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The Targeted Export Assistance Program

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Before the Subcommittee on
Department Operations, Research,
and Foreign Agriculture
House Committee on Agriculture



136535

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss with you our work on the Targeted Export Assistance Program, known as TEA which was done at your request as well as the requests of Congressmen Leon E. Panetta and Charles E. Schumer. We issued our report on the program on May 24, 1988, and welcome the opportunity to present an overview of our findings.

PROGRAM DESCRIPTION

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.

Section 1124 does not specify how the program should be implemented. The Foreign Agricultural Service (FAS) of the Department of Agriculture administers TEA and has determined that it should be

implemented through foreign market development, modeled to some extent after the existing Cooperator Market Development program. (Our March 1987 report, GAO/NSIAD-87-89, reviewed the Cooperator program in depth.)

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, that 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 owned inventory in the form of surplus commodities. In our report we also noted that such generic certificates could be exchanged for cash from CCC. Subsequent to the issuance of our report, FAS requested CCC to clarify to what extent and under what limitations the certificates granted under the TEA program could be exchanged for cash. The CCC responded that, unlike for some other generic certificates, it does not provide a cash exchange option under the TEA program. The generic certificates, however, can be sold for cash in the secondary market.

During fiscal years 1986-88, FAS entered into a total of 117 agreements and has used the full amounts authorized for all 3 years. FAS is in the process of making its funding allocation decisions for

fiscal year 1989. (Appendix I lists TEA participants and funding levels.)

According to FAS guidelines, to be eligible for the program, a U.S. agricultural commodity must (1) have been adversely affected by a foreign unfair trade practice (2) 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 which have been adversely affected by retaliatory actions related to such decisions.

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) 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 entailed consumer promotion only or consumer promotion in combination with technical assistance and trade servicing.

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. some examples of TEA projects in fiscal year 1987 are as follows:

- The California Avocado Commission found that Japanese consumers generally are not sure of the uses of avocados, so it placed them in the vegetable sections of Japanese stores and advertised the avocados' 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 promoting U.S. grains worldwide, particularly in China and South Korea, by sending grain samples (trade servicing); conducting educational programs on the U.S. marketing system, quality, and standards in selected emerging markets (technical assistance); and demonstrating feed preparation

and use at existing feed milling and production units in China (technical assistance) (consumer promotion) (\$2.8 million).

- The Leather Industries of America is promoting their products in Asian and Western European countries through participating in trade shows (technical servicing) and using trade journals and research studies to identify markets and develop effective advertising themes (consumer promotion) (\$1.5 million).

- The U.S. Meat Export Federation is educating consumers in Japan, Hong Kong, Taiwan, the Middle East, Western Europe, and the Caribbean about the quality of U.S. meats through advertising in electronic and print media, and in product sampling, seminars, menu promotions, and fairs (trade servicing) (\$7 million).

- The American Plywood Association is conducting technical evaluations of building codes, standards and construction systems in the United Kingdom, Japan, and Argentina. 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).

PURPOSE AND RESULTS OF OUR REVIEW

Our review had two primary objectives. First, we examined the management of the program, especially FAS documentation of participant eligibility and funding allocation decisions. Second, we reviewed the adequacy of the FAS program evaluation process and how those evaluations affect present and future funding allocation decisions as well as the commodities, activities and geographical markets receiving TEA funds.

We concluded that 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 when the annual TEA minimum required funding level is tripled in the program's last 2 years.

SOLICITATION OF APPLICATIONS IS LIMITED

When the TEA program started in December 1985, the public was informed about it principally through press releases and articles in trade journals, and direct contacts with non-profit organizations. Funds were not actually available until the passage of the Food Security Improvements Act in March 1986. TEA was not announced in the Federal Register until April 1987. The announcement described the program but did not solicit applications. Requests for

applications and a complete list of funding allocation criteria were not announced in the Federal Register until June 1987, in time for the fiscal year 1988 funding cycle. Therefore, it was not until TEA's third funding allocation cycle (fiscal year 1988) that complete information was available in the Federal Register.

Some potential applicants, especially smaller private firms, complained that they were unaware of TEA or unsure of application requirements 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 through that program.

The cooperators have another advantage in being able to receive information on TEA and influencing TEA guidelines through their professional organization, the U.S. Agricultural Export Development Council. At workshops with the Council in November 1986 and 1987, FAS discussed the TEA program in detail, providing some written materials and reviewing the TEA guidelines. Non-cooperator TEA participants can join the Council by virtue of their TEA agreements with FAS, but some may not choose to be members, and FAS has not held procedural meetings specifically for the benefit of all TEA participants.

FAS has no formal mechanism to ensure that all TEA participants, including non-Council members, can participate in reviewing TEA guideline changes. The Council's Planning, Review and Operations Committee, consists of FAS upper management and representatives of the Council's member organizations and is responsible for reviewing policies and procedures for FAS programs, including reviewing FAS proposed changes to the TEA guidelines. The committee is essentially only open to members of the Council and the proceedings are not documented. Thus, committee members do have an advantage in influencing the contents of the TEA guidelines.

THE FUNDING ALLOCATION PROCESS IS NOT CLEARLY DOCUMENTED

FAS bases its TEA funding allocations upon a variety of criteria but has not adequately documented how it has applied or prioritized those criteria. This makes it difficult to ensure that the funds are allocated equitably among all qualified applicants. Although FAS listed 10 formal TEA funding criteria in the June 1987 Federal Register, it is not clear how it applies those criteria to determine, for example, that one participant should be allocated \$7 million and another \$1.5 million.

FAS officials stated that funding decisions are based primarily on judgment and years of experience in working with cooperators under the Cooperator Market Development program. Funding decisions are made through a series of meetings whose proceedings are not

documented. One FAS official stated that some of the transactions with TEA applicants consisted of undocumented phone conversations and informal notes. We believe that funding allocation decisions should be documented to provide accountability for the use of public funds.

THE ACTIVITY PLAN IS NOT REQUIRED TO ALLOCATE FUNDS

The activity plan is an annual planning document containing the details of how TEA activities will be implemented and budgeted. It authorizes the expenditure of TEA resources, which have already been allocated based upon the contents of the TEA application.

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

FAS officials generally believe they have sufficient information to make a funding allocation decision without the activity plan, and that to require one before the applicant knows how much funding to expect would be too costly to the applicant. One FAS official commented, however, that funding recommendations are made with limited data and that, ideally, they should be based on the more

detailed activity plan, although this would be unrealistic due to the high preparation cost to the applicant.

We believe that the benefits of relating the funding decisions 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. In addition, the TEA application sometimes mentions only a region such as Europe, rather than specific countries. The detail necessary to do an in depth market analysis of the commodities and countries in which TEA promotions are to take place is contained in the activity plan. Such analyses would help to ensure that the proposed projects represented an optimal use of TEA funds for market development.

INADEQUATE DOCUMENTATION OF CONTRIBUTION LEVEL AND FORM

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

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 set amounts. However, FAS' basis for the various forms and levels of participant contributions should be justified in writing to help assure that participants are treated equitably.

Third-party participants, foreign governments or private organizations assisting U.S. TEA participants in the promotion of U.S. agricultural exports, may also contribute to the program. FAS provided inadequate documentation of the method by which TEA participants estimate their third-party contribution levels and the identities of the parties involved.

In addition, the Department of Agriculture's Office of the Inspector General and the FAS Compliance Review Staff found that, due to unclear language in the TEA guidelines, Sunkist Growers, Inc., a TEA participant, claimed and was reimbursed for \$2,431,548 incurred by foreign licensees (the third party) for promotional activities on behalf of Sunkist without reimbursing the licensees for their expenses. Sunkist was essentially claiming reimbursement for expenditures it never incurred. In addition, the licensees had been doing this promotion before TEA existed. To prevent a repeat of this problem, FAS in August 1987, amended the wording of its agreements covering such TEA activities.

FUNDING FOR BRAND IDENTIFIED PROMOTION

FAS does not closely monitor the nonprofit trade associations' (such as the American Soybean Association, or the California Avocado Commission) administration of brand identified promotion (marketing a commodity under the producer's brand name) 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 (the FAS auditing entity) would discover any problems in their program audits.

FAS gives the nonprofit trade associations autonomy to administer brand identified promotion through their producer members. Some potential applicants have complained that they did not receive adequate or timely information about the TEA program from their trade associations. Despite delegating the administration of brand identified promotion under TEA to the nonprofit participants, FAS remains responsible for ensuring the quality of that administration.

NO PROGRAM EVALUATION GUIDELINES

To ensure arms-length objectivity, FAS is requiring that periodic evaluations be carried out by independent third parties hired by the TEA participants. However, FAS has provided no formal guidance on what constitutes an independent third party and on evaluation

criteria, scope, purpose, or costs. This lack of guidance has created confusion among TEA participants about the proper focus and purpose of the TEA evaluations. FAS did present oral evaluation guidance at the November 1987 U.S. Agricultural Export Development Council workshop. Many TEA participants at the conference expressed confusion regarding FAS expectations for the evaluation requirement and FAS agreed that its evaluation instructions and guidelines to date were somewhat lacking.

Several evaluations have been submitted covering fiscal year 1986 activities and their quality has been mixed. FAS is finalizing evaluation guidelines and is establishing a Program Evaluation Section which will conduct and coordinate program evaluation for both TEA and the Cooperator Market Development programs. FAS hopes to have the new guidelines in place by the end of July.

Evaluating the impact 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. 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 issues of whether the activity has increased U.S. exports.

In addition, evaluation results should influence future TEA funding levels. FAS is uncertain whether it will be able to apply any evaluation results to its fiscal year 1989 funding allocation decisions. FAS has maintained that it cannot wait for final evaluation results on one fiscal year before considering applications for the next fiscal year. We suggest that an interim evaluation, such as a progress report, would suffice. Also, many TEA projects have been underway since the program's inception so that evaluation results for fiscal year 1986, 1987 or 1988 would be significant to fiscal year 1989 funding decisions.

Our TEA report suggested some evaluation criteria which would be applicable to all TEA projects.

-- 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 clear results.

-- 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 costs could have been and should be saved in the future.
- Identify weaknesses or problems with the projects and how they could be alleviated.
- Summarize conclusions and recommendations.

FAS and TEA participants have characterized the program as a success. Participants maintain that during 1987 exports of U.S. wine to 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, and walnut exports have tripled. The Department of Agriculture reports that exports of many of the commodities promoted under TEA have increased to a greater degree than exports to market that received no TEA money.

We do not believe that such testimonials are an adequate evaluation of TEA. For example, simply attributing increased exports to TEA can be misleading. In addition, objective evaluation is needed to assess the effectiveness of TEA because TEA participants have a vested

interest in the program's success. It is difficult to quantify the relationship between increased exports and the TEA program in view of the complexity of the international market, changes in international economic conditions, the long-term nature of market development activities, and the numerous market variables that affect 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 an important role.

TEA FUNDING INCREASE POSES PROBLEMS

The tripling of the annual required minimum funding level in the TEA program in fiscal years 1989 and 1990 from \$110 million to \$325 million, will probably exacerbate existing management problems and create some additional control and accountability difficulties. Senior FAS management officials have questioned whether TEA participants have the resources to absorb greater funds and can continue to contribute the same ratios. It is (1) considering broadening the allowable expenditures and (2) has expressed concern about the relationship between program size and participant resources available and has not ruled out the possibility of using other ways of implementing the program.

FAS Compliance Review Staff 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 participants and FAS. They have found that contractors often do not keep proper records or follow TEA guidelines as closely as TEA participants, and that 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 use consultants and other outside parties to carry out their projects, 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.

FAS maintains that the TEA participant, not the contractor, is ultimately responsible for reimbursing FAS for improper expenditures. However, FAS is assuming that participants will be in

a position to refund misused funds in all cases. On the contrary, prevention of such abuses avoids the possible costly and time-consuming process of collecting misused funds from participants. FAS is considering hiring a contract specialist to deal with the complexities of the participants' increasing use of contractors.

RECOMMENDATIONS

Because of the weaknesses we identified in FAS' TEA program management and in view of the provision for the 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 using program evaluations. In our report on the TEA program, we recommended that the Secretary of Agriculture direct the Administrator of FAS to take the following actions:

- 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.

- 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.
- 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.
- 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.
- 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.

This concludes my statement. I will be happy to answer any questions you may have.

FUNDING ALLOCATIONS

<u>Participant</u>	<u>Commodity</u>	<u>Fiscal Year Funds</u>		
		<u>1986</u>	<u>1987</u>	<u>1988</u>
(millions)				
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	.35	0
California Kiwi Fruit Commission	Kiwi Fruit	0	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 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
National Council of Farmer Cooperatives	Not applicable	0	0	.35
National Dry Bean Council	Beans	0	0	.50

APPENDIX I

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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			10.50 Total
	Citrus (301)	0	.02	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	<u>2.20</u>	<u>1.95</u>	<u>1.60</u>
Total		<u>\$110.00</u>	<u>\$110.00</u>	<u>\$110.00</u>

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