REVIEW OF U.S. DEPARTMENT OF AGRICULTURE'S EXPORT CREDIT GUARANTEES EXTENDED TO IRAQ

HEARING

BEFORE THE

SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH, AND FOREIGN AGRICULTURE

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

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and Ms. Julie Gerkens, who was evaluator-in-charge on the work we did on Iraq's participation in the GSM-102 and -103 programs.

With your permission, I'd like to read a short statement and submit my full statement for the record.

Mr. ROSE. Without objection.

Mr. MENDELOWITZ. Thank you.

We're pleased to be here today to discuss Iraq's participation in the Department of Agriculture's export credit guarantee programs.

Export credit guarantees approved for Iraq under the GSM programs increased from about $400 million in fiscal year 1983 to about $1.1 billion in each of fiscal years 1988 and 1989. Another $500 million was approved for fiscal year 1990, bringing the total export credit guarantees approved to almost $5 billion. Support for Iraq also included a precedent-setting innovation: Iraq was permitted to receive export credit guarantees for both the export of agricultural commodities and their shipping costs.

In the summer of 1988, Congress was considering legislation that would have imposed sanctions on Iraq for its use of chemical weapons against its Kurdish population. Coincident with congressional efforts to impose sanctions against Iraq, Agriculture was seeking approval to reallocate some $30 million in fiscal year 1988 export credit guarantees to Iraq from existing credit lines approved for other countries.

Prices of U.S. commodities had increased significantly, and without additional export credit guarantees, Iraq would have been unable to meet its import requirements for the rest of the year. Some Agriculture staff members expressed strong concern over Iraq's human rights atrocities as well as CCC's vulnerability should Congress impose sanctions on Iraq.

In a September 22, 1988, memo to the CCC General Sales Manager about a press release announcing the over $30 million in additional loan guarantees to Iraq, eight senior Agriculture staff members warned, "We also note the strong likelihood that Iraq will not make scheduled payments for these purchases if the United States proceeds with economic and political sanctions against Iraq, as is currently being strongly considered in Congress. Until the specifics of this move toward sanctions are better known, we believe that the immediate issuance of this press release would constitute an inordinately high financial risk to the Corporation with potential for program repercussions for a congressional reaction."

Despite these concerns, the reallocation was approved by the General Sales Manager because, one, Iraq was current on its payments under the GSM programs; two, without additional credit, Iraq could not have maintained its import requirements, given the higher commodity prices; and three, the State Department's official position at the time was that no evidence existed linking the Iraqi Government with the gassing of the Kurds. Ultimately, the proposed sanctions were not enacted, partly due to foreign policy interests and pressure from U.S. agricultural trade groups.

FAS approved $1 billion in GSM-102 credit guarantees and $50 million in GSM-103 credit guarantees for Iraq for fiscal year 1989 based on Iraq's long-term ability to pay and on the market potential for United States agricultural exports. When the National Advisory Council on International Monetary and Fiscal Policies—com-

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available hard currency credits to Iraq that it could not have gotten otherwise, we increased the availability of hard currency, which meant that Iraq didn't have to come up from its own internal sources with the necessary funds to buy food——

Mr. ROBERTS. Well, you're making the same argument that Secretary Weinberger made to me in 1982 in regard to the Soviet Union, that in fact we are making it easier for the Soviet Union to spend more money on armaments and terrorism and exporting communism all around the world, and it was our point that they're going to force their people through whatever deprivation they need to do that anyway, and all you're doing is really trying to punish the individual Russian citizen, i.e. we're into some emergency aid now to help the people who are in the bread lines, and that other people are simply selling them this product, and you turn it over to the hardliners, which in fact if you use agriculture for a tool for peace, if it had not been for, say, Saddam and his craziness, that we could have used the food in that particular effort.

Now, that's a debate that will probably go around this town for the next God knows how many decades. I think we've got enough of it, and——

Mr. MENDELOWITZ. In response to that observation, I think given the type of regime you have in Iraq, one would expect that the people would share some of the deprivation. But my guess is it's probably reasonable to say that 100 percent of what we might have denied them wouldn't have come out of their diet. Some proportion would come out of their diet, some would come out of funding——

Mr. ROBERTS. Have you any observations, say, about the freedom-loving people of Yemen, Syria, Panama, Ecuador, Colombia, or the rest of the top 10 that receive this assistance?

Mr. MENDELOWITZ. I think I would be——

Mr. ROBERTS. You look a little like Henry Kissinger, I thought maybe you ought to be able to respond to that. [Laughter.]

Mr. MENDELOWITZ. I think I would be speaking beyond the bounds of what I have come here to speak about if I delved into that.

Mr. ROBERTS. We'll have you answer that at the next hearing.

Thank you, Mr. Chairman.

Mr. ROSE. Mr. Volkmer.

Mr. VOLKMER. Mr. Mendelowitz, I'm just wondering, as you did your GAO study, it appears it's more into the policy decision of the USDA in making these sales rather than into the sales were actually, let's say, "Ohio," as we use in the card games. Is that correct?

Mr. MENDELOWITZ. I'm sorry?

Mr. VOLKMER. Did you look into such things as the high f.o.b. prices they were doing and whether it was after-sale services——

Mr. MENDELOWITZ. Yes. The specific price analysis and the other issues you raised are part of the IG investigation, and——

Mr. VOLKMER. I understand that.

Mr. MENDELOWITZ. We didn't want to——

Mr. VOLKMER. You didn't get into that, because they——

Mr. MENDELOWITZ. Yes, we didn't want to do the same thing they were doing. We were trying to coordinate what we did so we wouldn't find ourselves going to the same trough, so to speak.

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think we can get through this much quicker than if he reads his testimony and then we go back and start all over again.

Mr. Crowder, we have a copy of your statement that we received last night. Is it the same statement that you have brought to the hearing today?

Mr. CROWDER. I have brought a summary statement that I would like to read that's not as lengthy as the other statement.

Mr. ROSE. We want you to read the whole thing.

Mr. CROWDER. OK. Let me get the long version, then.

STATEMENT OF RICHARD T. CROWDER, UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY KEVIN BORSCH, OFFICE OF GENERAL COUNSEL, F. PAUL DICKERSON, GENERAL SALES MANAGER AND ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE

Mr. CROWDER. Mr. Chairman, I thank you for this opportunity to appear before you with my colleagues, Mr. Kevin Borsch, from our Office of General Counsel, and Mr. Paul Dickerson, the General Sales Manager. Since this is an important issue and very technical and complicated, I appreciate the opportunity to read the full statement and take a little bit longer than we normally would.

From our personal conversations, Mr. Chairman, I know that you have always been interested in programs such as these that we administer at the Department. You know that I share your concerns that these programs be administered properly, because any impropriety or deviation from regulations and so forth should be considered unacceptable. And that is why since my arrival at the Department, I have undertaken reviews and implemented changes in all the programs we manage, including the GSM, in order to assure the American public the highest degree of integrity in the operation of our programs.

I commend you and the committee, Mr. Chairman, for holding numerous hearings over the past 2 years where we have been able to explore ideas for program improvement together, and I hope we will continue to do so. And that's why we're here today, to examine how we can use the results of an audit we requested to better administer these programs which are so important to our farmers.

Mr. ROSE. Can I stop you right there?

Mr. CROWDER. Surely.

Mr. ROSE. My understanding is that you did not request the audit which the Inspector General did on commodity pricing in Iraq. The Office of Inspector General had an audit under way for after-sales services and foreign content as a result of work that they did for me on tobacco. You asked the Office of IG to expand their audit, as did I, and the whole issue of after-sales services or bribes came up because of the work the Inspector General did on tobacco. Is that not correct?

Mr. CROWDER. Mr. Chairman, this audit—and I can provide, I think, for the record a copy of the memo that I sent to the Inspector General asking him for this audit——

Mr. ROSE. That would be helpful.

[The information follows:]

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contracted for its freight carrier, and so notified Iraq. Apparently, it also told Iraq that it did not feel the Iraqi recommended carrier could be price competitive. For several months Iraq pressed the matter through a series of telex messages and, in fact, submitted a price quotation. Finally, after the exporter informed Iraq that the freight bids proffered were not at all competitive, and that, moreover, it could not ship the products in manner suggested, the issue was dropped.

The exporter was again approached in August of 1989 by Iraq through a "broadcast" telex (presumably sent to all Iraq GSM exporters) for after-sales service through provision of trucks and related transportation equipment. The exporter stated that it ignored this request, and sent a copy of the telex to USDA asking for intervention to end this Iraqi practice.

Based on this information, USDA raised this issue shortly thereafter with Iraqi representatives in meetings both in Washington and Baghdad during October and November 1989, and received assurances from Inraq's Deputy Minister of Trade, Mr. Al-Obaidi, that the practice of requesting after-sales service in connection with GSM transactions would cease. At the time, USDA had no information that would establish which exporters, if any, had provided after-sales service to Iraq in response to these requests.

Decision on FY 1990 Funding

In October, 1989, USDA was also considering the request of Iraq for FY 1990 funding of the Iraq GSM-102 program. Iraq had requested allocations of approximately $1 billion, a level consistent with program activity in FY 1888 and 1989. Initial discussions occurred in Washington, D.C. in October but, due to the allegations arising from the BNL investigation, a decision to make an allocation was initially postponed. Because USDA did not have access to the information being developed in the Atlanta investigation, it specifically asked the Office of the United States Attorney and USDA-OIG to indicate whether there was sufficient reason, at that time, to deny GSM funding participation in the FY 1990 program. Both the U.S. Attorney's Office and USDA-OIG informed USDA that they did not have information or evidence to indicate that Iraq should be precluded from obtaining additional FY 1990 GSM allocations.

USDA decided, after consultation with other federal agencies in the NAC process, to extend a line of credit guarantees for Iraq in FY 1990, establishing a tiered approach. A first tranche of guarantees was set at $500 million, with additional credit guarantees for the year to depend upon the results of further investigations. USDA advised the NAC members that it would

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more than 100,000 metric tons; a second sale, three months later, was for 75,000 tons. Both sales were on an FOB Gulf basis for No. 2 yellow corn in bulk.

Based on confirmations/contracts and commercial invoices for both purchase and sale contained in the export records under review, USDA was able to estimate approximate margin of $16 to $20 per MT these sales. These sale prices were also compared with benchmark world prices -- based on Chicago Board of Trade closing prices for No. 2 corn, FOB U.S. Gulf, during the period -- and that comparison indicated the sale prices to be $15-20 per MT above world bench mark prices. USDA also compared these prices with other FOB sale prices registered under GSM during the period, and determined the transactions under review to be as much as $10-12/MT higher than prices obtained by other exporters. However, the analysis indicated that all exporters were obtaining prices at least $8-10 per MT above indicative world price levels.

The review of Entrade's records also included thirteen wheat sales made to Iraq under the GSM program. Of those thirteen sales, eleven sales also involved the award of bonus certificates under the Export Enhancement Program (EEP). The files appeared to contain complete documentation of each sale including the confirmations and/or contracts and commercial invoices for both the sale and purchase of the commodity. In the eleven cases where EEP bonuses had been awarded, the files also contained records of the income obtained by the exporter through sale of the bonus certificates.

USDA analysis of these sales revealed that profit margins for wheat sales averaged about $2 per metric ton -- in line with expected margins for the bulk commodity business -- and well below the margins apparent in the sugar, rice and corn transactions. The records indicated the same approximate margins for both EEP and non-EEP sales.

Meetings in Baghdad and Review of Iraqi Records

In January, 1990, USDA reported to the NAC that its administrative review of the Iraq GSM-102 program had, thus far, revealed a pattern of unexpectedly high pricing for certain commodities -- corn, sugar and rice -- sold to Iraq during the period 1985-1987. USDA had focused initially on one particular exporter -- Entrade, Inc. -- because there had been allegations made in the Internal Revenue Service litigation linking that exporter with unreported payments to BNL officials. Although the USDA review had determined that Entrade had received very high prices, and enjoyed high approximate profit margins for its sales to Iraq, review of sales by other exporters revealed prices that were also high by comparison with benchmark world prices. USDA

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was operating in the equivalent of the spot market. Indeed, as mentioned above, when determining the level of premium it was paying for U.S. sugar, F&T analysts appear to have gauged U.S. bids against the daily spot price in the London market.

Finally, the sugar tenders differed from the rice tenders in that there were generally very few U.S. participants. Although the F&T supplier list contained a number of U.S. suppliers, in the cases we reviewed F&T received bids from only one or two companies offering to supply U.S. sugar. As a result, F&T's decision to purchase was often a choice not between different U.S. offers, but between a higher U.S. price offer on deferred payment terms and a lower third country price on cash payment terms.

In some cases, F&T received only one responsive bid to its tender. When that occurred, and if F&T felt that its supply requirements made it urgent that it purchase anyway, the tender changed into a price negotiation with the single bidder. Even where there was more than one bidder, F&T appears to have counteroffered or asked for a revised bid from participants almost as a matter of course. As a result, participants in the tenders aware of this practice could have bid very high prices initially, knowing that they would invariably get another chance to obtain the business.

GSM-102-10735 & GSM-102-10736

On April 21, 1986, F&T issued a notice of its intention to purchase 12,000-14,000 MT of white refined sugar for May 1986 shipment. F&T records indicate that approximately 16 potential suppliers were informed by telex message. Two different versions of the invitation were sent. U.S. companies were asked to tender offers with payment financed under the GSM program; non-U.S. companies were asked to tender on deferred payment terms of at least one year. Closing date for the tender was April 23, 1986. Two U.S. companies and four European companies responded with bids; five other companies responded that they would not participate.

The following bids were received and considered:

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Item # 2

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U.S. House of Representatives
Committee on Agriculture
Subcommittee on Tobacco and Peanuts
Room 1301, Longworth House Office Building
Washington, DC 20515

June 11, 1986

Mr. Richard A. Smith
Administrator
Foreign Agricultural Service
U.S. Department of Agriculture
Washington, D. C. 20250

Dear Dick:

At a recent tobacco meeting in my district the attached FAS cable was given to me, regarding Iraqi purchase of U.S. tobacco. Because the issues raised in this cable have been a matter of concern to the Tobacco and Peanuts Subcommittee, I am calling this particular cable to your attention, as well as the attention of your staff in the Tobacco Division.

I wonder if you would be so kind as to ask the particular individual who sent the cable to expand on what he or she meant by the comment "Barazanchi, while pressured to accept the Zimbabwe offer, would rather continue purchasing U.S. tobacco..." Specifically, I would like to know who it is that is pressuring Mr. Barazanchi to purchase Zimbabwe leaf. I understand that the individuals who are designated cooperators with the FAS are responsible for arranging the sale of the Zimbabwe tobacco in question. To that end, I would refer you to a number of questions the Subcommittee submitted for the record at our recent hearing which are directed at the Foreign Agricultural Service.

Additionally, I would also like some further information on the so-called blended tobacco which contained a blend of U.S. and foreign leaf. Could you please direct the consular officer in question to ask Mr. Barazanchi which companies sent him this blended leaf and whether or not the tobacco in question was represented as a U.S. tobacco at the time he purchased it. I would also be curious as to how he determined it was a blended product.

I am sure you would agree with me and the other Members of the Subcommittee that it is imperative that everything possible be done to protect the reputation of U.S. leaf abroad, particularly because of the importance of tobacco balance of trade payments to our economy. As the Subcommittee intends to continue its review of this issue, I look forward to a timely response to the questions I have asked.

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United States Department of Agriculture

Foreign Agricultural Service

Washington, D.C. 20250

Honorable Charlie Rose
Chairman
Subcommittee on Tobacco and Peanuts
Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to the questions you raised about Iraqi tobacco purchases in your June 11 letter to this agency.

Thanks to GSM-102, export credit guarantees, the U.S. was able to capture the Iraqi market in 1984 and 1985 from Zimbabwe, a traditional supplier. However, this year, a coalition of Zimbabwe interests offered three-year credit at more attractive terms than GSM-102, and at a lower leaf price. In your letter, you refer to our Baghdad Agricultural Trade Officer's report citing pressure on the Iraqi buyer. The Zimbabwe group obviously is making a very strong bid to retrieve its traditional market in Iraq. In addition, Iraqi Government financial officials are doing everything they can to reduce outflows of scarce foreign exchange and therefore favor lower-cost imports. We believe the Iraqi official took the opportunity of the visit by Mr. Ron Whitehead, of Tobacco Associates to solicit an improved U.S. offer.

In fact, the Iraqi foreign exchange shortage is so severe that the Government is requesting financing of freight on all commodity imports. Although transportation cannot be financed under our GSM-102 program, it would be possible for U.S. companies to do so, and we have discussed this possibility with Tobacco Associates.

The FAS tobacco market development program agreement has always been jointly signed by three cooperators: Tobacco Associates (TA), Burley and Dark Leaf Export Association (BDLEA) and Leaf Tobacco Export Association (LTEA). All three are non-profit associations and none carries out any business transactions. LTEA's members, as tobacco exporters, are an essential part of the sales chain, and LTEA's cooperator role is solely in connection with market development. Some LTEA members also handle foreign leaf, but as stated, FAS involvement with LTEA is solely on the basis of market development. Additional details on this issue are covered in the FAS response to the Subcommittee's questions, which you should be receiving shortly.

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Mr. COLEMAN. And you are the General Counsel?

Mr. BORSCH. I am not. I'm with the Office of General Counsel.

Mr. COLEMAN. All right. But you're here to speak for them now. What do you do with it after it is forwarded to your office?

Mr. BORSCH. Well, our procedure is to inform the Inspector General. The Inspector General under the Inspector General's Act has certain responsibilities in those areas, and they work with the U.S. attorneys, and whenever we get an indication that there may have been a law violated, we have a meeting with them, they get the information, and then we wait until the investigation process and then whatever criminal process has run its course before we can begin to look at it either civilly or administratively.

Mr. COLEMAN. These various handoffs here end up in the Department of Justice.

Mr. BORSCH. Well, there is usually——

Mr. COLEMAN. If there's a basis to the allegation or——

Mr. BORSCH. Yes, there's usually a referral for evaluation to the Department of Justice, as I understand it, yes.

Mr. COLEMAN. And what you have said in your testimony, Mr. Crowder, is that basically this is a shakedown operation that some exporters were receiving. They passed that information on to you, and you immediately took it to the authorities through this chain of command which has just been detailed?

Mr. CROWDER. That is correct.

Mr. COLEMAN. Thank you.

Mr. ROSE. But you don't have any explanation as to why you didn't know about this 1988 George Pope telex?

Mr. CROWDER. Let me ask Mr. Dickerson to comment on the 1988 George Pope memo.

Mr. DICKERSON. I, like Dr. Crowder, was not at the FAS at that time, but my understanding of that issue is that exporters who had sold to Iraq on a CNF basis, therefore responsible for providing ocean freight, had been requested by Iraqi ministries to use Iraqi flag vessels at higher than freight rates that could be obtained from non-Iraqi suppliers of freight, and as a result of that, those exporters came to the USDA, came to FAS and George Pope, complained of that, and that cable is a result of those issues being brought to FAS by the exporters. Apparently, this was brought up during the consultations in Baghdad in 1988, at which time they were discussing the fiscal year 1989 credit guarantees.

Mr. ROBERTS. Excuse me. This is sort of an Iraqi cargo preference thing here? Is this what we're talking about? [Laughter.]

Mr. DICKERSON. I think you just about got it right.

Mr. ROBERTS. All right.

Mr. ROSE. Go ahead, Mr. Crowder.

Mr. CROWDER. Well, let me pick up where I left off. It will be a little duplication of what we've been talking about, but just for continuity in the script here, we were concerned that this practice could lead to program abuses, and as indicated by Kevin, we immediately provided the information that we had to the Office of Inspector General and the U.S. attorney in Atlanta, and we did that immediately.

In addition, the attorneys conducting our administrative review interviewed the concerned exporters. The exporters said they had

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DEPARTMENT OF THE TREASURY
WASHINGTON

nuary 14, 1987

January 13, 1987

MEMORANDUM FOR MIKE O'CONNOR

From: Nancy J. Kurilla

Subject: Treasury's views on an additional $200 million in GSM-102 credit guarantees for Iraq for FY 1987

USDA requested the views of the NAC agencies because it is considering additional FY 1987 GSM-102 credit guarantees of $200 million for Iraq. Treasury advises USDA that it should not go forward with these additional credits for Iraq based on the following financial and economic reasons:

- The US only reschedules official debt in a multilateral framework, while Iraq has agreed to reschedulings only in a bilateral context. In the case of a default on these CCC credits, the potential for a Paris Club rescheduling is slim. Notwithstanding Iraqi opposition to reschedule in the Paris Club, other factors precluding a multilateral rescheduling include the absence of an IMF program and Iraqi refusal to publish current economic data.

- Although Iraq has remained current to CCC, it has rescheduled bilaterally with many of its official creditors including Japan, Italy, Germany, France, Britain, Turkey and Yugoslavia. In addition, it appears that reschedulings during 1983-85 allowed Iraq to postpone needed macroeconomic adjustment, contributing to the severity of the current financing situation. While the lack of current data makes it impossible to assess Iraqi financing needs accurately, external debt is estimated at $50 billion, of which $15 billion is owed to OECD countries.

- Iraq's oil revenue outlook is clouded. Despite some potential for increased oil revenues in the future, the effects on the oil market of the recently-concluded OPEC quota agreement, from which Iraq alone considers itself exempt, are uncertain. Iraq's protracted conflict with Iran adds a substantial element of political risk as well.

- Iraq's foreign exchange reserves were estimated at $30 billion at the start of the war. According to estimates by Wharton Econometric Forecasters Associates, foreign exchange reserves had been drawn down to about $800 million at the end of 1983. Some further erosion likely occurred in 1984 as the current account deficit for civilian goods was estimated at $3.2 billion. It appears that current account deficits were

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United States Department of Agriculture | Foreign Agricultural Service | Washington, D.C. 20250

JAN 14 1987

Mr. Michael O'Connor
National Advisory Council on International
Monetary and Financial Policies
Department of the Treasury
Washington, D.C. 20220

Dear Mr. O'Connor:

Section 104 of the Food Security Act of 1985 requires the Secretary of Agriculture to purchase 200,000,000 pounds of red meat, in addition to those quantities normally purchased and distributed by the Secretary, and to assure the export of the meat purchased. To date this requirement has almost been met, primarily through a large CCC sale to Brazil.

USDA proposes to fulfill the requirements of Section 104 by concluding a direct sale to Iraq for up to $20 million. Iraq requested U.S. beef during credit consultations in Washington last week, and, given the limited number of buyers available for purchases of this type, it is an excellent opportunity to conclude our obligations under the 1985 Act.

As with our proposed direct dairy sales to Iraq, any direct sales of red meat would count against the $700 million ceiling currently in place for credits to Iraq.

Eligible Country:	Iraq
Eligible Commodity:	Red Meat
Prices:	Competitive world prices at time of sale
Total Value:	$20 million
Buyer:	State Establishment for Foodstuff Trading
Terms:	Payment to be made in U.S. Dollars over 3 years; 1/3 of principal payable each year with interest payable semi-annually at T-Bill average plus 1.5 percent.

The views of the National Advisory Council on International Monetary and Financial Policies are requested.

Sincerely,

Kerry E Reynolds

Kerry E. Reynolds
Director
Program Development Division

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This proposal is time sensitive, and we definitely need a poll on May 2. Given the urgency and the considerable similarities of the wood panel products, we were tempted to just go ahead with the change. However, we have agreed to submit for NAC review the inclusion of any commodity outside Chapters 1-24 and a-deal's-a-deal. Had we been more prescient, we would have submitted "wood panel products" for review last August.

This clarification does not change the length of terms from twelve months and will not affect the current level of the line or the over-all program.

We request the views of the National Advisory Council on International Monetary and Financial Policies.

Sincerely,

Kerry E. Reynolds
Director
Program Development Division

FAS:EC:PDD:AME:JBReynolds:382-9236:27-Apr-1989:[Reynolds]IRAQ/
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cc: Whiteman, Nunn, Chewning, PDD Files

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Crowder
25-Y10740

J. BENNETT JOHNSTON
LOUISIANA

United States Senate

WASHINGTON, DC 20510-1802

June 7, 1990

The Honorable Clayton Yeutter
Secretary of Agriculture
Department of Agriculture
14th and Independence Avenue, SW
Washington, D.C. 20250

Dear Mr. ~~Secretary~~: Clayton.

A number of Louisiana rice growers have contacted me over the last week concerning the continued delay in implementing [illegible] FY 1990 Iraq GSM-102 program. As I understand it, the Depar[illegible] contemplated that Iraq would receive a $1 billion allocation [illegible] this program in FY 1990. Half that amount, about $500 [illegible] was made available last fall. This has been exhausted [illegible] February Iraq requested that the remainder be made av[illegible] date USDA has neither approved nor turned down this re[illegible] the reason that alleged irregularities involving the [illegible] extension of credit to Iraq by a foreign bank are [illegible] administrative review by the Department.

The concerns of my constituents have sharpened [illegible] reasons. First, the price of rice has dropped [illegible] hundredweight, and roughly $2 per barrel, in the [illegible] Many believe that this decline is related to the [illegible] by USDA on the Iraqi request, since Iraq is the [illegible] commercial market for U.S. rice, accounting for [illegible] percent of our total rice exports. [illegible] report from USDA reviewing the program [illegible] 21, 1990 raised no issues that were not [illegible] the first allocation for FY 1990 GSM [illegible] fall. At that time (October 1989), the [illegible] that the program's termination was not justified [illegible]

Both the U.S. Attorney's Office [illegible] USDA that they did not have [illegible] to indicate that Iraq should be [illegible] additional FY 1990 GSM allocation [illegible] Unless the Department has additional [illegible] the May review, this assessment [illegible]

It is true that the Department's [illegible] 1985 and 1987, prices for rice and other [illegible] were "significantly higher" than for [illegible] were sold to other countries. It is also [illegible] report notes that wartime conditions may have [illegible] discrepancies. Nothing in the report suggests that [illegible]

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under GSM-102 was misused (as barter to purchase war supplies and material, for example) or that there was an organized, deliberate effort to misuse the program. I am also told that the other prime discrepancy highlighted in this report ("after sales services" requests of exporters) has been corrected through an agreement with the Iraqi Deputy Minister of Trade.

Rice growers are confused and frustrated by the Department's continued lack of action on the Iraqi request. On the basis of the facts described to me, I certainly understand these frustrations and find no reason to leave the program in limbo, putting at risk our most important commercial rice market and resulting in downward pressure on U.S. rice prices. Indeed, based on the information I have about the report's general thrust, there appears to be no reason not to proceed with the program and make further credits available immediately.

I am convinced that it will require your personal attention to resolve this continuing deadlock, and urge you to review the Department's findings and make a decision to either suspend the program, or move forward with it. Otherwise, I fear we may lose the Iraqi market by default. It would be grossly unfair to U.S. rice producers to do so unless additional facts are known by the Department which would justify the suspension of this program. Other countries are ready now to supply Iraq with rice, and they will turn to them to meet their needs if we fail to make a decision.

I urge you to review this issue personally, and as quickly as possible so that a rational and timely decision can be reached, and steps taken to prevent serious disruptions in orderly rice marketing for the remainder of FY 1990.

Sincerely,

J. Bennett Johnston
United States Senator

JBJ:lhm
Enclosure

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JUN 2 8 1990

The Honorable Jack Brooks
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Brooks:

Thank you for your letter signed jointly by you and Congressman Michael A. Andrews expressing your interest in the continued participation of Iraq in the Export Credit Guarantee Program (GSM-102).

The Department of Agriculture recently completed its administrative review of the GSM-102 program with Iraq and issued a public report on May 21, 1990. A copy of that report is enclosed for your convenience. As you will note, the administrative review determined that there had been several problems arising from past GSM-102 guaranteed transactions with Iraq involving unusually high commodity pricing and requests by Iraq for so-called "after sales services." The information obtained in the administrative review has been turned over to the Department of Agriculture's Office of the Inspector General (OIG) with a request that OIG conduct further examination of these issues. In addition to this examination, a federal grand jury has been conducting a review into loans extended by Banca Nazionale del Lavoro in Atlanta to Iraq. At this time, we do not know if there will be any indictments handed down that will relate to our programs.

We share your concerns regarding the GSM-102 program for Iraq. Iraq has certainly been an important market for U.S. rice and wheat, as well as a number of other products. We must, however, be assured that the program will be operated in a manner that both recognizes the interests of U.S. agricultural exporters and that is consistent with our commitment to absolute program integrity. We are hopeful that the OIG review will give us this assurance. Upon completion of the ongoing reviews, we will reevaluate the situation.

Sincerely,

Richard T. Crowder, Under Secretary
International Affairs and Commodity Programs

Enclosure

FAS/EC/CCCOD/Larry McElvain/lw/447-6211/6-06-90 Control Number: 35-X85553

cc: Yeutter, Crowder, Veneman, Campbell, OCR, EC&R, Anderson, Assoc. Admin., CCO, Hovermale, OGC, Dickenson, Goldthwait, Whiteman, McElvain

Identical letter sent to Michael A. Andrews

6/27/90

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EC

MARTIN TIMBER CO., INC.

P O BOX 99 CASTOR, LOUISIANA 71016

W43656

S-IACP

Timber

October 10, 1989

Mr. Clayton Yeutter, Secretary of Agriculture
The Mall between 12th and 14th Streets, S.W.
Washington, D.C. 20250

Dear Mr. Yeutter,

We feel strongly that the Iraqi request for GSM-102 credits should be granted in total without reductions.

This business is extremely important to U.S. lumber manufacturers, and if denied, the Iraqi business will most certainly go to Scandinavian producers.

I am aware of the banking problems surrounding this matter, however, we feel that this should be handled so as to allow U.S. manufacturers an opportunity to compete, and at the same time, protect U.S. interests with proper loan guarantees.

Sincerely yours,

MARTIN TIMBER COMPANY, INC.

James D. Morgan
Sales Manager

47-860 O - 92 - 6

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October 13, 1989

The Honorable Clayton Yeutter
SECRETARY OF AGRICULTURE
The Mall between 12th & 14th Sts., N. W.
Washington D.C. 20250

Subject : GSM-102 Credit Program

Dear Secretary Yeutter:

It has been called to our attention that the Republic of Iraq is [illegible] singled out in the administration of the subject U.S.D.A. [illegible] program.

[illegible] is a matter that is of extreme importance to the Port of [illegible]gview and the Pacific Northwest as a region. We are promoting [illegible]e export of increased volumes of lumber and feel that any obstructions or obstacles will adversely effect our ability to compete with other nations for this vital marketplace.

We urgently request that this program be administered equally, for all nations, and that the Republic of Iraq's loan request be fully funded from the outset, allowing uninterrupted trade relations to be maintained with Iraq.

This is vital to the Port of Longview and our region.

Sincerely,
PORT LONGVIEW

V. E. Warden
Manager-Terminal Operations

VEW/agm

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