United States General Accounting Office

GAO Testimony

For Release
on Delivery
Expected at
9:30 a.m. EST
Wednesday
June 27, 1990

Restrictions on U.S. Aid to Bolivia for Crop Development Competing With U.S. Agricultural Exports and their Relationship to U.S. Anti-Drug Efforts

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Before the Committee on Agriculture, Subcommittee on Department Operations, Research and Foreign Agriculture and Subcommittee on Wheat, Soybeans, and Feed Grains House of Representatives

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GAO/T-NSIAD-90-52

Mr. Chairmen and Members of the Subommittees:

I am pleased to be here today to discuss with you our ongoing work on restrictions on U.S. aid to developing countries for crop development that competes with U.S. agricultural exports, and their relationship to U.S. anti-drug efforts in Bolivia. The issue has arisen because the U.S. international anti-drug program includes assistance to coca leaf producing countries to introduce substitute crops so that coca farmers have other employment and income alternatives. Our work is being performed at the request of Congressman Schumer in his capacity as Chairman of the House Judiciary Subcommittee on Criminal Justice.

P.L. 480 places certain restrictions on the uses of some of the local currencies generated by the sale of P.L. 480 food aid commodities in recipient countries. The provisions prohibit the use of certain funds to promote the production of commodities that will "compete, as determined by the President," in world markets with similar commodities produced in the United States. The language in the law, "compete, determined by the President," gives the President discretion in determining what would represent competition in world markets with U.S. commodities. Accordingly, competition could be defined to mean only that which would cause substantial injury to U.S. producers of the same, similar or competing commodity. This would be consistent with a restriction

that has existed for many years in the Agency for International Development's (AID) annual appropriation act.

The Department of Agriculture (USDA) and, in turn, the interagency Development Coordination Committee (DCC), have interpreted the P.L. 480 restrictions in the case of Bolivia and soybeans to mean that no P.L. 480 Title I/III funds can be used, either directly or indirectly, to support soybean exports, including funding of any soybean production.

There is a serious disagreement between the U.S. Mission to Bolivia and the U.S. Department of Agriculture over the desirability of supporting soybean products in Bolivia as an alternative to coca leaf. The Mission believes it is an excellent near term alternative. USDA has opposed any support that would increase Bolivia's soybean exports, currently at about 1 percent of U.S. soybean exports (see Appendix II), because they would compete with the U.S. product on world markets.

During the past few years, the U.S. Mission to Bolivia has urged the DCC to reconsider its interpretation of the P.L. 480 restrictions. They said, among other things, that (1) total Bolivian exports of soybeans were insignificant in terms of U.S. exports and therefore posed no significant threat to U.S. markets; and (2) a prohibition on even indirect support would make it very

difficult, if not impossible, for AID to implement its export-oriented strategy in the lowlands area of Bolivia.

AID also advised the DCC that the total amount of Title III funds spent on soybean activities since 1985 is about $353,000. This money was spent during Fiscal Years (FYs) 1986 and 1987, and included a loan to ANAPO to produce both certified wheat and soybean seed and a grant to a research center to purchase soybean harvesting equipment. During FYs 1986 and 1987, alone, a total of $40 million was allocated to the Title III program in Bolivia. However, the DCC has not changed its position.

On June 22, 1990, the USDA Under Secretary for International Affairs and Commodity Programs told us he had taken action with the AID Administrator during the previous week to establish a task force to study which of a variety of crops, including soybeans, would be the most economic alternatives to coca in Bolivia. He said USDA is now open to considering soybeans as an alternative, but would strongly prefer to support a crop which does not compete with U.S. agricultural exports. Terms of reference and a time frame for completing the study have not yet been established. Given the importance of the issue, we believe the task force should define its purpose and set a reporting date for completing its work.

If Congress does not wish that the DCC's interpretation of the existing restrictions on use of P.L. 480 funds be applied in cases such as Bolivia, it should enact appropriate legislation. Furthermore, if Congress wants greater crop substitution efforts as part of the comprehensive U.S. anti-drug program, it could grant a waiver of the existing restrictions for programs in those countries which are major exporters of illegal drugs.

THE INTERNATIONAL DRUG PROBLEM

Drug abuse is a major international problem with adverse social, political and economic impacts. Initially viewed as a problem primarily in industrialized consumer nations, drug abuse is now recognized as a major concern in many drug producing and transit nations. Drug trafficking and abuse pose a serious threat to the health, welfare, and national security of the United States. As a result, international drug control has become a critical element of U.S. foreign policy as the United States encourages other governments to curtail cultivation, processing, and trafficking of illicit drugs.

Cocaine poses a serious drug problem for the United States because of its widespread availability, use, and significant health consequences. It is a chemical compound derived from the leaves of the coca plant, which has been cultivated for thousands of years in the Andean region of South America. Coca plants are

raised principally in Peru and Bolivia, and are being increasingly cultivated in Colombia. Bolivia is the second biggest supplier of coca leaf and its crop is the raw material used to produce approximately 30 percent of the cocaine and its crack derivative consumed by Americans.

The Congress has concluded[1] that it is crucial that U.S. international anti-drug efforts include funds for crop substitution programs and other employment opportunities. This support is intended to provide alternative sources of income for those individuals in major coca producing countries who are dependent on illicit drug production activities. Crop substitution is viewed as an integral part of a comprehensive anti-drug program which includes eradication, enforcement, rehabilitation and treatment, and education programs in those countries.

At the Cartagena Summit, on February 15, 1990, the Presidents of the United States, Bolivia, Colombia, and Peru agreed on an Andean Strategy for combatting the drug trafficking problem. A key element of the strategy is to promote alternative development in the Andean countries to assist in the permanent reduction of illegal coca cultivation and replace the income, employment, and foreign exchange which are currently generated by the coca economy.

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[1]The International Narcotics Control Act of 1989 (P.L. 101-231, Dec. 13, 1989).

THE BOLIVIAN ECONOMY AND ITS DEPENDENCE ON COCA

Bolivia has severe economic problems. Although in recent years Bolivia has made substantial progress in stabilizing its economy and in establishing democratic institutions, it faces very difficult problems. The country is one of the poorest in South America, has international debt and balance of payments problems, and very low export earnings. Its annual average exports between 1984-1988 were only $616 million. Bolivia also has serious infrastructure problems, limited internal savings, and low levels of health and education.

The Bolivian economy is highly dependent on coca production. According to a recent AID assessment, in 1988 total income from coca production, direct and indirect, was about 15% of the Gross Domestic Product or $655 million. Foreign exchange earnings were estimated at $150 to $250 million. And, coca related employment was estimated at as much as 24 percent of total employment.

Importance of Crop Substitution and Alternative Development in Bolivia

Key U.S. objectives in Bolivia are to (1) strengthen nascent democratic institutions, (2) promote rapid and sustained economic growth, and (3) eradicate coca production.

AID officials we spoke to in Bolivia said the combination of Bolivia's heavy dependence on coca and severe economic problems means that the Bolivian Government will not get serious about eradicating coca unless there are substitutes for the coca employment and earnings.

The elimination of the coca industry without creating real and permanent alternative sources of income and employment could bring about social unrest. This, in turn, could result in a political crisis, undermining Bolivia's fledgling democracy.

THE SOYBEAN/COCA CONNECTION

Soybeans cannot be economically grown on a regular basis in the Chapare, the region of Bolivia that produces much of the coca for cocaine, because the soil is not right for production year after year. Nonetheless, AID officials believe that providing direct assistance to soybean production elsewhere in the country could contribute to the U.S. objective of eradicating the Bolivian coca used in the cocaine trade.

Soybeans is one of the best, immediate export possibilities. Bolivia is already growing and exporting soybeans. In contrast, although AID and others have identified a number of crops that can be grown in the Chapare, they have not figured out which of these

can be profitably grown and exported, and where. Moreover, it will probably take several years or longer to develop alternative crops in the Chapare for production and export.

Indications are that it will be difficult to develop and market crop substitutes over the short to medium term. For example, in August 1989, Project Sustain[2] sent a team to Bolivia. It assessed prospects for Bolivia's producing agricultural crops

-- that can result in reasonably large quantities of uniform quality products that can be sold on world markets;

-- at prices that are competitive and at a Bolivian cost that allows acceptable profit margins to promote investment and growth; and

-- with reliable, internationally competitive delivery and services.

The team evaluated 15 crops and/or agricultural products. It found that Bolivia had good to very good marketing potential for many of them but is seriously lacking in one or more key factors required for successful export. For example, many items (coffee, citrus, macadamia nuts, cacao, and coconut) need 3 to 5 years to

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[2]An organization which provides technical assistance and training to food companies in developing countries.

yield the first cash crop. The team concluded that at present not very much appears to be in the works for introducing alternative crops that can hope to achieve significant short or medium term results.

If soybean production is increased elsewhere, it could help attract coca farmers from the Chapare, as well as persons outside the Chapare needing work who might otherwise be attracted to the Chapare. AID estimates that a majority of the coca grown in the Chapare is by persons, including unemployed tin miners, who migrated there for the sole purpose of either growing coca or providing support services to the coca trade.

We were told that soybean production is labor or machine intensive depending on the size of the farm. While machine intensive production would not directly result in as much employment opportunities, it could lead to increases in related industries that would provide other employment opportunities. The U.S. Ambassador to Bolivia and the AID Mission Director believe that productive employment must be created throughout the country, not just in the Chapare and not just in the agricultural sector, to confront the coca problem.

PUBLIC LAW 480 AND RESTRICTIONS

ON ASSISTANCE FOR AGRICULTURAL EXPORTS

Two provisions of P.L. 480, added to the law in 1985, prohibit the use of certain funds, generated from the sale of the food aid commodities, to promote the production of agricultural commodities or the products thereof that will compete, as determined by the President, in world markets with similar agricultural commodities or the products thereof produced in the United States. These provisions apply only to foreign government-owned local currencies loaned through financial intermediaries to facilitate private sector development activities [section 106(b)(4)(B)] and to U.S.-owned foreign currencies also loaned through financial intermediaries to facilitate private sector development activities [section 108 (c)(5)].

Key language in the provisions is the phrase "compete, as determined by the President." The law, itself, does not further define the phrase, and thus by its terms gives the President substantial discretion. USDA's Office of General Counsel told us that the legislative history of P.L. 480 did not reveal any record of Congress' intent with regard to the language. In the case of Bolivia, USDA program administrators and the DCC have interpreted the law to mean that P.L. 480 funds cannot be used to promote the production of agricultural commodities or products that would compete in any way with U.S. commodities or products. The DCC is

the inter-agency body responsible for P.L. 480, and hence it normally decides how to administer the program.

AID APPROPRIATION ACT RESTRICTIONS ON ASSISTANCE FOR AGRICULTURAL EXPORTS

For many years the AID annual appropriation acts have also contained provisions restricting foreign assistance activities that may lead to competition with U.S. agricultural exports. However, these provisions have explicitly set standards for assessing whether exports resulting from U.S. assistance should be considered competition that should be avoided.

For example, Section 521 of the fiscal year 1990 appropriations act (P.L. 101-167) prohibits the use of funds to establish or expand production of any commodity for export by a foreign country if the commodity is likely to be in surplus on world markets and if the assistance will cause substantial injury to U.S. producers of the same, similar or competing commodity. Section 546, commonly known as the "Humpers' amendment," has a similar provision which prohibits U.S. support for activities, such as testing and breeding feasibility studies, in connection with production in a foreign country of an agricultural commodity for export which would compete with a similar commodity produced in the United States. However, this section does not prohibit activities designed to increase food security in developing countries where there is no significant

impact on the export of U.S. agricultural commodities, or where the activities involve research intended to benefit U.S. producers.

Section 522 directs the Secretary of the Treasury to instruct the U.S. representatives to multinational development banks to oppose any assistance by those institutions, using funds appropriated by the law, for the production of commodities for export, if the commodity is in surplus on world markets and if the assistance will cause substantial injury to U.S. producers of the same, similar, or competing commodity.

All of the above provisions included in P.L. 101-167 are normally included in AID annual appropriation acts and apply only to the funds appropriated by those acts. In addition to them, 22 U.S.C. 262g requires U.S. representatives to multilateral lending institutions to oppose any assistance for establishing or expanding production for export of palm oil, sugar, or citrus crops if such assistance would cause injury to U.S. producers of the same, similar, or competing agricultural commodity.

In implementing the above laws, AID's policy is to avoid supporting the production of agricultural commodities for export by developing countries when the commodities would directly compete with exports of similar U.S. agricultural commodities to third countries and have a significant impact on U.S. exporters. AID Missions are required to examine whether or not an activity

designed to increase the production of a particular commodity for export can reasonably be expected to have a significant impact on U.S. exports of that or a similar commodity.

These examinations are to include consideration of the following factors: (1) export potential of the commodity in question; (2) magnitude of production likely to result from the project; (3) likely export markets; (4) volume of U.S. exports of the commodity in question and similar commodities; and (5) U.S. share of the world or regional market that could reasonably be expected to be affected by increased exports of the commodity.

Recent Amendments Which Allow
for Crop Substitution Activities

In recognition of the importance of promoting crop substitution programs as part of the U.S. anti-drug effort, in 1989 Congress made some exemptions to restrictions on foreign assistance activities that may lead to competition with U.S. agricultural exports. However, these exempti s do not apply to the P.L. 480 restrictions.

Section 599H of the fiscal year 1990 AID Appropriations Act allows AID to use Foreign Assistance Act funds in Peru, Bolivia, and Jamaica to promote all crops which can be economically grown in areas of those countries which currently produce crops from which

certain drugs are derived. Under this provision, AID could fund activities to promote citrus in those areas of Bolivia where coca leaf is grown for producing cocaine. However, AID probably would not fund activities under this provision to promote soybean production, since we understand that soybeans cannot be economically grown in the coca growing regions on a sustained basis.

Section 14 of the International Narcotics Control Act of 1989 (P.L. 101-231) renders inapplicable FY 1990 AID Appropriations Act restrictions on assistance for activities to promote the growth or production of an agricultural commodity for export which would compete with a similar commodity grown or produced in the United States, regarding any assistance for crop substitution activities undertaken in furtherance of narcotics control activities. This section's application is not limited to Peru, Bolivia, and Jamaica.

CONFLICTS ABOUT P.L. 480 AND SOYBEANS IN BOLIVIA

For the last several years, soybean production has been a contentious issue between the U.S. Mission in Bolivia and USDA with regard to the use of local currencies generated from the sale of P.L. 480 food aid in Bolivia.

In November 1987, a DCC working group discussed the proposed Bolivian Title III program for FY 1988. It noted that the proposed program was designed to expand the export of agricultural commodities as opposed to production for internal consumption. It advised the U.S. Embassy in Bolivia that amendments to P.L. 480 precluded the use of U.S. Government resources to support the export of items which will compete with U.S. agricultural exports. It instructed the Embassy to inform the Government of Bolivia and its P.L. 480 Executive Secretariat that Title III proceeds should not be used to support the export of items that will compete with U.S. agricultural exports. It did not point out that the P.L. 480 restrictions applied only to certain parts of the Title III funds.

October 1988 - January 1989 Conflict

In early October 1988, USDA officials became concerned, after reading the FY 1988 evaluation of the Bolivian Title III program, that P.L. 480 assistance to increase Bolivian wheat production was also helping to increase Bolivian soybean production. The evaluation pointed out that soybeans and wheat can be rotated on the same plot of land.

Also in early October 1988, AID officials in Bolivia raised a question with AID/Washington as to whether AID's Export Promotion Project had to exclude all assistance to soybeans because of the Bumpers amendment and the political sensitivity of soybeans. They

noted that data for 1987 showed Bolivian soybean exports equalled 0.12 percent of U.S. soybean exports and that an optimistic export projection through 1992 indicated Bolivian exports would equal only 0.34 percent of U.S. 1987 exports. AID/Washington said the determination fell within the discretion of the Mission. It said the Mission should be prepared to justify its activities and should conduct periodic re-evaluations.

In late October 1988, the DCC cabled the U.S. Embassy in La Paz, Bolivia. It said one of the DCC's overriding concerns was use of Title III sales proceeds to promote exports in competition with the United States and asked whether the Mission was supporting Bolivian soybean exports. The DCC said the Mission should

-- agree to monitor use of proceeds to assure that no projects are funded which would support production of soybeans for exports; and

-- provide a statement to the DCC that Bolivia's Title III program will not, either directly or indirectly, support soybean exports.

Between then and late January 1989 a series of cables went back and forth between the AID Mission and the DCC. The Mission said

-- it fully intended to carefully monitor use of Title III funds to ensure that no projects were funded which would be inconsistent with the Bumpers amendment;

-- its actions concerning soybean production would be in full compliance with congressional statutes and agency policies;

-- it would not directly support the export of soybeans from Bolivia under the Title III program; and

-- the AID Mission Director would sign a determination statement reaffirming that total Bolivian exports of soybeans were insignificant in terms of U.S. exports and posed no significant threat to the U.S. markets.

However, the Mission indicated that a prohibition against providing any indirect support would be excessively restrictive and make it very difficult, if not impossible, to implement its export-oriented strategy in the lowlands area of Bolivia.

USDA was, however, not willing to compromise and its position was sustained by the DCC. In late December 1988, the DCC again instructed the Mission that because of P.L. 480 restrictions, it would not approve any use of funds that could be interpreted as directly or indirectly supporting the export of soybeans, soybean meal, or other soybean products. The DCC would not approve the FY

1989 Title III program until the Mission agreed to this and related conditions.

By late January 1989, the Mission had agreed. As a part of the agreement, it excluded soybeans from eligibility for both credit and technical assistance for its Export Promotion Program. It did so even though the Government of Bolivia considered that to be a top priority. On January 30, 1989, the DCC authorized the Mission to finalize the FY 1989 Title III agreement with Bolivia.

In February 1989, the AID Mission Director informed the U.S. Ambassador that the DCC's flat prohibition against using P.L. 480 local currency funds for any activities that could promote soybean production was rendering operation of the AID agricultural program very difficult and beginning to constitute a serious point of friction between the AID Mission and the Bolivian Ministry of Agriculture. He explained why:

-- Technically, soybeans are grown in rotation with other important crops, such as wheat. Therefore, it is very difficult, if not impossible, to separate out support for soybean activities from our general support of various producer associations. For example, U.S. AID support to the National Seed Program includes soybean seeds among many other seed crops.

-- Silos in which wheat, rice, and corn are stored most of the year can also, at times, be used to store soybeans.

-- A river port, such as Puerto Quijarro, which is very important to landlocked Bolivia because of its potential for exports to Brazil, and through the Paraguay River, to ports on the Atlantic coast, will handle soybeans among other products.

-- Politically, it is difficult to explain to the Government of Bolivia that its soybean exports significantly affect U.S. exports, when they equal less than 0.3 percent of U.S. soybean exports.

The Mission Director said that the Mission could adhere to the constraints imposed on its program by the Bumpers amendment, but that the DCC's insistence that the Mission go far beyond the letter and intent of the amendment was "ludicrous and counterproductive." The result, he said, was that the Mission's operations were "severely hamstrung" in the area of export promotion and the development of agricultural production for the internal market.

January - March 1990 Conflict

In January 1990, another dispute arose, when USDA noted several references to soybean production in the latest annual evaluation of

the Bolivian Title III program. USDA insisted on an explanation from the Mission. The Mission reaffirmed that no Title III funds were being used for soybean production and explained the references in the evaluation. It explained that because improving wheat production was a major objective of the Title III program, some of the current funds were being allocated for wheat production through the Wheat and Oil Seeds Producers Association (ANAPO).

USDA objected to AID's funding of ANAPO, which is also the largest exporter of Bolivian soybean products. According to AID, USDA said it was being pressured by U.S. soybean interests, alarmed by a rapid rise of Bolivian soybean exports, to ensure no U.S. support for such production.

On February 12, 1990, the AID Assistant Administrator for Food for Peace wrote USDA's Under Secretary for International Affairs and Commodity Programs. He noted that USDA's representative on the DCC Title I/III Working Group was blocking consideration of the FY 1990 Title III program for Bolivia and that USDA representatives were requesting that all Title III funding for ANAPO be withdrawn on the grounds that it indirectly encourages soybean production.

The Administrator said that if the latter logic were followed, much of the Title III program support for road construction, anti-narcotics, and other activities would have to be eliminated because of a similar indirect influence on soybean production. He pointed

out that AID was providing support through ANAPO because it is the farmers' cooperative most involved in wheat production in Bolivia. The Administrator asked USDA to reconsider its position. He noted the importance of reaching agreement on Title III funding so that the President could announce the grant at the upcoming drug summit of Andean countries.

However, USDA was not willing to bend on ANAPO, and again the DCC sustained its position. As a result, in March AID agreed to stop funding ANAPO and the proposed FY 1990 Title III agreement was amended to state that no Title III funds would be disbursed to any soybean producers associations. In addition, AID agreed that all future loan agreements to wheat growers would state that the funds could not be used in any way to support soybean production and the Mission agreed to establish a system for tracking loan funds for wheat production.

Following the agreement, the USDA Under Secretary told the AID Assistant Administrator that while the oilseeds production issue was a fairly small component of the total P.L. 480 package for Bolivia, it represented an important question to domestic U.S. soybean producers and processors. He said USDA supported Bolivia's wheat production efforts, but through organizations which have wheat production as their principal focus.

The Under Secretary reiterated that the Mission had agreed not to support soybean production activities, directly or indirectly, through Title III funding. He said wheat was a secondary crop for ANAPO, ANAPO seeks to expand services to its members, and that funding for ANAPO would amount to indirect support of soybean production activities.

The Under Secretary further said that USDA disagreed that Title III funding for general infrastructure projects (such as road building) supports soybean development to the same degree as providing credit and technical assistance to the principal oilseeds producer organization.

The Under Secretary further said that USDA did not feel sufficient economic justification had been developed to warrant support for soybean expansion efforts in Bolivia.

Additional Key Points Concerning the Conflicts

Additional key points that emerged in our analysis of the above conflicts include the following.

-- USDA program officials told us that they opposed P.L. 480 funds being used, either directly or indirectly, to finance any soybean exports, regardless of whether the exports would significantly impact U.S. exports, because it was clear to them

that this was Congress' intent. However, USDA's Office of General Counsel informed us that it has found nothing in the legislative history which clarifies Congress' intent with regard to the language "compete, as determined by the President."

-- Apart from AID, other DCC agencies generally deferred to USDA. Treasury Department officials said soybeans was a sensitive political issue and that DCC members deferred to USDA's interpretation that P.L. 480 does not allow aid for Bolivian soybeans and that providing assistance for soybean exports would be a problem. State Department officials said they had to carefully consider USDA's position that helping Bolivian soybean production could raise serious political issues, which in turn could affect P.L. 480 funding for the Bolivian Title III program. They said State wanted to ensure that the overall program was funded.

-- According to AID officials, the American Soybean Association (ASA) is so influential that AID has given a much stricter interpretation to the Bumpers amendment than is required by the legislation. Their fear is that if countries such as Bolivia use any aid financing to produce soybeans for export, ASA may persuade Congress to tighten the Bumpers Amendment, which could have serious repercussions on AID development efforts in the agriculture and export sector development programs worldwide.

-- AID and USDA information indicates that ASA was actively involved in presenting its views during the October 1988-January 1989 and January-March 1990 conflicts and that both AID and USDA worked closely with ASA to keep it informed of how the conflicts were being resolved. Following resolution of the latter conflict, in April 1990, an ASA official notified AID and USDA that ASA would continue to closely monitor the situation. The official said ASA was not opposed to soybean production in Bolivia but is opposed to the use of U.S. tax payers' money to do so.

-- We found no evidence that the DCC requested AID/Bolivia to provide information or analysis to support its conclusion that Bolivian soybean exports would not significantly impact U.S. soybean exports or what adverse consequences would result if the AID mission in Bolivia could not implement its export-oriented strategy in the Bolivian lowlands.

-- USDA program officials told us AID/Bolivia had never provided a study to support its assertion that Bolivian soybean exports would not threaten U.S. soybean exports and that they doubted AID had prepared a serious analysis of this matter. They also said that USDA had not separately assessed Bolivia's potential for becoming a significant threat to U.S. soybean exporters. However, they said that ASA had expressed concerns to USDA and indicated that Bolivian exports were a threat. But, the USDA

officials said that ASA had not provided them with any study showing how ASA had reached its conclusion and they did not know if such a study had been prepared.

-- Some USDA officials said it is impossible to demonstrate substantial injury from any one project, partly because it is difficult to estimate the cumulative impact over the next 5-10 years. Also, while one project might not have a major impact, the cumulative impact from 20 projects in 20 countries over time could add up to substantial injury. One official said the Bolivian case doesn't require any analysis, because Bolivia doesn't have a domestic industry to absorb the production. He said every additional soybean Bolivia produces will be exported and it will result in one less bean that the United States exports.

-- Although Bolivian soybean exports have grown rapidly during the last few years, in 1988-89 they still represented less than 1 percent, by volume, of U.S. soybean exports. See Appendix II.

RECENT USDA/AID DISCUSSIONS AND ACTIONS

On February 23, 1990, the U.S. Ambassador to Bolivia met with USDA's Under Secretary for International Affairs and Commodity Programs to discuss restrictions on U.S. assistance to Bolivian soybean exports. According to USDA, the Ambassador argued strongly

for a re-evaluation as a consequence of the President's February 15, 1990, summit meeting with the Presidents of Bolivia, Colombia, and Peru and the need to find creative solutions to the drug problem. The Ambassador said he was lobbying for an exemption from the Bumpers amendment to allow crop substitution for coca by crops that compete with U.S. farm exports.

Participants at the meeting discussed the economic incentives of coca versus soybeans, wheat, barley, citrus, macadamia nuts, apples, and other alternative crops. According to minutes of the meeting, the Ambassador argued that soybeans are the most profitable crop and doubted that even a great expansion in Bolivian soybean exports would significantly affect U.S. soybean exports. The Under Secretary calculated that Bolivian exports in 1989 added about 40 million bushels of soybeans to the current U.S. year-end stock of about 200 million bushels, enough, he said, to have a depressing effect on U.S. soybean prices.

The Under Secretary told the Ambassador that he had not seen any analysis to support soybeans as the most economical alternative crop. He also noted that the DCC agencies had recently voted 4 to 1 against using P.L. 480 funds to support ANAPO.

On June 23, 1990, GAO staff met with the Under Secretary. He said that on May 8, 1990, he and the Secretary of Agriculture had met with the President of Bolivia. During the meeting, the

president asked for assistance in identifying the best crop alternatives to coca and mentioned soybeans as one possibility.

The Under Secretary told GAO that USDA was open to considering soybeans as an alternative crop, but that USDA had still not seen an economic justification that soybeans is the most cost effective crop. He said USDA would strongly prefer supporting a crop, that while helping Bolivia, did not compete with U.S. agricultural exports. As a result of the President of Bolivia's inquiry, he said that he had taken steps in the past week to establish a task force with AID to investigate which of a variety of alternative crops, including soybeans, would be the most cost effective alternative to coca.

Mr. Chairmen, this concludes my statement. I will be happy to answer any questions you may have.

OVERALL OBJECTIVES OF P.L. 480

The P.L. 480 food aid program was established by the Agricultural Trade Development Act of 1954. Its objectives are to (1) develop and expand export markets for U.S. agricultural commodities, (2) encourage economic development in developing countries, (3) provide humanitarian assistance to combat hunger and malnutrition, and (4) promote the foreign policy of the United States.

The Title I program of P.L. 480 offers government-to-government concessional sales of commodities with long-term repayment terms (up to 40 years) at low interest rates (2-4 percent). The recipient country must implement mutually agreed upon self-help measures in return for the aid. The Title II program provides food grants or donations to support ongoing programs in the recipient country, such as school feeding and food-for-work community development projects. The Title III program is similar to the Title I program, except that it offers debt forgiveness. For example, local currency proceeds derived from the sale of the food may be credited against the dollar repayment obligation incurred by a Title I sale agreement if the recipient country uses the proceeds for mutually agreed-upon development projects.

BOLIVIAN SOYBEAN AND SOYBEAN PRODUCT EXPORTS AS A PERCENT[a] OF U.S. SOYBEAN AND SOYBEAN PRODUCT EXPORTS (1984-1990)

Year	Soy beans	Soy meal	Soy oil	Total Meal Equivalent[a]
1984-85	0.00	0.67	0.00	0.17
1985-86	0.10	1.11	0.70	0.36
1986-87	0.04	0.38	0.00	0.14
1987-88	0.08	1.12	0.12	0.35
1988-89	0.42	2.36	0.27	0.98
1989-90[b]	0.66	2.76	0.74	1.17

[a]Percentages calculated from metric tonnage data provided by USDA. The "Total Meal Equivalent" column is computed from equivalent soy meal tonnage estimated with the following formula:

Total Meal Equivalent Tons = (Meal Tons) + (Bean Tons)*(0.795)

[b]Forecast.

Source: ERS/USDA, June 1990.