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Report to the Ranking Minority Member, Subcommittee on Agriculture, Rural Development and Related Agencies, Committee on Appropriations, House of Representatives

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FOREIGN ASSISTANCE

Donation of U.S. Planting Seed to Russia in 1999 Had Weaknesses

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USDA U.S. Department of Agriculture

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The Honorable Marcy Kaptur
Ranking Minority Member
Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
House of Representatives

Dear Madam Kaptur:

In 1999, the United States donated 15,000 metric tons of planting seed (mainly corn and pea seed) to Russia under the Food for Progress agreement.[1] The seed donation (with commodity and transportation costs of $21.7 million) was part of a $1.2 billion program of concessional sales and donations of agricultural commodities to Russia. The seed donation represented 2 percent of the overall program cost and was the first time that the U.S. Department of Agriculture had provided planting seed in a food aid agreement to any country. Under the Food for Progress program agreement, the donated seeds were to be sold in Russia at market prices, and the proceeds were to be deposited in a special account and then disbursed to selected Russian seed institutes and a rural credit cooperative.

The inclusion of planting seed in the agreement was supported by the U.S. Department of Agriculture's Foreign Agricultural Service and others as a means to aid Russian farmers faced with seed shortages, improve Russian agricultural productivity, and promote market development for U.S. planting seed in Russia. The program was also viewed as an opportunity for the U.S. Department of Agriculture to test the viability of including planting seed in food aid programs.

[1] The Food for Progress Act, 7 U.S.C. 1736o, authorizes the U.S. Department of Agriculture's Commodity Credit Corporation to finance the sale and exportation of agricultural commodities on credit terms, or on a grant basis, to support developing countries and countries that are emerging democracies and have made commitments to introduce or expand free enterprise elements in their agricultural economies. The act was amended in 1992 to include the independent states of the former Soviet Union as eligible countries under the program.

As part of your request to review the overall food aid agreement, you asked a series of questions regarding the design and implementation of the seed donation program. To address these questions, we examined (1) how the seed was procured in the United States, (2) how seeds were distributed and monitored in Russia, and (3) what the process was for selling the seed and distributing the proceeds to agricultural development institutions.

Results in Brief

Under time pressure to buy and ship the seed to Russia to meet planting dates, U.S. Department of Agriculture officials procured the seed through a noncompetitive, sole source contract for $21.7 million. This decision forced the United States to donate the seed to Russia rather than finance its sale with a concessional loan. Procurement officials in the U.S. Department of Agriculture did not have time to develop expertise on the technical aspects of international seed shipments nor did they have access to independent sources of price information before entering into negotiations with the sole source contractor.

Seed distribution in Russia did not follow the original plans, and reasons for changes were not fully documented. Some deliveries of corn and pea seed were verified by U.S. government monitors, but the regional distribution of the other vegetable seeds was not confirmed, and there is conflicting information about what happened to these seeds. Also, some seed arrived in the regions too late to be planted. Monitoring reports show that two common complaints from Russian producers were a lack of technical information on seed types and delivery of seed that was not appropriate for local growing conditions.

The sale of the donated seed to regional wholesalers and government agencies in Russia raised about $2.6 million (about one-eighth of what was paid to the sole source contractor that procured and shipped the seed to Russian ports). According to Department of Agriculture officials, they used a methodology for determining fair, wholesale market prices for U.S. food aid commodities in Russia, but we found scant documentation of how this methodology was used to set prices for the donated U.S. planting seed. Also, the prices for the donated U.S. seed were substantially lower than prices for corn and vegetable seed reported by some private companies in Russia. The distribution of the proceeds from the sale of seeds generally followed the original plan. While there were some delays in the payment for seeds, all the expected proceeds have been deposited into a special account in Russia, and most of the funds were distributed to four seed research institutions and a rural credit cooperative fund.

This report contains recommendations to the Secretary of Agriculture for improving future seed donations through (1) increased communication and planning by the U.S. Department of Agriculture, (2) changes in the implementation and monitoring of seed distribution to regions in Russia, (3) better documentation of pricing decisions, and (4) an evaluation of U.S. seed performance in Russia.

Background

In 1999, the United States provided Russia, through a combination of donations and concessional sales, with over 3 million tons of grains, meats, oilseeds, and other U.S. farm commodities with a total cost (including freight) of over $1.2 billion. The U.S. food assistance package was designed, in part, to respond to one of the worst Russian grain harvests in over 40 years combined with the effects of a severe financial crisis in August 1998. At the same time, U.S. Department of Agriculture (USDA) officials pointed out that government support of the export of large amounts of agricultural commodities was a means of helping U.S. farmers in a period of surplus and low prices.

U.S. food aid to Russia was provided through three programs: Public Law 480 Title I, Section 416(b), and Food for Progress.[2] Agreements under these programs are negotiated and administered by USDA's Foreign Agricultural Service. Another agency of USDA, the Farm Service Agency, is responsible for supplying commodities for the Section 416(b) and Food for Progress programs. The Title I program regulations require that purchases of commodities for the program be made through a publicly advertised, competitive bid process,[3] while Food for Progress regulations permit, under certain circumstances, procurement of commodities through a sole source contract.[4]

[2] The Title I program makes U.S. agricultural commodities available through long-term credit at low interest rates. Section 416(b) provides for overseas donations of surplus commodities owned by USDA's Commodity Credit Corporation. The Food for Progress program provides agricultural commodities on credit terms or on a grant basis to countries that are emerging democracies and have made commitments to introduce or expand free enterprise elements into their agricultural economies.

[3] 7 U.S.C. 1736a(a)(2), 7 C.F.R. 17.5.

[4] See 41 U.S.C. 253(c), 48 C.F.R. 6.3.

The seed donation to Russia was part of a Food for Progress agreement that included donations of pork and dried milk powder. The seed program was significant in that it was the first time that planting seed was included in any U.S. food aid agreement. Unlike the bulk commodities that generally make up food aid programs, planting seed is not a homogeneous commodity that can be used in any country. To perform well, planting seed must be of high quality in terms of seed purity and adequate germination rates, but most importantly, the seed must be appropriate for the growing conditions where it is planted. Corn seed in particular varies by the Food and Agriculture Organization's maturity group,[5] which determines when seed should be planted and when it can be harvested for grain. Corn that does not fully mature into grain can be harvested to be processed into silage and used as animal feed.[6]

Under the Food for Progress program agreement, the donated seeds were to be sold in Russia at prices agreed upon by the two governments, taking into account factors such as prevailing market prices in Russia. The proceeds from the sale of the seed were to be deposited in a special account administered by the Russian Ministry of Agriculture. The agreement sets out the disbursement of funds to special projects—50 percent to fund a rural credit cooperative and 50 percent distributed among five Russian seed research institutes. All proceeds from the sale of other food aid commodities were to be used to support the Russian pension fund.

The Food for Progress agreement also required that the government of Russia develop a "workplan" indicating, among other things, the projected distribution, estimated time lines, projected point of sale, and buyers of the commodities, including seeds. The agreement includes provisions for monitoring the arrival and distribution of seeds and documentation of the deposit and disbursement of sales proceeds. A bilateral working group[7]

[5] "The maturity group" is the Food and Agriculture Organization's internationally recognized classification of corn seed by the length of the growing season needed for corn to produce grain.

[6] The feeding value of silage from immature corn depends partly on the degree of maturity at harvest. Also, corn hybrids that have high grain yields do not necessarily produce the highest quality silage.

[7] The working group consisted of four U.S. officials, including the U.S. Minister Counselor for Agricultural Affairs, and representatives from various Russian ministries and representatives of the distributing agents.

was established to meet on a regular basis to coordinate, resolve issues, and recommend changes to the workplans and establish the selling prices for the food aid commodities.

Procurement of Planting Seed in the United States

The availability of planting seed in the United States influenced the amounts and varieties of seed sent to Russia. The seed was procured in the United States through a noncompetitive, sole source contract. When entering into negotiations with the sole source contractor, procurement officials did not have independent sources of price information or technical expertise. USDA paid the contractor a price that included freight and other costs; therefore, procurement officials can only estimate the average price paid for the seed.

Types and Quantities of Seed Donated to Russia

In a letter dated November 4, 1998, the Russian government requested a large donation of seed—almost 100,000 tons of corn, sunflower, and other seeds.[8] Also, due to the short Russian growing season, Russian officials requested that corn seeds be early maturing varieties. Foreign Agricultural Service officials, in consultation with the American Seed Trade Association, determined that this request was too large for the United States to supply. Also, estimates of the availability of early maturing corn seed varieties were much smaller than the amount of corn seed requested by Russia. After discussions, the two governments reached an understanding in December 1998 on a 15,000-ton package; the request for corn and vegetable seed closely adhered to the trade association's estimates of planting seed stocks in the United States—14,000 tons of corn seed and 1,000 tons of vegetable seed. Due to the large proportion of late maturing corn seed varieties included in the donation, the expectation was that the corn seed would not produce grain but rather be grown for silage.

[8] The request listed some seeds by variety and, in the case of corn seed, maturity and company name of hybrid. The request required that all imported seed be officially registered.

Given the need to import seed immediately, Russia effectively waived the requirement that all seed varieties imported be registered (a process that can take up to 3 years). To overcome a Russian phytosanitary quarantine, the United States agreed to procure corn seed that was from the 1997 or earlier crop cycle.[9] These agreements facilitated the importation of the donated seed but did not apply to commercial imports of U.S. corn seed, which were and still are subject to quarantine and registration requirements.

The donation of vegetable seed (pea, carrot, beet, and onion seed) totaled 1,000 tons. The quantity of pea seed supplied was 960 tons. USDA also planned to send 10 tons of onion, 10 tons of beet, and 20 tons of carrot seed. However, the seed brokerage contracted to procure the seed discovered that it could supply just over 2 tons of onion seed. USDA documents show that the U.S. agricultural counselor in Moscow communicated with Russian officials and they agreed that the shortfall should be made up with additional carrot seed.

Time Frame Limited Options for Procurement

In December 1998, while the United States was negotiating the types and amounts of seed to be sent to Russia, the Foreign Agricultural Service received an unsolicited proposal from an international seed brokerage that outlined various cost scenarios for the exportation of seed to Russia. The seed brokerage, based in the United States, had commercial ties to a Russian seed importer, and through this contact the brokerage became aware of the Russian request for seed and of the need to import the seed quickly. According to Foreign Agricultural Service officials, they consulted with seed industry officials to identify other potential suppliers but found no alternatives.

[9] Phytosanitary measures pertain to protecting plants from pests and diseases. Russia quarantines corn seed of U.S. origin to prevent the spread of Stewart's Wilt, a bacterial disease affecting corn in the United States. While transmission of Stewart's Wilt via seed is extremely rare, the Russian authorities believed that this risk would be further reduced by using seed that had been stored for at least 1 year.

By the end of December 1998, time had already become a limiting factor in the seed procurement and shipment process. Ideally, according to seed industry officials, the seed should have been procured and sent to Russia by the beginning of 1999 to permit timely distribution to producers.[10] USDA procurement officials stated that they generally need at least 4 to 6 weeks to prepare and carry out a competitive bid process to procure and transport a commodity to the point of export. Also, since USDA had never procured seeds for a food aid program, officials stated that they would have needed additional time in order to develop a set of procedures taking into account the special technical requirements for international seed shipments. Given these circumstances, USDA decided to procure the seed through a sole source contract with the seed brokerage.

Procurement Decision Necessitated Program Change

Initially the seed program was planned as a sale of seed to Russia under the Title I program. However, since the Title I program requires that the commodity be procured through a competitive bidding process by U.S. suppliers, the decision to procure the seed through a sole source contract meant that the seed had to be provided under the Food for Progress program. Thus, instead of selling the seed to Russia, the United States donated the seed. Procurement officials informed us that this was the first time that a sole source contract had been used to procure agricultural commodities under the Food for Progress program.

USDA Unprepared for Negotiations With Sole Source Contractor

Procurement officials at the Farm Service Agency were not well prepared to negotiate with the sole source contractor. They had no independent sources of prices and were unaware how technical specifications could impact the value of seed.[11] Procurement officials generally carry out a price discovery process and market analysis of available supplies to prepare solicitations for bids to procure commodities through a competitive process. However, in the case of planting seed for Russia in 1999, officials say they only had time to call one agricultural supply dealer and inquire

[10] According to Foreign Agricultural Service officials, farmers in Russia need to have their pea seed planted no later than March and their corn seed planted no later than April.

[11] For example, procurement officials were unaware during negotiations that Russia had requested seed from 1997 and earlier and that the price for corn seed generally declines in price the older the production year. Also, they were unaware that prices for vegetable seed vary substantially depending on whether the seed is a hybrid or an open-pollinating variety.

about wholesale corn seed prices; they did not gather information on the prices of vegetable seed.

The contract with the seed brokerage established a maximum price of $1,625 per metric ton of corn seed,[12] the same price suggested in its unsolicited proposal. Procurement officials informed us that they accepted the brokerage's price for corn seed because they had had little time to gather independent price information. In the case of vegetable seed, the contract did not specify a maximum price, but in the justification for sole source procurement, the Farm Service Agency estimated the expected cost of vegetable seed to be about $5,000 per ton.

USDA Gained Limited Experience From the 1999 Seed Donation

In justifying the use of sole source procurement, USDA officials emphasized that the seed donation was to be used as a test to determine the effectiveness of providing seed under foreign aid programs in the future and to develop expertise to conduct future procurement.[13] Procurement officials worked with the contractor to learn about the special technical requirements of international seed shipments and developed procedures to procure seeds through competitive bids in the future.

USDA failed to use the procurement process to learn more about the prices of corn and vegetable seed. The sole source contract did not require that the contractor provide a breakout of the price charged to USDA into the cost of seed and other costs. USDA does not know the price at which the contractor procured the seed from U.S. suppliers.

[12] The price included germination testing, transportation to port in Russia, and an $80 contracting fee.

[13] USDA officials have stressed that the sole source procurement of planting seed was due to special circumstances and is unlikely to be repeated. USDA has implemented a competitive bid process for the procurement of seed for export to Russia in the year 2000.

While procurement officers from USDA's Farm Service Agency observed the solicitation and reception of bids for corn seed (but not for vegetable seed) by the sole source contractor, they did not take advantage of the experience to gather detailed information on prices for the corn seed.[14] Procurement officials did not observe if prices varied depending on maturity, year of production, or size of bid. This information could have been valuable for estimating and planning for future procurement of seed. The contractor did not share price information with us, citing the confidentiality of proprietary information.

Distribution and Monitoring of Seed in Russia

The distribution of U.S. planting seed did not follow the original plan; distributing agents changed, regions received different amounts of seed than scheduled, and some seed arrived too late to be planted. While changes were permitted under the program, documentation for the reasons for changes is not complete. Some deliveries of corn and pea seed were verified by U.S. government monitors, but they did not observe the regional distribution of any of the carrot, onion, and beet seed. There is conflicting information about the status of these vegetable seeds. Monitors reported that regional recipients complained about the large number of corn varieties included in deliveries and the absence of detailed labeling and technical guidelines for the seed. There was no formal evaluation of the performance of the U.S. planting seed, as required by the Food for Progress agreement.

Seed Distributing Agents Changed

The criteria used to choose distributing agents in Russia were unclear. Initially, the Russian government selected a seed import firm to receive the seed, transport it to regions, and sell it to regional recipients. No explicit reason was given for the choice of this distributor, but according to the Foreign Agricultural Service, the company was an experienced seed importer in Russia. Also, representatives of the American Seed Trade Association said that the firm had the technical knowledge and distribution infrastructure to successfully distribute seed.

[14] Because seeds are a commercially available product, the Truth in Negotiations Act does not require suppliers to share price information with the government (41 U.S.C. 254b (b)(1)(B)). However, USDA could have required such information as a condition of its contract with the broker. 18 U.S.C. 1905 prohibits federal employees from disclosing such confidential proprietary information, except as authorized by law.

Just prior to the arrival of the first seed shipment, the Russian government changed agents, and all of the corn and pea seed was distributed and sold by the same former state agency (Roskhleboproduct) that distributed the food and feed grain commodities sent by the United States. The carrot, beet, and onion seed was sold to a state agency (Rossortsemovosch) that was then made responsible for distributing it to the regions.[15] Foreign Agricultural Service officials noted that the nomination of the agent and internal distribution was the responsibility of the government of Russia, not of the U.S. government. According to these officials, the original agent did not want to comply with certain requirements to participate in the program, and the agent voluntarily withdrew from participating.

The Food for Progress agreement stated that in order to promote the participation of the private sector in the seed program, an organization of private farmers would receive 3,000 tons of corn seed to sell to members. According to Foreign Agricultural Service officials, the farmer cooperative voluntarily withdrew from the seed program before the seed arrived in Russia because it did not have adequate transportation to distribute the seed.

Corn and Pea Seed Distribution to Regions Differed From Plans

According to the Food for Progress agreement, the U.S. planting seed was to be sent to regions identified as needy, which were listed in an attachment to the agreement. The Russian distributing agent submitted a "workplan," approved by the bilateral working group, which contained some changes in the original delivery locations and seed amounts. Foreign Agricultural Service officials then tracked each shipment's arrival to port, planned delivery to regions, regional buyers, and which arrivals and deliveries were checked by a Foreign Agricultural Service monitor. (See app. I for a comparison of distribution according to the original distribution plan, the workplan, and delivery documentation.)

[15] The distributing agents' documents show that all of the seed was sold to public food processors, state agencies, and private seed companies. These entities resold the seed or used it for production, but there is no documentation of the final recipients of the seed.

For corn seed, deliveries to the regions differed from both the original distribution plan and the workplan. We could not find documentation in the bilateral working group minutes showing discussion and approval of most of these changes. Foreign Agricultural Service monitoring reports[16] confirm the delivery of 72 percent of the corn seed in the regions. One delivery to Tartarstan arrived too late for planting and, according to Foreign Agricultural Service officials in Moscow, 700 metric tons are being stored in the region for planting in the spring of the year 2000.

Pea seed deliveries were also different from plans, but discussion and approval of these changes are documented in official correspondence from the Russian distributing agent to U.S. embassy officials in Moscow.

Vegetable Seed Deliveries Not Confirmed

Over 40 tons of carrot, beet, and onion seed were delivered to Moscow and sold to a state agency, Rossortsemovosch, that, according to the workplan, would sell the seed to regions with the approval of Russia's Ministry of Agriculture. The bilateral working group minutes contained no record of further discussions concerning the distribution plan for these seeds nor did the Foreign Agricultural Service monitor the arrival or verify the distribution or sale of this seed.

The importing agent, Roskhleboproduct, informed a representative of the seed brokerage that procured and shipped the seed that the vegetable seed had arrived too late for planting. However, Rossortsemovosch submitted a report that shows only a small amount of seed remains unplanted and stored in the regions (tables 3 to 5 in app. I show the reported distribution of this seed). The information in Rossortsemovosch's report on the delivery and status of the seed has not been verified.

Performance of U.S. Planting Seed in Russia

The Food for Progress agreement included a provision that USDA and Russian officials carry out an assessment of the performance of the planting seed, including germination and yields. A formal report has not been produced, and there has been no attempt to systematically gather

[16] Foreign Agricultural Service monitors tracked commodity shipments and produced Compliance Review Reports as a result of selected monitoring visits to Russian ports or regions (oblasts). When they conducted monitoring visits in the regions, they were supposed to verify the recipient, the kind and amounts of commodities received, and the commodity selling price and buyer. Monitors did not necessarily see the commodity, but verified distribution data through examination of shipping documents and receipts.

information on yields or other performance measures. However, all seed was tested for germination rates prior to shipment. Only seed meeting international standards was sent to Russia. In addition, USDA partially funded travel expenses of representatives of the American Seed Trade Association and the U.S. contractor that visited Russian pea farms, canneries, and a few farms producing silage using U.S. corn seed. The trip reports submitted to USDA reported generally favorable results. We found no reports on the performance of the vegetable seed.

Foreign Agricultural Service monitors in Russia reported widespread complaints about the delivery of too many corn seed varieties and the absence of labels giving technical guidance for planting or cultivation. For example, one regional buyer in Omsk had received 463 metric tons of corn seed with 25 to 30 different hybrids. None of the bags contained written technical specifications of the corn seed or explanations of the seed treatment.

Several recipients visited by representatives from the U.S. seed industry complained about the inclusion of late maturing corn hybrids that are inappropriate for growing conditions in their region. Also, producers requested that subsequent programs include other types of seeds.

USDA sent a team to Russia in September of 1999 to assess Russian food needs for the coming year. No assessment was made of the need for seed, but USDA did report that the Russian Ministry of Agriculture was estimating a 1-million ton deficit of planting seed for the year 2000. We could not find estimates of the regions where seed deficits are highest or the types of seed in critical shortage.

Sale of U.S. Seeds in Russia and Distribution of Proceeds

The sale of the donated seed to regional wholesalers and government agencies in Russia raised about $2.6 million (about one-eighth of what was paid to the sole source contractor that procured and shipped the seed to Russian ports). The Food for Progress agreement required the bilateral working group to establish prices for U.S. commodities shipped to Russia, including seeds.[17] However, we found scant documentation of the process used to determine the price of U.S. seed in Russia. While USDA officials said that the low price at which U.S. planting seed was sold was due to special factors in Russia, we found that prices charged for the donated U.S. seed were substantially lower than prices reported for corn and vegetable seed by some private companies in Russia. By January 2000, all regions had paid for the seed they received. However, some payments were made with substantial delays. Similarly, disbursements of the proceeds from the sale of seeds to a rural credit cooperative and five seed institutes were also delayed. About 80 percent of the funds have been disbursed.

Prices Paid for Donated U.S. Planting Seed in Russia

The prices at which the U.S. planting seed were sold varied between one-ninth and one-half of the per ton cost of procuring and shipping the seed to Russia (see table 1 for a comparison of procurement and shipping costs in the United States versus the selling price in Russia). Foreign Agricultural Service officials established a methodology for determining prices of U.S. food aid commodities that consisted of (1) an initial proposal by Russian authorities,[18] (2) a check by U.S. officials of price information available from other sources, and (3) a discussion and a final determination of the prices approved by the bilateral working group. However, scant documentation can be found for the use of this methodology for setting the price of corn, pea, and vegetable seed.

[17] The agreement specified that factors to be considered in the price determination were to include world price levels, prevailing market prices in the regions where the seeds were to be sold, and commodity quality specifications. The price estimates made by the working group were to be finalized only after approval by the Minister-Counselor for Agricultural Affairs at the U.S. embassy in Moscow.

[18] According to a senior Russian official, the goal in establishing a price was to identify a "golden middle"—a price low enough so that the U.S. commodities would be sold quickly, but high enough so that it would not undercut domestic prices and hurt domestic producers.

Table 1: Price of Seed in United States and Russia and Deposits of Seed Proceeds

Seed type	U.S. procurement costs (dollars per metric ton)[a]	Sale price In Russia (dollars per metric ton)[b]	Price ratio U.S.: Russia	Total procurement Cost (dollars in thousands)	Total deposit to special account (dollars in thousands)[b]
Corn	$1,442	$160	9:1	$20,218	$2, 243
Pea	1,023	240	5:1	982	230
Carrot	14,214	2,800	5:1	392	78
Beet	5,825	3,200	2:1	58	32
Onion	21,800	4,000	5:1	52	10
Total				**$21,702**	**$2,593**

[a] U.S. price includes various costs, including transportation to St. Petersburg, Russia.

[b] Exchange rate of 25 rubles per U.S. dollar.

Source: USDA's Foreign Agricultural Service.

In February 1999, the distributing agent submitted a workplan for seed, including suggested prices for the U.S. planting seed. However, some of the prices actually charged to regional buyers for the various types of seed differ substantially from those suggested prices. In the minutes of the bilateral working group, there are references to U.S. counterproposals for seed prices, but no supporting documentation has been provided by the Foreign Agricultural Service. Other documents indicate that U.S. officials tried to raise the price of pea seed 33 percent, from $240 per ton to $320 per ton, but the distributor said that the proposed change came too late. There was no documentation of why U.S. officials wanted to change the price. Accounting documents show that $240 per ton of pea seed was deposited in the special account.

Price of Donated U.S. Seed Substantially Lower Than Commercial Prices

It is difficult to establish a market price for U.S. corn seed in Russia, since commercial imports from the United States are prohibited due to quarantine rules. However, we found that private seed firms reported substantially higher sale prices for corn seed, both Russian and imported seed from Europe. The multinational firms that import corn seed into Russia reported prices for western European seed between $1,300 and $1,500 per metric ton, including taxes. These same firms said that imported corn seed from neighboring countries such as Hungary and Yugoslavia costs approximately $500 to $600 per metric ton. They also estimated that domestic Russian corn seed, generally of lower quality, costs approximately $300 to $400 per ton after taxes and other fees.

The donated U.S. corn seed was sold at the ruble equivalent of $160 per metric ton to regional recipients. USDA monitors reported that after including taxes and distribution costs, the corn seed price paid by Russian agricultural producers for the U.S. seed was about $220 per metric ton. Thus, the sale price for U.S. corn seed is below the price range for corn seed reported to us by private firms.

In addition, a representative from a Russian association of private vegetable and flower seed producers said that the selling prices of U.S. vegetable seed were substantially lower than prices for similar seed in Russia.

U.S. Officials Said That Market Conditions Dictated Low Selling Prices

USDA officials who participated in the bilateral working group said that market conditions justified the low selling price of U.S. corn and vegetable seeds. According to these officials, Russian farmers had no access to credit and thus did not have cash available to buy expensive production inputs like imported seed and fertilizer.

The contractor that procured the seed pointed out that additional factors affected the price of corn seed in Russia. Although the U.S. corn seed was of extremely high quality and similar to seed imported from Europe in terms of germination rates and technological investment, the U.S. seed was not destined for grain production. Because most of the U.S. corn seed was not appropriate for growing grain in Russia's colder and drier conditions, it was used to produce silage, a product of lower value than grain. This lowered the value of U.S. seed in Russia. In addition, Foreign Agricultural Service officials said that U.S. corn seed was sent to augment low Russian domestic stocks, not to compete with imported seed and thus was priced closer to the price of Russian corn seed.

Multinational firms selling corn seed in Russia confirmed that the sale of U.S.-donated corn seed did not adversely affect their sales, in part because sales of high-quality corn seed from Western Europe had already dwindled to near zero due to the economic crisis in Russia. However, a representative of the Association of Russian Independent Seed Companies said that the sale of cheap vegetable seed adversely affected Russian vegetable seed firms because the U.S. seed was cheaper and nearly identical to seed produced in Russia.

Deposits to the Special Account Delayed

The regional recipients that purchased the seed from the distributing agent were required to make full payment no later than 120 days after delivery to port in Russia, which meant that the first deposits should have been made by June 14 and the last completed by July 31.[19] However, by August 11, 1999, only $1 million of the expected $2.6 million had been transferred to the special account. According to documents, the Russian Ministry of Agriculture suspended other food aid shipments and federal financing to two regions that had not paid in full for seed by the end of September 1999. In December 1999, one region still owed $212,016 for corn seed. Payments for the U.S. seed by all regions were completed by January 2000.

Disbursements of Funds to Seed Institutes and Rural Credit Fund Also Delayed

The disbursements of funds to seed institutes and the rural credit fund were also delayed. The first disbursements of proceeds from the sale of seeds took place in July 1999, but as of October 1999, only 40 percent of the expected funds had been disbursed. By December 8, 78 percent of the funds had been disbursed.

By the end of 1999, three of the four regional seed institutes had received funds (see table 2 for a breakdown of disbursements). According to the U.S. Agricultural Counselor in Moscow, disbursements to the seed institutes, including the Rice Seed Institute, will be completed pending final approval from Washington, but no date for disbursement has been set.

[19] U.S. seed arrived in port beginning in March and ending in April.

Table 2: Disbursement of Seed Proceeds to Credit Fund and Seed Institutes as of December 1999

Dollars in thousands

Institute	Planned disbursement	Received	Balance
Rural Credit Fund	$1,296	$1,017	$278
Vavilov Institute	1,036	814	223
Seed Breeding Institute	65	55	10
Williams Feed Institute	65	55	10
Corn Institute	65	55	10
Rice Institute	65	0	65
Total[a]	**$2,592**	**$1,995**	**$596**

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

Source: USDA's Foreign Agricultural Service.

Documents show that three of the seed institutes planned to use the funds to pay for tractors, machinery parts, infrastructure repair, and modernization. When we interviewed officials from the Vavilov Institute and Williams Feed Institute, both of which are seed breeding and research centers, they said that the money would be used at the institutes for purchasing farm equipment. The Rural Credit Cooperative Development Fund has used the funds to extend loans to private farmer cooperatives through a program called the Russian-American Lending Program.

Conclusions

Officials in the Farm Service Agency were not well prepared to enter into negotiations to procure seed. As a result, there is little assurance that the price paid was the lowest possible. Whether buying through a sole source contract or a competitive bidding process, procurement officials must develop expertise on the technical aspects of supplying seed and have access to independent sources of available supply and price information for the type of seed to be purchased.

USDA did not provide Russian farmers with adequate and timely technical information about the donated U.S. seed, reducing potential performance of the seed. Also, improper matching of seed type to local growing conditions may have diminished the contribution of the program to Russian agricultural productivity. Although the bilateral working group had established procedures for setting the prices of food aid commodities in

Russia, we found inadequate documentation of the price determination process for seeds, making it difficult to conclude if the prices charged were reasonable. Evaluation of seed performance can provide information to be used in the design of future seed donation programs.

Recommendations

In order to more effectively prepare for future government sales or donations of U.S. planting seed, we recommend that the Secretary of Agriculture

- direct the Foreign Agricultural Service to share information on bilateral discussions of seed sales or donations in a timely manner with the Farm Service Agency in order to facilitate open and competitive procurement of seed and
- direct the Farm Service Agency to identify independent and reliable sources of technical expertise to provide assistance in evaluating seed varieties, and testing, and to provide information on the U.S. seed industry.

Furthermore, to improve the management of the distribution and sale of future donations of seed to Russia, we recommend that the Secretary of Agriculture direct the Foreign Agricultural Service to

- establish an effective monitoring system to verify receipt of seed to the regions and the status of unplanted seed (to ensure it is stored in appropriate conditions to maintain its quality),
- establish methods of distributing U.S. seed to match (to the extent possible) the growing conditions in the recipient regions in Russia,
- put Russian language labels on seed packages and include more information about the seed to producers at the time of distribution,
- fully document the price discovery process for U.S. seed in Russia, and
- carry out an evaluation of seed performance with the goal of analyzing the results to improve future seed donation programs.

Agency Comments

We obtained oral comments on a draft of this report from USDA's Foreign Agricultural Service and Farm Service Agency. Officials from both agencies said that they thought the report was generally fair, accurate, and constructive. While both agencies regard the seed donation program as successful, they generally agreed with our recommendations and are in the process of implementing these changes to the year 2000 program.

However, Foreign Agricultural Service officials disagreed with the recommendation that a more effective monitoring system needs to be implemented for future programs since, in their opinion, the monitoring system for the 1999 program was extremely effective—over 70 percent of deliveries were monitored, and no seed was reexported. They noted that this system was never intended to monitor the distribution of seed beyond the first buyer, and, in the case of carrot, onion, and beet seed, to the purchasing agent in Moscow.

We agree that Foreign Agricultural Service monitors collected documentation of the deliveries of a majority of the corn and pea seed to the regions. However, this system does not guarantee that the seed was not reexported. Also, the monitoring system was supposed to verify workplans and any amendments to the plans but in practice rarely did so. In addition, the monitoring system did not confirm that unplanted seed would be properly stored for later distribution. While we agree that the monitoring system was designed only to follow distribution to the first buyer in the regions, the first buyer of carrot, onion, and beet seed was changed. Instead of going to multiple regions, the seed was delivered to one state agency, Rossortsemovosch, in Moscow. This meant that since the Foreign Agricultural Service only verified delivery to the first buyer, it did not independently confirm the delivery of carrot, beet, and onion seed to regions. As a result, we feel our recommendation is appropriate.

Officials also said that our report did not fully describe the context surrounding the procurement of seed in the United States. First, Farm Service Agency procurement officials agreed that time limitations reduced their ability to undertake market research on seed prices in the United States. However, they emphasized that, even with more time, they would not have conducted extensive inquiries, in part, out of concern that this might increase the cost of the seeds to be procured. Second, a Foreign Agricultural Service official stated that the decision to procure the seed through a sole source contract was not the only factor influencing the decision to donate, rather than sell, the seed to Russia. This official said that there was also concern about the impact of an additional $23 million loan on Russia's already large external debt obligations.

We agree that extensive market inquiries by government procurement officials could lead to speculation in commodity markets and price changes. However, we note that contacting one corn seed dealer did not provide the minimum information necessary for effective negotiation with the sole source contractor. We also agree that officials may have

considered the impact of the sale of seed on Russia's debt, but food aid program restrictions on the use of sole source procurement required USDA to donate the seed.

The Foreign Agricultural Service and the Farm Service Agency also provided some technical comments and additional information with regard to distribution of seed, monitoring, and deposits to the special account. Where appropriate, we have incorporated these comments and that information into our report.

Scope and Methodology

To examine how the seed sent to Russia was procured, we reviewed documentation provided by the Foreign Agricultural Service and also interviewed senior Foreign Agricultural Service officials who participated in the food aid agreement negotiation process. We examined the process used to procure seeds donated to Russia in 1999 by reviewing documents provided to us by the Farm Service Agency and interviewing officials responsible for procurement of food aid commodities. We also interviewed the sole source contractor that procured and shipped the seed and representatives from the American Seed Trade Association.

To examine how seeds were distributed and monitored in Russia, we reviewed the distribution plans included in the Food for Progress agreement, the workplan provided by the distributing agent, and documents used by the Foreign Agricultural Service to track and monitor deliveries. Our staff interviewed the principal distributing agent in Russia and reviewed documents submitted by the distributing agents in Russia. To examine how the seed was monitored and evaluated, we reviewed the minutes of the bilateral working group, reports produced by Foreign Agricultural Service monitors, and reports submitted to USDA by officials from the U.S. seed industry and the contractor. We also interviewed officials from the American Seed Trade Association and the sole source contractor that visited Russia.

To examine the process for selling the U.S. seed in Russia, we interviewed Foreign Agricultural Service officials that participated in the bilateral working group in Russia (including the current and former General Sales Managers of the Foreign Agricultural Service and the current and former U.S. Agricultural Minister Counselors in Moscow). We also reviewed the minutes of the bilateral working group and correspondence between U.S. and Russian government officials. In addition, we interviewed officials from several multinational seed companies that sell corn and vegetable

seed in Russia, and representatives of a private Russian seed importer and of an association of vegetable seed producers in Russia.

To examine how the proceeds from the sale of seed were distributed to agricultural development institutions, we reviewed documentation provided by the Foreign Agricultural Service, the government of Russia, the Vavilov Seed Institute, and administrators of the Rural Credit Cooperative Fund. We interviewed officials from the Foreign Agricultural Service and the government of Russia who provided additional detailed information. We also visited and interviewed officials at the Vavilov Seed Institute and the Williams Feed Institute and also interviewed officials administering the Rural Credit Cooperative Fund in Russia.

We conducted our review from November 1999 to February 2000 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce the contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time we will send copies to interested congressional committees and the Honorable Dan Glickman, the Secretary of Agriculture. We will also make copies available to other interested parties upon request.

Please contact me at (202) 512-4128 if you or your staff have any questions regarding this report. Phillip Thomas and Samantha Roberts made significant contributions to this report.

Sincerely yours,

Susan S. Westin

Susan S. Westin, Associate Director
International Relations and Trade Issues

Distribution of U.S. Planting Seed in Russia

A distribution plan for corn and vegetable seed was included as an attachment to the Food for Progress agreement signed in February 1999. The distributing agent, Roskhleboproduct, a former state agency, developed a workplan for the distribution of the seed according to region. The workplan also identified the "first-buyer" (the firm or government agency in the region that was to receive and pay for the seed). According to the agreement, any changes to this workplan had first to be requested by the bilateral working group and approved by the U.S. Minister-Counselor for Agricultural Affairs.

A third document, a travel matrix, tracked the arrival in port and expected delivery to regions for all commodity shipments. Tables 3 to 5 summarize the distribution of the seed according to the distribution plan included in the agreement, the workplan and the travel matrix. Some seed arrived too late to be planted. Those amounts are found in the column "stored."

Table 3: Distribution of Corn Seed by Region According to the Food Aid Agreement, the Workplan, and the Travel Matrix

	Corn Seed (metric tons)			
Region	**Agreement**	**Workplan**	**Travel matrix delivery amount**	**Stored**
Bryansk oblsat	300		124	
Chelyabinsk oblast	1,600	3,000	2,986	
Chuvashiya oblast	100			
Kaluga oblast	200			
Khakassiya Republic		780	782	
Kemerovo oblast			289	
Kurgan oblast			283	
Mari El Republic	100	60	59	
Mordovia Republic	1,000	1,020	1,001	
Moscow oblast	500			
Nizhniy Novgorod	1,000			
Novosibirsk oblast			1,053	
Omsk oblast		1,520	1,585	
Orel oblast	1,000			
Ryazansk oblast	2,000	480	457	
Smolensk oblast	200			
Tartarstan Republic	4,000	5,000	4,703	700
Tula oblast	1,200	480	516	
Tyumen oblast	600			
Vladimir oblast	200	180	174	
Total	**14,000**	**12,520**	**14,014**	**700**

Sources: U.S. Department of Agriculture's (USDA) Foreign Agricultural Service, government of Russia, and Roskhleboproduct.

Table 4: Distribution of Pea Seed by Region According to the Food Aid Agreement, the Workplan, and the Travel Matrix

	Pea Seed (metric tons)		
Region	**Agreement**	**Workplan**	**Travel matrix delivery amount**
Belgorod oblast	100	100	120
Kabardino-Balkaria			120
Krasnodar Kray	510	560	480
Mordovia Republic	200	200	180
Ryazansk oblast	50	50	
Yaroslavl oblast	50	50	
Tartarstan Republic	50		
Severnaya Ossatia			60
Total	**960**	**960**	**960**

Sources: USDA's Foreign Agricultural Service, government of Russia, and Roskhleboproduct.

Carrot, Onion, and Beet Seed

There was no separate workplan outlining the regional distribution of carrot, onion, and beet seed. According to the workplan, Roskhleboproduct was to sell all the carrot, onion, and beet seed to Rossortsemovosch, a state agency located in Moscow charged with the distribution and sale of the seed to firms and producers in the Moscow region and other regions in Russia. Rossortsemovosch provided information on distribution to the regions and storage of seeds.

Table 5: Distribution of Carrot, Beet, and Onion Seed by Region According to the Food Aid Agreement and Russian Distributing Agent

	Carrot			Beet			Onion		
Region	**Agreement**	**Delivered**	**Stored**	**Agreement**	**Delivered**	**Stored**	**Agreement**	**Delivered**	**Stored**
Altay Kray		0.3	0.3		0.1				
Amur oblast	0.4	0.5	0.2		0.5	0.1			
Arkhangelsk oblast	0.2								
Astrakhan	0.2			0.5					
Bashkortostan		1.0	0.3		0.5				
Belgorod oblast		0.5	0.1		0.5	0.2	0.3		
Bryansk oblast	0.5	1.0			0.5		0.4		
Buryatiya Republic	0.2								
Chita oblast	0.2	0.5	0.2		0.1				
Chelyabinsk oblast				1.0					
Chuvashiya oblast							2.7	2.4	
Dagestan Republic	0.3	1.5	0.4		0.5	0.1			
Irkustsk oblast	0.5								
Ivanovsk oblast	0.4	0.5	0.1						
Kabardino-Balkaria	0.4								
Kaliningrad oblast	0.5	0.1		0.5	0.1				
Kemerovo oblast	0.4			1.0					
Khabarovsk Kray	0.4								
Kostroma oblast	0.4	0.2							
Krasnodar Kray	0.5								
Krasnoyarsk Kray	0.4	1.0	0.4		0.2		0.5		
Kurgan oblast	0.4			0.5	0.2				
Kurskaya	0.4	0.1		0.5					
Leningrad oblast	1.5			0.5					
Lipetsk oblast	0.4								
Mordovia Republic	0.4						0.4		

Continued

	Carrot			Beet			Onion		
Region	**Agreement**	**Delivered**	**Stored**	**Agreement**	**Delivered**	**Stored**	**Agreement**	**Delivered**	**Stored**
Moscow oblast	1.0	12.8	1.5	0.5	2.2		1.0		
Nizhniy Novgorod	0.4			0.5			0.4		
Novograd oblast	0.4								
Novosibirsk oblast	0.4			1.0					
Omsk oblast	0.4	2.0	0.3	0.5	1.0		0.3		
Orenburg oblast	0.4								
Penza oblast	0.4			1.0					
Perm oblast	0.4	0.3					0.6		
Primorskiy Kray	0.4	0.3							
Pskov oblast	0.3	0.1			0.1				
Rostov oblast	0.5								
Ryazan oblast	0.4	0.1							
Sakhalin oblast	0.2								
Samara oblast							0.3		
Saratov oblast	0.5			0.5					
Smolensk oblast	0.4								
Sverdlovsk oblast	1.0	1.0	0.4		2.0	0.6	0.3		
Tambov oblast	0.6						0.6		
Tartarstan Republic							0.6		
Tula oblast	0.4	0.5							
Vladimir oblast	0.4								
Volgogrod oblast	0.6	2.0	0.4	1.0	0.4				
Vologod oblast	0.3	1.5	0.2		1.1				
Yakutia	0.2								
Uliyanovsk oblast				0.5			0.6		
Total[a]	**19.0**	**27.6**	**4.8**	**10.0**	**8.9**	**1.0**	**10.0**	**2.4**	**0**

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

Sources: USDA's Foreign Agricultural Service, government of Russia, and Rossortsemovosch.

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