

GAO Criticizes U.S. Subsidy Of Wheat Deal With Russia

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The United States may have sold wheat to Russia too cheaply and unnecessarily subsidized the sales, the General Accounting Office said yesterday.

The GAO, an investigating agency for Congress, also strongly criticized the wheat export subsidy system as it has operated since 1967, saying it permits the possibility of "windfall profits" for traders.

However, GAO stressed that its investigation has not proceeded far enough to determine whether the traders with Russia made windfall profits, or whether they benefited by receiving inside information from the government that was denied to farmers and others.

The GAO is not studying the issue of possible conflict of interest by USDA officials. This matter is under investigation by the Justice Department.

"There were indications that recent world market conditions suggested that the United States was in a preferred position as a supplier of wheat and Agriculture may not have had to subsidize sales to the extent that it did," GAO said.

However, GAO said the subsidies may have been justified by foreign policy considerations or because USDA had promised the exporters it would maintain a certain price.

The six export firms that made the sales will receive more than \$200 million in export subsidies, including \$128 million for a one-week period when the subsidies reached

their peak of 47 cents per bushel.

The subsidy system is designed to help U.S. farmers and exporters compete with Canada, Australia, France and other wheat export countries. It is flexible, allowing traders to register for subsidies either in anticipation of sales or after the sales are made. Payment is made when wheat is shipped.

GAO said loopholes permit grain exporters to speculate, trade subsidies between themselves, and affect market trends.

The subsidy system "is not based on any written guidelines or formulas and adequate documentation setting forth the basis for establishing daily export wheat subsidy rates," GAO complained. Also, it said exporters are not required to disclose details of subsidized transactions and USDA does not study the effects of subsidies on profits.

"In our opinion," the GAO report said "the expenditure of government funds totaling hundreds of millions of dollars dictates that agency officials assure themselves that program objectives are being achieved as economically as possible."

GAO recommended that USDA develop a management system to insure prudent use of the subsidy system.

GAO also questioned the procedure by which a USDA official verbally assured the trading companies that the department would maintain a set export price of wheat without considering the impact on the U.S. market.

"These assurances (to the traders) were conveyed de-

spite Agriculture's professed lack of information on the magnitude of the wheat sales," the interim report stated.

A GAO official said the investigation has not yet explored what information may have been exchanged between USDA officials and the traders.