U.S. government: Shopping list includes oil, shortening

In 1987, the U.S. government spent nearly $47 million on fats, oils and related products for domestic feeding programs and for the military. Of that, $35.1 million went to U.S. Department of Agriculture domestic feeding programs; the balance was spent by the Department of Defense to feed troops and to stock military commissaries. Although the government also buys for the Food for Peace Program, this article by JAOCS *newswriter Anna Gillis focuses only on government purchases for domestic feeding programs, such as the school lunch program, and for the military.*

Last August, while parents purchased books and clothes for their children in anticipation of a new school year, Joan Wessling bought 16 million pounds of vegetable oil and shortening. Wessling, a marketing specialist with the U.S. Department of Agriculture's (USDA) Kansas City Commodity Office, buys commodities for the National School Lunch Program and other programs supplied by USDA's Food and Nutrition Service.

Food and Nutrition Service figures indicate that USDA spent $35 million for 115 million pounds of vegetable oil and shortening in 1987. Those products, along with meat, poultry, fruits, vegetables, dairy goods, cereals, grains and peanut products, were allocated to 12 programs serviced through the Food Distribution Program.

Purchases by Wessling and other buyers at the Kansas City, Missouri, office are distributed by the Food and Nutrition Service to outlets such as nutrition programs for the elderly, childcare facilities, charitable institutions, summer food service programs, Indian reservations and needy families living in the Trust Territory of the Pacific Islands. "Smaller portions go to specialized programs such as non-profit, state-run summer camps. Occasionally, some commodities may be distributed as emergency relief," Wessling said, adding, "The greatest share of the commodities are distributed to the states for use in the National School Lunch Program."

(Photo courtesy of the U.S. Department of Agriculture's Food and Nutrition Service.)

The Commodity Office's purchasing patterns are consistent year after year, according to Wessling. "In the summer months, our buying gears down because the states don't want to pay storage on commodities. The biggest buying months are right before school starts," Wessling said. She noted that last May, purchases dropped to 6.2 million pounds and then rose in August and September to 16 million and 13 million pounds, respectively. In most months, the office buys between 10–12 million pounds.

Approximately 68.5 million pounds of vegetable oil and shortening were distributed in 1987 to 90,000 schools across the nation attended by 24 million children, according to Marvin Eskin, chief of the Food and Nutrition Service's food branch. Eskin explained that the federal government buys commodities for free distribution to the states, which then distribute them to schools. "For fiscal year 1988, the federal government in its budget allotted 12 cents for each lunch served. Of that, 85% pays for surplus-removal products such as meat, poultry, fruits and vegetables. The other 15% goes to price-support items such as grains, and dairy, peanut and oil products," Eskin said.

Federal laws governing surplus-removal and price-support programs permit USDA to buy food that exceeds normal needs, thereby removing it from trade. Also, the

Agricultural Act of 1949 authorizes the Commodity Credit Corporation (CCC) to donate food products to eligible domestic outlets. So far, purchases for nutrition programs have been exempt from Gramm-Rudman legislation, and Eskin said he does not foresee any cuts in commodity purchases.

Besides receiving federally purchased commodities under entitlement, states sometimes get additional products that may have been held in government stores, Eskin said. "When there's a large oversupply, schools may receive a bonus of rice or grain. At this time, schools are receiving cheese, butter, non-fat dry milk and flour as bonus items. If soybeans were in very great surplus (in government stores), they could be bonused and converted to oil."

When the federal government buys fats and oils, it acts much like a company in that it pays competitive prices, not reduced ones, according to Joseph Bormann, chief of domestic operations at USDA's Kansas City Commodity Office. While companies benefit from government purchases, the states receive the greatest benefits because they essentially are subsidized on both ends, Bormann said; the states receive free fats and oils commodities from the federal government and also receive some reimbursement for lunches served.

USDA's purchase price includes processing, packaging and transportation directly to the states, Wessling said. "Most of our purchases go to state-contracted warehouses in cities such as Little Rock, Arkansas, or Chicago, Illinois. In some cases, deliveries may go straight to state prisons or schools. If the state requests, the Commodity Office arranges for delivery from the supplier directly to a food processing facility," she added.

Last year, the Commodity Office arranged vegetable oil and shortening shipments to smaller companies such as Cohen's Famous Frozen Foods in Newark, New Jersey, Granny's Kitchen Ltd. in Yorkville, New York, and Doxsee Foods in Rosedale, Maryland. The states contract with such companies for the production of baked goods, pizza, margarine, mayonnaise, salad dressings and other products, Wessling said. Companies that receive commodities from USDA to fulfill processing contracts with states deduct the value of those commodities from the prices they charge the states, Eskin added.

"The Commodity Office buys only from U.S. agricultural pro cessors," Wessling said. "The regulations require that any vegetable oils and shortenings purchased should be processed in the U.S. or its possessions from commodities produced in the U.S." Even when imported commodities may be available less expensively, the government will buy only from U.S. sources, she added.

"Any U.S. company that can supply a shipment in at least a trucklot size—about 40,000 pounds—and meet our delivery times and specifications may bid for a USDA contract," Eskin said. All USDA bids for price-support foods are accepted on a destination basis; the company must deliver to a location named by the state. The company with the lowest bid for product and delivery wins the contract.

Cal Western Packaging Co., Colfax Packaging Inc., Cargill Inc., Archer Daniels Midland (ADM) Co., Universal Edible Oil, Universal Industries, Riceland Foods and Pacific Foods have sold oil to USDA, Wessling said. Larger companies such as ADM and Cargill often win the bulk-oil bids, while smaller companies are awarded the packaged-product bids.

The Commodity Office also buys under two programs that allow small businesses and minority firms to compete. According to Wessling, "8-A" contracts, for instance, allow minority businesses just getting started to obtain government contracts. "This gives someone who may not be able to compete on the open market an opportunity to receive a contract in a non-competitive setting," she said.

Under the set-aside program, the government takes a certain percentage of its total contractual needs and sets that aside for small businesses. Although both large and small businesses may bid on those contracts, smaller businesses are favored even in cases in which their prices may be slightly higher, Wessling said. "With oil products, we may set aside 10%–50% of the contracts for smaller businesses."

When the Commodity Office purchases oil under the set-aside program, it designates certain states as set-aside states; bids for contracts in those states are taken from set-aside contracts, Wessling said. The Carolinas, Georgia, Mississippi and Tennessee receive most of the set-aside contracts because many of the smaller processing companies are in the Southeast, Wessling said. Bormann pointed out that even without the benefit of set-aside contracts, small businesses often underbid larger companies.

Cal Western is a smaller company that often wins contracts directly rather than through the set-aside program. According to George Downs, Cal Western's general manager, the company sells approximately 150–170 million pounds of oil to the government each year. "The government represents 70% of our business, but not 70% of our profits," Downs added. Most of what the company sells to the government is exported under the Food for Peace Program. The remainder goes to the National School Lunch Program and the Department of Defense.

According to Michael Dressler of Colfax Packaging, "The government is not a major customer, but it is a good, year-round customer." Colfax supplies both the Department of Defense and USDA with a soybean oil-based general purpose shortening. Government sales represent a little less than 2% of the company's business, Dressler said.

In the past, the government did all its buying based on its own specifications, and a company's products had to be tailored to the government. Now, Eskin said, the government uses more generic commercial item desciptions, a practice that allows more companies to bid on contracts. Companies selling liquid and solid shortenings to USDA for domestic feeding programs and to other agencies must meet the requirements established in USDA's Commercial Item Description A-A-20100A. Standards

TABLE 1

USDA Oil and Shortening Purchases for Domestic Feeding Programs (1987 Fiscal Year)

Product/end user	Volume (in million lbs.)	Dollar value
50-lb. blocks, general-purpose vegetable shortening:		
Schools	3.6	920,000
Charitable institutions	4.7	1 million
Total[a]	8.3	2.1 million
Three-lb. cans, general-purpose vegetable shortening:		
Schools	19	6.7 million
Charitable institutions	12.1	4.3 million
Indian reservations	5.2	1.8 million
Total[a]	37.2	13.2 million
One-gallon containers, liquid shortening for frying		
Schools	2.2	686,000
Charitable institutions	1.3	412,000
Total[a]	3.5	1.1 million
Vegetable oil, in bulk and one-gallon containers		
Schools	43.7	12.4 million
Charitable institutions	19.55	5.5 million
Total[a]	66.0	18.7 million

[a]Total figures include shortening and oil distributed to smaller outlets than those listed.

Source: Figures were provided by Marvin Eskin of the U.S. Department of Agriculture's (USDA) Food and Nutrition Service.

for vegetable oils for use in salad oils and dressings are outlined in Commercial Item Description A-A-20091A.

The commercial item description for shortenings includes three types: a general-purpose shortening, a bakery shortening and a liquid deep-fry cooking shortening. The general-purpose shortening must consist of partially hydrogenated, deodorized vegetable oil or oil blends and cannot contain antioxidants or antifoaming agents. The bakery shortening may consist of deodorized animal or vegetable fats and oils and must contain mono- and diglycerides; antioxidants are permitted, but antifoaming agents are not. Frying oils must be made of deodorized vegetable fats and oils or vegetable oil blends but cannot contain any coconut oil; specifications require antifoaming agents and permit antioxidants.

Salad oils also must fall into one of three categories. Type A salad oil must be made from refined, bleached, winterized and deodorized corn, cottonseed, peanut, low-erucic acid rapeseed, safflower, soybean, sesame seed, or sunflowerseed oil. The oils may be blended, but olive oil is not permitted. Type B salad oil can be refined, bleached, winterized and deodorized corn or cottonseed oil, or a blend of the two. Type C salad oil must be a soybean oil that has been refined, bleached, winterized, deodorized and partially hydrogenated. USDA does permit the use of heavy metal scavengers, antifoaming agents and antioxidants in these salad oils. Currently, USDA limits its bulk salad oil purchases for domestic programs to Type A soybean oil. All shortening and salad oil purchased for domestic programs should carry a USDA label saying "For Food Help Programs. Not to be sold or exchanged," Eskin said.

According to Eskin, USDA mainly purchases the general-purpose shortening in three-pound cans and 50-pound blocks. In fiscal year 1987, purchases of general-purpose shortening totaled 45.5 million pounds at a cost of $15.3 million. Approximately 22.6 million pounds of that went to the National School Lunch Program, and an additional 5.2 million pounds went to Indian reservations. The government also bought 3.5 million pounds of liquid shortening for frying for use in schools and institutions, Eskin said.

Vegetable oil purchases, at 66 million pounds, cost USDA $18.7 million, more than half of its total expenditures for vegetable fats and oils products for domestic feeding programs in 1987, according to Eskin's figures (Table 1).

The Department of Defense (DOD) also purchases shortening using USDA's commercial item descriptions. Like USDA, DOD requires bidders to be U.S. companies. Most buying occurs through the Defense Personnel Support Center in Philadelphia. There, several hundred DOD employees procure the food or "subsistence" for more than nine million people worldwide, including troops and their dependents.

DOD spokesman Roy Seneca said the government in 1987 spent $10.9 million for fats and oils for feeding troops in the U.S. and abroad and for resale in U.S. commissaries. In addition, more than $565,000 was spent on fats and oils products meant for resale in commissaries in the Pacific and Europe.

According to Frank Piecyk, a DOD contract specialist based at the center, the government spent more than $3.573 million on general-purpose shortening in fiscal year 1987. About $2.789 million of that was spent on 220,000 five-gallon cans, each holding 33 pounds of oil. The balance paid for 600,000 three-pound cans. All solid shortening used was made only with soybean oil. Those purchases were strictly for feeding the troops; none went for resale, Piecyk said.

Piecyk estimated larger cans currently cost approximately $12.50–$13 per can and the smaller ones about $1.20–$1.50, with price partially dependent on shipping costs. Contractors are required to deliver their products to one of nine military depots. Depots are located in Virginia, Tennessee, California, Pennsylvania and Germersheim, West Germany. Colfax and Cal Western are the major shortening suppliers to the military, according to Piecyk. "In general, due to shipping costs, Cal Western is lower-priced on the West Coast, so it gets many of those contracts. Colfax gets the East Coast contracts because its shipping costs are lower there," he said.

In fiscal year 1988, Piecyk anticipates DOD purchases will increase. In the past, purchases of five-gallon cans averaged 55,000 cans per quarter; in 1988, that will probably rise to about 65,000 cans per quarter, he said. Quarterly purchases of three-pound cans are projected to increase to 240,000 cans per quarter, up from 150,000 cans per quarter in 1987.

According to Piecyk, the military added a liquid frying shortening in five-quart cans to its list of purchases this fiscal year. The product replaces the 10-quart size previously purchased. Piecyk is unsure how much of this product DOD will buy, but initial stockage for the first quarter was about 185,000 cans.

Ray Jacquette, DOD procurement agent responsible for buying salad oils, estimated that the government spent about $2.6 million for approximately 157,000 cases of salad oil last year. Each case holds six one-gallon cans. Salad oil purchased by DOD is bought under USDA Commercial Item Description A-A-20091A, and according to Jacquette, most of those purchases are soybean oil.

Presently, only two companies—Cal Western of Compton, California, and Universal Industries of Columbus, Mississippi—are able to supply salad oil to DOD in metal cans. "More and more companies package their oil in plastics, but the military still requires metal cans. Most companies no longer have facilities for canning," Jacquette said.

He added that the buying office has tried to change the metal can requirement but has met with resistance from military branches, particularly the Navy, which has strict packaging requirements for products going out to sea. In an effort to solve the problem, researchers at the Army laboratories in Natick, Massachusetts, are studying shelf-life of oil in plastics, Jacquette said. Also, one company working with DOD has asked a bottling company about possibly producing a more durable plastic container for sales meant for the military.

According to the Washington-based American Logistics Association, 12.7 million people in the U.S. and abroad can buy groceries at considerable savings in the 379 military commissaries around the world. Among those allowed to buy are active-duty, retired and selected reserve military members; dependents also may use the commissaries.

According to DOD's Seneca, the military spent $2.3 million in 1987 on brand-name fats and oils products for resale in commissaries. The total spent by the government for all resale products, including non-brand items, was $2.6 billion. When military personnel buy products at the commissaries, they pay 20%–30% less than in civilian markets. The government sells products for cost, plus a 5% surcharge to cover operations, Seneca said.

Carolyn Stumpo, a contracting officer in commissary support, said DOD doesn't decide what fats and oils products will be sold in commissaries. "Really, our purchases go by customer demand," she said. Items to be sold in commissaries appear on a "supply bulletin" issued by a vendor that lets commissaries know what's available. Every item on the list is authorized for sale in the U.S., but may not be authorized abroad, she said. Many of the items that can't go abroad may be somewhat perishable, she added.

Sam Phelps, vice president of U.S. military and export sales for Kraft Inc., said items listed are those that most match customer demand. "We sell the same pourable dressings, Miracle Whip and Parkay to the military as we sell to the civilian market. As far as in-store merchandising goes, it's tied to the civilian market. The military is just an adjunct to the civilian business," he said.

"The military can be thought of as another grocery store chain," Phelps added. However, because commissaries do such a large business, a commissary account could equal 10 civilian accounts. Phelps estimated the average commissary does about $800,000 in total sales per month.

Like Phelps, Joe Sosnicki, director of government sales at CPC International, looks at the military as a large supermarket chain. As a single entity, commissary sales represents approximately 4% of CPC International's total fats and oils product sales, he said. In 1986, the government purchased roughly 20 million pounds of brand-name fats and oils products from CPC, he added. Kraft's sales of fats and oils products make up approximately 3.5% of the company's sales of those items, Phelps said.