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GAO Links Sales of Grain To Soviet, Food Price Rise

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American farmers, consumers and taxpayers were all short-changed because of the failure of the Department of Agriculture to properly assess the rising world demand for wheat, congressional investigators concluded yesterday.

It was the Russians, who made massive purchases at low prices in the summer of 1972, who benefitted most from Agriculture's apparent inability to gauge prospects for wheat sales.

In a detailed 84-page report released yesterday, the General Accounting Office cited reports showing that "as early as January 1972 the (U.S.) Embassy (in the Netherlands) commented that U.S. wheat ... dominated the market because of competitive pricing ..."

The GAO also cited "Russian activity in purchasing wheat" in March, 1972, at approximately the same time that principal U.S. competitors — Australia and Canada—were pulling out of the export market. Finally, it cites repeated reports from the U.S. agricultural attache in Moscow starting on Feb. 18 saying that "the Soviet wheat crop would be adversely affected by freeze damage."

The report states that "because agriculture's estimates of the extent of damage and the expected short-fall in grain production could not be verified, they were not released to the public." In an accompanying communication included as an appendix to the report, Secretary of Agriculture Earl L. Butz said the department possessed no information about the Soviet Union's "actual buying intentions" so could not be accused of failing to disseminate information to the public.

The GAO report states that "agriculture officials ... knew that Russian leaders had made a commitment to their people to increase

the protein component of their diets ... and that they needed increased foodstuffs and protein to meet this commitment."

The report stated that "farmers generally were not provided timely information with appropriate interpretative comments to help them make sound marketing decisions." As a result, the report said, despite massive grain sales to the Soviet Union, "farmers ... sold in historic selling patterns. Some even sold before their normal time because of the projected market conditions."

It stated that, "Agriculture was unprepared to discharge its reporting responsibilities." The GAO said that the public disclosures that were made "reflected Agriculture's inability to assess the implications of information available to its analysts and presented a distorted picture of future market conditions."

The assurances of subsidies, the report said, put grain traders in a position to offer lower prices to the Soviet Union than would otherwise have been possible. "There is reason to believe," the report said, "that Russian needs would have dictated purchases of significant quantities even with higher prices." It said that "Agriculture will pay over \$300 million in subsidies on Russian and other sales," although there were prospects that these sales could have been made with reduced subsidies if the department had responded more rapidly to the available information.

"We estimate that about half the \$300 million in subsidy payments will go toward compensating exporters who had to cover their Russian sales with high domestic purchase prices," the report said.

There were salutary effects of the Russian sales, the GAO report said. These included improvements in the U. S. balance of payments, increase in farm incomes, creation of new jobs,

reduction of surplus stocks and the use of idled acreage.

On the negative side, the report said, "domestic wheat prices rose from about \$1.68 a bushel in July 1972 to \$3 in May 1973. Consumer costs attributed to the sales included higher prices for bread and flour-based products, increased prices for beef, pork, poultry, eggs, and dairy products resulting from higher costs for feed grains, and a severe disruption of transportation facilities with attendant higher costs and shortages or delays in delivering certain supplies."

The administration announced on July 8, 1972, that it would extend \$750 million worth of credit over a three-year period for Soviet purchases of U. S. grains. Officials expressed surprise when the Russians immediately purchased \$1.1 billion the first year, \$700 million of which went for 440 million bushels of winter wheat.

"The Russian sales," said the GAO report, "magnified imperfections in the management of the wheat export subsidy program. . . . The program lacked appropriate administrative controls."

The GAO chided Agriculture for a "hands-off attitude" which "indicated that these (Russian sales) were normal commercial transactions; but they were not normal ... because of the large quantities and heavy subsidies involved and the effect the purchases had on various segments of the U.S. economy We believe Agriculture relied too much on the competitiveness of the wheat export trade to police its program."

"Congress should consider requiring that agencies develop definitive ground rules so that expected benefits from exports can be appropriately weighed against their impact on various seg-

Treasury Bill Rates Increase

Weekly Treasury bill rates, which reflect the government's short-term borrowing costs, rose at yesterday's auction.

On 91-day bills the rate averaged 7.991 per cent, up from the previous week's 7.987 per cent and the highest since Dec. 29, 1969, when the rate hit 8.096 per cent. The volume sold was \$2.5 billion.

On 182-day bills, of which the government sold \$1.7 billion, the rate averaged 8.019 per cent, up from last week's rate of 8.011 per cent and the highest since Dec. 29, 1969, when the rate on six-month bills was 8.101 per cent.

ments of the domestic economy," the report said.

It recommended that the Agriculture Department review the wheat export subsidy program — now suspended — "and predicate its reinstatement on a meaningful justification for its existence." It recommended further that the department "devise a better system of coordinating with private exporters on the sales of agricultural products to Communist countries. The department has already instituted a system of voluntary reports on export sales.

The GAO said it was continuing an investigation to determine whether five of the large U.S. exporters involved in the sales to Russia made excessive profits. A sixth company, it said, had not cooperated in the review. It was learned that this company is the Dreyfus Corp. of New York.