traditionally donated to domestic feeding programs, or 3) prevent the fulfillment of payment-in-kind programs.

Food for Progress

Legislative Authority: Food for Progress Act of 1985, as amended.

Funding: There are three sources:

1) transfer of Title I, P.L. 480 funds into Food for Progress to procure eligible P.L. 480 commodities; 2) CCC funds used to supply eligible Section 416(b) commodities; and 3) CCC funds to procure any agricultural food commodity not available from CCC inventory.

Program Description: Provides commodities to support countries which have made commitments to expand free enterprise in their agricultural economies. Within USDA, FAS is responsible for the overall administration of the Food for Progress program. Commodities furnished using Title I, P. L. 480 transferred funds may be made available on a grant, concessional sales, or loan basis. Cooperating sponsors may include PVOs and foreign governments.

COMMODITIES

In terms of quantities historically provided under the foreign food assistance programs, the most important products are: bulgur. flour, corn-soy blend, cornmeal, vegetable oil and whole grains. The states supplying the bulk of these products are: Texas, Kansas, Wisconsin, Illinois, Louisiana, Nebraska, Missouri, Oklahoma, Tennessee, Washington, and California. These production areas and their geographic location have an important impact on inland freight rates to U.S. ports and the ultimate cost of the commodities when landed at the foreign destination.

At the present time, KCCO provides over 25 different commodities through purchases or from U.S. Government inventory for the foreign food assistance programs. These commodities include:

Bulk and Bagged Whole Grains: corn, soybeans, sorghum, and wheat.

Processed Grain Products:

Wheat based commodities include: bulgur, soy-fortified bulgur, all purpose flour, soy-fortified flour, wheat-soy milk, wheat-soy blend;
Corn based commodities include: cornmeal, soy-fortified cornmeal, corn-soya milk, instant corn-soya milk, instant corn-soya masa flour, and corn-soy blend;
Sorghum based commodities include: soy-fortified sorghum grits.

Dairy Products: nonfat dry milk, cheese, butteroil, and butter. (Note: Contingent upon the availability of CCC stocks of dairy products.)

Miscellaneous Products: milled rice, peas, beans, lentils, and vegetable oil.

CARGO PREFERENCE

Shipments are made according to the requirements of the Merchant Marine Act of 1936, as amended, and the Food Security Act of 1985, as amended, which requires that at least 75 percent of the annual tonnage of all commodities under these programs be shipped on U.S.-flag vessels. Within the parameters of the cargo preference requirements, commodities are procured and supplied on the basis of the estimated lowest total cost to deliver the commodities to their foreign destinations.

LOWEST LANDED COST

The lowest combined total cost of commodity plus freight to the foreign destination is the lowest landed cost which is calculated on the basis of the estimated ocean freight cost added to the commodity price. Thus, the principle of lowest landed cost evaluation not only determines the vendors from which the commodity is procured, but also determines the coastal range(s) or port(s) through which shipments are exported. KCCO will also make such determinations which it considers necessary and practicable to meet program objectives, giving consideration to meeting cargo preference requirements.

INVITATION FOR OFFERS

Invitation: The first step in the KCCO operation is to issue an invitation (bid solicitation) to all interested parties inviting offers for the approximate quantity of each commodity.

The invitation includes a list of intended destinations with the quantities for each country and discharge port. About 200 invitations are made available electronically. Usually, vendors are given 13 days to make offers. During this time, interested vendors compute and submit their offers to KCCO for consideration.

Offers: The commodity vendors offer commodity prices on a f.a.s., intermodal plant, or intermodal bridge basis to various coastal ranges and ports. The f.a.s. offered price includes the cost of the commodity, inland freight to the U.S. port, and all applicable port charges. Although vendors naturally use the most advantageous port or range of ports in order to offer their lowest prices, they are also encouraged to make competitive offers at alternate ranges, ports, and f.o.b. points.

RECEIPT OF OFFERS

The invitation specifies the time by which offers must be received by KCCO, which is generally on Monday of the week of purchase. The quantities to be purchased are grouped by commodity, ocean rates and service, and then entered into the computer in format necessary for simultaneous computer analysis of offers, ocean rates, and quantities.

OCEAN SERVICE

Freight Rates: KCCO receives and reviews the available ocean service and applicable ocean freight rate quotations from interested steamship companies and enters the information into its computer files for use in analyzing bids and determining the lowest landed cost. Published ocean freight rates are used to determine ocean rates when no rate quotations or service offers are received for the destination countries.

BID EVALUATION

Constructed Price: Prior to the receipt of offers, KCCO calculates a constructed price for each commodity to be purchased. This data is used in the bid evaluation to determine the reasonableness of the prices bid.

The basic criteria used in making this constructed price calculation are the current market prices of raw commodities, by-products, and historical pricing information.

If offered prices fall within this constructed price range, they are usually considered acceptable.

Evaluation: At the time prescribed in the invitation on the closing day, all offers are opened and evaluation begins.

If the commodity offer is basis f.a.s. or intermodal bridge, the vendors will indicate their base port and at their option, any difference in cost to deliver to ports other than the base ports specified in their bid. KCCO's evaluation considers the commodity price offered to port(s) or intermodal point, the transportation rates, and service to the foreign destination, and port and storage capacity.

Contract Acceptance: In order to minimize vendors' speculative positions in the commodity markets, CCC confirms commodity contracts the day following receipt of offers.

Transportation: Methods of transportation for programs include extensive use of the inland waterway system and intermodal movements by boxcar and container vans.

A variety of different vessel types are utilized to transport the commodities including: breakbulk, bulkers, and tankers for grain, container ships, and seagoing barges.

Carrier Constraints: The competitive transportation situation results in detailed and specific offers of service from carriers. However, this has increased the number of constraints and variables that must be considered in bid analysis, making the evaluation process significantly more complex. For example, carriers may offer rates that are contingent upon minimum or maximum tonnages, a maximum number of ports a vessel will call within a coastal range, or a maximum number of ports of discharge, or different rates for each port within a coastal range.

PORT ALLOCATION

Normally, the lowest landed cost evaluation will determine the coastal range and port through which shipments will be exported.

If the bid analysis indicates an equal vendor cost at more than one port within a port range, KCCO must determine which port will be allocated the tonnage. The destination is based on a number of factors, such as the need to consolidate cargo to limit vessel's ports of call. Port allocations are approved by the Director, KCCO and subsequently furnished to the public via an information release entitled "Notice of Port Allocations."

Immediately upon issuance of the Port Allocations, KCCO offers commodities to freight agents who in turn contract for ocean transportation on behalf of the cooperating sponsors.

Each cooperating sponsor privately contracts for the services of freight forwarders and freight agents for making ocean transportation arrangements. However, AID contracts the ocean transportation arrangements for all government-to-government shipments under Title II and Title III, P.L. 480.

BOOKINGS

Booking Agents: KCCO advises the booking agent of the lowest landed cost (LLC) evaluation results. Booking agents are required to solicit offers utilizing the Transportation News Ticker (TNT). Booking agents will submit the lowest responsive U.S. flag and foreign flag offers to KCCO for a determination whether the award must be made on a U.S. flag or foreign flag basis.

All agents are required to solicit and award freight contracts in compliance with the AID Booking Guidelines issued December 1995.

Carrier Performance: Agents may exclude individual carriers because of past performance that has been afforded due process, however, such exclusions must be done in writing and prior to the issuance of a freight solicitation. Such information is to be shared by all booking agents in ad hoc meetings created to share carrier performance.

Charters: Commodity requests and awards are examined for possible consolidation of cargo for vessel charter. When charterable quantities are purchased at a port or range of ports destined to the same or approximate foreign destination, KCCO requests the booking agents to consider consolidation of tonnage for charter booking. If the consolidated tonnage cannot be chartered, it is booked as liner cargo. Confirmed bookings, shipping instructions are then issued to vendors and documents are prepared.

CARGO MONITORING

In carrying out its contract administration and cargo monitoring responsibilities, KCCO controls and monitors the shipment of all commodities from the supplier's plant until vessel loading is completed and ocean bills of lading are issued.

Although KCCO is responsible for monitoring freight forwarding functions nationwide, AID and the PVOs also employ commercial freight forwarders whose services include, but are not limited to calling the commodity forward and preparing or securing documentation evidencing the quantity loaded on board. Freight forwarders monitor current vessel status and advise KCCO of any major vessel delays. In the event of a significant delay, KCCO will take steps to protect the commodity and coordinate rebooking if deemed appropriate.

OUTTURN SERVICES

Prior to the cargo arriving at the foreign destination, the PVOs or KCCO will arrange for inspection of the commodities by a qualified independent survey firm. The surveyor is responsible for observing discharge and reporting the count and condition of the cargo as it is unloaded from the vessel. The carrier is held accountable and a claim is filed for any quantity or quality deficiencies noted at discharge. On the basis of the report issued by the independent surveyor, a claim is filed against the carrier for the net loss of product (commodity plus freight value), after reconstitution of any salvageable commodity.

Although several PVOs have the staff and expertise to handle survey arrangements, KCCO also contracts on a competitive bid basis, surveys for government-to-government cargoes as well as for approximately 25 PVOs. WFP operates under different authorities than the other cooperating sponsors and insures cargoes independently.