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Barter of U.S. Agricultural Surpluses 7 pages

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Barter of U.S. Agricultural Surpluses

Allan F. Rau

The program of bartering U. S. agricultural surplus commodities involves several basic political and economic problems. For example, it has been suggested that these commodities might be used to loosen the economic hold of the Soviet Union on its Eastern European satellites, and especially on Poland. On the economic side, some of the major problems involved in the barter program, as in the case of other methods of agricultural surplus disposal abroad, are the effects of the transactions on the price of the surplus commodities and of the materials acquired in return, and the relation between the program and general principles of U.S. commercial policy, in particular, the question of "dumping."

## Barter transactions prior to 1954

Barter of surplus agricultural commodities owned by the Commodity Credit Corporation was first authorized in Section 4(h) of the Commodity Credit Corporation Charter Act of 1948[1/] as amended in 1949.[2/] Under this Act and under the Agricultural Act of 1949, the Commodity Credit Corporation was authorized, upon terms and conditions prescribed or approved by the Secretary of Agriculture to accept "strategic and critical materials produced abroad in exchange for agricultural commodities" and to use surplus agricultural commodities "in making payment for commodities not produced in the United States." Barter transactions for procurement of strategic and non-strategic materials under these authorizations averaged about $22 million a year until 1954.

## Barter transactions under Agricultural Trade Development and Assistance Act of 1954

As agricultural surpluses grew following the Korean War, the Congress became more and more dissatisfied with the Department of Agriculture's actions in the barter field. The dissatisfaction was put on record in the House Report[3/] which accompanied the bill that became the Agricultural Trade Development and Assistance Act of 1954:

> "Although barter of surplus agricultural commodities for critical and strategic materials is specifically contemplated and authorized by the Agricultural Act of 1949, and the Commodity Credit Corporation Charter Act, the Department of Agriculture has participated in relatively few such transactions and, apparently, has taken an attitude discouraging, rather than encouraging, the making of such exchanges."

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1/ Public Law 805, 80th Congress.
2/ Act of June 7, 1949, Public Law 85, 81st Congress.
3/ Number 1766, 83rd Congress, 2nd Session.

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In the Agricultural Trade Development and Assistance Act the Congress strengthened the language of the old authorization. Under the previous barter provisions the Secretary of Agriculture was authorized to enter into barter agreements. Section 303 of Public Law 480 directs him to do so, employing "every practicable means." It is thus a restatement of legislative intent, designed to bring about a positive and aggressive attitude toward barter on the part of the Department. No termination date or dollar limitation is placed on the barter program.

The Act provides for barter of agricultural commodities held by the Commodity Credit Corporation for three purposes:

1. To obtain strategic materials for stockpiles.
2. To obtain materials and equipment for economic and military aid to foreign countries.
3. To obtain materials and equipment for offshore construction programs.

The legislation has had the desired effect as the Department of Agriculture has greatly expanded its barter activities. Since the fiscal year 1955, barter transactions have accounted for about 10 per cent of total Commodity Credit Corporation disposals, while all barter contracts entered into during the five years through fiscal 1954 equaled $108 million and contracts entered into during the following three years totaled $871 million.

Commodity Credit Corporation Disposals
(In millions of dollars)

| Fiscal year | Total | Barter contracts entered into | Actual shipments of bartered agricultural commodities |
|---|---|---|---|
| 1953 | 520 | n.a. | n.a. |
| 1954 | 1,424 | n.a. | 34 |
| 1955 | 2,115 | 282 | 125 |
| 1956 | 2,723 | 316 | 265 |
| 1957 | 3,976 a/ | 273 b/ | 360 c/ |

a/ Estimated
b/ Through June 26, 1957
c/ Through May 31, 1957

Virtually all of the agricultural surpluses were bartered for strategic materials for stockpiles, and grains have accounted for the major part of the bartered agricultural commodities. These commodities were exported to 36 friendly nations; about three fourths of the volume went to European nations.

The barter transactions do not involve government-to-government agreements. Rather, they are actually "matched sales"[1] between the U.S. Government and U. S. firms: section 303 of Public Law 480 directs the Secretary of Agriculture, in cooperation with other government agencies, to arrange for barter transactions through private trade channels. The U. S. Government makes public its requirements for strategic and other goods. U. S. private firms then submit offers. The offers are considered in the light of price and quality of materials, stockpile needs, effect of barter procurement on the market, and similar factors. The firms that are awarded contracts are free to find their own foreign markets in friendly nations;[2] they negotiate their own terms and sell in the usual channels of trade. The contracts with private U.S. firms now are made in terms of specified agricultural commodities, but the private firms may exercise option as to the time they take delivery. The contracts also specify the materials to be delivered to the Government. The private firm buys these materials from friendly countries, though not necessarily from the country or countries to which the agricultural commodities are exported.

Recent changes in the barter program

On May 1, 1957, the Department of Agriculture suspended barter transactions under Public Law 480 in order to review the program so as to determine whether it should be continued, discontinued, or greatly curtailed. It was unofficially stated that the review was being made because of two major developments. One was a recent action in Congress to reduce funds for stockpiling by the Office of Defense Mobilization. The Office of Defense Mobilization, as well as other government agencies, is required to purchase strategic goods from Commodity Credit Corporation inventories to the extent available; the Commodity Credit Corporation is presently holding nearly $350 million worth of minerals, and a reduction in funds for the Office of Defense Mobilization would close the major outlet for the bartered strategic goods. Secondly, the Department of Agriculture feared that exports of agricultural commodities obtained through barter deals were replacing normal exports of agricultural commodities through private channels as well as the Department's own dollar exports. The loss of such dollar exports became clear during April 1957. The Commodity Credit Corporation had been very successful in disposing of its inventories of cotton on the world market through competitive bidding. Purchasers were

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1/ Frederick C. Dirks, "U.S. Exports of Surplus Commodities," International Monetary Fund Staff Papers, Volume V., Number 2, page 203.

2/ Since May 29, 1957, subject to certain limitations. See below, Page 4.

given the option either of paying dollars, or, if they notified the Department of Agriculture within three days after the sale, of delivering strategic goods in payment. During April, 1957, barter agreements involving cotton increased markedly as large numbers of purchasers used their option of notifying the Department they would pay for the cotton with strategic goods.

On May 29, 1957, the Department of Agriculture announced that the barter program was being resumed on a revised basis intended to insure that each barter contract results in a net increase in exports of the agricultural commodity involved. Before a barter contract can be consummated, the contractor must now prove that the transactions will not displace normal U.S. farm commodity exports for dollars.[1/] This will not be an easy task. In order to keep ingenious contractors in check, the Department has tightened the ground rules. Contractors must guarantee that farm commodities will not be transshipped from the approved countries of destination, while formerly contracts banned only transshipment to unfriendly nations. Also, the barter contracts must specifically designate the agricultural commodity to be bartered, while formerly contractors could choose practically any commodity in government stocks. A Department of Agriculture spokesman has predicted that the revised program will curtail barter activities "drastically."

Until the Department revised the barter program, the contractor, while able to obtain the surplus agricultural commodity from the Commodity Credit Corporation and to dispose of it abroad immediately, was not required to deliver the strategic goods until two years had elapsed. This amounted to an interest-free loan from the Commodity Credit Corporation and acted as the primary incentive for firms to enter into barter agreements. Now, however, the contractor will have to pay interest to the Commodity Credit Corporation at the annual rates that apply to Commodity Credit Corporation export sales for credit. Currently these rates are 3-7/8 per cent up to six months, 4-3/8 per cent for six to 18 months, and 4-7/8 per cent for 18 to 36 months. The contractor must guarantee the payment of interest as well as the delivery of the strategic material or cash with an irrevocable letter of credit. These interest rates are very low, however, and the credit provision thus will still act as an important, though weaker, incentive for firms to enter into barter agreements.

Two other incentives for firms to enter into barter agreements remain unchanged. First, the agreements provide an assured market for strategic materials that otherwise might have proved unsaleable. Second, there is often a possibility to profit from exchange arbitrage. There is no evidence that the prices themselves on which the agreements are based differ substantially from those prevalent in the cases of dollar exports of agricultural surplus commodities and of dollar imports of strategic

1/ In the cases of cotton, wheat, and feed grains this proof is required only when disposals are to be made in countries that might buy through other channels. This requirement applies to 32 countries or territories for cotton, to 57 for wheat, and to 45 for feed grains.

materials -- although the price level in the world market has been influenced by the existence of the barter program.[1/]

Barter transactions and the Cold War

In his message to the Congress of January 9, 1956, President Eisenhower stated that the United States should place itself in a position to take advantage of any opportunities which might develop in the future to find markets in the Soviet Bloc countries for agricultural commodities. Section 304, Title III, of the Agricultural Trade Development and Assistance Act of June 10, 1954 (Public Law 480) requires the President to exercise his authority under the Act so as to assist friendly nations to be independent of trade with the U.S.S.R. or nations "dominated or controlled by the U.S.S.R." and so as not to increase the availability of commodities to unfriendly nations. The Administration asked the Congress to repeal Section 304 in order to permit private U. S. firms receiving surplus commodities through barter agreements with the U. S. Government to dispose of them in Soviet Bloc nations. The Congress amended Public Law 480 in August 1956 but did not repeal Section 304.

In his budget message of January 16, 1957, the President again requested legislation authorizing the disposal of government-held agricultural surpluses to the nations of Eastern Europe. Recent happenings in Poland indicated that the door was opening for such disposals in Eastern Europe with obvious economic and political advantages to the United States. The opportunity which, one year earlier, President Eisenhower had predicted might present itself had indeed materialized. In hearings before the Senate Committee on Agriculture and Forestry on the agricultural situation and farm programs on January 29, 1957, Secretary of Agriculture Benson stated that:

> "There are occasions when it would be helpful to us to be able to move grain, cotton, or fats and oils into Poland, for example, in exchange for some of their metals or other goods useful to us."

The Senate passed a bill on April 1, 1957, which, among other amendments, deleted Section 304 of Public Law 480 in order to make possible such disposals. On June 24, 1957, the House passed the Senate bill, but only after amending it so that Section 304 was not deleted. On July 2, 1957, a Senate-House conference committee amended the bill so as to permit the sale of bartered agricultural commodities in Poland and other European satellites within the Soviet Bloc, though not on the Soviet Union itself nor in Communist China and its Asian satellites. Although the Secretary of State has ruled that Poland is not an unfriendly nation for purposes of

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1/ See below, pages 6 and 7.

sales of U. S. agricultural commodities for foreign currencies under Title I of Public Law 480, no such ruling has been made for barter transactions under Title III.

## Economic problems of barter transactions

As already pointed out, the barter takes place between the U.S. Government and private U. S. firms. Contrary to the general belief, there is no barter between the U. S. Government and foreign nations. This fact has been glossed over by the Department of Agriculture as the farmers' representatives in Congress have pushed the Department into more extensive use of the barter authorization of Section 303 of Public Law 480. The farmers and the general public have been told that barter contracts increase the disposal of government stocks of agricultural commodities. In fact, it is almost certain that the disposals of bartered agricultural commodities have displaced normal sales of U.S. exporters or the Department of Agriculture's dollar exports, although it is impossible to estimate the extent to which they have done so. The private U. S. firms that take agricultural commodities from the Commodity Credit Corporation have been free, until now, to dispose of them as they saw fit in any friendly nation. While it is not definitely known what percentages of these agricultural commodities have been sold for dollars or been involved in "triangular deals" or barter arrangements, it seems probable that an extremely high percentage has been sold for dollars.

The barter of surplus agricultural commodities has had a noticeable effect on the price of strategic raw materials. At first, U. S. producers of strategic metals were suspicious of the barter agreements, but more recently the agreements have won the approval of these producers by supporting the world price of metals and by taking off the market foreign supplies, which would otherwise have competed with U. S. output in the form of ordinary imports. The suspension of barter transactions on May 1, 1957, coupled with the recent action in the Congress to reduce funds for stockpiling by the Office of Defense Mobilization, had an adverse effect on the prices of the affected metals. For example, U. S. zinc prices dropped by two cents to 11-1/2 cents per pound, and U. S. lead prices fell from 16 to 15 cents per pound. However, with the resumption of the barter program at the end of May, 1957, zinc and lead prices did not recover but continued to fall: as of June 14, 1957, the U. S. zinc price had fallen to 10 cents per pound and the U. S. lead price had fallen to 14 cents per pound. This continued drop in lead and zinc prices may be in part explained by the belief that the new barter rules would result in a curtailed barter program.

The effect of the barter program on the price of the bartered agricultural commodities is more difficult to ascertain. The U. S. price is largely set by price supports and protected by import restrictions and therefore presumably unaffected by the barter program. The distortion of the world price, however, depends on the effect the program has upon world trade, including other U. S. disposal programs. The barter program has been used to dispose of large amounts of agricultural commodity inventories held by the Commodity Credit Corporation. However, as pointed out before, it is impossible to say how much the barter program has increased the total quantity of U. S. agricultural commodity disposals under Public Law 480 and other legislation.

## Conclusions

The Department of Agriculture has never been too happy with the barter program. Only when the Congress passed Public Law 480 did the Department initiate an extensive barter program. Public Law 480 was passed as an emergency program for disposing of surplus agricultural commodities. However, unless the present agricultural policy of the United States is changed, agricultural surpluses will not be a temporary phenomenon, and disposal programs will, of necessity, be continued.

The evaluation of the program will have to take into consideration not only the extent to which it has helped the disposal of agricultural surplus commodities but also its repercussions on commercial policy in general. Since the barter is between the U. S. Government and private U. S. firms, it is probably incorrect to state that the program is in itself a step toward bilateralism. However, since the Government provides not only the commodities to be exported but also the market for the commodities imported, the barter agreements contain even stronger elements of "state trading" than ordinary surplus disposal programs; thus, they are in conflict with the traditional United States view of commercial policy, and some of the program's critics consider them an encouragement to other nations to increase their own control over trade.

Finally, the barter agreements result in sales of goods abroad at prices lower than the domestic quotations. Like other methods of surplus commodity disposal abroad, they have, therefore, been condemned as "dumping." (Article VI, General Agreement on Tariffs and Trade) It may be argued, however, that the program only offsets the artificial overvaluation of surplus commodities in the domestic market of the United States caused by the agricultural price-support system, and that it is thus doubtful whether it actually "causes or threatens material injury" to other countries.