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Information Concerning Reports Of A Possible Wheat Shortage

B-176943

Department of Agriculture

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

JULY 30, 1974

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COMPTROLLER GENERAL OF THE UNITED STATES

Released 10/17/77

B-114824

SEP 11 1974

The Honorable James G. Abourezk
United States Senate

Dear Senator Abourezk:

In accordance with your March 8, 1974, request and subsequent agreements with your office we have reviewed certain Commodity Credit Corporation (CCC) grain sales--sales of corn stored in CCC bins in Iowa and Nebraska and wheat stored in commercial warehouses--made during the 15-month period ended April 1974. We also compared recent CCC grain sales prices with market prices.

CCC, a wholly owned Government corporation, was created to (1) stabilize, support, and protect farm income and prices, (2) help maintain balanced and adequate supplies of agricultural commodities, and (3) facilitate the orderly distribution of these supplies. CCC has no operating personnel of its own. Its activities are carried out mainly by the personnel and through the facilities of the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, and the ASCS State and county offices.

We made our review at the ASCS headquarters office in Washington, D.C.; the Iowa State ASCS office and two ASCS county offices in that State; and the ASCS Prairie Village commodity office (PVCO), Kansas. We reviewed sales instructions, terms, and documents and obtained such information as quantities of grain sold, buyers, sales prices, and amounts of storage charged buyers who did not remove purchased grain within a prescribed time. We interviewed ASCS officials, a railroad agent, and a warehouseman.

On May 23, 1974, we briefed your office on our review and were requested to provide a written summary of information presented, excluding detailed sales statistics.

SALES OF CCC CORN STORED IN CCC BINS

On January 1, 1973, CCC had 26.1 million bushels of corn in its bins; 13.3 million bushels were in Iowa and 8.3 million bushels in Nebraska.

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On January 4, 1973, PVCO issued a press release outlining a sales program which would be as accessible as possible to buyers, taking into account a high demand for corn and a shortage of rail transportation.

Under the sale terms, buyers of CCC bin-site corn had to pay at least market price and were to make a 25-percent advance payment and remove the corn from the sites within 30 business days after sale; after this period, the buyers were to be charged storage fees of 1 cent a bushel a month on the corn not removed from the sites.

Because of problems in obtaining rail transportation, the sale terms were modified. On March 13, 1973, the ASCS headquarters advised ASCS State and county offices that, for about 2 weeks, the county offices were to offer corn for sale on an "as is, where is" competitive-bid basis. That is, the quality or grade¹ would not be guaranteed and the buyers would be responsible for moving the corn from the sites within a reasonable time after transportation became available.

Only a relatively small quantity of the bin-site corn--about 50,000 bushels--was sold between March 13 and 22, 1973. On March 23, the sale terms were revised to (1) allow ASCS State offices the option of discounting for a quality poorer than No. 2 grade and (2) allow buyers free storage and require no payment until transportation became available to move the grain. Only competitive bids at market prices were to be accepted. Bids were to be opened on March 26, 1973.

After March 26, unsold corn was no longer available for sale by county offices, but PVCO offered to sell the corn on a "to-arrive" competitive-bid basis. "To-arrive" contracts called for rail delivery at a specific destination but at an unspecified future date. PVCO used the "to-arrive" contracts because it could not obtain railcars to sell on the cash market which normally calls for "on-track" delivery (loaded on a railcar) within 30 days.

Sales by ASCS county offices
in Iowa and Nebraska

During the 15-month period, the only bin-site sales of any magnitude in Iowa and Nebraska were made by ASCS county offices on

¹Generally, determinations of the grade (ranging from 1--the best grade--through 5) indicating quality are made on the basis of representative samples drawn at the time corn is loaded on the buyer's conveyance at the bin site.

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a competitive-bid basis on March 26, 1973, in response to the March 17 offer. The county offices reported to the State offices the bids received. The State offices compared the bids with a "backed off" price--the price of corn at Chicago, less handling and transportation costs from the bin site to Chicago--and told the county offices which bids to accept. Our review shows that CCC corn was sold at prices that equaled or exceeded the backed off prices.

The March 26 county offices' sales included 7.5 million bushels of about 13 million bushels of corn at Iowa bin sites. The Continental Grain Company purchased about 3.9 million bushels; 78 local warehousemen and feed dealers purchased the remainder. The corn was sold in 69 counties at an average of \$1.35 a bushel on a No. 2 grade. Much of the corn was of a poorer quality, however, and the price of the corn delivered through early April 1974, averaged about \$1.16 a bushel.

In Nebraska 877,000 bushels of about 8 million bushels of corn at bin sites were sold on March 26. The Peavey Grain Company purchased about 298,000 bushels; 17 local warehousemen and feed dealers purchased the remainder. The corn was sold in 16 counties on an "as-is" basis--without discounts--at an average of \$1.32 a bushel.

PVCO sales

On March 29, 1973, after the ASCS county office sales, the PVCO sold bin-site corn, No. 2 grade, on "to-arrive" contracts as follows.

<u>Buyer</u>	<u>Bushels</u>	<u>Price per bushel</u>	<u>Delivery point</u>
Lincoln Grain	2,000,000	\$1.42	Lincoln, Nebraska
Continental Grain	4,500,000	1.44 1/2	Des Moines, Iowa
Continental Grain	1,500,000	1.47 1/4	Topeka, Kansas
Continental Grain	500,000	1.47 1/4	St. Joseph, Missouri
Continental Grain	500,000	1.35 1/4	Minneapolis, Minnesota
Pillsbury	750,000	1.40 1/4	Omaha, Nebraska
Pillsbury	250,000	1.39	Hastings, Nebraska
Cook Industries	100,000	1.39 1/4	Sioux City, Iowa
Cargill	300,000	1.40	Hastings, Nebraska
Cargill	50,000	1.39	Hastings, Nebraska
	<u>10,600,000</u>		

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PVCO officials believed that, because of the transportation shortage, the corn would not be available until late summer or early fall; therefore, they used corn futures market prices to determine the acceptability of bid prices.

Delivery status of corn sold

CCC records show that the corn inventory in CCC bins in Iowa and Nebraska had been reduced from about 21.4 million bushels on March 31, 1973, to about 13.9 million on April 1, 1974. Most of this corn had been sold but much of it had not yet been delivered. Most of this 7.5 million reduction included deliveries of 4.7 million bushels sold by the Iowa ASCS county offices and 813,000 bushels sold by the Nebraska ASCS county offices. The 2.8 million bushels of undelivered Iowa corn, of which about 2.3 million bushels belonged to the Continental Grain Company, was located at bin sites in 26 counties. The 64,000 bushels of undelivered Nebraska corn was located at bin sites in two counties.

We did not get details on deliveries of the corn PVCO sold because of the considerable effort that would have been involved. Most of it, however, had not been delivered by April 1, 1974.

Sale terms and storage charges

Buyers of the bin-site corn sold by ASCS county offices were not charged storage until after the ASCS county executive director or the county committee had determined that rail transportation was available. The 25-percent advance was not required until 5 days after transportation was available. (See p. 2.) No interest was charged. ASCS required final settlement on each lot as it was taken over by the buyer.

County offices in both Iowa and Nebraska considered only rail transportation in determining when to begin charging the storage fee. Trucking was not considered unless the buyer started taking delivery with trucks.

Officials of the Iowa county offices told us that they had contacted local vendors about once a week to discuss the availability of rail transportation. They said it was common knowledge that rail transportation was in short supply. At one county an official told us that much of the available rail transportation was used to ship farm-saved corn in which CCC bins stored in July 1973. He told us that this corn had to be shipped before the new crop was harvested.

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On December 11, 1973, ASCS headquarters, believing that the transportation problem had been solved, instructed its State and county offices to notify all buyers who had not taken delivery that they would be charged storage costs on corn remaining at the bin sites after 20 days. Some ASCS county offices in both States had been charging storage costs before receiving this instruction. As of about April 1, 1974, ASCS had charged buyers in Iowa about \$15,300 and buyers in Nebraska about \$2,000 for storage.

Under PVCU's "to-arrive" sales, CCC absorbed the storage costs because the buyers did not acquire title to the corn until it reached its destination. At the time of sale, PVCU required buyers to furnish irrevocable 180-day letters of credit for 80 percent of the sales amount. Buyers were then required to pay the 80 percent within 10 days after receiving the corn, with final settlement within 30 days. No time of delivery was specified; ASCS agreed to deliver as soon as possible.

Sales prices not renegotiated

ASCs did not attempt to renegotiate any of the corn sales prices because, consistent with trade practice, it had entered into sales contracts that were firm and binding. ASCS sold the CCC corn at market prices.

SALES OF CCC WHEAT STORED IN COMMERCIAL WAREHOUSES

About 25 million bushels of wheat stored in commercial warehouses and sold by PVCU on "to-arrive" contracts in the early part of 1973 remained undelivered as of April 1974. PVCU stopped paying storage costs on this grain shortly after it had issued shipping instructions. Warehousemen could qualify for extended storage payments only by submitting evidence that transportation was unavailable. PVCU reviewed the evidence to determine whether the warehousemen qualified for payments beyond the stop-storage date on the loading order. Our review of several extended-storage payments indicated that they were proper.

Early in 1974 PVCU requested Agriculture's Office of Investigation to investigate 35 warehouses in Kansas and Nebraska to determine why the warehouses had not shipped CCC grain under shipping instructions, most of which PVCU had issued more than a year earlier. Four investigations completed at the time of our fieldwork showed that, in each of the four cases, all available cars were used to move privately

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owned grain in preference to the grain. For example, one of these investigations showed that a farmer owned a high-interest rate loan outstanding on grain and was using available cars to ship his grain to market in order to liquidate the loan. PVCQ determined that the farmer's claim was not entitled to storage payment after shipping restrictions were issued and cars were available.

COMPARISON OF RECENT SALE PRICES
OF CCC GRAIN WITH MARKET PRICES

At December 31, 1973, CCC had 4.9 million bushels of wheat and 85.5 million bushels of feed grains it had not sold. From January 1 to April 11, 1974, PVCQ sold about 4.1 million bushels of wheat and about 1.5 million bushels of other grains.

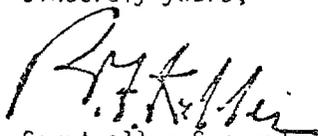
Most of the wheat was sold in January 1974 under "to-arrive" contracts on the basis of July 1974 futures market prices. PVCQ used this basis in the belief that the wheat could not be shipped before July because of the unavailability of railcars. For grain sold in the warehouse where it was stored, sales prices were at least equal to current market prices.

CCC's inventory of unsold grain on May 31, 1974, was 73 million bushels, practically all feed grains.

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As directed by your office, we have not obtained formal comments on this report from the Department of Agriculture. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,


Acting Comptroller General
of the United States