United States General Accounting Office

GAO

Fact Sheet for the Chairman, Committee on Agriculture, Nutrition, and Forestry, U. S. Senate

March 1990

FEDERAL DAIRY PROGRAMS

Information on Inventory Management Activities

140836

GAO/RCED-90-119FS

GAO United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-238620

March 2, 1990

The Honorable Patrick Leahy
Chairman, Committee on Agriculture,
Nutrition, and Forestry
United States Senate

Dear Mr. Chairman:

In response to your August 9, 1989, request, and subsequent discussions with your office, this fact sheet presents information on the U.S. Department of Agriculture's (USDA) dairy price support program under which USDA purchases butter, cheese, and nonfat dry milk that cannot be used commercially. The information, which covers the 5-year period of fiscal years 1985 through 1989, relates to USDA's purchase and sale of dairy products under the program; federal storage, handling, and transportation costs for these products; and ending federal inventories of these products. Some highlights of this information are as follows:

-- Dairy products (butter, cheese, and nonfat dry milk) purchased by USDA declined from 1.55 billion pounds[1] in 1985 to 477 million pounds in 1989. About 80 percent of the purchases were from 26 major[2] companies. About 53 percent of total purchases were from companies in the upper midwest and southwest states (see section 1 for a listing of states in each region). An additional 27 percent were from companies in the northwest and corn belt states.

-- While most of the dairy products purchased by USDA are donated to domestic and foreign nutrition programs, some are sold to commercial companies. Such sales equaled about 2 percent of total USDA dairy purchases during the period 1985 through 1989. During the same period, these sales declined from 36.9 million pounds to 8.9 million pounds. About 91 percent of sales were to 14 major

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[1]Dairy sales and purchases in this fact sheet are expressed in terms of actual pounds not milk equivalents.

[2]Major, as used in this report, represents 1 or more percent of USDA's purchases, sales, or costs over the 5-year period.

companies. Over 95 percent of total sales were to companies located in the upper midwest and corn belt states.

-- Storage and handling costs of dairy products declined from $62 million in 1985 to $13 million in 1989. About 52 percent of the storage and handling payments went to 20 major companies. About 68 percent of the total payments went to companies located in the corn belt, upper midwest, and western plains states.

-- Transportation costs of federally purchased dairy products declined from $67.1 million in 1985 to $17 million in 1989. About 59 percent of the transportation payments went to 17 major companies.

-- Ending inventories of federal dairy stocks decreased from about 1.8 billion pounds in 1985 to 191 million pounds in 1989.

This fact sheet is divided into four sections. Section 1 contains information on USDA's purchases and sales of dairy products. Section 2 contains information on USDA's payments for storing and handling. Section 3 contains information on transportation costs, and section 4 contains information on USDA's dairy product ending inventories including the impact that recent declines have had on school lunch programs.

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We conducted our work between August 1989 and February 1990. To obtain information for this fact sheet, we gathered and analyzed data primarily from USDA's Agricultural Stabilization and Conservation Service (ASCS). We called selected dairy processors for certain information. We did not independently verify the data provided by either ASCS or the processors. We also reviewed prior GAO reports and testimony. USDA representatives at ASCS's Kansas City Commodity Office reviewed a draft of the data provided and agreed to its accuracy.

Copies of this fact sheet are being sent to the Secretary of Agriculture; Director, Office of Management and Budget; interested congressional committees and subcommittees; and other interested parties. If you have any questions, please contact me at (202) 275-5138.

Major contributors to this fact sheet are listed in appendix I.

Sincerely yours,

John W. Harman
Director, Food and
Agriculture Issues

CONTENTS

ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
GAO	General Accounting Office
RCED	Resources, Community, and Economic Development Division
USDA	U.S. Department of Agriculture

SECTION 1

PURCHASES AND SALES OF DAIRY PRODUCTS 1985-89

This section responds to questions regarding the U.S. Department of Agriculture's (USDA) purchases and sales of dairy products for the 5-year period ending with fiscal year 1989.

HOW MUCH DID USDA PURCHASE AND FROM WHOM?

Over the 5-year period included in our review, USDA purchased about 5.8 billion pounds of butter, cheese, and nonfat dry milk from commercial companies for about $6.3 billion as shown in table 1.1. Table 1.2 shows that about 80 percent of the 4.7 billion pounds of federal purchases were from 26 major companies. We defined major company as any company from which USDA purchased at least 1 percent of its total purchases (in pounds) during the 5-year period.

Table 1.1: USDA Purchases by Commodity

	Fiscal Year					
Commodity	1985	1986	1987	1988	1989	Total[a]
	Pounds in Millions					
Butter	243	337	145	321	430	1,475
Cheese	513	572	259	306	47	1,697
Nonfat dry milk	795	943	556	364	0	2,659
Total pounds	1,551	1,852	960	991	477	5,831
	Dollars in Millions					
Total dollars	$1,690	$1,944	$964	$1,058	$629	$6,285

[a]May not add due to rounding.

Table 1.2: Top 26 Companies From Whom USDA Purchased Dairy Products

Company/Cooperative	Percent of fiscal year total 1985	1986	1987	1988	1989	All 5 years: Percent of total	All 5 years: Total pounds (millions)
Darigold	11.8	10.7	16.0	15.4	12.3	12.8	746
Land O'Lakes	9.2	9.6	7.4	7.3	8.3	8.6	502
AMPI North Central Region	8.0	9.5	11.4	7.0	2.2	8.4	489
Dairyman's Cooperative Creamery	6.1	5.9	9.7	11.2	7.5	7.6	444
Associated Milk Producers	4.5	4.9	5.1	7.5	5.9	5.4	312
Mid-America Dairymen	6.3	7.5	3.3	2.1	4.4	5.3	309
San Joaquin Valley Dairymen	3.4	2.8	4.0	3.0	1.7	3.1	180
Dairymens Creamery Association	2.6	2.7	3.8	2.8	1.8	2.8	163
Bongards Creameries	2.4	3.0	3.7	3.1	0.7	2.8	161
Challenge Dairy Products	2.7	2.0	4.8	2.2	1.2	2.6	151
Mid-America Farms	0.1	1.8	2.7	5.4	3.7	2.3	132
California Cooperative Creamery	0.8	0.4	1.9	2.9	5.2	1.6	91
Madison Dairy Produce Company	0.5	0.8	1.0	1.8	6.9	1.4	83
California Milk Producer	1.2	1.2	1.6	1.4	2.8	1.4	82
First District Association	3.1	1.5	0.1	0.3	0.0	1.4	79
Knudsen Corporation	2.9	1.9	0.0	0.0	0.0	1.4	79
Michigan Milk Producers Association	1.6	2.0	0.9	0.4	0.0	1.3	73
O-AT-KA Milk Products Cooperative	1.8	1.8	0.2	0.3	1.3	1.2	72
Swiss Valley Farms	2.0	1.8	0.5	0.2	0.1	1.2	71
Foremost Dairies	2.2	2.0	0.0	0.0	0.0	1.2	69
Humboldt Creamery Association	1.1	1.1	1.8	0.9	1.0	1.2	69
Kraft	0.0	0.0	1.5	5.2	0.0	1.1	66
Maryland & Virgina Milk Producers Association	1.8	1.6	0.9	0.0	0.0	1.1	66
Beatrice Cheese	0.3	0.6	2.8	1.4	1.2	1.1	62
Burt Lewis	0.1	0.3	0.7	2.4	5.0	1.1	62
Dairy Farm Products - Goshen Division	1.3	1.4	0.4	0.4	1.3	1.0	60
Total (top 26 companies)	77.8	78.8	86.2	84.6	74.5	80.4	4,673
Other companies	22.2	21.2	13.8	15.4	25.5	19.6	1,158
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	
	Pounds in Millions						
Total pounds	1,551	1,852	960	991	477		5,831

Table 1.3 shows the proportion of total purchases (in pounds) from companies located in each of the nine geographic regions in the United States identified as

-- Northwest: Idaho, Oregon, Washington;

-- Southwest: California, Nevada, Utah, Arizona;

-- Western Plains: Colorado, Kansas, Nebraska, Montana, North Dakota, South Dakota, Wyoming;

-- Southern Plains: New Mexico, Oklahoma, Texas;

-- Upper Midwest: Michigan, Minnesota, Wisconsin;

-- Corn Belt: Illinois, Indiana, Iowa, Missouri, Ohio;

-- Southeast: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, South Carolina;

-- Appalachia: Delaware, Kentucky, Maryland, North Carolina, Tennessee, Virgina, West Virgina; and

-- Northeast: Connecticut, Massachusetts, Maine, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont.

Table 1.3: Percent of Total USDA Dairy Purchases (pounds) From Each Region by Fiscal Year

	Percent of fiscal year total					Percent
Region	1985	1986	1987	1988	1989	of 5-year total
Northwest	15.1	14.2	21.1	19.5	15.5	16.6
Southwest	24.1	20.0	30.1	26.0	23.3	24.0
Western Plains	8.0	8.4	8.0	7.3	7.2	7.9
Southern Plains	3.0	3.0	4.2	7.0	5.9	4.1
Upper Midwest	32.4	32.2	22.7	27.7	22.2	29.1
Corn Belt	9.6	12.2	9.7	8.3	13.5	10.5
Southeast	0.3	0.2	0.5	0.3	0.0	0.3
Appalachia	2.4	3.3	1.6	2.1	6.7	2.9
Northeast	5.2	6.5	2.2	1.9	5.9	4.6
Total[a]	100.0	100.0	100.0	100.0	100.0	100.0

[a]Totals may not add to 100 due to rounding.

Table 1.4 shows the percent of total USDA butter, cheese, and nonfat dry milk purchases (in pounds) from each region by fiscal year.

Table 1.4: Percent of Total USDA Dairy Purchases (pounds) From Each Region by Product and Fiscal Year

Product/Region	Percent of fiscal year total 1985	1986	1987	1988	1989	Percent of 5-year total
Butter						
Northwest	25.8	20.5	30.8	24.1	17.2	22.2
Southwest	31.4	22.2	26.8	24.6	23.1	25.0
Western Plains	2.0	2.7	3.8	5.5	6.0	4.3
Southern Plains	3.8	5.4	5.1	7.4	6.5	5.9
Upper Midwest	11.0	20.0	19.0	20.2	22.1	19.1
Corn Belt	18.1	18.4	9.2	10.5	11.6	13.7
Southeast	0.0	0.0	0.0	0.0	0.0	0.0
Appalachia	1.6	5.3	2.9	4.9	7.4	5.0
Northeast	6.2	5.6	2.4	2.9	6.1	4.9
Total[a]	100.0	100.0	100.0	100.0	100.0	100.0
Cheese						
Northwest	0.8	1.7	1.6	0.6	0.0	1.2
Southwest	10.3	10.9	20.8	17.3	24.5	13.8
Western Plains	14.9	15.5	17.0	10.8	17.9	14.8
Southern Plains	2.1	1.7	2.5	7.1	0.0	2.9
Upper Midwest	62.2	56.6	44.9	56.3	23.0	55.5
Corn Belt	7.5	9.6	10.4	4.9	30.9	8.8
Southeast	0.3	0.1	0.3	0.0	0.0	0.2
Appalachia	0.7	1.1	0.4	0.3	0.0	0.7
Northeast	1.2	3.0	2.1	2.7	3.6	2.3
Total[a]	100.0	100.0	100.0	100.0	100.0	100.0
Nonfat Dry Milk						
Northwest	21.0	19.4	27.7	31.3	0.0	23.2
Southwest	30.7	24.7	35.2	34.5	0.0	30.0
Western Plains	5.4	6.1	4.9	6.0	0.0	5.6
Southern Plains	3.3	3.0	4.7	6.5	0.0	3.9
Upper Midwest	19.7	21.8	13.4	10.3	100.0	17.9
Corn Belt	8.3	11.6	9.5	9.2	0.0	9.8
Southeast	0.3	0.4	0.8	0.9	0.0	0.5
Appalachia	3.8	3.9	1.8	1.1	0.0	3.1
Northeast	7.5	9.0	2.1	0.3	0.0	5.9
Total[a]	100.0	100.0	100.0	100.0	100.0	100.0

[a]Totals may not add to 100 due to rounding.

HOW MUCH DID USDA SELL AND TO WHOM?

During the 5-year period included in our review, USDA sold about 102 million pounds of butter, cheese, and nonfat dry milk to commercial companies for about $132 million as shown in table 1.5. This amount is equal to about 2 percent of the purchases USDA made during the same 5-year period.

Table 1.5: USDA Sales by Commodity

Commodity	Fiscal Year 1985	1986	1987	1988	1989	Total[b]
	----------Pounds in Millions------------					
Butter	1.7	5.1	1.8	0.0	8.9	17.5
Cheese[a]	35.1	23.9	18.6	6.0	0.0	83.7
Nonfat dry milk	0.0	0.0	0.7	0.0	0.0	0.7
Total pounds[b]	36.9	29.0	21.1	6.0	8.9	101.9
	----------Dollars in Millions-----------					
Total dollars	$47.8	$38.7	$27.1	$6.9	$11.8	$132.3

[a]Sales in 1989 were less than .1 million pounds.
[b]Does not add to 5-year total due to rounding.

Table 1.6 shows the 14 major buyers of dairy products that together bought about 93 million pounds or about 91 percent of the dairy products sold by USDA. We considered a major buyer as any company that bought 1 percent or more of the total pounds of dairy products sold by USDA during the 5-year period.

Table 1.6: Top 14 Companies to Whom USDA Sold Dairy Products

Company/Cooperative	Percent of fiscal year total 1985	1986	1987	1988	1989	All 5 years: Percent of total	All 5 years: Total pounds (millions)
Schreiber Foods	54.2	22.7	23.2	58.1	0.0	34.3	35.0
Land O'Lakes	1.0	24.9	21.0	4.2	33.4	15.0	15.2
Purity Cheese Company	5.7	10.3	8.4	0.0	0.0	6.7	6.9
Rochester Cheese Sales	7.8	3.3	6.7	9.3	0.0	5.7	5.8
Beatrice Cheese	6.1	4.3	6.8	7.3	0.0	5.3	5.4
Associated Milk Producers	4.2	4.9	7.5	8.0	0.0	4.9	5.0
AMPI North Central Region	0.7	2.4	0.0	0.0	29.6	3.5	3.6
Burt Lewis	0.0	0.9	3.3	0.0	21.1	2.8	2.9
Dairy Farm Products Company	2.9	1.9	1.7	0.0	9.4	2.8	2.8
Northern Wisconsin Produce Company	0.7	5.0	4.0	2.6	0.0	2.6	2.7
Oshkosh Storage Company	1.7	3.1	4.0	0.7	0.0	2.4	2.4
Kraft	2.8	2.7	0.4	0.0	0.0	1.9	1.9
Worldwide Sales	3.4	1.1	1.0	0.0	0.0	1.8	1.8
Mid-America Farms	0.0	5.3	0.0	0.0	0.0	1.5	1.5
Total	91.2	92.8	88.0	90.2	93.5	91.2	92.9
Other companies	8.8	7.2	12.0	9.8	6.5	8.8	9.0
Total percent	100	100	100	100	100	100	
	-------- Pounds in Millions -------						
Total pounds	36.9	29.0	21.1	6.0	8.9		101.9

Table 1.7 shows the percent of total sales (in pounds) to companies located in each of the nine geographic regions of the United States.

Table 1.7: Percent of Total USDA Dairy Sales (pounds) by Region by Fiscal Year

Region	Percent of fiscal year total 1985	1986	1987	1988	1989	Percent of 5-year total
Northwest	0.8	0.3	1.5	0.0	0.3	0.7
Southwest	0.0	0.0	1.8	5.9	0.0	0.7
Western Plains	0.8	0.4	0.0	0.0	0.0	0.4
Southern Plains	0.0	5.3	0.0	0.0	0.0	1.5
Upper Midwest	37.1	62.7	64.0	33.5	66.7	52.3
Corn Belt	60.9	30.0	29.3	60.7	30.5	42.9
Southeast	0.0	0.0	0.0	0.0	0.0	0.0
Appalachia	0.0	0.0	0.0	0.0	0.0	0.0
Northeast	0.5	1.4	3.4	0.0	2.5	1.5
Total[a]	100.0	100.0	100.0	100.0	100.0	100.0

[a]May not add to 100 due to rounding.

Table 1.8 shows the percent of total USDA butter, cheese, and nonfat dry milk sales (in pounds) to each region by fiscal year.

Table 1.8: Percent of Total USDA Dairy Sales (pounds) to Each Region by Product and Fiscal Year

Commodity/Region	Percent of fiscal year total 1985	1986	1987	1988	1989	Percent of 5-year total
Cheese						
Northwest	0.8	0.3	1.7	0.0	98.2	0.9
Southwest	0.0	0.0	1.8	5.9	0.0	0.8
Western Plains	0.8	0.4	0.0	0.0	0.0	0.5
Southern Plains	0.0	0.0	0.0	0.0	0.0	0.0
Upper Midwest	38.2	66.6	67.7	33.5	0.0	52.5
Corn Belt	60.0	32.7	27.2	60.7	1.8	44.9
Southeast	0.0	0.0	0.0	0.0	0.0	0.0
Appalachia	0.0	0.0	0.0	0.0	0.0	0.0
Northeast	0.1	0.0	1.6	0.0	0.0	0.4
Total[a]	100.0	100.0	100.0	100.0	100.0	100.0
Butter						
Northwest	0.0	0.0	0.0	0.0	0.0	0.0
Southwest	0.0	0.0	0.0	0.0	0.0	0.0
Western Plains	0.0	0.0	0.0	0.0	0.0	0.0
Southern Plains	0.0	30.0	0.2	0.0	0.0	8.8
Upper Midwest	15.2	44.9	51.8	0.0	66.9	53.8
Corn Belt	77.7	17.3	43.0	0.0	30.6	32.7
Southeast	0.0	0.0	0.0	0.0	0.0	0.0
Appalachia	0.0	0.0	0.0	0.0	0.0	0.0
Northeast	7.1	7.8	4.9	0.0	2.5	4.7
Total[a]	100.0	100.0	100.0	0.0	100.0	100.0
Nonfat Dry Milk						
Northwest	0.0	0.0	0.0	0.0	0.0	0.0
Southwest	0.0	0.0	5.2	0.0	0.0	5.2
Western Plains	0.0	0.0	0.0	0.0	0.0	0.0
Southern Plains	0.0	0.0	0.0	0.0	0.0	0.0
Upper Midwest	0.0	0.0	0.0	0.0	0.0	0.0
Corn Belt	0.0	0.0	49.8	0.0	0.0	49.8
Southeast	0.0	0.0	0.0	0.0	0.0	0.0
Appalachia	0.0	0.0	0.0	0.0	0.0	0.0
Northeast	0.0	0.0	45.0	0.0	0.0	45.0
Total[a]	0.0	0.0	100.0	0.0	0.0	100.0

[a]May not add to 100 due to rounding.

WHAT COOPERATIVES AND/OR PROCESSORS HAVE UNDERGONE EXPANSION IN PROCESSING CAPACITY?

USDA did not have information showing what cooperatives and processors had expanded their processing capacity; therefore, we contacted the top nine companies that USDA purchased dairy products from and, as directed by your staff, asked whether they had recently expanded their processing capacity. Purchases from these companies accounted for over 50 percent of USDA's total purchases for the 5-year period we reviewed. Of the nine processors, seven provided answers shown in table 1.9. The other two chose not to answer.

Table 1.9: Processors That GAO Contacted Concerning Expanded Processing Capacity During Fiscal Years 1985-89

Region	Number in region contacted	Number that Responded	Number that Expanded	Number that Did not expand
Northwest	2	1	0	1
Southern Plains	1	1	1	0
Cornbelt	1	0	0	0
Upper Midwest	3	3	1	2
Southwest	2	2	2	0
Total[a]	9	7	4	3

[a]Because of our limited review, these results cannot be projected.

SECTION 2
USDA'S STORAGE AND HANDLING PAYMENTS FOR DAIRY PRODUCTS 1985-89

This section deals with the questions raised regarding USDA's payments for storing and handling dairy products for the 5-year period ending fiscal year 1989.

HOW MUCH DID USDA PAY FOR STORAGE AND HANDLING AND TO WHOM?

Over the 5-year period included in our review, USDA paid about $167.7 million for the storage of government-owned processed dairy products. Table 2.1 shows the storage and handling payments recorded in the USDA's financial records by fiscal year.

Table 2.1: Storage and Handling Payments Made by USDA by Fiscal Year

Commodity	1985	1986	1987	1988	1989	Total
	Dollars in Millions					
Butter	$11.2	$10.5	$6.5	$7.0	$12.0	$47.2
Cheese	33.8	24.8	14.2	4.0	1.0	77.8
Nonfat dry milk	16.7	14.9	8.1	2.9	.1	42.7
Total[a]	$61.8	$50.2	$28.8	$13.9	$13.0	$167.7

[a]May not add due to rounding.

We analyzed USDA's computer payment records that were readily available to determine who received the storage and handling payments. A USDA representative estimated that, at the end of fiscal year 1989, USDA had agreements with storage companies that operated about 550 dry and cold storage warehouses. Single companies could have multiple agreements if they operated warehouses in more than one city. For our analysis, we obtained information on those agreements in which warehouses received at least $100,000 over the 5-year period. Because of this selection process, payments to any company in any year may not include 100 percent of all payments made to that company. For example, a company may operate five warehouses each of which has a separate agreement with USDA. However, if the payment for one of the warehouses was for less than $100,000, our analysis would only account for payments to four of the company's five warehouses. Table 2.2 shows the 20 major companies that together received about $81.3 million of the $155.3 million in payments or about 52 percent of the total. We defined a major company as any company that USDA paid 1 percent or more of its total dairy products storage and handling payments over the 5-year period.

Table 2.2: Top 20 Companies That Received USDA Storage and Handling Payments

Company	Percent of yearly total 1985	1986	1987	1988	1989	All 5 years: Percent of Total	All 5 years: Total dollars (millions)
Kelaron Corp.	6.1	7.5	10.1	15.9	24.0	9.5	$14.8
Americold Services Corp.	10.0	7.6	7.3	9.2	17.4	9.2	14.3
Southshore Enterprises	3.7	4.6	3.4	.4	.0	3.3	5.1
Carthage Marble Corp.	3.9	3.4	3.5	1.4	.6	3.2	5.0
Hill Top Developers	3.0	3.5	3.3	2.2	1.2	3.0	4.7
Underground Warehouses	2.2	3.0	2.9	2.8	.7	2.5	3.9
Capitol Warehousing Corp.	2.5	2.9	2.4	1.5	.7	2.4	3.7
United States Cold Strg. of California	1.7	1.9	2.2	3.1	1.5	2.0	3.1
Workman Enterprises	1.3	1.7	2.6	3.3	1.8	1.9	2.9
Hansen Storage Company	1.9	2.2	1.7	.4	.2	1.7	2.6
Alford Refrigerated Whses	1.0	.6	1.8	3.6	6.8	1.7	2.6
Christian Salvesen	.6	.8	1.6	4.3	5.9	1.6	2.4
Cold Storage of New Ulm	.8	1.5	2.9	2.4	.9	1.5	2.4
Richard W. Gerrity/ Cleveland Cold Storage	1.4	1.5	1.0	1.2	2.5	1.4	2.2
Kansas City Cold Strg. Corp.	1.7	1.1	1.3	1.1	2.1	1.4	2.2
Interstate Cold Strg.	.9	1.5	1.4	1.0	3.1	1.4	2.1
Southeastern Public Service Company	1.6	1.6	1.2	.2	.8	1.3	2.1
Northland Cold Storage	1.1	1.4	.7	.7	1.6	1.1	1.8
Central Storage and Warehouse Company	.8	.8	.6	2.2	2.8	1.1	1.6
Berkshire Warehousing Services	.4	.7	1.3	2.7	2.3	1.0	1.6
Total[a] (top 20 companies)	46.7	49.8	53.0	59.5	76.8	52.3	$ 81.3
Other companies	53.3	50.2	47.0	40.5	23.2	47.7	74.0
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	
	--------Dollars in Millions---------						
Total dollars[a]	$52.2	$48.7	$28.1	$14.4	$12.0		$155.3

[a]May not add due to rounding.

Table 2.3 shows the proportion of total storage and handling payments that went to warehouses located in each of the nine geographic regions. Our analysis was based on where the storing warehouse was located and not the address of the parent company or billing entity. The nine regions are defined in section 1.

Table 2.3: Percent of USDA Storage Payments by Region by Fiscal Year (Warehouses Receiving $100,000 or more)

Region	1985	1986	1987	1988	1989	All 5 years: Percent of total	All 5 years: Total payments (millions)
Northwest	3.2	2.6	3.0	4.0	2.1	2.9	$ 4.6
Southwest	9.3	8.7	10.3	12.3	8.0	9.5	14.7
Western Plains	15.6	14.9	14.5	12.8	16.3	15.0	23.3
Southern Plains	4.2	3.8	5.4	6.1	7.1	4.7	7.3
Upper Midwest	19.3	23.7	23.0	21.5	15.1	21.2	33.0
Corn Belt	28.5	31.3	31.8	33.5	43.2	31.5	49.0
Southeast	.6	1.0	1.0	1.0	.1	.8	1.3
Appalachia	2.3	2.4	1.8	1.6	1.9	2.1	3.3
Northeast	6.2	6.9	5.3	3.5	4.5	5.9	9.1
Total analyzed[a]	89.2	95.1	96.0	96.3	98.2	93.6	$145.4
Data not analyzed[b]	10.8	4.9	4.0	3.7	1.8	6.4	9.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	$155.3

[a]May not add due to rounding.
[b]Payments to warehouses that received less than $100,000.

WHAT ARE THE NAMES AND LOCATIONS OF THE MAJOR STORAGE FACILITIES USED BY USDA?

Table 2.4 lists the 20 major companies and the locations of their warehouses that stored USDA dairy products over the 5-year period. The table shows over 50 warehouses in various cities.

Table 2.4: Names and Locations of Top 20 Companies Receiving USDA Storage and Handling Payments

Company	City	State	Number of locations within each city
Kelaron Corporation	Independence	Missouri	1
	Chicago	Illinois	2
Americold Services Corporation	Kansas City	Kansas	1
	Chicago	Illinois	2
	Fogelsville	Pennsylvania	1
	Clearfield	Utah	1
	Watertown	Massachusetts	1
	Boston	Massachusetts	1
Southshore Enterprises	Grand Ledge	Michigan	1
	Jessup	Maryland	1
	Battle Creek	Michigan	1
	Benton Harbor	Michigan	1
	Sparks	Nevada	3
	White Pigeon	Michigan	1
	East Hartford	Connecticut	1
	Eau Claire	Wisconsin	1
Carthage Marble Corporation	Carthage	Missouri	1
Hill Top Developers	Kansas City	Missouri	1
Underground Warehouses	Quincy	Illinois	1
Capitol Warehousing Corporation	Windsor	Wisconsin	1
	Portage	Wisconsin	1
	Madison	Wisconsin	1

(continued)

Company	City	State	Number of locations within each city
United States Cold Storage of California	Exeter	California	1
	Sacramento	California	1
	Fresno	California	1
	Dinuba	California	1
	Union City	California	1
Workman Enterprises	Exeter	California	1
Hansen Storage Company	Milwaukee	Wisconsin	2
	Wauwatosa	Wisconsin	1
Alford Refrigerated Warehouses	Dallas	Texas	1
Christian Salvesen	Hopkins	Minnesota	1
	Modesto	California	1
	Salinas	California	1
	Denver	Colorado	1
Cold Storage of New Ulm	New Ulm	Minnesota	2
Richard W. Gerrity/ Cleveland Cold Storage	Cleveland	Ohio	1
Kansas City Cold Storage Corporation	Kansas City	Missouri	1
	Kansas City	Kansas	1
Interstate Cold Storage	Columbus	Ohio	1
	Fort Wayne	Indiana	1
	Indianapolis	Indiana	1
	Napoleon	Ohio	1
Southeastern Public Service Company	Bonner Springs	Kansas	1
	Topeka	Kansas	1
Northland Cold Storage	Green Bay	Wisconsin	2
Berkshire Warehousing Services	Chicago	Illinois	1
Central Storage & Warehouse Company	Madison	Wisconsin	1
	Eau Claire	Wisconsin	1

WHEN AND BY HOW MUCH HAVE STORAGE AND RELATED RATES BEEN ADJUSTED AND WHAT IS THE BASIS FOR THE ADJUSTMENTS?

At the end of fiscal year 1989, USDA had storage agreements with companies that included about 550 dry and cold storage warehouses. Storage and related rates are changed whenever the contractor and USDA agree that an adjustment is warranted. Because USDA does not periodically summarize information on storage and related rate adjustments, we judgmentally selected for review seven storage agreements with contractors that were among those who stored the most dairy products during the period of our review.

For the seven storage agreements that we reviewed, USDA approved 17 changes that affected 39 storage and handling rates over the 5-year period ending fiscal year 1989. As shown in table 2.5, one agreement had no changes whereas the agreement with the most changes had 14 rate adjustments. Of the 39 rate adjustments, 26 were decreases and 13 were increases. Reasons cited for decreases were (1) increased efficiencies in operations, (2) to be more competitive, and (3) to decrease rates as requested by USDA. USDA approved increases (1) because the requested rates were in line with other warehouse rates, or (2) because of increases in the consumer price index.

Table 2.5: Examples of Rate Adjustments Made for Storing and Handling USDA Processed Dairy Products

Company/Commodity	Date of change	Change in storage(S)/ handling(H)	Change in cents per 100 weight From	To
Carthage Marble Company				
American Cheese (drum)	8-09-85	Decrease S	24.5	22.0
Cheddar (drum/box)	1-15-86	Decrease S	20.0	16.0
Processed Cheese (box)		Decrease H	29.0	26.0
Kelaron Corporation				
Butter (box/tub)	9-01-85	Decrease S	25.0	24.5
		Decrease H	38.0	37.0
Cheddar/Processed Cheese (box/tub/drum/carton)	9-01-87	Decrease S	24.0	22.0
Americold Service Corporation				
Butter (box/carton)	3-01-86	Decrease H	40.0	38.0
Cheddar (box/drum)	6-23-86	Decrease S	24.0	22.0
Processed Cheese (carton)		Decrease H	40.0	38.0
Hill Top Developers				
Butter (box)	2-13-86	Decrease S	24.8	20.0
		Decrease H	38.0	37.0
Regular NFDM (bag/carton)	2-01-87	Decrease S	7.9	7.4
		Decrease H	38.0	34.0
Regular NFDM (bag/carton)	3-05-87	Decrease S	7.4	7.0
		Decrease H	34.0	33.0
Cheddar Cheese (box)	7-15-87	Decrease S	24.0	22.0
		Decrease H	37.0	36.0
Cheddar Cheese (box)	11-01-88	Decrease S	22.0	21.0
		Decrease H	36.0	35.0
Cheddar Cheese (barrel)		Decrease S	24.0	21.0
		Decrease H	37.0	35.0
Processed Cheese (carton)		Decrease S	24.0	21.0
		Decrease H	37.0	35.0
Alford Refrigerated Warehouse	No changes since 1983.			

(continued)

Company/Commodity	Date of change	Change in storage(S)/ handling(H)	Change in cents per 100 weight From	To
Workmen Enterprises				
All Products	3-04-85	Increase Inspection[a]	80.0	100.0
Butter/Cheese (box)	6-25-85	Increase unloading/ loading fee	10.0	12.0
Cheese (drums)		Decrease unloading/ loading fee	12.5	12.0
All Products	1-01-88	Increase container stuffing rate	10.0	12.0
Butter (carton)		Increase S	32.0	33.0
Cheddar/Processed Cheese (carton)		Increase S	28.0	30.0
Butter (carton)	8-01-88	Decrease S	33.0	31.5
Butter (carton)	6-15-89	Decrease S	31.5	30.0
Underground Warehouses				
Butter (carton)	2-01-89	Increase S	24.0	27.0
		Increase H	34.0	38.0
Cheddar Cheese (carton)		Increase H	30.0	33.0
Processed Cheese (box)		Increase S	20.0	22.0
		Increase H	30.0	33.0
Regular NFDM (bag/carton)		Increase H	28.0	29.5
Instant NFDM (carton)		Increase S	8.5	12.5
		Increase H	30.0	36.0

[a]The increase in the inspection charge is limited to containers weighing more than 100 pounds and the rate is per container instead of per 100 pounds.

HOW DO THE STORAGE RATES OBTAINED BY USDA COMPARE WITH COMMERCIAL RATES?

USDA representatives said that a storage warehouse could not charge USDA more than it charges other customers. When USDA approves a warehouse for storing its dairy products, USDA obtains, for comparison purposes, a copy of the published rates that the warehouse charges others. Changes in the published rates are obtained as they occur. If the warehouse does not publish its rates, the warehouse must certify that it does not publish rates and that the rates quoted to USDA are not more than the rates charged commercial customers. In addition, the schedule of rates that the warehouse signs when it enters into a storage agreement with USDA contains the statement

> "The warehouseman warrants that the rates for services provided in the Agreement are not in excess of rates charged other customers for the same service."

SECTION 3
TRANSPORTATION PAYMENTS FOR DAIRY PRODUCTS 1985-89

This section responds to the question regarding USDA's transportation payments for the 5-year period ending fiscal year 1989.

WHO ARE THE MAJOR RECIPIENTS OF USDA TRANSPORTATION PAYMENTS

Over the 5-year period included in our review, USDA paid about $265 million for transporting butter, cheese, and nonfat dry milk to about 1,100 companies ranging from 640 in fiscal year 1985 to 254 in fiscal year 1989. Table 3.1 shows the 17 major recipients of the payments that together received about $156 million or about 59 percent of the total. We considered a major recipient as any company that received 1 percent or more of the total transportation payments made by USDA during the 5-year period.

Table 3.1: Top 17 Recipients of Payments Made to Transport USDA Dairy Products

Company	Percent of fiscal year total 1985	1986	1987	1988	1989	All 5 years Percent of total	Total dollars (millions)
Burlington Northern Railroad Co.	10.6	12.0	12.0	13.6	18.2	12.3	$ 32.7
Chicago & Northwestern Transportation Co.	5.9	7.0	6.5	6.1	1.7	6.1	16.2
Missouri Pacific Railroad Co.[a]	5.7	5.5	5.8	4.0	3.6	5.2	13.9
Consolidated Rail Corporation	6.7	5.4	3.9	5.1	2.9	5.2	13.7
Atchison Topeka and Santa Fe Railway Co.	5.8	5.7	5.4	3.0	5.8	5.2	13.7
Union Pacific Railroad[a]	5.1	5.1	2.0	2.6	2.9	3.8	10.1
CSX Transportation[b]	2.8	3.1	3.7	6.3	3.3	3.7	9.9
Southern Pacific Transportation Co.[c]	2.0	2.7	3.3	7.1	0.0	3.3	8.7
Green Bay and Western Railroad Co.	3.0	1.8	3.0	3.4	0.0	2.6	6.8
St. Louis Southwestern Railway Co.[c]	1.7	2.6	1.4	1.2	0.0	1.7	4.4
S & J Trucking & Leasing Co.	0.0	2.3	1.9	2.9	1.3	1.7	4.4
Ellis Trucking Co.	1.9	2.2	1.9	0.0	1.4	1.6	4.3
Norfolk & Western Railway[d]	2.1	1.6	1.2	1.3	0.0	1.5	3.9
American President Distribution Services	1.3	1.1	1.8	1.9	1.0	1.5	3.8
Mobile Transport System	1.0	1.2	2.0	1.2	2.6	1.4	3.8
Hub City Kansas City Terminals	0.0	1.3	2.3	2.3	0.0	1.3	3.4
Southern Railway System[d]	1.1	1.4	0.0	1.2	2.4	1.0	2.8
Total	56.7	62.0	58.1	63.2	47.1	59.1	$156.5
Other companies	43.3	38.0	41.9	36.8	52.9	40.9	108.4
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	
	------------ Dollars in Millions ---------						
Total	$67.1	$72.0	$61.9	$46.9	$17.0		$264.9

[a]Part of Union Pacific Corporation.
[b]Prior to fiscal year 1987, CSX Transportation was Seaboard System Railroad.
[c]Part of Southern Pacific Transportation Company.
[d]Part of Norfolk Southern Corporation.

WHEN AND BY HOW MUCH HAVE TRANSPORTATION RATES BEEN ADJUSTED AND WHAT IS THE BASIS FOR THE ADJUSTMENTS?

Between 1985 and 1989, USDA negotiated thousands of transportation rates with over 1,100 individual carriers. Transportation rates are negotiated on a case by case basis, and there have been no across the board adjustments to the rates. According to USDA officials, many factors can affect these rates, including the type of commodity being shipped, the weight of the commodity, the availability of transportation equipment, and delivery times.

To examine variations in transportation rates, we judgmentally selected 12 pairs of USDA shipments that involved the same origins and destinations but varied in cost. We then asked USDA to research the shipments and payments to determine why the rates varied. Of the 12 pairs of shipments, 1 involved an increase in shipping costs of about 7 percent from 1986 to 1989 because the railroad adopted a new rate schedule. Several of the remaining 11 rates varied and they varied for the reasons previously cited by USDA; that is, differences in weight shipped, carriers, commodity, and mode. Because of our limited review, these results cannot be projected.

SECTION 4
ENDING DAIRY PRODUCT INVENTORIES
1985-89

This section deals with questions regarding USDA dairy product inventories for the 5-year period ending fiscal year 1989.

WHEN DID GAO FIRST REPORT A DECLINING INVENTORY OF USDA DAIRY PRODUCTS TO THE CONGRESS?

GAO reported declining USDA dairy inventories in two reports issued in early 1988 entitled

-- Federally Owned Dairy Products: Inventories and Distributions, Fiscal Years 1982-1988, GAO/RCED-88-108FS, February 23, 1988; and

-- Farm Programs: An Overview of Price and Income Support, and Storage Programs, GAO/RCED-88-84BR, February 29, 1988.

WERE THERE INDICATIONS PREVIOUS TO 1987 THAT DAIRY STOCKPILES WERE BEING DRAWN DOWN AND THAT UNCOMMITTED RESERVES WOULD BE DEPLETED BY 1988?

The information on table 4.1 shows that uncommitted ending stock inventories of cheese and nonfat dry milk peaked in fiscal year 1983 and then steadily declined until they reached zero in fiscal year 1989. Ending inventories of butter, which peaked in 1982, have never declined to zero and most recently have begun to increase. The World Agricultural Supply and Demand Estimates, dated November 9, 1987, and approved by the World Agricultural Outlook Board, forecasted that Commodity Credit Corporation's uncommitted inventory at the end of fiscal year 1988 would be at zero for butter, cheese, and nonfat dry milk. The previous estimates made in July 1987 projected each of these commodities to have balances at the end of fiscal year 1988.

Table 4.1: Ending Uncommitted Stocks of USDA Dairy Products

Fiscal year	Butter	Cheese	NonFat dry milk
	-----Pounds in Millions-----		
1981	217	554	811
1982	403	825	1,177
1983	391	903	1,346
1984	255	768	1,204
1985	140	657	981
1986	194	559	697
1987	82	99	63
1988	161	44	9
1989	191	0	0

WHAT EFFORTS WERE MADE BY THE ADMINISTRATION TO AVOID THE DEPLETION OF USDA DAIRY STOCKS?

USDA officials at ASCS's Kansas City Commodity Office stated that in early 1988 they took three actions to avoid the projected depletion of dairy stocks. These actions were as follows:

-- Stopped selling nonfat dry milk on June 24, 1988, and cheese on July 1, 1988.

-- Attempted to buy more nonfat dry milk and cheese competitively. However, as nonfat dry milk and cheese prices increased, USDA purchases decreased--processors tended to cancel sales to USDA because they had commercial customers who would pay more. During August 1988 through June 1989, USDA made no purchases because of the high prices. In July and August 1989, USDA made limited purchases.[1] USDA made some much larger purchases[2] of cheese in July 1989 at very high prices.

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[1]USDA issued six different advertisements for unspecified quantities of either nonfat dry milk or cheese. Based on bids to five of these advertisements, USDA purchased 285,600 pounds of nonfat dry milk and cheese and rejected 676,000 pounds because of the high prices.

[2]In November 1989, USDA advertised for 6 million pounds of cheese and bought all of the 2.1 million pounds offered. In January 1990, USDA advertised for an unspecified quantity and purchased 3.4 million pounds and rejected 264,000 pounds because the price was too high.

-- Targeted the programs the dairy products would be used for. Nonfat dry milk and cheese were taken out of the export program. Processed cheese distribution was limited to the Commodity Supplemental Food Program and the Indian Help Program. Also during this time, the National School Lunch Program remained a high priority for nonfat dry milk and Mozzarella cheese.

WHAT ESTIMATED EFFECT WOULD A REDUCTION OF 50, 100, AND 150 MILLION POUNDS IN USDA CHEESE DONATIONS TO THE SCHOOL LUNCH PROGRAM HAVE ON LOCAL, STATES, AND FEDERAL FUND OUTLAYS?

Because of limited time and the difficulty in devising a methodology, we did not estimate how reductions in the federal cheese donations to the National School Lunch Program would affect state and local funding outlays associated with local school lunch programs. Such estimates would depend largely on defining the dairy needs for school lunch programs. On June 14, 1989, we testified[3] about the difficulties in developing an estimate of such needs, stating:

> "It is difficult to estimate the quantities and types of dairy products needed for the school lunch program because of problems in defining dairy needs. *** In an attempt to develop an acceptable definition of dairy needs from a nutritional perspective, we spoke with health and nutrition experts at the National Institutes of Health, Food and Nutrition Service, and National Academy of Sciences. These experts noted that many variables can affect the minimum amounts of specific dairy products necessary for a nutritionally sound diet and, consequently, it would be difficult if not impossible to develop an estimate. For example, an official from the National Academy of Sciences noted that the need for dairy products would have to be viewed in the context of the total diet. Therefore, a large number of assumptions would have to be made about what quantities and types of foods were being consumed outside the school lunch program."

Also, in our testimony, we reported the results of our discussion with officials from 20 states (who were responsible for distributing donated products to school districts) about how reductions in bonus dairy products have affected school lunch programs. We reported that

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[3]GAO Statement by William E. Gahr, Use of Surplus Dairy Products in the National School Lunch Program, before the Subcommittee on Nutrition and Investigations, Senate Committee on Agriculture, Nutrition, and Forestry (Washington, D.C., June 14, 1989).

"The most common action taken in response to decreased dairy donations was to reduce either the quantities of dairy products used in school lunches or how often they were served. Thirteen state officials said that their school districts had taken such actions, but most classified the reductions, at worst, as moderate. In addition, eight indicated that school districts had purchased additional dairy products with state or local funds in order to compensate for decreases in dairy donations. Only two state officials told us that some schools had increased the price of student lunches. However, 14 state officials estimated that school lunch prices will be raised next year to purchase additional dairy products. Estimates of the increases ranged from 5 to 25 cents."

 APPENDIX I

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