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PUBLIC LAW 480 TITLE I

Economic and Market Development Objectives Not Met

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PUBLIC LAW 480 TITLE I: ECONOMIC AND MARKET DEVELOPMENT OBJECTIVES NOT MET

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Through the Public Law (P.L.) 480 title I food aid program, U.S. agricultural commodities are sold to developing countries on long-term credit at below-market interest rates. The current goal of the program is to promote the foreign policy of the United States by enhancing the food security of developing countries. The P.L. 480 legislation specifies five ways that agricultural commodities provided under the program can support this goal, including their use to promote broad-based, sustainable (BBS) development and develop and expand markets for U.S. agricultural commodities.

GAO assessed the impact of title I assistance on BBS development and long-term market development for U.S. agricultural goods in recipient countries and found that title I's contribution in these areas was limited for many reasons. Title I aid has minimal impact on BBS development because the value of the foreign exchange a country might save through purchasing title I commodities on concessional terms--the vehicle through which BBS development could occur--is small relative to the country's development needs. Also, the program provides USDA little leverage to influence development activities or initiate policy reforms in the recipient country. Furthermore, other competing objectives dilute whatever leverage might be associated with the program.

GAO's review also indicated that title I's contribution to long-term, foreign market development for U.S. agricultural commodities has not been demonstrated. Title I commodities tend to be price sensitive, therefore it is difficult to transform the concessional market share established through the title I program into commercial market share, unless the United States can offer competitive prices and financing. In addition, GAO found that several legislatively mandated program requirements (i.e., cargo preference rules, reexport restrictions, and commodity eligibility rules) impose constraints on recipients that undermine market development efforts.

Despite streamlined management adopted in 1990 amendments to the title I program, multiple and sometimes competing objectives, as well as contradictory program requirements, continue to encumber the title I program, making it difficult to create and implement an effective program strategy.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify before this Subcommittee about the results of our review of the Public Law (P.L.) 480 title I food aid program. Over the past 40 years, the United States has allocated approximately $30 billion in title I food assistance to developing countries. The title I program allows U.S. agricultural commodities to be sold on long-term credit terms at below-market-rate interest and is administered by the U.S. Department of Agriculture (USDA). As required by title XV of the Food, Agriculture, Conservation and Trade Act of 1990 (P.L. 101-624, Nov. 28, 1990), we evaluated several aspects of the title I program. Our forthcoming report on the title I program will be issued jointly to this committee and the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry.

My testimony will give a brief overview of how title I's program objectives have shifted over time from moving surplus U.S. agricultural commodities in 1954 to becoming a food security program in 1990. I will also discuss the impact of title I assistance on broad-based sustainable (BBS) development in recipient countries. The benefits of BBS development, which include raising economic and agricultural productivity, are critical to a successful food security strategy. I will also discuss the impact of title I assistance on long-term market development for U.S. agricultural goods in recipient countries. In addition, I will discuss the impact of the 1990 legislative changes on certain elements of title I program management. The 1990 act also required us to evaluate the donation and grant food assistance programs (titles II and III) administered by the Agency for International Development (AID); a separate report has addressed these programs.[1]

BACKGROUND

International assistance using agricultural commodities, or food aid, has been an important aspect of U.S. agricultural and foreign policy since 1954. The Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) commonly known as "Public Law 480," established the legal framework for U.S. food aid. Since then, several acts, including the 1990 Agricultural Development and Trade Act, have revised the goals and provisions of P.L. 480. While title I objectives have shifted over time to accommodate some changing circumstances, the domestic and international conditions that originally inspired title I food aid have changed dramatically.

As amended, the current goal of P.L. 480, including title I, is

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[1]See Food Aid: Management Improvements Are Needed to Achieve Program Objectives (GAO/NSIAD-93-168, July 23, 1993).

to promote the foreign policy of the United States by enhancing the food security of developing countries. Specifically, the five objectives of the P.L. 480 food aid programs are to (1) combat world hunger and malnutrition and their causes; (2) promote sustainable development, including agricultural development; (3) expand international trade; (4) develop and expand export markets for U.S. agricultural commodities; and (5) encourage the development of private enterprise and democratic participation in developing countries.

Title I Concessional Sales Program

Countries purchase title I commodities with concessional credit provided by the U.S. government. The concessional terms include a maximum 30-year period for repayment, with a maximum 7-year grace period and interest rates below prevailing market rates. The concessional credit allows a developing country to import agricultural commodities without expending its scarce foreign exchange up front. As part of the concessional sales agreement, recipients must state in writing how they will integrate the benefits of the title I assistance into their countries' overall development plans.

Along with its program management responsibilities, USDA proposes country allocations, and negotiates and monitors title I agreements. In fiscal year 1992, 22 countries received about $374 million in title I assistance from the United States, in allocations ranging from $5 million to $45 million (see app. I for title I allocations for fiscal years 1992-94). The main impact of the 1990 legislative changes on title I allocations has been to shift several former recipients of title I assistance to the newly revised P.L. 480 title III food for development program, which provides U.S. agricultural commodities on a grant basis.[2] However, events since the 1990 act have spurred even greater changes in the allocation of title I assistance. Egypt, one of title I's largest and longest-term recipients, returned approximately $100 million from its fiscal year 1992 allocation and subsequently dropped out of the program in fiscal year 1993. In 1991, Egypt's financial picture vastly improved, in large part as the result of U.S. and allied debt forgiveness following the 1991 Gulf War.[3] The returned $100-million program allocation represented about 25 percent of title I's total program value for

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[2]Formerly title I recipients in fiscal year 1990, Bangladesh, Bolivia, Ghana, Honduras, Peru, Senegal, and Uganda became title III recipients in fiscal year 1991.

[3]In 1991, the United States and a number of other countries cancelled about $14 billion of Egypt's total indebtedness of roughly $50 billion.

that year. At the same time, countries of the former Soviet Union and Eastern Europe became more important participants in U.S. assistance programs. During fiscal years 1992 and 1993, USDA was able to initiate title I programs in many countries of the former Soviet Union and Eastern Europe using title I funds that might have otherwise been allocated to Egypt.

Title I Objectives Have Shifted Over Time

According to the literature we reviewed on the history of P.L. 480 legislation, when P.L. 480 was enacted in 1954, its objectives were to move large amounts of U.S. surplus agricultural commodities and serve U.S. international policy interests. At the time, the United States was a major producer and exporter of agricultural commodities worldwide, there was a shortage of international purchasing power after World War II, and there was a great humanitarian need for food aid. Most U.S. food aid was sold to foreign governments through title I loans, but some was donated for disaster relief, economic development, and feeding programs.

By 1966, the United States had developed ways of reducing its long-standing problem of food surpluses. Although none of the original goals of the program were abandoned, the 1966 reauthorization of P.L. 480 reoriented the program's goals toward meeting the food needs of developing nations. The 1966 amendments required self-help contracts as part of every title I agreement to encourage recipient governments to improve domestic agricultural and food production.

In the early 1970s, agricultural prices soared as worldwide agricultural production stagnated and worldwide demand for agricultural products expanded. Demand increased because of strong economic growth in developing countries and rising commercial imports by the Soviet Union. The amount of U.S. surplus commodities drastically diminished, and Congress did not increase title I program appropriations to cover the higher costs of providing food aid. Amendments in 1974 and 1975 attempted to direct P.L. 480 distribution, including title I, to serve the most needy countries.

Amendments in 1977 shifted the emphasis of the food aid program to promoting the self-sufficiency of recipient countries. Recipient governments were encouraged to use proceeds from local sales of title I commodities for agricultural and rural development projects under a revised title III program. The focus of P.L. 480 shifted again in the early 1980s, when social development objectives became paramount. Recipient countries were encouraged to use local currency proceeds from the sale of title I commodities to support literacy and health programs for the rural poor. Development objectives were retained in the 1985

amendments to P.L. 480.

By the late 1980s, both U.S. foreign assistance funds and U.S. farm surpluses to help meet global food aid needs were becoming more scarce. In the 1990 legislation, the objectives of the food aid program became centered under one theme--to further U.S. foreign policy objectives by enhancing the food security of developing countries. Food security is defined in the 1990 act as "access by all people at all times to sufficient food and nutrition for a healthy and productive life." While the legislation emphasized food security--which is an economic development and food assistance issue--it also assigned title I program management to USDA, whose international responsibilities are foreign market development, rather than to AID, an international development agency.

Title I's Share of Both World Food Aid and U.S. Agricultural Exports Has Declined

Despite the shifting emphasis of the title I program, the importance of title I, domestically and internationally, has declined significantly since the program's inception in 1954. Although the United States remains a world leader in providing food assistance, both title I's share of total world food aid and the U.S. share of world agricultural exports have decreased substantially since the inception of the P.L. 480 programs. During the 1950s, the United States provided about 90 percent of world food aid, and title I represented over 80 percent of the U.S. food aid. As other countries began to increase their food aid donations in the 1970s, the U.S. share of world food aid dropped, to about 45 percent in the 1980s and 43 percent by 1990. Title I's share of U.S. food aid also declined, to about 53 percent in the late 1980s and 48 percent in 1990.

The establishment of new USDA credit guarantee programs (the General Sales Manager (GSM) -102 and -103 programs) and the commodity price reduction programs (the Export Enhancement Program--EEP) in the mid-1980s also decreased the importance of title I food aid as an U.S. export program. In the late 1950s and early 1960s, title I shipments accounted for approximately 20 percent of the total value of U.S. agricultural exports. However, this share decreased to about 2 percent in the 1980s. In 1992, title I's portion of U.S. agricultural commodity exports dropped to 0.9 percent.

TITLE I MAKES MINIMAL CONTRIBUTION TO BBS DEVELOPMENT

Broad-based, sustainable development, as the P.L. 480 legislation recognizes, is very important to a successful food security strategy because it raises the purchasing power and productivity of the population. This goal is critical to attacking the causes

of poverty, hunger, and malnutrition. In the course of our work, we found that the primary way that title I food aid might be able to contribute to broad-based, sustainable development in a recipient country is through the foreign exchange savings that occur when title I imports displace commercial imports. For example, a country's scarce foreign exchange that would have been used to purchase commercial imports might instead be invested in activities that support BBS development. In addition, title I agreements might be able to contribute to BBS development by directing recipients to undertake specific activities or reforms that promote BBS development in exchange for receiving food aid.

The results of our review indicated, however, that title I assistance has had minimal impact on BBS development because the value of the potential foreign exchange that countries can save through purchasing title I commodities on concessional terms has been small relative to the countries' overall development needs. In addition, the title I program provided the United States with relatively little leverage to induce recipient countries to undertake additional BBS development activities or policy reforms. The leverage was limited because the dollar value of title I assistance was small in relation to the countries' basic development requirements as well as to the total assistance provided by world donors. Furthermore, as discussed later in this testimony, other competing objectives diluted whatever leverage might have been associated with the provision of title I assistance.

According to some program supporters, another way in which title I assistance might be able to contribute to BBS development is through the recipient government's sale of the title I commodities in-country and the resulting generation of local currency. We disagree with this theory, however. Such generation of local currency does not represent an infusion of additional money into the local economy; instead, it represents a shift of money from the private to the public sector. Also, our literature review indicated that title I assistance has the potential to discourage agricultural production in recipient countries.

Although our analysis showed that title I's potential contribution to BBS development is limited, our research indicated that title I assistance could be making a meaningful contribution to the food supply in some recipient countries in the short run. However, this is not a long-term contribution to BBS development.

Countries Save Minimal Foreign Exchange by Importing Title I Commodities

Our literature review and interviews with U.S. and foreign

government officials indicated that the primary means by which title I assistance can contribute to BBS development in a recipient country is by helping the country save foreign exchange to invest in projects that promote long-term economic development. These savings occur when title I assistance displaces commercial sales, i.e., when a country purchases agricultural goods through the title I concessional sales program instead of purchasing them through commercial channels. Maximum gains in foreign exchange occur when 100 percent of the title I food aid displaces commercial sales.

Our analysis of title I assistance to recipients in fiscal year 1991 indicated that even if the maximum foreign exchange savings occurred, title I's contribution to BBS development would still be minimal because of the program's small size relative to a country's overall developmental needs. Data were available for 14 of 15 recipients in fiscal year 1991,[4] and in all of these countries the value of title I assistance was 4 percent or less, and generally much less, of the value of the countries' total imports (see app. II). For eight of these recipients, title I represented 1 percent or less of the value of the country's total imports. A country's imports include, but are not limited to, those goods the country finds necessary for its development that are currently available only from abroad and that the country must purchase with its scarce foreign exchange.

Although our analysis of potential foreign exchange savings indicated that title I's contribution to BBS development was limited, title I assistance can contribute significantly in some cases to helping a country meet its food import requirements. Food import data were available for 12 of the 15 recipients in fiscal year 1991.[5] For five of these countries,[6] title I constituted about 7 to 13 percent of the country's food imports. In addition, title I assistance represented 24.7 percent of the value of El Salvador's total food imports.

Our analysis also indicated that title I assistance may have enabled 5 of the 15 recipients[7] to acquire food that they

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[4]The 15 title I recipients in fiscal year 1991 were the Congo, Costa Rica, the Côte d'Ivoire, Egypt, El Salvador, Guatemala, Guyana, Jamaica, Morocco, the Philippines, Sierra Leone, Sri Lanka, Tunisia, Yemen, and Zaire. Import data were available for all the recipients, except Yemen.

[5]Food import data were not available for Guyana, Yemen, and Zaire.

[6]Costa Rica, Egypt, Guatemala, Jamaica, and Sierra Leone.

[7]The Congo, the Cote d'Ivoire, Guyana, Jamaica, and Sierra Leone.

otherwise would not have been able to purchase. These countries were experiencing critical shortages of foreign exchange (i.e., nongold reserves available that covered less than 1 month of imports) and thus were limited in their ability to pay for commercial imports.

Title I Provided Little Leverage

As part of the title I sales agreement, the recipient country agrees to undertake certain development activities in exchange for receiving title I assistance. We visited seven countries that received title I assistance in fiscal year 1992.[8] For five of our seven case study countries, we found that the title I agreements tended to reinforce those macroeconomic reforms or activities that recipient governments were already undertaking.

While title I agreements in two of our case study countries, Guatemala and El Salvador, also reinforced ongoing development projects, USDA negotiated additional policy reforms[9] that encouraged trade liberalization and included them in their fiscal year 1992 and 1993 agreements. In fiscal year 1994, however, El Salvador declined to participate in the title I program because it did not want to pursue those particular policy reforms.

Title I provides the United States with relatively little leverage to influence BBS development activities or initiate policy reforms beyond those a country is already undertaking because of the program's small size as well as the primacy of other competing objectives. We found that the dollar value of title I assistance was small relative to the countries' overall development needs and to total assistance provided by world donors in most cases. For example, in fiscal year 1991, total title I aid distributed among the 15 recipient countries amounted to $395.2 million, while total world donor assistance to these same 15 countries was $10.8 billion (see app. III). Representatives from the World Bank and a prominent international food policy research group told us that it would not be reasonable for countries to undertake major reforms with wide-ranging economic consequences in exchange for the relatively small amount of assistance provided through the title I program.

The leverage provided by title I aid as indicated by the dollar

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[8]Egypt, El Salvador, Guatemala, Jamaica, Morocco, the Philippines, and Sri Lanka.

[9]In their fiscal year 1992 and 1993 title I agreements, El Salvador and Guatemala pledged to eliminate "price bands," a policy of instituting tariffs in order to protect their farmers from certain agricultural imports.

value is likely to be significantly less than the figures suggest since the dollar value of the title I assistance probably overstates its economic value to the recipient country. There are several reasons why the recipient country may not place the same dollar value on the title I commodity as does the United States: (1) The recipient government may sell the commodity in-country for a price lower than its purchase price; (2) the program restrictions on shipping and reexporting commodities from the country further reduces its value to the recipient country; (3) the country may not have planned to import as much of the commodity as it received under title I, but was willing to take it given the generous term of the loan; (4) the recipient country may be buying something different than what it actually would have preferred; (5) the title I price per metric ton may exceed prices for similar commodities available through other USDA programs and suppliers; and (6) the title I assistance is a loan that needs to be repaid, not a grant program.

USDA's ability to use title I assistance as leverage to influence BBS development in-country may also be limited because other title I objectives, such as promoting U.S. agricultural exports or U.S. foreign policy, sometimes take priority in shaping title I programs, according to AID and USDA officials both in Washington, D.C., and in our seven case study countries. For example, they said that if policy reforms are particularly sensitive, negotiations can be lengthy, and the long negotiation process may be contrary to U.S. farm interests who are concerned about signing agreements as early as possible in order to move commodities, according to AID officials. In addition, they said that it can be difficult to negotiate further policy reforms since title I is often used as political goodwill to promote U.S. foreign policy interests. For example, in the Philippines, AID officials commented that AID could not be "tough" in the past when negotiating policy reforms to include in the title I agreements because the Philippine government considered all U.S. assistance "rent" for U.S. military bases in the Philippines .

Title I Shifts Money to the Public Sector

When title I commodities enter a country's food distribution system, their sale by the recipient government to the private sector generates revenues for the government that are called "local currencies." These revenues are not an infusion of additional money into the local economy; instead, they represent a shift of money from the private to the public sector. In theory, this transfer enables the recipient government to gain control over additional domestic spending power that it would not have otherwise had to help support activities that contribute to BBS development.

In practice, there are many difficulties associated with using these local currencies effectively.[10] It is difficult for USDA or anyone else to say whether the currencies are actually dedicated to the projects specified in the title I agreements because these local currencies are owned and usually controlled by the recipient government. Assuring that the local currencies are invested in BBS development activities is further complicated by the fact that money is fungible and difficult to track. This condition is also aggravated by inadequate accounting and control systems in some recipient countries.

Title I Aid Has Potential to Discourage Agricultural Production in Recipient Countries

One of the chief criticisms of title I assistance, according to the studies we reviewed,[11] has been that it can have a disincentive effect on local farmers and local food production, though this outcome does not necessarily happen in every case. These studies concluded that title I assistance has the potential to negatively affect local agriculture in particular situations. For example, if domestic sales of food aid products lower prices for domestic producers of similar commodities, this would discourage them from agricultural production in the future. However, to the extent that food aid displaces commercial imports, the disincentive effect on local food production due to downward pressure on food prices diminishes. At the same time, a country's agricultural policies are also important in determining whether food aid creates a disincentive for local agricultural production.

TITLE I'S IMPORTANCE TO LONG-TERM MARKET DEVELOPMENT HAS NOT BEEN DEMONSTRATED

To the extent that title I aid contributes to BBS development and expands the recipient's domestic economy, the program may lead to an increase in demand for U.S. agricultural exports. If the title I program creates preferences for U.S. products that remain after the concessional sales have been discontinued, then title I

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[10]See Foreign Assistance: Use of Host Country-Owned Local Currencies (GAO/NSIAD-90-21BR, Sept. 25, 1990).

[11]See Food Aid Impacts on Commercial Trade: A Review of the Evidence, prepared for the Agency for International Development by Nathan Associates (Washington, D.C.: Oct. 1990); and Development Impact of U.S. Program Food Assistance: Evidence from the AID Evaluation Literature, Agency for International Development, Bureau for Food for Peace and Voluntary Assistance (Washington, D.C.: Aug. 1989).

aid may result in a greater U.S. share of the country's commercial market. Preferences for U.S. products can be generated, among other ways, by offering lower prices, quality service, or a product that distinguishes itself from other similar products because of specific characteristics.

The results of our review indicated that title I's importance to long-term market development has not been demonstrated. No studies have established a link between food aid and long-term commercial market share for U.S. agricultural products. South Korea is frequently cited by USDA and others as the best example of a former title I recipient's becoming a market development success story. However, our research did not locate any studies that identified a strong tie between title I aid and the development of commercial markets for U.S. agricultural goods in South Korea.

Our review also indicated that title I commodities tend to be price sensitive. Therefore, it is difficult to transform the market share established through title I concessional sales into commercial market share unless the United States offers competitive prices and financing. In addition, we found that several legislatively mandated program requirements (i.e., cargo preference rules, reexport restrictions, and commodity eligibility rules) impose constraints on recipients that may undermine market development efforts.

According to USDA officials, title I assistance serves as a market maintenance tool. We agree that, in the short term, the title I program helps the United States to move commodities, albeit on a concessional basis, and possibly keep a market presence that it otherwise might not have been able to maintain. However, we do not consider this to be long-term market development. While USDA officials also told us that the title I program helps the United States build trade relations with countries of Eastern Europe and the former Soviet Union, we question title I's ability to advance this particular market development goal. Several of these title I recipients, such as Bulgaria, Latvia, Poland, Romania, and Slovakia, declined to participate in the fiscal year 1994 program because of dissatisfaction with the title I program (i.e., high prices, reexport restrictions, and additional debt).

Title I Is One of Several USDA Market Development Programs

The title I program, representing less than 1 percent of the total value of U.S. agricultural exports in fiscal year 1992, is just one of several USDA export assistance programs used to increase the export of U.S. agricultural products to developing countries. In addition to the provision of food aid (donations and concessional sales), USDA employs three other basic methods

to increase exports.

-- Price reduction. The Export Enhancement Program, the Sunflowerseed Oil Assistance Program, the Cottonseed Oil Assistance Program, and the Dairy Export Incentive Program pay cash to U.S. exporters as bonuses, allowing them to sell certain U.S. agricultural products to targeted countries at lower and presumably competitive prices. These programs enable the United States to meet price competition in world agricultural markets when domestic agricultural policies support prices higher than competitor prices. The programs also help counter the effects of competitors that subsidize their exports.

-- Export credit guarantees. Two General Sales Manager programs (GSM-102 and GSM-103) offer short- and intermediate-term credit guaranteed by the U.S. government to countries with foreign exchange constraints. These programs are intended to help increase the ability of U.S. agricultural exporters to sell in markets with foreign exchange constraints by protecting the exporters against the risk of default on payments.

-- Promotion assistance. The Market Promotion Program is an export promotion program designed to help U.S. producers and trade organizations finance promotional activities for U.S. agricultural products overseas.

While the United States guarantees credit under the GSM programs, the terms of the GSM loans are not as attractive as the terms available under the title I program. For example, the maximum repayment period is 3 years for GSM-102 and 10 years for GSM-103, compared to title I's maximum repayment period of 30 years with a 7-year grace period. In addition, the interest rates under the GSM programs are not concessional, whereas title I's interest is set below prevailing market rates.

Unlike price reduction programs that subsidize export sales such as EEP, the contract sales price billed by USDA for title I commodities is the estimated U.S. price for that commodity and grade. Oftentimes EEP is used in conjunction with the GSM programs so that certain U.S. agricultural exports can be purchased at discount prices using U.S. government credit guarantees. Title I sales are not combined with EEP discounts. As no discounts are allowed, recipients usually pay more on a price-per-tonnage basis for a title I commodity than they would if the commodities were purchased under one of the price reduction programs. For example, in fiscal year 1992, Egypt purchased wheat through title I at $141 per metric ton and through EEP at $110 per metric ton. In general, countries may be able to buy more of a certain commodity under a price reduction program because of its lower price on a per unit basis and

therefore import greater amounts of food. On the other hand, the cost of the commodity exported under the title I program is cheaper in the long run since the cost is discounted over a long repayment period. However, developing countries are discouraged by multilateral development institutions from incurring long-term debt for nondurable consumption goods, such as food.

Country participation and the amount exported under each U.S. export assistance program vary from year to year depending on factors such as the availability of agricultural commodities, concessional credit, and credit guarantees; the country's import needs and foreign exchange constraints; the export activity of competitor countries; and the foreign policy considerations of the United States. See appendix IV for U.S. agricultural exports assisted by USDA programs to our seven case study countries for fiscal year 1992.

Link Between Title I Market Development and Economic Development Is Unclear

USDA officials in many of the countries we visited told us that bolstering sustainable economic development is the key way in which title I contributes to market development in their countries. The level of trade in developing countries is strongly tied to their overall economic growth. Since many factors affect economic growth, it is difficult to demonstrate a direct link between title I assistance, economic development, and subsequent market development.

South Korea has become a leading export market for agricultural products from the United States as a consequence of its rapid economic growth. The United States provided South Korea with over $1.6 billion in title I assistance between 1956 and 1981. While USDA officials frequently cite South Korea as a best-case example of a country "graduating" from the title I program, our research suggested that the increase in U.S. farm exports to South Korea was the result of a number of complex economic, political, and social factors. It was also the result of substantial foreign aid from the United States, including title I, and other donors.

We did not find any studies by USDA or other researchers that have established a link between food aid and long-term commercial market share for U.S. agricultural products despite the longevity of the programs. We found no studies that attempted to link food aid to import levels more than 3 years later. We attempted a regression analysis to assess the relationship between title I and long-term market development but were unsuccessful because of inaccurate and inconsistent data. However, experience in other countries suggested that having received title I assistance was neither a necessary nor a sufficient condition for achieving economic development. For example, the United States has been

very successful in increasing the value of its agricultural exports to other Asian markets that did not receive substantial amounts of title I assistance, such as Japan, Hong Kong, China, and Singapore. The tremendous growth in these economies and the increase in the value of their U.S. agricultural imports imply that many factors other than title I assistance can contribute to a country's economic success and to U.S. export growth. On the other hand, the lack of U.S. market development success in India, despite the substantial amount of title I assistance provided to the country over a period of 19 years, indicated that title I alone is not sufficient to create U.S. commercial export opportunities.

Price-Sensitive Commodities Restrict Title I's Market Development Opportunities

Title I exports tend to consist of bulk commodities, such as wheat, rice, and feedgrains and their related semiprocessed products, as well as vegetable oil and tallow (see app. V). While many factors influence a country's import decisions, such as the quality of a product, the availability of commercial financing, the reliability of the supplier, and the existence of trade ties, price is a predominant factor where the import of bulk and semiprocessed products is concerned. It is difficult to develop product loyalty and secure a market share when the commodities under consideration can be easily replaced with identical products at a lower price and when they face competition from a range of substitutes. Based on our analysis of title I exports to our case study countries and to South Korea, the transformation of concessional sales into commercial market share is largely influenced by USDA's ability to offer alternative export programs with competitive prices and financing.

For example, according to USDA officials and representatives from a U.S. commodity group in Egypt, the United States was able to transform its concessional sales of wheat into a commercial market share with the help of USDA's EEP, which subsidizes export sales. These officials said that they believed the title I program helped the United States to establish a market share in Egypt for wheat by offering concessional sales to a country that had a critical shortage of foreign exchange. In 1992, after Egypt's foreign exchange reserves greatly improved due to significant debt forgiveness following the 1991 Gulf War, the country began using its foreign exchange to purchase U.S. wheat under EEP, where the price per ton was lower than under the title I program. Wheat exports to Egypt under the title I program dropped from $108 million in fiscal year 1991 to $40 million in fiscal year 1992. At the same time, U.S. wheat exports to Egypt under EEP increased from $120 million to $462 million in fiscal year 1992. In fiscal year 1993, Egypt did not participate in the title I program and imported all of its U.S. wheat through EEP.

USDA officials expect the United States to retain its market share as long as it offers prices and credit terms that are comparable to or better than those offered by competing suppliers from the European Union.

Although the United States still remains the primary supplier of cotton, wheat, and corn for South Korea, U.S. market shares of trade volume established through concessional sales declined once title I assistance ended in 1981. Typical of trade in bulk and semiprocessed products, South Korea's buying decisions have been largely influenced by price. For example, the market for feed corn in South Korea is extremely sensitive to price. The U.S. market share declined from nearly 100 percent in 1980 to 26 percent in 1992 because South Korea was able to purchase competitively priced feed corn from China. Also, while the United States remains the largest supplier of wheat to South Korea, it lost market share to Canada and Australia in the mid-1980s when the South Korean government gradually relinquished control of grain procurement decisions and the market became increasingly sensitive to price and different wheat qualities. The U.S. share of South Korea's wheat imports dropped from 100 percent in 1979 to 51 percent in 1992.

As for South Korea's cotton market, factors other than price have helped to support U.S. cotton exports. According to industry sources, despite the U.S.' market share dropping from 95 percent in 1980 to 64 percent in 1992, the United States was able to retain its lead position in South Korea in cotton because the United States helped the country rebuild its spinning industry in addition to providing title I aid. The U.S. assistance created an industry designed to accommodate U.S. cotton. The reliability and quality of U.S. cotton, and U.S. marketing efforts, have also helped the United States develop its market in South Korea.

Title I Commodities Are Difficult to Differentiate

In only one of our seven case study countries--the Philippines--has USDA claimed success in using the title I program to establish a U.S. market presence by promoting specific characteristics of a commodity, enabling it to be differentiated on the basis of quality. According to USDA and Philippine officials, the Philippines had imported cheaper low-protein soymeal primarily from Brazil, China, and India before the title I program was used to introduce high-protein soymeal in 1990. At that time, the title I program created a market niche by offering a higher quality (and more expensive) soymeal. Philippine ranchers then developed a preference for U.S. soymeal with a high-protein content because it resulted in better livestock growth.

While USDA officials claimed market development success for high-

protein soymeal, they could not provide import statistics to support their claim, saying that trade statistics do not distinguish between high- and low-protein soymeal. These officials told us that the long-term prospects for high-protein soymeal that have been supported through title I concessional sales are uncertain. The USDA officials explained that without the support of the title I program, users might return to less expensive low-protein soymeal from China and India.

Other attempts by the United States in our case study countries to differentiate commodities and entice buyers with concessional credit have not been successful. According to USDA officials in Egypt, they tried to diversify the country's title I imports in fiscal year 1992 by offering an additional $10 million in title I assistance for U.S. soybean oil. Egypt declined, however, because the United States was not price competitive with sunflowerseed oil from Asia and cottonseed oil from South America. For two of our other case study countries, El Salvador and Guatemala, USDA at one time exported vegetable oil under the title I program; however, the United States eventually lost its market share established by the concessional sales to cheaper vegetable oil supplied by competitor countries.

Title I Program Requirements Can Undermine Market Development Efforts

Title I may help lay the groundwork for market development by exposing consumers to U.S. commodities and familiarizing country traders with U.S. trade practices. However, several legislatively mandated program requirements impair the program's ability to respond to market opportunities, complicate trade transactions, and may discourage future transactions. Moreover, the title I program may actually disrupt trade relations by replacing ongoing commercial transactions with government-to-government food aid programming.

Cargo preference requirements, which are designed to support the U.S. merchant marine industry, can undermine market development efforts. They may also lead importers to believe that U.S. exporters provide inferior service. Cargo preference provisions require that at least 75 percent of food aid tonnage be shipped on U.S.-flag ships.[12] One of our ongoing reviews that specifically examines the impact of cargo preference rules on food aid programs found that some recipients were forced to purchase a different variety of commodity than planned because their purchasing decisions were driven by the availability of

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[12]Provisions of the Merchant Marine Act of 1936 (ch. 858, 49 Stat. 1985, June 29, 1936), as amended by the Cargo Preference Act of 1954 (ch. 936, 68 Stat. 832, Aug. 26, 1954) and the Food Security Act of 1985 (P.L. 99-198, Dec. 23, 1985).

U.S.-flag ships, rather than the availability of the commodities.

For example, during cargo preference year ending March 31, 1994, for title I, both El Salvador and Guatemala were interested in purchasing western white wheat, which is available from the West Coast of the United States. However, since very few U.S.-flag ships were obtainable from the West Coast, they were unable to purchase this desired commodity. Instead, they were forced to purchase different varieties of wheat located where U.S.-flag ships were available. According to a Guatemalan purchasing agent, the Government of Guatemala sells the title I wheat to a private group of Guatemalan millers, which sells its products at market value in-country. To minimize their commodity costs, the millers want to purchase less expensive, high-quality western white wheat. However, Guatemala's agent explained that because of cargo preference requirements, when Guatemala puts together a purchasing plan for title I wheat to present to USDA, it must first consider the availability of U.S.-flag ships, not what types of wheat it wants to buy.

USDA officials responsible for managing the title I program said that they believe that recipient countries that have had an unfavorable experience with the title I program because of the consequences of using U.S.-flag ships are likely to choose not to purchase agricultural products from the United States on a commercial basis in the future.

Other program requirements discourage potential importers from participating in the title I program. These requirements severely restrict a recipient's ability to reexport title I goods after processing in-country, thus eliminating an important source of foreign exchange earnings. For example, program provisions prohibit recipient countries from reexporting title I commodities ("export restrictions") and may prevent or limit recipients from exporting domestically produced commodities similar to those imported under the title I program ("export limitations"). While these provisions are intended to ensure that recipients do not resell title I commodities on the world market, they limit USDA's ability to take advantage of market opportunities.

For instance, USDA offered Poland title I assistance to import U.S. cotton in fiscal year 1991. However, Polish officials refused the assistance because title I export restrictions would have limited the country's ability to export its domestically produced textiles--an important source of foreign exchange. Also in fiscal year 1993, Jamaican officials decided to stop importing wheat under the title I program because they wanted to be free of title I's export restrictions, according to USDA officials in Jamaica.

Driven by supply-oriented considerations, another program requirement restricts the types of commodities eligible for

promotion under the title I program. Consequently, the title I program supports a limited range of commodities without regard to market demand. With limited exceptions for urgent humanitarian needs, commodities are eligible for export under the P.L. 480 food aid programs only when they are considered "surplus" (i.e., when domestic production exceeds what is needed to meet U.S. domestic consumption and reserve requirements as well as anticipated commercial export opportunities). As a result, many commodities available for export under the title I program are not purchased by recipient countries through the program. For example, in fiscal year 1993, 22 categories of commodities were eligible for export under the title I program; however, only commodities associated with 6 of the categories were actually exported. Appendix IV illustrates the types of commodities eligible for export under the P.L. 480 food aid programs and lists which commodities were actually exported under the title I program.

Many commodities available for export under the title I program face limited market opportunities. For example, several of our case study countries preferred to restrict the import of semiprocessed goods such as wheat flour and vegetable oil in order to support their own domestic processing industries. In Jamaica, a country with a high level of fish consumption, USDA officials tried to export mackerel under the title I program. However, Jamaican officials declined the offer because they believed import of U.S. mackerel would have disrupted the country's domestic fishing industry.

While the title I program is intended to introduce importers to U.S. export practices, it may actually disrupt the development of trade relations by replacing existing private sector trade based on commercial transactions with government-to-government food aid programming. According to USDA officials, the title I program in El Salvador, Honduras, and Guatemala has increased the recipient governments' role in trade relationships that were once predominately in the private sector. USDA officials told us that the private sector importers in these countries do not like to import title I wheat because the importers cannot always get the right specifications (e.g., wheat type or protein content), the quality of title I wheat is generally low, and title I wheat cannot be processed and reexported. USDA officials in two of our case study countries questioned the wisdom of replacing private sector trade with government-to-government food aid assistance, especially if the United States cannot consistently export the commodity under the title I program each year or offer competitive prices after the program is discontinued. In one case study country, the USDA official was not comfortable promoting wood under the title I program because he did not want to disrupt the country's fledgling private sector trade, which imported U.S. wood commercially.

MANAGEMENT IMPROVEMENTS HAVE NOT ELIMINATED STRUCTURAL BARRIERS TO EFFECTIVENESS

The 1990 act streamlined title I program management by abolishing the cumbersome interagency administration of the program and assigning responsibility to USDA. In addition, the 1990 act simplified implementation requirements overseas. Nevertheless, despite these changes, USDA must still cope with the program's multiple and sometimes competing objectives that give rise to contradictory program requirements. The competing objectives limit USDA's ability to develop an effective program strategy. Moreover, cargo preference requirements, with the objective of supporting the U.S. merchant marine industry, increase the difficulty in implementing an effective program strategy.

Program Implementation Simplified

The 1990 legislation clarified program management responsibility by eliminating the interagency administration of the P.L. 480 programs and assigning title I to USDA and titles II and III to AID. Once actively involved in administrating the P.L. 480 programs, the interagency body is now primarily limited to approving the country selection and program allocations proposed by USDA and AID. Officials from USDA, AID, the Office of Management and Budget, and the Department of State agreed that the allocation process is much simpler and much less time consuming. In general, they said that they believed that the revised function of the interagency body provides the necessary level of communication to coordinate program implementation at the headquarters level.

Many of the extensive program requirements that directed the implementation of the title I program overseas were eliminated under the 1990 legislation. Now, USDA does not have to negotiate specific and measurable development activities as part of the title I agreements. Instead, the 1990 legislation only requires that agreements contain a statement on how the country will integrate title I assistance into its overall development plans. In addition, the 1990 act does not require USDA to monitor a country's use of local currencies generated from the sale of title I commodities and its progress on its development plans. According to USDA officials overseas, they monitor a country's progress through regular contact with the recipient government and through weekly interagency meetings at the U.S. embassy level. Recipients are also required to submit annual progress reports.

Contradictions Exist in Title I Program

While program management has been streamlined, the 1990

legislation continues to support multiple objectives that are difficult for USDA to integrate into an effective program strategy. For example, the program contains contradictions in its attempt to simultaneously provide foreign exchange savings yet ensure that any food aid is in addition to commercial imports, as well as ensure that food aid does not act as a disincentive to local agricultural production in recipient countries. The condition under which title I aid creates foreign exchange savings (i.e., displacement of commercial sales) inherently conflicts with the "usual marketing requirements" (UMR) included in the P.L. 480 legislation. Under the statute, UMRs are intended to ensure that food aid does not replace or obstruct the flow of commercial exports to food aid recipients from the United States. USDA calculates UMRs[13] each time new title I agreements are negotiated, to determine how much of a given commodity, if any, a country is eligible to receive that year.

In turn, the UMR rule, which essentially requires that the supply of the commodity increase by the full quantity of food aid, conflicts with another program requirement, the "Bellmon determination," that seeks to keep food aid from displacing domestic production. As part of the Bellmon determination requirement, USDA is to ensure that the local distribution of the food aid does not create a disincentive to domestic production or marketing. Such a situation might occur if the food aid adds to the total food supply, putting downward pressure on local agricultural prices, thereby discouraging local agricultural productions. In addition, the legislation requires USDA to consult with donor organizations such as the World Bank and the International Monetary Fund on this matter.

U.S. Cargo Preference Rules Interfere With Title I Objectives

USDA's difficulties in implementing an effective strategy are compounded because the title I program is subject to U.S. cargo preference requirements. The program's support of the U.S. merchant marine industry limits its ability to combat hunger and serve as a market development program in recipient countries. For example, in order to comply with cargo preference requirements, some title I recipients have not been able to purchase a title I commodity at its lowest cost because U.S.-flag ships were not available. This situation forces the recipient country to purchase less of the commodity at a more expensive

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[13]The UMR calculation is based on the most recent 5-year average of a country's commercial imports from all trading partners. Adjustments may be made to reflect import trends, the country's current financial status, and any other unusual considerations affecting the country's ability to import.

price. Our ongoing review assessing the impact of cargo preference rules on food aid programs found that for a 1992 title I wheat purchase, Tunisia was unable to take advantage of the four lowest offers that specified particular loading ports, because U.S.-flag ships were not available at these ports. Eventually, Tunisia was forced to purchase wheat offered at the seventh and eighth next-lowest price--these prices were from $3.82 to $3.95 higher per metric ton for the almost 55,000 metric tons Tunisia finally purchased.

Food aid recipients are sometimes not able to purchase the commodities at their lowest price even if a U.S.-flag ship is available because it may not be the appropriate type or size to transport the commodity. For example, in a 1992 title I purchase Estonia wanted to place both its corn and wheat purchases on one U.S.-flag ship. The only U.S.-flag ship that offered to carry these cargoes was too large to be accommodated at the loading facilities that offered the lowest wheat prices. In order to use this U.S.-flag ship, Estonia purchased higher-priced wheat from a supplier with loading facilities that could accommodate this ship. Also, we discussed earlier that cargo preference requirements can undermine market development efforts in recipient countries by complicating transactions and forcing recipients to purchase different varieties of a commodity than preferred.

CONCLUSION

When the P.L. 480 food aid legislation was enacted in 1954, its objectives were to export large amounts of U.S. surplus agricultural commodities and serve U.S. international policy interests. Today, however, title I is less important in terms of reducing U.S. agricultural surpluses, and its share of U.S. agricultural exports and world food aid has decreased significantly. While the 1990 act streamlined title I program management and simplified implementation requirements overseas, the revisions did not improve the program's ability to accomplish its revised objectives to promote BBS development and expand markets for U.S. agricultural commodities.

Our ongoing work shows that, while the program moves U.S. agricultural commodities to foreign markets, the title I program is encumbered with multiple and sometimes competing objectives as well as contradictory program requirements. As currently structured, it appears unable to significantly advance either the economic development or market development objectives of the 1990 legislation. We plan to further address this issue in our final report on the title I program.

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Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions you or other Members of the Subcommittee may have.

ALLOCATION OF TITLE I FUNDS BY COUNTRY, PLUS NUMBER OF YEARS THAT COUNTRIES RECEIVED FUNDS, FISCAL YEARS 1992-94

Dollars in millions

Country	Fiscal year 1992	Fiscal year 1993	Fiscal year 1994[a]	Years in title I program
Angola	----	----	$8.0	1
Belarus	$19.9	$5.0	20.0	3
Bulgaria	----	15.0	----	1
Congo	5.0	----	6.0	5
Costa Rica	----	15.0	5.0	10
Côte d'Ivoire	10.0	10.0	15.0	8
Croatia	----	----	10.0	1
Egypt	40.4	----	----	28
El Salvador	29.4	33.4	----	14
Estonia	8.4	----	----	1
Guatemala	14.9	15.0	15.0	12
Guyana	7.1	----	----	14
Jamaica	29.9	30.0	20.0	21
Jordan	20.0	25.6	15.0	16
Latvia	8.0	----	----	1
Lithuania	8.8	24.1	10.0	3
Moldova	7.0	10.0	20.0	3
Morocco	45.0	20.0	15.0	30
Pakistan	----	40.0	----	37
Philippines	20.0	20.0	15.0	25
Romania	10.0	10.0	----	3
Sierra Leone	7.0	----	----	22
Sri Lanka	13.0	10.0	8.0	33
Suriname	7.4	2.4	5.5	3
Tajikistan	8.2	14.0	----	2
Tunisia	15.0	5.0	----	29
Turkmenistan	----	10.0	10.0	2
Ukraine	----	20.0	20.0	2
Yemen	----	10.0	----	9
Zimbabwe	40.0	5.0	----	3
Totals	**$374.4**	**$349.5**	**$217.5**	

Legend

---- = Title I program was not used in-country that year.

[a]Figures represent fiscal year 1994 title I program allocations as of July 1994. New or additional title I programs are being developed for Jamaica ($3.3 million), Macedonia ($7 million), and Sri Lanka ($10 million).

Source: U.S. Department of Agriculture (USDA).

TITLE I ALLOCATIONS RELATIVE TO RECIPIENTS' TOTAL IMPORTS AND FOOD IMPORTS, COUNTRIES GROUPED BY FOREIGN EXCHANGE RESERVES, FISCAL YEAR 1991

Country grouped by foreign exchange reserves	Title I ($ in millions)	Title I as a percent of imports (1991 figures)	Title I as a percent of food imports (1991 figures)
Nongold reserves: < 1 month import coverage			
Congo	$2.0	1.0	2.1
Côte d'Ivoire	10.0	0.6	3.3
Guyana	6.9	1.3	NA
Sierra Leone	5.0	3.1	12.8
Jamaica	40.0	2.2	10.9
Nongold reserves: 2 - < 3 months of import coverage			
Tunisia	15.0	0.3	1.9
El Salvador	35.0	4.0	24.7
Yemen	5.0	NA	NA
Sri Lanka	15.0	0.4	2.3
Nongold reserves: 3 - 5 months of import coverage			
Philippines	15.0	0.1	1.8
Zaire	9.0	1.3	NA
Nongold reserves: approx. 6 or more months of import coverage			
Costa Rica	15.0	0.8	8.9

Egypt	169.3	2.2	7.4
Guatemala	18.0	1.0	8.1
Morocco	35.0	0.5	4.6
	$395.2	--	--

Legend

NA = Not available. For Yemen, 1991 data were not available. For Guyana and Zaire, 1991 food import data were also not available.

Sources: Title I figures from USDA's Economic Research Service database. Import figures for Guyana and Zaire and figures for nongold reserves and number of weeks of imports covered by stock of nongold reserves from the International Monetary Fund's International Financial Statistics 1993 Yearbook. The rest of the total import figures and food import figures are from the World Bank's World Development Report, 1993, tables 14 and 15.

DOLLAR VALUE OF TITLE I ASSISTANCE COMPARED TO TOTAL WORLDWIDE OFFICIAL DEVELOPMENT ASSISTANCE BY RECIPIENT, FISCAL YEAR 1991

Dollars in millions

Country	Title I assistance	Total worldwide official development assistance[a]
Congo	$2.0	$133.4
Costa Rica	15.0	172.9
Côte d'Ivoire	10.0	632.7
Egypt	169.3	4,988.0
El Salvador	35.0	289.6
Guatemala	18.0	196.8
Guyana	6.9	108.6
Jamaica	40.0	165.6
Morocco	35.0	1,075.1
Philippines	15.0	1,051.4
Sierra Leone	5.0	104.8
Sri Lanka	15.0	814.0
Tunisia	15.0	322.4
Yemen	5.0	313.4
Zaire	9.0	475.9
	$395.2	$10,844.6

[a]Total worldwide official development assistance data are collected on a calendar year basis, and title I assistance data are collected on a fiscal year basis.

Sources: The title I figures are the final figures from the USDA's Economic Research Service database. Total worldwide official development assistance figures are from the World Bank.

U.S. AGRICULTURAL EXPORTS ASSISTED BY USDA PROGRAMS FOR SEVEN CASE STUDY COUNTRIES, FISCAL YEAR 1992

Dollars in millions

Country	EEP	P.L. 480 Title I	GSM-102/ 103	SOAP	DEIP	COAP	EEP/ GSM[a]	Donations[b]
Egypt	$490.5	$40.4	$14.5	$11	$5.7	$3.9	----	----
El Salvador	----	29.4	2.5	----	----	13.3	----	5.3
Guatemala	----	14.9	2.5	----	----	----	----	6.9
Jamaica	----	29.9	----	----	2.0	----	----	6.2
Morocco	94.8	45.0	1.7	----	----	----	$7.2	3.8
Philippines	129.0	20.0	----	----	----	----	----	14.3
Sri Lanka	42.3	13.0	----	----	----	----	26.2	33.6

Legend

EEP = Export Enhancement Program
GSM = General Sales Manager
SOAP = Sunflowerseed Oil Assistance Program
DEIP = Dairy Export Incentive Program
COAP = Cottonseed Oil Assistance Program
---- = Program was not used within the country.

[a]EEP/GSM means that the programs were combined in order to sell commodities at a discount price with U.S. government credit guarantees.
[b]Titles II and III, and section 416(b).

Source: USDA.

COMMODITIES ON THE PUBLIC LAW (P.L.) 480 DOCKET, FISCAL YEARS 1983-93

Docket items	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Wheat/wheat products	X	X	X	X	X	X	X	X	X	X	X
Rice/rice Products	X	X	X	X	X	X	X	X	X	X	X
Feed- grains/feed-products	X	X	X	X	X	X	X	X	X	X	X
Edible vegetable oil	X	X	X	X	X	X	X	X	X	X	X
Tallow, edible/ inedible	o	o	X	X	X	X	X	X	X	X	X
Upland cotton	X	X	X	X	X	o	o	o	--	o	o
Plant protein and soymeal	--	--	--	--	--	o	--	X	X	X	X
Solid wood products	--	--	--	--	o	o	X	X	o	X	o
Beans, dry edible	o	o	o	o	o	o	o	o	o	o	o
Peas, dry edible	o	o	o	o	o	o	o	o	o	o	o
Lentils	o	o	o	o	o	o	o	o	o	o	o
Soyfood products	o	o	o	o	o	o	o	o	o	o	o
Extra long staple cotton	o	o	o	o	o	o	o	o	--	o	o
Nonfat dry milk	o	o	o	o	o	o	--	--	o	o	o
Butter/ butteroil	o	o	o	o	o	--	--	--	--	o	o
Cheese	o	o	o	o	o	--	--	--	--	--	--
Dry raisins	--	o	o	o	o	--	--	--	--	--	--
Dehydrated potatoes	--	--	--	o	--	--	--	--	--	o	o
Atlantic mackerel	--	--	--	--	--	--	--	--	--	o	o
Potatoes	--	--	--	--	--	--	--	--	--	o	o
Peanuts	--	--	--	--	--	--	--	--	--	o	o
Sunflower seeds	--	--	--	--	--	o	--	--	--	--	o
Pink salmon	--	--	--	--	--	--	--	--	--	o	--
Atlantic dogfish	--	--	--	--	--	--	--	--	--	--	o
Pork	--	--	--	--	--	--	--	--	--	--	o

Legend

X = Commodities on the P.L. 480 docket that were exported under the title I program.
o = Commodities on the P.L. 480 docket that were not exported under the title I program, but possibly donated under other food aid programs.
-- = Commodities not on the P.L. 480 docket.

Source: USDA.

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