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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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DEC 6 1974

The Honorable Joshua Eilberg  
House of Representatives



Dear Mr. Eilberg:

Your letter of September 27, 1974, requested information on (1) the effect an agreement to supply 100,000 tons of wheat to Egypt will have on the wholesale and retail prices of wheat and wheat products in the United States and (2) whether or not this wheat will be shipped in American-flag vessels. Moreover, because you expressed concern about the cost of the agreement to the American people, we estimated the cost that the U.S. Government will bear.

The wheat sale was arranged under the provisions of title I of the Agricultural Trade Development and Assistance Act of 1954, as amended, Public Law 83-480. The agreement, signed on September 12, 1974, provides dollar credit financing on concessional terms for sale of wheat and wheat products valued at \$17.5 million. The terms are comparable to those in several recent title I sales agreements with other countries.

The agreement includes the following terms:

1. Initial payment of 5 percent upon delivery onboard at the U.S. port.
2. The balance of the principal in 19 approximately equal annual installments beginning 2 years after date of last delivery in each year.
3. Accrual of interest beginning on the date of last delivery in each calendar year at annual rates of 2 percent for 2 years and 3 percent for the remaining years.
4. Payment of accrued annual interest beginning one year from the date of last delivery in each calendar year.

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The Government of Egypt had not purchased any of this wheat as of October 11, 1974. According to officials of the Department of Agriculture, the sale will have little, if any, impact on the wholesale and retail price of wheat in the United States. The quantity being sold to Egypt--the equivalent of 3.7 million bushels based on a market price of \$4.71 per bushel--represents about two-tenths of 1 percent of the estimated domestic wheat production during the 1974 crop year. The officials contend that such a small quantity would not have a major influence on domestic prices. 12

The Cargo Preference Act of 1954, as amended, requires that at least 50 percent of Public Law 480 shipments be transported in U.S.-flag vessels if they are available at fair and reasonable rates for such vessels. Department of Agriculture officials told us they expect at least 50,000 metric tons of this wheat will be shipped to Egypt in U.S.-flag vessels. Thus, the U.S. Government will pay an ocean freight differential for the additional costs attributable to using U.S.-flag ships.

The estimated cost to the U.S. Government for this concessional sale is \$11,357,000. It includes (1) the difference in estimated interest costs--\$10,619,500--between that which the U.S. Government assumes and that which will be collected from Egypt and (2) the ocean freight differential, estimated by the Department of Agriculture at \$738,000.

Our computation of the difference in estimated interest costs was based on the agreement terms and on the following assumptions regarding implementation of the agreement:

1. All onboard deliveries would take place on one date--December 31, 1974.
2. The financial impact of transactions would be reflected in U.S. Treasury borrowings.
3. U.S. Government financing would be secured at 8-5/8 percent, the Treasury rate for 20-year loans to U.S. Government agencies as of October 1974, and computed in accordance with Public Law 91-606.

Based on the foregoing, we calculated that (1) the U.S. Government's interest over the 20-year period will amount to \$15,773,000, and

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(2) the Government of Egypt's interest will amount to \$5,154,000. The difference between these figures--\$10,619,000--represents the U.S. Government's net cost of financing the agreement.

The ocean freight differential was estimated at \$738,000, based on \$15 per long ton and an assumption that the differential would be paid on 49,200 long tons, or one-half of the commodities to be shipped.

The sales agreement with Egypt was amended on November 11, 1974, to provide an additional 200,000 metric tons of wheat and wheat products during fiscal year 1975. The information presented above does not take into account the added quantities.

We trust this information meets your needs.

Sincerely yours,

  
Comptroller General  
of the United States

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