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# COORDINATION IN THE ADMINISTRATION OF PUBLIC LAW 480

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## HEARINGS

BEFORE THE

## SUBCOMMITTEE ON FOREIGN AID EXPENDITURES

OF THE

## COMMITTEE ON GOVERNMENT OPERATIONS UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

SECOND SESSION

JUNE 2 AND 30, 1966

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# COORDINATION IN THE ADMINISTRATION OF PUBLIC LAW 480

THURSDAY, JUNE 2, 1966

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AID EXPENDITURES,
COMMITTEE ON GOVERNMENT OPERATIONS.

The subcommittee met at 10:05 a.m., pursuant to recess, in room 3302, New Senate Office Building, Senator Ernest Gruening (chairman of the subcommittee) presiding.

Present: Senator Gruening.

Also present: Herbert W. Beaser, chief counsel; Joseph Lippman, staff director; William J. Walsh III, professional staff member; Nicholas Carbone, staff investigator; Mary Miller, clerk; and Harriet S. Eklund, editor.

## OPENING STATEMENT OF THE CHAIRMAN

Senator GRUENING. The hearing will please come to order.

The Subcommittee on Foreign Aid Expenditures begins today a series of hearings on the administration of Public Law 480, the food-for-peace program. Extensive hearings have been held in past years on these programs by the Committee on Agriculture and Forestry under the able and dedicated chairmanship of Senator Allen J. Ellender. Further hearings were held this year by Senator Ellender to consider changes in Public Law 480 proposed by the President.

I now direct that a copy of Public Law 480 be included in the record at this point.

(The copy of Public Law 480 follows:)

EXHIBIT 1

As amended through December 31, 1965. Originally enacted July 10, 1954, (68 Stat. 454)

# Public Law 480 - 83d Congress
# Chapter 469 - 2d Session
# S. 2475

## AN ACT

**To increase the consumption of United States agricultural commodities in foreign countries, to improve the foreign relations of the United States, and for other purposes.**

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That this Act may be cited as the "Agricultural Trade Development and Assistance Act of 1954".

SEC. 2. It is hereby declared to be the policy of Congress to expand international trade among the United States and friendly nations, to facilitate the convertibility of currency, to promote the economic stability of American agriculture and the national welfare, to make maximum efficient use of surplus agricultural commodities in furtherance of the foreign policy of the United States, and to stimulate and facilitate the expansion of foreign trade in agricultural commodities produced in the United States by providing a means whereby surplus agricultural commodities in excess of the usual marketings of such commodities may be sold through private trade channels, and foreign currencies accepted in payment therefor. It is further the policy to use foreign currencies which accrue to the United States under this Act to expand international trade, to encourage economic development, to purchase strategic materials, to pay United States obligations abroad, to promote collective strength, and to foster in other ways the foreign policy of the United States. (7 U.S.C. 1691)[1]

## TITLE 1--SALES FOR FOREIGN CURRENCY[2]

SEC. 101.[3] In furtherance of this policy, the President is authorized to negotiate and carry out agreements with friendly nations or organizations of friendly nations to

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[1] The Foreign Assistance Act of 1963, Public Law 88-205, 77 Stat. 387, approved December 16, 1963, amended Chapter 1 of Part III of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2370 (i)), to add subsection (i) to Section 620 of said Chapter 1, reading as follows:

"(i) No assistance shall be provided under this or any other Act, and no sales shall be made under the Agricultural Trade Development and Assistance Act of 1954, to any country which the President determines is engaging in or preparing for aggressive military efforts directed against---

"(1) the United States,

"(2) any country receiving assistance under this or any other Act, or

"(3) any country to which sales are made under the Agricultural Trade Development and Assistance Act of 1954,

until the President determines that such military efforts or preparations have ceased and he reports to the Congress that he has received assurances satisfactory to him that such military efforts or preparations will not be renewed. This restriction may not be waived pursuant to any authority contained in this Act."

Public Law 89-171, 79 Stat. 653, approved September 6, 1965, amended section 102 of the Foreign Assistance Act of 1961, as amended, to provide that: "It is the sense of the Congress that assistance under this or any other Act to any foreign country which hereafter permits, or fails to take adequate measures to prevent, the damage or destruction by mob action of United States property within such country, should be terminated and should not be resumed until the President determines that appropriate measures have been taken by such country to prevent a recurrence thereof." (22 U.S.C. 2151)

See note 41 and section 107.

[2] Sec. 3, Public Law 962, 84th Congress, 70 Stat. 988, approved August 3, 1956, reads as follows:

"Sales of fresh fruit and the products thereof under title I of the Act shall be exempt from the requirements of the cargo preference laws (Public Resolution 17, Seventy-third Congress (15 U.S.C. 616a) and section 901 (b) of the Merchant Marine Act, 1936 (46 U.S.C. 1241 (b))."

[3] Public Law 85-128, 71 Stat. 345, approved August 13, 1957 (7 U.S.C. 1704a), provides that: "Within sixty days after any agreement is entered into for the use of any foreign currencies, a full report thereon shall be made to the Senate and House of Representatives of the United States and to the Committees on Agriculture and Appropriations thereof."

## TITLE I--SALES FOR FOREIGN CURRENCY[3]

SEC. 101.[4] In furtherance of this policy, the President is authorized to negotiate and carry out agreements with friendly nations or organizations of friendly nations to provide for the sale of surplus agricultural commodities for foreign currencies. In negotiating such agreements the President shall--

(a) take reasonable precautions to safeguard usual marketings of the United States and to assure that sales under this Act will not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries;[5]

(b) take appropriate steps to assure that private trade channels are used to the maximum extent practicable both with respect to sales from privately owned stocks and from stocks owned by the Commodity Credit Corporation;

(c) give special consideration to utilizing the authority and funds provided by this Act, in order to develop and expand continuous market demand abroad for agricultural commodities, with appropriate emphasis on underdeveloped and new market areas;

(d) seek and secure commitments from participating countries that will prevent resale or transshipment to other countries, or use for other than domestic purposes, of surplus agricultural commodities purchased under this Act, without specific approval of the President; and

(e) afford any friendly nation the maximum opportunity to purchase surplus agricultural commodities from the United States, taking into consideration the opportunities to achieve the declared policy of this Act and to make effective use of the foreign currencies received to carry out the purposes of this Act.

(f)[6] obtain rates of exchange applicable to the sale of commodities under such agreements which are not less favorable than the highest of exchange rates legally obtainable from the Government or agencies thereof in the respective countries. (7 U.S.C. 1701)

SEC. 102.[7] (a) For the purpose of carrying out agreements concluded by the President hereunder, the Commodity Credit Corporation, in accordance with regulations issued by the President pursuant to subsection (b) of this section, (1) shall

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[3]Sec. 3, Public Law 962, 84th Congress, 70 Stat. 988, approved August 3, 1956, reads as follows:

"Sales of fresh fruit and the products thereof under title I of the Act shall be exempt from the requirements of the cargo preference laws (Public Resolution 17, Seventy-third Congress, (15 U.S.C, 616a) and section 901 (b) of the Merchant Marine Act, 1936, (46 U.S.C. 1241 (b))."

[4]Public Law 85-128, 71 Stat. 345, approved August 13, 1957, 7 U.S.C. 1704(a), provides that: "Within sixty days after any agreement is entered into for the use of any foreign currencies, a full report thereon shall be made to the Senate and House of Representatives of the United States and to the Committees on Agriculture and Appropriations thereof."

[5]The words "or normal patterns of commercial trade with friendly countries;" added by Public Law 85-931, 72 Stat. 1790, approved September 6, 1958.

[6]This subsection was revised by Section 403(a) of the Foreign Assistance Act of 1963, Public Law 88-205, 77 Stat. 390, approved December 16, 1963. It formerly read as follows:

"obtain rates of exchange applicable to the sales of commodities under such agreements which are not less favorable than the rates at which United States Government agencies can buy currencies from the United States disbursing officers in the respective countries."

[7]Sec. 8 of Public Law 85-931, 72 Stat. 1792, approved September 6, 1958, provides as follows:

"In carrying out the provisions of the Agricultural Trade Development and Assistance Act of 1954, as amended, extra long staple cotton shall be made available for sale pursuant to the provisions of title I of the Act in the same manner as upland cotton or any other surplus agricultural commodity is made available, and products manufactured from upland or long staple cotton shall be made available for sale pursuant to the provisions of title I of the Act as long as cotton is in surplus supply, and no discriminatory or other conditions shall be imposed which will prevent or tend to interfere with their sale or availability for sale under the Act: *Provided*, That that portion of the sales price of such products which is financed as a sale for foreign currency under title I of the Act shall be limited to the estimated portion of the sales price of such products attributable to the raw cotton content of such products."

make available for sale hereunder to domestic exporters surplus agricultural commodities heretofore or hereafter acquired by the Corporation in the administration of its price-support operations, and (2) shall make funds available to finance the sale and exportation of surplus agricultural commodities, whether from private stocks or from stocks of the Commodity Credit Corporation. In supplying such commodities to exporters under this subsection the Commodity Credit Corporation shall not be subject to the sales price restrictions in section 407 of the Agricultural Act of 1949, as amended.[8] The commodity set-aside established for any commodity under section 101 of the Agricultural Act of 1954 (68 Stat. 897)[9] shall be reduced by a quantity equal to the quantity of such commodity financed hereunder which is exported from private stocks.[10]

(b) In order to facilitate and maximize the use of private channels of trade in carrying out agreements entered into pursuant to this Act, the President may, under such regulations and subject to such safeguards as he deems appropriate, provide for the issuance of letters of commitment against funds or guaranties of funds supplied by the Commodity Credit Corporation and for this purpose accounts may be established on the books of any department, agency, or establishment of the Government, or on terms and conditions approved by the Secretary of the Treasury in banking institutions in the United States. Such letters of commitment, when issued, shall constitute obligations of the United States and moneys due or to become due thereunder shall be assignable under the Assignment of Claims Act of 1940.[11] Expenditures of funds which have been made available through accounts so established shall be accounted for on standard documentation required for expenditures of Government funds. (7 U.S.C. 1702)

SEC. 103. (a) For the purpose of making payment to the Commodity Credit Corporation to the extent the Commodity Credit Corporation is not reimbursed under section 105 for commodities disposed of and costs incurred under titles I and II of this Act, there are hereby authorized to be appropriated such sums as are equal to (1) the Corporation's investment in commodities made available for export under this title and title II of this Act, including processing, packaging, transportation, and handling costs, (2) all costs incurred by the Corporation in making funds available to finance the exportation of surplus agricultural commodities pursuant to this title and, (3) all Commodity Credit Corporation funds expended for ocean freight costs authorized under title II hereof for purposes of section 416 of the Agricultural Act of 1949, as amended. Any funds or other assets available to the Commodity Credit Corporation

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[8] 7 U.S.C. 1427

[9] 7 U.S.C. 1741

[10] This subsection was revised by Public Law 25, 84th Congress, 69 Stat. 44, approved April 25, 1955. It formerly read as follows:

"For the purpose of carrying out agreements concluded by the President hereunder, the Commodity Credit Corporation, in accordance with regulations issued by the President pursuant to subsection (b) of this section, (1) shall make available for sale hereunder at such points in the United States as the President may direct surplus agricultural commodities heretofore or hereafter acquired by the Corporation in the administration of its price support operations, and (2) shall make funds available to finance the sale and exportation of surplus agricultural commodities from stocks owned by the Corporation or pledged or mortgaged as security for price support loans or from stocks privately owned if the Corporation is not in a position to supply the commodity from its owned stocks: *Provided*, That to facilitate the use of private trade channels the Corporatior, even though it is in a position to supply the commodity, may finance the sale and exportation of privately owned stocks if the Corporation's stocks are reduced through arrangements whereby the private exporter acquires the same commodity of comparable value or quantity from the Commodity Credit Corporation. In supplying commodities to private exporters under such arrangements Commodity Credit Corporation shall not be subject to the sales price restriction in section 407 of the Agricultural Act of 1949, as amended."

[11] 31 U.S.C. 203; 41 U.S.C. 15.

than authorized for such prior years by this Act as in effect during such years: *Provided*, That agreements shall not be entered into during any calendar year of such period which will call for appropriations to reimburse the Commodity Credit Corporation in amounts in excess of $2,500,000,000.[13] (7 U.S.C. 1703)

**SEC. 104. Notwithstanding Section 1415 of the Supplemental Appropriation Act, 1953,[14] or any other provision of law, the President may use or enter into agreements with friendly nations or organizations of nations to use the foreign currencies, in-**

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[13] Section 103(b) effective January 1, 1965, as amended by Public Law 88-638, 78 Stat. 1035, approved October 8, 1964. Previous authorizations were as follows:

| *Authority* | *Approved* | *Amount added* | *Terminal date* |
|---|---|---|---|
| Public Law 480, 83rd Congress, 68 Stat. 454 | July 10, 1954 | $700 million | June 30, 1957 |
| Public Law 387, 84th Congress, 69 Stat. 721 | August 12, 1955 | $800 million | June 30, 1957 |
| Public Law 962, 84th Congress, 70 Stat. 988 | August 3, 1956 | $1.5 billion | June 30, 1957 |
| Public Law 85-128, 71 Stat. 345 | August 13, 1957 | $1.0 billion | June 30, 1958 |
| Public Law 85-931, 72 Stat. 1790 | September 6, 1958 | $2.25 billion | December 31, 1959 |
| Public Law 86-341, 73 Stat. 606 | September 21, 1959 | $3.0 billion | December 31, 1961 |
| Public Law 87-28, 75 Stat. 64 | May 4, 1961 | $2.0 billion | December 31, 1961 |
| Public Law 87-128, 75 Stat. 306 | August 8, 1961 | $4.5 billion | December 31, 1964 |

The first three amendments to the original act expressed the authorization as a cumulative figure. Public Law 387, 84th Congress, 69 Stat. 721, amended the section to provide that "This limitation shall not be apportioned by year or by country, but shall be considered as an objective as well as a limitation, to be reached as rapidly as possible so long as the purposes of this Act can be achieved within the safeguards established." Public Law 85-931, 72 Stat. 1790, approved September 6, 1958, provided an authorization for the period beginning July 1,1958, through December 31, 1959, of $2.25 billion "plus any amount by which agreements entered into in prior fiscal years have called or will call for appropriations to reimburse the Commodity Credit Corporation in amounts less than authorized for such prior fiscal years by this Act as in effect during such fiscal years." Provision for carryover of unused funds was contained in the authorizations provided by Public Law 86-341, 73 Stat. 606, and Public Law 87-28, 75 Stat. 64, but there was no such provision in Public Law 87-128, 75 Stat. 306. The provision is again included in section 103(b) of Public Law 480, 83rd Congress, as amended by Public Law 88-638, 78 Stat. 1035, approved October 8, 1964.

[14] Section 1415 provides that "Foreign credits owed to or owned by the United States Treasury will not be available for expenditure by agencies of the United States after June 30, 1953, except as may be provided for annually in appropriation Acts and provisions for the utilization of such credits for purposes authorized by law are hereby authorized to be included in general appropriation Acts." Public Law 547, 82d Congress, 66 Stat. 637, approved July 15, 1952 (31 U.S.C. 724).

cluding principal and interest from loan repayments, which accrue under this title for one or more of the following purposes:[15]

(a) To help develop new markets for United States agricultural commodities on a mutually benefiting basis. From sale proceeds and loan repayments under this title not less than the equivalent of 5 per centum of the total sales made each year under this title after the date of this amendment shall be set aside in the amounts and kinds of foreign currencies specified by the Secretary of Agriculture and made available in advance for use as provided by this subsection over such period of years as the Secretary of Agriculture determines will most effectively carry out the purpose of this subsection: *Provided*, That no such funds shall be allocated under this subsection after June 30, 1960, except as may be specified, from time to time, in appropriation acts.[16] Provision shall be made in sale and loan agreements for the convertibility of such amount of the proceeds thereof (not less than 2 per centum) as the Secretary of Agriculture determines to be needed to carry out the purpose of this subsection in those countries which are or offer reasonable potential of becoming dollar markets for United States agricultural commodities. Such sums shall be converted into the types and kinds of foreign currencies as the Secretary deems necessary to carry out the provisions of this subsection and such sums shall be deposited to a special Treasury account and shall not be made available or expended except for carrying out the provisions of this subsection. Notwithstanding any other provision of law, if sufficient foreign currencies for carrying out the purpose of this subsection in such countries are not otherwise available, the Secretary of Agriculture is authorized and directed to enter into

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[15] The words, "including principal and interest from loan repayments," were added by Public Law 87-128, 75 Stat. 306, approved August 8, 1961.

See also sec. 407 of the Act of September 1, 1954, as amended (5 U.S.C. 171z-1), which provides:

"In addition to family housing and community facilities otherwise authorized to be constructed or acquired by the Department of Defense, the Secretary of Defense is authorized, subject to the approval of the Director of the Bureau of the Budget, to construct, or acquire by lease or otherwise, family housing for occupancy as public quarters, and community facilities, in foreign countries through housing and community facilities projects which utilize foreign currencies to a value not to exceed $250,000,000 acquired pursuant to the provisions of the Agricultural Trade Development and Assistance Act of 1954 or through other commodity transactions of the Commodity Credit Corporation.

"The Department of Defense shall pay the Commodity Credit Corporation, from appropriations otherwise available for the payment of quarters allowances for military personnel and from appropriate allotments or rental charges for civilian personnel, amounts equal to the quarters allowances or allotments otherwise payable to or the rental charges collected from personnel occupying any housing constructed or acquired under authority of this section after deducting amounts chargeable for the maintenance and operation of such housing: *Provided*, That such payments shall not exceed the dollar equivalent of the value of the foreign currencies used for all such construction or acquisition."

See also Public Law 86-610, 74 Stat. 368, approved July 12, 1960, which authorizes, subject to section 1415 of the Supplemental Appropriation Act, 1953, the use of Title I foreign currencies to advance health science activities. For text of section 1415, see note 14 above.

[16] Sections 507 and 508 of the Public Works Appropriation Act, 1964, 77 Stat. 856, approved December 31, 1963, provide as follows:

"Sec. 507. Pursuant to section 1415 of the Act of July 15, 1952 (66 Stat. 662), foreign credits (including currencies) owed to or owned by the United States may be used by Federal agencies for any purpose for which appropriations are made for the current fiscal year (including the carrying out of Acts requiring or authorizing the use of such credits), only when reimbursement therefor is made to the Treasury from applicable appropriations of the agency concerned: *Provided*, That such credits received as exchange allowances or proceeds of sales of personal property may be used in whole or part payment for acquisition of similar items, to the extent and in the manner authorized by law, without reimbursement to the Treasury.

Sec. 508. During the current fiscal year, any foreign currencies held by the United States which have been or may be reserved or set aside for specified programs or activities of any agency may be carried on the books of the Treasury in unfunded accounts."

agreements with such countries for the sale of surplus agricultural commodities in such amounts as the Secretary of Agriculture determines to be adequate and for the use of the proceeds to carry out the purpose of this subsection;[17]

(b) To purchase or contract to purchase, in such amounts as may be specified from time to time in appropriation acts, strategic or other materials for a supplemental United States stockpile of such materials as the President may determine from time to time. Such strategic or other materials acquired under this subsection shall be placed in the above named supplemental stockpile and shall be released therefrom only under the provisions of section 3 of the Strategic and Critical Materials Stock Piling Act;[18]

(c) To procure equipment, materials, facilities, and services for the common defense including internal security;[19]

(d) For financing the purchase of goods or services for other friendly countries;

(e) For promoting balanced economic development and trade among nations, for which purposes currencies shall also be available to the maximum usable extent through and under the procedures established by such agency as the President shall direct for loans mutually agreeable to said agency and the country with which the agreement is made to United States business firms and branches, subsidiaries, or affiliates of such firms for business development and trade expansion in such countries and for loans to domestic or foreign firms for the establishment of facilities for aiding in the utilization, distribution, or otherwise increasing the consumption of, and markets for, United States agricultural products: *Provided, however,* That no such loans shall be made for the manufacture of any products to be exported to the United States in competition with products produced in the United States or for the manufacture or production of any commodity to be marketed in competition with United States agricultural commodities or the products thereof. Foreign currencies may be accepted in repayment of such loans.[20]

(f) To pay United States obligations abroad;

(g) For loans to promote multilateral trade and economic development, made through established banking facilities of the friendly nation from which the foreign currency was obtained or in any other manner which the President may deem to be appropriate. Strategic materials, services, or foreign currencies may be accepted in payment of such loans;

(h) For the financing of international educational exchange activities under the programs authorized by section 32 (b) (2) of the Surplus Property Act of 1944, as amended (50 U.S.C. App. 1641 (b)) and for the financing in such amounts as may be specified from time to time in appropriation acts of programs for the interchange of persons under title II of the United States Information and Educational Exchange Act of 1948, as amended (22 U.S.C. 1446). In the allocation of funds as among the various purposes set forth in this section, a special effort shall be made to provide for the purposes of this subsection, including a particular effort

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[17] All but the first sentence of subsection (a) was added by Public Law 86-341, 73 Stat. 606, approved September 21, 1959, and was further amended by Public Law 87-128, 75 Stat. 306, approved August 8, 1961 and by Public Law 89-106, 79 Stat. 431, approved August 4, 1965, which added the words commencing with "That the Secretary..." and ending with "... for such purpose: *Provided further*".

Section 203 of Public Law 87-128, 75 Stat. 306, approved August 8, 1961 (5 U.S.C. 577), provides as follows: "Sec. 203. In the conduct of foreign market development programs, the Secretary of Agriculture is authorized to credit contributions from individuals, firms, associations, agencies, and other groups, and the proceeds received from space rentals, and sales of products and materials at exhibitions, to the appropriations charged with the cost of acquiring such space, products and materials."

[18] Amended by Public Law 86-341, 73 Stat. 606, approved September 21, 1959.

[19] Amended by Public Law 88-638, 78 Stat. 1035, approved October 8, 1964.

[20] Amended by Public Law 85-128, 71 Stat. 345, approved August 13, 1957; by Public Law 87-195, 75 Stat. 463, approved September 4, 1961; and by Public Law 88-638, 78 Stat. 1035, approved October 8, 1964.

(f) To pay United States obligations abroad;

(g) For loans to promote multilateral trade and economic development, made through established banking facilities of the friendly nation from which the foreign currency was obtained or in any other manner which the President may deem to be appropriate. Strategic materials, services, or foreign currencies may be accepted in payment of such loans;

(h) For the financing of international educational exchange activities under the programs authorized by section 32 (b) (2) of the Surplus Property Act of 1944, as amended (50 U.S.C. App. 1641 (b)) and for the financing in such amounts as may be specified from time to time in appropriation acts of programs for the interchange of persons under title II of the United States Information and Educational Exchange Act of 1948, as amended (22 U.S.C. 1446). In the allocation of funds as among the various purposes set forth in this section, a special effort shall be made to provide for the purposes of this subsection, including a particular effort with regard to: (1) countries where adequate funds are not available from other sources for such purposes, and (2) countries where agreements can be negotiated to establish a fund with the interest and principal available over a period of years for such purposes, such special and particular effort to include the setting aside of such amounts from sale proceeds and loan repayments under this title, not in excess of $1,000,000 a year in any one country for a period of not more than five years in advance, as may be determined by the Secretary of State to be required for the purposes of this subsection;[20]

(i) For financing the translation, publication, and distribution of books and periodicals, including Government publications, abroad: *Provided*, That not more than $5,000,000 may be allocated for this purpose during any fiscal year.[21]

(j) For providing assistance to activities and projects authorized by section 203 of the United States Information and Educational Exchange Act of 1948, as amended (22 U.S.C. 1448), but no foreign currencies which are available under the terms of any agreement for appropriation for the general use of the United States shall be used for the purposes of this subsection (j) without appropriation therefor;[22]

(k) To collect, collate, translate, abstract, and disseminate scientific and technological information and to conduct research and support scientific activities overseas including programs and projects of scientific cooperation between the United States and other countries such as coordinated research against diseases common to all of mankind or unique to individual regions of the globe, and to promote and support programs of medical and scientific research, cultural and educational development, health, nutrition, and sanitation: *Provided*, That foreign currencies shall be available for the purposes of this subsection (in addition to funds otherwise made available for such purposes) only in such amounts as may be specified from time to time in appropriation Acts;[23]

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[20]The balance of the first sentence following "(50 U.S.C. App. 1641(b))" was added by Public Law 85-931, 72 Stat. 1790, approved September 6, 1958. The second sentence, through the word "purposes" the third time it appears, was added by Public Law 726, 84th Congress, 70 Stat. 555, approved July 18, 1956; the balance of the sentence was added by Public Law 85-141, 71 Stat. 355, approved August 14, 1957.

[21]Added by Public Law 726, 84th Congress, 70 Stat. 555, approved July 18, 1956.

[22]Added by Public Law 962, 84th Congress, 70 Stat. 988, approved August 3, 1956.

[23]Added by Public Law 85-477, 72 Stat. 261, approved June 30, 1958. Public Law 86-108, 73 Stat. 246, approved July 24, 1959, amended this subsection by adding the word "research" after the word "conduct" and by rephrasing the provision relating to the appropriation procedure. Public Law 86-341, 73 Stat. 606, approved September 21, 1959, added after the word "globe" the following: ", and to promote and support programs of medical and scientific research, cultural and educational development, health, nutrition, and sanitation."

(2) the registry, indexing, binding, reproduction, cataloging, abstracting, translating, and dissemination of books, periodicals, and related materials determined to have such significance; and (3) the acquisition of such books, periodicals, and other materials and the deposit thereof in libraries and research centers in the United States specializing in the areas to which they relate;[25]

(o) For providing assistance, in such amounts as may be specified from time to time in appropriation acts, by grant or otherwise, in the expansion or operation in foreign countries of established schools, colleges, or universities founded or sponsored by citizens of the United States, for the purpose of enabling such educational institutions to carry on programs of vocational, professional, scientific, technological, or general education;[27]

(p) For supporting workshops in American studies or American educational techniques and supporting chairs in American studies;[27]

(q) For assistance to meet emergency or extraordinary relief requirements other than requirements for surplus food commodities: *Provided*, That not more than a total amount equivalent to $5,000,000 may be made available for this purpose during any fiscal year;[28]

(r) For financing the preparation, distribution, and exhibiting of audio-visual informational and educational materials, including Government materials, abroad: *Provided*, That not more than a total amount equivalent to $2,500,000 may be made available for this purpose during any fiscal year, but nothing in this subsection shall limit or affect the use of foreign currencies to finance the preparation, distribution, or exhibition of such materials in connection with trade fairs and other market development activities under subsection (a);[28]

(s) For the sale for dollars to American tourists under such terms and conditions as the President may prescribe;[29]

(t) For sale to United States citizens as provided herein. In order to provide for the foreign currency needs of United States citizens for travel or other purposes, the Secretary of the Treasury may make available for sale for United States dollars to such citizens, at United States embassies or other convenient locations, foreign currencies acquired by the United States through operations under the Foreign Assistance Act of 1961, as amended, the Mutual Security Act of 1954, as amended, or any Act repealed thereby, or the Agricultural Trade Development and Assistance Act of 1954, as amended, which (1) he determines to be in excess of the needs of departments and agencies of the United States for such currencies, and (2) are not prohibited from such use or committed to other uses by agreement heretofore entered into with another country. United States dollars received from the sale of foreign currencies under this subsection shall be deposited in the Treasury as miscellaneous receipts, except that in the case of any such foreign currencies acquired through operations under title I of the Agricultural Trade Development and Assistance Act of 1954, as amended, the United States dollars received from the sale of such foreign currencies shall be deposited to the account of the

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26 Public Law 87-839, 76 Stat. 1074, approved October 18, 1962.

27 Subsection (o), when added by Public Law 85-931, 72 Stat. 1790, approved September 6, 1958, also included the purpose authorized in subsection (p). Public Law 86-341, 73 Stat. 706, approved September 21, 1959, separated the original subsection (o) into subsections (o) and (p).

28 Added by Public Law 86-341, 73 Stat. 606, approved September 21, 1959.

29 Added by Public Law 87-128, 75 Stat. 306, approved August 8, 1961.

Commodity Credit Corporation and shall be treated as a reimbursement to Commodity Credit Corporation under section 105 of this Act.[30,31]

*Provided, however,* That section 1415 of the Supplemental Appropriation Act, 1953, shall apply to all foreign currencies used for grants under subsections (d) and (e) and for payment of United States obligations involving grants under subsection (f) and to not less than 10 per centum of the foreign currencies which accrue under this title pursuant to agreements entered into on or before December 31, 1964 and to not less than 20 per centum in the aggregate of the foreign currencies which accrue pursuant to agreements entered into thereafter:[32] *Provided, however,* That the President is authorized to waive such applicability of section 1415 in any case where he determines that it would be inappropriate or inconsistent with the purposes of this title: *Provided, however,* That no foreign currencies shall be available pursuant to subsections (k), (p), and (r), except in such amounts as may be specified from time to time in appropriation Acts.[33]

There is hereby established an advisory committee composed of the Secretary of Agriculture, the Director of the Bureau of the Budget, the Administrator of the Agency for International Development, the chairman and the ranking minority member of the House Committee on Agriculture, and the chairman and the ranking minority member of the Senate Committee on Agriculture and Forestry. Such Committee shall review from time to time the status and usage of foreign currencies which accrue under this title, and shall make recommendations to the President as to ways and means of assuring to the United States (1) the maximum benefit from the use of such currencies, making special reference to any such currencies which are excess to the normal requirements of United States agencies, and (2) the maximum return from sales made under this title. Such Committee shall make such other recommendations for improving this Act and its administration as such Committee may deem fit.

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[30] The provision beginning with "In order to" and ending with "miscellaneous receipts" was added by Section 301(d) of the Foreign Assistance Act of 1963, Public Law 88-205, 77 Stat. 386, approved December 16, 1963, as subsection (b) to Section 612 of Chapter I of Part III of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2362 (b)).

Section 2 of Public Law 88-638, 78 Stat. 1035, approved October 8, 1964, redesignated subsection (b) of section 612 of the Foreign Assistance Act of 1961, as amended, as subsection (t) of section 104 of the Agricultural Trade Development and Assistance Act of 1954, as amended, and added the words, "For sale to United States citizens as provided herein," and the exception beginning with "except" and ending with "this Act".

[31] Section 301(c) of the Foreign Assistance Act of 1964, Public Law 88-633, 78 Stat. 1012, approved October 7, 1964, amended Section 612 of the Foreign Assistance Act of 1961, as amended, by adding the following new subsection (c):

"(c) Any Act of the Congress making appropriations to carry out programs under this or any other Act for United States operations abroad is hereby authorized to provide for the utilization of United States-owned excess foreign currencies to carry out any such operations authorized by law.

"The President shall take all appropriate steps to assure that, to the maximum extent possible, United States-owned excess foreign currencies are utilized, in lieu of dollars. As used in this subsection, the term 'excess foreign currencies' means foreign currencies or credits owned by or owed to the United States which are, under applicable agreements with the foreign country concerned, available for the use of the United States Government and are determined by the President to be excess to the normal requirements of departments and agencies of the United States for such currencies or credits and are not prohibited from use under this subsection by an agreement entered into with the foreign country concerned." (22 U.S.C. 2362)

[32] Public Law 88-638, 78 Stat. 1036, approved Octoger 8, 1964, amended this proviso by adding the phrase beginning with "Pursuant" ending with "thereafter".

For text of section 1415, see note 14 above.

[33] The final proviso added by Public Law 86-341, 73 Stat. 606, approved September 21, 1959, and amended by Public Law 87-128, 75 Stat. 306, approved August 8, 1961.

Administration) if the Secretary of the Interior has determined that such product is at the time of exportation in excess of domestic requirements, adequate carryover, and anticipated exports for dollars.[32] (7 U.S.C. 1706).

SEC. 107. As used in this Act, "friendly nation" means any country other than (1) the U.S.S.R., or (2) any nation or area dominated or controlled by the foreign government or foreign organization controlling the world Communist movement. (7 U.S.C. 1707)

SEC. 108. The President shall make a report to Congress with respect to the activities carried on under this Act at least once each six months and at such other times as may be appropriate and such reports shall include the dollar value, at the exchange rates in effect at the time of the sale, of the foreign currency for which commodities exported pursuant to section 102 (a) hereof are sold. (7 U.S.C. 1708)

SEC. 109. No transactions shall be undertaken under authority of this title after December 31, 1964, except as required pursuant to agreements theretofore entered into pursuant to this title.[33] (7 U.S.C. 1709)

## TITLE II--FAMINE RELIEF AND OTHER ASSISTANCE[34]

SEC. 201. In order to enable the President to furnish emergency assistance on behalf of the people of the United States to friendly peoples in meeting famine or other urgent or extraordinary relief requirements, the Commodity Credit Corporation shall make available to the President out of its stocks such surplus agricultural commodities (as defined in section 106 of title I) as he may request, for transfer (1) to any nation friendly to the United States in order to meet famine or other urgent or extraordinary relief requirements of such nation, and (2) to friendly but needy populations without regard to the friendliness of their government.[35] (7 U.S.C. 1721)

SEC. 202. In order to facilitate the utilization of surplus agricultural commodities in meeting the requirements of needy peoples, and in order to promote economic and community development in underdeveloped areas in addition to that which can be accomplished under title I of this Act, the President may authorize the transfer on a grant basis of surplus agricultural commodities from Commodity Credit Corporation stocks to assist programs undertaken with friendly governments or through voluntary relief agencies; *Provided*, That the President shall take reasonable precaution that such transfers

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[32]This last sentence which was added by Section 403(c) of the Foreign Assistance Act of 1963, Public Law 88-205, 77 Stat. 390, approved December 16, 1963, "shall not be effective for purposes of title I of the Agricultural Trade Development and Assistance Act of 1954, as amended, until January 1, 1965."

[33]Amended by Public Law 87-128, 75 Stat. 306, approved August 8, 1961, to extend the terminal date from 1961 to 1964.

[34]Section 302(h) of the Foreign Assistance Act of 1963, Public Law 88-205, 77 Stat. 389, approved December 16, 1963, amended Chapter 2 of Part III of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2398), by adding at the end thereof a new section 638, reading as follows:

"Sec. 638. Peace Corps Assistance.—No provision of this Act shall be construed to prohibit assistance to any country pursuant to the Peace Corps Act, as amended; the Mutual Educational and Cultural Exchange Act of 1961, as amended; or the Export-Import Bank Act of 1945, as amended: or famine or disaster relief, including such relief through voluntary agencies, under title II of the Agricultural Trade Development and Assistance Act of 1954, as amended."

[35]Public Law 540, 84th Congress, 70 Stat. 188, approved May 28, 1956, amended this section by deleting the words "f.o.b. vessels in United States ports," immediately preceding the words "as he may request,". Public Law 962, 84th Congress, 70 Stat. 988, approved August 3, 1956, amended this section by inserting after the word "urgent" wherever it occurs in the section the words "or extraordinary".

will not displace or interfere with sales which might otherwise be made.[36] (7 U.S.C. 1722)

SEC. 203. Programs of assistance shall not be undertaken under this title during any calendar year beginning January 1, 1961, and ending December 31, 1964, which call for appropriations of more than $300,000,000 to reimburse the Commodity Credit Corporation for all costs incurred in connection with such programs (including the Corporation's investment in commodities made available), plus any amount by which programs of assistance undertaken in the preceding calendar year have called or will call for appropriations to reimburse the Commodity Credit Corporation in amounts less than were authorized for such purpose during such preceding year by this title as in effect during such preceding year. The President may make transfers through such agencies including intergovernmental organizations, in such manner, and upon such terms and conditions as he deems appropriate; he shall make use of the facilities of voluntary relief agencies to the extent practicable. Such transfers may include delivery f.o.b. vessels in United States ports and, upon a determination by the President that it is necessary to accomplish the purposes of this title or of section 416 of the Agricultural Act of 1949, as amended, ocean freight charges from United States ports to designated ports of entry abroad, or, in the case of landlocked countries, transportation from United States ports to designated points of entry abroad, may be paid from funds available to carry out this title on commodities transferred pursuant hereto or donated under said section 416, and charges for general average contributions arising out of the ocean transport of commodities transferred pursuant hereto may be paid from such funds. Funds required for ocean freight costs authorized under this title may be transferred by the Commodity Credit Corporation to such other Federal agency as may be designated by the President.[37] (7 U.S.C. 1723)

SEC. 204. No programs of assistance shall be undertaken under the authority of this title after December 31, 1964.[38] (7 U.S.C. 1724)

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[36]The words preceding "President" the first time it appears were added by Public Law 86-472, 74 Stat. 140, approved May 14, 1960, authorizing economic development programs under this title, with an expiration date of June 30, 1961; Public Law 87-92, 75 Stat. 211, approved July 20, 1961, repealed the provision that such authority should expire on June 30, 1961. Section 403(d) of the Foreign Assistance Act of 1963, Public Law 88-205, 77 Stat. 390, approved December 16, 1963, amended this section by striking out "economic development" and inserting in lieu thereof "economic and community development".

[37]The original authorization was $300,000,000. Public Law 540, 84th Congress, 70 Stat. 188, approved May 28, 1956, added $200,000,000 and Public Law 85-128, 71 Stat. 345, approved August 13, 1957, added $300,000,000. Public Law 86-341, 73 Stat. 606, approved September 21, 1959, amended the first sentence to provide: "Not more than $300,000,000 (including the Corporation's investment in such commodities) plus any amount by which transfers made in the preceding calendar year have called or will call for appropriations to reimburse the Commodity Credit Corporation in amounts less than could have been expended during such preceding year under this title as in effect during such preceding year shall be expended in any calendar year during the period January 1, 1960, and ending December 31, 1961, for all such transfers and for other costs authorized by this title." The first sentence, as amended by Public Law 87-128, 75 Stat. 306, approved August 8, 1961, changes the authorization from an expended basis to a program commitment basis beginning January 1, 1961. Public Law 87-128, 75 Stat. 306, approved August 8, 1961, amended the second sentence by deleting "such" preceding "transfers". The last two sentences were added by Public Law 540, 84th Congress, 70 Stat. 188, approved May 28, 1956. Public Law 86-472, 74 Stat. 140, approved May 14, 1960, amended the third sentence by inserting after "entry abroad" where it first appears ", or, in the case of landlocked countries, transportation from United States ports to designated points of entry abroad," and by inserting ",and charges for general average contributions arising out of the ocean transport of commodities transferred pursuant hereto may be paid from such funds" before the period at the end of that sentence.

[38]Amended by Public Law 87-128, 75 Stat. 306, approved August 8, 1961, to extend the terminal date from 1961 to 1964.

## TITLE II--FAMINE RELIEF AND OTHER ASSISTANCE[41, 42]

SEC. 201. In order to enable the President to furnish emergency assistance on behalf of the people of the United States to friendly peoples in meeting famine or other urgent or extraordinary relief requirements, the Commodity Credit Corporation shall make available to the President out of its stocks such surplus agricultural commodities (as defined in section 106 of title I) as he may request, for transfer (1) to any nation friendly to the United States in order to meet famine or other urgent or extraordinary relief requirements of such nation, and (2) to friendly but needy populations without regard to the friendliness of their government.[43] (7 U.S.C. 1721)

SEC. 202. In order to facilitate the utilization of surplus agricultural commodities in meeting the requirements of needy peoples, and in order to promote economic and community development in underdeveloped areas in addition to that which can be accomplished under title I of this Act, the President may authorize the transfer on a grant basis of surplus agricultural commodities from Commodity Credit Corporation stocks to assist programs undertaken with friendly governments or through voluntary relief agencies; *Provided*, That the President shall take reasonable precaution that such transfers will not displace or interfere with sales which might otherwise be made.[44] (7 U.S.C. 1722)

SEC. 203. Programs of assistance shall not be undertaken under this title during any calendar year beginning January 1, 1965, and ending December 31, 1966, which call for appropriations of more than $400,000,000 to reimburse the Commodity Credit Corporation for all costs incurred in connection with such programs (including the Corporation's investment in commodities made available), plus any amount by which programs of assistance undertaken in the preceding calendar year have called or will call for appropriations to reimburse the Commodity Credit Corporation in amounts less than were authorized for such purpose during such preceding year by this title as in

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[41] Section 302(h) of the Foreign Assistance Act of 1963, Public Law 88-205, 77 Stat. 389, approved December 16, 1963, amended Chapter 2 of Part III of the Foreign Assistance Act of 1961, as amended, by adding at the end thereof a new section 638 (22 U.S.C. 2398), reading as follows:

"Sec. 638. Peace Corps Assistance.—No provision of this Act shall be construed to prohibit assistance to any country pursuant to the Peace Corps Act, as amended; the Mutual Educational and Cultural Exchange Act of 1961, as amended; or the Export-Import Bank Act of 1945, as amended: or famine or disaster relief, including such relief through voluntary agencies, under title II of the Agricultural Trade Development and Assistance Act of 1954, as amended."

[42] Public Law 88-550, 78 Stat. 755, approved August 31, 1964, amended the Act of August 19, 1958, (Public Law 85-683, 72 Stat. 635) to read as follows:

"That at any time Commodity Credit Corporation has any grain available for donation pursuant to clause (3) or (4) of section 416 of the Agricultural Act of 1949, as amended, section 210 of the Agricultural Act of 1956, or title II of the Agricultural Trade Development and Assistance Act, as amended, the Corporation, in lieu of processing all or any part of such grain into human food products, may purchase such processed food products in quantities not to exceed the equivalent of the respective grain available for donation on the date of such purchase and donate such processed food products pursuant to clause (3) or (4) of such section 416, and to such section 210, and made such processed food products available to the President pursuant to such title II, and may sell, without regard to the provisions of section 407 of the Agricultural Act of 1949, as amended, a quantity of the grain equivalent to the processed food products so purchased: *Provided*, That no food product purchased pursuant to the authority contained herein shall constitute less than 50 per centum by weight of the grain from which processed, or contain any additive other than for normal vitamin enrichment, preservative, and bleaching purposes."

[43] Amended by Public Law 540, 84th Congress, 70 Stat. 188, approved May 28, 1956, and by Public Law 962, 84th Congress, 70 Stat. 988, approved August 3, 1956.

[44] Amended by Public Law 86-472, 74 Stat. 140, approved May 14, 1960; by Public Law 87-92, 75 Stat. 211, approved July 20, 1961; and by Public Law 88-205, 77 Stat. 390, approved December 16, 1963.

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effect during such preceding year. The President may make transfers through such agencies including intergovernmental organizations, in such manner, and upon such terms and conditions as he deems appropriate; he shall make use of the facilities of voluntary relief agencies to the extent practicable. Such transfers may include delivery f.o.b. vessels in United States ports and, upon a determination by the President that it is necessary to accomplish the purposes of this title or of section 416 of the Agricultural Act of 1949, as amended, ocean freight charges from United States ports to designated ports of entry abroad, or, in the case of landlocked countries, transportation from United States ports to designated points of entry abroad, may be paid from funds available to carry out this title on commodities transferred pursuant hereto or donated under said section 416, and charges for general average contributions arising out of the ocean transport of commodities transferred pursuant hereto or donated under said section 416, section 308 of this Act or section 9 of the Act of September 6, 1958 (72 Stat. 1790) may be paid from such funds. In addition to other funds available for such purposes under any other Act, funds made available under this title may be used in an amount not exceeding $7,500,000 annually to purchase foreign currencies accruing under title I in order to meet costs (except the personnel and administrative costs of cooperating sponsors, distributing agencies, and recipient agencies, and the costs of construction or maintenance of any church owned or operated edifice or any other edifices to be used for sectarian purposes) designed to assure that commodities made available under this title or under title III are used to carry out more effectively the purposes for which such commodities are made available or to promote community and other self-help activities designed to alleviate the causes of the need for such assistance: *Provided, however,* That such funds shall be used only to supplement and not substitute for, funds normally available for such purposes from other non-United States Government sources. Funds required for ocean freight costs or for the purchase of foreign currencies authorized under this title may be transferred by the Commodity Credit Corporation to such other Federal agency as may be designated by the President.[45] (7 U.S.C. 1723)

SEC. 204. No programs of assistance shall be undertaken under the authority of this title after December 31, 1966.[46] (7 U.S.C. 1724)

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[45] Authorization provided by Public Law 88-638, 78 Stat. 1037, approved October 8, 1964. Previous authorizations were as follows:

| *Authority* | *Approved* | *Amount added* | *Terminal date* |
|---|---|---|---|
| Public Law 480, 83rd Congress, 68 Stat. 454 | July 10, 1954 | $300 million | June 30, 1957 |
| Public Law 540, 84th Congress, 70 Stat. 188 | May 28, 1956 | $200 million | June 30, 1957 |
| Public Law 85-129, 71 Stat. 345 | August 13, 1957 | $300 million | June 30, 1958 |
| Public Law 86-341, 73 Stat. 606 | September 21, 1959 | $600 million | December 31, 1961 |
| Public Law 87-128, 75 Stat. 306 | August 8, 1961 | $900 million | December 31, 1964 |

In Public Law 86-341, 73 Stat. 606, approved September 21, 1959, the first sentence provides: "Not more than $300,000,000 (including the Corporation's investment in such commodities) plus any amount by which transfers made in the preceding calendar year have called or will call for appropriations to reimburse the Commodity Credit Corporation in amounts less than could have been expended during such preceding year under this title as in effect during such preceding year shall be expended in any calendar year during the period January 1, 1960, and ending December 31, 1961, for all such transfers and for other costs authorized by this title." The first sentence, as amended by Public Law 87-128, 75 Stat. 306, approved August 8, 1961, changes the authorization from an expended basis to a program commitment basis beginning January 1, 1961. Other amendments to the wording of Section 203 were made by Public Law 540, 84th Congress, 70 Stat. 188, approved May 28, 1956; Public Law 86-472, 74 Stat. 140, approved May 14, 1960; Public Law 87-128, 75 Stat. 306, approved August 8, 1961; and by Public Law 88-638, 78 Stat. 1037, approved October 8, 1964. Public Law 88-638 provides that the authorization of $400,000,000, plus uncommitted amounts for previous years, for the period of January 1, 1965, to December 31, 1966, shall not become effective until January 1, 1965.

[46] Amended by Public Law 88-638, 78 Stat. 1037, approved October 8, 1964, to extend the terminal date from December 31, 1964, to December 31, 1966.

6, 1958, as amended, the Secretary shall receive assurances satisfactory to him that, insofar as practicable, there will be student participation in the financing of such programs on the basis of ability to pay, and such programs shall be undertaken with the understanding that commodities will be available for those programs only in accordance with the provisions of such statutes and that commodities made available under section 416 of the Agricultural Act of 1949, as amended, will be available only in accordance with the priorities established in such section. Sec. 205. Public Law 87-703, 76 Stat. 610, approved September 27, 1962]

SEC. 303. The Secretary shall, whenever he determines that such action is in the best interest of the United States, and to the maximum extent practicable, barter or exchange agricultural commodities owned by the Commodity Credit Corporation for (a) such strategic or other materials of which the United States does not domestically produce its requirements and which entail less risk of loss through deterioration or substantially less storage charges as the President may designate, or (b) materials, goods, or equipment required in connection with foreign economic and military aid and assistance programs, or (c) materials or equipment required in substantial quantities for offshore construction programs. He is hereby directed to use every practicable means, in cooperation with other Government agencies, to arrange and make, through private channels, such barters or exchanges or to utilize the authority conferred on him by section 4 (h) of the Commodity Credit Corporation Charter Act, as amended, to make such barters or exchanges. In carrying out barters or exchanges authorized by this section, no restrictions shall be placed on the countries of the free world into which surplus agricultural commodities may be sold, except to the extent that the Secretary shall find necessary in order to take reasonable precautions to safeguard usual marketings of the United States and to assure that barters or exchanges under this Act will not unduly disrupt world prices of agricultural commodities or replace cash sales for dollars. The Secretary may permit the domestic processing of raw materials of foreign origin. The Secretary shall endeavor to cooperate with other exporting countries in preserving normal patterns of commercial trade with respect to commodities covered by formal multilateral international marketing agreements to which the United States is a party. Agencies of the United States Government procuring such materials, goods, or equipment are hereby directed to cooperate with the Secretary in the disposal of surplus agricultural commodities by means of barter or exchange. The Secretary is also directed to assist, through such means as are available to him, farmers' cooperatives in effecting exchange of agricultural commodities in their possession for strategic materials.[42] (7 U.S.C. 1692)

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[42]As amended by Public Law 85-931, 72 Stat. 1790, approved September 6, 1958. This section formerly read as follows: "Whenever the Secretary has reason to believe that, in addition to other authorized methods and means of disposing of agricultural commodities owned by the Commodity Credit Corporation, there may be opportunity to protect the funds and assets of the Commodity Credit Corporation by barter or exchange of such agricultural commodities for (a) strategic materials entailing less risk of loss through deterioration or substantially less storage charges, or (b) materials, goods or equipment required in connection with foreign economic and military aid and assistance programs, or (c) materials or equipment required in substantial quantities for offshore construction programs, he is hereby directed to use every practicable means, in cooperation with other Government agencies, to arrange and make, through private trade channels, such barters or exchanges or to utilize the authority conferred on him by section 4(h) of the Commodity Credit Corporation Charter Act, as amended, to make such barters or exchanges. Agencies of the United States Government procuring such materials, goods or equipment are hereby directed to cooperate with the Secretary in the disposal of surplus agricultural commodities by means of barter or exchange. Strategic materials so acquired by the Commodity Credit Corporation shall be considered as assets of the Corporation and other agencies of the Government, in purchasing strategic materials, shall purchase such materials from Commodity Credit Corporation inventories to the extent available in fulfillment of their requirements. The Secretary is also directed to assist, through such means as are available to him, farmers' cooperatives in effecting exchange of agricultural commodities in their possession for strategic materials." Public Law 540, 84th Congress, 70 Stat. 188, approved May 28, 1956, U.S.C. 1856, provides that strategic and other material acquired by the Commodity Credit Corporation may be transferred to the supplemental stockpile established by section 104(b) of this Act.

SEC. 304. (a) The President shall exercise the authority contained in title I of this Act (1) to assist friendly nations to be independent of trade with the Union of Soviet Socialist Republics and with nations dominated or controlled by the Union of Soviet Socialist Republics and (2) to assure that agricultural commodities sold or transferred thereunder do not result in increased availability of those or like commodities to unfriendly nations.

(b) Nothing in this Act shall be construed as authorizing transactions under title I or title III with the Union of Soviet Socialist Republics or any of the areas dominated or controlled by the Communist regime in China.[43] (7 U.S.C. 1693)

SEC. 305. All Commodity Credit Corporation stocks donated abroad under title II of this Act and section 416 of the Agricultural Act of 1949, as amended, shall be clearly identified by appropriate marking on each package or container and insofar as practical in the language of the locality where such stocks are distributed as being furnished by the people of the United States of America and where available funds accruing under title I shall be used for this purpose.[44] (7 U.S.C. 1694)

SEC. 306. [This section authorizes a food stamp system for the distribution of surplus food commodities to needy persons in the United States during the period beginning February 1, 1960 and ending January 31, 1962.][45]

SEC. 307. Whenever the Secretary of Agriculture determines under section 106 of this Act that any food commodity is a surplus agricultural commodity, insofar as practicable he shall make such commodity available for distribution to needy families and persons in the United States in such quantities as he determines are reasonably necessary before such commodity is made available for sale for foreign currencies under title I of this Act.[45,46]

SEC. 308. Notwithstanding any other provision of law, the Commodity Credit Corporation is hereby authorized--

(1) to dispose of its stocks of animal fats and edible oils or products thereof by donation, upon such terms and conditions as the Secretary of Agriculture deems appropriate, to nonprofit voluntary agencies registered with the Department of State, appropriate agencies of the Federal Government or international organizations, for use in the assistance of needy persons and in nonprofit school lunch programs outside the United States;

(2) to purchase for donation as provided above such quantities of animal fats and edible oils and the products thereof as the Secretary determines will tend to maintain the support level for cottonseed and soybeans without requiring the acquisition of such commodities under the price support program.

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[43]This section was amended by Public Law 85-128, 71 Stat. 345, approved August 13, 1957. It formerly read: "The President shall exercise the authority contained herein (1) to assist friendly nations to be independent of trade with the U.S.S.R. or nations dominated or controlled by the U.S.S.R. for food, raw materials and markets, and (2) to assure that agricultural commodities sold or transferred hereunder do not result in increased availability of those or like commodities to unfriendly nations."

[44]As amended by Public Law 86-341, 73 Stat. 606, approved September 21, 1959. This section formerly provided: "All Commodity Credit Corporation stocks disposed of under title II of this Act and section 416 of the Agricultural Act of 1949, as amended, shall be clearly identified by, as far as practical, appropriate marking on each package or container as being furnished by the people of the United States of America."

[45]Sections 306, 307, 308 and all of title IV were added by Public Law 86-341, 73 Stat. 606, approved September 21, 1959. Section 306 was not extended beyond January 31, 1962.

[46]Section 205(c) of Public Law 86-108, 73 Stat. 246, approved July 24, 1959, also provides that surplus food commodities or products thereof made available for transfer as a grant or as a sale for foreign currencies may also be made available to the maximum extent practicable to eligible domestic recipients pursuant to section 416 of the Agricultural Act of 1949, as amended, (7 U.S.C. 1431), or to needy persons within the United States pursuant to clause (2) of section 32 of the Act of August 24, 1935, as amended, (7 U.S.C. 612c).

SEC. 305. All Commodity Credit Corporation stocks donated abroad under title II of this Act and section 416 of the Agricultural Act of 1949, as amended, shall be clearly identified by appropriate marking on each package or container and insofar as practical in the language of the locality where such stocks are distributed as being furnished by the people of the United States of America and where available funds accruing under title I shall be used for this purpose.[52] (7 U.S.C. 1694)

SEC. 306. [This section authorizes a food stamp system for the distribution of surplus food commodities to needy persons in the United States during the period beginning February 1, 1960 and ending January 31, 1962.][53]

SEC. 307. Whenever the Secretary of Agriculture determines under section 106 of this Act that any food commodity is a surplus agricultural commodity, insofar as practicable he shall make such commodity available for distribution to needy families and persons in the United States in such quantities as he determines are reasonably necessary before such commodity is made available for sale for foreign currencies under title I of this Act.[53,54] (7 U.S.C. 1696)

SEC. 308. Notwithstanding any other provision of law, the Commodity Credit Corporation is hereby authorized--

(1) to dispose of its stocks of animal fats and edible oils or products thereof by donation, upon such terms and conditions as the Secretary of Agriculture deems appropriate, to nonprofit voluntary agencies registered with the Department of State, appropriate agencies of the Federal Government or international organizations, for use in the assistance of needy persons and in nonprofit school lunch programs outside the United States;[55]

(2) to purchase for donation as provided above such quantities of animal fats and edible oils and the products thereof as the Secretary determines will tend to maintain the support level for cottonseed and soybeans without requiring the acquisition of such commodities under the price support program.

Commodity Credit Corporation may incur such additional costs with respect to commodities to be donated hereunder as it is authorized to incur with respect to food commodities disposed of under section 416 of the Agricultural Act of 1949, and may pay ocean freight charges from United States ports to designated ports of entry abroad.[53] (7 U.S.C. 1697)

## TITLE IV--LONG-TERM SUPPLY CONTRACTS[53]

SEC. 401. The purpose of this title is to utilize surplus agricultural commodities and the products thereof produced in the United States to assist the economic development of friendly nations by providing long-term credit for purchases of surplus agricultural commodities for domestic consumption during periods of economic development so that the resources and manpower of such nations may be utilized more effectively for industrial and other domestic economic development without jeopardizing meanwhile adequate supplies of agricultural commodities for domestic use. It is also the purpose of this title to stimulate and increase the sale of surplus

52 Amended by Public Law 86-341, 73 Stat. 606, approved September 21, 1959.

53 Sections 306, 307, 308 and all of title IV were added by Public Law 86-341, 73 Stat. 606, approved September 21, 1959, Section 306 was not extended beyond January 31, 1962.

54 Section 205(c) of Public Law 86-108, 73 Stat. 246, approved July 24, 1959, also provides that surplus food commodities or products thereof made available for transfer as a grant or as a sale for foreign currencies may also be made available to the maximum extent practicable to eligible domestic recipients pursuant to section 416 of the agricultural Act of 1949, as amended, (7 U.S.C. 1431), or to needy persons within the United States pursuant to clause (2) of section 32 of the Act of August 24, 1935, as amended, (7 U.S.C. 612c).

55 This clause (1) was amended by Public Law 87-703, 76 Stat. 610, approved September 27, 1962.

SEC. 404. In carrying out the provisions of this title, the Secretary of Agriculture shall endeavor to maximize the sale of United States agricultural commodities taking such reasonable precautions as he determines necessary to avoid replacing any sales which the Secretary finds and determines would otherwise be made for cash dollars.

SEC. 405. In the case of such agreements, the Secretary may enter into agreements with other friendly and historic supplying nations of such commodities for their participation in the supply and assistance program herein authorized on a proportionate and equitable basis.[51]

SEC. 406. In carrying out this title, the provisions of sections 101 (b) and (c), 102, 103(a), 106, 107, and 108 of this Act shall be applicable to the extent not inconsistent with this title.[52]

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[51]This section was amended by Public Law 87-703, 76 Stat. 610, approved September 27, 1962. It formerly read: "In entering into such agreements, the Secretary shall endeavor to reach agreement with other exporting nations of such commodities for their participation in the supply and assistance program herein authorized on a proportionate and equitable basis."

[52]Public Law 87-703, 76 Stat. 610, approved September 27, 1962, inserted: "101(b) and (c)," after the word "sections".

## APPENDIX A

The following portions of this compilation are not a part of Public Law 480, 83rd Congress, 68 Stat. 454, approved July 10, 1954, as amended, but have a bearing on Section 416 of the Agricultural Act of 1949 which was amended by Section 302 of Title III of said Public Law 480, 83rd Congress.

[Notwithstanding any other provision of law (1) those areas under the jurisdiction or administration of the United States are authorized to receive from the Department of Agriculture for distribution on the same basis as domestic distribution in any State, Territory, or possession of the United States, without exchange of funds, such surplus commodities as may be available pursuant to clause (2) of section 32 of the Act of August 24, 1935, as amended (7 U.S.C. 612c), and section 416 of the Agricultural Act of 1949, as amended (7 U.S.C. 1431); and (2) the Commodity Credit Corporation is authorized to purchase products of oilseeds, and edible oils and fats and the products thereof in such form as may be needed for donation abroad as provided in the following sentence. Any such commodities or products if purchased shall be donated to nonprofit voluntary agencies registered with the Department of State, other appropriate agencies of the Federal Government or international organizations for use in the assistance of needy persons and in nonprofit school lunch programs outside the United States. Commodity Credit Corporation may incur such additional costs with respect to such oil as it is authorized to incur with respect to food commodities disposed of under section 416 of the Agricultural Act of 1949. Sec. 9. Public Law 85-931, 72 Stat. 1790, approved September 6, 1958, 7 U.S.C. 1431b] [60]

[(a) In order to insure the nutritional value of cornmeal, grits, rice, and white flour when such foods are made available for distribution under section 416(3) of the Agricultural Act of 1949 or for distribution to schools under the National School Lunch Act or any other Act, such foods shall be enriched so as to meet the standards for enriched cornmeal, enriched corn grits, enriched rice, or enriched flour, as the case may be, prescribed in regulations promulgated under the Federal Food, Drug, and Cosmetic Act; and in order to protect the nutritional value and sanitary quality of such enriched foods during transportation and storage such foods shall be packaged in sanitary containers. For convenience and ease in handling, the weight of any sanitary container when filled shall not exceed fifty pounds unless a larger container is requested by recipient agency. Nothing in this section shall prohibit the distribution of fortified parboiled rice which is substantially equal in nutritional value to that of enriched rice.

(b) The term "sanitary container" means any container of such material and construction as (1) will not permit the infiltration of foreign matter into the contents of such container under ordinary conditions of shipping and handling, and (2) will not, for a period of at least one year, disintegrate so as to contaminate the contents of the container, necessitating the washing of the contents prior to use. Sec. 201. Public Law 86-341, 73 Stat. 606, approved September 21, 1959, 7 U.S.C. 1431c] [61]

[In any school feeding programs undertaken hereafter outside the United States pursuant to section 416 of the Agricultural Act of 1949, as amended, section 308 of Public Law 480 (83rd Congress), as amended, and section 9 of the Act of September 6, 1958, as amended, the Secretary shall receive assurances satisfactory to him that, insofar as practicable, there will be student participation in the financing of such programs on the basis of ability to pay, and such programs shall be undertaken with the understanding that commodities will be available for those programs only in accordance with the provisions of such statutes and that commodities made available under section 416 of the Agricultural Act of 1949, as amended, will be available only in accordance with the priorities established in such section. Sec. 205. Public Law 87-703, 76 Stat. 611, approved September 27, 1962, 7 U.S.C. 1431d]

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[60] Amended by Public Law 87-703, 76 Stat. 610, approved September 27, 1962.
[61] Amended by Public Law 87-803, 76 Stat. 910, approved October 11, 1962.

## APPENDIX B

Section 709 of the Food and Agriculture Act of 1965, Public Law 89-321, 79 Stat. 1212, approved November 3, 1965 provides that "The Secretary of Agriculture is hereby authorized to use funds of the Commodity Credit Corporation to purchase sufficient supplies of dairy products at market prices to meet the requirements of any programs for the schools (other than fluid milk in the case of schools), domestic relief distribution, community action, foreign distribution, and such other programs as are authorized by law, when there are insufficient stocks of dairy products in the hands of Commodity Credit Corporation available for these purposes."

Senator GRUENING. The Subcommitte on Foreign Aid Expenditures will not duplicate in this series of hearings the work already done by the Committee on Agriculture and Forestry. Our interest will focus on the management of the Public Law 480 program, on the interagency relationships and responsibilities and on the way the executive agencies have carried out specific provisions of the law.

### SCOPE OF HEARINGS FOUR PRONGED

The following specific points will be covered in these hearings:

1. The displacement of normal U.S. commercial sales of agricultural commodities for dollars by soft currency sales under Public Law 480.
2. The extent to which countries receiving commodities under Public Law 480 have used such assistance to increase their exports of the same or similar commodities.
3. The extent to which Public Law 480 commodity assistance to foreign countries has made possible increased exports of the same or similar commodities by these countries to Communist countries.
4. The extent to which these Public Law 480 programs are directed and managed by the Department of State and the Agency for International Development rather than by the Department of Agriculture.

The subcommittee's interest in these matters stems from its responsibilities to study the operations of Federal agencies abroad and their interrelationships, pointing out whether any failure of these agencies is due to structural and organizational defects, overloaded work programs, imprudent administrative, budgetary, and fiscal practices, and lack of coordination.

### U.S. COMPTROLLER GENERAL REPORTS PUBLIC LAW 480 MISMANAGEMENT

The subcommittee has received a number of reports from the Comptroller General of the United States involving his audits of the Public Law 480 programs which disclose serious deficiencies in the way the programs have been administered and in the effectiveness, under existing arrangements, of interagency coordination.

### RAISES QUESTION OF POSSIBLE LOSS OF DOLLAR COMMERCIAL SALES

For example, the reports of the Comptroller General raise serious question as to whether commodities given to foreign countries under Public Law 480 have not, in fact, resulted in the loss of dollar commercial sales which would otherwise have occurred had the Public Law 480 programs been managed on a better and more businesslike basis.

These displacements of commercial sales, with the consequent adverse effect on the U.S. balance of payments have occurred despite the specific provisions of Public Law 480 that the President shall: " * * * take reasonable precautions to safeguard usual marketings of the United States * * *"

By obtaining agreements with recipient countries that they will continue to buy from the United States the amounts of commodities that they have always bought, this provision insures that the U.S. commercial interests will not lose foreign markets. Otherwise, our balance-of-payments position would be adversely affected. The diffi-

culties we are experiencing in maintaining a favorable balance of payments is recognized as one of the major problems confronting this country.

### UNCOVER DIVERSION OF PUBLIC LAW 480 COMMODITIES TO COMMUNIST COUNTRIES

The subcommittee will also be interested in exploring the manner in which the executive agencies have administered the provisions of Public Law 480 to preclude diversion of the commodities, or like commodities, to Communist countries. Section 304 of Public Law 480 is emphatic on this point when it states:

> The President shall exercise the authority contained in title I of this Act * * * (2) to assure that agricultural commodities sold or transferred thereunder do not result in increased availability of those or like commodities to unfriendly nations.

The subcommittee has received information that this provision has been ineffective in some cases. Significant instances have been uncovered where it has been found that Public Law 480 assistance has been used by countries receiving these commodities to facilitate the export of the same or similar commodities to Communist countries.

For example, it has become apparent that U.S. wheat delivered to some countries under Public Law 480 enables those countries to use the wheat to feed their own people and to free large quantities of locally produced rice, or even locally produced wheat, for export. These increased exports of the same or similar commodities have gone in some cases to unfriendly countries, in what appears to be a direct contravention of the law.

One of the principal objectives of the subcommittee's inquiries will be to determine what agency of the executive branch is responsible for these apparent violations of the statute, the justification for such violations, if any, and to consider what action is required to change such policies as are found to be inimical to the overall interests of the United States.

### HEARINGS NOT AN "OVERALL APPRAISAL" OF PUBLIC LAW 480 PROGRAM

It should be fairly evident from the foregoing that these hearings will not constitute an overall appraisal of the value and effectiveness of the Public Law 480 program. To attempt to do so would duplicate in large measure the excellent work being done by the Committee on Agriculture and Forestry.

### OVER 70 COUNTRIES CONCERNED WITH PUBLIC LAW 480 COMMODITIES

Public Law 480 is a program of vast dimensions. About $2 billion in agricultural commodities are programed each year for delivery to foreign countries. Sixty-six percent of all U.S. wheat exports move under Public Law 480. Public Law 480 milled rice exports account for 41 percent of the total rice exports. Public Law 480 edible vegetable oil exports comprise 21 percent of all U.S. exports of oil. Other commodities include feed grains, tobacco, dairy products, poultry, meat, fruits and vegetables. Over 70 foreign countries have received

Public Law 480 commodities under one section of the legislation or another.

These commodities have moved as "sales" under title I, whereby the United States receives payment in local currencies from the recipient countries; as donations under title II for emergency and famine relief and for economic development; as food donations under title III to U.S. voluntary relief organizations for distribution to needy people abroad; and as sales for dollars under long-term credits authorized by title IV.

### PUBLIC LAW 480 PROGRAMS VALUABLE, BUT SCRUTINY NEEDED

It should be said at the outset that there is little question but that the Public Law 480 programs, which have been in existence since 1954, have been of tremendous benefit to countries receiving these commodities and to American farmers in disposing of surpluses. The basic objectives of the legislation have been accepted by successive administrations and in each session of the Congress. There can be no argument with the President's statement that "The food-for-peace program is one of the most inspiring enterprises ever undertaken by any nation in all of history—and every American can be proud of it, without regard to partisanship or political persuasion."

But this is not to say that there is no place for a critical scrutiny of the way specific provisions of the act are being administered, nor does acceptance of the basic objectives of the legislation require concurrence in every administrative decision and of the executive policies established to carry out the legislation.

### CRITICISM DOES NOT MEAN OPPOSITION

The subcommittee will, of necessity, probe into these areas where administrative shortcomings have become evident, and the focus of the subcommittee's attention will be of a critical nature. But this is designed to achieve better management, more effective use of Public Law 480 resources, and a clearer delineation of agency responsibilities. Not every critic of the foreign aid program is opposed to the principle of economic assistance to foreign countries deserving of such assistance. No criticism which the subcommittee voices in these hearings on the way in which the Public Law 480 programs are administered should be taken as an opposition to the basic tenets and objectives of Public Law 480 legislation.

It is with these thoughts in mind that the subcommittee has invited the Comptroller General of the United States, the Honorable Elmer B. Staats, to testify today. There is no more responsible agency in the Government than the General Accounting Office, which Mr. Staats heads. It has no vested interest in any program. It has no political bias. It is an agent of the Congress and is responsible only to the Congress. It deals with the facts and eschews publicity.

### GAO AUDITS PUBLIC LAW 480 PROGRAMS

For the past 2 years the General Accounting Office has been conducting audits of the Public Law 480 programs in many countries abroad, as well as at the department level in Washington. The

Comptroller General has issued numerous reports to the Congress on the results of these audits, and many more are now in process.

Mr. Staats, before you read your prepared statement, I wonder if you could tell us a little about what the General Accounting Office is and what it does?

Let me say at this point that we are extremely grateful to the General Accounting Office and your predecessors, as well as to you, for the assistance that has been rendered in studying the disposal of surplus property.

Without the assistance of your dedicated and knowledgeable staff, we could not have moved ahead as we have, nor could we have secured the very valuable information which I know is going to result in the saving of millions of dollars to the United States.

We are extremely grateful for your cooperation and that of your agency.

## STATEMENT OF ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES; ACCOMPANIED BY CHARLES HYLANDER, DEPUTY DIRECTOR, INTERNATIONAL OPERATIONS DIVISION; AND GILBERT F. STROMVALL, ASSISTANT DIRECTOR

Mr. STAATS. Thank you very much, Mr. Chairman, for your statement about the General Accounting Office.

### GAO AUDITS AND REVIEWS ALL GOVERNMENTAL PROGRAMS

Perhaps the major responsibility of the General Accounting Office in terms of the hearings which are being undertaken here today is our responsibility for the audit or review of all governmental programs, from the standpoint of whether they are being carried out in accordance with the intent of the Congress, whether they are being carried out with maximum effectiveness, and whether or not they are being carried out with the maximum of economy from the standpoint of savings of Federal expenditures.

Our organization consists of highly trained professional personnel. We have about 2,300 professional accountants and auditors located in 36 offices in the United States, and 2 overseas.

Our organization has had long experience in conducting studies of this kind.

Last year we prepared a total of something more than 900 reports, of which roughly 500 were submitted to the Congress and the others were submitted to the agencies, in which we either made observations with respect to the effectiveness of the programs being carried out, or offered specific suggestions for their improvement and for more economical operations.

We have a number of functions, Mr. Chairman, such as working with the agencies in the improvement of accounting and management systems. In this connection, we have just been recently working with AID—the Agency for International Development—in connection with the accounting system for their loan program.

We have other responsibilities which relate to passing on the legality of expenditures, rendering legal opinions with respect to Federal expenditures, including Federal contracts, the auditing of transporta-

tion claims, and the handling of claims, both against the Government and by the Government against private individuals.

But the principal responsibility, and the one which I believe is of interest to this subcommittee, has to do with the first one; namely, the audit or review of agency programs; and it is in that connection that we have prepared the numerous reports in connection with Public Law 480, which program you referred to in your opening statement.

Senator GRUENING. That is correct.

Mr. STAATS. Mr. Chairman, I have a prepared statement which, with your permission, I would like to read.

I also have with me here this morning two individuals from the General Accounting Office who have been directly involved in the preparation of the reports, in connection with the Public Law 480 program: Mr. Hylander to my right, and Mr. Stromvall to my left. They will assist me in answering any questions which you may have after I have finished my statement.

Senator GRUENING. Thank you very much, Mr. Staats. Please proceed in whatever way you think best. We would like to have you read your statement if you would.

Mr. STAATS. We appear before you today at the request of the chairman to summarize for your information the results of our examinations into the administration of the surplus commodity disposal program authorized by the Agricultural Trade Development and Assistance Act of 1954, commonly known as the Public Law 480 program.

### STAATS IMPRESSED BY AGENCIES' COOPERATION WITH GAO

Since my appointment as Comptroller General, I have met with senior officials of the General Accounting Office and discussed with them our audit work at the Departments of Agriculture and State and the Agency for International Development, including the international programs for which these agencies have a basic management responsibility. In addition, I have recently met with senior officials of the Departments of Agriculture and State and with the Administrator of the Agency for International Development. We are impressed, Mr. Chairman, with the attitudes of these officials with regard to stepped-up efforts to improve financial management within their agencies and with their desire to take corrective action when our audit reports disclose a need for such action.

### STAATS SUMMARIZES MAJOR PUBLIC LAW 480 ACTIVITIES

In view of the complex nature of this program, I believe it desirable first to summarize briefly some of the major activities under Public Law 480, and the administrative arrangements for carrying them out.

### AGRICULTURAL COMMODITIES SOLD UNDER TITLE I TOTAL $10.8 BILLION

Title I of Public Law 480 authorizes the President to negotiate and carry out agreements with friendly nations or organizations of friendly nations to provide for the sale of surplus agricultural commodities for foreign currencies. From the inception of the title I program in 1954 through December 31, 1965, 440 agreements and amendments to agreements had been entered into with 50 foreign countries,

providing for the sale of agricultural commodities with an export market value of $10.8 billion, including ocean transportation costs. The principal commodities programed were wheat and wheat flour, cotton, fats and oils, feed grains, rice, and tobacco.

### AID RESPONSIBLE FOR ADMINISTERING VAST TITLE II PROGRAM

Title II of Public Law 480 authorizes the use of surplus agricultural commodities held in stock by the Commodity Credit Corporation for disaster relief and other assistance, including grants of commodities to promote economic and community development in underdeveloped areas. The Agency for International Development is responsible for administering the title II program. Through December 31, 1965, almost 10 million tons of commodities with an estimated Commodity Credit Corporation cost of $2 billion, including ocean transportation, were approved for shipment to 86 countries.

### INTERGOVERNMENTAL AND RELIEF AGENCIES GIVE AID THROUGH TITLE III, SECTION 302

Section 302 of title III of Public Law 480 amended and broadened the authority contained in the earlier Agricultural Act of 1949 for distribution to needy persons overseas through nonprofit American voluntary relief agencies and intergovernmental organizations. Through December 31, 1965, almost 24 billion pounds of commodities, with estimated Commodity Credit Corporation costs of more than $2.7 billion were distributed to needy persons abroad.

### INTERAGENCY STAFF COMMITTEE COORDINATES PUBLIC LAW 480 OPERATIONS

To provide interagency coordination of day-to-day operations under Public Law 480, an Interagency Staff Committee on Agricultural Surplus Disposal was established. Committee membership includes staff level representatives of the following agencies vested with responsibilities under Public Law 480: The Departments of Agriculture, Commerce, Defense, State, and Treasury; the Agency for International Development; the Office of Emergency Planning; the Bureau of the Budget; and the U.S. Information Agency.

The responsibilities of this Committee include the development and review of programs, operations, and basic agreements to be negotiated. Although the Committee technically is advisory in nature, as a practical matter, its decisions largely determine the terms and conditions for negotiating Public Law 480 agreements with recipient countries. However, any member who is dissatisfied with a proposed policy, agreement, or operation may require submission of the question to policy officials in interested agencies or departments for resolution.

### GAO HAS ISSUED 30 REPORTS ON PUBLIC LAW 480 MANAGEMENT

It is our understanding that you desired me to comment principally on the work of the General Accounting Office with respect to general program management, rather than with such related but separate

areas as the administration of foreign currencies generated under the Public Law 480 program. Altogether we have issued 30 reports on our examinations of various phases of this program. A complete listing of these reports is contained as attachment I to this statement.

Senator GRUENING. I direct that attachment I of Mr. Staats' testimony be included in the record at this point, as well as three reports, (1) The review of the expedited signing of certain agreements under title I of the Agricultural Trade Development and Assistance Act of 1954; (2) Displacement of commercial dollar sales of tallow to the United Arab Republic; and (3) Questionable grant of corn for famine relief under title II of Public Law 480.

(The above-mentioned attachment and reports follow:)

EXHIBIT 2

GAO REPORTS ON THE PUBLIC LAW 480 AND OTHER RELATED PROGRAMS

MATTERS OF GENERAL PROGRAM ADMINISTRATION

Review of the expedited signing of certain agreements under Title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) (B–158225, dated April 21, 1966).

Effects of foreign currency sales on commercial sales of wheat to the United Arab Republic under Title I of Public Law 480 (Classified) (B–157438, dated March 11, 1966).

Certain special aspects of food distribution under Title III of Public Law 480 (Classified) (B–157846, dated January 17, 1966).

Review of policies and procedures applied in evaluating foreign source components and barter bids for an undersea communications system (B–152980, dated January 6, 1966).

Use of dollars in financing foreign sales agents' commissions (B–146820, dated July 23, 1965).

Displacement of commercial dollar sales of tallow to the United Arab Republic (B–156922, dated July 20, 1965).

Questionable grant of corn for famine relief under Title II of Public Law 480 (B–146820, dated July 16, 1965).

Inflexible policy of donating flour instead of wheat for overseas relief programs (B–146971, dated March 19, 1965).

Weaknesses involving the disposition of surplus non-fat dry milk (B–148254. dated February 2, 1965).

Weaknesses in controls over dollar refunds due Commodity Credit Corporation for adjustments in amounts financed on cotton exported under Title I of Public Law 480 (B–146820, dated November 23, 1964).

Summary compilation of Public Law 480 procedures (B–137856, dated November 19, 1964).

Inadequate controls for determining compliance by foreign governments with restrictions placed on the disposition of agricultural comodities under Title I of Public Law 480 (B–146820, dated October 7, 1963).

TRANSPORTATION

Possible savings in ocean transportation costs for surplus agricultural commodities donated under Titles II and III of Public Law 480 (B–152538, dated March 11, 1966).

Insufficient amounts claimed from foreign governments for recovery of ocean transportation costs financed under Public Law 480 (B–152538, dated July 30, 1965).

Improper payment of port charges on shipments to Colombia of food donated under Title III of Public Law 480 (B–146820, dated May 20, 1965).

Improper payment of Colombian port charges for surplus agricultural commodities sold under Title I of Public Law 480 (B–146820, dated November 17, 1964).

Excessive ocean transportation costs incurred under Title I of Public Law 480 (B–146820, dated October 30, 1964).

Understatement of claims against the United Arab Republic and Yugoslavia for recovery of excessive ocean transportation costs financed by the Commodity Credit Corporation under Title I of Public Law 480 (B–146820, dated March 13, 1964).

FOREIGN CURRENCIES

Suspension of competitive rate accommodation exchange service for United States Government personnel (B–146749, dated November 29, 1965).

Use of dollars rather than foreign currencies to pay United States expenses in Korea (B–157558, dated October 29, 1965).

Additional income possible by obtaining more equitable interest rates on United States balances (B–146749, dated September 30, 1965).

Failure to effectively utilize excess United States-owned foreign currencies to pay international air travel ticket costs being paid in dollars (B–146749, dated April 15, 1965).

Unnecessary dollar costs incurred in financing purchases of commodities produced in Brazil (B–146820, dated March 19, 1965).

Loss of interest on United States-owned foreign currencies in the Republic of China (B–146749, dated November 24, 1964).

Undercollections of interest and principal in foreign currencies on certain loans to foreign governments (B–146928, dated July 17, 1964).

Examination of semi-annual consolidated report of balances of foreign currencies acquired without payment of dollars as of June 30, 1962 (B–146749, dated September 27, 1963).

Administration and utilization of United States-owned foreign currencies in selected countries (B–146749, dated October 24, 1962).

Use of local currencies in Spain for contracting and administrative purposes by the United States Government (B–124520, dated September 29, 1961).

Examination of administrative activities of the American Embassies and selected consulates in Germany, Italy, and the United Kingdom (B–133017, dated June 30, 1960).

Audit of Development Loan Fund (B–133220, dated February 29, 1960).

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EXHIBIT 3

GAO REPORT ON REVIEW OF THE EXPEDITED SIGNING OF CERTAIN AGREEMENTS UNDER TITLE I OF THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954

COMPTROLLER GENERAL OF THE UNITED STATES,
*Washington, D.C., April 21, 1966.*

B–158225.

TO THE PRESIDENT OF THE SENATE AND THE
SPEAKER OF THE HOUSE OF REPRESENTATIVES:

The General Accounting Office has made a review of the expedited signing of certain agreements under title I of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691), commonly known as Public Law 480. This report presents our findings and conclusions based on this review.

In our review, we found that the Department of State and the Agency for International Development had made special efforts to ensure that agreements for the sale of surplus agricultural commodities to the Republic of Korea and the Republic of China were signed on or before December 31, 1964. This enabled these countries to avoid the effect of newly enacted legislation which required recipient countries to pay foreign exchange costs of ocean freight, starting with agreements signed after that date.

In enacting Public Law 88–638 on October 8, 1964, the Congress extended the effective date of the above requirement to those agreements signed on or after January 1, 1965, so that there would be no default on agreements previously entered into or a need for the United States to renegotiate agreements ready for signing when the legislation was enacted. The agreements we reviewed did not fall into either of these categories. Accordingly, it appears that the actions taken by the agencies to conclude these agreements before the effective date of this legislation were inconsistent with the reason given for granting the extension.

We estimate that, by signing agreements with the two countries by December 31, 1964, the United States will pay several million dollars in additional dollar costs for ocean freight charges over what would have been paid had the agree-

ments been signed on the following day—January 1, 1965—or thereafter. In the case of Korea, it is possible that additional economic assistance would have been needed in subsequent years to help meet these ocean freight costs. The Republic of China no longer receives economic assistance from the United States.

Moreover, so as not to delay negotiations and thus jeopardize the conclusion of the agreement with the Republic of China by December 31, 1964, the State Department and the Agency for International Development made a concession regarding another aspect of this transaction. This concession was contrary to recommendations made by the Department of Agriculture designed to protect the commercial agricultural interest of this country. We estimate that this concession resulted in a reduction of as much as $2 million of commercial United States sales of wheat to the Republic of China during 1965.

As pointed out in the text of this report, the balance-of-payments position of the United States also was adversely affected as a result of expediting the signing of these agreements.

In transmitting our report to responsible Government agencies for comment, we made several proposals which we believed would assist the agencies in evaluating more precisely the financial implications of actions taken primarily for reasons of foreign policy. The agencies, in commenting on these matters, advised us, in general, that they believed, their actions had been in consonance with the spirit of the new legislative change and that current management concepts provided adequately for consideration of the financial implications of such actions. Our evaluation of these comments is included in the text of the report.

This matter is being reported to the Congress because, as indicated above, we believe that the actions of the State Department and the Agency for International Development were inconsistent with the reason given for extending the effective date of the ocean freight provisions of Public Law 88-638 and that, as a result, the Government incurred additional costs and did not take advantage of an opportunity to improve the United States balance-of-payments position.

Copies of this report are being sent to the President of the United States; the Secretary of State; the Secretary of the Treasury; the Secretary of Agriculture; and the Administrator, Agency for International Development.

ELMER B. STAATS,
*Comptroller General of the United States.*

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## REPORT ON REVIEW OF EXPEDITED SIGNING OF CERTAIN AGREEMENTS UNDER TITLE I OF THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954 (COMMONLY KNOWN AS PUBLIC LAW 480)—DEPARTMENT OF STATE, AGENCY FOR INTERNATIONAL DEVELOPMENT, DEPARTMENT OF AGRICULTURE

### INTRODUCTION AND BACKGROUND

The General Accounting Office has examined into the circumstances surrounding the signing of agreements during December 1964 for the sale of surplus agricultural commodities to certain countries under the provisions of title I of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691), commonly known as Public Law 480. Our inquiry was prompted by our concern as to whether any of the unusually large number of agreements signed immediately before the effective date of a change in Public Law 480 were inconsistent with congressional intent and were contrary to the financial interests of the United States Government. Our primary emphasis was on examining into matters apparently needing attention and our review was confined to the circumstances surrounding the signing of two of the largest agreements entered into late in 1964. It was not intended to provide an overall evaluation of title I program activities in the countries we review.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of our review is described on page 41.

Title I of Public Law 480 authorizes the President to negotiate and carry out agreements with friendly nations providing for the sale of surplus United States agricultural commodities and for payment therefor in the currency of the recipient country.

In Executive Order 10900 dated January 5, 1961, as amended, the President delegated to the Department of Agriculture all the authority vested in him for administration of title I, Public Law 480, with several exceptions. The principal functions delegated to other United States agencies are as follows:

69-824—66——3

*Foreign policy and relations*

1. All functions under the Act, however vested, delegated, or assigned, have been made subject to the responsibilities of the Secretary of State with respect to the foreign policy of the United States as such policy relates to such functions.

2. The functions of negotiating and entering into agreements with friendly nations or organizations of friendly nations conferred upon the President by the act have been delegated to the Secretary of State.

*Uses of foreign currency proceeds*

1. To the extent deemed necessary, the Director of the Bureau of the Budget is responsible for fixing the amounts of foreign currency sales proceeds to be used for the purposes set forth in section 104, Public Law 480.

2. The Secretary of the Treasury has been authorized to prescribe regulations governing the purchase, custody, deposit, transfer, and sale of foreign currencies received under the act.

3. Specified Government agencies have been delegated the responsibility of carrying out the purposes described in the lettered paragraphs of section 104 of the act, using the foreign currencies made available under the act. The agencies with delegated responsibilities consist of the Department of Agriculture, the Department of State, the Department of Defense, the Bureau of the Budget, the Office of Civil and Defense Mobilization, the United States Information Agency, the National Science Foundation, and others.

*Supervision and coordination of program activities*

At the time our review was performed, the Director of the Food for Peace Program was responsible for the continuous supervision and coordination of the functions delegated in the Executive order.[1] This authority, however, did not terminate any delegation or other assignment of function made by other sections of the Executive order.

On August 2, 1954, the Secretary of Agriculture established a committee within the Department, known as the Working Committee, for the purpose of carrying out the responsibilities of the Department under Public Law 480. The Working Committee consists of the Administrator, Foreign Agricultural Service (as Chairman); the Administrator, Agricultural Stabilization and Conservation Service; the Administrator, Consumer and Marketing Service; the Administrator, Economic Research Service; and the Executive Assistant to the Secretary of Agriculture. The Committee reports to the Secretary of Agriculture through the Assistant Secretary for International Affairs. This Committee is responsible for recommending the commodities and maximum quantities of commodities which should be eligible for programming under the various Public Law 480 programs, including title I sales agreements, together with the names of the countries eligible for programming. The Committee also makes recommendations on broad program aspects and day-to-day program requirements.

Pursuant to the President's request for interagency coordination of day-to-day operations under the Act, the Secretary of Agriculture, on October 6, 1954, established the Interagency Staff Committee on Agricultural Surplus Disposal (ISC). The delegation required the ISC Chairman to make the fullest possible use of existing services and facilities of the Department and to rely upon the advice of the Working Committee. The membership of ISC included staff-level representatives of the following agencies vested with responsibilities under the act: the Departments of Agriculture, State, Treasury, Commerce, and Defense; the Agency for International Development (AID); the Office of Emergency Planning; the Bureau of the Budget; and the United States Information Agency. Representatives of the Department of Health, Education, and Welfare and the Office of the Director, Food for Peace, also attend the meetings as observers. Additional representatives may be added by the Chairman if he considers it desirable.

The responsibilities of ISC include the development and review of programs, operations, and basic agreements to be negotiated under title I. Although the ISC technically is advisory in nature, as a practical matter its decisions largely determine the terms and conditions of title I sales. However, any member who is dissatisfied with a proposed policy, agreement, or operation may require its submission to policy officials in interested agencies or departments for resolution.

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[1] Executive Order 11252, dated October 20, 1965, transferred to the Secretary of State all functions of the Director of the Food for Peace Program, including these under Executive Order 10900, as amended.

The ISC usually sends the agenda for the weekly meeting to representatives of the member agencies 2 or 3 days prior to the meeting date to enable the agencies concerned to determine their position on the matters on the agenda.

Utilizing the service and experience of other agencies represented on ISC, the Department of Agriculture takes the lead in the development and review of proposed programs. The Foreign Agricultural Service prepares the proposed program for each country, the negotiating instructions, and a draft sales agreement and submits them to ISC for review and approval. If all members agree on the proposed program and the drafts of the negotiation instructions and the sales agreement, the program is approved for negotiating. If the Committee is in agreement on the program but not on the currency uses, the program may be approved subject to the working out and approval of the currency uses at a later date. If the Committee cannot agree on the program or currency uses, the matter is referred to a subcommittee or to a member agency for study and recommendation at a later meeting. If the question is resolved satisfactorily, the Committee approves the program.

The minutes of the ISC meetings are distributed to all members of ISC, to other agencies which may be interested in certain phases of programs, and to all United States Embassies as guiding principles to be followed and as reflecting the position of the United States Government.

The ISC must analyze each program proposal to see that the program does not displace the usual marketings of the United States, that it is consistent with United States foreign policy, and that it is coordinated with foreign assistance and other United States programs. It determines the broad categories of uses of the foreign currencies and applies any other title I criteria which must be considered because of other programs.

After ISC approves a proposed agreement, the Department of State transmits final negotiating instructions to the United States Embassy and formal negotiations are started with the foreign government. Any proposed modification of an approved sales agreement must be submitted to ISC for approval before the sales agreement can be modified. After the government-to-government agreement has been signed, further operations relating to the program are performed by the operating divisions of Foreign Agriculture Service (FAS) and Agricultural Stabilization and Conservation Service (ASCS.)

A major cost element of the title I, Public Law 480, surplus agricultural commodity program is that of ocean transportation. The United States has financed a major portion of these costs, in dollars, under title I sales agreements entered into since the inception of the program in 1954. However, as the result of a legislative change to Public Law 480—Public Law 88–638 enacted in October 1964—the recipient country is required to pay a major part of the dollar costs for ocean transportation under agreements concluded on or after January 1, 1965.

Forty-four agreements, or amendments to agreements, with an export market value of approximately $1.1 billion, were entered into with 27 countries during 1964. Of these, agreements to sell agricultural commodities to eight countries under title I, Public Law 480, were entered into during the last 10 days of 1964, just before the new legislative requirement became effective, as shown by the following table:

| Country | Date signed | Total amount of agreement | Market value of commodities | Estimated ocean transportation costs |
|---|---|---|---|---|
| Korea | Dec. 31, 1964 | $45,000,000 | $41,130,000 | $3,870,000 |
| Taiwan | do | 18,550,000 | 16,030,000 | 2,520,000 |
| India | do | 28,400,000 | 23,700,000 | 4,700,000 |
| Dahomey (note [1]) | do | 269,000 | 244,000 | 25,000 |
| Iceland | Dec. 30, 1964 | 900,000 | 800,000 | 100,000 |
| Morocco | Dec. 29, 1964 | 7,800,000 | 6,900,000 | 900,000 |
| Israel | Dec. 22, 1964 | 17,400,000 | 15,800,000 | 1,600,000 |
| Guinea | Dec. 21, 1964 | 5,420,000 | 4,980,000 | 440,000 |
| Total | | 123,739,000 | 109,584,000 | 14,155,000 |

[1] This agreement, which was not implemented, was canceled on May 22, 1965.

Only two agreements were entered into during December of the preceding year.

A draft of our report was transmitted for comment to the Departments of State and Agriculture, the Agency for International Development, and the Bureau of

the Budget in May 1965. The agencies' comments, and our evaluation thereof, are incorporated in the various subsections of this report, where appropriate, and in a separate section starting on page 26. Also, the pertinent texts of the comments are included herein as appendixes. Certain comments made by the State Department and AID, designated by them as classified security information, have been deleted from the appendix. These deleted portions either are so stated as to be unclassified and discussed in this report or are not, in our judgment, directly pertinent to the specific matters discussed herein.

A list of the principal officials having responsibilities for the matters discussed in this report is shown as appendix IV.

## FINDINGS

*Expedited signing of certain agreements under title I of Public Law 480*

The Department of State and the Agency for International Development made special efforts to ensure that agreements for the sale of surplus agricultural commodities to the Republic of Korea and the Republic of China were signed on or before December 31, 1964. This enabled these countries to avoid the effect of newly enacted legislation which required recipient countries to pay a greater share of the dollar costs of ocean freight, starting with agreements signed after that date.

In enacting Public Law 88–638 on October 8, 1964, the Congress extended the effective date of the above requirement to those agreements signed on or after January 1, 1965, so that there would be no default on agreements previously entered into or a need for the United States to renegotiate agreements ready for signing when the legislation was enacted. None of the agreements we reviewed fell into either of these categories. Accordingly, it appears that the actions taken by the agencies to conclude these agreements were inconsistent with the reason given for granting the extension.

We estimate that, by signing agreements with the two countries by December 31, 1964, the United States will pay several million dollars in additional dollar costs for ocean freight charges over what would have been paid had the agreements been signed on the following day—January 1, 1965—or thereafter. In the case of Korea, it is possible that additional economic assistance would have been needed in subsequent years to help meet these ocean freight costs. The Republic of China no longer receives economic assistance from the United States.

Moreover, so as not to delay negotiations and thus jeopardize the conclusion of the agreement with the Republic of China by December 31, 1964, the State Department and the Agency for International Development made a concession regarding another aspect of this transaction. This concession was contrary to recommendations made by the Department of Agriculture designed to protect the commercial agricultural interests of this country. We estimate that this concession resulted in a reduction of as much as $2 million of commercial sales of wheat from the United States to the Republic of China during 1965.

As pointed out in the text of this report, the balance-of-payments position of the United States also was adversely affected as a result of expediting the signing of these agreements.

In transmitting our report to responsible Government agencies for comment, we made several proposals which we believed would assist the agencies in evaluating more precisely the financial implications of actions taken primarily for reasons of foreign policy. The agencies, in commenting on these matters, advised us in general that they believed their actions had been in consonance with the spirit of the new legislative change and that current management concepts provided adequately for consideration of the financial implications of such actions. Our evaluation of these comments is included in the text of this report.

*Amendment to Public Law 480 required foreign countries to bear a greater share of ocean freight dollar costs*

As a result of an amendment to section 102 of Public Law 480 (Public Law 88–638, enacted October 8, 1964), a foreign country obtaining agricultural commodities under title I agreements entered into after December 31, 1964, is required to pay in dollars for all ocean transportation costs on United States-flag vessels, except for the cost differential involved in using United States-flag vessels instead of foreign-flag vessels.[2]

[2] The use of United States-flag vessels is mandatory for transportation of at least 50 percent of the commodities under the terms of the Cargo Preference Act of 1936 (46 U.S.C. 1241(b)).

Under agreements signed on or before December 31, 1964, the United States paid in dollars for all the ocean freight costs on United States-flag vessels. The recipient country, however, reimbursed this country in its own currency in an amount equal to what the cost would have been had a foreign-flag vessel been used. Under the terms of the December 1964 sales agreements, most of this currency was given back to Korea and Taiwan in the form of grants.

Essentially, the practical effect of the revision in the law is to require the recipient country, rather than the United States, to bear the dollar cost of ocean transportation on American vessels up to an amount equivalent to what it would have cost to ship on foreign vessels.

Our review of the legislative history of the ocean freight amendment disclosed that, as originally proposed, it was to become effective upon enactment, which in this case would have been October 8, 1964. We noted further that the extension of its effective date to January 1, 1965, was proposed by the Senate-House Conference Committee that considered the 1964 extension of, and amendments to, Public Law 480. While the Committee's report of September 22, 1964 (H. Rept. 1897, 88th Cong., second sess.), itself specified no reason for extending this amendment's effective date, the reason provided during the Senate's consideration was:

"* * * so that it will not require us to default on agreements heretofore entered into or to renegotiate agreements now ready for signing. * * *" (Cong. Rec., p. 21878, Sept. 23, 1964.)

The agreements discussed in this report had not been "entered into" at the time the Committee was considering the amendment or at the time its report was issued. Neither were they then "ready for signing," since final negotiating instructions, which are necessary to open formal negotiations with title I recipients, were not sent by the State Department to its embassies until December 24, 1964 (Taiwan), and December 28, 1964 (Korea). In fact, Korea did not submit its request for a title I agreement until September 22, 1964—the same day the Conference Committee submitted this amendment for consideration by both Houses of the Congress.

The State Department and AID advised us that they did not feel that the will of the Congress in enacting this amendment had been circumvented by their efforts to ensure that the agreements with Korea and China were signed by December 31, 1964. This view was based upon their belief that the time lapse between enactment of the amendment and its effective date permitted the signing of new agreements not embodying its provisions. Moreover, the agencies commented that it is not unusual for the Congress to provide an interim period before major legislative changes become effective. The Department of Agriculture advised us that it had examined closely into the congressional intent behind the amendment and had determined that concluding the agreements before the end of calendar year 1964 was appropriate within the terms of the congressional action.

*Additional ocean freight dollar costs*

Our review of title I agreements entered into with Korea and Taiwan late in December 1964 showed that special efforts were made by the State Department and AID to ensure that the agreements were signed before the effective date of newly enacted legislation which would have required these countries to pay additional dollar costs for ocean freight.

Under the terms of the agreements signed in December 1964, the United States Government would incur an estimated $4.8 million in additional dollar costs for ocean freight charges, as illustrated below:

| | Total | Korea | Taiwan |
|---|---|---|---|
| Estimated dollar costs to the United States, according to December sales agreements | $6,390,000 | $3,870,000 | $2,520,000 |
| Less estimated dollar costs to the United States had sales agreements been signed after December 1964 | 1,550,000 | 900,000 | 650,000 |
| Total | [1] 4,840,000 | 2,970,000 | 1,870,000 |

[1] Under agreements signed with Korea and Taiwan, the United States will be reimbursed in foreign currencies for the cost that would have been incurred in shipping commodities on foreign-flag vessels. This amounts to the equivalent of about $4,800,000. Of this amount, the foreign currency equivalent of $1,000,000 will be available for U.S. uses and the balance will be granted to Korea and Taiwan. To the extent that the portion set aside for U.S. uses eventually substitutes for dollar expenditures that would otherwise be made, this would offset the additional U.S. dollar costs incurred in financing ocean freight shipments discussed in this report.

Since United States carriers normally would have been paid by the foreign countries in dollars or other hard currencies, an opportunity to improve the United States balance-of-payments position was lost by having the United States Government finance such charges.

In evaluating the need to expedite the signing of agreements, we noted that there was at least a 5- to 6-month supply of commodities available to Korean and Taiwan at the time the agreements to provide similar commodities were entered into in December 1964, as follows:

| Country and commodity | On hand or in supply channels | Monthly consumption requirements | Supply |
|---|---|---|---|
| Korea: | *Thousands* | *Thousands* | *Months* |
| Wheat---metric tons | 436 | 67 | 6 |
| Cotton---bales | 147 | 28 | 5 |
| Taiwan: Wheat---metric tons | 142 | 24 | 6 |

We believe that from the foregoing it is evident that a delay of 1 or 2 days in signing the agreements would have had no appreciable effect on the availability of commodities for these countries.

The circumstances surrounding the signing of the agreements are further described in the following sections of this report.

*Korea*

On September 22, 1964, the Korean Government submitted a request for a title I agreement for its calendar year 1965 needs. The request was primarily for wheat and cotton.

The Embassy and the United States Operations Mission (USOM) forwarded the request to Washington on October 14, 1964, and expressed their belief that it was premature and that the data supporting it were inaccurate. They recommended that the request be delayed until later in the year, pending a better assessment of Korea's 1965 needs.

From mid-October until the signing of the agreement on December 31, 1964, there was a steady interchange of cables and memoranda among interested United States agencies concerning this request. On the one hand, the State Department and AID recommended approval by December 31, 1964, in order to relieve Korea of the additional freight costs called for by the new legislation. On the other hand, the Department of Agriculture opposed signing the agreement by December 31, 1964, because there was no need for the commodities at the time and because signing the agreement would appear to circumvent the intent of the new legislation. For example:

1. On November 23, 1964, the Embassy in Korea and USOM recommended that the agreement be signed before the end of the year:

"* * * particularly in view of [Korea's] interest sign * * * agreement prior end 1964 avoid addition FX [Foreign exchange] and L/C [local currency] burden under new legislation."

2. On December 10, 1964, the Director of the Program Development Division, Foreign Agricultural Service, Department of Agriculture, advised the Assistant Administrator for Export Programs, FAS, that there was no urgency for a new Korea title I agreement. He stated that sizable quantities of wheat still to be shipped under prior agreements would provide significant inventories with which to start the new year and that cotton was in plentiful supply in Korea. He added:

"Korea and AID want to sign before January 1 to get financing of transportation."

3. Substantially the same positions were taken at the Interagency Staff Committee meeting of December 10, 1964. State Department representatives urged that the agreement be signed before December 31, 1964. Department of Agriculture representatives maintained that sufficient wheat and rice were available under then current title I agreements. It was also pointed out that signing before December 31 appeared to be a circumvention of the new legislation regarding recipients' payment of ocean transportation costs.

4. On December 15, 1964, the Associate Administrator, FAS, stated that there was no urgency for signing the agreement since adequate quantities of wheat and cotton were still available under previous agreements. He nevertheless con-

curred in AID's view that signing it would place United States negotiators in a more favorable position in dealing with other economic matters in Korea.

5. During this period, State Department and AID memoranda to the Department of Agriculture advocated concluding the agreement prior to the end of December 1964 on the grounds that it would be extremely important to United States objectives within that country to do so. These objectives were political in nature and did not bear on the specific question of the shifting of ocean freight costs from the United States to Korea. Also, the agencies discussed certain consequences (of a classified nature) that might result if the concluding of the agreement were delayed beyond December 31, 1964.

The agreement was signed on December 31, 1964.

Although we are not in a position to evaluate the effect upon United States objectives had the added cost of ocean freight financing been shifted from the United States to Korea, we believe that the preponderance of available evidence indicates that the principal motivational factor of State and AID was to relieve the Korean Government of the need to pay additional dollar costs of ocean freight.

Available evidence also points to the fact that the signing of this agreement on an expedited basis was not predicated on any immediate need for the commodities, as illustrated by a communication from the Director of the AID Mission in Korea to AID/Washington in December 1964. The Director pointed out that:

1. A bumper 1964 domestic grain crop contributed to the highest grain inventory ever held in Korea.

2. Korean importers were evidencing a reluctance to finance cotton imports, partly because of fully stocked inventories.

*Taiwan*

On June 29, 1964, Taiwan submitted its request for a title I agreement, mainly for wheat. The American Embassy forwarded the request to Washington on July 24, 1964, with a favorable recommendation, provided that certain modifications were made.

Records at the State Department and AID show that special efforts were made by both agencies to have this agreement signed by December 31, 1964. For example:

1. On November 4, 1964, AID/Washington cabled the American Embassy in Taiwan that:

"If agreement signed prior to December 31, now anticipate new legislative provisions for freight will not be applicable * * *."

2. On November 19, 1964, the Embassy advised the State Department that:

"Essential PL 480 negotiating instructions be received soonest in order conclude agreement prior to Dec. 31."

3. On December 4, 1964, AID/Washington protested proposed program changes partially on the grounds that consultation with Taiwan would:

"* * * delay signing agreements beyond December 31 resulting additional cost to GRC [Government of the Republic of China] about $2.0 million as new freight regulations would apply."

4. On December 21, 1964, the American Embassy protested to the State Department regarding the imposition of certain conditions in connection with the agreement. The Embassy added that insistence on these conditions would:

"* * * likely create grave difficulties in consummating agreements prior Dec. 31, 1964."

5. The Embassy, on December 23, 1964, again protested imposing the conditions stating that:

"It is imperative that agreements be signed prior to Dec. 31 deadline."

As noted later, the sales conditions the Chinese Government was asked to accept were less favorable to the United States than those advocated by the Department of Agriculture as necessary to protect our commercial agricultural interests, and they were modified at the request of the State Department and AID in order to make the agreement more attractive to Taiwan so as to ensure its being signed by December 31.

The title I agreement, as finalized, called for the sale of about 215,000 metric tons of wheat and 635 metric tons of tobacco during calendar year 1965. Our review disclosed no immediate need for these commodities at the time the agreement was signed. In fact, the agreement apparently was entered into primarily to generate foreign currency proceeds for carrying out United States assistance programs in the Republic of China, since it was recognized that the Republic could probably afford to buy on commercial terms any commodities it needed.

For example, in forwarding the country's request for a title I agreement to Washington on July 24, 1964, the American Embassy recognized that Taiwan's ample foreign exchange resources militated against another sale for foreign currency. The proposed agreement, however, was supported by the Embassy on the grounds that there was a need for foreign currency proceeds to carry out military and economic programs in consonance with United States foreign policy objectives.

Since foreign currency proceeds from the new agreement would have been available for United States-supported programs even if the agreements had been signed after December 31, 1964, it is evident that there was no urgent need to sign the agreement by that date for this purpose alone.

In commenting on this aspect of our report draft, the State Department, AID, and the Bureau of the Budget advised us that the December 31, 1964, title I agreement with Taiwan was much more favorable than prior agreements had been since it also included provisions for title IV sales repayable in dollars, thus representing a major shift from title I sales that are repayable in local currency. Moreover, the agencies advised us that this agreement called for Taiwan to purchase, on commercial terms, quantities of agricultural commodities from the United States and other Free World countries substantially greater than those required under prior agreements. They estimated this increase to be about $24 million over the 2-year life of the title I and title IV agreements (calendar years 1964 and 1965), a substantial, but unspecified, share of which would be purchased from United States sources. For these reasons, as well as for the accomplishment of United States foreign policy objectives, the agencies concluded their detailed comments on this aspect of our report draft by stating:

"* * * The report's criticism of *State/A.I.D.'s desire* to include the relatively small concession of 50 percent ocean freight financing of $2.5 million for a program which had been under consideration for 6 months, therefore, is surprising." (Emphasis added.)

While the terms of the December 31, 1964, agreement may be more favorable than those obtained in prior agreements, it does not seem that the United States concession on ocean freight financing was a condition precedent to obtaining such terms. For example:

1. We could find no evidence, despite extensive inquiries, that Taiwan requested this concession during the course of any country-to-country negotiations, or even that State/AID negotiators ever broached the subject to their Taiwanese counterparts.

2. State/AID's response to our report draft made no mention of any insistence by Taiwan on such a concession but rather specifically stated that it was predicated upon "State/A.I.D.'s desire."

3. The circumstances surrounding the negotiations of the agreement make it highly unlikely that the matter was ever officially broached or discussed. For example, final negotiating instructions from the State Department to its Embassy in Taiwan were not dispatched until December 24, 1964, and were silent on the subject of ocean freight. This silence seems predicated on the objections raised by State/AID prior to finalizing the instructions, which by their own admission were based on their own desire rather than on any objections by Taiwan.

Accordingly, while it is possible that the terms of this agreement were more favorable to the United States than previous agreements had been, we find it surprising that State/AID would make special efforts to sign it by December 31, 1964, thereby adding to the United States' dollar costs of ocean freight. As previously noted, we could not find any evidence that this was a necessary concession for obtaining agreement to the proposed sale or to its terms.

In view of Taiwan's strong foreign exchange position, there appears to have been no overriding reason for having the United States, rather than Taiwan, absorb additional dollar costs for freight charges. With the help of substantial amounts of economic assistance provided by the United States in the past, Taiwan is now considered to be economically viable and is cited by AID as an outstanding example of the success of our assistance program. The strong economic position of Taiwan also has been recognized by the Department of Agriculture, which, on August 11, 1964, and again on March 22, 1965, classified its financial position as good—the same adjective rating applied to such nations as Australia, Canada, Japan, and the United Kingdom.

The title I agreement was signed on December 31, 1964. Our review of the minutes of the Interagency Staff Committee and discussions with agency representatives on that Committee showed that no objections were raised to the expediting of the conclusion of this agreement.

*Decrease in commercial sales of wheat to Taiwan because of expedited signing of title I agreement*

To avoid delays in negotiations that might jeopardize the signing of the title I agreement with Taiwan by December 31, 1964, the Department of State and AID made a concession regarding another aspect of this agreement. This concession was contrary to recommendations made by the Department of Agriculture designed to protect our commercial agricultural interests, and it could have resulted in decreasing commercial dollar sales of wheat to Taiwan by as much as $2 million during 1965. Moreover, since these sales would have been made for dollars or other hard currencies, an opportunity to improve the United States balance-of-payments position by increasing our earnings of hard currency was not realized.

Wheat and rice are considered to be substitute commodities from a nutritional standpoint, since both are considered to be high-caloric energy foods. Nevertheless, while wheat is being provided to Taiwan on concessional sales terms, Taiwan is a significant commercial exporter of rice. This seeming inconsistency has been rationalized by United States agencies administering Public Law 480 on the grounds that the quantities of rice Taiwan has exported in the past would have been exported even in the absence of Public Law 480 wheat shipments.

In the calendar year 1965 title I agreement, United States agencies for the first time attempted to limit Taiwan's rice exports on the grounds that title I shipments of wheat would make exports of some of Taiwan's rice production possible. This action was in line with established policy that Public Law 480 sales should not result in increased country exports of the same or a like commodity.

The means for limiting Taiwan's exports of rice is technically known as a "compensatory requirement." Under this arrangement, for each ton of rice Taiwan exported in excess of 110,000 tons during 1965, it was required to purchase on commercial terms from the United States an equal amount of wheat.

The compensatory requirement is usually arrived at by considering the historical level of commodity exports of the country receiving Public Law 480 assistance and by adjusting this data to take into account population growth, increases in agricultural productivity, and similar factors.

On the basis of these considerations, the Department of Agriculture advocated that the 1965 title I agreement with Taiwan contain a noncompensatory export level of 80,000 metric tons of rice. This was predicated on the thesis that Taiwan's normal rice exports would be at that level in the absence of a title I wheat program. For any exports of rice over this level, an equal quantity of wheat was to be purchased from United States commercial sources.

In reviewing correspondence and related documents concerning this aspect of the agreement, we noted that State Department and AID officials had advocated raising the proposed level because of their concern that adherence to it would prolong negotiations on the agreement and thus possibly prevent its being signed before December 31, 1964.

For example, a few days before the agreement was signed, the American Embassy cabled the State Department of its concern regarding proposed restrictions in the agreement, including:

". . . added compensatory requirement that GRC import wheat with its own foreign exchange ton-for-ton for each ton of rice exports over 80,000 M.T. annually. . . . recommend you to use your efforts to see that . . . compensatory requirement dropped. It is imperative that agreements be signed prior to Dec 31 deadline."

This cable, which was sent on December 22, 1964, is illustrative of several we noted which alluded to contemplated difficulties in finalizing the agreement by December 31 if compensatory and other requirements were not modified. On December 24, 1964, revised instructions were sent to the Embassy allowing the noncompensatory export level to be raised from 80,000 metric tons, as proposed by the Department of Agriculture, to 110,000 metric tons, as finally proposed by AID, and the agreement was signed December 31, 1964.

The agreement concluded with Taiwan reduced its obligation to purchase wheat from United States commercial sources by as much as 30,000 metric tons during 1965. On the basis of an export market price of $69 per metric ton, as estimated by the Department of Agriculture, the loss of United States commercial exports would amount to as much as $2 million.

Our review of AID's data supporting its proposed 110,000 metric-ton level indicated that a fundamental factor had been overlooked. Essentially, AID's position was that the Department of Agriculture's 80,000 metric-ton level was based on an average of rice exports over a 4-year period—1961 to 1964—and that this period was not representative since:

1. Two of these years—1961 and 1962—were particularly bad barley crop years. This necessitated the use of exportable rice to make up the barley shortage, and rice exports were therefore reduced.

2. A 10-year average—1955 to 1964—was 110,000 metric tons and was thus more representative.

Information developed in our analysis of Taiwan's grain imports and exports indicates that rice exports have been historically supported at artificially high levels by United States concessional wheat sales. For example, since at least 1957, the United States (1) has provided Taiwan with over 200,000 metric tons of wheat annually under title I and similar programs, (2) has given Taiwan most of the local currency derived from the sale of this wheat, and (3) has imposed no conditions on the sale of identical or similar grains. Thus, Taiwan has been able to export rice without limitation and to use essentially free United States wheat. United States agencies, in connection with the December 1964 agreement, for the first time undertook to remedy this condition in future title I wheat sales by limiting the amount of rice that could be exported.

Since Taiwan's rice exports have historically been influenced by United States concessionary title I wheat sales, it seems that any noncompensatory export level would constitute, in itself, a concession by the United States. For example, a parallel condition exists in Korea which also receives title I grains at the same time that it exports rice. The December 1964 title I agreement with that country provides that all Korean rice exports be offset by equivalent imports of wheat or barley from the United States and that these compensatory purchases be made with Korea's own resources.

From the foregoing example, we believe that it was incumbent on United States agencies administering Public Law 480 activities to attempt to obtain the maximum feasible level of compensatory commercial imports of United States wheat by Taiwan. We believe also that a desire to relieve Taiwan of the financial burden resulting from the legislative change to Public Law 480 would not be a valid reason for the reluctance of the Department of State and AID to enter into negotiations for the contemporary level proposed by the Department of Agriculture.

*Agency comments and our evaluation thereof*

In addition to the comments of the agencies previously discussed, following are their more salient comments together with our evaluation thereof.

1. The agencies stated that, in view of the nature of the United States aid commitment to Korea, the payment of ocean freight charges falls directly or indirectly on the United States foreign assistance program. Thus, the agencies felt that no cost reduction to the United States would have resulted had the agreement been concluded after December 31, 1964.

It is, of course, theoretically possible that an increased need for United States assistance might result from having Korea absorb additional freight costs. We do not feel, however, that such a contingency is sufficient justification for concluding the agreement under circumstances inconsistent with the purpose of applicable legislation, particularly since our review of the legislative history of the ocean freight amendment indicated an expectation by members of the Congress that the recipient, rather than the United States, would pay such costs.

Rather, we believe that, if the agencies determine that such additional assistance is needed, the most appropriate manner of obtaining the necessary funds is to submit a budget request to the Congress for its review and approval during the annual authorization and appropriation process. Moreover, AID itself has recognized that these costs are ineligible for financing under the foreign assistance program and should be borne by recipients. In this respect, the Agency issued a directive—Manual Circular 10:46, effective July 19, 1965—which in pertinent part states:

"B. AID/W [AID/Washington] recognizes that this requirement [for aid-receiving countries to pay ocean freight costs] will increase the balance of payments burden of many AID recipient countries. This payment requirement, like any other legitimate foreign exchange need, will be taken fully into account in assessing the level of any AID program assistance to the country. However, *dollar freight costs attributable to * * * [this] must be borne by the recipient country and such costs are not eligible items for A.I.D. financing.*" (Emphasis added.)

2. In the case of Korea, the agencies did not concur in our view, expressed on page 34, as to the lack of urgency for the principal commodities provided under the agreement. State and AID advised us that they normally regard a 6-month, rather than 5-month, pipeline as appropriate for cotton.

Assuming arguendo that there was an urgent need for cotton in Korea, we believe it is evident that a delay of a day or two in concluding the agreement would have had no appreciable effect upon the availability of this commodity. However, the evidence disclosed from our examination strongly suggests that no urgent need did, in fact, exist.

The Departments of State and Agriculture and the Agency for International Development acknowledged in their responses to us that substantial stocks of cotton were on hand or in transit at the time the agreement was concluded. Thus, while the 5-month cotton pipeline was perhaps 1 month short of what State and AID normally regard as "appropriate" for that commodity, it is evident that this fact alone was not sufficient justification for concluding the agreement by December 31.

3. State/AID and the Bureau of the Budget (BOB) indicated that the decision that the United States relieve the recipient countries of the dollar cost of shipping the commodities on United States-flag vessels was made after considering whether the agreements would otherwise have been signed. BOB added that this concession provided more leverage in negotiating better terms elsewhere in the agreements. In the case of Korea, State/AID and the Department of Agriculture advised us that the title I proceeds available for United States uses under this agreement rose by about $1.8 million when contrasted with the prior year's agreement. The agencies compared this increase with the $3.9 million provided Korea in ocean freight costs financed by the United States. The Department of Agriculture added that the $1.8 million represented about half the additional freight costs paid by the United States and also that this $1.8 million would have an offsetting beneficial effect on the United States balance of payments.

The agencies' inference that the countries would not have accepted the commodities had they been required to pay the added ocean freight costs called for by the amendment seems to be based upon speculative considerations. Extensive inquiries, which we made at all appropriate agencies in Washington, were unable to provide us with any evidence that the matter of the concession had ever been actively discussed with the recipients in the course of country-to-country negotiations and was thus necessary to the conclusion of the agreements. For example, the negotiating instructions dispatched to the American Embassies concerned contained no reference to any such contemplated concession. Rather, as noted previously, the decision of the United States agencies, particularly the State Department and AID, to grant this concession was made prior to the dispatch of these instructions.

Moreover, it seems unreasonable for the agencies to have supposed that the agreements would not be signed if the recipients had to pay a larger portion of the dollar costs of ocean freight charges. Title I sales by their very nature are extremely favorable to recipients, the so-called sales proceeds being payable in the recipients' own currency rather than in dollars. Moreover, the greater part of such proceeds is not available for United States use but rather is either granted or loaned to the recipients. It seems highly unlikely, therefore, that commodities would be available to recipients under similar concessionary terms from other sources.

A practical illustration of the weakness in the agencies' argument is the currently contemplated agreement with Korea. In November 1965, Department of Agriculture officials advised us that the Korean Government had requested a new title I agreement for commodities deliverable during calendar year 1966. Since the requirements of the ocean freight amendment will apply to this contemplated agreement, it seems obvious that the Korean Government is seeking to obtain title I commodities under conditions requiring it to pay dollar costs of ocean freight.

The agencies' comments regarding the increased financial benefits to the United States under the December 31, 1964, agreement with Korea seem to imply also that the concession regarding ocean freight costs was a condition precedent to obtaining Korean agreement to an increased use by the United States of title I sales proceeds. Our review does not support this position. Although there is some evidence that the Koreans were aware of the advantage to them of concluding this agreement by December 31, 1964, we found no evidence, despite inquiries at responsible agencies in Washington, that this matter was actively pursued by United States representatives in the course of country-to-country negotiations. Moreover, as noted above, it seemed that the agencies' decision to forego this financial benefit to the United States was predicated on a decision of the State Department and AID preceding the opening of formal country-to-country nego-

tiations and that it was not a concession made in exchange for compensatory ones on the part of the Koreans.

4. BOB advised us that, in connection with these agreements, the decision to relieve the recipients of paying a portion of the ocean freight costs was made after taking balance-of-payment and budgetary considerations fully into account.

After receipt of these comments, we inquired into whether a special analysis had been made with respect to balance-of-payments and budgetary considerations. A BOB representative informed us that no specific cost analysis had been made. This representative could not provide us with any documentary evidence as to what matters had been considered. We found no evidence at any of the other agencies concerned that detailed consideration had been given to the financial implications of the ocean freight amendment in terms of the United States balance-of-payments situation or in terms of budgetary costs to this country, so that an evaluation could be made of the cost-effectiveness of such concessions.

5. The Department of Agriculture stated that it is appropriate to sign agreements in advance of the calendar year and also that, from the standpoint of good management, it was considered desirable to have the Korean agreement in effect by at least December 31, 1964.

We found that the preceding agreement with Korea, covering calendar year 1964, was not signed in advance of the calendar year but rather in March 1964. In many cases title I agreements are signed during, rather than in advance of, the periods they are intended to cover. Hence, there does not seem to be any inviolate rule governing the concluding of agreements vis-a-vis the period to be covered. We always favor good management practices, but we cannot perceive where a delay of 1 or 2 days in concluding a title I agreement would adversely affect good management, particularly in view of the precedent established by the signing of other title I agreements, including the calendar year 1964 Korean agreement. Also, since specific circumstances should govern any management decision, the overall lack of urgency for the commodities, coupled with the financial advantages to the United States of concluding the agreements after December 31, 1964, seems to us to have been sufficient justification for concluding the agreements a day or two later.

*Conclusions*

The foregoing findings make it clear that the two Public Law 480, title I, agreements discussed in this report were entered into under circumstances inconsistent with the reason given for extending the effective date of the ocean freight provisions of Public Law 88–638 and that they were financially disadvantageous to the United States.

It seems evident that these actions were directed principally by the Department of State and AID, both to relieve the foreign countries receiving title I commodities of foreign exchange costs for ocean freight charges and to achieve certain foreign policy objectives. Other agencies represented on the Interagency Staff Committee acquiesced in these decisions.

We recognize that one of the objectives of Public Law 480 is to serve as an instrument of United States foreign policy. Thus, the Department of State and AID are properly concerned with the administration of Public Law 480 programs in terms of their impact on United States foreign economic and political policies. These agencies, in carrying out their assigned functions, can be expected to make full use of the opportunities presented by title I programs to negotiate agreements with foreign countries under such terms as will maximize their concept of United States foreign policy objectives.

In our opinion, State and AID were the dominant agencies in deciding when the title I agreements discussed in this report were to be entered into with foreign governments. Our review did not indicate that the influence of other agencies, whose interests in Public Law 480 evolve around other than foreign policy considerations, were brought to bear in the decision-making process so as to permit evaluation of the financial implications of entering into the agreements on or before December 31, 1964.

The agencies which are concerned with both the budgetary effects and the balance-of-payments effects of the Public Law 480 program did not, as far as we were able to determine, make any evaluation of the financial implications of concessions made to Korea and Taiwan and did not interpose any objections to the position of State and AID within the Interagency Staff Committee. Consequently, we question whether administrative arrangements established to coordinate Public Law 480 program activities are such as to ensure that United States budgetary and balance-of-payments considerations are given adequate weight in the Public Law 480 decision-making process.

We therefore suggested to the Departments of State and Agriculture, the Agency for International Development, and the Bureau of the Budget that it might be desirable for more specific review and evaluation responsibilities to be delegated to agencies such as the Bureau of the Budget. In response thereto, we were advised by Agriculture and the Bureau of the Budget that representatives of the Bureau and other agencies on the Interagency Staff Committee are full-fledged members thereof, speak with an equal voice with any other members of the Committee, and have adequate opportunity to exercise their responsibilities. Hence, a more specific delegation of responsibilities was not considered necessary.

We agree that all agencies represented on the Interagency Staff Committee technically have an adequate opportunity to exercise their responsibilities. As illustrated by this report, however, it is doubtful that sufficient facts were marshaled by all the agencies participating in the decision-making process to allow them to view all of the implications of the decisions reached. As a practical matter, the effectiveness of any committee in arriving at balanced evaluations of proposed programs is dependent on the degree to which the spokesmen of the various agencies exercise their potential influence. We believe, therefore, that representatives of agencies on the Interagency Staff Committee charged with responsibility for evaluating the financial implications of proposed agreements should make certain that such matters are thoroughly evaluated, particularly with respect to programs being justified on the basis of foreign policy considerations, and that these evaluations are made a matter of record in Interagency Staff Committee minutes. This would subject Department of State and AID decisions in Public Law 480 matters to the discipline of a more rigorous evaluation of their position in terms of cost to the United States when weighed against the specific foreign policy objectives being sought.

### SCOPE OF REVIEW

Our review was directed primarily toward evaluating the reasons and need for entering into title I agreements late in December 1964. We made a detailed review of the circumstances surrounding the signing of agreements with the Governments of the Republic of Korea and the Republic of China.

We reviewed correspondence, reports, and other pertinent material available to us at the Department of Agriculture, the Department of State, and the Agency for International Development and discussed relevant matters with responsible officials of these agencies. Our review was conducted in Washington, D.C., and was completed in November 1965.

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## APPENDIX I

DEPARTMENT OF STATE,
AGENCY FOR INTERNATIONAL DEVELOPMENT,
*Washington, D.C., September 7, 1965.*

[Confidential, see GAO note.]

Mr. EDWARD T. JOHNSON,
*Associate Director, International Operations Division, U.S. General Accounting Office, Washington, D.C.*

DEAR MR. JOHNSON: The Agency has completed its review of the General Accounting Office draft report entitled "Unnecessary Transportation Costs and Loss of Commercial Agricultural Sales Due to the Expedited Signing of Sales Agreements Under Title I, Public Law 480." Our review was made in coordination with the Departments of State, Agriculture, Treasury, and Bureau of the Budget. * * *. [See GAO note.]

The amendment to Public Law 480, enacted October 8, 1964, stipulates that a foreign country purchasing commodities under Title I agreements entered into after December 31, 1964, is required to pay most transportation costs. We do not concur with the report that signing of Title I agreements in December 1964, circumvented the will of Congress. The signing did not violate the statute because a period of time from date of enactment through December 31, 1964, permitted the signing of new agreements not embodying the revised transportation provision. When major amendments are made in legislation, it is not unusual for the Congress to provide an interim period before the changes go into effect. Also, from a timing standpoint, the Republic of China [see GAO note] had requested Title I commodities before the new legislation had been enacted; the Korean request was anticipated.

In concluding that the U.S. Government financed freight charges unnecessarily, the report assumes that the commodities would have moved in any case and ignores the fact that, so far as aid-receiving countries are concerned, the burden of financing freight charges falls directly or indirectly upon the U.S. aid program. For example, in connection with a Title I agreement signed with Morocco in April 1965, A.I.D. approved the use of Supporting Assistance loan funds to finance freight because of Morocco's stringent financial condition.

[Confidential, see GAO note.]

The report states that the U.S. will lose more than $2 million in commercial wheat sales to China because the U.S. Department of Agriculture's initial recommendation on the amount of rice exports, for which offsetting purchases of wheat in the U.S. would be required, was not accepted. However, the report does not point out that the usual markings for all commodities included in the Title I and IV agreements signed in December increased by about $24 million from previous levels. Moreover, the Title I and IV agreements signed with China accomplished a major shift from Title I with payment in local currency to Title IV repayable in dollars at harder terms than previously.

To the extent deemed necessary, I shall be pleased to arrange for conferences between members of our respective staffs to discuss the report and our comments.

Sincerely yours,

ROBERT W. HERDER,
*Acting Assistant Administrator for Administration.*

Attachments [see GAO note].

GAO note: Portions deleted were confidential or were not pertinent to this report.

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APPENDIX II

U.S. DEPARTMENT OF AGRICULTURE,
FOREIGN AGRICULTURAL SERVICE,
*Washington, D.C., September 13, 1965.*

Mr. JOSEPH LIPPMAN,
*Assistant Director,*
*International Operations Division,*
*General Accounting Office.*

DEAR MR. LIPPMAN: Thank you for sending us copies of the draft of your proposed report to the Congress on unnecessary transportation costs and loss of commercial agricultural sales due to the expedited signing of sales agreements under Title I, Public Law 480. * * *

* * * * * * *

[See GAO note.]

As regards the countries described in some detail in the report as to their PL 480 agreements, the report notes that the request presented by Taiwan was communicated to Washington in July 1964. * * * [See GAO note.]

The American Embassy involved recommended favorable action [on the request.]

The situation as regards the Korean request is different from the others mentioned in the report in that the U.S. Embassy as noted in the report initially recommended in October 1964 that the request be delayed until later in the year. The report notes that the Embassy recommended favorable action on the request towards the end of November 1964.

On the other hand the request was designed to meet wheat and cotton requirements for calendar year 1965 and it is appropriate to sign agreements to meet calendar needs in advance of the beginning of the calendar year. It happened in the case of Korea that the Title I agreement for calendar year 1964 was not signed until March and was supplemented by additional wheat in June. Therefore, Korea's immediate needs for wheat were not pressing. However, from the standpoint of good management it was desirable to have the agreement in effect prior to the beginning of the calendar year.

In addition, the general view was that it would be advantageous from the total standpoint of the U.S. financial support for Korea to sign the Title I agreement prior to January 1, since the ocean freight charges after January 1, would not be borne by Korea in view of its financial position and in view of the large scale aid commitment to Korea, but would be financed out of U.S. foreign assistance to Korea either directly or indirectly. In other words, it was a question of whether the ocean freight charges on the PL 480 agreement would be financed

out of the PL 480 appropriation or out of the foreign assistance appropriation. It was felt to be advantageous to continue to finance these charges out of the PL 480 appropriation.

An offsetting benefit to the U.S. balance of payments position was achieved by an increase in the portion of the local currencies set aside for U.S. government uses to 19 percent. This amounted to a saving of $1.8 million in U.S. balance of payments which is about half the amount of loss estimated in the report.

In considering proposed agreements during the last part of 1964 we examined all proposals carefully in the light of what the law required as well as our understanding of Congressional intent and made judgments as to whether their signature prior to the end of the calendar year was appropriate within the terms of the Congressional action.

In addition, although the legislation did not provide a termination date on the financing of ocean freight on the old terms for agreements entered into prior to December 31, 1964, we voluntarily established such a termination date as being December 31, 1965. For example, in the case of the three-year agreement with Colombia, which was signed on October 8, 1964 and would therefore extend through the calendar year 1966, we judged that it would be inappropriate to continue the financing of the ocean freight on the old basis for the entire period of the old agreement, although it would have been possible in accordance with the law to do so. We, therefore, provided that the financing on the old basis would extend only through calendar year 1965. Also we determined that it would be inappropriate to consider Pakistan's request for a two-year agreement which was presented in November 1964 with the obvious intention of having it signed before December 31, 1964 in order to take advantage of the ocean freight provisions before the new provisions took effect.

We believe that the signing of the Title I agreements during the last 10 days of 1964 for the eight countries mentioned in their report was appropriate within the terms of the Congressional action in all cases in the light of total U.S. Government interest.

With regard to the recommendation of the report that the President consider delegating more specific responsibilities to the Secretary of the Treasury and the Director of the Bureau of the Budget to give these officials an enhanced role in the decision making process involving Public Law 480 programs, we do feel that the representatives of the Secretary of the Treasury and the Director of the Bureau of the Budget on the Interagency Staff Committee are full fledged members speaking with equal voice with any members of the Committee.

As noted above, in the case of the Korean Government agreement, it was the general feeling of agencies, including the Budget Bureau, that if the ocean freight charges on U.S. flag vessels were not financed out of the PL 480 appropriation they would have to be financed out of the foreign aid appropriation, given the large U.S. financial commitment to the Government of Korea. Therefore, there was no objection on the part of these agencies to the expedited signing of the PL 480 agreement with Korea.

This Department regards it as its responsibility to insure to the best of its ability that Public Law 480 programs are administered in accordance with the intent of the Congress with particular attention to financial advantages to the United States. We therefore welcome all measures which will enhance the administration of the program as so stated above by the draft report.

Sincerely yours,

RAYMOND A. IOANES,
*Administrator.*

GAO note: Portions deleted were not pertinent to this report.

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APPENDIX III

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
*Washington, D.C., August 13, 1965.*

Mr. OYE V. STOVALL,
*Director, International Operations Division, United States General Accounting Office, Washington, D.C.*

DEAR MR. STOVALL: This is in response to Mr. Lippman's letter of May 26, 1965, to Kermit Gordon, requesting the comments of the Bureau of the Budget on the draft report entitled "Unnecessary Transportation Costs and Loss of

Commercial Agricultural Sales Due to the Expedited Signing of Sales Agreements under Title I, Public Law 480."

We welcome your interest in this subject, because we are actively concerned with both the budgetary and the balance of payments impact of the P.L. 480 program. We feel, however, that full participation in the deliberations of the Interagency Staff Committee provides us with adequate opportunity to exercise our responsibilities in this regard and that a more specific delegation of responsibility from the President, as recommended in the draft report, is not necessary.

With particular reference to the cases cited in the report, the balance of payments and budgetary costs were taken fully into account. The decision that the United States should relieve the recipient countries of part of the dollar cost of shipping commodities on U.S.-flag vessels was made only after consideration of such offsetting factors as whether the agreements would otherwise not have been signed and whether this provision provided more leverage in negotiating better terms elsewhere in the agreement. Most important is the fact that in every case it probably would have been necessary to meet the foreign exchange costs directly or indirectly through our foreign aid program if they had not been met through P.L. 480. For example, in the case of a Title I agreement signed with Morocco in April of this year, the use of Supporting Assistance funds to finance freight costs was authorized because of Morocco's financial difficulties. Thus, the cost to the United States would not have been reduced had signature of the agreements been postponed until after December 31, 1964.

While the report correctly points out that the agreement with China involves a non-compensatory export level higher than that originally proposed by the Department of Agriculture, it fails to mention those aspects in which the terms of our P.L. 480 program in that country were made considerably more stringent than they had been in the past. Not only was the 1965 agreement the first time that compensatory requirements were included in the program, but there was a major shift from Title I, repayable in local currency, to Title IV, repayable in dollars at an accelerated rate; and the "usual marketing" requirements in these agreements was increased by an estimated $24 million, of which the United States will receive a substantial share.

We will continue to evaluate carefully all proposed P.L. 480 agreements to ensure that they best serve total U.S. interest. We appreciate the opportunity to comment upon the draft GAO report on the subject.

WILLIAM D. CAREY,
*Executive Assistant Director.*

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## APPENDIX IV

*Principal officials having responsibilities for the matters discussed in this report*

| DEPARTMENT OF STATE | *Appointed or commissioned* |
|---|---|
| Secretary of State: Dean Rusk | January 1961. |
| U.S. Ambassador to the Republic of Korea: Winthrop G. Brown | August 1964. |
| U.S. Ambassador to the Republic of China: Jerauld Wright | June 1963. |
| **AGENCY FOR INTERNATIONAL DEVELOPMENT** | |
| Administrator: David E. Bell | December 1962. |
| Director, U.S. Operations Mission to the Republic of Korea: Joel Bernstein | July 1964. |
| Director, U.S. Agency for International Development, Mission to the Republic of China: Howard L. Parsons[1] | July 1962. |
| **DEPARTMENT OF AGRICULTURE** | |
| Secretary of Agriculture: Orville L. Freeman | January 1961. |
| Administrator, Foreign Agriculture Service: Raymond A. Ioanes | April 1962. |

[1] Transferred on Feb. 11, 1965, coincident with the phasing out of the mission.

EXHIBIT 4

GAO REPORT ON DISPLACEMENT OF COMMERCIAL DOLLAR SALES OF TALLOW TO THE UNITED ARAB REPUBLIC

COMPTROLLER GENERAL OF THE UNITED STATES,
*Washington, D.C., July 20, 1965.*

B–156922.

TO THE PRESIDENT OF THE SENATE AND THE SPEAKER OF THE HOUSE OF REPRESENTATIVES:

Our review of surplus agricultural sales activities in the United Arab Republic disclosed that United States commercial dollar sales of tallow to the United Arab Republic have been displaced by sales of surplus tallow for foreign currency under title I, Public Law 480, programs.

We estimate that commercial sales totaling about $5.5 million were displaced between 1962 and 1964 and that under existing agreements additional sales are likely to be displaced in 1965. This situation resulted because United States agencies made increasing amounts of title I surplus tallow available without establishing realistic commercial import requirements for the United Arab Republic. Commercial import requirements are specified in each Public Law 480 sales agreement as a means of ensuring that title I, Public Law 480, sales do not displace normal commercial sales.

In 1958 the United Arab Republic's imports of tallow amounted to about 32,000 metric tons, which were obtained from United States exporters for dollars. In 1964 the United Arab Republic's imports increased to about 56,000 metric tons, but United States commercial dollar sales decreased to 21,600 metric tons.

The Department of Agriculture did not agree that local currency sales under title I, Public Law 480, agreements resulted in a reduction of United States commercial exports. The Department stated that, in retrospect, it may be an open question as to whether or not the correct decision was made on the quantity of tallow that the United Arab Republic would have purchased commercially in the absence of a Public Law 480 agreement but that this was not the result of improper procedure in determining usual marketing requirements. The Department advised us that it is most difficult to say with any degree of certainty what quantity of tallow the United Arab Republic would in fact have purchased in the absence of a Public Law 480 agreement, given its deteriorating foreign exchange position.

We believe that the responsible United States agencies, in setting commercial import requirements for the United Arab Republic, did not make a realistic assessment of the established pattern of the United Arab Republic's tallow imports from the United States, the country's needs for tallow, and the country's willingness to utilize its foreign exchange holdings to purchase tallow through commercial channels. More realistic import requirements should have been established which would have made possible a substantially higher level of United States commercial tallow exports. The requirements should have been set on the basis of the level of established imports from the United States in the period from 1956 through 1960 and the United Arab Republic's willingness to utilize its foreign exchange in 1961, when United States commodity assistance was not available, to import tallow at a level in line wih imports of previous years.

We believe that the real reason for the unrealistic assessment by the United States agencies involved in this matter, and the consequent failure to protect United States commercial exports, is the overriding consideration by the Department of State of the foreign policy aspects and implications of Public Law 480 programs, and the administration of these programs in a manner which focuses primarily on this consideration rather than on the safeguarding of United States commercial exports. The Department of State classified its comments as confidential. These comments together with our evaluation thereof are contained in a classified supplement to this report.

Our findings are being reported to the Congress because it may wish to clarify the provisions of Public Law 480 to express more specifically its intentions regarding the displacement of United States commercial sales by Public Law 480 programs for foreign policy considerations.

Copies of this report are being sent to the President of the United States; the Secretary of State; the Secretary of Agriculture; and the Administrator, Agency for International Development.

FRANK H. WEITZEL,
*Acting Comptroller General of the United States.*

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REPORT ON DISPLACEMENT OF COMMERCIAL DOLLAR SALES OF TALLOW TO THE UNITED ARAB REPUBLIC—DEPARTMENT OF STATE, DEPARTMENT OF AGRICULTURE, AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION

The General Accounting Office has reviewed selected aspects of surplus tallow sales to the United Arab Republic (UAR), as part of an overall review of surplus agricultural sales activities in the UAR under title I of the Agricultural Trade Development and Assistance Act of 1954 (commonly known as Public Law 480).

This report covers the part of our review that primarily was concerned with United States Department of Agriculture (USDA) and Agency for International Development (AID) policies and procedures in support of the decision to sell tallow to the UAR for Egyptian currency. We also evaluated this decision in the light of past United States commercial sales of tallow for dollars and the amount of Egyptian currency on hand for United States uses. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). Our examination was directed primarily to those aspects of the activity which appeared to be in particular need of attention. The scope of our examination is further described on page 54.

BACKGROUND

Title I of Public Law 480 authorizes the President to negotiate and carry out agreements with friendly nations or organizations of friendly nations to provide for the sale of surplus agricultural commodities, with payment to be made in local currency of the recipient country.

Public Law 480 states in pertinent part that it is the policy of the Congress to: "* * * stimulate and facilitate the expansion of foreign trade in agricultural commodities produced in the United States by providing a means whereby surplus agricultural commodities in *excess of the usual marketings of such commodities* may be sold through private trade channels, and foreign currencies accepted in payment therefor. * * *" (Emphasis supplied.)

Title I of Public Law 480, which provides for such sales, requires the President to take reasonable precautions to safeguard the usual marketings of the United States and to assure that such sales do not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries. This is done by requiring recipient countries to procure with their own resources a stipulated quantity of the commodities from free-world sources and/or from the United States. USDA, in determining a country's usual marketings, considers such matters as the country's commodity requirements and production, its average imports of the commodities over a 3- to 5-year period, its balance-of-payments situation, the United States dollar sales of the commodities, and the Public Law 480 program in the country.

In Executive Order 10900 dated January 5, 1961, as amended, the President delegated to the Department of Agriculture, with several exceptions, the authority vested in him for administration of title I, Public Law 480. The principal functions delegated to other United States agencies are as follows:

*Foreign policy and relations*

1. All functions under the act, however vested, delegated, or assigned, have been made subject to the responsibilities of the Secretary of State with respect to the foreign policy of the United States as such policy relates to such functions.

2. The functions of negotiating and entering into agreements with friendly nations or organizations of friendly nations conferred upon the President by the act have been delegated to the Secretary of State.

*Uses of foreign currency proceeds*

1. To the extent deemed necessary, the Director of the Bureau of the Budget is responsible for fixing the amounts of foreign currency sales proceeds to be used for the purposes set forth in section 104, Public Law 480.

2. The Secretary of the Treasury has been authorized to prescribe regulations governing the purchase, custody, deposit, transfer, and sale of foreign currencies received under the act.

3. Specified Government agencies have been delegated the responsibility of carrying out the purposes described in the lettered paragraphs of section 104 of the act, using the foreign currencies made available under the act. The agencies with delegated responsibilities consist of the Department of Agriculture, the Department of State, the Department of Defense, the Bureau of the Budget, the Office of Civil and Defense Mobilization, the United States Information Agency, the National Science Foundation, and others.

*Supervision and coordination of program activities*

Subject to the direction of the President, the Director of the Food for Peace Program is responsible for the continuous supervision and coordination of the functions delegated in the Executive Order. This authority, however, does not terminate any delegation or other assignment of function made by other sections of the Executive Order.

On August 2, 1954, the Secretary of Agriculture established a committee within the Department, known as the Working Committee, for the purpose of carrying out the responsibilities of the Department under Public Law 480. The Working Committee consists of the Administrator, Foreign Agricultural Service (as Chairman); the Administrator, Agricultural Stabilization and Conservation Service; the Administrator, Agricultural Marketing Service; the Administrator, Economic Research Service; and the Executive Assistant to the Secretary of Agriculture.

The Working Committee reports to the Secretary of Agriculture through the Assistant Secretary for International Affairs. This Committee is responsible for recommending the commodities and maximum quantities of commodities for programming under the various Public Law 480 programs, including title I sales agreements, together with the countries eligible for programming. Also, the Committee makes recommendations on broad program aspects and day-to-day program requirements.

Pursuant to the President's request for interagency coordination of day-to-day operations under the act, the Secretary of Agriculture, on October 6, 1954, established the Interagency Staff Committee on Agricultural Surplus Disposal (ISC). The ISC Chairman is required to make the fullest possible use of existing services and facilities of the Department and to rely upon the advise of the Working Committee.

The membership of ISC includes staff-level representatives of agencies vested with responsibility for activities under the act. The Departments of Agriculture; State; Treasury; Commerce; Health, Education, and Welfare; and Defense; the Agency for International Development, the Office of Emergency Planning, the Bureau of the Budget, and the United States Information Agency are represented on ISC. A representative of the Office of Food for Peace attends the meetings as an observer. Additional representatives may be added by the Chairman if he considers it desirable.

The ISC is responsible for the development and review of programs and the negotiation of basic agreements under title I. Although the ISC technically is advisory in nature, as a practical matter its decisions largely determine the terms and conditions for negotiating Public Law 480 sales agreements with recipient countries. However, any member who is dissatisfied with a proposed policy, agreement, or operation may require its submission to policy officials in interested agencies or departments.

Utilizing the service and experience of other agencies represented on ISC, the Department of Agriculture takes the lead in the development and review of proposed programs. The Foreign Agricultural Service prepares the proposed program for each country, the negotiating instructions, and a draft sales agreement and submits them to ISC for review and approval. If all members agree on the proposed program, the negotiation instructions, and the draft of the sales agreement, the program is approved for negotiating. If the Committee is in agreement on the program but not on the currency uses, the program may be approved subject to the currency uses' being worked out and approved at a later date. If the Committee cannot agree on the program or the currency uses, the matter is referred to a subcommittee or to a member agency for study and recommen-

dation at a later meeting. When the question is resolved satisfactorily, the Committee approves the program.

The minutes of the ISC meetings are distributed to all members of ISC, to other agencies who may be interested in certain phases of programs, and to all United States Embassies as guiding principles to be followed and as a reflection of the position of the United States Government.

The ISC must analyze each program proposal to see that the program does not displace the usual marketings of the United States, that it is consistent with United States foreign policy, and that it is coordinated with the foreign assistance program and other United States programs. The Committee determines the broad categories of uses of the foreign currencies and applies any other title I criteria which must be considered because of other programs.

After ISC approves a proposed agreement, the Department of State transmits final negotiating instructions to the United States Embassy and formal negotiations are started with the foreign government. Any proposed modification of an approved sales agreement must be submitted to ISC for approval before the sales agreement may be modified. After the government-to-government agreement has been signed, further operations relating to the program are performed by operating divisions of the Department of Agriculture.

At the time of the initial title I sale of tallow to the UAR on November 11, 1961, the United States owned a substantial quantity of Egyptian currency. Also, at that time it was known that additional Egyptian currency would become available from loan repayments and from the title I program for fiscal year 1962 and following years. At June 30, 1964, the United States owned or was scheduled to receive from loan repayments about $500 million in Egyptian pounds of which about $61 million worth was available for immediate expenditure. The $500 million represents about 50 years' supply for United States uses at the current rate of expenditure.

Section 402 of the Mutual Security Act of 1954, as amended, provided that funds would be made available annually to finance the export and sale for foreign currencies, or the grant, of surplus agricultural commodities or products thereof produced in the United States, in addition to surplus agricultural commodities or products transferred pursuant to the Agricultural Trade Development and Assistance Act of 1954, and in accordance with the standards as to pricing and the use of private trade channels expressed in section 101 of said act.

The UAR uses inedible tallow in manufacturing soap and edible tallow in manufacturing oleomargarine.

The United States Government officials primarily responsible for the administration of this program are shown in the appendix to this report.

## FINDINGS

### *Displacement of commercial dollar sales of tallow to the United Arab Republic*

United States commercial dollar sales of tallow to the United Arab Republic have been displaced by sales of surplus tallow for foreign currency under title I, Public Law 480, programs. We estimate that commercial sales totaling about $5.5 million were displaced between 1962 and 1964 and that under existing agreements additional sales are likely to be displaced in 1965. This situation resulted because United States agencies made increasing amounts of title I surplus tallow available without establishing realistic commercial import requirements for the United Arab Republic. Commercial import requirements are specified in each Public Law 480 sales agreement as a means of ensuring that title I sales do not displace normal commercial sales.

In 1958 the UAR's imports of tallow amounted to about 32,000 metric tons, which were obtained from United States exporters for dollars. In 1964 the UAR's imports increased to about 56,000 metric tons, but United States commercial dollar sales decreased to 21,600 metric tons.

The following schedule shows the commercial sales and Public Law 480 sales of edible and inedible tallow from 1956 to 1964, according to the Department of Agriculture records we examined.

*Tallow exported to the UAR from the United States, 1956 to 1964*

[In metric tons]

| Calendar year | Total exports | Financing | | Public Law 480 exports |
|---|---|---|---|---|
| | | Commercial | Section 402 | |
| 1956 | 22,400 | 22,400 | | |
| 1957 | 30,930 | 30,930 | | |
| 1958 | 32,336 | 32,336 | | |
| 1959 | 24,510 | 11,710 | 12,800 | |
| 1960 | 30,006 | 13,806 | 16,200 | |
| 1961 | 26,667 | 26,667 | | |
| 1962 | 43,669 | 20,161 | | 23,508 |
| 1963 | 53,344 | 7,097 | | 46,247 |
| 1964 | 56,475 | 21,637 | | 34,838 |

As can be seen from the above table, during the period 1956 through 1958 commercial dollar sales averaged 28,555 metric tons a year (a metric ton equals 2,204 pounds). In 1959 and 1960, however, with the introduction of imports financed under section 402, United States commercial sales dropped an annual average of only 12,758 metric tons, while total imports from the United States held at an average of 27,258 metric tons. In 1961, in the absence of a section 402 program, commercial sales returned to a high of 26,667 metric tons. It should be noted that the United States is virtually the only supplier of tallow to the UAR.

The decrease in United States commercial tallow exports in 1962 through 1964 was due to (1) the establishment of unrealistically low "usual marketing" requirements as part of the title I, Public Law 480, agreements and (2) serious delinquencies on the part of the United Arab Republic in complying with these reduced import requirements.

Public Law 480, title I, sales of tallow started in fiscal year 1962 and continued under subsequent title I agreements for the UAR. These agreements specified specific quantities which the UAR was required to purchase commercially from the United States (i.e., "usual marketings"). However, our review disclosed that the usual marketings established for tallow were understated, principally because they were based on the average commercial imports by the UAR during a preceding 5-year period, excluding sales financed under section 402.

We believe that the establishment of more realistic usual marketing requirements would have made possible a substantially higher level of United States commercial tallow exports. The requirements should have been set on the basis of the level of established imports by the UAR from the United States during the period from 1956 through 1960 and UAR's willingness to utilize its foreign exchange in 1961 to import tallow at a level in line with imports of previous years. Using these criteria, the establishment of usual marketing requirements of 28,000 metric tons would have been arrived at to protect United States commercial sales. Instead, responsible United States agencies set substantially lower usual marketing requirements with the resultant loss in dollar sales, as shown in the following table.

[In 1,000 metric tons]

| | Fiscal year | | | Total |
|---|---|---|---|---|
| | 1962 | 1963 | 1964 | |
| Title I sales agreement | 20.0 | 30.0 | 37.5 | 87.5 |
| Average historical level of imports from the United States, per our calculation | 28.0 | 28.0 | 28.0 | 84.0 |
| Usual marketing requirement in title I sales agreements | 20.0 | 20.0 | 22.5 | 62.5 |
| Loss of U.S. dollar sales | 8.0 | 8.0 | 5.5 | 21.5 |

The foregoing computation of lost United States commercial sales has as its basis the fact that the UAR imported from the United States a total of 140,182 metric tons of tallow in calendar years 1956 to 1960, including those financed under section 402. Based on these data it seems reasonable that a minimum

expectation, and consequent usual marketing requirements, for United States tallow should have been at least 28,000 metric tons which is the average of the imports for the 5-year base period used by USDA in its calculation of usual marketing requirements.

We also noted that the United Arab Republic was seriously delinquent in complying with the reduced usual marketing requirements that had been established throughout the period of the title I, Public Law 480, sales of tallow. Under the Public Law 480 sales agreements, the usual marketing requirements must be met by the UAR's importing, with its own resources, the specified quantity of tallow in the fiscal year for which the requirement was established. The cumulative shortfall, by fiscal years from 1962, was as follows (in metric tons):

| Fiscal year | Usual marketings | | Commercial imports | Shortfall |
|---|---|---|---|---|
| | For fiscal year | Cumulative | | |
| 1962 | 20,000 | 20,000 | 18,249 | 1,751 |
| 1963 | 20,000 | 21,751 | 12,505 | 9,246 |
| 1964 | 22,500 | 31,746 | 23,606 | 8,140 |
| 1965 (as of Apr. 30, 1965) | 25,000 | 33,140 | [1] 13,754 | |

[1] Most current available data.

At an average price of about $193 a metric ton, the shortfall in complying with usual marketings at April 30, 1965, amounted to $3.7 million.

The establishment of unrealistic usual marketing requirements and the delinquency of the United Arab Republic in meeting even these reduced import requirements led to a reduction in commercial imports from the historical level of about 28,000 metric tons annually to an average of only 16,300 metric tons annually between 1962 and 1964. We estimate that, at world market prices in effect during these years, commercial dollar sales of tallow to the United Arab Republic amounting to $5.5 million were displaced between 1962 and 1964, as shown below.

| | Calendar year | | | Total |
|---|---|---|---|---|
| | 1962 | 1963 | 1964 | |
| Average historical level of imports from the United States, per our calculation, metric tons | 28,000 | 28,000 | 28,000 | 84,000 |
| Actual imports by the UAR from the United States, do | 20,200 | 7,100 | 21,600 | 48,900 |
| Loss of commercial dollar sales, do | 7,800 | 20,900 | 6,400 | 35,100 |
| Average world market price, per metric ton | $156 | $149 | $187 | |
| Estimated value of lost commercial sales, in millions | $1.2 | $3.1 | $1.2 | $5.5 |

NOTE.—Under existing agreements, additional sales are likely to be displaced in 1965.

*Unrealistic usual marketings established*

Tallow was added to the list of commodities sold to the UAR for Egyptian currency because of a UAR request submitted to the USDA in September 1961 for 34,000 metric tons of inedible tallow and 6,000 metric tons of edible tallow.

The Department of State negotiated an amendment on November 11, 1961, to the September 2, 1961, title I sales agreement on the basis of a sale of 20,000 metric tons of tallow with a 20,000-metric-ton usual marketing requirement. In an exchange of notes accompanying the agreement, the UAR agreed to purchase 20,000 metric tons of tallow with its own resources from the United States during fiscal year 1962, in addition to the quantity being provided under title I.

The usual marketing requirements for tallow under the title I sales agreement remained at 20,000 metric tons for fiscal year 1963 but was increased to 22,500 metric tons for fiscal year 1964 and to 25,000 metric tons for fiscal year 1965. The Department of State stated that these gradual increases in the usual marketing requirement took into account the increases in consumption envisaged in the multiyear agreement for fiscal years 1963 through 1965. The established amounts of usual marketings, however, are still less than the average annual amounts of tallow imported from the United States by the UAR prior to the title I sales of this commodity. Moreover, the UAR has not imported commercially all of the reduced amounts.

As shown elsewhere in this report, a number of factors are considered in determining a country's usual marketings. In this case, however, we have ascertained that only historical sales were used in making this determination. We were informed by a USDA official that only UAR–financed commercial imports of inedible tallow were included and that imports financed under section 402 were excluded because they were considered to be noncommercial transactions. The 5-year period 1956 to 1960 was used to arrive at the usual marketing requirement of 20,000 metric tons included in this amendment.

In regard to how section 402 commodity assistance is to be considered in setting usual marketing requirements, our review of the Public Law 480 legislation disclosed that no criteria for determining "usual marketings" were specified in the legislation. Although the act requires the President to take reasonable precautions to safeguard the usual marketings of the United States, the manner in which such precautions are to be taken is not specified.

Nevertheless, we do not believe that the usual marketing requirements of 20,000 metric tons were realistic. The UAR had imported substantially higher quantities from the United States prior to 1962 despite its limited foreign exchange reserves. Thus in 1961, when neither section 402 or Public Law 480 commodity assistance was available, the UAR imported over 26,000 metric tons of tallow on a commercial basis from the United States, and these purchases, which were made in dollars, occurred during a period when the UAR's foreign exchange difficulties were most severe.

With regard to the exclusion of commodities imported in 1959 and 1960 by the UAR under section 402 on the ground that such imports were noncommercial, our review showed instances where section 402 imports were considered as commercial transactions in setting usual marketing requirements for other countries. The Department of Agriculture agrees that this has been true in the past and may occur again for particular economic or foreign policy reasons. Further, we noted that recent decisions of the Interagency Staff Committee indicate that, in the future, country commodity imports financed by the United States, such as those financed under section 402, will be considered in establishing usual marketing requirements in light of the overall capability of the country to import commodities commercially and in a manner which will protect normal commercial markets.

The Department of Agriculture and the Department of State comments on this report indicate, in our opinion, that the reason for the establishment of usual marketing requirements for tallow at an unrealistic level, and the consequent failure to protect United States commercial exports, is the overriding consideration given to the foreign policy implications of Public Law 480 programs. The Department of State's comments are contained in the classified supplement to this report. The Department of Agriculture's comments relating section 402 commodity assistance, in determining the level of usual marketing requirements, to economic and foreign policy considerations are contained in this report.

*Agency comments and our evaluation*

We received comments on the foregoing findings from the Departments of State and Agriculture and from the Agency for International Development. The Department of State classified its comments as confidential, and, as stated, they are contained in the classified supplement to this report. AID advised us that it concurred in the comments of the Department of Agriculture concerning consideration of section 402 sales in determining usual marketing requirements. The comments by the Department of Agriculture are summarized below.

*Department of Agriculture comments*

The Department did not agree that local currency sales under title I, Public Law 480, agreements resulted in a reduction of United States commercial exports. The Department stated that, in retrospect, it may be an open question as to whether or not the correct decision was made on the quantity of tallow that would be purchased commercially in the absence of a Public Law 480 agreement but that this was not the result of an improper procedure in determining usual marketing requirements. The Department advised us that it is most difficult to say with any degree of certainty what quantity of tallow the UAR would in fact have purchased in the absence of a Public Law 480 agreement, given its deteriorating foreign exchange position.

The Department made the following additional points.

In determining usual marketing requirements, the Department attempts to judge what a country would be likely to purchase with its own resources in the absence of a Public Law 480 agreement. Since section 402 imports were

financed with foreign aid funds, they were noncommercial imports and should not be regarded as having been purchased through a country's own resources.

The assumption that the UAR would not have purchased the amounts of tallow provided under section 402 with its own resources appears to be borne out by the financial situation of that country. Beginning in 1958, the external financial condition of the UAR underwent a precipitous decline that reached its lowest point in the third quarter of 1962; that is, reserves fell steadily from $429 million at the end of 1958 to $195 million in September 1962.

*Evaluation*

The comments of the Department of Agriculture contain major inconsistencies in regard to the method of determining usual marketing requirements.

1. The Department stated that in determining usual marketing it considers the balance-of-payments situation of countries receiving title I, Public Law 480, assistance, but this is explicitly omitted in another part of the Department's comments, as follows:

". . . the usual marketing requirement established represented a judgment of what the UAR could be expected to procure commercially in the absence of a PL 480 agreement. This judgment was based on available data of past commercial imports."

Our review confirmed the last sentence. We ascertained, through discussions with agency personnel and review of available documents, that only historical sales were used in determining the commercial imports which the UAR would be required to make and that foreign exchange shortages were not a consideration.

Further, we do not believe that it is realistic or in the best interests of the United States to forego commercial sales which the United States could make, solely because the importing country has experienced declines in its foreign exchange holdings. If the country has developed a pattern of commercial imports from the United States in past years and needs the commodities for its industries, it is likely to continue such commercial purchases regardless of the decline in its foreign exchange reserves. This is indicated by the fact that the UAR purchased 26,667 metric tons of tallow from the United States in 1961 with dollars when it could not obtain the commodity through AID financing or through Public Law 480, and these purchases were made at a time when the UAR was experiencing sharp declines in its foreign exchange.

2. The Department states, in one part of its reply, that since section 402 imports were financed with foreign aid funds they are noncommercial imports and should not be regarded as being purchased through a country's own resources. In another part of the Department's reply, however, it is stated that:

"There have been cases in the past, as there may be in the future, where particular economic or foreign policy reasons require negotiations and agreements in which imports financed under Section 402 or under other types of AID financing were or may be characterized as part of usual marketing requirements [i.e., commercial imports requirements] in reaching agreement with a foreign country. . . ."

It is evident that in the case of the UAR, tallow imports financed by AID under section 402 displaced commercial sales of tallow. Although there was no requirement to protect United States commercial exports under section 402, such requirement does exist as regards Public Law 480 surplus sales. Reasonable efforts to carry out this requirement would, in our opinion, have involved recognition of the fact that commercial tallow imports in 1959 and 1960 were reduced because the UAR was able to meet its needs through AID-financed imports. Adequate recognition of this factor would have resulted in usual marketing requirements for tallow being set at a considerably higher level.

Recent decisions of the Interagency Staff Committee indicate that, in the future, country commodity imports financed by the United States, such as those financed under section 402, will be considered in establishing usual marketing requirements in light of the overall capability of the country to import commodities commercially and in a manner which will protect normal commercial markets.

3. The Department stated that it agreed with our proposal that the Secretary of Agriculture establish procedures which will fully protect United States commercial sales by requiring that transactions previously financed by section 402 be considered in establishing the level of title I sales and in negotiating the quantities which countries are required to import from the United States on a commercial basis. The Department advised us that its policy is to take reasonable precautions to safeguard usual marketings of the United States and that this policy had recently been reinforced in an effort to assure that displacement of commercial sales was not taking place.

The main thrust of the Department's reply, however, is that the policies and procedures in effect at the time the Public Law 480 tallow agreements were made with the UAR were proper and that local currency sales under title I, Public Law 480, did not result in a reduction of United States commercial exports. This discrepancy, as well as the discrepancy between the Department's comments and the recently adopted policies of the Interagency Staff Committee described above, leads us to conclude that there is need for the Department to reappraise its thinking on this matter and to establish a firm definitive policy which will assure the maximizing of United States commercial sales abroad. It should be noted that one of the objectives of Public Law 480 legislation is to develop increased dollar markets for United States agricultural commodities through the use of title I sales.

The need for such policy is evidenced by the facts related in this report. United States commercial dollar sales of tallow have been displaced by Public Law 480 sales, but this displacement could have been avoided, in our opinion, had the Department of Agriculture and other responsible agencies established, and required adherence to, realistic usual marketing requirements in light of the UAR's historical commercial purchases of tallow and its need for that commodity. The record of UAR's tallow imports from 1956 through 1961 clearly shows that the UAR was importing its tallow requirements from the United States and that if it could not obtain such imports with United States financing it was prepared to use its own limited foreign exchange to do so.

4. Our report also notes that, at the time of the initial title I sales of tallow to the UAR, the United States owned a substantial quantity of Egyptian currency. These amounts accrued to the United States from the proceeds of title I commodity sales. Although most of the sales proceeds are granted or loaned to the UAR for economic development or other purposes described in Public Law 480 legislation, specified amounts are reserved for the United States and are available to pay its administrative expenses in the UAR.

The Department makes the point that it does attempt to avoid building up an excess of local currencies under the program and that:

"* * * In the case of UAR, the multiyear Title I, PL 480 Agreement covering Fiscal Years 1963, 1964 and 1965 provides for 10% for U.S. uses as compared with previous agreements providing for 20% or more."

We do not see how this provision avoids building up excessive holdings of foreign currency. Obviously if the United States receives for its own needs a lesser amount of local currency and gives away or writes off the remainder, as has been done in some countries, there will be less excess currency. (See our report on "Failure to Effectively Utilize Excess United States-Owned Foreign Currencies to Pay International Air Travel Ticket Costs Being Paid in Dollars," B–146749 dated April 15, 1965.) In the case of the UAR, however, the sales agreements for tallow make increased quantities of Public Law 480 local currency proceeds available to the UAR in loans which, as they are repaid, may eventually result in further accumulation of Egyptian currency surplus to United States needs in the foreseeable future.

It is equally apparent that the most effective way of avoiding a buildup of excess currency is to maximize United States commercial sales, with the concomitant increase in dollar earnings which would assist in alleviating United States balance-of-payments deficits.

*Conclusions*

It is evident that sales of tallow for local currency under Public Law 480 have displaced commercial United States dollar exports to the UAR. This occurred because responsible United States agencies provided the UAR with title I surplus tallow without requiring the UAR to import tallow commercially at a level in line with its past commercial imports. In setting the level of required commercial imports, the responsible United States agencies did not, in our opinion, make a realistic assessment of the established pattern of the UAR's tallow imports from the United States, the UAR's need for tallow, and the country's willingness to utilize its foreign exchange holdings to purchase tallow through commercial channels.

We believe that the real reason for the unrealistic assessment by the United States agencies involved in this matter, and the consequent failure to protect United States commercial exports, is the overriding consideration by the Department of State of the foreign policy aspects and implications of Public Law 480 programs, and the administration of these programs in a manner which focuses

primarily on this consideration rather than on the safeguarding of United States commercial exports. It is evident that this center of focus results in the following adverse effects.

1. One of the objectives of Public Law 480 legislation—to develop increased dollar markets for United States agricultural commodities through the use of title I foreign currency sales—is not achieved at least so far as tallow is concerned.

2. The loss of dollar sales in the UAR has impaired efforts to improve the critical balance-of-payments problem.

3. The reduction of the requirement for the UAR to purchase tallow commercially from the United States with dollars has permitted that country to conserve a substantial amount of its foreign exchange or to use it for different purposes, which, in effect, is a form of economic assistance. However, unlike normal economic assistance, it has not been approved by the Congress nor is it subject to the administrative controls imposed by United States agencies on the more usual forms of economic assistance which are designed to ensure that such assistance is used to further United States interests.

*Matter for consideration of the Congress*

We believe that the Congress may wish to clarify the provisions of Public Law 480 to express more specifically its intentions regarding the displacement of United States commercial sales by Public Law 480 programs for foreign policy considerations.

## SCOPE OF EXAMINATION

Our examination of Public Law 480, title I, sales of tallow to the UAR consisted of a review of the reasonableness of, and the compliance by the UAR with, the usual marketing requirements established for this commodity. We reviewed correspondence, reports, and other pertinent material available to us at the AID Mission, the United States Embassy, and the office of the Agricultural Attaché, in the UAR. We also discussed the matters in this report with responsible officials of the AID Mission, the Embassy, AID/Washington, and USDA.

## APPENDIX

*Officials responsible for the matters discussed in this report*

| | *Appointed or commissioned* |
|---|---|
| DEPARTMENT OF STATE | |
| Secretary of State: Dean Rusk | January 1961. |
| Ambassador to the United Arab Republic: | |
| John S. Badeau | May 1961. |
| William O. Boswell (Chargé d'Affaires) | June 1964. |
| Administrator, Agency for International Development: | |
| Fowler Hamilton | September 1961. |
| David E. Bell | December 1962. |
| Director, AID Mission to the United Arab Republic: Edwin G. Moline | September 1961. |
| DEPARTMENT OF AGRICULTURE | |
| Secretary of Agriculture: Orville L. Freeman | January 1961. |
| Assistant Secretary of Agriculture—Marketing and Stabilization: John P. Duncan, Jr | February 1962. |
| FOREIGN AGRICULTURE SERVICE | |
| Administrator: | |
| Robert C. Tetro | March 1961. |
| Raymond A. Ioanes | April 1962. |
| Assistant Administrator—Commodity programs: Donald M. Rubel | September 1962. |
| Agricultural attaché to the U.S. Embassy to the United Arab Republic: | |
| Herbert K. Ferguson | October 1959. |
| John W. McDonald, Jr. (first secretary of the Embassy and acting agricultural attaché) | June 1963. |
| James A. Hutchins, Jr | September 1963. |

EXHIBIT 5

QUESTIONABLE GRANT OF CORN FOR FAMINE RELIEF UNDER TITLE II OF PUBLIC LAW 480

(By the General Accounting Office of the United States)

COMPTROLLER GENERAL OF THE UNITED STATES,
*Washington, D.C., July 16, 1965.*

B–146820.

*To the President of the Senate and the Speaker of the House of Representatives:*

In our examination of the food donation program to the United Arab Republic under title II of Public Law 480, we found that the Agency for International Development granted about 186,000 metric tons of corn costing over $23,700,000 in December 1961 on the basis of representations made by the United Arab Republic that a famine would occur as a result of crop failures.

The grant was made without adequate verification of the actual need for the requested assistance. Official statistics of the United Arab Republic, which were subsequently accepted by the United States agencies, showed that the corn crop had not failed and most of the corn was undelivered many months after it arrived in Egypt.

In addition, responsible United States agencies did not check on the distribution of 85 percent of the corn and do not know whether this quantity of corn ever reached intended recipients. The limited distribution checks which were made disclosed that substantial quantities, which the United Arab Republic had agreed to give to needy people, were sold. The Agency for International Development took no action to determine the extent of the corn sales and to initiate a claim against the country until we suggested that this be done. A subsequent audit of the records of agencies of the United Arab Republic disclosed that over 80,000 tons had been sold.

The Agency for International Development advised us that its approval of the title II program was based on a major shortfall in the corn and cotton crops. This approval was based not only on representations of the United Arab Republic, but also on the observations and estimates of United States officials then stationed in the United Arab Republic. We evaluated these observations and estimates and found that they were not based on any factual evidence and were contradicted by statistical evidence. Our evaluations are contained in the report.

The Department of State advised us that the decision to approve the grant of title II corn was justified on the basis of information that there had been a widespread crop failure in the United Arab Republic. The Department also advised us that the willingness to consider a title II program coincided with a conscious effort to improve relations with the United Arab Republic, its geopolitical importance, and the part it played in assuring peace and stability in the Near East. In our opinion, these foreign policy considerations were the underlying reasons for the grant of corn to the United Arab Republic and the reasons for the failure of responsible agency officials to adequately verify the need for title II commodities before approving the grant of corn.

We believe that there is a need to clarify, in existing legislation, the conditions under which the executive branch can donate surplus agricultural commodities to achieve political objectives. Public Law 480, as presently written, makes no specific provision for such donations. The Congress may, therefore, wish to consider enacting legislation which would require that commodities be donated under title II of Public Law 480 only upon certification by the United States Chief of Mission that he has verified the need for such commodities or upon the determination by the Secretary of State that such food donations are in the interests of the United States.

The Congress may also wish to consider whether it would be more appropriate to require that the expense of providing surplus agricultural commodities to foreign governments to meet United States foreign policy objectives be met from appropriations made available to the Department of State or the Agency for International Development rather than from Department of Agriculture appropriations.

We are issuing this report to the Congress because it may wish to consider the enactment of appropriate legislation to better control the administration of Public Law 480 programs.

Copies of this report are being sent to the President of the United States; the Secretary of State; the Secretary of Agriculture; and the Administrator, Agency for International Development.

FRANK H. WEITZEL,
*Acting Comptroller General of the United States.*

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REPORT ON QUESTIONABLE GRANT OF CORN TO THE UNITED ARAB REPUBLIC UNDER TITLE II, AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954 (COMMONLY KNOWN AS PUBLIC LAW 480) AGENCY FOR INTERNATIONAL DEVELOPMENT, DEPARTMENT OF STATE

## INTRODUCTION

The General Accounting Office has examined the grant of corn costing over $23,700,000 made to the United Arab Republic (UAR) in December 1961 by the Agency for International Development (AID) under title II of the Agricultural Trade Development and Assistance Act of 1954, as amended. Our examination was directed primarily toward an evaluation of the basis on which the Agency for International Development and the Department of State determined that an emergency need existed in the UAR for a grant of corn under title II. We also examined the adequacy of the actions taken by these agencies to ensure that foodstuffs were properly distributed and utilized. Our review was confined to the title II program in the UAR, and the findings in this report are not necessarily indicative of the administration of title II programs in other countries. Our examination was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67) and was made at AID's overseas Mission in the UAR (referred to in this report as the Mission).

The scope of our examination is further described in page 65. The officials responsible primarily for this grant are shown in the appendix to this report. (See p. 65.)

## GENERAL COMMENTS

Title II of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) (7 U.S.C. 1691) authorizes the grant of surplus agricultural commodities to other nations for disaster relief. Section 201, as amended, of Public Law 480 (7 U.S.C. 1721) provides, quoting from the code, that:

"In order to enable the President to furnish emergency assistance on behalf of the people of the United States to friendly peoples in meeting famine or other urgent or extraordinary relief requirements, the Commodity Credit Corporation shall make available to the President out of its stocks such surplus agricultural commodities (as defined in section 1706 of this title) as he may request, for transfer (1) to any nation friendly to the United States in order to meet famine or other urgent or extraordinary relief requirements of such nation, and (2) to friendly but needy populations without regard to the friendliness of their government." (7 U.S.C. 1721)

Title II also authorizes the payment of ocean freight charges from United States ports to designated ports of entry abroad upon a determination by the President that it is necessary to accomplish the purposes of that title.

The President delegated the functions conferred upon him by title II of Public Law 480 to the Secretary of State by section 2 of Executive Order 10900, as amended, dated January 6, 1961 (7 U.S.C. 1691, note). The Secretary of State redelegated responsibility for title II functions to the Administrator of AID by State Department Delegation Order No. 104 effective September 30, 1961.

In addition to the commodities delivered under title II, commodities valued at over $700 million have been delivered to the UAR through June 30, 1964, under other titles of Public Law 480.

## FINDINGS

*Questionable grant of corn to the UAR*

The Agency for International Development granted about 186,000 metric tons of corn costing over $23,700,000 to the United Arab Republic in December 1961 under title II of Public Law 480 on the basis of representations made by the United Arab Republic that a famine would occur as a result of crop failures. The grant was made without adequate verification of the actual need for the requested assistance. Official statistics of the United Arab Republic, which were subsequently accepted by United States agencies, showed that the corn

crop had not failed and most of the corn was undelivered many months after it arrived in Egypt.

In addition, responsible United States agencies did not check on the distribution of 85 percent of the corn and do not know whether this quantity of corn ever reached intended recipients. The limited distribution checks which were made disclosed that substantial quantities, which the United Arab Republic had agreed to give to needy people, were sold commercially. The Agency for International Development took no action to determine the extent of actual corn sales and to initiate a claim against the country until we suggested that this be done. A subsequent audit of the records of agencies of the United Arab Republic disclosed that over 80,000 tons had been sold.

Most of the UAR's corn crop is harvested in November and December of each year; therefore, AID should have discovered that the losses had not materialized before it accepted the UAR's representations on November 30, 1961.

The UAR on October 19, 1961, requested the United States to grant 200,000 tons of corn for human consumption under the provisions of title II of Public Law 480 to meet an emergency crop failure. On November 19, 1961, the UAR stated that its 1961 corn crop had suffered an estimated loss from insect infestation and floods of about 350,000 tons, or about 20 percent of its average annual corn crop of about 1,700,000 tons. The UAR stated also that the small farmers' ability to buy corn was greatly diminished because their cash crop, cotton, was also seriously damaged by insect infestation. The Mission informed AID/Washington on November 30, 1961, that the UAR's November 19 statements substantially explained and justified the need for 200,000 tons of corn as emergency assistance under title II and recommended that the UAR's request be approved. On December 28, 1961, AID/Washington authorized the shipment of up to 200,000 tons of corn to the UAR, to be distributed free to famine victims who had suffered food shortages as a result of insect infestation of crops and who could not purchase necessary food. One hundred and eighty-six thousand tons of granted corn arrived in the UAR between February 12 and July 22, 1962.

*Estimated losses in the 1961 corn crop did not materialize.*—According to official UAR statistics, the UAR's 1961 corn crop actually had not failed. It was harvested during the period when the corn grant was approved; therefore, the Mission could have discovered that the estimated losses had not materialized if the proper verification had been performed or a decision had been made to defer approval until adequate verification was made. The Mission had time to verify the UAR's representations, since the corn was not granted to relieve an immediate emergency.

The UAR's 1961 corn crop was within the range of the UAR's 1955–60 corn crops. A UAR Ministry of Agriculture Yearbook published subsequently to the grant of corn stated that the UAR's 1961 corn production was 1,617,000 tons. The Agricultural Attache of the United States Embassy in the UAR also reported after the grant of corn that the UAR's 1961 corn production was 1,617,000 tons. The Agricultural Attache's reports and the UAR's Yearbook showed that the 1960 corn production was 1,691,000 tons and that the 1955–59 average production was 1,624,000 tons with a range from 1,495,000 tons in 1957 to 1,758,000 tons in 1958.

In 1961 the UAR actually had a bumper corn crop for the area planted—a yield of 1.009 tons per feddan (1.038 acres)—but had reduced the acreage planted with corn. The UAR's Yearbook and the Agricultural Attache's reports showed that the area planted with corn dropped from 1,821,000 feddans in 1960 to 1,603,000 feddans in 1961. However, these sources also showed that the yield increased from 0.929 ton per feddan in 1960 to 1.009 tons per feddan in 1961. The average yield from 1955 to 1959 was 0.878 tons per feddan, ranging from 0.807 ton in 1959 to 0.935 ton in 1955.

The Agricultural Attache reported during 1959, 1960, and 1961 that a small part of the UAR's corn was produced in the summer crop and harvested in September and October and that most of its corn was produced in the fall crop which was harvested in November and December. The Mission recommended approval of the grant on November 30, 1961. If the crop was harvested by that time, the Mission should have discovered by physical inspection and other verification of the UAR's representations that the crop was a bumper crop for the acreage planted with corn and that the total corn production would, therefore, be within the normal quantity range of preceding years. Were it not possible to make a complete verification on November 30, 1961, because the entire crop had not been harvested, the approval of the grant of corn should have been deferred until such determination was made.

The feasibility of such a deferral is indicated by the Mission's recognition that the emergency need for famine relief was anticipated rather than immediate at the time it recommended approval of the UAR's request. The Charge d' Affaires of the United States Embassy in the UAR told us that the Mission did not recommended approval of the UAR's request in order to relieve a famine situation of pressing urgency. As indicated above, the UAR estimated that its 1961 corn crop would be 80 percent of normal, or 1,350,000 tons. A crop that was 80 percent of normal should have been large enough to meet the needs of the UAR for about 10 months, or from the beginning of the harvest season in September 1961 through June 1962. Thus, the Mission had sufficient time in which to verify the UAR's representations that a shortage of corn existed before recommending approval of the UAR's request and had time to consider alternatives to granting corn if assistance was actually needed.

The lack of urgency is further shown in the total quantity of corn scheduled for delivery to the UAR under other Public Law 480 programs. Enough corn was programmed for delivery to the UAR under titles I and III of Public Law 480 to avert the anticipated famine. A total of 327,000 tons of corn were programmed for delivery to the UAR at the time the Mission recommended approval of the grant of corn. At June 30, 1961, 27,000 tons of corn were programmed for delivery during fiscal year 1962 under title III. The title I sales agreement of September 2, 1961, made 100,000 tons of corn available to the UAR, and the November 11, 1961, amendment to that sales agreement made another 200,000 tons of corn available. The Agricultural Attache reported that the UAR's average annual corn imports for fiscal years 1957 through 1961 were 65,000 tons, with the maximum imports during that period being 80,000 tons in 1960, and that these imports were almost entirely consumed in the cities. Thus, the corn imports programmed under Public Law 480 provided about 262,000 tons (327,000 tons less the annual average imports of 65,000 tons) more than had previously been normally consumed in the cities. These programmed 262,000 tons plus the Embassy's estimate of 1961 corn production of 1,350,000 tons amounted to a total of 1,612,000 tons of corn available to avert famine in rural areas. The UAR's corn production, which was consumed by the rural population according to the reports of the Agricultural Attache, amounted to 1,691,000 tons in 1960 and averaged 1,624,000 tons from 1955 to 1959 with a range in those years from 1,495,000 tons to 1,758,000 tons. Thus, the available 1,612,000 tons of corn were sufficient to meet the normal needs of the UAR's rural population.

*UAR's actions to alleviate losses of purchasing power caused by crop failure not considered.*—The Mission recommended approval of the UAR's request partly on the basis that farmers had insufficient purchasing power to buy corn, even though the UAR had taken, and was considering taking additional, measures to alleviate losses of purchasing power. The UAR requested the corn on the basis that losses in cotton crop due to insect infestation had greatly diminished the farmers' ability to buy corn, as well as on the basis that the corn crop had suffered serious losses. The Mission recommended approval of the UAR's request on November 30, 1961, on the basis of both reasons. However, the UAR had stated on October 19, 1961, that it had waived land taxes and postponed repayment of agricultural debts to alleviate the hardship resulting from the crop losses. The UAR stated on October 19 and November 19, 1961, that it was considering distributing corn free or at a nominal price to further alleviate the problem. Thus, not only was sufficient corn available to meet the UAR's normal needs, but the UAR had taken, and was considering taking additional, measures to alleviate any losses of purchasing power that might have resulted from losses in the cotton crop. We found no evidence that the Mission considered the effects of the UAR's relief measures before recommending approval of the UAR's request.

*UAR's representations of crop losses not verified.*—The Mission did not verify the UAR's representations that the 1961 corn crop had suffered serious losses. We found no evidence that the Mission verified the existence of the estimated losses in the 1961 corn crop by determining exactly where the insect infestation and floods had occurred, or by physical inspections of the damaged areas or interviews with farmers suffering crop losses, or by other means. We found no indication that the Mission ascertained what evidence the UAR's representations of serious corn crop losses were based upon.

The Charge d'Affaires told us that Mission personnel and the Agricultural Attache made field inspections in which they viewed the damage to the 1961

corn crop before the Mission recommended approval of the grant. He also told us that the Mission Director discussed the crop damage with the UAR Minister of Supply, who, he said, had letters from various Governors regarding damage in their Governorates (provinces) before recommending approval of the grant. He said that the Mission Director talked with farmers regarding damage to their crops after recommending approval of the grant. However, the Mission Director was unable to give us any documentary evidence as to the existence and nature of these field inspections and discussions and the information obtained thereby.

Although the Mission based its recommendation for approval of the grant on the representations made by the UAR in its November 19, 1961, request, it did so without resolving the contradictory information contained in this letter concerning the required quantity of corn needed to feed the UAR's rural population. The request stated that the estimated annual per capita corn consumption of the UAR's 16,000,000 rural population was 120 kilograms, which would mean a total annual consumption of about 1,920,000 tons. The request stated also that the average corn production was about 1,700,000 tons. The former figure is far in excess of the UAR's annual corn production, which averages 1,624,000 tons.

Imported corn could not have made up the difference since corn imports never exceeded 80,000 tons in the prior 5 years and imported corn is almost entirely consumed by the urban population. Thus, although the UAR indicated that its rural population, which it stated was in need of assistance, normally consumed about 1,920,000 tons of corn per year, in reality it consumed only that amount produced within the UAR, which was far less than this quantity. The Mission did not resolve this conflicting information as to the quantity of corn consumed by the UAR's rural population.

*Inadequate supervision by AID/Washington.*—AID/Washington did not require the Mission to verify the UAR's representations or to consider alternatives to granting corn. The United States Ambassador to the UAR informed the Department of State on October 13, 1961, that the UAR would shortly request, under title II, 200,000 tons of corn for human consumption. AID/Washington knew at least as early as November 17, 1961, that the UAR had requested 200,000 tons of corn under title II. AID/Washington did not grant the 200,000 tons of corn until December 28, 1961. We found no evidence that AID/Washington required the Mission either to verify the UAR's representations that a serious crop loss had occurred or to consider alternatives to granting corn under title II if assistance was actually needed.

*Final disposition of granted corn, not ascertained.*—The Mission did not ascertain how the UAR disposed of over 85 percent of the granted corn, even though it was aware that the UAR did not distribute the corn within the stated distribution period and had sold part of the corn although all the corn was to have been distributed free.

On November 29, 1961, the UAR agreed that it would distribute the corn to needy famine victims from January to May 1962. However, very little corn was distributed through July 11, 1962. On March 15, 1962, a Mission official reported that the UAR did not plan to distribute the granted corn until the summer of 1962. Mission auditors repeatedly reported from April to June 1962 that very little granted corn was being distributed to recipients. For example, on April 26, 1962, they reported that only 266 tons had been distributed in Sharkia Governorate (province), although the UAR had stated on November 19, 1961, that especially heavy losses of corn had occurred in that province.

The auditors also reported on April 26, 1962, that they found no distribution going on in the other six provinces visited. They observed on July 1, 1962, that weevils had begun to infest granted corn that had been at a distribution center since March 3, 1962. They reported that no granted corn had been distributed by any of the 17 distribution centers visited in April 1962 and that only 4 of the 42 distribution centers visited in June and July 1962 had commenced distribution. They reported that UAR officials attributed the delay in distributing the corn to needy famine victims to the amount of time required to select recipients, prepare distribution lists, and print the coupons used in identifying the recipients. They also reported that the unloading of four ships was delayed temporarily because the UAR had blacklisted the ships due to calls at Israeli ports.

The Mission found initially that the UAR sold 14,500 tons of the granted corn, although all the corn was to have been distributed free. The UAR agreed on November 29, 1961, that it would distribute the corn free, and AID specified on December 28, 1961, that the corn was to be distributed free. The Mission auditors

found during their visits to distribution centers from April to October 1962 that 6,000 tons of the granted corn had been sold. Subsequently, the Mission was informed that an additional 8,500 tons of granted corn had been sold. The Mission took no action on this matter until we uncovered the situation and proposed to AID that it determine the extent of the corn sales and initiate a claim against the UAR for the value of the corn improperly sold. A subsequent audit by the Mission of the records of agencies of the UAR disclosed that over 80,000 tons of corn had been sold.

The Mission took no action to prevent further deliveries of granted corn after it discovered this lack of distribution, although delivery of granted corn worth millions of dollars could have been avoided by terminating further shipments. For example, on April 26, 1962, about 87,000 tons of granted corn had not yet arrived in the UAR. At the average cost of the granted corn of approximately $127 per ton ($23,700,000 divided by 186,000 tons), this undelivered corn was valued at about $11,049,000. As late as June 1, 1962, about 62,000 tons of granted corn valued at about $7,874,000 had still not arrived in the UAR. We found no indication that the Mission recommended discontinuance of further deliveries of granted corn after it discovered that the delivered corn was not being distributed.

The Mission did not ascertain how the UAR disposed of most of the granted corn. The Mission auditors found that the distribution centers had distributed free 12,000 tons in addition to the 6,000 tons that had been sold and had 24,000 tons on hand. They also found in their October 1962 visits that the remaining 144,000 tons of granted corn had been merged with other corn obtained from the United States upon orders of the UAR Government and that a single set of accounting records was being maintained for both. The Mission did not ascertain the final disposition of the corn granted to the UAR, apart from the 12,000 tons identified as having been distributed free and the 14,500 tons verified as having been sold. Since the title II corn had been merged with other United States-furnished corn, the Mission was not in a position to trace specific shipments of title II corn to individual recipients. Action should have been taken, however, to ensure that the quantity of corn given to the UAR for emergency relief purposes, i.e., 186,000 metric tons, actually reached needy recipients.

On July 26, 1964, 2 years after the last of the granted corn arrived in the UAR, the Mission obtained information showing which provinces received the granted corn. The Mission took this action as the result of our inquiries. The Mission did not ascertain what quantity of the granted corn was distributed free and how much was sold or otherwise disposed of. AID regulations assign responsibility for end-use audits and investigations to overseas Missions which are staffed with internal auditors to carry out this function. We discussed this deficiency with responsible Mission personnel but were unable to obtain any explanation on this matter.

*Agency comments and evaluation.*—The AID and Department of State comments are detailed below together with our evaluation.

1. AID's comments.—Approval of the title II program was based on a major short-fall in the corn and cotton crops. This approval was based not only on representations of the UAR Government, but also on the observations and estimates of United States officials then stationed in the UAR, particularly those of the Agricultural Attache in Cairo. His report dated November 9, 1962, considered the Ministry of Agriculture's estimate of 1,617,000 tons as unrealistically high and placed the 1961 crop production at 1,360,000 tons.

Evaluation: The Agricultural Attache's report was made nearly a year after the grant; it therefore reflects an ex post facto attempt to establish that which should have been established prior to the making of the grant.

Analysis of the report discloses that it is predicated on opinion rather than on substantiated facts, as follows:

a. After citing the Yearbook data, the report states a supposition that "* * * a record average yield is highly unlikely in a poor year of bad climatic and growing conditions together with the prevalence of diseases and insects that severely infested most of the crop." Yet the Mission was unable to produce at our request any evidence whatsoever in the form of documents or facts ascertained by field visits before the grant was made to show that the crop conditions were in any way unusual.

b. The report states that "Many believe that an average yield of 0.848 tons per feddan last year is quite reasonable. This would place the total crop production in 1961 at 1,360,000 tons instead of 1,617,000 tons presented

by the Ministry of Agriculture." There was no evidence of who were the "Many," their qualification, or the basis of their belief.

c. The report stated that this lower production estimate is substantiated by the fact that the largest corn imports in the UAR history were made in 1961–62 in order to cover up the corn deficit. It thus attempted to justify the existence of the need by the actions taken to fulfill it.

Subsequent to the Agricultural Attache's report, the Agriculture Yearbook 1961 crop estimate of 1,617,000 tons was used without qualification by the same Agricultural Attache in his May 11, 1963, report as his revised estimate of the 1961 UAR corn crop, and it was also used in a report of an Acting Agricultural Attache and by the current Agricultural Attache. The American Embassy also used this estimate in its Airgram No. 615, dated February 14, 1964, in statistics supporting its justification for a Public Law 480 sale to the UAR of 400,000 tons. The Embassy stated that the statistics presented were the best available.

AID also contends that there is no indication that we cross-checked the UAR Agriculture Ministry report with other published data available for the same year; for example, the official report of the UAR Ministry of Supply. AID further states that "The records of the Ministry of Supply indicate an unusually high figure for corn imports over the period 1961–63," and cite the same total corn import tonnage data as that given in the Agriculture Attache's November 1962 report. It was also noted that, since there is no evidence that stocks increased in the 1961–63 period, it must mean that consumption increased.

We have cross-checked the UAR official estimate of the 1961 corn crop with all available documentation. In addition to the documents cited above, the only other documents available that contain statistics pertaining to the size of the UAR's 1961 corn crop are the UAR's "Statistical Pocket Book" published by the UAR Administration of Public Mobilization; the "International Monetary Fund's Staff Report and Recommendations—1963 Consultations," dated April 10, 1964; and a publication entitled "The Agricultural Economy of the United Arab Republic" (Foreign Agricultural Economy Report No. 21) published in November 1964 by the Economic Research Service of the United States Department of Agriculture. All of these documents state that the size of the crop in question was 1,617,000 tons.

With regard to the contention that the high imports in 1961–63 indicate increased consumption, no evidence was furnished us to support this position. There was no evidence in the agency files to indicate that the Mission knew whether the increased corn imports went into inventory, were consumed, or were exported. The fact remains that the actual need for the grant of corn had not been established at the time the grant was made. We see no reason why approval of the grant could not have been deferred until it could be established definitely whether there was a crop failure and the degree of such failure, if any. The feasibility of deferring approval of the title II grant of corn is indicated by the Mission's recognition that the emergency need for famine relief was anticipated rather than immediate at the time it recommended approval of the UAR's request.

2. AID's comments.—Information received from the Mission indicates that, though the Audit Team discussed numerous matters concerning the title II program, there is no record that it ever requested comments as to the existence or nature of field inspections which are customarily made by Mission personnel concerned with agriculture in the UAR.

A study of reports filed by the Agricultural Attache reveals numerous references during the period September to November 1961 of infestation of both the cotton and the corn crops as well as losses due to floods.

United States personnel constantly travel throughout the UAR, and those expert in agriculture identified areas where infestation occurred and so reported at staff meetings of the Embassy and USAID. With United States Government cooperation, but with all costs paid by the UAR from limited foreign exchange, insecticides were airlifted urgently to Egypt in August/September 1961 in an effort to halt the damage to crops from the leafworm infestation affecting both corn and cotton.

Evaluation: We asked the Mission for evidence as to the existence and nature of the actions taken to verify the alleged crop failure. Contrary to the Agency's statement, the Mission was unable to furnish us with documentary evidence or concrete factual data ascertained by specific observation concerning the estimate of damage to the growing crop that was used as the basis for concluding that the losses had in fact occurred.

The information furnished, including the numerous references to infestation of both the cotton and the corn crops as well as to losses due to floods, was completely devoid of specific facts. The information consisted of broad generalities based on information said to have been furnished by the people concerned in the Ministry of Supply, by appropriate people in the Ministry of Agriculture, and statements made to us that the Nile flood conditions were observed daily by Embassy officials. There was no evidence available in the Mission to substantiate such reports nor is any now provided. The Agency response gives no clue to the rationale of accepting as valid the Ministry of Agriculture forecasts of future events while rejecting the Ministry's Yearbook reports on those that had occurred.

It appears to us therefore that the present insistence that such verification was made is not only unsupported by facts or the record but is contradicted by the best available information as to the actual crop results in 1961. Further doubt is cast on the reliability of AID's position by certain other considerations, which, while of only general bearing, nevertheless should have shown the need to ascertain the true crop conditions. For example, insect infestation and flooding are relatively normal conditions in Egypt. They are known to be aggravated by the fact that effective crop spraying is impracticable because of the practice of sowing corn by indiscriminately scattering seed and the common practice of small farmers' refusing to spray disinfectants in order to salvage the leaves from the stalks to feed their cattle.

One of the bases for AID's rejecting the corp statistics shown in the UAR Ministry of Agriculture Yearbook is that Ministry reports are frequently inaccurate or misleading. AID stated that this is particularly true with respect to agricultural statistics, since in many countries a high percentage of agricultural production fails to reach the commercial market and thus is not easily captured by the material statistical system. This would seem to suggest that actual production probably was greater rather than less than that shown by the Agriculture Yearbook.

A further indication that the alleged shortfall did not occur and that the title II grant was not needed exists in the fact that substantial quantities of title II corn were not distributed from January to May 1962, the period in which the supposed need existed. In fact there is no evidence that 85 percent of it ever was distributed for the purpose intended. The UAR had agreed, on November 29, 1961, to distribute the corn to needy famine victims from January to May 1962. However, very little corn was distributed through July 11, 1962. For example, Mission auditors reported that only 4 of the 42 distribution centers visited in June and July 1962 had commenced distributions.

3. AID's comments.—The Mission was fully aware of relief measures being taken by the UAR but concluded that these measures would not prove adequate. While the UAR in October and November 1961 was considering distributing corn free or at a nominal price to further alleviate the problem, it would not be an erroneous deduction to state that the possibility of taking such measures was a result of the hope that title II corn would become available, thus permitting free distribution to needy farmers. Corn programmed under titles I and III could not be shifted to avert the anticipated famine. Title I corn could not be used in this maner since the requirement for the UAR to pay for additional corn would have produced an undue burden on the already strained economy of the UAR. Title III corn had been earmarked for specific feeding programs and was required for this purpose.

Evaluation: We found no evidence to support AID's contention that it was aware of the relief measures being taken and that the UAR's actions had been evaluated and found to be inadequate. Public Law 480, titles I and III, agreements consummated before the title II grant was made assured the UAR of an increase of 262,000 tons over and above prior years' imports. Even had the alleged shortfall in the UAR crop occurred, the total thus available for consumption would have been 1,612,000 metric tons (1,350,000 metric tons plus 262,000 metric tons) or approximately the same as the average annual UAR crop.

These facts, as well as the other alleviation measures by the UAR, were known over a month before the title II grant and show that the threatened shortfall, if it occurred, could have been substantially offset from the UAR's own resources and those which it could expect to receive. Nevertheless, we found no evidence that the Mission actually considered these facts in connection with the title II request or of the basis for the conclusion that the Agency now

says was reached at that time that these partial measures would not prove adequate.

With regard to AID's reasons as to why title I corn could not be used, audits by the Mission disclosed that in fact quantities of title I corn were commingled with title II corn and distributions were made from the total quantity. With regard to title III corn, our review showed that large quantities of such corn were not specifically earmarked for feeding programs and were used outside the title III program.

4. AID's comments.—AID/Washington specifically requested the Mission to investigate the crop situation and outlined to the Mission the detailed information needed to justify the program. Verification was made by the Mission of the UAR's representation on the crop loss. In addition, verification was made by review of reports of the Agricultural Attache and the Mission Agricultural Officer.

Evaluation: The AID message that allegedly specifically requested the Mission to investigate the situation asked them to investigate the *drought* situation including the UAR's desire for title II program. The Mission's response did not in any way indicate that it had verified the need for the program; it merely stated that in the Mission's judgment the UAR's request substantially explained and justified the requirement.

AID's contention that verification was made by review of reports of the Agricultural Attache and the Mission Agricultural Officer also has no substance since, as noted above, such reports as were made stated that they were based on unverified information received from the UAR. The Mission Agricultural Officer, in response to our request, told us that he issued no written reports concerning the extent of damage to the UAR 1961 corn crop.

5. AID's comments.—Although it is true that final disposition of all corn granted under the title II program was not confirmed by audit, the General Accounting Office (GAO) draft report does indicate that 15 percent was accounted for. Further, as of April 1963 the AID Mission reported that 186,000 metric tons of corn had arrived in the country and that records had been examined in the UAR Ministry of Supply to show the total allocation and distribution of corn to the several governorates. In addition, some 42,000 tons of corn, or 23 percent of the total corn shipped, was traced by audit to distribution centers. Although end-use checks were limited because only a small quantity had been distributed to recipients, the Mission audit report concluded that "storage facilities, records, and methods of receipt and distribution are considered satisfactory." Although some problems were indicated—such as delays in distribution beyond the emergency period, the use of unmarked bags, and the need for more publicity—no specific recommendations were set out in the report.

The Mission obtained information listing provinces which had received the granted corn. Review of the data furnished by the GAO disclosed that this listing was checked with the UAR Ministry of Supply records showing actual distribution to the 25 governorates. This was in addition to the above-mentioned 42,000 tons (23 percent) of the total corn shipped which was traced to distribution centers, of which 12,000 tons were identified as having been distributed free. Further, all records covering distribution to end users were kept (and are still available) in the Agriculture Banks. The draft report does not indicate whether the audit team availed itself of these existing UAR records. With regard to the 14,500 tons of corn sold, the Mission has instituted measures for repayment although no deposits have yet been received from the UAR.

Evaluation: Mission verification that the UAR records showed the total allocation and distribution of corn to the several governorates is not evidence that the corn actually was distributed to those for whom intended by the grant, since the governorates represented merely central distribution points. That would be true even had the wholesale distribution been verified, which had been done only to the extent of the 42,000 metric tons described in our report as having been traced to that point by the Mission auditors.

As shown in our report, the Mission auditors found that 24,000 metric tons of that 42,000 metric tons remained at the distribution centers still undistributed to consumers as late as October 1962, that only 12,000 metric tons had been distributed free, and that 6,000 metric tons were sold; the Mission was also subsequently told by UAR that an additional 8,500 metric tons had been sold, or a total of 14,500 metric tons. The Mission had not ascertained the disposition of the remaining 159,500 metric tons (186,000 metric tons less the 26,500

metric tons sold and distributed free) despite the clear evidence that over half of the known dispositions were improperly made by sale. It was not until July 1964, and then only as a result of our review, that the Mission obtained information showing which provinces received the granted corn, and it did not even then know the final disposition.

The Agency's statement that its review of data we furnished disclosed a listing that had been checked with UAR records showing actual distribution to the 25 governorates, and that this was in addition to the above-mentioned 42,000 tons, improperly implies that this evidences actual distribution of the entire 186,000 metric tons. Such is not the case. We found no evidence that these quantities were actually delivered to needy individuals or even shipped to the distribution centers. In any event, determinations in respect to the title II program could not have been made from those particular records since both title I and II transactions were merged in the single set of records with the commodities under both titles being treated as fungible goods. Nor, in our opinion, could review of such records without independent verification be considered as fulfilling the agency responsibility.

*Department of State comments.*—The Department of State advised us that it concurred in the AID comments. The Department also stated that:

"Our willingness to consider a Title II program had an important psychological effect. It coincided with a conscious effort to improve US–UAR political relations. Because of the UAR leadership role in the Near East, its geopolitical importance, the part it played in assuring peace and stability in the Near East, * * * a determination had been made at the highest levels of our Government to carry out an action program designed to build a broad and useful relationship. Because there was a mutuality of interest in orderly economic development, much of our interest was focussed in this field. For a country with limited resources and no foreign exchange resources to fall back on, it was clear that an agricultural failure would have an adverse effect on the overall-economy and could cause its burgeoning economic development program to falter. Thus it appeared desirable for humanitarian and political reasons to be associated with measures to alleviate the economic consequences of this agricultural short-fall on the masses of Egyptian farmers who had suffered."

Evaluation: Our study of title II, Public Law 480, discloses no specific authorization for the Executive agencies to grant commodities to foreign countries under section 201 of the act in order to improve political relations with these countries. Section 201, under which the grant of corn was made, permits emergency assistance to be furnished to friendly people in meeting famine or other urgent or extraordinary relief requirements by the transfer of surplus agricultural commodities. While "famine or other urgent or extraordinary relief requirements" are not defined in the legislation or in the legislative history, we find nothing in title II which would authorize the donation of corn to the UAR for the reasons cited by the Department of State. However, section 2 of Public Law 480 states it to be the policy of the Congress "to make maximum efficient use of surplus agricultural commodities in furtherance of the foreign policy of the United States * * *." Presumably the grant of corn to the UAR for political reasons cited by the Department of State was made under the Department's responsibility for the conduct of foreign affairs.

## CONCLUSION

We believe that the underlying reasons for granting corn to the UAR without adequate verification of the need for the commodity are to be found in the policies of the Department of State. The Department advised us that the willingness to consider a title II program coincided with a conscious effort to improve relations with the UAR, the country's geopolitical importance, and the part it played in assuring peace and stability in the Near East.

We have found no specific authorization in title II, Public Law 480, or in the legislative history of the act, which permits the grant of corn to achieve foreign policy objectives. However, the act does contain a general statement of policy of the Congress to make maximum efficient use of surplus agricultural commodities in furtherance of the foreign policy of the United States.

Under these conditions, we believe that there is a need to clarify in existing legislation, the conditions under which the executive branch can donate surplus agricultural commodities to achieve foreign political objectives. Public Law 480, as presently written, makes no specific provision for such donations.

We also believe that there is a need to identify more specifically the agencies responsible for the decisions made relating to Public Law 480 programs. Under present arrangements, the Department of State carries out those functions relating to the Public Law 480 programs in advancing the foreign policy interests of the United States. However, there are no procedures involving title II grants requiring that the decisions of the Department in this area, which override other considerations, be explicitly stated and justified by the Department to the Congress. Further, the cost of title II programs which are motivated primarily by Department of State foreign policy considerations is shown in the Department of Agriculture's budget and defended before the Congress by the Department of Agriculture. We believe identification of agency responsibility in the decision-making process and presentation of program justification by the responsible agency would enable the Congress to better evaluate the purpose of the programs and to make better informed judgments relating to appropriations of funds necessary to carry out these purposes.

*Matters for consideration by the Congress.*—The Congress may wish to consider enacting legislation which would require that commodities be donated under title II of Public Law 480 only upon a certification by the United States Chief of Mission that he has verified the need for such commodities or upon the determination by the Secretary of State that such food donations are in the interests of the United States.

The Congress may also wish to consider whether it would be more appropriate to require that the expense of providing surplus agricultural commodities to foreign governments to meet United States foreign policy objectives be met from appropriations made available to the Department of State or the Agency for International Development rather than from Department of Agriculture appropriations.

## SCOPE OF EXAMINATION

Our examination of this grant of corn to the UAR consisted of a review of the justification of the grant and its subsequent administration. We reviewed, in the UAR, correspondence, reports, and other pertinent material available to us at the AID Mission, the United States Embassy, and the office of the Agricultural Attache. We also discussed the grant with responsible officials of the AID Mission and the Embassy and with the Agricultural Attache.

## APPENDIX

*Officials responsible for approving and administering the grant of corn to the United Arab Republic (from October 19, 1962 (the date of the UAR's first request for the grant) to July 31, 1964 (the date of completion of our field review in the UAR))*

| | Tenure of office | |
|---|---|---|
| | From— | To— |
| Department of State: | | |
| Secretary of State: Dean Rusk | October 1961 | July 1964. |
| Ambassador to the United Arab Republic: | | |
| John S. Badeau | do | June 1964. |
| William O. Boswell (Charge d' Affaires) | June 1964 | July 1964. |
| Administrator, Agency for International Development: | | |
| Fowler Hamilton | October 1961 | December 1962. |
| David E. Bell | December 1962 | July 1964. |
| Director, AID mission to the United Arab Republic: Edwin G. Moline. | October 1961 | Do. |

Senator GRUENING. I also direct that the report to the Congress of the United States, prepared by the Comptroller General of the United States and about to be released, be included at its completion in the record of this hearing.

To follow this, I direct that a copy of the letter of June 16, 1964, sent to the Honorable Allen J. Ellender, chairman of the Senate Committee on Agriculture and Forestry, and written by Joseph Campbell, former Comptroller General of the United States, be included in the record of this hearing.

(The above-mentioned report and letter follow:)

EXHIBIT 6

REPORT TO THE CONGRESS OF THE UNITED STATES

REVIEW OF PRECAUTIONS TAKEN TO PROTECT COMMERCIAL DOLLAR SALES OF AGRICULTURAL COMMODITIES TO FOREIGN COUNTRIES PURCHASING THE SAME TYPE COMMODITIES FOR FOREIGN CURRENCIES UNDER PUBLIC LAW 480

DEPARTMENT OF AGRICULTURE

COMPTROLLER GENERAL OF THE UNITED STATES,
*Washington, D.C., August 18, 1966.*

B-146820.

*To the President of the Senate and the Speaker of the House of Representatives:*

The accompanying report presents the findings based on our review of precautions taken by the Department of Agriculture to protect commercial dollar sales of agricultural commodities to foreign countries purchasing the same type commodities for foreign currencies under title I, Public Law 480. Foreign currencies received from title I sales are not as valuable as dollars to the United States because, in many countries receiving commodities under title I, the United States has accumulated foreign currencies which are surplus to its requirements and because, for the most part, the foreign currencies received are not convertible into dollars and are generally restricted to the uses stipulated in sales agreements entered into between the United States Government and the foreign governments.

Title I provides that, in negotiations of sales agreements with foreign governments, reasonable precautions be taken to safeguard usual marketings of the United States. The purpose of this provision is to avoid having sales for foreign currencies under title I displace normal commercial sales of United States agricultural commodities for dollars. In 1955, the President of the United States stated that such substitution would result in a budgetary cost without contributing to the solution of the problem of agricultural surpluses.

During our review, we analyzed export statistics applicable to three commodities purchased from the United States by 15 foreign countries for dollars. For 12 of these countries, we found sufficient information on one or more of the commodities to conclude that, after these countries started receiving commodities under title I, they decreased their commercial dollar purchases of the same type commodities. We estimate that, over a period of approximately 9 years, these commercial dollar purchases totaled about $715 million less than those which the countries would have made had they maintained the level of their purchases prior to the initiation of title I programs. Decreases in sales of agricultural commodities for dollars are of added significance in view of the currently unfavorable international balance-of-payments position of the United States.

Because of the complexities involved in isolating the effects of various factors on international trade, there is no way of conclusively determining the causes of the decreases. In this connection, the requirement of Public Law 480, that reasonable precautions be taken to safeguard usual marketings of the United States, is related to international trade and, therefore, the manner in which that requirement is interpreted and administered is one factor directly affecting the amount of agricultural commodities sold by the United States for dollars.

In our opinion, the decreases which occurred from historical sales of commodities to certain foreign countries for dollars could be attributed, in part, to the fact that the United States Government had negoiated title I sales agreements which did not include terms and conditions designed to avoid such decreases; however, we are unable to conclude whether the omission of such terms and conditions was contrary to the intent of the Congress. In addition, we believe that certain procedures have not been adequate for determining and obtaining compliance by foreign governments with the terms and conditions of negotiated agreements.

Our review disclosed several recurring reasons why title I sales agreements often did not include specific provisions designed to avoid decreases from the quantities of United States agricultural commodities historically sold for dollars to the foreign countries purchasing the same type commodities under title I.

These reasons may be summarized as (1) the administrative decision, in recognition of the general principle of free trade, to eliminate the requirement in certain title I agreements that specific quantities of commodities be purchased commercially from the United States and to substitute a requirment that such commodities be purchased commercially from free world sources, including the United States, (2) the belief of Government officials that requirements for commercial purchases from the United States should be reduced or eliminated because foreign countries were considered unwilling or financially unable to meet their historical commercial purchases, and (3) the matter of foreign policy considerations. Also, primarily because of foreign policy considerations, commercial sales may have been lost where title I sales agreements were signed with foreign countries which were, in the opinion of officials of the United States Government, financially able to purchase commercially all of their requirements for such commodities.

Our review of Public Law 480 and its legislative history did not disclose what actions would be considered by the Congress as constituting compliance with the statutory admonition to take reasonable precautions to safeguard the usual marketings of the United States, what factors should be considered in determining the quantities of commodities that would constitute usual marketings, and under what conditions countries would be considered eligible to receive commodities under title I.

In a letter dated August 17, 1965, the Associate Administrator, Foreign Agricultural Service, Department of Agriculture, informed us that, although he believed that the title I program had been operated in accordance with the legal requirement to take reasonable precautions to safeguard usual marketings of the United States, a further tightening up of safeguards had taken place within the past few years.

In view of the manner in which this statutory provision has been implemented and the doubt which we believe exists as to whether the Department of Agriculture's interpretation thereof is in accordance with the legislative intent, we are suggesting that the Congress may wish to express its views concerning the criteria to be applied in carrying out the law. In this connection, we believe that, if usual-marketing requirements in title I agreements are reduced below historical levels because foreign countries wish to use their foreign exchange resources for economic development or other similar purposes, the reductions are, in effect, comparable to an additional contribution by the United States Government to activities and programs of the type generally carried out by the Agency for International Development. Since these indirect contributions are not reported by that Agency, the Congress may not be fully aware of such development assistance in excess of funds specifically provided under the Agency's program.

Our review disclosed also that the Foreign Agricultural Service used certain criteria and procedures which we believe were not adequate for determining compliance of foreign governments with usual-marketing commitments established in title I sales agreements and for obtaining additional commitments under certain circumstances. As a result, the Foreign Agricultural Service determined, in a number of instances, that foreign governments had complied when, in fact, they had not made the additional commitments or had not carried out their prior commitments to buy commercially certain agricultural commodities. The Administrator, Foreign Agricultural Service, in a letter to us dated October 5, 1965, indicated that, in line with our proposal, certain corrective action would be taken.

These matters are being reported to inform the Congress of the administrative interpretations and practices used in carrying out the title I program, which, in our opinion, have had an adverse effect on dollar sales of United States agricultural commodities and on the balance-of-payments position of the United States, and to suggest that the Congress may wish to express its views on these matters.

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of Agriculture; the Secretary of State; the Administrator, Agency for International Development; and the Chairman, Interagency Staff Committee on Agricultural Surplus Disposal.

FRANK H. WEITZEL,
*Acting Comptroller General of the United States.*

## INTRODUCTION

The General Accounting Office has examined into the administrative controls established and the operating procedures followed by the Department of Agriculture for determining and safeguarding the normal sales of agricultural commodities for dollars to foreign countries purchasing the same type commodities for foreign currencies under title I of the Agricultural Trade Development and Assistance Act of 1954, commonly known as Public Law 480 (7 U.S.C. 1691). Our examination, which was undertaken as part of a general review of practices followed in administering title I sales, was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of our review is described on page 85 of this report.

## GENERAL INFORMATION

Title I of Public Law 480 authorizes the President of the United States to negotiate and carry out agreements with friendly nations, or organizations of friendly nations, providing for the sale of surplus agricultural commodities and for the receipt of payment therefor in the local currencies of the recipient foreign countries. The act authorizes the Secretary of Agriculture to determine the commodities and quantities which may be included in sales agreements negotiated under title I and provides that the Commodity Credit Corporation (CCC) make funds available to finance the sale and exportation of such commodities, whether sold from private stocks or from stocks of CCC.

Title I of Public Law 480 was originally conceived as a measure for disposing of United States surplus agricultural commodities in such a way as to not upset normal trade channels and to bring about an increase in the consumption of such commodities abroad. By authorizing the President of the United States to sell such commodities for local currencies of foreign countries, the Congress removed a sales deterrent which had been caused by the shortage of dollars available to foreign countries to pay for such commodities.

To avoid having sales for local currencies under title I displace normal commercial sales, the Congress has provided in section 101(a), as amended (7 U.S.C. 1701), that, in negotiating sales agreements under title I, the President shall:

"* * * take reasonable precautions to safeguard usual marketings of the United States and to assure that sales under this Act will not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries; * * *."[1]

The term "usual marketings" has been defined by the Department of Agriculture as that quantity of a commodity which a country would be expected to obtain from abroad, using its own financial resources, in the absence of imports obtained under concessional arrangements, such as purchases with local currencies under a title I program. It should be noted from this definition that the quantity of a country's former commercial purchases from abroad—that is, its historical purchases—does not necessarily constitute usual marketings. The Department's definition relates primarily to what a country may reasonably be expected to purchase from abroad during a future period. The application of this definition necessarily requires the exercise of informed judgment on the part of Government officials responsible for establishing the level of usual marketings.

The President's first semiannual report, issued in January 1955, on activities under Public Law 480 pointed out the need for carefully scrutinizing each country program developed under Public Law 480 to ensure that normal dollar markets for United States agricultural commodities are protected and to safeguard against the substitution of local currency sales for sales which otherwise would be made for dollars. The report stated that such substitution would result in a budgetary cost without contributing to the solution of the problem of agricultural surpluses.

By Executive Order 10560, superseded by Executive Order 10900 dated January 5, 1961, as amended (7 U.S.C. 1691 (note)), the President delegated to the Secretary of Agriculture all functions conferred upon the President by title I, except those specifically delegated to others in the order. The Secretary of State was specifically delegated the function of negotiating and entering into

[1] The phrase "or normal patterns of commercial trade with friendly countries" was added by the act of September 6, 1958 (72 Stat. 1790).

agreements under title I and all functions under Public Law 480 were made subject to his responsibilities regarding the foreign policy of the United States.

On January 24, 1961, the President established the office of the Director, Food for Peace, in the Executive Office of the President and assigned to the Director responsibility for the continuous supervision and coordination of the President's title I functions which had been delegated or otherwise assigned to other officers or agencies of the Government. The President noted that the delegation to the Director was not to be construed as terminating any delegations or other assignments of title I functions made to other officers or agencies of the Government.[2]

To carry out his assigned functions under title I, the Secretary of Agriculture, in a memorandum dated October 6, 1954, indicated that the Administrator of the Foreign Agricultural Service (FAS) would "have primary responsibility for carrying out the functions of the Department under title I." At the same time, in order to ensure the effective coordination requested by the President of day-to-day operations through appropriate interagency relationships, the Secretary of Agriculture established the Interagency Staff Committee on Agricultural Surplus Disposal (ISC) and appointed the Administrator, FAS, as chairman.[3] The Secretary of Agriculture stated that the functions of the ISC would include the development and review of programs and operations required under title I and the review of basic agreements to be negotiated under title I.

The membership of the ISC comprised representatives of various other departments and agencies, including the Department of State and its Agency for International Development (AID); the Departments of Defense, Treasury, and Commerce; and the Bureau of the Budget. In November 1961, the Secretary of State delegated to AID responsibility for coordinating Department of State and AID positions on title I proposals and for representing the Department of State on the ISC.

The President's first semiannual report on activities under Public Law 480 stated that the ISC was "responsible for consideration of specific proposals for sales or grants and for working out the detailed provisions of agreements, terms of sale, and the like." In actual practice, FAS drafts the proposed terms of title I sales agreements, including the usual-marketing requirements, and submits the drafts to the ISC for consideration. After the draft agreements are reviewed and approved by the ISC, they are forwarded to the Department of State for negotiation with the foreign governments concerned.

The FAS, over the years, has developed a concept of "usual marketings" which, in our opinion, allows for considerable administrative discretion. Thus an official of FAS stated to us:

"* * * we think of * * * [the usual-marketing requirement] as that quantity of an agricultural commodity which the recipient country would buy from free world sources in the absence of P.L. 480 programs. Since, by this definition, there can be no precise method for determining a usual marketing, we arrive at it by reviewing a country's historical imports in light of its ability to buy."

FAS is responsible for initially drafting the proposed terms of title I agreements and for maintaining controls to determine whether foreign countries comply with the usual-marketing requirements contained in title I sales agreements. The principal officials of the Departments of Agriculture and State concerned with the administration of the activities discussed in this report are listed in the appendix.

From inception of the title I program in July 1954 through December 1964, the United States Government entered into sales agreements with 50 foreign governments. The export market value of the agricultural commodities programmed under those agreements, including ocean transportation costs financed by CCC, was $10.6 billion. The principal commodities programmed and their export market value, not including ocean transportation costs, were wheat and wheat flour ($5.4 billion), cotton ($1.3 billion), fats and oils ($1.1 billion), rice ($600 million), feed grains ($500 million), tobacco ($300 million), and dairy products ($100 million).

Our review included an inquiry into the factors considered by the Department of Agriculture in establishing usual-marketing requirements and the procedures

[2] Exec. Order 11252, October 20, 1965 (30 Fed. Reg. 13507), transferred all functions of the Director, Food for Peace, to the Secretary of State effective November 1, 1965.

[3] In April 1956, the Assistant Administrator, Market Development and Programs, now designated as Assistant Administrator, Export Programs, was appointed chairman of the ISC in lieu of the Administrator.

it used in determining compliance with such requirements. In that connection, we reviewed in varying degrees the situations involved in title I agreements signed with 15 foreign countries for sales of wheat and wheat flour, cotton, and tobacco. These sales agreements represented about 50 percent of the export market value of all commodities programmed to all countries under title I agreements through June 1964. The particular countries and commodities included in our review were selected with the objective of obtaining a comprehensive view of factors affecting the establishment of usual-marketing requirements. Our review did not include all aspects of the administration of title I activities.

In a report to the Congress entitled "Displacement of Commercial Dollar Sales of Tallow to the United Arab Republic," issued on July 20, 1965 (B–156922), we expressed the opinion that, because of overriding foreign policy considerations, commercial sales of tallow by the United States were displaced by title I sales for foreign currencies. We also submitted a report (classified "confidential") to the Congress entitled "Effects of Foreign Currency Sales On Commercial Sales of Wheat to the United Arab Republic * * *" (B–157438, March 11, 1966).

## FINDINGS AND MATTER FOR CONSIDERATION OF THE CONGRESS

The United States has experienced significant decreases from its historical level of sales of agricultural commodities for dollars to some foreign countries that have been purchasing the same type commodities from the United States for foreign currencies under title I, Public Law 480. Foreign currencies received from such sales are not as valuable as dollars because, in many countries receiving commodities under title I, the United States has accumulated foreign currencies which are surplus to its requirements and because, for the most part, the foreign currencies received are not convertible into dollars and are generally restricted to the uses stipulated in sales agreements entered into between the United States Government and the foreign governmens.

We analyzed export statistics applicable to three commodities purchased for dollars by 15 foreign countries which also received one or more of the same type commodities with title I financing. For 12 of the countries, we found sufficient information on one or more of the commodities to establish a reasonably firm figure as to the annual quantities that those countries had purchased commercially from the United States before they started receiving the same type commodities under title I (also referred to as "historical purchases"). We then ascertained the quantities which the countries had purchased commercially from the United States from the time they first received the same type commodities under title I through fiscal year 1963.

Our comparison of these data showed that, after the foreign countries started receiving the commodities under title I, they decreased their commercial dollar purchases of the same type commodities. We estimate that, through fiscal year 1963, these commerical dollar purchases totaled about $715 million less than those which the countries would have made had they maintained the level of their historical purchases, as follows:

*Estimated decreases in historical dollar sales from inception of title I program through fiscal year 1963*

| Commodity | Number of countries in analysis [1] | Amount of decreases (millions) |
|---|---|---|
| Wheat and wheat flour | 7 | $353.1 |
| Cotton | 6 | 275.0 |
| Tobacco | 8 | 86.4 |
| Total | | 714.5 |

[1] For 1 or more of the 3 commodities, certain of the 15 countries had increased their dollar purchases during the period (totaling about $10.1 million), and, in a number of cases, we could not readily determine a sufficiently reliable basis for establishing historical purchases on which to estimate decreases.

Decreases in sales of agricultural commodities for dollars are of added significance in view of the currently unfavorable international balance-of-payments position of the United States.

Because of the complexities involved in isolating the effects of various factors on international trade, there is no way of conclusively determining the causes

of the decreases. In this connection, we note, however, that one of the provisions of Public Law 480 provides that, in negotiations of agreements for the sale of agricultural commodities under title I, reasonable precautions be taken to safeguard usual marketings of the United States. Therefore, the manner in which this requirement is interpreted and administered is, in our opinion, one factor directly affecting the amount of agricultural commodities sold by the United States for dollars.

In our opinion, the decreases which occurred from historical sales of commodities to certain foreign countries for dollars could be attributed, in part, to the fact that the United States Government had negotiated title I sales agreements which did not include terms and conditions designed to avoid such decreases; however, we are unable to conclude whether the omission of such terms and conditions was contrary to the intent of the Congress. In addition, we believe that certain procedures have not been adequate for determining and obtaining compliance by foreign governments with the terms and conditions of negotiated agreements.

### TITLE I AGREEMENTS LACKED TERMS AND CONDITIONS DESIGNED TO AVOID DECREASES IN SALES OF AGRICULTURAL COMMODITIES FOR DOLLARS

Title I agreements for the sale of agricultural commodities for foreign currencies to countries formerly purchasing such commodities for dollars often either did not require the foreign countries to purchase a specific additional quantity of the same type commodities for dollars from the United States or required the foreign countries to purchase quantities for dollars which were less than their historical purchases.

The legislative history of Public Law 480 and subsequent statements by officials of the executive branch of the Government before congressional committees show that it was the intent of the Congress, in section 101(a) with respect to usual marketings, to require, among other things, that programs under title I be administered in a manner which would not displace the usual sales of commodities for dollars by the United States but which would result in sales additional to such usual dollar transactions.

Officials of the Department of Agriculture have stated that, for purposes of Public Law 480, determinations of usual sales of commodities for dollars by the United States are made on the basis of the dollar sales made to a foreign country during a representative historical period of from 3 to 5 years, with due consideration given to the country's current ability to buy commodities for dollars. Our review showed that the historical reference period generally preceded the year in which commodities were first furnished to the foreign country under title I.

Title I sales agreements negotiated with foreign governments usually contain a standard provision whereby the foreign governments agree to:

"* * * take reasonable precautions to assure that all sales and purchases of agricultural commodities pursuant to this Agreement will not displace usual marketings of the United States of America in these commodities or unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries."

This standard provision, which is consistent with the wording of section 101(a), is included even in those situations where United States Government officials determine that the foreign governments will not be required to purchase from the United States for dollars any of the same type commodities being furnished under title I.

A Department of State attorney concerned with title I matters informed us that the standard usual-marketing provision included in title I sales agreements was not intended to obligate foreign countries to purchase any specific or minimum quantity from the United States. Instead, he said, the purpose of the provision was to protect United States interests against unanticipated situations.

For example, if there was a change in the conditions upon which a determination originally had been made to not require any purchases for dollars under a title I sales agreement, the standard provision could be used as a basis for requesting a foreign country to purchase a portion of its commodity needs for dollars from regular commercial sources. When a determination had been made, however, that a country desiring to purchase commodities for foreign currencies under title I would normally purchase commercially the same type commodities from the United States or from countries friendly to the United States, the attorney indicated that provisions requiring such commercial purchases in

specified quantities were included in correspondence between representatives of the United States Government and the foreign government. This correspondence, known as an exchange of notes, became part of the overall title I agreement.

The provisions in the exchange of notes may require that specified quantities be purchased commercially by the foreign countries from United States sources (referred to as a United States usual-marketing requirement) or from free world sources (referred to as a global usual-marketing requirement). The global requirement may stipulate that a specific minimum quantity be purchased from the United States.

Our review of records at the Department of Agriculture and discussions with officials of the Department and the Agency for International Development (AID) disclosed several recurring reasons why title I sales agreements often did not include specific provisions designed to avoid a decrease from the United States historical sales of agricultural commodities for dollars to the foreign countries purchasing the same type commodities under title I.

These reasons may be summarized as (1) the administrative decision, in recognition of the general principle of free trade, to eliminate the requirement in certain title I agreements that specific quantities of commodities be purchased commercially from the United States and to substitute a global requirement that such commodities be purchased commercially from free world sources, including the United States, (2) the belief of Government officials that requirements for commercial purchases from the United States should be reduced or eliminated because foreign countries were considered unwilling or financially unable to meet their historical commercial purchases of agricultural commodities, and (3) the decision, based primarily on foreign policy considerations, to omit from certain title I agreements adequate provisions for protecting the dollar sales historically made by the United States. Also, primarily because of foreign policy considerations, commercial sales may have been lost where title I sales agreements were signed with foreign countries which were, in the opinion of officials of the United States Government, financially able to purchase commercially all their requirements for such commodities.

Our review of records at the Department of Agriculture and discussions with officials of the Department and AID disclosed that frequently there were a number of different considerations involved in the decreases from historical dollar sales and in the reductions made by the Department in the usual-marketing requirement from one year to the next. In the following sections, we have directed attention to decreases in which the dominant contributing factors appeared to be one or more of the several recurring reasons previously cited.

*Required use of United States sources for commercial commodity purchases changed to use of free world sources*

We noted that, since about 1959, title I agreements providing for the sale of wheat for foreign currencies did not require that foreign countries commercially purchase additional specified quantities of wheat from the United States but required only that they purchase those quantities commercially from free world sources. We found that annual commercial purchases of wheat from the United States by certain foreign countries were substantially less under these agreements than they had been under prior title I agreements which required specific commercial purchases of wheat from the United States. Although in some cases commercial purchases from the United States increased after elimination of the specific United States usual-marketing requirement, such increases would not have been precluded if the requirement had been retained in such agreements.

The change in practice apparently was related to the act of September 6, 1958 (72 Stat. 1790), which amended section 101(a) of Public Law 480 to provide that, in addition to taking reasonable precautions to safeguard the usual marketings of the United States, the President take precautions to ensure that sales under title I would not unduly disrupt normal patterns of commercial trade with friendly countries.

Shortly after passage of this amendment, the then Acting Administrator, Foreign Agricultural Service (FAS), in a memorandum dated January 21, 1959, to the Assistant Secretary of Agriculture, indicated that the Department of State was insisting that a title I sales agreement then being drafted for country A not include a United States usual-marketing requirement for wheat. Such a requirement had been included in the previous title I agreement with that country.

The Acting Administrator indicated that the Department of State was unwilling to consider a reduced usual-marketing requirement for United States wheat

and was seeking to establish a principle of no United States specific usual-marketing requirement for wheat or flour. The Acting Administrator stated that there was nothing in the legislative history of Public Law 480 to support the premise that specific United States dollar trade was not to be protected to the fullest reasonable extent and indicated that this insistence by the Department of State represented another move in a continuing line of similar moves to eliminate specific United States usual-marketing requirements. He recommended that the Department of Agriculture insist on a specific United States usual-marketing requirement in the title I agreement because "if we yield on the principle we may well see the end of U.S. usual marketing requirements. We must hold firm in order to support the intent of the law and in the interest of protecting our dollar market."

Nevertheless, a practice was adopted of omitting from subsequent agreements covering wheat the requirement that foreign countries buy commercially specified quantities of wheat from the United States and of substituting a global usual-marketing requirement which did not commit foreign countries to buy specified quantities from the United States.

An FAS official informed us that adoption of the practice was based, in part, on Cabinet-level decisions which required "greater consideration of the normal marketings of nations friendly to the U.S." In this connection, an AID official informed us that the revised practice was in accord with the position taken by the United States in various forums "where we espouse the principle of free trade and urge other countries to remove restrictive practices". The AID official indicated, however, that foreign relation problems on commodities other than wheat were not as signficant and that, consequently, it was not necessary to eliminate the concept of specifying a United States usual-marketing requirement with respect to those commodities.

Although the foreign relation problems on commodities other than wheat were stated to be not as significant as those on wheat, our review disclosed that the practice had been followed in connection with some title I agreements involving other commodities. For example, country B purchased substantially less cotton from the United States than it had purchased formerly when the title I agreement had specified the United States usual-marketing requirement, however, the country maintained its commerical purchases from free world sources other than the United States at about their normal levels.

In our opinion, there is nothing in Public aLw 480 which requires the elimination from title I sales agreeements of the requirement that foreign countries purchase commercially from the United States specific minimum quantities of the same type commodities being furnished under title I for foreign currencies. This requirement, on the contrary, appears to have been a logical administrative action designed to carry out that section of the law which provides that, in negotiating agreements under title I, the President take reasonable precautions to safeguard usual marketings of the United States.

The 1958 amendment to Public Law 480, which added the legal requirement that, in negotiating agreements under title I, the President take precautions also to ensure that sales under title I not unduly disrupt normal patterns of commercial trade with friendly countries, did not eliminate the requirement for safeguarding the usual marketings of the United States, nor did it, in our opinion, require a change in the more effective administrative policy then used for implementing that requirement. As explained by an official of AID, however, the practice previously followed of requiring the recipient foreign country to buy additional specified quantities of the same commodities from the United States for dollars might have represented some conflict with the general principle of "free trade."

The Associate Administrator, FAS, informed us that, although it was true that since 1959 FAS had not generally specified a separate requirement for purchasing wheat from the United States, FAS reserved the right to establish such a separate requirement if it should be needed. He indicated, however, that, as a result of the practice being followed by FAS, considerable advantage had accrued to the United States in its relations with other wheat-exporting countries without any significant losses in the total export sales of United States wheat for dollars. In this connection, he indicated that, if another wheat-exporting country obtained part of the United States historical dollar market for wheat in the recipient country, the exporting country would, in his opinion, have less wheat to sell in other markets. As a result, according to the Associate Administrator, the United States would probably sell more wheat in such other markets than it otherwise would.

We agree that it is conceivable that the United States may have sold more wheat than it otherwise would to some third country as a result of allowing its historical dollar market for wheat to be displaced in a country receiving wheat under title I. We believe, however, that the practice followed by FAS results in replacing positive controls for protecting usual marketings of the United States with reliance on possible global occurrences which are not within the control of United States officials.

*Foreign countries considered unwilling or financially unable to meet level of their historical purchases*

Provisions for adequately protecting the historical sales of agricultural commodities for dollars were not included in certain title I sales agreements because the foreign countries were considered by Government officials to be unwilling or financially unable to purchase commercially quantities equal to their historical purchases of the same type commodities that were being furnished under title I. Our review disclosed, however, that the foreign countries generally had sufficient resources with which to continue buying such quantities with dollars but preferred to use their available resources for other purposes which they considered more important.

Officials of the Department of Agriculture have stated that the quantity of a commodity which a foreign country will be required to purchase commercially in addition to that which will be provided under title I is based on the quantity actually purchased during a representative historical period of from 3 to 5 years, unless there are extenuating circumstances. According to the officials, exceptions are made when the foreign country's foreign exchange position is so weak that it is undesirable, in terms of overall United States objectives, to insist that a substantial part of the foreign country's limited foreign exchange holdings be used to maintain usual commercial imports of food or fiber. In this connection, a responsible official of FAS wrote to us, during the course of our review, and stated:

"* * * Therefore, in determining the size of the usual marketing, the Interagency Staff Committee is sometimes faced with selecting one of two alternatives which are to: (1) sell nothing, or (2) adjust usual marketing requirements in some cases below previous years' levels as a reflection of a deteriorating financial condition under which a country is unwilling to allocate foreign exchange for imports of agricultural commodities. * * *"

Examples of where a foreign country's financial condition, or unwillingness to use its own resources to purchase agricultural commodities, was an important consideration in establishing usual-marketing requirements follow.

*Country B.*—Tobacco was being provided under title I sales agreements that did not include requirements for country B to purchase any tobacco commercially. An FAS official informed us that United States tobacco was considered a luxury item in country B and that the decrease in dollar sales of tobacco from those previously made by the United States was attributed to country B's need to utilize its foreign exchange for higher priority purchases and for industrial goods. The official stated that, in the course of negotiating a title I sales agreement, the government of country B stipulated that it would not, under any circumstances, agree to a usual-marketing requirement for tobacco.

*Country C.*—Title I agreements signed prior to April 1960 included a provision that country C must commercially purchase a specific quantity of tobacco from the United States. A title I sales agreement signed in April 1960 did not include such a requirement. An FAS official had recommended against a usual-marketing requirement because he considered country C to be in a weak financial position. This action was taken even though information in FAS files indicated that signing a title I agreement without some provision for usual marketings would result in a displacement of dollar sales.

Prior to signing the title I agreement in April 1960, an FAS official in Washington, D.C., wrote to an American Embassy official in country C, stating that FAS was anxious to move the maximum practicable quantity of tobacco under the title I program and that "if we could get a formal communication, in the meantime, regarding * * * [country C's] future intention of allocating no additional dollars for purchase of tobacco, it would facilitate our getting approval for the program here." The embassy official replied that officials of country C had assured him categorically that they would not be able to allot free foreign

exchange for the importation of tobacco. In this connection, an FAS official wrote to us, during the course of our review, and stated as follows:

"* * * [Country C's] holdings of gold and foreign exchange, which reached $400 million in December 1959, are not necessarily relevant to * * * [country C's] ability or willingness to buy tobacco when more essential imports are needed. Furthermore, the Government was busily engaged in reorganization and building programs after the bloodless coup d'etat the year before, and wasn't about to purchase with its own resources a luxury item."

Similarly, our review disclosed that usual-marketing requirements for tobacco purchases were reduced or eliminated in title I agreements signed with three other countries, because those countries would not allocate foreign exchange for commercial purchases of tobacco.

We found also that foreign countries obtained other title I commodities at the same time that they were allowed to reduce purchases of such commodities from the levels of previous commercial purchases from free world sources, because they preferred to use their foreign exchange for purposes other than purchasing food. For example, the United States had agreed that, because of country B's financial situation, the usual-marketing requirement for wheat for fiscal year 1963 would be reduced to half the quantity that country B previously had been required to purchase commercially—a reduction from 400,000 to 200,000 metric tons. Previously, the Government of country B had objected strongly to a usual-marketing requirement of 400,000 metric tons and, according to an FAS official, insisted that such a requirement "would force them to use hard currency for the purchase of wheat which could better be used on economic development projects."

The Associate Administrator, FAS, informed us that, in the cases discussed above, a careful judgment had been made as to whether the foreign countries would be able to maintain their historical dollar purchases and that the conclusion had been, and was, that they could not reasonably be expected to do so. He indicated that, if FAS had insisted on retaining the usual-marketing requirements in the face of deteriorating foreign exchange positions, many of the Public Law 480 programs would have been reduced and some of them might not have been concluded at all. If this had happened, according to the Associate Administrator, FAS would not have met the objective of the law which was to meet consumption needs of countries that did not have foreign exchange resources to provide for such needs out of their own earnings.

Most of the foreign countries that receive agricultural commodities from the United States under title I are considered to be "underdeveloped countries." These countries generally are in the process of carrying out economic development projects for which substantial foreign exchange resources are required to import technical services, capital equipment, and industrial goods. The United States Government, primarily through the Agency for International Development, often contributes substantial financial assistance to those countries for their economic development projects. To the extent that the foreign countries are required under title I sales agreements to use their foreign exchange resources for purchasing agricultural commodities commercially, those countries have that much less of their own foreign exchange available for economic development projects or for other preferred purposes.

We believe that, if usual-marketing requirements in title I agreements are reduced below historical levels because foreign countries wish to use their foreign exchange resources for economic development or other similar purposes, the reductions are, in effect, comparable to an additional contribution by the United States Government to activities and programs of the type generally carried out by AID. Since these indirect contributions are not reported by AID, the Congress may not be fully aware of such development assistance in excess of funds specifically provided under the AID program.

*Reductions in sales for dollars related to foreign policy considerations*

Foreign policy considerations often were cited by United States Government officials as one of the justifications for signing title I sales agreements which did not contain requirements adequate for maintaining the level of the United States historical sales of agricultural commodities for dollars. Further, primarily because of foreign policy considerations, commercial sales may have been lost where title I sales agreements were signed with foreign countries which were, in the opinion of officials of the United States Government, financially able to purchase commercially all their requirements for such commodities.

Our review indicated that rarely had political considerations been advanced as the sole justification for United States officials negotiating title I sales agreements with foreign countries. It was not unusual, however, for foreign policy to be advanced as an important consideration in establishing the level of usual-marketing requirements in sales agreements. The extent to which foreign policy considerations significantly affect title I agreements is illustrated in the following situations.

*Country D.*—Prior to November 1958, title I sales agreements required country D to purchase commercially from free world sources (global usual-marketing requirement) 245,000 metric tons of wheat, of which 125,000 metric tons were to be purchased commercially from the United States. Substantial quantities of the wheat which country D purchased commercially from the United States under those agreements were financed by AID.

The title I agreement signed with country D in November 1958 provided for a reduction of the global usual-marketing requirement from 245,000 to 150,000 metric tons; the reduced amount included 50,000 metric tons to be purchased commercially from the United States. The record showed that the requirement was reduced even though representatives of the Department of Agriculture had proposed that the usual-marketing requirement remain at the higher level.

An AID official indicated to us that at least part of the reduction in the global usual-marketing requirement could have been attributed to a high-level political decision to increase the quantity of wheat which originally was to be provided to country D for local currencies under title I. The AID official indicated also that, after it was decided to decrease the wheat quantities specified in the global requirement, it was necessary to reduce also the portion of the requirement relating to wheat to be purchased commercially from the United States so that the usual marketings of another wheat-producing country would be protected.

In a letter dated October 27, 1958, to the Acting Secretary of Agriculture, the Under Secretary of State had recommended that the quantity of wheat to be purchased commercially from the United States be reduced since such reduction would help United States relations with the other wheat-exporting country. In this connection, the AID official wrote to us that a "country would not object if we could take over its market in a country if it is done with fair competitive practices. It does object, however if we do it on concessional terms in a manner which is as irrational as the case of * * * [country D] * * *."

Another title I sales agreement with country D, which was signed in December 1962, provided for a further reduction in the global usual-marketing requirements, from 150,000 to 125,000 metric tons a year for calendar years 1963–65, with no requirement that a specific quantity be purchased commercially from the United States. In this connection, the minutes of the Interagency Staff Committee dated August 16, 1962, contained the following explanation.

"The Bureau of the Budget favored a Title IV program [long-term credit sales repayable in dollars] instead of the proposed Title I program, because of * * * [country D's] improved economic position and because of the Embassy's recommendations. Commerce concurred in this position. Agriculture, State and AID favored a Title I program for political reasons. * * *"

At the time the December 1962 agreement was signed, country D was rated by the International Monetary Branch of the Economic Research Service (ERS), Department of Agriculture, as being in a "good" financial position. A "good" financial rating is defined by ERS as meaning that a country has "exchange holdings, if prudently managed, adequate to meet current import needs without difficulty; balance of payments situation under control; outlook either favorable or stable and without major adverse elements." This rating is intended to indicate that a foreign country is able to pay hard currencies, such as dollars for its import requirements. An official of FAS informed us that the United States had signed the title I sales agreement with country D only because of the foreign policy considerations involved but that the Department of State had not furnished written justification in support of such considerations.

In this connection, an AID official wrote to us, during the course of our review, and stated that:

"Title I agreements with this country are very difficult to follow. Figures don't 'stand still' and do not mean too much. Reasons for this situation are political—both in the U.S. as well as abroad."

*Country E.*—A title I agreement was signed in October 1962, although officials of the Departments of Agriculture and Treasury had stated that coun-

try E was then in a position to purchase its import needs on a full commercial basis. In this connection, an official of FAS wrote to the United States agricultural attache in country E on October 15, 1962, as follows:

"The basic situation as it appears to us is that * * * [country E] has very likely already achieved a state of economic development which makes it possible to purchase import needs on a full commercial basis. For your information this is the judgment of the Treasury Department as well as our judgment. Therefore, if it were not for strong political reasons advanced, it is quite likely that the decision on purely economic grounds would have been for no PL 480 program at all. * * *"

*Country F.*—A title I agreement was signed in August 1961 because, according to files in FAS, the Department of State considered the agreement important for foreign policy reasons. In connection with tobacco to be furnished under the title I program, memorandums of conversations with interested third countries indicated that representatives of the Department of State had informed the third countries that the tobacco to be provided country F under the title I program would be at the expense of United States sales of tobacco for dollars and that "the PL 480 sales which we had been making to * * * [country F] each year since 1955 had on the whole been at the expense of United States dollar sales rather than third country sales."

The Department of Agriculture's opposition to the sale was explained in a Department of State memorandum, as follows:

"* * * the sale of tobacco to * * * [country F] under PL 480 was no longer justified on economic grounds. In fact, the sole justification of the proposed sale was the political considerations involved. The USDA [United States Department of Agriculture] did not favor the proposed sale, since it was convinced that * * * [country F] would pay dolars for all the American tobacco it needed and that the PL 480 sale would thus displace dollar sales. The USDA had agreed to the program only because the State Department has asked it to for political reasons."

We noted several other instances where foreign policy considerations influenced title I determinations. In replying to our inquiries, an FAS official advised us, in part, as follows with respect to such considerations for specific country programs.

*Country G.*—"Usual marketings for wheat, tobacco and feed grains were omitted on the basis of foreign policy reasons in favor of assisting * * * [country G] in its difficult financial position resulting from the earthquake."

*Country H.*—"The record indicates that although * * * [country H's] financial position was relatively favorable, there were strong over-riding foreign policy considerations, both political and economic, that made a PL 480 program for * * * [country H] desirable."

*Country J.*—"Finally there were over-riding political considerations throughout the thread of negotiations which has to be dealt with in terms of U.S. long range objectives and enlightened self interest."

*Country K.*—"In order to foster political and economic relations, the Department of State requested the Interagency Staff Committee to consider initially a Title I program for wheat."

The Associate Administrator, FAS, informed us that in some cases foreign policy considerations had necessarily influenced the establishment of usual-marketing requirements and that, if FAS had, in some of those cases, insisted upon rigid maintenance of usual-marketing requirements at historical levels regardless of the financial condition of the country, the program would not have met the objectives of Public Law 480. Also, regarding the question as to the conditions under which countries would be considered eligible to receive commodities under title I, the Associate Administrator stated that it was the policy of the Department of Agriculture, as the foreign exchange positions of foreign countries improve, to move them from title I foreign currency sales to title IV long-term dollar credit sales and, ultimately to straight commercial sales.

Although Public Law 480 cites the improvement of foreign relations of the United States as one of its objectives, we found nothing in the act or its legislative history that would clearly resolve the frequent conflict between the expressed need to recognize foreign policy considerations and the need to take action to avoid decreases in dollar sales by the United States. We found that, when such conflicts arose, foreign policy considerations generally were held to be overriding.

*Overall agency comments*

In a letter dated August 17, 1965, the Associate Administrator, FAS, commented on the matters discussed in this report. Officials of AID, the Department of State, and ISC informed us that they had no comments to offer. The comments of the Associate Administrator were further clarified in a meeting with us on September 9, 1965, and were supplemented by a letter dated October 5, 1965, from the Administrator, FAS.

The Associate Administrator, FAS, stated that he believed that the title I, Public Law 480, program had been operated in accordance with the legal requirement to take reasonable precautions to safeguard usual marketings of the United States. Although recognizing that, when compared with historical sales, sales of agricultural commodities for dollars to certain foreign countries included in our review had decreased, the Associate Administrator believed that it was not possible realistically to demonstrate that the foreign countries would have made additional purchases of agricultural commodities for dollars. He indicated that countries experiencing balance-of-payment difficulties might well have chosen to reduce consumption rather than to use scarce dollar exchange to buy food in quantities equal to their historical purchases. In this connection, the Associate Administrator indicated also that, while it was recognized that the law did not prescribe the factors which should be considered in safeguarding usual marketings of the United States, he believed that the factors considered by United States officials had been appropriate.

Further, the Associate Administrator stated that, although all title I agreements had been developed to include reasonable precautions to safeguard usual marketings of the United States, a further tightening up of such safeguards had taken place within the past few years in furtherance of the President's instructions to make savings in the United States balance of payments through Public Law 480 operations. In this connection, he indicated that, if one were to consider usual marketing as a possible range of dollar sales obtainable rather than as a specific determinable figure, United States officials currently attempt to establish usual-marketing requirements in amounts which they believe to be as close to the top of the range as they consider obtainable.

*Conclusion*

We believe that the decrease in sales of agricultural commodities for dollars discussed herein may be attributed, in part, to recognition given by Government officials to the principle of free trade, the desire of foreign governments to use their available resources for purposes other than the purchase of agricultural commodities, and the matter of overriding foreign policy considerations. We believe that recognition of these factors in the determination of usual marketings may have had an adverse effect on the dollar sales of the United States and on its related balance-of-payments position. Although we believe that certain practices followed by United States officials have contributed to decreases from the level of historical sales for dollars of agricultural commodities, such practices have, for the most part, resulted not from weaknesses in program administration but from the particular interpretations placed by Government officials on the legislative provision concerning safeguards over such dollar sales.

Our review of Public Law 480 and its legislative history did not disclose what actions would be considered by the Congress as constituting compliance with the statutory admonition to "take reasonable precautions" to safeguard the usual marketings of the United States, what factors should be considered in determining the quantities of commodities that would constitute "usual marketings," and under what conditions countries would be considered eligible to receive commodities under title I.

*Matter for the consideration of the Congress*

In view of the manner in which the statutory provision for safeguarding usual marketings under Public Law 480 has been implemented and the doubt which we believe exists as to whether the Department of Agriculture's interpretation thereof is in accordance with legislative intent, the Congress may wish to express its views concerning the criteria to be applied in carrying out the law.

## INADEQUATE CRITERIA AND PROCEDURES FOR OBTAINING AND DETERMINING COMPLIANCE WITH USUAL-MARKETING COMMITMENTS

Our review of selected agreements disclosed that FAS used certain criteria and procedures which we believe were inadequate for determining compliance of

foreign governments with usual-marketing commitments established in title I sales agreements and for obtaining additional commitments under certain circumstances. As a result, FAS determined, in a number of instances, that foreign governments had complied when, in fact, they had not made additional commitments or had not carried out their prior commitments to buy commercially certain agricultural commodities. We estimate that the additional commitments not obtained, and those obtained but not carried out, had sales values totaling in excess of $3 million.

In addition, we noted similar situations involving commitments with sales values of about $3 million, which, in our opinion, had not been properly administered by FAS but which may not have resulted in decreases in dollar sales because the sales values could have been offset against purchases made in excess of usual-marketing requirements stipulated in later years. We noted also a $1.9 million shortfall (deficit) involving a global usual-marketing requirement, part of which could have represented a decrease in United States dollar sales.

As previously noted, usual-marketing commitments are obtained from foreign governments in the negotiation of title I agreements as a means of safeguarding the normal foreign commercial markets of the United States and of friendly foreign countries against the possibility of displacement by title I sales. Responsibility for determining compliance by foreign governments with their commitments and for obtaining additional commitments under certain circumstances, as well as for maintaining the necessary controls to accomplish those functions, has been assigned to FAS. In our opinion, however, FAS top management has not provided adequate written criteria, procedures, or instructions for the guidance of its operating personnel, as to specific personal responsibilities for carrying out these functions.

We noted the following deficiencies which are discussed in detail in subsequent sections of this report: (1) shortfalls in meeting requirements were, in effect, waived when they were offset against purchases made when no usual-marketing requirements existed, (2) inconsistent types of information were used for determining compliance with usual-marketing commitments, (3) data used in determining compliance with usual-marketing requirements were not adequately analyzed, (4) periods for delivery of title I commodities were extended but additional usual-marketing commitments were not obtained, and (5) certain additional usual-marketing requirements were not recorded for compliance follow-up.

*Shortfalls offset against purchases made when no usual-marketing requirements existed*

When shortfalls occurred in the commercial purchases which title I agreements required foreign countries to make during specified periods of time, FAS followed a practice of offsetting such shortfalls against dollar commercial purchases made in subsequent periods when no usual-marketing requirements were in effect. In our opinion, this practice has had the effect of improperly waiving certain usual-marketing requirements and of negating those terms of title I agreements which were designed to safeguard usual marketings.

When considering the sale of a commodity for foreign currencies to a country, representatives of the United States Government determine whether the country normally would purchase commercially the same type commodities from the United States, or from countries friendly to the United States, in the absence of a title I agreement. If they determine that such commercial purchases would be made, the representatives, in order to comply with the legal requirements for safeguarding usual marketings, negotiate a title I sales agreement committing the foreign country to buy commercially additional specified quantities of the same type commodities during the period of time—usually 1 year—set forth in the agreement. If the foreign country does not carry out its purchase commitments during the specified period, the shortfalls in quantities purchased are carried forward and added to any usual-marketing requirements established for that country in a title I agreement during the following year.

Our review disclosed situations, however, where no title I agreements were in effect in subsequent periods and, therefore, no usual-marketing requirements had been established for the periods to which the shortfalls were being carried forward. These situations occurred either because of a lapse of time between the termination of one title I agreement and the signing of another or because of the termination of the title I program in the foreign country. As a result, all commercial purchases made by a foreign country during a period when no new usual-marketing requirements had been agreed to were counted by FAS as help-

ing the country meet its shortfall in compliance with the usual-marketing requirements set for the previous period. FAS did not, however, require that the foreign country make good its shortfall through commercial purchases in the subsequent period over and above those which the country normally would have made.

For example, under a title I agreement for calendar year 1960, country K fell short by 194 metric tons in meeting its usual-marketing requirement of 1,500 metric tons of tobacco to be purchased from the United States. The next title I agreement with country K, signed in October 1961, established a new usual-marketing requirement of 1,500 metric tons of tobacco for the period July 1, 1961, to June 30, 1962. Thus, during the 6-month period January 1961 through June 1961, no usual-marketing requirement for tobacco was in effect. During those 6 months, however, country K bought 420 metric tons of tobacco from the United States and FAS offset against those commercial purchases the 194-metric-ton shortfall—having a sales value of about $300,000—carried forward from calendar year 1960.

On the basis of the usual-marketing requirements of 1,500 metric tons a year established for the 1-year periods prior and subsequent to the interim 6-month period, it appears that country K would normally buy 750 metric tons of tobacco from the United States during a 6-month period. Therefore, we believe that the shortfall of 194 metric tons of tobacco for calendar year 1960 should have been offset against commercial purchases of tobacco during the interim 6-month period only to the extent that such purchases exceeded the normal sales of 750 metric tons.

Our review disclosed also that about $316,000 [4] in usual-marketing requirements for countries D and J had, in effect, been waived as a result of shortfalls in compliance being offset in a manner similar to that described for country K.

In views of FAS's inherent responsibility for properly administering those terms of title I agreements designed to safeguard the usual marketings of the United States, we believe that FAS should offset shortfalls only against those commercial purchases in subsequent periods that exceed the foreign country's normal purchases for such periods.

In response to our suggestion, the Associate Administrator, FAS, advised us that he believed that it would be inappropriate to invoke a specified usual-marketing requirement against a foreign country during a period when Public Law 480 commodities were not being received by the country. He stated, however, that the current FAS practice was not to allow shortfalls to be offset during such a period but to consider including them in establishing usual-marketing requirements for the next agreement period.

We believe that the new procedure, if properly implemented, should help to obtain for the United States those dollar commercial sales to which it is entitled under the terms of title I agreements.

*Inconsistent types of information used for determining compliance with usual-marketing commitments*

The FAS did not use consistent types of information in determining whether foreign countries had complied with their usual-marketing commitments during successive periods, which resulted in an increase in the possibility of commercial purchases by a foreign country being counted more than once toward compliance with such commitments. In this connection, we noted that the records did not show the shortfalls that would have been disclosed if FAS had used consistent information.

In determining whether foreign countries had complied with their commitments to purchase specific quantities of commodities commercially in the United States, FAS generally used export statistics published monthly by the United States Department of Commerce. The Department of Commerce compiles these statistics on the basis of quantities shipped from the United States during each month but not necessarily delivered overseas during the same period. We noted a number of instances, however, where FAS had determined compliance in certain periods on the basis of information which was not consistent with the Department of Commerce export statistics used in prior and succeeding periods. Had FAS made its determinations on the basis of export statistics,

[4] Includes about $200,000 which could properly have been offset against purchases made by country J in excess of usual-marketing requirements in a period following that used by FAS for the offset. Therefore, the $200,000 is not included in our estimate of $3 million in decreased sales cited on pages 78–79.

it would have found that certain foreign countries had not complied with their commitments for the periods involved.

In the instances noted, FAS had used information other than that furnished by the Department of Commerce, relating to such items as quantities imported or purchased by the foreign countries. This other information indicated compliance with usual-marketing commitments, whereas the Department of Commerce information normally used did not. Furthermore, the use of inconsistent types of information—such as reports on exports from the United States in one year and on imports by the foreign countries in the next—could result in the same commercial purchase being counted toward satisfying usual-marketing commitments for each of 2 years, when commodities are exported toward the close of one year but not received overseas and classified as import until the next year.

For example, on the basis of Department of Commerce data showing exports from the United States, FAS initially determined that country K had fallen short by 337 metric tons of tobacco (valued at about $520,000) in meeting its usual-marketing commitment to purchase commercially not less than 1,500 metric tons of tobacco from the United States during fiscal year 1962. Export data had been consistently used in 1961 and prior periods for determining whether country K had complied with its usual-marketing commitments. In this instance, however, FAS revised its initial determination to show that Country K had met its fiscal year 1962 usual-marketing commitment. This revision was made on the basis of a message from the American Embassy in country K that an official of a local tobacco company "stated further that his company contracted for 1,726,890 net kilograms [about 1,727 metric tons] of leaf tobaccco from the U.S. valued at 2.5 million payable in free dollars." Although this information was used for determining compliance, it merely showed a contractual relationship and did not show that 1,500 metric tons of tobacco had been shipped to country K during 1962 in satisfaction of its commitment.

FAS used still another type of information—reports on actual imports by country K compiled by the American Embassy—to determine compliance by that country with its usual-marketing commitment to purchase tobacco commercially from the United States during fiscal year 1963. Thus three different types of information were used for determining compliance with usual-marketing commitments in three successive periods: (1) 1961, United States exports reported by the Department of Commerce, (2) 1962, an unsupported statement furnished by the American Embassy as to the quantity of tobacco contracted for by a company in country K, and (3) 1963, imports reported by the American Embassy. The two last types of information could have resulted in duplications, in that the quantities contracted for and counted in fiscal year 1962 may have actually been imported in fiscal year 1963 and counted again in that year when import data were used to determine compliance. We found no indications that FAS had attempted to reconcile the information.

In another case, a title I agreement with country L committed that country to purchase commercially from the United States 80,000 metric tons of wheat by September 30, 1959, and an additional 80,000 metric tons by June 30, 1960. FAS determined that country L had complied with its first commitment, on the basis of two contracts providing for Commodity Credit Corporation-owned wheat to be bartered to that country. Compliance with the second commitment was determined on the basis of actual wheat exports from the United States. The export data, according to FAS, included quantities exported under the barter contracts and previously counted toward the first commitment. If FAS had consistently used actual data on exports from the United States in determining compliance by country L with its two usual-marketing commitments, FAS records would have shown a shortfall of 31,500 metric tons of wheat purchases (valued at about $2 million[5]) by that country in meeting its usual-marketing commitments.

Since most countries receive the same type commodities under title I agreements for several successive years and have usual-marketing commitments for each year, it seems that a single, consistent and reliable type of information should be used for determining compliance each year to avoid the possibility of the same shipment being counted twice and, therefore, of noncompliance being overlooked. For example, export statistics developed by the Department of Commerce are readily available and appear to meet the criteria of reliability and consistency.

[5] Although FAS did not establish this amount as a shortfall to be met in the subsequent year, country L purchased sufficient quantities in the following year to compensate for the shortfall. Therefore, the $2 million is not included in our estimate of $3 million in decreased sales cited on pages 78–79.

By letter dated October 5, 1965, the Administrator, FAS, advised us that FAS agreed with us on the importance of using consistent data in order to avoid the possibility of double counting.

*Weaknesses in analyzing data for determining compliance with usual-marketing requirements*

Responsible FAS employees did not, in our opinion, take sufficient care in analyzing the pertinency of data used for determining compliance by foreign countries with their usual-marketing commitments. As a result, commercial purchases by foreign countries were considered to be greater than those justified on the basis of a careful analysis of available information and this led to shortfalls being undetected.

For example, a title I agreement authorized country J to purchase for local currencies $4.6 million worth of tobacco, including $1 million worth of tobacco leaf content [6] in United States cigarettes. The agreement also required country J to procure and import with its own resources $1 million worth of United States-produced tobacco, or tobacco products such as cigarettes, to protect the usual marketings of the United States. The agreement provided that, with respect to cigarettes, only those costs representing the leaf content would be eligible for financing under title I and that the remaining costs would be counted toward compliance with the $1 million usual-marketing requirement.

In determining compliance with the usual-marketing requirement, FAS used Department of Commerce export statistics. These statistics included the cost of all tobacco exported to country J, including tobacco and tobacco products financed under title I. FAS adjusted these statistics to eliminate the cost of the quantities financed under title I. The resulting amount represented the cost of tobacco and tobacco products purchased from the United States by country J with its own resources. Employees of FAS, however, added $500,000 to this amount because of a misunderstanding which led them to believe that the Department of Commerce figures did not include manufacturing costs paid by country J from its own resources. As a result, country J was given credit for $500,000 [7] in nonexistent commercial purchases from the United States.

We believe that a careful reading of the explanatory information issued by the Department of Commerce on its published export statistics would have disclosed to FAS that the valuations used for the statistics on tobacco products included the total costs of the cigarettes exported and that no adjustment for processing costs was necessary in the export statistics for country J.

In another case, to protect the usual marketings of the United States, the title I agreement required country M to pay dollars for the cost of manufacturing the cigarettes for which the leaf content was financed under title I and, in addition, to purchase commercially from the United States a minimum of $500,000 worth of tobacco products annually for a period of 2½ years.

In determining compliance with this requirement, FAS calculated the difference between the Department of Commerce export data (which included the total cost of cigarettes exported) and the export costs financed under title I (which did not include the manufacturing cost of the cigarettes financed under title I). This difference, which FAS counted toward country M's compliance with the usual-marketing commitment, included manufacturing costs of about $245,000 paid by country M in connection with cigarettes financed under title I. Such manufacturing costs, according to the title I agreement, should not have been counted toward compliance. Therefore, the net effect of the calculation was to give country M credit for about $245,000 [8] in commercial purchases during the 2½-year period, which should not have been allowed.

A similar situation occurred regarding a usual-marketing requirement for country A to purchase commercially from free world sources, including the United States, a specific quantity of wheat flour during the period January 1, 1961, through March 31, 1962. The export statistics used by FAS for determining whether country A had complied were expressed in quantities of wheat, rather than of wheat flour. Inasmuch as it takes 100 pounds of wheat to yield about 72.5 pounds of flour, failure to convert wheat statistics to flour statistics will result in overstating the quantity of flour exported by about 38 percent.

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[6] FAS considers the leaf content value to be 50 percent of the cigarette value.

[7] Country J's purchases in the following year would have compensated for the shortfall which would have been disclosed if FAS had properly analyzed the data. Therefore, the $500,000 is not included in our estimate of $3 million in decreased sales cited on pp. 78–79.

[8] Country M's purchases in the following year would have compensated for the shortfall which would have been disclosed if FAS had properly analyzed the data. Therefore, the $245,000 is not included in our estimate of $3 million in decreased sales cited on pp. 78–79.

Because FAS did not make such a conversion, its records did not show a shortfall of about 24,700 tons of flour valued at about $1.9 million.[9] An FAS official agreed with our view that compliance by country A with its usual-marketing commitment had been improperly calculated and that a sizable shortfall had been made by country A in meeting its commitment.

By letters dated August 17 and October 5, 1965, FAS officials advised us that actions had been taken to correct their records in connection with the transactions discussed above.

*Additional usual-marketing commitments not always obtained in extensions of periods for delivery of title I commodities*

The FAS did not obtain additional usual-marketing commitments from foreign governments in all instances when the periods for delivery of title I-financed commodities were extended beyond the periods originally fixed by title I agreements for compliance with usual-marketing requirements. As a result, FAS relinquished one of the available controls for safeguarding the usual marketings of the United States and the United States may have lost dollar sales of about $1.2 million.

At the time that a title I agreement is negotiated, the foreign government is informed, according to part II of the negotiating instructions approved by the Interagency Staff Committee on Agricultural Surplus Disposal, that an extension of the commodity delivery period beyond the period covered by the usual-marketing requirement will make it necessary for the United States to obtain adequate assurances covering additional usual-marketing requirements for the extended delivery period. FAS carries out the functions of authorizing extensions in commodity delivery periods and of obtaining additional usual-marketing commitments from foreign governments applicable to the extended periods.

In our review of selected purchase authorizations issued during the period July 1959 through March 1963, we noted seven cases where FAS had extended the commodity delivery periods, varying from 3 to 13 months, without obtaining additional usual-marketing commitments for the extended periods. In four of these cases, the foreign countries' commercial commodity purchases from the United States did not equal the purchases which would have been required had usual-marketing requirements based on prior requirements been established. As a result, we estimate that the sales of commodities for dollars by the United States may have been about $1.2 million less than they otherwise should have been. In the three other cases, we found that, although no additional usual-marketing commitments had been obtained for the extended delivery periods, the foreign countries' commercial purchases were sufficient to cover the commitments that should have been obtained.

An FAS official indicated to us that he was unable to explain why additional usual-marketing commitments had not been obtained from the foreign governments when the commodity delivery periods were extended. Another official informed us that there were no written criteria, procedures, or assignments of responsibility for obtaining usual-marketing commitments in connection with extensions of delivery periods. He stated, however, that he was trying to ensure that such additional commitments were obtained or that there were satisfactory reasons why such commitments should not be obtained.

Another official of FAS informed us that, although not completely documented, consultations had been held in most cases and that it had been determined for various reasons that the establishment of new usual-marketing commitments was not warranted. However, by letter dated October 5, 1965, the Administrator, FAS, advised us that he had reconfirmed to all personnel the policy that deliveries may not be extended into a subsequent supply period unless the foreign country agrees to maintain appropriate usual marketings.

*Certain additional usual-marketing requirements not recorded in control records for compliance follow-up*

FAS employees did not record for follow-up certain additional usual-marketing commitments obtained from foreign governments when the delivery periods for title I-financed commodities were extended beyond the periods originally authorized. Because the records were incomplete, they did not provide an effective basis for follow-up determinations as to compliance by foreign countries with established usual-marketing requirements. This increased the possibility

[9] Since this shortfall involved noncompliance with a global usual-marketing requirement, it was not possible to estimate the adverse effect on the United States. Therefore, the $1.9 million is not included in our estimate of $3 million in decreased sales cited on pp. 78–79.

of noncompliance by foreign countries going undetected and of normal commerical sales of commodities by the United States, or by countries friendly to the United States, being reduced. Our review disclosed one such instance which involved a possible loss of about $1.2 million in sales of cotton by the United States.

After title I agreements have been signed with foreign countries, the section in FAS responsible for maintaining records used for determining compliance with usual-marketing requirements obtains copies of the agreements, or of summaries of the agreements, and records in its control records the data concerning any usual-marketing commitments agreed to by the foreign countries. This section also receives final drafts of original purchase authorizations to be issued under the agreements, compares the information thereon with its control records, and makes any necessary changes in the usual-marketing commitments previously recorded. These commitments are indicated on transmittal forms forwarding the drafts.

We found, however, that, when purchase authorizations had been amended to extend the periods of time for making deliveries of commodities, the amendments were not cleared through the section responsible for maintaining the control records, although sometimes additional commitments were agreed to by importing countries in connection with the extensions in delivery periods. As a result, this section was not made aware of the additional commitments and, because its records were not adjusted, the section did not have an effective control for determining or requiring compliance by foreign countries with their usual-marketing commitments.

For example, a title I agreement was signed with country F on August 14, 1961, for the sale of cotton and tobacco. The agreement contained usual-marketing provisions which committed country F to make commerical purchases from the United States during calendar year 1961 of $750,000 worth of tobacco and $1,750,000 worth of cotton. At the country's request, the period for delivering commodities under the purchase authorizations issued pursuant to the title I agreement was extended by a year to December 31, 1962. Country F agreed that, in the interests of safeguarding the United States usual marketings during the extended delivery period, it would commercially purchase from the United States during calendar year 1962 the same quantity of commodities that it had agreed to purchase during calendar year 1961—$750,000 worth of tobacco and $1,750,000 worth of cotton.

The purchase authorizations were amended by FAS to extend the delivery period for the title I-financed commodities as requested, but information regarding the additional usual-marketing commitments agreed to by country F was not recorded and followed up to determine compliance.

Our review of export statistics indicated that, although country F had purchased a sufficient quantity of tobacco during calendar year 1962 to fulfill its commitment concerning that commodity, it had commercially purchased only about $586,000 worth of cotton from the United States. Since the country had committed itself to purchase $1,750,000 worth of cotton, a shortfall of about $1,164,000 resulted. FAS was not aware of the noncompliance with the cotton usual-marketing commitment because the commitment had not been recorded for follow-up.

An FAS official wrote to us on January 23, 1964, stating that no harm had resulted from the failure to record the shortfall because "during CY 1963 * * * [country F] purchased $1,901,000 of cotton from the United States which would offset the shortfall from CY 1962." Our review showed, however, that no new usual-marketing requirements were effective for country F during calendar year 1963 and that its total cotton purchases during that year were counted by FAS as meeting the shortfall in compliance from calendar year 1962. As discussed starting on page 79 of this report, we believe that FAS should not permit shortfalls to be offset against commercial purchases made by the foreign countries in subsequent periods, except to the extent that such purchases exceed the foreign countries' normal purchases for those periods.

We pointed out to FAS officials two other examples where the procedures being followed had not resulted in the recordation of additional usual-marketing commitments obtained in amending purchase authorizations to extend the commodity delivery periods. Subsequently, an FAS official informed us of the adoption of a new procedure whereby FAS will issue new purchase authorizations, rather than amending existing purchase authorizations, when commodity delivery periods are extended. Therefore, because all new purchase authoriza-

tions are to be cleared, prior to issuance, through the section responsible for maintaining the control records, information should be available to this section for recording changes in usual-marketing commitments obtained from foreign governments.

We believe that the revised procedure, if properly implemented, should result in establishing adequate control records from which a determination can be made as to whether foreign countries are complying with their usual-marketing requirements.

*Conclusion*

The foregoing deficiencies in the manner in which FAS determined whether foreign governments had complied with their usual-marketing commitments and obtained additional commitments under certain circumstances emphasizes, in our opinion, a need for more concern on the part of responsible FAS officials in providing guidance to operating personnel for carrying out this significant phase of administering activities under title I of Public Law 480. We believe that these deficiencies may have contributed to some of the losses of dollar sales of agricultural commodities by the United States and to the concurrent losses of opportunities to reduce this country's balance-of-payments deficit.

Unless FAS obtains and records additional usual-marketing commitments when warranted, the United States may lose significant dollar sales to countries participating in the title I program. Also, unless FAS effectively carries out its responsibilities for determining and bringing to the attention of proper authorities all shortfalls in usual-marketing commitments, the possibilities for taking action to enforce those commitments are limited.

On the basis of our review, we believe that the employees who carry out functions relating to determinations of usual-marketing compliance are handicapped by the lack of written procedures and criteria necessary to the effective performance of their duties. In our opinion, such written guidelines are needed to fix clearly the duties of each individual concerned with the compliance functions, thereby imparting a sense of personal responsibility for his actions, and to enable management through periodic reviews to identify and correct areas of weakness with a view toward achieving more effective operations.

We proposed that the Secretary of Agriculture require the Administrator, FAS, to prepare written criteria, procedures, and specific assignments of responsibility for the guidance of employees charged with functions relating to determinations of compliance by foreign governments with their usual-marketing commitments. The Administrator, FAS, in commenting on our proposal, advised by letter dated October 5, 1965, that:

"There is, in fact, a substantial body of written criteria, procedures, or instructions dealing with requirements for compliance with usual marketing undertakings entered into by other governments as a condition for the financing of commodities under title I, PL 480 agreements. These exist in the form of FAS regulations, in standard negotiating instructions for title I, PL 480 agreements, in FAS organization charts, in job descriptions, and in internal office memoranda. We are reviewing this, however, in the light of suggestions in your report and our discussions and will proceed to bring our criteria, procedures and instructions for guidance of operating personnel in line with your suggestions insofar as possible."

The Associate Administrator, FAS, had advised us in an earlier letter that certain erroneous recordings with respect to usual-marketing requirements and status of compliance, which had been disclosed in our review, had been corrected.

Since the Foreign Agricultural Service has indicated that certain corrective actions have been or will be taken, we are not making any recommendations on this matter at this time.

SCOPE OF REVIEW

Our examination was made in Washington, D.C. It included a review of the considerations involved in the establishment of usual-marketing requirements contained in selected sales agreements signed under title I, Public Law 480, from inception of title I programs in fiscal year 1955 through fiscal year 1963 and of the procedures followed by the Department of Agriculture in determining whether foreign countries were complying with their usual-marketing commitments. We examined related files and records of the Department of Agriculture and held discussions with officials of the Departments of Agriculture and State and the Agency for International Development. We also reviewed the pertinent legislation and Executive orders and the reports of congressional hearings concerning the administration of the title I sales program.

APPENDIX

*Principal officials of the Department of Agriculture and the Department of State concerned with administration of the activities discussed in this report*

DEPARTMENT OF AGRICULTURE

| | *Tenure of office* |
|---|---|
| Secretary of Agriculture: | |
| Ezra Taft Benson | January 1953 to January 1961. |
| Orville L. Freeman | January 1961 to present. |
| Assistant Secretary of Agriculture, International Affairs: [1] | |
| Earl L. Butz | August 1954 to July 1957. |
| Don Paarlberg | August 1957 to October 1958. |
| Clarence L. Miller | December 1958 to January 1961. |
| John P. Duncan, Jr | February 1961 to February 1962. |
| Roland R. Renne | March 1963 to March 1964. |
| Dorothy H. Jacobson | April 1964 to present. |
| Foreign Agricultural Service: | |
| Administrator: | |
| William G. Lodwick | July 1954 to April 1955. |
| Gwynn Garnett | April 1955 to June 1958. |
| Max Myers | July 1958 to March 1961. |
| Robert C. Tetro | March 1961 to April 1962. |
| Raymond A. Ioanes | April 1962 to present. |

DEPARTMENT OF STATE

| | |
|---|---|
| Secretary of State: | |
| John Foster Dulles | January 1953 to April 1959. |
| Christian A. Herter | April 1959 to January 1961. |
| Dean Rusk | January 1961 to present. |
| Agency for International Development: | |
| Administration: [2] | |
| James H. Smith, Jr | October 1957 to January 1959. |
| James W. Riddleberger | March 1959 to February 1961. |
| Henry R. Labouisse | February 1961 to November 1961. |
| Fowler Hamilton | September 1961 to December 1962. |
| David E. Bell | December 1962 to July 1966. |
| William S. Gaud | August 1966 to present. |

[1] Responsibility for the Foreign Agricultural Service was assigned to the Assistant Secretary of Agriculture, Marketing and Foreign Agriculture from August 1954 to February 1962, and the officials listed held that position; to the Under Secretary of Agriculture, Mr. Charles S. Murphy, from February 1962 to February 1963; and to the Assistant Secretary of Agriculture, International Affairs, beginning in March 1963.

[2] Incumbents from October 1957 to November 1961 occupied the position of Director of the International Cooperation Administration which was terminated on November 3, 1961, and its functions redelegated to the Agency for International Development. Mr. Fowler Hamilton was named Administrator, Agency for International Development, effective September 30, 1961.

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EXHIBIT 7

LETTER TO THE HONORABLE ALLEN J. ELLENDER, CHAIRMAN OF THE COMMITTEE ON AGRICULTURE AND FORESTRY, U.S. SENATE

COMPTROLLER GENERAL OF THE UNITED STATES,
*Washington, D.C., June 16, 1964.*

B–140093.

Hon. ALLEN J. ELLENDER,
*Chairman, Committee on Agriculture and Forestry,*
*U.S. Senate.*

DEAR MR. CHAIRMAN: Your letter of May 18, 1964, requests our comments on S. 2687, which would extend the Agricultural Trade Development and Assistance Act of 1954, as amended, 22 U.S.C. 1922 (hereinafter referred to as "P.L. 480"), and make certain amendments thereto.

The extension of P.L. 480 involves matters of policy which are primarily for determination by the Congress and ones on which we have no recommendations to make. We do have some comments, however, as a result of our reviews of P.L. 480 and foreign assistance programs which we believe warrant serious consideration by the Congress.

Section 3 of S. 2687 would amend section 103(b) of P.L. 480 to provide that agreements for the sale of surplus agricultural commodities under Title I shall not be entered into which call for appropriations to reimburse Commodity Credit Corporation (CCC) in an amount in excess of $7.1 billion in the five year period starting January 1, 1965, in addition to unused authorizations from prior years. Agreements during any one of such five years may not be entered into which would call for appropriations to reimburse CCC in an amount in excess of $2.5 billion. However, these limits can be exceeded by the amount of loan repayments received in dollars under Title I or certain dollar amounts received as reimbursements from other agencies for the purchase of foreign currencies.

Data submitted by the executive branch indicates that the foregoing authorization is designed to permit commodities in the amount of $9 billion, including associated costs, to be sold under Title I in the five year period. As far as we have been able to determine, the data submitted to the Congress justified this amount solely on estimates that annual sales will be reached during 1965–1969 in the same volume as the annual level of Title I sales for the past five years. Once this total amount is authorized the proposed Title I sales, programs of the executive agencies are not subjected to annual appropriation reviews by the Congress. Annual appropriations are made by the Congress, however, based on estimates of amounts necessary to reimburse the Commodity Credit Corporation for the commodities to be shipped abroad under the Title I program during the budget year and for prior year costs not previously reimbursed.

Under this arrangement the executive branch has almost unlimited discretion within the $9 billion ceiling, to determine such matters as the countries with whom sales agreements will be made, the amounts of surplus agricultural commodities that will be sold in each country and the type of commodities to be included in the sales. In addition, the executive branch has wide latitude in determining the conditions of sale in such matters, such as: whether sales of surplus commodities will be for local currency, United States dollars, or long term credits; the amounts of sales proceeds to be made available for loans or grants to the recipient country; and the amounts of sales proceeds which will be made available for United States uses.

It is evident that P.L. 480 Title I sales of surplus agricultural commodities are not strictly commercial transactions since the sales proceeds which accrue to the United States are in the local currencies of the recipient country, most of which are given back to the country in the form of loans or grants. Such "sales" are but one part of the total program of economic assistance provided to achieve United States foreign policy objectives. However, no equivalent degree of congressional review exists over the programs and conditions under which surplus agricultural commodities are provided to foreign countries similar to that which exists over other elements of the foreign assistance program. Since such commodities are an integral part of the foreign assistance program and provide resources for economic development and other purposes which differ only in composition from the other kinds of resources provided to these countries under foreign assistance legislation, the Congress may wish to consider the desirability of requiring the executive agencies to submit annual justifications, as part of the appropriation process, for the sales programs which are proposed under Title I, taking into account such matters as the ability of the recipient countries to procure the commodities with dollars or on long term credit, the extent of foreign currencies currently being held by the United States in these countries, the extent to which additional Title I sales would increase such holdings and the purposes for which the local currencies would be used. This could be accomplished by substituting the language "not to exceed $2,500,000,000 provided annually in appropriation acts," for the phrase "in excess of $2,500,000,000" in line 19, page 2, of S. 2687. In this manner, the Congress would be in a position to (1) evaluate the economic assistance being furnished in the form of surplus agricultural commodities in the light of other types of assistance being provided, (2) consider the impact of the P.L. 480 program on the over-all program of the United States to achieve its economic and political objectives in each of the recipient countries, and (3) assure optimum movement abroad of surplus agricultural commodities.

The foregoing would appear to be especially pertinent in light of the following considerations:

1. Very large amounts of local currencies have accrued in many countries from Title I sales which are excess to any foreseeable needs of the United States and which may present considerable difficulties to the countries concerned. Continued accumulation of such excesses under the broad authority proposed to be

given to the executive agencies to provide additional commodities to foreign countries and incur additional associated costs totaling $9 billion may compound these difficulties. The following table shows the trend of United States holdings of local currencies in countries which have been determined to be excess currency countries.

*Equivalent value in millions of dollars, at the then current rate of exchange*

| Country and currency | June 1961 | June 1962 | June 1963 |
|---|---|---|---|
| India (rupees) | $977 | $1,022 | $1,010 |
| Poland (zlotys) | 349 | 393 | 442 |
| Yugoslavia (dinars) | 104 | 178 | 279 |
| United Arab Republic (pounds) | 129 | 156 | 211 |
| Pakistan (rupees) | 209 | 165 | 190 |
| Israel (pounds) | 72 | 47 | 68 |
| Burma (kyats) | 37 | 33 | 32 |
| Indonesia (rupiah) | 78 | 96 | [1] 21 |

[1] Change in exchange rate during fiscal year 1963 caused $130,000,000 decrease.

2. P.L. 480 exports of farm products during fiscal year 1963 account for 30 percent of the total agricultural exports of the United States. They represent 76 percent of all wheat exported, 21 percent of total edible vegetable oil exports, 58 percent of total milled rice exports and 34 percent of all cotton exports. This large volume of agricultural commodity movements under P.L. 480 presents a danger of displacing normal commercial dollar sales and a consequent adverse effect on the United States balance of payments position.

3. The executive agencies have pointed out that the P.L. 480 programs have operated to develop commercial markets in countries which heretofore have not deemed it desirable to procure United States farm products. Increasing dollar purchases of wheat by Japan and of soybean oil by Spain have been cited as outstanding examples. However, the continued programing of Title I sales to such countries as India, Pakistan and the United Arab Republic is not likely to develop commercial dollar markets. While the executive agencies are aware of this problem and have developed elaborate mechanisms for considering these matters at the time sales agreements are negotiated, the Congress may feel it desirable to undertake annual reviews of the agencies' plans and programs in this respect.

4. Title I foreign currency sales agreements, since the start of the program, have involved about $14 billion. Title IV sales agreements which involve dollar payments by foreign governments have amounted to about $236 million. The proposed authorization of $9 billion is premised on annual sales agreements at about the same level as in the preceding five year period. The Congress may want to consider the desirability of annual reviews of the agricultural sales programs to assure the proposed level of local currency sales does not overlook the possibility of maximizing dollar commercial sales and that such level is in consonance with the objective of moving the P.L. 480 program toward increasing use of Title IV dollar sales.

5. In recent years congressional attention has been focused on the desirability of reviewing United States economic assistance to foreign countries in light of the countries' own efforts to develop their economies. Foreign assistance legislation has, in the past, required the development of plans by United States agencies for the phase down of United States assistance as the foreign economies improve and United States economic assistance attains its objective of helping the recipient countries to become self-sufficient. Proposed surplus agricultural commodity assistance, since it is an integral part of economic assistance being furnished foreign countries, could well be considered by the Congress as coming within the same objective and subject to the same annual scrutiny. In this respect, we have noted in some of the reviews we now have underway that certain AID missions are treating commodities available under P.L. 480 as but one type of economic resource being furnished to the country to assist it in its economic development and undertake negotiations with the country for additional quantities of P.L. 480 commodities in light of the programs which the country itself has undertaken to achieve self-sufficiency. Under these circumstances, P.L. 480 sales agreements are used as a lever to increase the pace of country agricultural development and to hasten the time when Title I local currency sales can be eliminated. In other countries, we noted little effort on

the part of AID in this direction and as a result the underdeveloped countries seem to feel that foreign import requirements will be met for the indefinite future through P.L. 480 transactions. The authorization of an annual level of Title I, P.L. 480 operations for the subsequent five year period at the same level as the preceding levels without an annual review by the Congress would appear to do little to alter the attitude of these countries and alleviate the pressure on the executive agencies to provide additional quantities of P.L. 480 commodities.

Section 11 of S. 2687, would add a new section 309 to P.L. 480, which appears to have the objective of establishing tighter annual congressional review and control over certain sections of P.L. 480 by requiring the submission of data in the anual budget to (1) show that maximum use is being made of surplus commodities and foreign currency proceeds to carry out programs that would otherwise require appropriated funds; (2) justify annual surplus commodity programs in terms of the need for and intended use of United States-owned foreign currency; and (3) justify agreements that would generate foreign currencies over and above these requirements. These objectives are generally in line with those we have delineated above. The proposed amendment contains a number of requirements for the submission of detailed information deemed necessary to carry out these objectives. In addition, section 309 would provide for annual submission of estimates of the value of commodities to be covered by sales agreements or grants negotiated or made under Titles I and IV and section 202 of P.L. 480 during each fiscal year and limits the amount of agreements which can be entered into to such estimates.

A number of reviews we have performed bear out the need for improved controls to assure maximum utilization of foreign currency proceeds in lieu of United States dollars. For example, we reported the Congress in October 1962 (B–146749), that dollar expenditures abroad could be reduced if better use were made of United States-owned local currencies. In addition, congressional hearings in November 1963 disclosed that substantial dollar expenditures had been made by the United States in India to finance the purchase of goods for other friendly countries when at the same time substantial amounts of Indian currency were available for United States use.

Although we agree with the objectives embodied in the proposed section 309, it appears that the prescribed methods of accumulating and reporting data, and imposing program limitations, might not effectively achieve these objectives. However, data is readily available within the executive departments which would permit the compilation of meaningful information on country programs in terms of the commodity needs of the countries, the level and type of commodity assistance being proposed and the availability and utilization of local currencies in each of the countries securing assistance under P.L. 480.

We believe, therefore, that objectives such as those sought in the proposed amendment could be achieved by requiring submission to the Congress in support of the annual budget of the following types of data for each country involved in surplus commodity programs:

1. For each fiscal year, the amounts of proposed sales agreements under P.L. 480 together with the justification for entering into these agreements. The justification should include sufficient information on economic conditions in the country, including country agricultural commodity reqirements, local production, normal commercial procurements from the United States and other countries, foreign exchange holdings, and such other economic data as would permit an evaluation of the need for the level and type of assistance being proposed.

2. Historical data regarding sales agreements entered into and commodities furnished in prior years. This information would be useful in permitting the Congress to detect trends and ascertain progress being made towards achieving congressional intent to shift emphasis of programs from local currency sales to dollar sales and to phase down programs as country economic conditions improve.

3. The extent of foreign currencies generated from United States dollar programs and surplus commodity programs, in sufficient detail to show the program origin of the funds and the agreed purposes for which they may be used.

4. Projected amounts of generation and proposed usage of foreign currency, by source and application, during the budgeted fiscal year. Should proposed agreements result in accrual of foreign currencies which cannot be used within the foreseeable future, the reasons for entering into such agreements.

5. Actual dollar expenditures by United States agencies in such country during the preceding fiscal year, together with an analysis of reasons why available foreign currency was not used in lieu of dollars.

6. Proposed dollar expenditures of United States agencies in each country for the budgeted fiscal year, together with an analysis of reasons why available or projected generations of foreign currency is not proposed for use in lieu of dollars.

Submission of the above data would permit the Congress to subject P.L. 480 programs to the same type of analysis as is required for proposed economic and military assistance programs. If considered in conjunction with data now submitted for those programs, the Congress would be in a position to evaluate assistance in the form of surplus agricultural commodities in light of other types of assistance being provided, and to evaluate the impact of the P.L. 480 program on the over-all United States program for achievement of economic and political objectives in each of the recipient countries.

We also believe that the Congress may wish to consider the adoption of language similar to that included in section 634 of the Foreign Assistance Act of 1961, as amended, which requires the Administration to notify appropriate congressional Committees of significant changes to programs as previously submitted and justified in lieu of the last sentence of section 309 which would restrict the Administration to the detailed budget estimates. This provides the Administration with the flexibility it believes necessary to carry out foreign policy while permitting the Congress to evaluate the need for any significant changes to original plans and programs.

S. 2687 would amend section 104(c) of P.L. 480 to authorize the use of foreign currencies to procure equipment, material, facilities, and services for the common defense including internal security. Section 104(c) presently contains authorization for such use to procure military equipment, materials, facilities and services for the common defense.

United States-owned local currencies have been provided for military budget support purposes in 6 countries under section 104(c) (Taiwan, Iran, Korea, Pakistan, Turkey and Vietnam) and for military base construction and mapping services in a number of these and other countries. These programs have been justified as necessary to support large military forces which these countries cannot support from their own resources.

Our review of military budget support programs carried out with section 104(c) funds by the Department of Defense have disclosed significant deficiencies in programing and administration. Foreign currencies in some instances have been made available without regard to actual need, funds have been released for general purposes and have been merged with country funds instead of being identified with specific projects of priority need, and reviews by United States agencies of the actual usage of funds have been incomplete and ineffective.

The fiscal year 1965 budget presentation to the Congress shows that the Agency for International Development presently administers programs in about 30 countries relating to internal security, including counterinsurgency and para military operations. United States dollar funds totaling about $84 million are estimated for expenditure on these programs through June 30, 1964, and about $20 million is proposed for fiscal year 1965.

The proposed amendment to section 104(c) would permit the use of foreign currency generated under P.L. 480 to meet local operating and maintenance costs of internal security forces that are now being almost completely financed by recipient countries. Only a few of the countries with AID supported internal security programs have been supported to any extent with United States-owned foreign currencies and, with the exception of Vietnam and Indonesia, foreign currency amounts have been relatively small. In Vietnam, counter-insurgency programs have been jointly financed by the United States and Vietnam, and United States foreign currencies used have been generated by cash grants and a commodity import program. In Indonesia, United States-owned foreign currency has been made available for construction of facilities.

We perceive no objection to the use of P.L. 480 foreign currencies to support essential internal security programs, where the alternative would require generation of foreign currencies through cash grants or commodity import programs. It should be recognized, however, that the assumption by the United States of the responsibility for supporting internal security forces heretofore supported by

the country governments may involve the development of a military force structure in excess of the forces established as an objective by the Joint Chiefs of Staff, would tend to diminish the incentives for the country government to mobilize effectively its own internal resources, and would decrease the amounts of local currencies available for economic development. We believe, therefore, that the use of P.L. 480 foreign currencies to support internal security programs requires a thorough review to assure that (1) United States-owned foreign currencies are used only if the local costs of these programs is clearly beyond the capability of the recipient country to finance from its own resources, and (2) United States foreign currencies are a supplement to, rather than a substitute for, recipient country funds now being used to support these programs. In this respect, the Congress may wish to consider the following factors which indicate that the use of P.L. 480 foreign currencies could be a substantial and continuing cost to the United States:

(1) Internal security forces being assisted by AID amount to several hundred thousand personnel. For example, internal security forces number 123,000 in Indonesia, 120,000 in Brazil, and 46,000 in Burma. Even partial support of the local costs of these forces could be very costly.

(2) The use of foreign currency for section 104(c) purposes is not controlled through the provision of appropriations, since this section of P.L. 480 is exempted from the provisions of section 1415 of the act of July 15, 1952, 66 Stat. 663, 31 U.S.C. 724. There would be less incentive to limit the size of internal security programs since these programs would not require the same degree of justification and budgetary control as appropriated funds.

(3) Our reviews of the use of section 104(c) foreign currencies for common defense programs have shown that substantial amounts of currencies have been released to recipient countries without a firm determination as to need and without appropriate safeguards to assure proper and effective use.

In light of the foregoing, your Committee may wish to consider limiting the authorization for use of foreign currencies for internal security programs to those situations where the President determines that counter-insurgency activities require the use of United States-owned foreign currencies. This could be done by including in the bill a provision similar to those in sections 505 and 512 of the Foreign Assistance Act of 1961 (as amended by section 202 of the Foreign Assistance Act of 1963, 77 Stat. 384), limiting the furnishing of military assistance for internal security requirements unless the President determines otherwise and promptly reports such determination to the Congress.

Sincerely yours,

JOSEPH CAMPBELL,
*Comptroller General of the United States.*

Mr. STAATS. This morning I wish to call to your attention four reports issued to the Congress within the last year which I believe are of particular interest to this subcommittee. They deal with the following matters.

### REPORT ON MAINTAINING NORMAL TRADE

The first is safeguarding normal patterns of commercial trade.

Title I sales by their very nature are on terms highly favorable to recipient countries. The United States receives, in payment for its commodities, foreign currencies which, for the most part, are not convertible into U.S. dollars. Only a portion of the proceeds are available for U.S. use, and the balance is made available to recipient countries in the form of loans and grants. In 10 countries, the United States has accumulated amounts of foreign currency which exceed a 2-year U.S. requirement as estimated by the Treasury Department.

These are, Mr. Chairman, popularly referred to as excess currency countries under Public Law 480.

### TITLE I PRECLUDES COMMERCIAL SALES DISPLACEMENT

The favorable terms of title I sales agreements make it important that reasonable safeguards be employed to insure against the displacement of commercial sales. Section 101(a) of Public Law 480 provides that in negotiating title I sales agreements, the President shall take reasonable precautions to safeguard usual marketings of the United States and to assure that sales under the act will not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries. Pursuant to this requirement of the act, title I sales agreements with recipient countries provide generally that additional specified quantities of commodities, known as "usual marketing requirements" will be imported on commercial terms from the United States or countries friendly to the United States during the period covered by the agreement.

The term "usual marketings" has been defined by the Department of Agriculture as that quantity of a commodity which a country would be expected to obtain from abroad, using its own financial resources, in the absence of imports obtained under concessional arrangements, such as foreign currency purchases under a title I program. This definition obviously allows for considerable administrative discretion, since there is no precise way to know what a country would buy in the absence of a title I agreement.

### TWO CASES REPORTED OF PROBABLE COMMERCIAL SALES DISPLACEMENT

Our reviews to date have indicated that title I programs must be considered in light of the economic and political factors for each individual country. These factors are so variable that we are not now in a position to comment on the overall effectiveness of efforts to safeguard usual patterns of commercial trade. We have reported on two instances where we believe it likely that Government-financed programs have displaced some commercial sales which might otherwise have been made.

In July 1965 we issued a report to the Congress on the displacement of commercial dollar sales of tallow to the United Arab Republic. This report disclosed that with the introduction of U.S. Government-financed tallow into the United Arab Republic, that country's commercial imports of tallow dropped significantly below prior historical levels of import.

### UNITED ARAB REPUBLIC IMPORTS LESS U.S. COMMERCIAL TALLOW

In 1958 the United Arab Republic's imports of tallow amounted to about 32,000 metric tons, which were obtained from U.S. exporters for dollars. In 1964 the United Arab Republic's imports increased to about 56,000 metric tons, but U.S. commercial dollar sales decreased to 21,600 metric tons.

The report concluded that in setting the levels of required commercial import, the responsible U.S. agencies did not make a realistic assessment of the established pattern of the United Arab Republic's tallow imports from the United States, the United Arab Republic's

need for tallow, and its willingness to use its limited foreign exchange holdings to purchase tallow through commercial channels.

### POLITICS OUTWEIGH ECONOMICS

It seemed likely that more consideration was not given to these factors because of the foreign policy aspects and implications of Public Law 480 programs and the administration of these programs in a manner which focused primarily on this consideration rather than on the safeguarding of U.S. commercial exports.

We reported this matter to the Congress because we thought it might wish to clarify the provisions of Public Law 480 to express more specifically its intention regarding the displacement of U.S. commercial sales by Public Law 480 programs for foreign policy considerations.

### UNITED ARAB REPUBLIC ALSO IMPORTS LESS WHEAT FROM UNITED STATES AS FOREIGN CURRENCY SALES EXPAND

In March 1966 we reported to the Congress on the effects of commercial sales of wheat to the United Arab Republic. This report was classified "confidential." A copy has been furnished this subcommittee.

This report showed that commercial wheat imports of the United Arab Republic declined significantly as U.S. Government-financed wheat sales for foreign currency expanded. Attachment II to this statement contains factual data of an unclassified nature on the magnitude of title I programs and commercial imports of wheat.

(The attachment referred to follows:)

EXHIBIT 8

COMMERCIAL IMPORTS OF WHEAT AND WHEAT FLOUR (IN WHEAT EQUIVALENT) BY THE UNITED ARAB REPUBLIC

| Fiscal year | Commercial imports (in metric tons) | |
|---|---|---|
| | From United States | From countries friendly to the United States |
| Before Public Law 480: | | |
| 1952 | 306,000 | [1] 596,000 |
| 1953 | 339,000 | 568,000 |
| 1954 | 242,000 | 42,000 |
| After Public Law 480: | | |
| 1955 | 23,000 | 65,000 |
| 1956 | 48,000 | 54,000 |
| 1957 | 14,000 | 177,000 |
| 1958 | 10,000 | 708,000 |
| 1959 | ---------- | 736,000 |
| 1960 | 29,000 | 198,000 |
| 1961 | 57,000 | 41,000 |
| 1962 | 2,000 | 109,000 |
| 1963 | ---------- | 236,000 |
| 1964 | ---------- | [1] 24,000 |

[1] Estimated.

Sources: Compiled from the best available information from sources such as Foreign Agricultural Service, Department of Agriculture publications; other Department of Agriculture records; and U.S. Embassy reports and other records.

SELECTED TITLE I DATA ON WHEAT PROGRAMED FOR THE UNITED ARAB REPUBLIC

| | Approximate quanitity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fiscal years— | | | | | Total | Export market value (in millions) |
| | 1960 [1] | 1961 [1] | 1962 [1] | 1963 [1] | 1964 [1] | | |
| Title I program | 800 | 1,100 | 1,300 | 1,400 | 1,600 | 6,200 | $381.7 |
| Title I actual deliveries | 953 | 972 | 1,565 | 1,442 | 1,691 | 6,623 | 380.5 |
| Usual marketing requirements | 450 | 300 | 300 | 150 | 250 | 1,450 | ---------- |
| Waivers of usual marketings | 223 | 200 | 191 | ---------- | 100 | 714 | 43.7 |

[1] 1,000 metric tons.

SPEED-UP CERTAIN TITLE I AGREEMENTS

Mr. STAATS. The second area, Mr. Chairman, has to do with the expedited signing of title I sales agreements.

A major cost element of the title I Public Law 480 surplus agricultural commodity program is that of oceangoing transportation. The United States has financed a major portion of these costs in dollars. However, as a result of a legislative change to Public Law 480 enacted in October 1964, the recipient country is required to pay a major part of the dollar costs for ocean transportation under agreements concluded on or after January 1, 1965.

In April 1966 we issued a report on the expedited signing of certain agreements under title I. This report pointed out that the Department of State and the Agency for International Development had made special efforts to insure that agreements for the sale of surplus agriculture commodities to the Republic of Korea and the Republic of China were signed on or before December 31, 1964. This enabled these countries to avoid the effects of the new legislation.

It is our understanding that the Congress established the effective date of the requirement, that recipient countries pay the foreign exchange costs of ocean freight at January 1, 1965, in order to avoid defaults on agreements previously entered into or a need for the United States to renegotiate agreements ready for signing when the legislation was enacted. The agreements that we reported on did not appear to fall into either of these categories.

ACTION COSTS U.S. SEVERAL MILLION DOLLARS

In this report we estimated that by signing agreements with the two countries on December 31, 1964, the United States will pay several million dollars in additional dollar costs for ocean freight charges over what would have been paid had the agreements been signed on the following day, January 1, 1965, or thereafter.

In the case of Korea, it is possible that additional economic assistance would have been needed in subsequent years to help meet these ocean freight costs. The Republic of China no longer receives economic assistance from the United States.

TITLE II CORN GRANT TO U.A.R. SEEN "QUESTIONABLE"

Turning to the third report, this has to do with the management of foreign donation program.

In July 1965 we submitted a report to the Congress on what we considered to be a questionable grant of corn to the United Arab Republic under title II of Public Law 480. This report disclosed that about 186,000 metric tons of corn, costing over $23 million, had been given to this country on the basis of representations by the recipient that a famine would occur as a result of crop failures. Official statistics of the United Arab Republic, which were subsequently accepted by the U.S. agencies, later showed that the corn crop had not failed and most of the corn was undelivered many months after it arrived in the United Arab Republic.

We were advised by the Agency for International Development and by the Department of State that approval of this grant of corn was based on information then available as to the recipient's crop failures. The Department of State also advised us that the willingness to consider a title II program coincided with a conscious effort to improve relations with the United Arab Republic, its political importance, and the part it played in assuring peace and stability in the Near East.

We reported this matter to the Congress with the thought that it consider enacting legislation to require either a certification that the need for title II donations had been verified, or a determination by the Secretary of State that such food donations were in the interests of the United States.

### CONGRESS LACKS PROPER CONTROL

The fourth report had to do with congressional review and control.

In June 1964 we commented to the chairman of the Senate Committee on Agriculture and Forestry, at his request, on pending legislation to extend the Public Law 480 program. In these comments we noted that title I Public Law 480 sales were but one part of the total economic assistance provided to achieve U.S. foreign policy objectives in a given country, yet no equivalent degree of congressional review existed over the title I programs similar to that in effect for other elements of the foreign assistance program. Therefore, we pointed out that the Congress might wish to consider the desirability of requiring the executive agencies to submit annual justifications, as part of the appropriation process, for the sales program proposed under title I.

The report indicated that an account could be taken of such matters as the ability of the recipient countries to procure the commodities with dollars or on long-term credit, the extent of foreign currencies currently being held by the United States in these countries, the extent to which additional title I sales would increase such holdings and the purposes for which the local currencies would be used. In this manner, the Congress would be in a position to (1) evaluate the economic assistance being furnished in the form of surplus agricultural commodities in the light of other types of assistance being provided, (2) consider the impact of the Public Law 480 program on the overall program of the United States to achieve its economic and political objectives in each of the recipient countries and (3) assure optimum movement abroad of surplus agricultural commodities.

### GAO ENLARGES REVIEW PROGRAM OF PUBLIC LAW 480 ADMINISTRATION

Turning now to the current studies of the General Accounting Office in this area: We are currently reviewing other phases of program administration under Public Law 480, and making additional reviews of some of the matters previously discussed, which may be of interest to this subcommittee. The reviews in process, and some of the problem areas with which we are dealing, include the following:

1. We have undertaken reviews in several countries of surplus commodity distribution through nonprofit voluntary agencies under title III of Public Law 480. One concern that we have here is with the practicability of developing program criteria that can be used to balance humanitarian and surplus disposal considerations against the capability and willingness of recipient countries to feed their own needy as against administrative capabilities of U.S. Government agencies and voluntary relief agencies.

There are indications, for example, that some title III relief programs were maintained at high levels, or even expanded, at the same time that the recipient countries were moving toward a position of economic viability and were developing exportable surpluses of some of the commodities being donated.

We have also been reviewing the wide range of problems that have been experienced in insuring that commodities were accounted for properly and were distributed in accordance with approved program plans.

### U.S. LOSES $700 MILLION IN COMMERCIAL SALES

2. In our further reviews of the manner in which normal patterns of commercial trade are safeguarded during the negotiations of title I sales agreements, we have noted that between fiscal year 1955 and fiscal year 1963, the United States has experienced decreases of over $700 million from its previously recorded levels of sales of wheat, cotton, and tobacco in 15 countries.

### AGENCIES' INSTRUCTIONS INADEQUATE

We have found also in a number of instances that the Department of Agriculture has determined that foreign governments have complied with their usual marketing commitments to import specified quantities of agricultural commodities from free world countries when in fact these quantities had not been imported.

It appears that personnel charged with insuring compliance were unaware of this situation because adequate written criteria, procedures, or instructions had not been developed for the guidance of personnel detailed to carry out these functions. The examples of noncompliance involved more than $3 million.

### CONCLUSIONS TENTATIVE AS DISCUSSIONS CONTINUE

We wish to emphasize that our findings concerning these two latter areas that I have been discussing are tentative and are still in the process of being developed and discussed with the executive agencies involved.

Mr. Chairman, as you know, this is our usual procedure.

Before we complete our report and send it to the Congress, we always check them out carefully with the agencies from the standpoint of their factual accuracy and from the standpoint of permitting the agency to state its position carefully and in writing, to be included in our report when it comes to the Congress.

Mr. Chairman, this concludes my statement on the examinations that we have been making of program administration under Public Law 480. As I mentioned earlier, we have also done work with respect to such problem areas as the administration and use of foreign currencies generated under this program. We plan to continue our work in all of these areas and to report the results of our reviews to the Congress and to appropriate agency officials.

During our reviews we have received the cooperation of agency personnel, both in Washington and at overseas locations. The agencies have not always agreed with our findings, particularly with our observations on some agency actions that had broad implications or raised questions which, in our opinion, warranted reporting to the Congress.

### AGENCIES WELCOME GAO RECOMMENDATIONS

We have generally found agency officials receptive to our suggestions for administrative improvement. For example, just to name one, the Department of Agriculture has advised us, in response to suggestions during our current examination, that they have taken measures to insure that usual marketing commitments are complied with in the future.

This concludes my statement, Mr. Chairman.

I would be very happy to attempt to answer any questions that you have, with the assistance of my two colleagues here.

Senator GRUENING. Thank you very much.

That is an excellent statement.

Yes; I do have a few questions on certain matters that I would like to have discussed, if you will.

### DO RECIPIENTS KNOW U.S. ORIGIN OF COMMODITIES?

The Public Law 480 programs have been described as the food-for-peace program or the food-for-freedom program. Yet, as I understand it, the title I program is strictly a commercial program.

Do the people of the country receiving title I commodities know that these commodities come from the United States?

Mr. STAATS. Well, Mr. Chairman, on this, I am not sure that we can be too definitive.

Senator GRUENING. Let me elaborate my question.

Are title I commodities marked or labeled to show that they have been sent by the United States?

Do the people in a country receiving Public Law 480 assistance pay for the commodities which we send to the country?

Is the price paid by the people controlled by the country receiving the title I commodities?

Do you know of any instances in which foreign governments have resold Public Law 480 commodities to their people at a profit to the government?

LAW DOES NOT SPECIFY

Mr. STAATS. With respect to your question as to marking or labeling, according to our understanding, Mr. Chairman, there is no legal requirement or any requirement by regulation at the present time so that the recipient will know that the item comes from the United States under title I.

H.R. 1558, which is the House bill, proposes in section 105(l) a new requirement that, insofar as practicable, food sold for local currencies shall be marked or identified as being acquired on a concessional basis from the U.S. Government or from the American people.

So this is a matter that is under consideration in connection with the extension of Public Law 480.

U.S. INFORMATION AGENCY NOT "FULLY EFFECTIVE"

With respect to the broader point as to whether our U.S. Information Agency's program is adequately carrying the message to the people of these recipient countries, and whether or not it is fully understood, this is a much more difficult question to answer. I know that efforts of this kind are being made but whether or not they are intensive enough or adequate, or whether or not the message has been gotten through, I can only conjecture a judgment that it has not been fully effective, and I would presume that this is the reason that the Congress is giving consideration to this point in connection with title I, in connection with extension of the law.

PROFITMAKING IN PUBLIC LAW 480 COMMODITIES?

Now, the second question, as to whether or not we know of any indications of commodities having been resold at a profit: There has been one report of the GAO, as you know, in connection with the sale of corn to Egypt, where the corn was actually sold, and this was set out in detail in the report that GAO made to the Congress last year.

Senator GRUENING. Do you know whether the Agency has taken any steps to remedy that situation, to take such action that it is not likely to recur, or at least to indicate that it did tolerate the violations, and would not tolerate such violations in the future?

Mr. STAATS. We do not have anything definite on that. Perhaps Mr. Hylander or Mr. Stromvall could answer that question in greater detail.

Mr. HYLANDER. In this one specific case in Egypt, it is our understanding that collections were not made for the items which were sold as such, but that the country did make available a similar quantity of the commodity which it had purchased, and then did make this available to the recipients.

To my knowledge, there has been no overall change in the procedure, or a tightening up in this area.

Mr. STAATS. I think it is generally a matter of the tightness of administration of each transaction or of each item, as to the extent of external audit, the extent of management review of it.

It is quite likely that this will vary at different times and in different places, depending on the people concerned.

Senator GRUENING. Well, it has seemed to us that Egypt has exhibited some of the most flagrant examples of violation of all the comities that are supposed to exist between friendly nations, with their actions in carrying on an aggressive war in Yemen for the last 3½ years at a cost that our military estimates at $500,000 a day, continuing hostilities and making war on Israel, shooting down an unarmed U.S. plane, urging the Libyans to drive us out of Wheelus Air Base, aiding Communists in the Congo; permitting the burning of the Kennedy Library, violating our agreements, and steadily denouncing the United States. I think that some action by the United States to rectify this situation would be somewhat overdue in this matter, considering this long series of violations.

STUDY NEEDED

Mr. STAATS. Mr. Chairman, we are not aware of any specific study made by either the Agriculture Department or AID as to what really happened on the markup of commodities which have been sold under title I. We are of the view that such a review might well be in order.

We all know about the publicity given to the situation in Vietnam, and we do have some work underway in connection with the AID commodity import program in Vietnam. But at this point I am not prepared to give you more than the fact that we are making such a review there.

But it does seem to us that the question is a very pertinent one, as to whether there has been undue speculation. These commodities do flow through the country's normal commercial channels and there are certainly opportunities here for careful scrutiny as to how this actually works out in practice so that it will accomplish the intended purpose.

U.S. FOREIGN AID OFTEN ANONYMOUS

Senator GRUENING. On the general question of whether the commodities are labeled, and whether the recipient country allows its people to know that these come from the United States, this has been a constant problem in the foreign aid program for years. We find it practically all over the world. There are only one or two countries that make a practice of giving credit to the United States for the origin of its aid, and in most countries the governments prefer to conceal that. This has occurred in any number of places. It has repeatedly been called to the attention of the aid program.

I found, for instance, on a visit to Central America where the United States by agreement pays two-thirds of the cost of construction of the Inter-American Highway, that it really pays more, and we further discovered that with one exception, all of those countries were paying their one-third out of our foreign aid funds.

So, Uncle Sam has really been paying practically all of it, and yet there has been a great reluctance on the part of these recipient governments to have any signs on these highways to indicate that the United States is contributing the major portion of this program. We find that pretty much all over the world, with one or two notable exceptions: Israel for example is a shining exception. We found the roads there marked clearly that they were built in part with funds received from the United States, and Israel actually produced a motion picture in color showing what our AID program had done for that country.

But in many cases, the AID program has tried to bring about evidence of this kind of appreciation and has been constantly frustrated because the rulers of these countries do not want it known. They would like to get full credit for the projects which are financed by our aid.

I think that this is something that we have to continue to insist upon, just as a matter of fairness to ourselves.

### COMMODITIES DIVERTED TO UNFRIENDLY NATIONS?

One other thing: Public Law 480 contains the following provision in section 304:

> The President shall exercise the authority contained in Title I of this Act * * * (2) to assure that agricultural commodities sold or transferred thereunder do not result in increased availability of those or like commodities to unfriendly nations.

Have you found any instances in your audits of title I programs or of programs under other titles of Public Law 480, in which countries receiving foodstuffs or commodities were sending these or like commodities to unfriendly nations?

Now, you have answered this with respect to Egypt. Are there any other examples you could cite?

Mr. STAATS. I do not know of any examples, Mr. Chairman. Perhaps Mr. Hylander could answer that.

### EXAMPLES OF VIOLATIONS CLASSIFIED

Mr. HYLANDER. There are cases in reviews which we have underway now under title III. But the countries involved and the transactions involved are classified as security information, we have been told by the executive agencies. However, we can furnish this information to the subcommittee.

Senator GRUENING. You say that other cases of violation are classified?

Mr. HYLANDER. Yes.

Senator GRUENING. Does the agency classify them?

Mr. HYLANDER. Yes.

Senator GRUENING. In other words, the State Department does not want to have it known that these countries are violating their agreements?

Mr. HYLANDER. Well, I can't speak for them.

### CONGRESS SHOULD KNOW

Senator GRUENING. It seems to me that would be a case in which they should be more than willing to let the Congress know this, let the Congress take appropriate action. I think this is a matter that we shall have to look into.

I feel there is altogether too much classification, too much classifying of material which should not be classified, because it reflects unfavorably on the performance of the administration.

The purpose of classification should not be to conceal error, but unfortunately it frequently is.

GAO AGREES

Mr. STAATS. Mr. Chairman, I would like to make the general point here that as far as our procedure in the General Accounting Office is concerned, we must of necessity, in our public reports, follow whatever classification is established by one of the executive branch agencies. However, we have insisted and will continue to insist on the right of furnishing that information to the appropriate committees of the Congress, so that the Congress will be aware of anything which we develop, even though the information is classified.

But we have no alternative but to follow the classification in our public reports when it is established by the executive branch agencies.

Senator GRUENING. Well, I request that these two other examples of classified information be furnished to the subcommittee. Of course, we will respect the classification, but we would like to have the information so that we can pursue our investigation further.

Mr. STAATS. We shall be glad to do so.

Senator GRUENING. We would like to find out why these are classified and find out the nature of the violations that they conceal.

WHO RUNS PUBLIC LAW 480?

Mr. Staats, you have noted in some of your reports the predominate role played by the Department of State in setting the terms of the Public Law 480 agreements, with the result that overriding consideration is given to achieving what the Department of State construes to be our political objectives in the country.

For example, I noted that your report on displacement of commercial dollar sales of tallow to the United Arab Republic states:

> We believe that * * * the consequent failure to protect U.S. commercial exports is the overriding consideration by the Department of State of the foreign policy aspects and implications of Public Law 480 programs, and the administration of these programs in a manner which focuses primarily on this consideration rather than on the safeguarding of the U.S. commercial exports.

Which agency actually runs the Public Law 480 program, the Department of Agriculture or the Department of State?

AGRICULTURE AND STATE SHARE RESPONSIBILITY

Mr. STAATS. Mr. Chairman the authority under Public Law 480, with the exception of title III which has to do with the arrangements through voluntary agencies, is vested in the President. In the case of title III, that is vested directly in the Department of Agriculture.

The President in turn has delegated his responsibilities under the other titles of the act, in the case of title I and title IV, to the Department of Agriculture, and title II to the Secretary of State, who, in turn, has redelegated that responsibility to AID, the Agency for International Development.

INTERAGENCY STAFF COMMITTEE COORDINATES

Now, as a practical matter, there has been an arrangement for some time for the working out of the negotiation pattern for any particular country, which has been developed through what has been called the

interagency staff committee, chaired by the Department of Agriculture, an official of the Foreign Agriculture Service, and which includes on it representatives of the agencies that I indicated in my statement, including Defense, State, AID, USIA, Budget Bureau, and the Office for Emergency Planning.

Now, this is an instrument of a type which takes committee action and therefore it tends to blur, to some degree, the direct responsibility for negotiating arrangements for a particular country. However, I think it has to be made clear, in fairness, that the committee doesn't bind any particular agency. Any one representative on that committee can and sometimes does go to the agency head in order to try to sustain their position on it.

But the Executive order does make it clear that title I and title IV are delegated functions to the Secretary of Agriculture, and title II to the Secretary of State.

I think that the answer to your question is that the Executive order does make it clear who is responsible in each of these instances, but that, as a practical matter, it is a committee action, and what forces have been applied in a given instance, in a committee operation of this type is something that is difficult to generalize upon.

Senator GRUENING. Would you say that the responsibility lies with State or Agriculture?

AGRICULTURE MUST BOW TO STATE

Mr. STAATS. I think technically, legally, the responsibility for title I and title IV is with the Secretary of Agriculture. He must carry this out under the Executive order in consonance with U.S. foreign policy, and I think this must be getting at the point which is relevant in the case of our report on tallow, and perhaps behind your question.

Perhaps the wording of the Executive order itself will bring this out a bit more sharply than I have stated it.

It says in section 3 of Executive Order 10900 that:

> The functions of negotiating and entering into agreements with friendly nations or organizations of friendly nations conferred upon the President by the act are hereby delegated to the Secretary of State.

So the responsibility for actually working out the negotiations in a given case is clearly with the Department of State.

> All functions under the act, however vested, delegated or assigned, shall be subject to the responsibilities of the Secretary of State with respect to the foreign policy of the United States as such policy relates to such functions.

So it would appear that in a given case, where foreign policy considerations may be heavily involved, the Secretary of Agriculture would be found under his discretion in title I and title IV by the judgment of the Department of State.

However, I have worked in the executive branch long enough, Mr. Chairman, to know that if the Secretary of Agriculture felt strongly enough on a given matter he would have recourse to the White House and to the President, if necessary, to sustain his position.

So I think I would have to answer your question by saying that the Secretary of Agriculture does have this responsibility, subject to the State Department's foreign policy considerations, unless he feels that,

in a given case, the other considerations are such that he ought to make his case directly to the President.

Senator GRUENING. Are there any notable examples of differences between the Secretary of State and the Secretary of Agriculture that you know of?

Mr. STAATS. We have not, to the best of my knowledge, in any of these 30 reports that we have prepared and submitted to the Congress, found instances where this has actually happened.

Perhaps my colleagues here can check me on this. They have been there much longer than I have.

Mr. HYLANDER. I don't know of any.

### DOES STATE USE PUBLIC LAW 480 FOR POLITICAL OBJECTIVES?

Senator GRUENING. Mr. Staats, your report on the expedited findings of certain title I agreements states that the Department of State and the Agency for International Development had made special efforts to insure that agreements for the sale of surplus agricultural commodities to the Republic of Korea and the Republic of China were signed on or before December 31, 1964. This enabled these countries to avoid the effect of newly enacted legislation which required recipient countries to pay foreign exchange costs of ocean freight, starting with agreements signed after that date.

Your report shows that agreements with the eight countries were entered into in the last 10 days of December, thus causing the United States to pay the costs of ocean transportation which the Congress intended the countries to pay.

These eight agreements amounted to over $123 million and involved ocean transportation costs of about $14 million, which will be borne by the United States.

Is this not another instance in which the real direction of the Public Law 480 program by the Department of State to achieve political objectives is made evident?

Has not the State Department and AID found another spigot for giving economic assistance by paying for transportation costs on Public Law 480 shipments which the Congress wanted the countries to pay?

Do you have any suggestions on how the Congress can stop this sort of evasion of its clear purpose?

### CURE IS ADMINISTRATIVE, NOT LEGISLATIVE

Mr. STAATS. I do not have any specific suggestions, other than what has already been offered, namely, to call this to the attention of the Congress in a fairly public way, so that there is perhaps a deterrent for the future.

It is not the kind of thing, in my opinion, that can be dealt with legislatively. It is more the manner in which a program is administered. In our view, in this particular case, it was not administered in accordance with the intent of the provision of law. This is the reason we made the report.

### TITLE I AGREEMENTS WITH TAIWAN CALLED VIOLATIONS

Senator GRUENING. In the same report, on the expedited signing of title I agreements, you note—and I quote:

> . . . since at least 1957, the United States (1) has provided Taiwan with over 200,000 metric tons of wheat annually under title I and similar programs, (2) has given Taiwan most of the local currency derived from the sale of this wheat, and (3) has imposed no conditions on the sale of identical or similar grains. Thus Taiwan has been able to export rice without limitation and to use essentially free United States wheat.

Does this not violate the very purpose of the Public Law 480 programs to make increased amounts of foodstuffs available for consumption by the people and not to enable the country to increase its export trade?

Your report also notes that the Department of Agriculture attempted to limit the amount of rice that Taiwan could export in 1965, but that the Department was overridden by the Department of State.

Does this not show that this whole program is being run by the Department of State as an additional foreign aid program?

### STATE AND AID PREVAIL

Mr. STAATS. With your permission, I would like to ask Mr. Hylander to comment on this question, Mr. Chairman.

Senator GRUENING. I would be happy to have him do so.

Mr. HYLANDER. Certainly in this case, our view would be that the Department of State and AID were dominant in the interagency consideration of this matter, and that their views did prevail, and that until this recent agreement, they had not, as far as we know, previously taken any action along these lines.

This does point out, certainly, the prominent role of foreign policy considerations in administering the program.

### WHY GIVE TITLE I COMMODITIES TO TAIWAN?

Senator GRUENING. Now, do you have any idea why we are continuing to provide Taiwan with title I commodities instead of selling them the commodities they want, on a commercial basis for dollars? I understood that Taiwan was now fully capable of paying for its food imports, and I think you stated, Mr. Staats, earlier that our aid program in Taiwan had ceased.

Are you familiar with the total amount of money that we have poured into that little island?

Mr. STAATS. I do not, Mr. Chairman, offhand, have the facts as to the total amount of aid. The only reason that I could give you with respect to our continuation there, in respect to Taiwan, is that we do have substantial local currency requirements in Taiwan for United States use, and this will undoubtedly continue as long as we have there the military program that we do have.

But that is only my surmise or judgment as to the basis for the continuation of that program other than the general foreign policy considerations.

"... 600,000 MEN ... BUT WE DO NOT SEEM TO FIND ANY USE FOR THEM ..."

Senator GRUENING. You say we have a military program there.

I understand we have been supporting an army of 600,000 men there for a good many years, but we do not seem to find any use for them, any outlet or other for their military activities.

Mr. STAATS. There has been some, but it has been very, very small, I believe, Mr. Chairman.

Senator GRUENING. Well, hardly sufficient to justify our supporting an army of 600,000 men, would you say?

Mr. STAATS. This is a matter of foreign policy judgment, Mr. Chairman, and I am not sure I have a valid opinion about it.

GRUENING QUERIES LOSS OF COMMERCIAL DOLLAR SALES

Senator GRUENING. Mr. Staats, the Comptroller General sent a letter to the chairman of the Senate Committee on Agriculture and Forestry on June 16, 1964, pointing out that the large volume of commodity movements under Public Law 480 presents a danger of displacing normal commercial dollar sales and a consequent adverse effect on the U.S. balance of payments.

Have you found in your audits significant instances in which commercial dollar sales have been displaced by Public Law 480 sales for local currency?

In view of the fact that Public Law 480 contains specific provisions to prevent such displacement, how do you account for the fact that such displacements have occurred?

CRITERIA VAGUE

Mr. STAATS. Mr. Chairman, the language of Public Law 480, which relates to the question that you have raised, is very general. With your permission, I would like to read the exact text.

It provides in section 101(a) that the President, in carrying out his responsibilities under the legislation, "shall take reasonable precautions to safeguard usual marketings of the United States, and to insure that sales under this act will not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries."

Now, that is all there is in the law by way of guidance to the Secretary of Agriculture as to how he shall carry out his responsibilities.

GAO WANTS SHARPER GUIDELINES

The suggestion made in the GAO reports was perhaps that the Congress might find it useful in the law, or in the legislative committee reports, and so forth, to spell out the criteria and the basis for the judgment to be made.

I do not find anything in the House committee report on the extension of the legislation which would seem to deal directly with the point that I am making.

So I would assume that the point has been considered in the House committee, and for good and sufficient reasons, it has not been accepted.

In the one case that we referred to, in the United Arab Republic, the Department of Agriculture disagreed with us as to our judgment that there had been the effect of displacement of commercial sales.

I have just read that report again in the last 24 hours, and my own opinion is that while judgment on this plays a substantial part, nevertheless it would appear that the case is pretty strong that they have not carefully reviewed the matter from the point of view of commercial sales.

There had been a history here, a pattern, that even though their foreign exchange holdings were declining, this was a sufficiently important element in their economy that they might have been willing to have imported more commercially.

From all of the records on it, it would seem that in this case, the GAO has a pretty good case.

### NO DOLLAR REFUND FROM U.A.R.

Senator GRUENING. In your report on the questionable grant of corn to the United Arab Republic under title II, Public Law 480, you say that about 86,000 tons of corn that were to be distributed free to needy people in Egypt suffering from famine was, in fact, sold by the Egyptian Government.

Your report notes that AID agreed to initiate a claim against the United Arab Republic for the value of the corn so diverted in accordance with the terms of the United States-United Arab Republic agreement.

Do you know whether AID has obtained a refund from the United Arab Republic?

Mr. STAATS. I believe Mr. Hylander commented on this point earlier, but perhaps he would restate it.

Mr. HYLANDER. As I understand, the claim has not been processed but that, instead, the United Arab Republic has made available the equivalent amount of corn which had been sold and this quantity has been donated to the needy.

Senator GRUENING. So that the people were finally fed?

Mr. HYLANDER. That is what we have been advised on that, yes. There has not been a dollar refund or a claim. That is our understanding.

Senator GRUENING. Do you know that that has actually happened?

Mr. HYLANDER. No, we have not personally checked this out. This is what we have been told.

### TITLE I SALES CONTINUE TO TAIWAN, ICELAND, ISRAEL

Senator GRUENING. I noticed that in one of your reports, you listed a number of countries receiving agricultural commodities under title I of Public Law 480 whereby payment is made in local currency, most of which is turned back to the countries for their use. The countries included Taiwan, Iceland, and Israel.

I had understood these countries to be in financially sound positions and fully capable of paying for their commodity imports with dollars.

Do you have any idea why title I local currency sales have been continued to these countries long after they have reached a high level of economic development?

Mr. STAATS. Mr. Chairman, I do not have any direct information on that, other than the point I made a little while ago with respect to Taiwan, where we do have continuing local currency requirements for U.S. Government use.

With respect to the other two countries, I do not have anything to offer as an explanation in answer to your question.

### SEES "PERPLEXING" PROBLEM OF INTERAGENCY COORDINATION

Senator GRUENING. The entire matter of who really directs Public Law 480 programs and how interagency coordination is achieved is most perplexing, I think we will agree. On the one hand we have the responsibilities of the Secretary of Agriculture in determining what commodities are available for sale or donation under Public Law 480, and on the other hand, we find the responsibility for negotiating Public Law 480 agreements with recipient countries vested with the Secretary of State, including the final determination of what the terms of those agreements shall be.

Then we have an interagency staff committee with State, AID, Agriculture, and the Bureau of the Budget advising the Secretary of Agriculture, but with State being the dominant element because of the overriding considerations given to foreign policy objectives.

We have also seen the establishment of a Director for Food for Peace in the Office of the President, whose terms of reference and functions were so nebulous that he was finally moved over to the Department of State.

Can you tell us how this complex interagency coordination works in practice and what ideas you may have on providing a better administrative arrangement?

### CONGRESS SHOULD PAY MORE ATTENTION TO PUBLIC LAW 480

Mr. STAATS. Mr. Chairman, I outlined a few minutes ago the description of the delegation under the Executive order to the Secretary of Agriculture and the Secretary of State, and also the arrangements for the interagency staff committee.

I would add perhaps to what I have said in this manner: There has been, I think, growing recognition of the need to relate Public Law 480 programs more closely and directly to the programs developed for the AID program. This was touched on in the testimony presented before the House Agriculture Committee at some length by Secretary Freeman.

The point that we have made, in the General Accounting Office, in our comments to the committee, was that we did not feel that the Congress was giving the same kind of detailed review with respect to the Public Law 480 element of our total foreign aid program that Congress was giving with respect to the rest of the AID program.

BETTER INTERAGENCY COORDINATION IN OFFING

Now, it is my understanding that certain steps have been taken or are in process to try to improve this coordination between Agriculture and AID, by way of attempting to have Agriculture's staff participate more directly in the internal meetings of AID when country programs are being developed, so as to accomplish two things: (1) To be sure that the food element of aid program does fit in with the rest of the program in connection with fertilizers and so forth; and (2) with respect to whether or not there is adequate self-help being initiated by the country that is receiving the aid.

BOTH CONGRESS AND AGENCIES SHOULD IMPROVE PROCEDURES

Now, these are fairly recent developments, and I think we can be hopeful with respect to the effect of this. But the essential point I wanted to make was that there are two different considerations here. One is the extent to which Congress itself reviews in detail the Public Law 480 development of our aid program; the other is the degree to which AID and Agriculture, in effect, hammer out the details of a country program which includes both the food element and other elements of our assistance efforts.

I think this is hopeful, I think it is in the right direction, that it is the kind of thing which ought to be looked at carefully by Congress from time to time as to how it actually works out in practice.

CONGRESSIONAL REVIEW COMES EVEN MORE SHARPLY INTO FOCUS

Senator GRUENING. Maybe this is an embarrassing question, but do you think that Congress should be a little more vigilant or a little more aggressive in trying to get its purposes carried out? I do not know that you can answer that.

Mr. STAATS. I am not sure that I can answer that question in all candor. I do believe that different procedures have been followed by two different committees of Congress with respect to the authorization of the two elements of what I would consider essentially an integrated program.

Now, if the Congress accepts the concept in the administration proposal and the House committee report does accept the concept that we no longer consider Public Law 480 primarily as a way to dispose of agricultural surpluses, but rather as a way of accomplishing both that objective and also the objective of foreign aid, then the point that I am making with respect to congressional review comes even more sharply into focus.

CONGRESSIONAL EFFORTS BLOCKED

Senator GRUENING. Of course, the Congress has had numerous experiences of frustration when it writes a provision as to the foreign aid program such as withdrawing aid to a country which has persistently violated its agreements or misbehaved generally, but custom requires that this always be accompanied with a statement that this shall not be done unless the President finds it in the national interest to amend or discontinue a foreign aid program that has been in effect for several

years; and, somehow, it is always found to be in the national interest that this aid be continued.

I do not know what more the Congress can do, unless it would take the extremely radical step of just making a flat out-and-out prohibition of aid, which it has never seen fit to do until the present time. It is always couched in terms of "unless the President finds it in the them all over the world to needy recipients.

Whether the President makes these decisions personally or not is rather doubtful. They are probably made by some official down the line in State or AID. But the ultimate outcome is that the Congress has been, in many instances, frustrated by the executive agency.

This is a question which the Congress itself will have to resolve in the future.

GAO CONTINUES TITLE III REVIEW

I understand that you have been making some extensive studies of the title III programs under which the United States donates foodstuffs to charitable and religious organizations who, in turn, distribute them all over the world to needy recipients.

Can you describe some major problems which have developed in the administration of this program—that is, the charitable donations under title III?

Mr. STAATS. Yes, Mr. Chairman.

Senator GRUENING. I think you have already covered that very well.

Mr. STAATS. I think we have covered it fairly well in our statement.

There are some commodities which cannot be accounted for because the food was distributed to ineligible recipients, or where fees were charged to recipients, or where food was used to pay for some of the administrative costs of operating the programs in the country itself.

But these are matters which are still under review. We are going to be involved in the subject and we will expect to be reporting to the Congress on it.

Senator GRUENING. Mr. Staats, I think that this will conclude our hearing at this point.

GRUENING PRAISES GAO

I would highly commend your agency on the vigilance it has shown and the efforts it has persistently made to improve the situation, to secure more efficient management in our executive agencies, and to work reasonable economies in the administering of these programs.

They are tremendous programs. They exceed in dimension anything that we have seen before, and I think we all appreciate the difficulties under which your organization labors.

I believe we all appreciate that you have done a very excellent job in pointing out what is wrong, and I am sure you will continue to do so.

Mr. STAATS. I appreciate that statement very much, Mr. Chairman.

Senator GRUENING. I appreciate very much your coming here with your assistants. Your testimony has been very helpful.

Mr. STAATS. Thank you very much.

Senator GRUENING. Thank you.

We will now recess, subject to the call of the Chair.

(Whereupon, at 11:15 a.m., the hearing was recessed to reconvene at the call of the Chair.)

69-824—66——8

# COORDINATION IN THE ADMINISTRATION OF PUBLIC LAW 480

THURSDAY, JUNE 30, 1966

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AID EXPENDITURES,
COMMITTEE ON GOVERNMENT OPERATIONS,
*Washington, D.C.*

The subcommittee met at 10:05 a.m., pursuant to recess, in room 3302, New Senate Office Building, Senator Ernest Gruening (chairman of the subcommittee), presiding.

Present: Senator Gruening.

Also present: Herbert W. Beaser, chief counsel; Joseph Lippman, staff director; William J. Walsh III, professional staff member; Nicholas Carbone, staff investigator; Mary A. Miller, clerk; Joyce Polk, assistant clerk; and Harriet S. Eklund, editor.

## OPENING STATEMENT OF THE CHAIRMAN

Senator GRUENING. The hearing will please come to order.

On June 2, 1966, the Subcommittee on Foreign Aid Expenditures began a series of hearings on the administration of Public Law 480. At that time, Mr. Elmer Staats, the Comptroller General of the United States, testified on the findings of the General Accounting Office which resulted from extensive audits of program administration by that office.

These audits disclosed serious deficiencies in the way these programs had been administered. Today we will hear from the responsible officials of the Department of Agriculture, Department of State, the Department of the Treasury, and the Agency for International Development in response to the charges made by the Comptroller General. Several additional matters developed by the subcommittee staff, and about which the agencies have been informed will also be covered in today's hearing.

## ENACTMENT OF PUBLIC LAW 480 SHOULD "SAFEGUARD THE USUAL MARKETINGS OF THE UNITED STATES"

The Comptroller General reported on two instances in which Public Law 480 programs have displaced commercial sales which might otherwise have been made. In one instance commercial sales of wheat to the United Arab Republic declined from an average of 300,000 metric tons to an average of about 20,000 metric tons after we began supplying the United Arab Republic with increasingly large quantities of wheat under Public Law 480. This occurred despite the provisions

of Public Law 480 that the President shall take reasonable precautions to safeguard the usual marketings of the United States.

The Comptroller General also presented evidence that the United States lost about $40 million in sales of wheat to Egypt because the State Department agreed to waive the commitments which the United Arab Republic had entered into to purchase specified quantities of wheat with dollars from the United States.

### INEPT HANDLING IS "CHARACTERISTIC" OF PUBLIC LAW 480 ADMINISTRATION

The situation described by the Comptroller General appears to be characteristic of the way the Public Law 480 program has been administered. Thus, the Comptroller General has stated that:

> In our further reviews of the manner in which normal patterns of commercial trade are safeguarded during the negotiation of title 1 sales agreements, we have noted that between fiscal year 1955 and fiscal year 1963 the United States has experienced decreases of over $700 million from its previously recorded levels of sales of wheat, cotton, and tobacco to 15 countries.

### UNITED STATES PAYS "SEVERAL MILLION DOLLARS" EXTRA

The Comptroller General also testified in his report on the expedited signing of title 1 agreements. In October 1964, an amendment to Public Law 480 was enacted which required recipient countries to pay a major part of the dollar costs for ocean transportation under agreements concluded on or after January 1, 1965. The General Accounting Office found, however, that in eight instances agreements were signed in December 1964, and that in the cases of Korea and Taiwan the Department of State and the Agency for International Development had made special efforts to insure that the agreements with these two countries were signed prior to December 31, 1964, thus enabling them to avoid the effects of the new legislation. As a result, the United States will pay several million dollars in additional dollar costs for ocean freight charges over what would have been paid had the agreements been signed on January 1, 1965, or thereafter.

One of the many interesting points made by the Comptroller General in his June 2, 1966, testimony was his conclusion that the degree of congressional control and review of the Public Law 480 programs was inadequate, particularly as compared to the degree of control exercised by the Congress over other elements of the foreign assistance program.

### CONGRESS MUST WEIGH CHARGES

These are most serious charges which go to the very heart of the program and the administrative structure which has been established by the executive agencies. It is incumbent on the Congress to evaluate these charges and to consider the following questions:

Are existing interagency relationships clearly enough defined to insure that the objectives of the Public Law 480 programs are carried out?

Is further legislative action required to delineate more clearly the responsibilities of the Departments of State, Agriculture, Treasury, and the Agency for International Development?

Is there a need to establish clear priorities as between the interests of the Department of State in utilizing Public Law 480 programs to accomplish its political objectives, the interests of the Department of Agriculture in protecting commercial agricultural sales of the United States and the interests of the Department of the Treasury in its efforts to reduce the balance-of-payments problem?

Should the Congress consider additional measures of control and review of the Public Law 480 programs to insure that stated objectives are being carried out?

### GRUENING'S EVIDENCE SHOWS PUBLIC LAW 480 ASSISTANCE GIVEN TO COUNTRIES AIDING CUBA

Of particular concern to the subcommittee is the evidence which has been developed that some countries have used Public Law 480 commodities to make increasing amounts of the same or similar commodities available to Communist countries such as Cuba and North Korea—a situation clearly prohibited by the provisions of Public Law 480. The subcommittee is also interested in the evidence which has been developed that Public Law 480 commodity assistance has been, and is being furnished to countries who continue to send their ships to Cuba.

Now, we have a number of distinguished witnesses here. First, there is Mrs. Dorothy H. Jacobson, Assistant Secretary of Agriculture.

Mrs. Jacobson, would you be kind enough to come forward and take your seat at the table and present your testimony. We are very happy to have you here.

Mrs. JACOBSON. Thank you, Mr. Chairman. Shall I proceed?

Senator GRUENING. Have you a prepared statement?

Mrs. JACOBSON. Yes. The copies will be delivered in a little while.

## STATEMENT OF MRS. DOROTHY H. JACOBSON, ASSISTANT SECRETARY OF AGRICULTURE; ACCOMPANIED BY THOMAS E. STREET, DEPUTY ASSISTANT ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE FOR EXPORT PROGRAMS, DEPARTMENT OF AGRICULTURE

Mrs. JACOBSON. The food for peace program as carried out under Public Law 480 has been of great benefit to both the people of the United States and the world's hungry. It has been a major factor in moving the U.S. agricultural surpluses into constructive use. It has served as a useful instrument of foreign policy. It has met food needs in more than a hundred nations around the world. It has made very definite contributions toward building commercial markets for our agricultural products.

### MRS. JACOBSON WELCOMES CONGRESSIONAL CONCERN

Overall, we feel that an excellent job has been done. However, in any undertaking as complex and far reaching as the Public Law 480 program, operations do not always proceed as planned. There is always a need for review and improvement. We are therefore pleased to discuss with this Subcommittee on Foreign Aid Expendi-

tures of the Committee on Government Operations the management aspect of this program.

We are constantly trying to improve the operations and procedures under which we operate and welcome constructive suggestions from the committees of the Congress and from the GAO.

Mr. Chairman, in your opening statement on June 2, and again today, you referred to four specific points you wished to cover in these hearings. The first of these is the question of displacement of normal U.S. commercial sales of agricultural commodities for dollars by soft currency sales under Public Law 480.

### COMMERCIAL SALES DISPLACEMENT CALLED MINOR

On this point, Mr. Chairman, we in the Department of Agriculture, and I believe in the executive branch generally, take considerable pride in the fact that in a program of this magnitude which has provided for shipments of over $9.5 billion worth of agricultural commodities, under sales agreements since its inception, that under a program of this magnitude there have been so few instances in which questions have even been raised about possible displacement of normal U.S. commercial trade.

### PUBLIC LAW 480 HELPS RATHER THAN HINDERS

We would like to emphasize, too, in this connection that during the period in which Public Law 480 has been operating, the commercial sales of agricultural commodities for dollars have more than doubled, increasing from a fiscal 1955 level of $2.3 billion to an estimate of $5 billion commercial sales for the current fiscal year.

We think that operations under Public Law 480 as a whole have helped in this tremendous increase in our commercial market.

### MAINTAINS ALL U.S. MARKETINGS SAFEGUARDED

Now, this is not to say that we are being complacent about the questions which have been, or which may be, raised on whether or not any of our Public Law 480 sales agreements have adversely affected commercial sales. It has been a prime concern in our administration of Public Law 480 to take precautions to safeguard usual marketings of the United States, and this has been a standard provision in all Public Law 480 sales agreements since the beginning.

### DESCRIBES EFFORTS

All requests for commodities under Public Law 480 sales agreements are subjected to careful analysis of the country's past history of commercial imports of the commodities in question, as well as its current financial ability to maintain or to increase its commercial imports.

There is, of course, no precise way of determining exactly what a country would import commercially from the United States in the absence of a Public Law 480 sales agreement. We make the best judgment we can on the basis of past history, usually taking an average. Where there is an upward or a downward trend, we take this into account. Where a country's foreign exchange resources are

deteriorating or improving, we take this into account as well. And, therefore, the level arrived at as a condition for financing commodities under Public Law 480 may be lower or higher than that of the previously preceding year or of an average of several preceding years.

Our general practice after making this determination of the appropriate level at which to safeguard the usual marketings of the United States and the level required to assure that there will be no undue disruption of normal patterns of commercial trade with friendly countries, as required by law, is to require the maintenance of these levels as a condition of the sales agreement. This is done generally by establishing a total figure of minimum commercial imports from friendly countries, of which not less than a stated figure is to be purchased from the United States for dollars.

### "WE DO THE BEST WE CAN"

As I said at the outset, Mr. Chairman, we take pride in our management of this admittedly difficult aspect of administering Public Law 480 agreements. It is obvious that arriving at these determinations of the levels involves a large area of collective judgment. It is true that in the light of subsequent events in a few individual cases our judgment has been questioned. It can be argued that if Public Law 480 financing of agricultural imports were not available, a particular country would be forced to divert foreign exchange from other uses to buy such imports commercially.

However, in such case, a country in foreign exchange difficulties would probably be forced to either cut back on its economic development program or to reduce its people to unacceptably low levels of consumption.

If the reduction to lower levels of consumption were unacceptable, then the former course would be chosen and some commercial imports would result.

As the Comptroller General said at your hearing on June 2, and I am quoting him now, "There is no precise way to know what a country would buy in the absence of a title I agreement." Under conditions that we can't exactly forecast, we do the best we can to carry out the total intent of the law.

### HAVE RECIPIENTS USED PUBLIC LAW 480 TO INCREASE THEIR EXPORTS?

Your second point, Mr. Chairman, relates to the extent to which countries receiving commodities under Public Law 480 have used such assistance to increase their exports of the same or similar commodities. This, too, is a question which has been considered and dealt with over the years since Public Law 480 has been in effect.

In the early years specific provisions were included in Public Law 480 sales agreements for specific commodities, for which there was a possibility known in advance that the same or similar commodities might be exported. In more recent years, standard language has been developed for inclusion in all Public Law 480 sales agreements under the heading of "General Undertakings," providing that the government receiving the commodities will take all possible measures to prevent the export of any commodity which is the same or like

commodities purchased under the agreement, except where such export is specifically approved by the United States.

As in many areas of administration, this legislation requires an element of judgment. Questions arise as to which commodities are like those being purchased under the agreement as well as with regard to instances where it is appropriate to approve the export of a like commodity.

### DECIDING FACTOR IS COUNTRY'S HISTORY OF COMMODITY EXPORT IN QUESTION

As in all the aspects of our administration of this legislation, our judgments have been to the best of our ability to make determinations in the best interests of the United States. Cases where exports have been approved are generally those where the country has a past history of exports of the commodity in question. We reach a decision that the exports of these commodities should not increase as a result of the supply of the same or like commodities under the provisions of the agreement. The means for insuring this is generally a requirement that any exports above the past historical level will be considered as resulting from the agreement and, therefore, will be offset by purchases of an equivalent tonnage, commercially, out of the country's own foreign exchange resources, to offset or make up for any increase in their own exports.

The amount so purchased commercially, of course, reduces the amount of the commodity being provided under Public Law 480, and the effect of this provision is to, as we say, commercialize the transaction, so that those exports that are above the previous levels cannot have been increased as the result of the supply of the commodity under Public Law 480.

### PROVISIONS PROVIDE "EQUITABLE BALANCE"

We feel that these provisions strike an equitable balance, that on the one hand they assure that increased exports do not result from Public Law 480 sales agreements, and on the other hand, they do not unreasonably inhibit a developing country's legitimate efforts to expand its own commercial trade which is essential to its achievement of economic self-sufficiency.

It can readily be appreciated that the establishment and enforcement of these provisions, like the usual marketing agreements involve great difficulties of negotiation with the country immediately concerned, and of consultation with third countries which are also exporters of the commodities in question.

We believe that under the circumstances our administration of this aspect of Public Law 480 sales agreements has been managed with a minimum disruption to all concerned and in the best interests of the United States.

### COMMUNIST COUNTRIES HELPED THROUGH PUBLIC LAW 480?

Your third point, Mr. Chairman, is a question with regard to the extent to which Public Law 480 commodity assistance to foreign countries has made possible increased exports of the same or similar com-

modities by these countries to Communist countries. This point is covered by the provisions of section 304(a) of Public Law 480 which requires that we exercise the authority contained in title I of the act to assure that agricultural commodities sold or transferred under this title do not result in increased availability of those or like commodities to unfriendly nations.

### DIFFICULT TO DEFINE "SIMILAR" COMMODITIES

Consequently, this has from the beginnning been a standard provision of agreements under title I. We have consistently sought to administer Public Law 480 agreements in a manner that faithfully carries out both the letter and the intent of this provision of the law. But, again, on this point, difficulties of interpretation have arisen on the question of definition of commodities which are like those being purchased under the agreement, and also, in defining what constitutes increased availability.

We have consistently done our best to fulfill this requirement of the law in spite of any difficulties of interpretation. We have sought to fulfill it in the best interests of the United States. Where it was apparent that increased availability of the same or like commodities had resulted from title I agreements, we have required the enforcement of this provision of the agreement by commercializing the transaction and requiring commercial purchases.

### DO AID AND STATE OVER-STEP STATUTORY BOUNDS?

Your final specific question, Mr. Chairman, is the extent to which Public Law 480 programs are directed and managed by the Department of State and the Agency for International Development, rather than by the Department of Agriculture.

As you and the subcommittee know, Executive Order 10900, which assigns responsibility for the administration of Public Law 480, designates the functions conferred upon the President by titles I and IV of the act to the Secretary of Agriculture, and those conferred upon the President by title II to the Secretary of State.

You know, too, that that order also contains certain other specific delegations to other executive agencies, such as that to the Secretary of the Treasury with regard to the uses for local currencies, and you know that, additionally, the Executive order requires that all functions performed under Public Law 480, however delegated, be subject to the responsibilities of the Secretary of State with regard to the foreign policies of the United States.

### CLAIMS WHOLE U.S. GOVERNMENT RESPONSIBILITY

In attempting to answer the question, Mr. Chairman, as to which agency is responsible, I have to say that it is a total U.S. Government responsibility. Any Government activity which affects as many U.S. interests as this, including farm income, farm programs, availability of agricultural commodities for supplies to American consumers, as well as availability to people abroad, foreign policy, foreign economic assistance, economic development for developing countries, U.S. balance of payments, commercial trade of the United States,

and countries friendly to the United States, and that affects foreign activities of U.S. Government agencies in fields as diverse as common defense and education exchange, this must of necessity be a total U.S. Government responsibility.

The specific delegations to the agencies by the Executive order are assignments of primary responsibility to agencies. I believe that in the administration of this law, each agency has a primary responsibility for those primary functions assigned to it, including the Department of Agriculture. I believe, too, that in carrying them out, all of the agencies concerned take care to administer them in such a way as to take into account the totality of the U.S. Government interests.

### INTERAGENCY STAFF COMMITTEE COORDINATES

I might say parenthetically here, while we are part of the Department of Agriculture, we consistently recognize that the Department of Agriculture is a part of the Government of the United States. The mechanism for bringing together the various U.S. Government agency interests at the staff level is the Interagency Staff Committee. It serves to make sure that any agreement or program undertaken with a foreign country takes into account all of these U.S. Government concerns. This Interagency Staff Committee, however, does not take action that is binding on any particular agency. Consequently, when issues arise which any agency feels are of sufficient importance, these can be and are raised ultimately to the Cabinet level for decision, and in this way, any action on which there is not general agreement is carried to those higher levels at which agreement is reached so that action taken by the U.S. Government with regard to Public Law 480 is then taken as a U.S. Government decision.

### ". . . WE ARE PROUD OF THE JOB WE HAVE DONE . . ."

I would like to conclude by reemphasizing what I said at the outset, that we are proud of the job we have done in administering this wide-ranging, complex legislation. Despite the admittedly great difficulties of the task, we have been able to provide for the movement of a very large volume of agricultural commodities without, so far as we know, any very serious or significant displacement of U.S. commercial imports, or disruption of normal patterns of commercial trade of friendly countries.

Despite the number of Government agencies concerned, we have been able to move rapidly and with flexibility to respond to the frequently rapid and unanticipated shifts in supply situations for commodities, both in the United States and in other countries.

A recent current example is the unanticipated demand for a large volume of food grains in India as a result of the drought. We have been able to respond effectively to meet this need and, as a result, helped to stave off a disastrous famine which could well have occurred.

We believe that we are prepared to continue effective administration of this program or its successor, substantially on the basis of experience which has proved effective in the past.

Thank you, Mr. Chairman, and I will be glad to try to answer questions or to call on some experts to help me answer them.

Senator GRUENING. Thank you very much, Mrs. Jacobson, for a very comprehensive statement.

I think before we go to the questions, we will continue with the other witnesses, if you will be kind enough to stand by.

Mrs. JACOBSON. I will.

Senator GRUENING. Our next witness is Mr. Edward R. Fried, Deputy Assistant Secretary of State for International Resources.

Go ahead, Mr. Fried, in your own way.

Have you a prepared statement?

Mr. FRIED. I have, sir. Thank you, Mr. Chairman.

## STATEMENT OF EDWARD R. FRIED, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL RESOURCES

Mr. FRIED. I am pleased to appear before you today with my colleagues of the Department of Agriculture, Treasury, and the Agency for International Development to discuss the functions of the Department of State in carrying out the administration of Public Law 480, the Agricultural Trade Development and Assistance Act of 1954.

As you, yourself, have said, Mr. Chairman, "Public Law 480 is a program of vast dimensions."

It is a program of continuing significance to the conduct of our relations with the rest of the world and particularly of our relations with the developing nations.

### PROGRAM SHOWS VAST INCREASE IN DECADE

Since 1954, when the Agricultural Trade Development and Assistance Act became law, the world has changed remarkably. For example, there are now 57 more nations in the U.N. than there were in 1954. The program itself has grown from commodities valued at $834 million in 1955 to roughly $1.4 billion in 1965.

These facts, Mr. Chairman, illustrate the "vast dimensions" you have in mind, and they illustrate clearly the need for the continuing and detailed interagency consultations in which the Department of State participates during the discharge of its Public Law 480 functions.

The Department of State has, as Mrs. Jacobson indicated and Mr. Waters will detail further, certain specific responsibilities for carrying out the mandate of Public Law 480.

### MUCH OF STATE DEPARTMENT'S AUTHORITY REDELEGATED TO AID

Much of the executive responsibility for administering the law assigned to the Department of State has been redelegated to the Agency for International Development. The Secretary has reserved the determination of which are friendly countries for purposes of section 107 of the act and has retained responsibility for (*a*) advising the Secretary of Agriculture on the foreign policy aspects of barter programs; (*b*) consulting with friendly countries on the commercial trade aspects of Public Law 480 programs; and (*c*) conducting those parts of the foreign currency program that relate to our foreign buildings and cultural affairs activities.

To expand briefly:

FRIED DESCRIBES MANAGEMENT OF BARTER PROGRAMS

(1) Barter: The Department's role in barter programs is carried out mainly through membership on the Advisory Committee on Barter, an interagency group set up to advise the Secretary of Agriculture. Moreover, the Executive Stockpile Committee report authorizes the Secretary of State under certain conditions to initiate barter programs, and this function is carried out in the context of State membership on the Advisory Committee on Barter.

U.S. FOLLOWS FAO GUIDELINES

(2) Third country consultations: Public Law 480 requires the President to: "Take reasonable precautions to * * * assure that sales under this act will not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries." The injunction against market disruption which is found in domestic U.S. law is paralleled in a recommendation of the Food and Agricultural Organization of the United Nations.

The FAO some years ago recommended to its member governments that they agree to dispose of agricultural surpluses "in an orderly manner so as to avoid any undue pressure resulting in sharp fall of prices." The FAO also recommended that "where surpluses are disposed of under special terms, there should be an undertaking * * * that such arrangements will be made without harmful interference with normal patterns of production and international trade." The United States has accepted these recommendations.

When situations arise where Public Law 480 sales may come in conflict with commercial sales by third countries, the Department of State consults both with the countries involved and with the Interagency Committee with a view to establishing the facts and working out a solution.

STATE DEPARTMENT DECISIONS BASED ON MANY FACTORS

(3) Friendly country determinations: I would like to refer at this point to the responsibility of the Department of State under section 107 of Public Law 480. The only country with respect to which a determination has been made under this section is Poland. In 1956, shortly after the Poznan uprisings, Secretary Dulles determined that Poland was not a country dominated or controlled by the international Communist movement, for purposes of section 107. Of course, this decision was taken only after thorough discussion with the other interested agencies.

Aside from the specific statutory requirements of section 107, the Department of State, of course, has an important role to play, along with the other agencies here today, in the decision to make Public Law 480 agreements with particular countries. Such decisions are based on many factors bearing upon the domestic and foreign policies and interests of the United States. These may encompass foreign relations, commercial considerations, national security requirements, political, regional, and traditional factors and relationships, and a number of other matters which must be taken into account and may not necessarily be assigned equal weight in each decision.

In this connection, Mr. Chairman, the food for peace program is well named. There is a very real relationship in less developed countries between hunger and political stability. There is, in turn, a very real relationship between the political stability of less developed nations and our protection and pursuit of the overall interests of the United States. Aside from our humanitarian interests in fellow human beings, we know that we cannot find enduring security in a world in which a few are rich and the many live in misery and starvation.

### STATE DEPARTMENT WELCOMES EVALUATION OF PROGRAM BY CONGRESS AND GAO

We are conscious, continually, of the problems that arise from the need to make countless individual judgments and decisions in the administration of our food for peace program, and we welcome the assessments and efforts of the Congress and of the General Accounting Office to pinpoint situations which will enable us to make the program more effective.

Thank you, Mr. Chairman.

Senator GRUENING. Thank you very much, Mr. Fried, for an excellent statement.

Would you be kind enough to stay at the table? Later we will have some questions.

Next we would like to hear from Mr. Herbert Waters, Assistant Administrator for Material Resources, Agency for International Development.

Mr. Waters, glad to have you here.

Do you have a prepared statement?

Mr. WATERS. I have, Mr. Chairman.

## STATEMENT OF MR. HERBERT J. WATERS, ASSISTANT ADMINISTRATOR FOR MATERIAL RESOURCES, AGENCY FOR INTERNATIONAL DEVELOPMENT; ACCOMPANIED BY ANDREAS F. LOWENFELD, DEPUTY LEGAL ADVISER, DEPARTMENT OF STATE

Mr. WATERS. Mr. Chairman, I, too, welcome the opportunity to discuss the administration of the food-for-peace program. As you stated when you opened these hearings, Mr. Chairman, all of us approach this subject from the same point of view: that the food-for-peace program is one of the outstanding American success stories. The abundant production of American agriculture has benefited millions of people in the free world—staving off hunger; combating malnutrition, especially in children; and helping to build strong and growing economies.

Since 1954, the United States has shipped over $15 billion worth of farm products under the food-for-peace program. A program of this magnitude fully merits examination to determine whether our food resources are being used effectively. It is only prudent management to seek out ways and means of improving its administration.

### SECRETARY OF STATE HAS FINAL RESPONSIBILITY

This is an area to which I have given a great deal of attention. I propose to touch briefly upon some of the steps which the Agency for

International Development has taken to carry out its responsibilities under this program. But first, it may be helpful to note that most of the Public Law 480 functions delegated to the Secretary of State have been redelegated to AID, as Mr. Fried just emphasized. However, all functions of the act are subject to the responsibilities of the Secretary of State with respect to U.S. foreign policy. This does not mean that foreign policy considerations override all others. But when we deal with as potent a force as food for the world's hungry, the impact of these programs upon foreign policy must be given due weight.

### AID HAS VITAL INTEREST IN PUBLIC LAW 480

We are deeply concerned with the efforts of developing countries to improve their own ability to feed themselves or to buy what they need on commercial terms. One of our most important development objectives is to increase agricultural productivity. In the coming year, AID expects to increase its capital and technical assistance to agriculture by 50 percent. AID also has an important stake in the development of Public Law 480 programs. We work closely with the Department of Agriculture both here and abroad to estimate requirements for food aid. We have a vital interest in the terms and conditions on which the food is provided to assure that insofar as possible Public Law 480 food programs and AID dollar programs, taken together, are effectively used in the struggle for a world of peace and progress.

But just as foreign policy considerations cannot be ignored, we fully recognize that other purposes of Public Law 480, such as developing and expanding dollar markets for our farm products, protecting commercial markets of the United States and other countries in the free world, and helping our balance of payments, must—and are—carefully weighed in arriving at decisions on Public Law 480 programs.

### AID MOVES FROM "FOOD FOR DISTRIBUTION" TO "FOOD FOR DEVELOPMENT"

Up to now my comments have related primarily to concessional sales under titles I and IV. Let me turn now to grants and donations under titles II and III. AID has primary responsibility for the administration abroad of these programs. The thrust of these programs is changing significantly. To put it bluntly, they are trying to shift from using food as a dole to using food to overcome the need for a "handout." We have underway 179 economic and community development projects in 65 countries. Twelve million people participate in these projects and receive U.S. food in return for their work.

American voluntary agencies, freed by the 1964 extension of Public Law 480 from the requirement to distribute food without asking for work in return, have made a good beginning in using food to help needy people help themselves. In school feeding programs, students are now required to make some financial contribution wherever possible. But no child is turned away hungry on this account.

The shift from "food for distribution" to "food for development" requires increasing emphasis upon program development, administration, and review. AID now has 45 food-for-peace officers and assistants in 24 key countries. Five years ago we had only 10 food-for-

peace officers. The voluntary agencies and foreign governments have increased their financial support for these programs, and to oversee and operate these programs they have greatly expanded the number of people involved, including paid employees and volunteers.

"VIGOROUS ACTION IS TAKEN TO CORRECT PROGRAM DEFICIENCIES"

Grant and donation programs are regularly monitored by AID's Audit Division and management inspection staff. About 20 percent of the time of our staff of 350 auditors is spent in reviewing grant and donation programs. Their recommendations are carefully reviewed, both here and in our missions overseas. Vigorous action is taken to correct program deficiencies. In addition, the voluntary agencies and participating foreign governments regularly review their own programs.

In conclusion, I can assure you, Mr. Chairman, that the findings and recommendations of the GAO also receive careful review and follow-through. We are always open to constructive suggestions and in a program as complex as food for peace, we need them.

Thank you, Mr. Chairman.

Senator GRUENING. Thank you very much, Mr. Waters, for a very good statement.

Our fourth witness is Mr. Knowlton, Assistant Secretary of the Treasury.

Mr. Knowlton, will you come forward, please?

## STATEMENT OF WINTHROP KNOWLTON, ACTING ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

Mr. KNOWLTON. I welcome this opportunity to comment on the manner in which the food-for-peace program is administered insofar as Treasury is concerned.

The responsibilities and functions assigned to the Treasury Department for administering the Public Law 480 program may be divided into seven main categories:

TREASURY'S MAJOR CONCERN IS WITH BALANCE OF PAYMENTS

1. In the first instance, Treasury participates with other agencies in the interagency committee which formulates U.S. negotiating positions for prospective sales agreements with foreign countries. In this exercise, the major Treasury concern is with the impact on the U.S. balance of payments. In our view, this factor is seriously weighed in the committee, although you will appreciate that other elements must be taken into account as well.

TREASURY ACTS AS CUSTODIAN OF FOREIGN CURRENCIES . . .

2. The Treasury takes custody of the foreign currencies received under Public Law 480 title I sales. It also prescribes regulations governing the purchase, custody, deposit, transfer, and sale of foreign currencies received under the act.

. . . EVALUATES AND REVISES FOREIGN CURRENCY NEEDS . . .

3. The Treasury consolidates Government agency estimates of foreign currency requirements, considers possible changes in requirements and availabilities, and prepares a list of the countries in which U.S. holdings are in excess. This list is revised annually.

For most of the 80 or so currencies held by the U.S. Government, holdings are much smaller than estimated U.S. Government requirements for a reasonable period in the future. These are simply working balances which are held to a minimum. But in the case of some countries—between 7 and 11 in recent years—Treasury has found that holdings exceed 2 years' prospective requirements. In such cases, the currency is designated by Treasury as excess unless prospective changes in U.S. receipts of the currency or the trend of U.S. requirements or a rise in prices in the countries involved suggest that a somewhat larger number of years' requirements should be allowed for before the currency is considered "excess." As a practical matter, there have been no cases in which holdings in excess of 2 years' requirements were not declared excess.

This determination of excess currencies is made by the Treasury in cooperation with other agencies, particularly with the Bureau of the Budget. Once the list of countries in which excess currencies are held has been established, it is used by the Director of the Bureau of the Budget as a guide for all Government agencies to insure that all current and planned dollar obligations in these countries are closely examined to maximize use of Treasury-held foreign currencies in lieu of dollars and also as a guide for inviting agencies to request special foreign currency program appropriations. Such appropriations, when approved by the Congress, are for expenditures that can be financed only out of U.S. Government holding of excess currencies.

. . . SEEKS BEST EXCHANGE RATES . . .

4. With respect to the exchange rates at which U.S. holdings of local currencies are sold to Government agencies, personnel, or other authorized purchasers, Treasury's general policy is to see that currency is sold at the best rate at which it could be legally acquired in the market for the purpose involved.

. . . SUPERVISES LOCAL CURRENCY DISBURSEMENT . . .

5. U.S. disbursing officers of the State Department are authorized by the Treasury to operate the local accounts in which the bulk of our local currency is held, and are under the technical supervision of the Treasury Department. They disburse under delegation of authority from the chief disbursing officer of the Treasury Department. Central summary accounts of our local currency holdings are maintained by Treasury, and periodic financial reports are prepared. The latest of these is the "Report on Foreign Currencies in the Custody of the United States, December 31, 1965," a copy of which has been provided to the committee.

. . . DEPOSITS LOCAL CURRENCIES WISELY . . .

6. The Treasury Department designates the depositories abroad for U.S. Government-owned local currencies and makes it a practice to utilize branches or subsidiaries of American banks wherever possible. It is the policy of the Treasury to obtain the maximum amount of interest possible on such deposits consistent with their safety.

Since the enactment of section 301(c)(2) of the Foreign Assistance Act of 1965 (section 613(d) of the Foreign Assistance Act of 1961, as amended) which provides for the receipt of interest, no foreign country has refused to agree to pay interest on U.S.-owned foreign currency deposits under Public Law 480 agreements subsequently executed, although the rate of interest has been the subject of negotiations.

. . . CONTROLS LOCAL CURRENCY SALES TO AMERICANS

7. Finally, I should mention that in order to implement sections 104 (s) and (t) of the law which provides for the sale of foreign currencies to private American citizens, Treasury seeks to obtain as much currency as feasible for this use. There are severe limitations, however, on the amount that can be negotiated.

The excess currency countries all suffer from foreign exchange scarcities and resist and resent arrangements which cost them foreign exchange. They are particularly sensitive to any such loss of American tourist dollars. In view of this situation, and prevailing foreign exchange laws and regulations, it is necessary to negotiate agreed procedures and limitations under which sales to U.S. private citizens may be made.

When suitable arrangements are made we publicize the facilities and urge U.S. citizens to use them. Leaflets have been prepared for insertion in the U.S. passports of travelers to these countries and travel agencies are informed and urged to cooperate. This cooperation has been excellent.

Mr. Chairman, this concludes my comments on the responsibilities of the Treasury Department for the administering of Public Law 480. I am at your disposal if you have further questions.

Senator GRUENING. Thank you very much, Mr. Knowlton. We appreciate your statement.

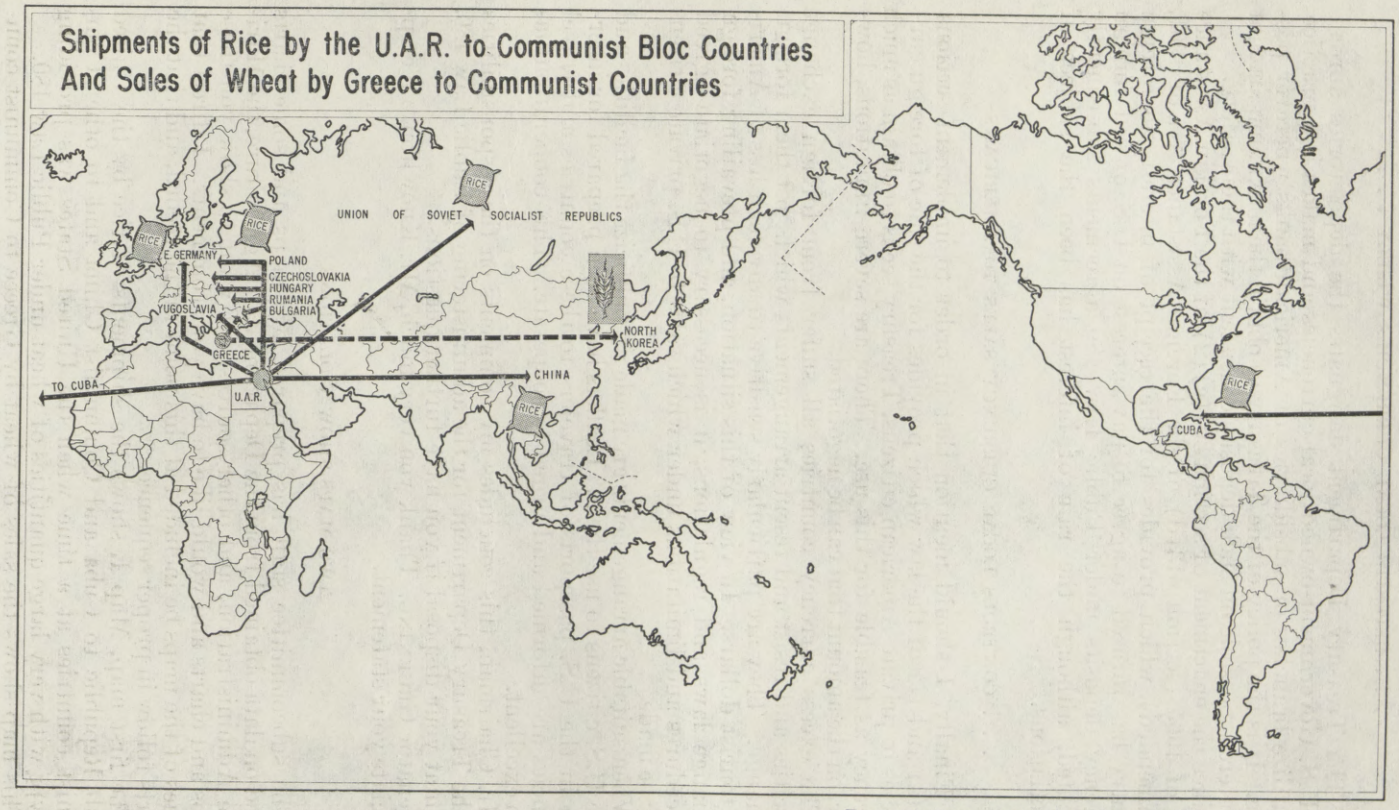
TWO MAPS SHOW VIOLATIONS

The subcommittee staff has prepared two maps and some charts based on data obtained from the Department of Agriculture, the Maritime Administration, and other sources. I want to show you these maps and charts and would like to have your comments. I direct that copies of the maps be included at this point in the record, and that the charts follow in proper sequence.

The first map, Map I, shows the shipments of rice by the United Arab Republic to Cuba and Communist China and to other Communist countries at a time when the United States was providing Egypt with very large quantities of wheat under Public Law 480.

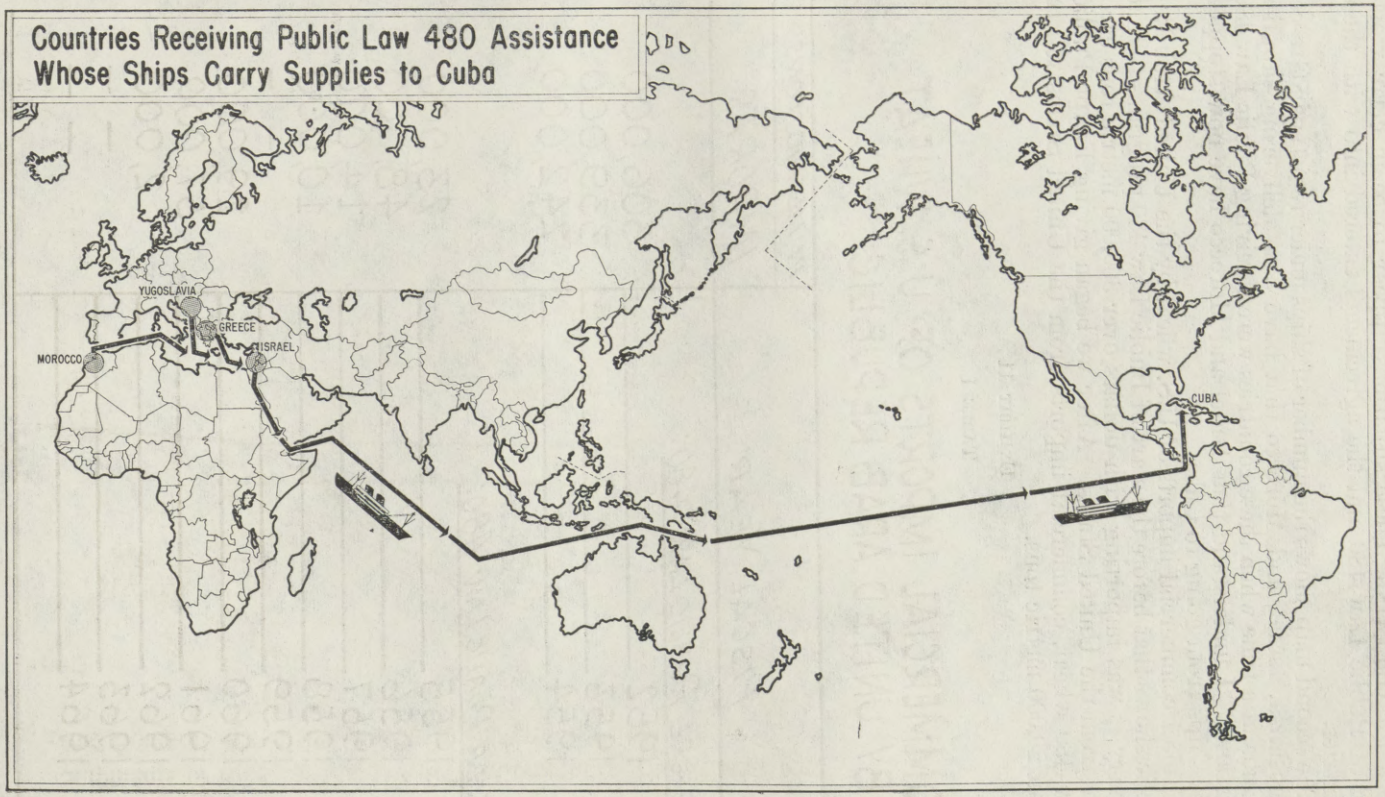
This map shows the sales of wheat by Greece to Communist countries at a time when the United States was providing wheat to Greece under Public Law 480.

69-824—66——9




Drawn by Robert Bostick, Library of Congress, July 1966

EXHIBIT 9




Drawn by Robert Bostick, Library of Congress, July 1966

EXHIBIT 10

Senator GRUENING. These situations appear to be in clear violation of Public Law 480 and the agreements entered into with these countries.

The second map shows the number of ships under registry in Greece, Yugoslavia, Israel, and Morocco that have been delivering supplies to Cuba at a time when these countries were receiving Public Law 480 assistance. I understand that Israel and Morocco have now stopped their ships from going to Cuba.

Table I commercial imports of U.S. wheat by the United Arab Republic shows that before the start of Public Law 480 programs to that country it was importing with dollars over 300,000 metric tons each year from the United States. After we began giving Egypt Public Law 480 wheat, commercial imports from the United States fell to about 20,000 metric tons.

EXHIBIT 11

TABLE I

## COMMERCIAL IMPORTS OF U.S. WHEAT BY UNITED ARAB REPUBLIC

| FISCAL YEAR | IN METRIC TONS<br>IMPORTS |
|---|---|
| BEFORE PUBLIC LAW 480: | |
| 1952 | 306,000 |
| 1953 | 339,000 |
| 1954 | 242,000 |
| AFTER PUBLIC LAW 480: | |
| 1955 | 23,000 |
| 1956 | 48,000 |
| 1957 | 14,000 |
| 1958 | 10,000 |
| 1959 | — — |
| 1960 | 29,000 |
| 1961 | 57,000 |
| 1962 | 2,000 |
| 1963 | — — |
| 1964 | — — |

GREECE AGREES NOT TO INCREASE EXPORTS OF SIMILAR COMMODITIES

Now, in the case of Greece, section 304(a) of Public Law 480 provides that the President shall assure that agricultural commodities sold or transferred under title I as repayment in local currencies of that act will not result in increased availability of those or like commodities to unfriendly nations.

On November 17, 1964, a 2-year agreement was entered into with Greece dealing mostly with feed grain and wheat. This agreement was entered into under title IV, because of Greece's improved financial position. Terms—repayable in dollars with 25 percent after the first year's deliveries, and the remainder payable in 19 years at 3½ percent interest.

AGREEMENT CONTAINED PENALTY PROVISION FOR EXPORTATION OF LIKE COMMODITIES

Despite the fact that the agreement was under title IV and not title I, the agreement contained assurances that the purchase of commodities under the agreement would not result in increased availability of these or like commodities to other countries. The agreement contained a penalty provision providing that if at any time during the contract period Greece exported any feed grains and wheat or flour, the Government of Greece upon demand by the United States would make payment with interest at 6 percent in U.S. dollars equivalent to the value of any such commodities exported by Greece.

At the time of the agreement Greek wheat production had increased greatly so that wheat surpluses threatened. Greece had come to that position through the resale at high prices in previous years of title I wheat and using the sales proceeds to provide a subsidy for wheat growers.

GREEK GOVERNMENT FAILED TO CUT SUBSIDIES AS PROMISED

This was known to the United States prior to the signing of the November 17, 1964, agreement. However, the Greek Government promised to cut these subsidies so as to reduce wheat production. Subsidies were not reduced and about 500,000 tons of surplus wheat were produced in Greece during 1965. Thus, in June 1965, Greece faced a dilemma. It had received half the wheat under the November 1964 agreement with the United States, under which it had promised not to ship wheat abroad so long as it was receiving wheat and feed grain under the agreement and until the wheat and feed grains received had been consumed.

But Greece also faced a wheat surplus. It was decided to suspend further shipments under the agreement, thus permitting Greece, it was thought, to export wheat as soon as it had consumed all of the wheat and feed grain received from the United States.

This was done and Greece started exporting wheat.

GREECE STARTS EXPORTING WHEAT . . .

During 1965 and 1966 Greece sold 350,000 tons of wheat as follows:

1. 100,000 metric tons to a French trading firm, of which 70,000 tons were resold to North Korea.
2. 100,000 metric tons to a Swiss-Bulgarian trading firm for shipment to Bulgaria.
3. 60,000 metric tons to the French trading firm that resold wheat to North Korea.
4. 50,000 metric tons to a Swiss-Bulgarian trading firm.
5. 40,000 tons, of which 33,000 tons were shipped to Italy, and the remaining 7,000 tons were sold to an unknown buyer.

These sales to Bulgaria and North Korea were known to the U.S. officials.

. . . WITH U.S. PERMISSION

The Greek Government requested the resumption of the title IV program because of an urgent need for feed grain, soy bean oil, and tallow. However, if the shipment of feed grain was resumed, the prohibition against wheat exports would be in force.

Accordingly, in January 1966, despite the knowledge that the exports of wheat by Greece were mainly going to North Korea and Bulgaria, an amendment was entered into by the Greek and United States Governments attempting, retroactively, to permit the Greek Government to export 350,000 tons of wheat through 1966.

It is obvious on the face of the transaction that the export of these 350,000 tons was in violation of the Greek Government's agreement with the United States. Under that agreement, a penalty of $20 million could have been demanded by the United States Government from the Greek Government.

Would any of you like to comment on these statements?

MRS. JACOBSON RESPONDS

Mrs. JACOBSON. Mr. Chairman, I have a few comments that I would like to make on your first statement, and then offer the opportunity to my colleagues to make further details.

The first statement relates to the problem of United Arab Republic rice exports and your statements pointed out that their exports of rice were increased at a time when we were providing them with wheat, and I think the clear question in your mind is whether rice is a like commodity to wheat and whether these increased shipments of rice were made possible by our Public Law 480 program providing wheat to the United Arab Republic.

We did provide certain levels of export of rice for the United Arab Republic but traditionally the United Arab Republic's exports of rice varied directly in proportion to the production of rice in the United Arab Republic. In years of large production, the exports of rice increased as well as the consumption.

Senator GRUENING. Mrs. Jacobson, I think before you go into this, I had better make the statement on the United Arab Republic rice ex-

ports, to which you are now addressing yourself. Let me give this for the benefit of the other members of the panel here.

Mrs. JACOBSON. Yes.

### GRUENING POINTS OUT U.A.R. VIOLATION

Senator GRUENING. In October 1962, in connection with a Public Law 480 title I agreement, the United Arab Republic agreed that the import of wheat and wheat flour would not increase the availability of rice for export by the United Arab Republic. The level of exports of rice was set at 400,000 metric tons for 1962 and 455,000 metric tons in 1964.

This agreement was violated by the United Arab Republic.

In the year 1964, the United Arab Republic exported 526,693 metric tons of rice, much of it to Communist countries such as the U.S.S.R., Red China, Cuba, and East Germany.

There will be inserted in the record at this point a list of the countries receiving rice shipments from the United Arab Republic during that period, as well as table II prepared by my staff.

(The documents above referred to follow:)

EXHIBIT 12

UNITED ARAB REPUBLIC RICE EXPORTS BY AMOUNT AND COUNTRY OF DESTINATION FOR THE PERIOD JAN. 1, 1964, TO DEC. 31, 1964

| | *Amount in metric tons* | | *Amount in metric tons* |
|---|---|---|---|
| Syria | 20,000 | United Kingdom | 8,853 |
| Jordan | 1,823 | Italy | 1,500 |
| Iraq | 4,000 | Belgium | 1,500 |
| Sudan | 650 | The Federal Republic of Germany | 29,687 |
| Palestine (Gaza strip) | 3,573 | Switzerland | 1,000 |
| Lebanon | 13,400 | France | 2,500 |
| Lybia | 3,300 | Netherlands | 2,000 |
| U.S.S.R | 131,398 | China | 20,000 |
| East Germany | 13,451 | India | 29,022 |
| Hungary | 6,350 | Kuwait | 3,000 |
| Greece | 1,752 | Indonesia | 52,245 |
| Bulgaria | 4,850 | Cameroon | 2,050 |
| Poland | 16,995 | Senegal | 15,000 |
| Czechoslovakia | 24,919 | Cuba | 62,710 |
| Rumania | 17,127 | Somalia | 430 |
| Finland | 9,929 | Ship stores | 22 |
| Cyprus | 1,966 | | |
| Yugoslavia | 16,145 | | |
| Austria | 3,450 | Total | 526,693 |
| Sweden | 100 | | |

Senator GRUENING. This appears to be a clear violation of Public Law 480, which provides in section 304 that the President shall exercise the authority contained in title I of this act and, too, assures that agricultural commodities sold or transferred thereunder do not result in increased availability of those or like commodities to unfriendly countries.

This also seems a clear violation of the agreement on total rice exports.

EXHIBIT 13

TABLE II

## RICE EXPORTS BY THE UNITED ARAB REPUBLIC TO COMMUNIST COUNTRIES

| | AMOUNTS IN METRIC TONS | |
|---|---|---|
| | 1960 | 1964 |
| U.S.S.R. | 4,600 | 131,398 |
| EAST GERMANY | 8,004 | 13,451 |
| HUNGARY | | 6,350 |
| BULGARIA | | 4,850 |
| POLAND | | 16,995 |
| CZECHOSLOVAKIA | 1,750 | 24,919 |
| RUMANIA | | 17,127 |
| YUGOSLAVIA | | 16,145 |
| CHINA | | 20,000 |
| CUBA | 40,973 | 62,710 |
| TOTAL | 55,327 | 313,945 |

## WHEAT EXPORTS BY GREECE TO COMMUNIST COUNTRIES

| | FISCAL YEAR 1966 |
|---|---|
| NORTH KOREA | 70,000 METRIC TONS |
| BULGARIA | 100,000 METRIC TONS |

What action was taken on these violations, either by the Department of Agriculture, the Department of State, or the Agency for International Development?

And the record will show a very considerable number of countries that received these shipments.

Mrs. JACOBSON. You are talking now about the 55,000 excess over the 400,000 permitted.

Senator GRUENING. Yes.

Mrs. JACOBSON. What did we do about that? Do you have that? Herb?

EXHIBIT 14

TABLE III.—*Number of ships visiting Cuba and value of sales agreements*

| | NO. OF SHIPS VISITING CUBA | | VALUE OF SALES AGREEMENTS | |
|---|---|---|---|---|
| | 1965 | 1966 | FY 1965 | FY 1966 |
| TITLE I | | | | |
| MOROCCO | 1 | 0 | 13.9 | 6.3 |
| ISRAEL | 2 | 0 | 17.4 [1] | 23.5 |
| GREECE | 23 | 10 | 2.5 | - |
| TITLE IV | | | | |
| YUGOSLAVIA | 15 | 5 | 93.9 | 134.9 |
| GREECE | | | 33.3 [2] | - |
| ISRAEL | - | | - | 8.5 |

[1] In addition a title I agreement in December 1962 provided an additional $17.5 million for calendar year 1965

[2] Agreement signed 11-17-64 provided for varying supply periods, i.e. F.Y. 1965-66 and CY's 1965-66

U.A.R. AGREED TO LIMIT EXPORTS

Mr. WATERS. Mr. Chairman, let's review the history of that agreement, if I may run back over it. The title I agreement with the U.A.R. particularly on this point you are referring to about the Communist countries, included provisions limiting exports of rice and other commodities to unfriendly nations.

Senator GRUENING. Article IV, paragraph 1, of the October 8, 1962, title I, Public Law 480 agreement, and the January 3, 1966, agreement provide that the U.A.R. will take all possible measures to "assure that the purchase of such commodities does not result in increased availability of these or like commodities to nations unfriendly to the United States of America."

No specific quantitative limitation was placed on U.A.R. exports of rice to unfriendly countries. However, the note accompanying the agreement included assurances that imports of Public Law 480

wheat and wheat flour would not increase the availability of rice for export to any country, friendly or unfriendly, by the U.A.R.

It was agreed that, based on an assumed milled rice production of 1.3 million metric tons, rice exports in the year beginning November 1, 1962, as the chairman has said, would not exceed 400,000 tons. Exports of rice in excess of this amount could be effected only to the extent that the final production figure exceed 1.3 million tons.

BASIS FOR GUIDELINES IS ON ESTIMATED ANNUAL PRODUCTION

The levels of rice exports for the subsequent years of the agreement were to be agreed upon in the course of the annual review. The exchange of notes set forth the conditions under which the United States agreed that Public Law 480 wheat and wheat flour sales did not result in increased availability of rice for export by the U.A.R.

For the year beginning November 1962, it was agreed that any exports of rice up to the 400,000 tons would be normal. For 1963–64 the agreed figure was 455,000 tons. And for 1964–65, it was 400,000.

Now, since the allowable exports were based on assumed production figures, they were subject to change when final production figures became available.

Mr. BEASER. Mr. Chairman, may I interrupt there? Mr. Waters, how was the 100,000 figure arrived at? What was the normal export of rice by U.A.R. for the 5 previous years?

Mr. WATERS. I will have to ask the Department of Agriculture if they can provide that figure. The normal level——

Mr. BEASER. Our figure shows 210,000 metric tons. You set it at 400,000. This seemed like a subsidy to the U.A.R. didn't it?

Mrs. JACOBSON. Well, with the anticipated production of 1.3 million metric tons, the export limitation was set at 400,000 tons.

Mr. BEASER. No. I meant they had been exporting 210,000 and you gave them a limit of about 190,000 above that.

Mrs. JACOBSON. I would like to ask the acting chairman of our interagency staff committee to explain that in detail. If I may—is Tom Street here? Tom, will you explain in detail——

Mr. BEASER. Would you identify yourself for the record?

Mr. STREET. My name is Thomas E. Street. I am Deputy Assistant Administrator of the Foreign Agricultural Service for Export Programs and as Mrs. Jacobson said, I am acting chairman of the interagency staff committee.

On this specific question, as Mrs. Jacobson indicated, the level of exports of rice was related to production in the U.A.R.

Mr. BEASER. It was not related to previous exports?

Mr. STREET. Pardon?

Mr. BEASER. It was not related to previous exports?

U.A.R. ALLOWED MORE EXPORTS BECAUSE OF ANTICIPATED PRODUCTION

Mr. STREET. The point is—yes, the exports fluctuated in the U.A.R. according to changes in production of rice. In other words, in years when the production was relatively small, the exports were relatively small, and vice versa. So that in 1962, when the agreement in question was signed, there was an anticipated very large increase in the

production of rice in the U.A.R. In fact, the production of rice nearly doubled from the year 1961 to the year 1962.

Consequently—and, again, as an example, in the year of low production, 1961, the export of rice was quite low and this had been the pattern over the previous years.

Therefore, in the face of an anticipated very large increase in production of rice which, in fact, materialized, the level of exports was related to the anticipated production.

Mr. BEASER. Is that customary? Do you do that in Taiwan, Korea, and other places?

I am referring to a December 22, 1964, policy statement by the Department of Agriculture which I would like to have inserted in the record of this hearing at this point.

(The policy statement referred to follows:)

EXHIBIT 15

DEPARTMENT OF AGRICULTURE MEMORANDUM ON ITS POLICY RE EXPORTS OF LIKE COMMODITIES UNDER PUBLIC LAW 480 AGREEMENTS

*The desire of the State Department and the Agency for International Development to permit Korea to export rice, particularly to Japan, while Korea is receiving wheat under Title I PL 480 runs counter to policies which have governed PL 480 operations from their inception.* This is a major policy question since it affects not only the immediate Korean request but also similar current requests for Taiwan and the UAR, as well as establishing a precedent which would affect similar situations and other commodities in other countries.

REASONS FOR RESTRICTING EXPORTS OF LIKE COMMODITIES

The standard language of Title I PL 480 agreements contains, under the heading of general undertakings on the part of the government, the following: "To *prevent the export* of any commodity of either domestic or foreign origin which is the same as or like the commodities purchased pursuant to this agreement during the period beginning on the date of this agreement and ending with the final date on which such commodities are received and utilized (except where such export is specifically approved by the Government of the United States of America); . . ."

The reasons for this provision are interpretations of the intent of the legislation, specific provisions of the legislation and experience in operations under the legislation, as follows:

(1) The intent of the legislation is taken to be to provide agricultural commodities for consumption, not for export.

(2) The individual legislative provisions are several—Section 101(d), which prohibits transshipment to other countries or use for other than domestic purposes of agricultural commodities purchased under this Act; Section 101(a), which requires safeguarding of the usual marketings of the U.S. and assurance that sales will not unduly disrupt normal patterns of commercial trade with friendly countries; Section 304(a)(2), which requires assurance that agricultural commodities sold do not result in increased availability of those or like commodities to unfriendly nations.

(3) Experience in operations under the legislation has been varied and of such a nature as to leave a lasting mark on program policies, as evidenced by the adoption of the standard language in Title I Agreements referred to above.

EXPORT RESTRICTIONS IN EFFECT

The result of the experience in PL 480 operations mentioned above has been *the establishment of special export provisions in addition to the standard agreement provisions in cases where there appears that PL 480 imports are likely to result in increased exports of the same or like commodity.* These are cited below by commodity.

*Rice*

Korea—Any exports of 14,000 MT up to a maximum of 60,000 MT during CY 1964 to be offset by equivalent tonnage of wheat or barley imported from the U.S. with Korea's own resources.

Viet Nam—No exports to be made during period of rice import under PL 480.

*UAR—Exports of rice not to exceed 400,000 MT in 12 months beginning November 1, 1964.*

Pakistan—No exports of rough rice permitted, only exotic varieties.

India—Rice exports not to exceed 5,000 MT.

*Wheat*

Israel—Exports limited to no more than 15,000 MT and to be offset by commercial imports of a like amount.

This is the only current instance of permitting exports of wheat. A number of requests recently by Turkey, Morocco and Tunisia to be permitted to export durum wheat while importing PL 480 wheat have been turned down.

*Fats and Oils*

Greece—No more than 5,200 MT to be exported during CY 1964 of which not more than 350 MT to countries unfriendly to U.S.

Guinea—No exports permitted.

India—Value of peanuts exported for crushing may not exceed value of imports of oil and oil equivalent of copra.

Israel—Exports up to 25,000 MT must be offset by U.S. purchases of soybeans.

Poland—Exports of lard to Western European countries not to exceed 7,000 MT and Eastern European countries—5,000 MT. If butter exports increase, Poland must purchase from the U.S. an equivalent quantity of vegetable oil.

Tunisia—Limit exports of olive oil during period Nov. 1, 1964 to Oct. 31, 1965 to 40,000 MT of which not more than 4,000 MT would be exported to unfriendly countries.

*Cotton*

Standard provisions of all agreements are that any increase in exports of cotton textiles will require the recipient government to import from the U.S. with its own resources the equivalent weight of the raw cotton content of the increased textile export.

Guinea—Export of textiles prohibited.

UAR—Will not increase the total area devoted to cotton production while importing wheat under PL 480.

KOREAN RICE EXPORTS

*As may be seen from the foregoing, the only instances in which exports are permitted of commodities which are the same as or like those being imported under PL 480 are those in which the recipient country has a history of export of the commodity in question.*

The case of rice in Korea does not fit this pattern inasmuch as Korea, since achieving independence in 1946, is a net rice importer. During the period from independence to the beginning of the Korean war, Korea imported 115,000 MT of rice and exported only 90,000. The 90,000 export was made all in one year—1950. During the Korean war period, of course, Korea imported rice heavily—521,000 MT—and exported none. During the period since the Korean war, i.e., from 1954 through 1963, Korea has imported a total of 387,000 MT of rice and exported only 100,000 MT.

Therefore, it is not possible to regard Korea as having a history of exports which could serve as the basis for an understanding that Korea should be allowed to export rice while importing wheat and other foodgrains under PL 480.

*Rather the contention in this case is that Korea should be allowed to use American aid in the form of PL 480 commodities as a means of promoting Korea's exports.*

*This appears clearly to run counter to the use of PL 480 commodities intended by the legislation. In fact it runs counter to policies adopted by AID prohibiting use of foreign assistance dollar funds for promoting the export development of agricultural commodities which are not surplus.*

(1) *These policies are set out in AID Manual Order 1016.2, which says in part, "Subject to normal programming procedure aid of any kind may be*

*provided for the purpose of increasing food and feeds for domestic consumption; but it may not be given to increase production of (1) surplus food and feeds with the result of substantially increasing exports or (2) surplus agricultural commodities other than food and feeds."*

In addition, sales of Korean rice to Japan run the risk of displacing commercial sales of U.S. rice to that market.

Mr. STREET. Well, we use various provisions to suit the circumstances in various countries.

Mr. BEASER. What was the export—what were the exports in the previous 5 years?

Mr. STREET. The previous 5 years—in 1961, the exports were 43,000 tons. In 1960, again with a considerably larger production than in 1961, the exports were 280,000. In 1959, they were 239,000. In 1958, again with a low production, they were 59,000. In 1957, with a somewhat larger production, they were 430,000.

Mr. BEASER. So the 400,000 that you permitted was quite high, wasn't it?

Mr. STREET. Well, it was, again, related to the production, to a high production.

Mr. BEASER. No, in relationship to the previous exports.

Mr. STREET. Well, not, for example, in relation to the year 1957, when the exports were 430,000.

Mr. BEASER. That was 5 years before.

Mr. STREET. Yes, sir. And, as Mrs. Jacobson mentioned, there was a relationship established to consumption levels, that is, the provision that consumption be maintained at a level higher than had obtained in previous years.

U.S. IMPOSES PENALTY

Mr. BEASER. May I ask one question? On the increased exports over and above the agreement, did you exact a penalty from the United Arab Republic?

Mr. STREET. Yes, we did.

Mr. BEASER. What kind of penalty?

Mr. STREET. The requirement that either wheat, wheat flour, or corn be purchased from the United States out of the United Arab Republic's own foreign currency reserves.

Mr. BEASER. What was done?

Mr. STREET. Pardon?

Mr. BEASER. What was done?

UNITED ARAB REPUBLIC BUYS U.S. CORN WITH DOLLARS

Mr. STREET. They bought 100,000 tons of corn from the United States.

Mr. BEASER. With dollars?

Mr. STREET. With dollars.

Mr. BEASER. Our understanding was that it was a barter arrangement.

Mr. STREET. Well, it is dollars—this was under a multilateral barter.

Mr. BEASER. Would you explain that, please?

Mr. STREET. The multilateral barter generally results from the——

Mr. BEASER. No. I mean, in this specific case.

Mr. STREET. These are offshore procurement barters as a means of saving our dollar outflow. In cases where the Defense Department or the Agency for International Development is going to acquire goods or services in foreign countries, we enter into private barter-type agreement with U.S. firms.

Mr. BEASER. I am trying to get specifically here how the United States exacted a penalty for the violation by the United Arab Republic of this agreement.

THROUGH MULTILATERAL BARTER

Mr. STREET. The United Arab Republic purchased with its own resources 100,000 tons of corn from U.S. barter contractors. It wasn't, in other words, the kind of barter which is frequently thought of, a so-called bilateral exchange.

Mr. BEASER. What did Egypt give up for this?

Mr. STREET. The money that it cost them to buy the 100,000 tons of corn.

Mr. BEASER. They bought 100,000 tons of corn from the United States for dollars, is that it?

Mr. STREET. Yes.

Mr. BEASER. I thought you said this is a barter arrangement.

Mr. STREET. Well, this kind of barter arrangement is a multilateral barter in which the commodity bought by the country results from an offshore procurement barter. In other words, it is a commercial transaction. It just happens to be the result of an offshore procurement barter. It is not a barter in the normal sense of a bilateral exchange of strategic commodities, for example. We regard it as a commercial dollar transaction.

Mr. BEASER. Now, the corn flowed into Egypt——

Mr. STREET. Yes.

Mr. BEASER. Before the violation or after the violation?

Mr. STREET. I am not sure of the dates.

Mr. BEASER. Actually, what you did is—you picked up a purchase which Egypt had made previously and used that as a penalty.

The following excerpt from a report of the U.S. agricultural attaché in Cairo shows that the United Arab Republic had bought corn from the United States in the first 6 months of 1965, long before AID and State considered what penalties to assess against the United Arab Republic for its violation.

In the first 6 months of 1965 the United States shipped 102,286 metric tons of corn to the U.A.R., including 101,952 metric tons under barter.

VIOLATION SATISFIED?

Mr. STREET. Well, I am not sure of the dates. But it was either during the period of the violation or subsequent to it. In either case it would have satisfied the violation.

Mr. BEASER. Why?

Mr. STREET. Because it was over and above the amount required. The violation, as we established it, was 70,000 tons and they purchased more than that. They more than met the violation by purchasing 100,000 tons.

Mr. BEASER. But they had already done that.

Mr. STREET. And it was above the level of their normal marketing requirement. Well, as I say, I am not sure of the time sequence.

(Material supplied for the record is as follows:)

U.A.R. exceeded its allowable rice exports during the period November 1, 1963, through October 31, 1964, by almost 70,000 tons. The offset purchases of corn to satisfy this violation were made during the period March through June of 1965.

Mr. BEASER. But actually, it wasn't purchased from the United States. In other words, we lost money from this transaction.

Mr. STREET. No. One hundred thousand tons of corn were purchased from the United States.

Mr. BEASER. Well, I am confused. You say it was a barter. Dollars didn't flow to the United States.

Mr. STREET. Dollars did flow to the United States.

Mr. BEASER. Then, there was no barter.

Mr. STREET. There was not a bilateral barter. This was a third or fourth leg of a multilateral barter.

Mr. BEASER. Somebody else paid us money, not Egypt.

Mr. STREET. No. Egypt paid us. Egypt paid a U.S. exporter dollars for the corn, so that dollars came back to the United States.

Mr. BEASER. Where did the barter come from?

Mr. STREET. This was an offshore procurement barter arrangement in which the U.S. barter contractor received corn which he was required to export to eligible third countries and furnish goods and services which would have been procured by the Defense Department and by AID with U.S. dollars.

Mr. BEASER. Specifically, in this transaction, you don't know what was bartered for what?

Mr. STREET. No.

Mr. BEASER. Don't you follow the barter transactions?

Mr. STREET. Not these multilateral barters. Under multilateral barter, there is not a specifically required country destination for the agricultural commodity.

Mr. BEASER. Now the United Arab Republic, with its barter arrangements, could have wrecked our cotton market from Europe and you wouldn't be able to tell whether it was or not. In other words, it could have moved cotton to Europe as a barter.

Mr. STREET. As a barter? There was no cotton involved.

Mr. BEASER. Are you sure?

Mr. STREET. Yes.

Mr. BEASER. Well, what was involved?

Mr. STREET. The commodity was corn.

(Material supplied for the record is as follows:)

A number of offshore procurement barter contracts were utilized. The contracts provided for the furnishing of various supplies and services to the Department of Defense and to the Agency for International Development. The U.S. dollars paid by U.A.R. for the corn were utilized to pay for the foreign supplies and services and therefore improved the U.S. balance-of-payments position to the extent of such purchases.

Mr. BEASER. Yes, but what did they barter it for? Mr. Waters?

Mr. WATERS. Let me explain that the transactions vary, but I will give an example that you may be a little familiar with because of a previous hearing regarding excess property.

For example, one of our AID barter projects provides for maintenance shops in Antwerp where we are rehabilitating excess property. To avoid the balance-of-payments cost of paying dollars for this contract, we enter into a partnership agreement with the Department of Agriculture. We, in effect, pay the amount of these contracts to the Department of Agriculture—to the Commodity Credit Corporation—and the money doesn't leave the United States. The Commodity Credit Corporation in turn issues a public tender to barter contractors who will provide the services overseas and take payment in grain. So the Department of Agriculture paid for these services in grain. The barter contractor, to complete the transaction, then has to sell his grain.

Now, in this instance, any commercial grain dealer handles the grain part of this, and it is a regular part of the transaction. He gets nothing back from U.A.R. except dollars. It is just a straight sale of grain to the U.A.R. In turn, the barter contractor has to make his earnings from the sale of the corn. He has to provide the services agreed to under the contract with USDA.

### FOREIGN COUNTRY NOT REQUIRED TO BUY FROM U.S. GOVERNMENT UNDER PUBLIC LAW 480

Now, the normal marketing requirements of these Public Law 480 agreements do not require the country to buy from our Government. The normal marketing requirements can be satisfied by any commercial transaction with a U.S. commercial grain company. In this instance, a commercial grain company made a straight commercial sale to the U.A.R. So the U.A.R. fulfilled more than its normal marketing requirements. It was the grain company contractor who in turn had to provide the additional barter services. U.A.R. had nothing to do with the barter operation at all.

In other words, this was just the end outlet of the grain taken by a U.S. barter supplier from USDA in payment for other services the barter contractor——

Mr. BEASER. But what the other services were, you don't know?

Mr. WATERS. What this particular barter contract was, I don't know, but the USDA does provide this service for both the Department of Defense and AID to try to avoid offshore expenditures. Whenever we have offshore expenditures that we would otherwise have to carry forward, we first see if we can carry it out through a transfer of funds to the Department of Agriculture in lieu of spending offshore.

### ". . . GET THEM OFF THE HOOK ON PENALTY"

Mr. BEASER. I would like to ask a couple of questions about the Greek transaction.

Now, apparently, you have an interagency committee which discusses all these matters, and in January of this year, the question came up as to amending the Greek contract to get them off the hook on penalty.

Now, was the fact that Greece was shipping to North Korea and Bulgaria brought up at the interagency committee and, if so, who said what?

INTERAGENCY COMMITTEE UNAWARE OF GREEK SALES TO NORTH KOREA

Mr. STREET. No. It was not brought up at the interagency committee because at the time the transaction was under discussion, the sale to North Korea was not known.

Mr. BEASER. It was not known?

Mr. STREET. Not at the time it was under discussion in the interagency——

Mr. BEASER. When was it discussed in the interagency committee?

Mr. STREET. I am sorry; I don't have the records here.

Mr. BEASER. The amendment was signed in January and we have a letter from Raymond E. Vickery, Director for Grain and Feed Division, USDA, and Mr. Ray Ioanes, saying they had received dispatches that Greece was selling to North Korea through the French intermediary.

Now, was that available to your interdepartmental committee?

Mr. STREET. Could you give us that date, please?

Mr. BEASER. December 21, 1965.

Mr. STREET. Well, this was subsequent to the discussions in the interagency committee.

Mr. BEASER. It was not known to you before?

Mr. STREET. That is right. It was known before the agreement was actually signed, but it was not known at the time of the interagency committee discussion.

(Material supplied for the record follows:)

The amendment to the agreement with Greece was discussed and approved at the Interagency Staff Committee meetings on December 9, 1965 and December 16, 1965.

Mr. BEASER. If it was known at the time the agreement was signed, even though it was not discussed in the interagency committee, why didn't one of the departments responsible put a caveat in that amendment saying that no further shipments to North Korea or Bulgaria should be made? You gave them a blanket "taking off the hook," didn't you?

Mr. STREET. Well, what was being done as an amendment to the November 1964 agreement——

Mr. BEASER. That is right. You relieved them of responsibility in one paragraph of that amendment but you didn't tie it down to say that none of the shipments were to be made to North Korea or Bulgaria. Why not?

NEGOTIATIONS COULD HAVE BEEN AMENDED? "YES"

Mr. STREET. Well, because at the time—as you have mentioned—toward the end of December, the negotiating instructions were already in Athens and the negotiations were in process.

Mr. BEASER. Couldn't they have been amended?

Mr. STREET. They could have; yes, sir.

Mr. BEASER. They weren't.

Mr. STREET. No.

Mr. BEASER. Any reason why not?

Mr. STREET. I think—Mrs. Jacobson, this might be a question that would be more appropriate for somebody else.

Mrs. JACOBSON. Do you want to answer that? The responsibility for carrying on the actual negotiations there with a foreign country is in the hands of State.

Mr. BEASER. Under instructions from whom?

Mrs. JACOBSON. Yes.

Mr. BEASER. From whom?

Mrs. JACOBSON. Well, the contents of the instructions are discussed and, as Mr. Street had explained, the content of these instructions had been discussed and agreed upon in the ISC before this knowledge was known.

Mr. BEASER. That is right.

### NOT FEASIBLE TO MAKE AN AMENDMENT AT THAT TIME

Mrs. JACOBSON. These instructions, as I understand it, had gone to our officials who were involved in the negotiations. At some time during the process of these negotiations, before the final signature, these shipments became known to us and I assume that in the judgment of those who negotiated and who were in the process of evaluating this intergovernmental relationship, it was not feasible to make an amendment at that time, but I——

Mr. BEASER. Was any attempt made to do so?

Mrs. JACOBSON (continuing). But I offer Mr. Fried the opportunity on that one.

Mr. FRIED. Well, let me try. I don't really have any specific knowledge of this, Mr. Chairman, but if I am right, I believe that of the 350,000 tons that was set, 100,000 tons was from this sold by Greece to this French trading firm. Now, my understanding is, and I could be wrong, that this sale had already been made before the agreement and negotiations had been consummated.

Mr. BEASER. And the sale was in violation of Greece's agreement with us.

Mr. FRIED. No. I don't believe so. Would that be true?

Mr. STREET. No. It wouldn't be in violation of the agreement.

### GREECE FACED A PENALTY PROVISION

Mr. BEASER. Then, why was the agreement amended?

Mr. STREET. Why was the agreement——

Mr. BEASER. Why was it necessary to relieve Greece of its indebtedness by amending the agreement? It was a penalty provision.

Mr. STREET. Yes. Well, that was because of the problem that Greece faced with this very large surplus of wheat which was more than could be utilized by Greece domestically, either by feeding to livestock or by utilization for its own human consumption.

Mr. BEASER. What attempt was made to find out whether it could be used for livestock?

Mr. STREET. Well, in the course of discussions, inquiry was made and there was an estimate that about 100,000 tons was the maximum that could be used for livestock feed. However, Greece was faced with a surplus, very large in magnitude, I think perhaps you mentioned about 500,000 tons.

"... WHY DIDN'T SOMEBODY PICK UP THE PHONE ... AND SAY 'HOLD IT'"

Mr. BEASER. Yes, but the agreement as I read it said that they were not to ship wheat, and they did. So that when you found it out, before your negotiations were concluded, why didn't somebody pick up the phone and call the Ambassador in Greece, our Ambassador, and say, "Hold it. They are shipping this stuff to North Korea and Bulgaria."

Mr. STREET. Well, inquiries were sent on this to our Ambassador to see whether the sale could be stopped, and it could not be.

Mr. BEASER. I am not talking about the sale. I am talking now about the amendment to the agreement. Why didn't you put a provision in that?

Mr. STREET. Well, again, this is the question——

Mr. BEASER. They can still continue to do it, can't they?

Mr. STREET. You mean, on the new agreement that was signed?

Mr. BEASER. No; the amendment to the old——

Mr. FRIED. Wasn't the previous one suspended? What was the status of the agreement when the new one——

Mr. BEASER. You suspended it and I gather we reinstated it and amended it so it is still in force.

Mr. STREET. Yes. That is it.

Mr. BEASER. That is about it, putting it elegantly, so I would say that the agreement was still in force.

No further questions, Mr. Chairman.

Senator GRUENING. One of the basic questions before the subcommittee is, are existing interagency relationships clearly enough defined, both on paper and in practice?

Are decisions made on the basis of the criteria spelled out in the act or are the recommendations of Agriculture overruled on political grounds?

POLITICS AND ECONOMICS CONFLICT

For example, it is called to the attention of the subcommittee that the negotiating—in negotiating the 1963 Public Law 480 agreement with Greece, many United States officials were of the opinion that Greece was so far advanced economically that title IV dollar agreement should be negotiated with Greece rather than a title I local currency agreement. A title I agreement was negotiated. Was that done in accordance with the provisions of Public Law 480, or for political reasons?

Similarly, with respect to Israel, which has made remarkable strides forward economically with generous assistance from the United States, a title I agreement was negotiated for every year through 1966 over the objections of the Department of Agriculture, Treasury, and the Bureau of the Budget? Why not a title IV agreement?

A title I Public Law 480 agreement was signed with the Philippines on April 23, 1965. The agreement provided for the shipment of 100,000 metric tons of milled rice during the calendar year 1965.

From the very beginning, the Department of Agriculture argued that a title I program to the Philippines could not be justified on the basis of that country's economic position.

"WHO IS RESPONSIBLE?"

We are not interested in whose signature is on the final agreement but rather, who made the actual decision—State, AID, Agriculture, or Treasury—and who overrules whom? Who makes the final decision? Who is responsible for these violations which go on?

Mrs. JACOBSON. I don't know about a specific answer to your last question, Mr. Chairman, as to who is responsible for these violations which go on. Without any implication, that is too much like asking "have you stopped beating your husband?" But who is responsible for the decision——

Senator GRUENING. I don't think the analogy is correct at all.

Mrs. JACOBSON. OK, Mr. Chairman.

I think I tried to say in my statement that this is a collective responsibility.

"YOU ALL PASS THE BUCK TO EACH OTHER"

Senator GRUENING. In other words, no one is responsible. You all pass the buck to each other.

Mrs. JACOBSON. No. Let me try to be specific.

Senator GRUENING. I will point to the next question.

Mrs. JACOBSON. The Executive order assigns to the Secretary of Agriculture, as I recall, and I am slightly paraphrasing this, the responsibility to make certain decisions with regard to title I and title IV in consultation with the agencies concerned and in line with broad policies laid down by the President.

Now, those are two qualifications which have been put upon the Secretary of Agriculture. In other words, the Secretary of Agriculture decides this after consulting with the agencies concerned and in line with the broad policies of the President.

I think we can state honestly that this is what is done, that the Interagency Staff Committee is a mechanism for consulting with the agencies concerned. Obviously, they follow the broad policies laid down by the President and if there is a serious enough disagreement on a policy among the agencies, it can go up that far, as you have already noted in some of your testimony.

DECISION MAY DEPEND ON POLITICAL FACTORS

Now, suppose one consideration would tend in the direction of this decision and another consideration would tend in the direction of that decision. I think you are asking, do political considerations overrule? And my answer, I think, as honest as it can be, is—it depends on how strong those considerations are, and as you do in balancing any decision, you weigh not only the different approaches but how important each of these approaches is.

In the determination at the ISC level and, later, at a higher level, if the agricultural interests outweigh the other interests, I believe that that influences the decision. If a foreign policy consideration outweighs the importance of the agricultural interests in terms of the general interest and overall interests of the Government and people of the United States, then, I think that weight helps to determine the decision.

OVERALL NATIONAL INTEREST—A MAJOR CONSIDERATION

I don't know if this helps at all. I don't think it says that no one is responsible. I think what it intends to say is that the weight of factors in determining any decision of this kind does and necessarily has to depend upon the circumstances in the case, and I think it further says that all the participants in this decision consider first the responsibility which they are assigned specifically, and, second, the overall interests of the country.

DEPARTMENT OF AGRICULTURE DECIDES ON "USUAL MARKETINGS"

Mr. BEASER. In determining usual marketing levels, for example, does the law specifically say that political considerations should be taken into that or is that a judgment that is made by experts in the Department of Agriculture?

Mrs. JACOBSON. The usual marketing is determined to the best of our ability, and I would believe that the Department of Agriculture has the chief influence in this field, in terms of a rational, reasonable estimate of what the usual marketings would be in terms of those factors I mentioned in my statement. Not only the history and the average of production and exports, but also the foreign exchange position would necessarily have an influence on determining usual marketings.

Mr. BEASER. Let me ask you a question, going back to the United Arab Republic rice exports. The law is fairly clear that the President shall exercise the authority contained in title I to assure that agricultural commodities sold or transferred thereunder do not result in increased availability of those or like commodities to unfriendly countries.

United Arab Republic entered into an agreement saying no rice exports over and above a certain amount. It did it. And, in addition to that, it shipped a considerable amount of that to Communist countries.

Who made the decision not to enforce any penalties against the United Arab Republic? Was that made by the Interagency Committee or the Secretary of State, by the President or by——

DID UNITED ARAB REPUBLIC VIOLATE AN INTERNATIONAL AGREEMENT?

Mrs. JACOBSON. As I understand it, the question arose—the question of a penalty depended upon a question as to whether the United Arab Republic had violated an international agreement. The question as to violations of international agreements is, under our form of government, a matter up to the Department of State.

Mr. BEASER. State made the decision not to do anything about it, about the violation.

Mrs. JACOBSON. Ed, do you want to take it from there?

This was just to determine whether a violation had occurred. It was an international——

Senator GRUENING. There was no question. There was a violation. There wasn't any question about that, was there?

Mrs. JACOBSON. I believe there was.

Mr. WATERS. Mr. Chairman, I think there was a question about whether there really was any violation. This is the point I was trying to get to a while ago. The question is not really whether or not United Arab Republic exported some additional commodities. The question was whether the Public Law 480 input into the country was the cause of its increased exports.

### DID PUBLIC LAW 480 CAUSE INCREASE IN EXPORTS

Now, this is where we get to the fact, whether it was a Public Law 480 input that resulted in increased exports, or whether it was their increase in their own production.

Mr. BEASER. What I am trying to get at——

Mr. WATERS. The fact that they did increase their own consumption within their country, the fact that we did require an increase in their own consumption of rice, would in itself show that it was not the Public Law 480 input that created the export increase. It was the increased production in the country that resulted in increased exports, and as far as Public Law 480 legislation is concerned, it requires that the input of Public Law 480 commodities shall not cause such an increase; the law says the President shall exercise caution to see that the input of Public Law 480 commodities does not in itself result in increased exports. The fact is that the finding was made that it was not the Public Law 480 input that caused the increased exports. That finding couldn't have been made if those increased exports were due to less consumption, but again, consumption as well as production increased. It was not the Public Law 480 inputs that——

Mr. BEASER. And State didn't care.

### "THEY VIOLATED THEIR AGREEMENT AND NOTHING WAS DONE"

Mr. WATERS. The point was made that it was not the Public Law 480 input that caused the increased exports, and the fact that the country had already increased purchases beyond its normal marketings from the United States, above the amount that would be required under any off-set arrangement left no grounds for invoking any penalty.

Mr. BEASER. Mr. Waters, the agreement you had with the United Arab Republic said they wouldn't export rice above 400,000 metric tons. They did, as far as I can see. That is a violation of the agreement.

Now, if you want to retroactively amend it, fine, but you didn't. They violated their agreement and nothing was done.

Mr. WATERS. But the compensation for exports beyond an agreed amount is offsetting purchases in the United States for dollar trade, beyond their normal marketing requirements. And they met this offsetting requirement by their dollar purchases in the United States, and thereby left no ground for any charge against the country.

Mr. BEASER. What country? They bought here——

Mr. WATERS. Here. This is the corn we were discussing before. They bought more in addition to their normal marketing requirements than the amount of the differential in the increased exports of rice.

MRS. JACOBSON CLAIMS AGREEMENTS DID NOT VIOLATE INTENT OF CONGRESS

Senator GRUENING. Earlier in my opening remarks I referred to the amendment passed by the Congress in October, 1964, under which recipient countries were required to pay a major part of the dollar costs for ocean transportation under agreements concluded on or after January 1, 1965. Why did the Department of State and the Agency for International Development make special efforts to conclude agreements with eight countries, even though it would cost the United States several million dollars in added transportation charges?

Mrs. Jacobson, did the Department of Agriculture object to this procedure?

Mrs. JACOBSON. As far is I know, and I am going to refer again to Tom Street here, we continued negotiations with a certain number of countries. You have named eight and there are two that you specifically asked about.

We considered at the time whether it was appropriate to continue and conclude these negotiations that were underway or known about at the time the Congress passed the law. And we concluded that we could go ahead with these arrangements and completely comply with the intent of Congress, that the Congress had expressed its intent to have this go into effect on the date stated and it was perfectly appropriate to sign agreements that were being negotiated ahead of that date under the old terms.

I remember at the time our discussions of that and we were sincerely trying to comply with the intent of Congress.

Do you have anything further on that to say?

Mr. STREET. No.

TREASURY'S APPROVAL CITED BY KNOWLTON

Senator GRUENING. Did the Treasury Department, which is concerned with the balance of payments, approve of this—this precipitous signing of these agreements before the action of Congress went into effect?

Mr. KNOWLTON. Mr. Chairman, the Treasury did approve these agreements.

Senator GRUENING. A little louder, please.

Mr. KNOWLTON. The Treasury did approve these agreements.

Senator GRUENING. Why?

AGREEMENTS STRENGTHENED THOUGH DOLLAR-PAYMENT REDUCED

Mr. KNOWLTON. The negotiations had been going on for quite some time and, while we recognized that we might have received a dollar payment for the transportation had the agreements been signed later, we felt that the agreements themselves were stronger from the balance-of-payments standpoint than earlier agreements that we had reached with these countries.

There was a shift in the case of China, from local currency to title IV, to a certain extent, and we felt that had the countries had to make the extra dollar payments for the transportation in the ensuing year, that perhaps we would not have been as successful in achieving our

overall objective of reducing economic aid and moving to commercial terms.

In other words, it might have come out of another pocket.

Senator GRUENING. Well, then, no one objected to that. You went ahead and did it, despite the action of the Congress, is that correct? Neither Agriculture objected, nor Treasury objected.

Mr. KNOWLTON. I can only speak for Treasury.

### CONTINUOUS PLANNING IS IN PROGRESS

Mr. BEASER. Are you quite certain that negotiations had begun, actually begun, with all those countries? Didn't you tell the conferees that you were asking for a postponement of the effective date because it would take care of negotiations already underway? And, were they underway with each country?

Mrs. JACOBSON. May I comment with regard to that question that——

Senator GRUENING. Please do.

Mrs. JACOBSON. It seems to me we are always considering what we are going to do in the next agreement when the approaching end of any existing agreement is ahead of us. I don't know specifically and I surely would have to check as to when what we might call negotiations actually began, but Public Law 480 programs with regard to these countries and, certainly in our minds, and in our planning, were under consideration.

Mr. BEASER. In other words, you are now renegotiating in your terms with all countries that get Public Law 480 for next year?

Mrs. JACOBSON. Let me put it this way. We are considering the problem as to how we are going to program our supplies for next year.

Mr. WATERS. Mr. Chairman, this is a continuing process and I think part of the problem here is to separate the formal negotiations, which are the culmination of discussions between Government representatives, and the formulation of requests from a country. It is a long process and it is over a period of time, including study of the crop conditions in a given country as well as the availability from this country.

### WATERS CLAIMS OPERATIONS VALID ONLY UNDER OLD LEGISLATION

I do think, Mr. Chairman, that we weighed this very carefully at the time and felt that our actions were consistent with the objectives of Congress. We did not feel that Congress wanted us to suspend our programing, suspend our normal operations, and wait until the period when the new legislation went into effect. The old law was in effect. Congress itself provided an interim period before the new law went into effect. There was no indication in the legislative history that Congress wanted us to stop any programing under the old legislation until the new law went into effect.

In fact, legislation now being enacted by Congress will not go into effect until the first of the year. I know of no proposal from anyone that we should stop all our programing until the new legislation goes into effect. We operate under the old legislation until the effective date of the new legislation, and we felt this would be taking action

contrary to the normal flow of our business operations if we deferred these signings.

Now, we did comment on the draft report of GAO on this and, Mr. Chairman, I would like to read AID's comments submitted at that time to GAO in view of other comments being in the record. We commented:

The amendment of public law 480 as enacted on October 8, 1964, stipulates that a foreign country purchasing commodities under title I agreements after December 1, 1964, is required to pay most transportation costs. We do not concur with the report that the signing of title I agreements in December, 1964 circumvented the will of Congress. The signings did not violate the statute because of a period of time from the date of enactment through December 31, 1964 permitted the signing of new agreements not embodying the revised transportation provision. When major amendments are made in legislation, it is not unusual for the Congress to provide an interim period before the changes go into effect. Also, from a timing standpoint, the Republic of China, Morocco, and the five countries only mentioned in the report had requested title I commodities before the new legislation had been enacted. The Korean request was anticipated.

The discussions on the level of the assistance to Korea under this program had all been carried out in preliminary negotiations but the formal request had not been made until during this period.

Mr. BEASER. Would you comment on the Comptroller General's statement which follows in this report that you are commenting on.

In enacting Public Law 88-683 on October 8, 1964, the Congress extended the effective date of the above requirements to those agreements signed on or after January 1, 1965, so that there would be no default on agreements previously entered into or a need for the United States to renegotiate agreements ready for signing when the legislation was enacted.

Now, in Korea, I think you say the agreement was not ready for signing.

NEGOTIATIONS HAD GONE TOO FAR

Mr. WATERS. The agreement was not actually ready for signing but the discussions and commitments back and forth between the countries had reached the point that we did not feel it was inconsistent with the recommendation of Congress to sign the agreement.

DID POLITICS CAUSE U.S. TO LOSE $40 MILLION WHEAT SALES TO U.A.R.?

Senator GRUENING. Now, the Comptroller General presented evidence that the United States has lost $40 million in dollar sales of wheat to the U.A.R. because the Department agreed to waive the commitments which the agent had entered into to purchase specified quantities of wheat in dollars from the United States. That, apparently, was a decision by the United States not to enforce the agreement. Why was that? Was it a political decision? Was it felt that Mr. Nasser would have to be appeased by making him a present of $40 million?

Mrs. JACOBSON. I am not sure what this case is. Tom, do you know what this refers to?

Mr. STREET. We would assume this is referring to a reduction in the usual marketing requirements.

Mr. BEASER. That is right.

AGREEMENT PERMITTED BECAUSE OF U.A.R. FOREIGN EXCHANGE POSITION

Mr. STREET. This was made in view of the deteriorating foreign exchange position of the United Arab Republic and a decision by the U.S. Government that their foreign exchange resources had deteriorated to the point where they would not be able to meet their usual marketing requirements. This was done in the case of U.A.R. and was done in other similar cases. It is always done reluctantly but on occasion, in view of the situation where it is——

U.A.R. WAS SPENDING HALF A MILLION A DAY

Senator GRUENING. This is while the Arab Republic was carrying on its war in Yemen at a cost estimated at half a million dollars a day? And it was felt necessary to subsidize that performance?

Mr. STREET. Well, I don't know about that aspect of it, Mr. Chairman.

Senator GRUENING. It is pretty well known to everyone in the State Department.

U.A.R. SOLD TITLE II CORN MEANT FOR FREE DISTRIBUTION . . .

Now, in addition, about $25 million worth of corn was given to Egypt in 1962 under the disaster provisions of title II for free distribution to needy farmers. About half of this corn was sold during that period, the period in which it was stated it was needed, while very little was distributed free during that period.

Was any action taken by the International Development Agency to process a claim to Egypt for the misuse of this donated corn?

. . . BUT AID CLAIMS IT WAS "REPLACED"

Mr. WATERS. Mr. Chairman, there was not a formal claim placed against the U.A.R. because they did fully replace the corn for the donation program with title I corn that they purchased and otherwise would sell in their country for local currency.

Mr. BEASER. Mr. Waters, how do you know that? How do you know they replaced it?

Mr. WATERS. Certified in writing by officials of U.A.R. At our request.

CHARGES AID ". . . TOOK THEIR WORD"

Mr. BEASER. In other words, you took their word that they had replaced the corn.

Mr. WATERS. I am informed that our auditors examined the records of the Agricultural Bank on 33 percent of it.

Mr. BEASER. Who did that, you say?

Mr. WATERS. Our auditors, AID auditors.

Mr. BEASER. Are those local employees of local hire?

Mr. WATERS. The work was performed under American supervision by a local direct hire auditor attached to our AID mission.

Mr. BEASER. Our investigators have seen the work papers on that audit and they—all it amounted to is they took the word of U.A.R. that they replaced it. That isn't an audit, Mr. Waters.

I would like to have the following memorandum from the subcommittee staff director inserted at this point.

(The memorandum follows:)

EXHIBIT 16

MEMORANDUM TO SENATOR ERNEST GRUENING, CHAIRMAN OF THE SUBCOMMITTEE ON FOREIGN AID EXPENDITURES, FROM JOSEPH LIPPMAN, SUBCOMMITTEE STAFF DIRECTOR

During the course of our recent investigation into the administration of Public Law 480, we noted that a claim against the United Arab Republic for the unauthorized sale of corn granted to that country had been dropped by the Agency for International Development. The corn had been given to the U.A.R. under title II of Public Law 480 on the basis of representations by the U.A.R. Government that famine would occur because of crop failures. The claim was dropped on the basis that an audit performed by the AID Mission in Cairo proved that over 80,000 tons of the granted corn that was sold by the U.A.R. Government was replaced with corn obtained under title I and distributed free to needy farmers. A review of the Mission audit report and the supporting working papers by subcommittee staff members revealed that the auditor's conclusions and opinions were invalid.

A reading of the report disclosed that it does not contain support for the conclusions and opinions of the auditor. In addition, the report contains numerous misleading, inaccurate and otherwise questionable statements, which should have prohibited its acceptance as a meaningful document to anyone knowledgeable of the facts surrounding the case. For example the auditor states that title I corn substituted for the donated corn was distributed to needy people. There is no evidence of this whatsoever.

A review of the auditor's working papers disclosed that he based his entire audit on signed statements of information from vitally interested parties without any corroboration. In no case does the auditor describe any records that he reviewed. However, he does state that he did not find any documents supporting the distribution of the replaced corn.

Notwithstanding the fact that a claim of millions of dollars was at stake, we could find no evidence that the auditor's working papers were reviewed at the Mission level. Furthermore, AID controller officials in Washington informed us that this report was not reviewed for propriety of content because only selected reports are reviewed at the Washington level for this purpose and that this report was not selected.

A copy of AID's "Internal Audit Report" is attached.

REPORT NO. 65–18, END-USE OBSERVATION, NON-PROJECT ASSISTANCE

PART I

INTRODUCTION

This is a supplementary audit report covering the books and records maintained by the Agricultural Banks pertaining to the receipt, distribution, sales and replacement of Title II corn from Title I corn. The Title II corn was imported into the U.A.R. under Transfer Authorization No. 263–0201–000–2601 dated December 13, 1961 to be distributed without discrimination in-kind free for consumption by carefully selected needy famine victims who had suffered food shortages due to severe insect-infestation of cotton and corn crop and Nile flooding.

BACKGROUND

Although the Mission learned after the fact that Title II corn had been sold, it neither authorized the sales nor the replacement from Title I corn.

The Mission learned of the sales of Title II corn and the replacement thereof with Title I corn during the initial audit. (See End-Use Observation Report

No. 63–30, issued April 23, 1963.) As stated in Report No. 63–30, Title I and Title II corn (which were identical) both were stored in the same warehouses, and in some instances in the same type of unmarked bags. It was also noted that the records in some distribution centers had been merged and that Title II corn was being sold while Title I corn was issued free.

The Mission received additional evidence of sales of Title II corn in August of 1963 when an official of the Ministry of Economy informed the Mission that one of the governors had sold 8,500 tons of Title II corn for L.E. 109,000 and had requested permission to use the proceeds for development projects in his Governorate. The auditor subsequently learned that the Governor referred to by the GUAR official was the Governor of Menoufia Governorate where 16,050 tons of Title II corn were sold, but replaced from Title I. See Exhibit IV.

The second audit was conducted to determine the total quantity of Title II corn sold; whether the corn sold was replaced by Title I corn, and, whether the replaced corn was distributed free to needy farmers in accordance with the provisions of the Transfer Authorization.

This audit included a number of visits to the Ministry of Supply, the Main Agricultural Bank in Cairo and an audit of the records pertaining to the receipt, distribution and end-use of Title II corn maintained by the Agricultural Banks in the six Governorates of Beheira, Menoufia, Dakahlia, Kafr El Sheikh, Kalioubia and Port Said.

The control over the free distribution of corn, whether Title I or Title II, was exercised by means of coupons, printed in Arabic, issued to eligible recipients. The coupons were used to inform the recipients of the source of the free corn and were printed in denominations of 12, 36 and 72 kilograms. A distribution list was also prepared for each village showing the recipient's name and size of family. When the recipient received his ration of 12 kilograms per family member he signed the distribution list and returned the coupons.

The coupons and detailed distribution lists were forwarded to the Main Agricultural Bank in Cairo from each governorate as soon as distribution was completed. After summarizing the quantity of corn distributed by means of the coupons both the coupons and distribution lists were destroyed by representatives of the Agricultural Bank and the Ministry of Supply, in order to clear the files. The auditor reviewed the minutes dated July 22, 1964 covering the meeting held at the time the records were destroyed.

The officials of the various Agricultural Banks stated that Title II corn was sold during a shortage of Title I corn and prior to the completion of plans for the free distribution of Title II corn.

The records maintained by the Agricultural Banks in all six governorates showed that all Title II corn sold was replaced from Title I and that the replaced corn was distributed free to needy farmers, without undue delay, in accordance with the terms of the Transfer Authorization. The replacement was undertaken in response to specific directions in writing from the Governors in 1962 and 1963.

Subsequent to the second audit the Mission discontinued all followup action on refund claims for Title II corn which was sold.

The GUAR feels that there is no basis for claims since all Title II corn sold was replaced with identical corn from Title I. The Mission concurs in this opinion.

The audit findings have been discussed with officials of the Ministry of Supply and the Agricultural Banks.

*Auditor's Opinion*

It is the auditor's opinion that the scope of the audit, i.e., the audit of the records concerning six governorates representing 45 percent of the total receipts and 33 percent of all Title II corn sold is sufficient to prove that all Title II corn sold was replaced from Title I and was distributed free to needy recipients. Therefore this report is rated satisfactory.

Reviewed by:

AMAL SHAKER, *Auditor.*

Concurrence:

J. ROBERT COLE, *Acting Controller.*

## PART II

### FINDINGS

*Receipt, Sales, Replacements and Distribution*

According to a letter dated July 24, 1964 from the Ministry of Supply to the Under Secretary of State, Ministry of Economy, the total quantity of Title II corn shipped from the U.S. was 185,897 metric tons and the quantity actually received was 185,078 tons which was distributed to the 25 governorates as shown by an attachment to the letter. See Exhibits I and II. The distribution figures were rounded off to the nearest hundred.

A statement from the Main Agricultural Bank in Cairo dated April 8, 1965 states that:

(1) 185,943 tons of corn were received under the Title II Program.
(2) 102,338 tons were distributed free by means of coupons.
(3) 83,605 tons of Title II corn were sold.
(4) 83,605 tons of Title I corn were distributed free by means of coupons.

The above statement was certified as correct by the Controller of the Ministry of Supply and the Controller of the Agricultural Bank. See Exhibit III.

An audit of the records pertaining to the receipt, sales, replacement, and distribution of Title II corn in six governorates showed that a total of 27,977 tons of Title II corn were sold in these governorates. The records also showed that the Title II corn sold was replaced from Title I corn and the replaced corn was distributed free to needy recipients in accordance with the terms of the TA.

The records of the Agricultural Bank in Menoufia, for example, disclosed that 16,032 tons of Title II corn were sold. However, an order from the Governor dated July 23, 1963 directed that an equal amount of Title I corn be distributed free to needy recipients within the Governorate. The records further showed that 16,032 tons of Title I corn were distributed free during the period August 1 to December 31, 1963. See Exhibit IV.

According to the records in Beheira Governorate 15,250 tons of Title II corn were received, 12,977 tons were distributed free, and 2,273 tons were sold and replaced from Title I. During the period January 1 to February 15, 1963, the 2,273 tons of replaced corn were distributed free in accordance with a directive issued by the Governor on November 18, 1962. See Exhibit V.

This audit covered 84,086 tons or 45 percent of the total receipts and 33 percent of the total sales of 83,605 tons. See Exhibits I through IX for details.

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[EXHIBIT I]

MINISTRY OF SUPPLY,
OFFICE OF THE UNDER SECRETARY.

The UNDER SECRETARY,
*Ministry of Economy:*

Reference to your letter dated July 18, 1964 No. 8/55/6 (1) concerning the information needed about quantities of American Corn received in 1962 from AID and how it was distributed.

I have the honour to inform you that the quantity supposed to be imported is 200,000 tons but the quantity shipped from USA was 185,897 tons and the actual quantity unloaded and received by Ministry of Supply is 185,078 tons.

Attached herewith is a list showing the distribution of this corn between all the governorates.

For your information.

_____,
*Under Secretary.*

_____,
*Ministry of Supply.*

[EXHIBIT II]

*List showing the distribution of corn according to what was allocated for the following governorates*

| | Tons |
|---|---|
| 1. Kalioubia | 10,200 |
| 2. Sharkia | 25,000 |
| 3. Dakahlia | 31,000 |
| 4. Damietta | 2,500 |
| 5. Menoufia | 16,000 |
| 6. Gharbia | 17,000 |
| 7. Kafr El Sheikh | 11,000 |
| 8. Beheira | 15,000 |
| 9. Giza | 3,000 |
| 10. Fayoum | 7,000 |
| 11. Beny Sweif | 5,000 |
| 12. Minia | 13,000 |
| 13. Assiout | 5,000 |
| 14. Sohag | 5,500 |
| 15. Kina | 4,000 |
| 16. Aswan | 2,000 |
| 17. El Bahr El Ahmar | 1,000 |
| 18. El Wady El Gedid | 2,000 |
| 19. Matrouh | 2,000 |
| 20. Sina | 2,000 |
| 21. Suez | 2,000 |
| 22. Port Said | 600 |
| 23. Ismailia | 1,000 |
| 24. Cairo | 600 |
| 25. Alexandria | 1,600 |
| Total | 185,000 |

[EXHIBIT III]

STATEMENT

A review of the books of the Agricultural Bank prove that the Yellow Corn received from U.S.A. under Public Law 480 Title II to be distributed free was found as follows:

1. 185,943 tons were received by the bank and were stored in different stores and were distributed as follows:

a. 83,605 tons were sold

102,338 tons were distributed free against coupons.

2. The quantity of 83,605 tons which was sold, had been replaced by a same quantity of corn which was bought under Public Law 480 Title I and was distributed free by coupons.

3. All coupons which cover the whole quantity received was delivered to the Ministry of Supply by minutes dated 7/22/64. These minutes were done by representatives of the Banks Accounting Department, Ministry of Supply, and the Agriculture Bank.

April 8, 1965.

Representatives of:

_____, _____,
*Banks Accounting Department, Ministry of Supply.*

_____, _____,
*Agricultural Coop. Bank.*

Approved by:

_____, _____,
*Controller, Ministry of Supply.*

_____, _____,
*Controller, Agricultural Bank.*

[EXHIBIT IV]

MENOUFIA GOVERNORATE

Source: Books of Agricultural Bank.

The books show the total quantity of Title II corn received in the Governorate was 16,050 tons and was distributed as follows:

| | *Tons* |
|---|---|
| 1. Shebin El Kom Town | 2,039.450 |
| 2. Shebin El Kom Country | 2,032.150 |
| 3. El Bagour | 1,242.870 |
| 4. Menouf | 1,597.300 |
| 5. El Shouhada | 549.460 |
| 6. Tala | 2,683.780 |
| 7. Quesna | 2,337.150 |
| 8. Berket El Sabh | 1,831.450 |
| 9. Ashmoun | 1,736.840 |
| Total | 16,050,000 |

The books also showed that 16,050 tons of Title II corn were sold and that 17,080 tons were initially distributed free at El Shouhada.

The General Secretary of the Governorate received a letter from the President's Office stating that the farmers of Menoufia were complaining because they were not receiving corn free as were the farmers in other governorates. So the Governor ordered free distribution of Title I corn instead of the quantity of Title II corn which was sold. This order was dated July 23, 1963.

The books of the Agricultural Bank showed that 16,050 tons of corn from Title I were distributed free during the period August 1 to December 31, 1963.

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[EXHIBIT V]

BEHEIRA GOVERNORATE

Source: Books of the Argicultural Bank.

The books showed that 15,250 tons of Title II corn were received in the Governorate and sent to the following centers:

| | *Tons* |
|---|---|
| 1. Damanhour | 1,650 |
| 2. Kom Hamada | 1,650 |
| 3. Kafr El Dawar | 1,650 |
| 4. Etay El Baroud | 1,525 |
| 5. Delengat | 1,525 |
| 6. Abou Hommos | 1,525 |
| 7. Mahmoudia | 1,525 |
| 8. Abul Matamir | 1,050 |
| 9. Hosh Eissan | 1,050 |
| 10. Shabrakhit | 1,350 |
| 11. Edko | 750 |
| Total | 15,250 |

12,976.790 tons were distributed free and the following quantities were sold during May, June, July and August of 1962 due to the shortage of Title I corn in the Governorate:

| | *Tons* |
|---|---|
| 1. Damanhour | 469.710 |
| 2. Etay El Baroud | 493.490 |
| 3. Kafr El Dawar | 478.270 |
| 4. Abu Hommos | 135.470 |
| 5. Mahmoudia | 163.250 |
| 6. Hosh Eissa | 143.730 |
| 7. Shabrakhit | 389.290 |
| Total | 2,273,210 |

After these quantities were sold the Title I corn became available and the Governor sent a circular on November 18, 1962 ordering that the same quantity of Title I, that is, 2,273.210 tons should be distributed free to replace the quantity of Title II corn sold. (The auditor read this circular)

The books of the Agricultural Bank showed that a quantity of 2,273.210 tons of corn under Title I was distributed free during the period January 1 to February 15, 1963.

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[EXHIBIT VI]

DAKAHLIA GOVERNORATE

Source: (a) Books of Agricultural Bank; (b) File on Title II corn kept at the Governor's Office.

The books show the total quantity of Title II corn received in the Governorate was 30,892 tons distributed as follows:

| *Name of Center* | *Tons* |
|---|---|
| 1. Mansoura | 9,468 |
| 2. Sinbellawen | 2,997 |
| 3. Dekerniess | 2,489 |
| 4. El Manzalah | 1,836 |
| 5. Mit Ghamr | 8,671 |
| 6. Aggah | 2,442 |
| 7. Bilcass | 2,989 |
| Total | 30,892 |

The books also showed 6,382 tons of the Title II corn were sold at different centers and that 24,510 tons were distributed free.

The sale of Title II corn was due to nonavailability of Title I corn which became available in January 1963.

The books of the Agricultural Bank show that a quantity of 6,382 tons of corn received under Title I was distributed free during the period January 13 to March 20, 1963.

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[EXHIBIT VII]

PORT SAID GOVERNORATE

Source: Books of Ministry of Supply and Agricultural Bank.

The books show the total quantity of Title II corn received in the Governorate was 976.039 tons from four ships as follows:

| Ship | Date | Quantity (tons) |
|---|---|---|
| SS Norwalk | Apr. 1, 1962 | 464.771 |
| SS Jeanette Queen | June 11, 1962 | 88.955 |
| SS Smith Builder | June 30, 1962 | 54.819 |
| SS Robin Kirk | July 22, 1962 | 367.494 |
| Total | | 976.039 |

The total quantities were distributed free during December 1962.

[EXHIBIT VIII]

KAFR EL SHEIKH GOVERNORATE

Source: Books of Agricultural Bank.

The books show the total quantity of Title II corn received in the Governorate was 10,909.900 tons distributed as follows:

| *Name of Center* | *Tons* |
|---|---|
| 1. Kafr El Sheikh | 2,032.5 |
| 2. Dessouk | 1,870.3 |
| 3. Fowa | 1,717.6 |
| 4. Beilla | 1,865.2 |
| 5. Qellien | 1,963.5 |
| 6. Sidi Salem | 627.3 |
| 7. Bal tiem | 833.5 |
| Total | 10,909.9 |

9,464,300 tons were distributed free and the following quantities were sold during the period from June 1962 to October 1962 due to the shortage of Title I corn in the Governorate:

| *Name of Center* | *Tons* |
|---|---|
| 1. Kafr El Sheikh | 688.250 |
| 2. Dessouk | 135.800 |
| 3. Beilla | 276.300 |
| 4. Qellien | 345.250 |
| Total | 1,445.600 |

In December 1962 Title I corn became available and the Governor ordered that the same quantity of Title I, i.e., 1,445.600 tons should be distributed free to replace the quantity of Title II corn sold (the auditor reviewed this order).

The books of the Agricultural Bank show that a quantity of 1,445 tons of corn under Title I was distributed free during the period January 1 to February 25, 1963.

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[EXHIBIT IX]

QALIOUBIA GOVERNORATE

Source: Books of Agricultural Bank.

The books show the total quantity of Title II corn received in the Governorate was 10,008.752 and was sent to the following centers:

| *Name of Center* | *Tons* |
|---|---|
| 1. Benha | 5,046.520 |
| 2. Toukh | 1,122.086 |
| 3. Qalioub | 2,150.426 |
| 4. Shebin El Kanater | 1,689.720 |
| Total | 10,008.752 |

8,164.642 tons were distributed free and the following quantities were sold during May, June, July and August of 1962 due to the shortage of Title I corn in the Governorate:

| *Name of Center* | *Tons* |
|---|---|
| 1. Benha | 1,437.830 |
| 2. Toukh | 18.840 |
| 3. Shebin El Kanater | 387.440 |
| Total | 1,844.110 |

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**After these quantities were sold, the Title I corn became available and a same quantity of Title I, i.e., 1,844.110 tons were distributed free to replace the quantity of Title II corn sold. The distribution was made during the period December 15, 1962 to March 15, 1963.**

Mr. WATERS. I assure the chairman I did not follow each one of these transactions myself all the way through the U.A.R. But our AID mission did audit the compliance and we relied on the audit reports, and relied also on the certification by the Government. It was felt compliance was met to our satisfaction in view of the fact that the defect of title II program was made well and the U.A.R., in effect, lost this amount of local currency that would have generated from the sale of the commodities had they not had to put them back into the title II donation program. We felt this made the program good, and there was no basis for claim.

Mr. BEASER. After you received the GAO audit and GAO had raised questions about the sufficiency of that audit, did you send your auditors out to the field to make an end-use check?

WATERS REPORTS AID'S SATISFACTION

Mr. WATERS. I am not sure of the timing on our mission response. The GAO reports are always sent to our field offices and our decision not to press the claim was made by AID on the facts disclosed in our mission audit. They reported their satisfaction, on the scene at the time, and assured us that the title II corn sold had been fully replaced and distributed to needy recipients.

AID subsequently advised that two audits were performed and reports issued. The first was performed during the period February to October 1962 and the report issued April 23, 1963. The second audit was performed during April and May of 1965 and the report issued July 16, 1965. The GAO report, which cited both mission audits was issued July 16, 1965.

Mr. BEASER. After GAO questioned the validity of that, you did not make a further check of end use?

Mr. WATERS. We made a check with our mission and were satisfied that the title II corn had been replaced by title I corn.

BEASER DECRIES ". . . INADEQUATE AUDIT"

Mr. BEASER. In other words, they backed up their previous inadequate audit.

As a result of this hearing, will you now go back to this Mission and have them execute a good audit following the material right into the field and see what happended to it, whether or not they actually did replace it or whether they just said they replaced it?

Mr. WATERS. Mr. Chairman, following the normal order of practice, the auditing of 33 percent of the total tonnage involved, I think, would be meeting the normal test of an auditing job to see what happened in this instance.

Now, if it is your request to do a 100 percent check on this, I assume it possibly could be done, depending upon the requirements in other areas. Our auditors are spread, as you know, a bit thin in a program this size, even though we have a sizable number of them.

Mr. BEASER. You misunderstood me. What I had in mind was this. Our information is that the end-use check was made just by inquiring of the U.A.R. Did you do it?

Mr. WATERS. That is not my understanding.

Mr. BEASER. I wonder whether you checked——

Mr. WATERS. My understanding is that we had both the certification of the Government, plus our Mission's check of the records on about 30 percent of the some 88,000 tons.

Mr. BEASER. We have the audit working papers used. I wonder whether you would have some of your staff come over to the office and take a look at them.

Mr. WATERS. I would be glad to, sir.

### AGRICULTURE FEARED PUBLIC LAW 480 SHIPMENTS TO GREECE WOULD CUT U.S. EXPORTS

Senator GRUENING. In 1963 the Department of Agriculture was afraid that the large quantities of wheat and feed grains made available to Greece under its 1963 Public Law 480 agreement would have adverse effect on the U.S. agricultural exports and would result in Greece curtailing its production of these commodities and using the land to grow other crops for export. So the agreement contained the following four conditions:

### GREECE INCREASED POULTRY PRODUCTS THROUGH TITLE I IMPORTS

First, the amount of wheat and feed grain supplied under the agreement would not in themselves lead to increased production of poultry and related products. It is obvious from the remarks of knowledgeable observers that the increase in Greek poultry products was due to the imports of the U.S. feed grains under title I.

### GREECE VIOLATES AGREEMENTS

Second, acreage devoted to wheat and feed grain production would not be decreased. This agreement was not kept. Corn acreage decreased from 478,000 acres in 1963 to 384,000 acres in 1964, a drop of almost 100,000 acres. There was also a net decrease in the production of other feed grains.

Third, tobacco acreage would not be increased so as to make a greater amount available for export. Although this agreement was not broken, Greece, which up to this time produced only oriental tobacco, switched acreage to burley tobacco and now competes with the United States in its biggest burley market and has displaced U.S. tobacco in West German markets.

Fourth, cotton acreage would not be increased. This agreement was not kept. The cotton production went up 60 percent. Cotton exports increased by 90 percent over the previous 4-year average.

Now, why were these agreements not enforced, and who made the decision not to enforce them? Was it made by AID, by State, by Agriculture, or by Treasury?

MRS. JACOBSON REBUTS CHARGES

Mrs. JACOBSON. I would like to say, first—and this isn't directly answering your last question—that we try insofar as it is within our ability to influence, if not control, the agricultural policies of countries with which we have Public Law 480 agreements. If we can, we would like to get a modification of those policies, but we have learned that even in a sophisticated and experienced country like our own, the direction and control of agricultural production is sometimes pretty difficult and it seems to be quite difficult in a country like Greece.

Even though Greece was self-sufficient in wheat and was encouraging the production of wheat, the wheat provided under Public Law 480 was relatively a small quantity of hard wheat which was not produced in Greece and was needed for blending.

I would like to point out that Greece's cotton acreage, although it increased during one year, has, since 1963, dropped sharply.

With regard to tobacco, there was no clearly established relationship between the provisions of wheat and feed grains under Public Law 480 and the increase in production of burley tobacco.

With regard to the relationship of feed grains to the Greek production of poultry, the title IV agreement does provide that the Government of Greece will not increase exports of poultry and related products over the level of the U.S. fiscal year 1964 during the period when feed grains covered by the agreement are being imported and utilized in Greece. If, however, during such period Greece exports poultry and related products exceeding the level of the U.S. fiscal year 1964, Greece will purchase poultry in the United States by an amount equal to the dollar value of any increase in such exports.

Now, is that the part that you think we did not enforce?

Mr. BEASER. What is the story on poultry? Have you put Greece in a position now with the European Common Market where she can compete with the United States in poultry production?

Mrs. JACOBSON. Tom, I would like to ask you for that.

Mr. BEASER. Not compete now, but in the future, I mean.

Mr. STREET. Well, as Mrs. Jacobson noted, the aspect we are concerned about was the possibility of increased exports and these have not, in fact, occurred.

Mr. BEASER. Will they occur?

STREET DISCLAIMS CONTROL OF FUTURE MARKETS

Mr. STREET. Well, that is problematical.

Mr. BEASER. My position is, have we put Greece is a position through Public Law 480 exports to be a serious competitor with the United States in the poultry market in the future?

Mr. STREET. Well, as far as what happens in the future, we don't, of course, have any control over it. Our concern was to see that during the time that the feed grains were being received and utilized, that the poultry exports did not increase.

Mrs. JACOBSON. Mr. Chairman, I might say that I did ask this question and I was told that as of now, the demand in Greece on the part of tourists is taking care of a domestic increased consumption of poultry in substantial amounts that greatly benefit Greece, and I don't know whether in the absence of their own poultry, whether they would have imported it from us, but this does not relate at the moment, apparently, to their export capability.

Mr. BEASER. Is this one of the considerations in determining levels of Public Law 480—what effect it will have upon the U.S. markets, whether you are making the country a future competitor of the United States in exports?

Mrs. JACOBSON. That is surely taken into account; yes, sir.

LONG-TERM EFFECT MERITS CONSIDERATION

Mr. WATERS. That is surely one of the factors, but I think sometimes it is looked at even more broadly than, for instance, this one on just poultry alone. Actually, you are building a long-range market for feed grains anytime you upgrade the livestock and poultry industry in a developing country. They are mainly cereal-eating countries. As they advance, they increase meat consumption and this can develop a future commercial market for American feed grains. One of the biggest increases in our commercial earnings has been in this feed grain field, and it would certainly be negative to our total gain in exports if we discourage anywhere in the world any expansion or improvement of livestock or poultry. Poultry is a short-cycle enterprise and is easier than most livestock enterprises to get started in many developing countries. It has been our goal to draw the narrow line of first getting them to expand for their own consumption rather than just expand for export purposes.

Mr. BEASER. That is not true in many cases with respect to industrial development.

Mr. WATERS. No. I can make the same favorable trade expansion case very strongly on industrial development. The actual outcome of development is more trade, not less.

U.S. LOSS OF 280,000 METRIC TONS OF WHEAT NOTED AFTER PUBLIC LAW 480 UNITED ARAB REPUBLIC PROGRAM INITIATED

Senator GRUENING. The table of commercial imports of wheat by the United Arab Republic shows that before the start of Public Law 480 programs to that country, it was importing in the neighborhood of 300,000 metric tons a year, and after we began giving Egypt Public Law 480 wheat, commercial imports from the United States fell off to about 20,000 metric tons on the average.

Was the Treasury Department concerned in this matter at all, loss in balance of payments?

Mr. KNOWLTON. The Treasury Department is extremely concerned about the basic issue of whether these agricultural exports are truly additional.

Senator GRUENING. Was this matter taken up in the committee, in the interdepartmental committee?

INTERDEPARTMENTAL COMMITTEE SCRUTINIZES IN DETAIL

Mr. KNOWLTON. This particular table and the resulting drop, of course, could not be foreseen at the time the original agreement was discussed, but the whole question of whether exports are additional is considered in considerable detail in every one of these agreements, and our staff does a great deal of work on it with the agricultural people. We have to rely on them, of course, to a great extent because we are not agricultural commodity experts in the Treasury.

### GRUENING QUERIES U.A.R. USE OF MONEY

Senator GRUENING. Is there any knowledge on the part of any of the witnesses on how the United Arab Republic used this money? What commodities did it buy? Or did it use this for the purchase of arms? Was it used to pay German scientists to increase the arsenal of sophisticated weapons in Egypt? Was it used to finance the war in Yemen? Was it used to make trouble in Cyprus? Does any one of the agencies know how this money was used?

I should think this would be a matter of concern because it was really a subsidy from the United States.

Mr. WATERS. I am not sure—Mr. Chairman, are you referring to the local currency generated by the food——

Mr. BEASER. No. If they had been buying wheat from us before at the rate of, say, 240,000 metric tons in 1954 and it dropped in 1955 to 23,000 because we were giving them title I under Public Law 480, what happened to the money they would have spent otherwise?

Mr. WATERS. Mr. Chairman, I don't think you can automatically assume such inferences, without laying against this chart the gold reserve position and the balance-of-payments position of the country itself during those same years, to know whether it had any money or whether the financial situation did deteriorate. No question they may have used some of their resources unwisely, but the country's financial position did deteriorate very rapidly during that period.

### DID ANYBODY DO ANYTHING ABOUT IT?

Mr. BEASER. Isn't there concern in some department that our exports be kept up or is that only for Congress?

Mr. WATERS. Sir, there is serious concern on the part of our agency as well as all agencies of Government to keep our exports at the highest possible level. But you do not necessarily create exports by letting a country get near an economic collapse. It is not necessarily a good prospect for commercial exports.

Mr. BEASER. Well, when you made a title I agreement to Egypt, and the next year you saw its commercial purchases from the United States were falling off sharply, did anybody do anything about it? Weren't they supposed to keep up their normal commercial purchases?

Mrs. JACOBSON. Mr. Chairman, when the decision was made as to what were the appropriate usual marketings, we considered not only the pattern of imports, but the trend in foreign exchange holdings, as you have already indicated.

I have a little note here that indicates that the U.A.R. foreign exchange holdings, million-dollar equivalent, which was according to these figures 272.7 in 1959, dropped to minus 101.9 in 1964.

Now, I am sure that in the lack of foreign exchange, you are assuming—I think your question assumes that if it had not been for Public Law 480, the same purchases of wheat would have gone on.

Mr. BEASER. At some rate.

Mrs. JACOBSON. At some rate. Probably some of them would, but this, again, is in this very imprecise area. How are we able to judge what the Government of the U.A.R. might decide to use its——

"... WE HAVE THE SAME RIGHTS IN TERMS OF OUR CONDITIONS"

Mr. BEASER. Well, they can spend whatever they want anywhere they want to. They are a sovereign country. But we have the same rights in terms of our conditions, Mrs. Jacobson.

Mrs. JACOBSON. Yes.

Mr. BEASER. Now, when we see a country cutting down on its wheat imports, its purchases from the United States, turning around and bartering cotton to the U.S.S.R. for arms, are we saying we are going to make up that deficiency with our wheat? They had a perfect right to go out on the market and sell their cotton and get foreign exchange. Instead, they bartered it for arms with the U.S.S.R. and we made up the difference in our Public Law 480.

Mrs. JACOBSON. I don't think we looked at it in terms of making up the difference. We looked at it in terms of providing them with food that was needed at the time. And this they needed to have.

Tom?

Mr. STREET. It might be worth adding, Mr. Chairman, that the—in the third year of the agreement with the U.A.R., which was signed in 1962, the usual marketing requirement was set at 300,000 metric tons and in the most recent agreement with the U.A.R., signed on January 3, the usual marketing requirements was set at 450,000 metric tons. So there has been——

Mr. BEASER. Is this chart wrong?

Mr. STREET. Well, it doesn't go quite far enough, I believe.

Mr. BEASER. You set this up here, the usual marketing, but you haven't had it.

Mr. STREET. Yes, they have. Of the 300,000 tons I mentioned for the year 1965. Now, I don't, unfortunately, have the data on the intervening years here.

Mr. BEASER. Could you supply that for the record?

Mr. STREET. Yes, I will be glad to.

(Material supplied for the record is as follows:)

EXHIBIT 17

IMPORTS OF WHEAT AND WHEAT FLOUR (IN WHEAT EQUIVALENT) BY THE UNITED ARAB REPUBLIC

| Fiscal year | Usual marketing requirement | Commercial imports (in thousand metric tons) | | |
|---|---|---|---|---|
| | | From United States | From countries friendly to the United States | Total |
| 1952 | | 360 | 596 | 956 |
| 1953 | | 339 | 568 | 907 |
| 1954 | | 242 | 42 | 282 |
| 1955 | | 23 | 40 | 63 |
| 1956 | 75 | 48 | 43 | 91 |
| 1957 | (1) | 14 | 171 | 185 |
| 1958 | (1) | 10 | 755 | 765 |
| 1959 | None | 4 | 685 | 689 |
| 1960 | 227 | 40 | 187 | 227 |
| 1961 | 100 | 63 | 97 | 160 |
| 1962 | 109 | 2 | 130 | 132 |
| 1963 | 150 | 30 | 164 | 194 |
| 1964 | 150 | | 24 | 24 |
| 1965 | 300 | | 502 | 502 |
| 1966 | 450 | | | |

[1] No Public Law 480.

CHAIRMAN CALLS FOR "MORE VIGILANCE"

Senator GRUENING. Do you think there will be, as a result of these hearings, a little more vigilance and a little more concern about enforcing the agreements that are violated by countries which continue to receive our subsidies? I would like to address that to the State Department.

Mr. FRIED. Well, sir, I think that all agencies in the interagency staff committee will, of course, take into consideration and account the material resulting from these hearings and the investigations of the GAO, I think, are very—I think this has already been evident in trying to look into the specific situations that have been raised.

I think the import of what we have been trying to say is that this is a large program. There are very complicated factors at work when you talk about the national interests of the United States and that a very sincere and honest effort is made to meet the particular requirements and the objectives set forth by the act.

Now, of course, there are going to be problems and you have pointed some of them out, as I repeat, and I am sure that every effort will be made to deal with them in the future.

". . . NOTHING IS DONE BY OUR GOVERNMENT" IN FACE OF VIOLATIONS

Senator GRUENING. Well, there seems to be a determination to keep on subsidizing countries that deliberately violate their agreements, and then to forgive these violations. I find it difficult to understand why this habit continues. We have these clear-cut examples of deliberate violations which have to be discovered and then nothing is done by our Government, and these various agencies have a joint responsibility. You say it is all the Government. But someone makes the decision that these penalities will not be enforced and nothing will be done about it, and I think that is rather reprehensible.

GREEK SHIPS CONTINUE TO TRADE WITH CUBA

Mr. BEASER. Let me ask one more question, Mr. Chairman.

Now, Greece is continuing to permit its flagships to deliver goods to Cuba. Why hasn't anybody stopped it? We are continuing to give aid to Greece.

In the case of Israel and Morocco, you did stop it. Greece continues. We have a prohibition here against using our flag registries, our flagships—no, our goods to be put aboard any vessel which has trade with Cuba.

Why don't we insist before making any further Public Law 480 agreements that Greece stop its ships from dealing with Cuba?

Mr. FRIED. Mr. Chairman, may I ask Mr. Lowenfeld, who is here from the Legal Office of the State Department, to comment on that question?

Senator GRUENING. Yes. Please go ahead.

LOWENFELD SAYS GOVERNMENT OF GREECE HAS DONE ITS BEST

Mr. LOWENFELD. Mr. Chairman, we have been concerned about certain Greek vessels that have continued to trade with Cuba, but what

the statute says is: Does the Greek Government permit its vessels to trade with Cuba? And the answer to that is: It does not. The Government of Greece has issued and done its best to enforce a royal decree which prohibits all vessels under Greek registry——

Senator GRUENING. But they don't pay any attention to the decree. The ships keep on going.

DIFFICULT MATTER IS NOW BEFORE GREEK COURTS

Mr. LOWENFELD. Well, it turns out that really the great bulk of Greek shipowners have gotten out of the trade. There is one particular Greek shipowner, who has a good number of vessels, who has continued to maintain his ships in the trade with Cuba and has challenged the validity of the Greek decree in the Greek courts.

His argument is that the inducements that the Greek Government made some years back when they were trying to build up their merchant marine precludes the restriction now put by decree on the movement of his vessels.

Now, the Greek Government is doing what it can to enforce this. Whether they will go to court or take other measures against them, they haven't quite decided, but our judgment has been——

Mr. BEASER. When are they going to decide it?

Mr. LOWENFELD. Well, I am not sure exactly. The point is that they are determined and we have communicated with them, and they have said this to us, to do their best to stop this traffic.

Mr. BEASER. What is the date of the decree?

Mr. LOWENFELD. 1963, I believe. It was shortly after the missile crisis. We can get you the exact date.

(Material supplied for the record is as follows:)

EXHIBIT 18

ROYAL DECREE

To Supplement Royal Decree No. 140/1963 entitled "Prohibition against Carrying Cargoes to Cuba in Greek Vessels".

In consideration of:

(1) Article 1 of Legislative Decree No. 2398/1953 "to amend and supplement the provisions of law 2317/1953 concerning the prohibition of certain transport operations by Greek ships"; (2) Opinion No. 623/1963 of the Council of State, on the recommendation of our Ministers of Foreign Affairs and Merchant Marine, we hereby decide and ordain:

SOLE ARTICLE

1. The prohibition against carrying cargoes to ports of the Republic of Cuba in Greek-flag vessels introduced by Royal Decree, No. 140 of March 12, 1963, entitled "prohibition against carrying cargoes to Cuba in Greek-flag vessels" is hereby extended, as of the effective date hereof, to cover the transportation of any cargo from ports of the Republic of Cuba.

2. The prohibition referred to in paragraph 1 above shall not apply, subject to the limitations of paragraph 3 hereof, to Greek-flag ships which have assumed commitments, such commitments to be evidenced by charter agreements concluded prior to the effective date of the present Royal Decree, and for which (ships) the right to continue originally assumed commitments belongs to the charterers.

3. Within two months from the publication hereof the shipowners, agents or masters of Greek ships to which paragraph 2 hereof is applicable shall file with the Ministry of Merchant Marine the pertinent charter agreements or duly certified copies thereof.

Publication and implementation of the present Royal Decree is hereby delegated to our Minister of Merchant Marine.

APPENDIX

[From Government Gazette, March 20, 1963]

ROYAL DECREE NO. 140—RE PROHIBITION TO TRANSPORT CARGOES BY GREEK SHIPS TO CUBA

PAUL
King of the Hellenes

Having in mind:
(1) article 1 of legislative decree 2398/1953 "re amendment and completion of the provisions of law 2317/1953 re prohibition of performance of certain transports by Greek ships", (2) opinion No. 124/1963 of the Council of State, on the proposal of Our Ministers of Foreign Affairs and Merchant Marine, We have decided and ordered:

SOLE ARTICLE

(1) From the date the present becomes effective it is prohibited for ships under the Greek flag to transport any cargo to ports of the Republic of Cuba.
(2) The prohibition dealt with in paragraph 1 has no application within the restrictions of paragraph 3 of the present to ships under the Greek flag that have assumed commitments by advance chartering for one or more successive voyages or by time-chartering to be proved by charter agreement concluded before the publication of the present Royal Decree and for which the right to continue the previously undertaken several voyages or to extend the time charter belongs to the charterers.
(3) Within two months from the publication of the present the shipowners, administrators or masters of Greek ships to which paragraph 2 of the present is applicable are obligated to deposit at the Ministry of Merchant Marine the relative charter agreements or duly certified copies thereof.
We assign to Our Minister of Merchant Marine the publication and implementation of the present Royal Decree.
Athens, 12 March 1963.

PAUL.
E. AVEROFF-TOSSITSAS,
*Minister of Foreign Affairs.*
ST. COTIADIS,
*Minister of Merchant Marine.*

Mr. BEASER. That is 3 years, and the Greek Government is powerless to prevent one shipper from shipping? Is that it?

NO ELEMENT OF BAD FAITH ON THE PART OF THE GREEK GOVERNMENT

Mr. LOWENFELD. Well, in part, there were existing charters. For the most part they have expired now. And in part, yes, it is a matter of enforcing a regulation. Now, whether you do it by criminal process or whether you do it by other arrangements, it has turned out to be a difficult matter. We have continued to talk with the Greek Government about this and we believe that in the terms of the statute, the Greek Government does not "permit" its shipowners to do this. We don't think there is any element of bad faith on the part of the Government of Greece.

Mr. BEASER. How are you going to permit—they are going on, aren't they? They are trading.

(Material supplied for the record follows:)

EXHIBIT 19

DEPARTMENT OF COMMERCE, MARITIME ADMINISTRATION, REPORT NO. 74

LIST OF FREE WORLD AND POLISH FLAG VESSELS ARRIVING IN CUBA SINCE JANUARY 1, 1963

Section 1. The Maritime Administration is making available to the appropriate Departments the following list of vessels which have arrived in Cuba

since January 1, 1963, based on information received through July 12, 1966, exclusive of those vessels that called at Cuba on United States Government-approved noncommercial voyages and those listed in Section 2. Pursuant to established United States Government policy, the listed vessels are ineligible to carry United States Government-financed cargoes from the United States.

| *Flag of registry—Name of ship* | *Gross tonnage* |
|---|---|
| Total—All flags, 253 ships | 1,802,424 |
| British: (73 ships) | 545,604 |
| *Agate*[1] (trips to Cuba under ex-name, *Dairen*, British). | |
| *Amalia*[1] (now Maltese). | |
| *Amazon River*[1] (now *River*, sold to Dutch breakers) | 7,234 |
| *Antarctica* | 8,785 |
| *Arctic Ocean* | 8,791 |
| *Ardenode* | 7,036 |
| *Ardgen* | 6,981 |
| *Ardmore*[1] (now *Kali Elpis*, British) | 4,664 |
| *Ardpatrick*[1] (now Pakistani) | 7,054 |
| *Ardrossmore* | 5,820 |
| *Ardrowan* | 7,300 |
| *Ardsirod* | 7,025 |
| *Ardtara* | 5,795 |
| *Arlington Court*[1] (now *Southgate*, British). | |
| *Athelcrown* (tanker) | 11,149 |
| *Athelduke* (tanker) | 9,089 |
| *Athelknight* (tanker) | 9,087 |
| *Athelmere* (tanker) | 7,524 |
| *Athelmonarch* (tanker) | 11,182 |
| *Athelsultan*[1] (tanker), broken up | 9,149 |
| *Avisfaith* | 7,868 |
| *Baxtergate* | 8,813 |
| *Cheung Chau* | 8,566 |
| *Chipboe* (sold for scrap) | 7,271 |
| *Cosmo Trader*[1] (trips to Cuba under ex-name *Ivy Fair*, British). | |
| *Dairen*[1] (now *Agate*, British) | 4,939 |
| *East Breeze*[1] (now *Phoenician Dawn*, British). | |
| *Eastfortune* | 8,789 |
| *Elicos* | 7,134 |
| *Formentor* | 8,424 |
| *Fortune Enterprise* | 7,284 |
| *Free Enterprise*[1] (now Cypriot). | |
| *Free Merchant*[1] (now Cypriot). | |
| *Garthdale*[1] (now *Jeb Lee*, British) | 7,542 |
| *Grosvenor Mariner* | 7,026 |
| *Hazelmoor* | 7,907 |
| *Helka* | 2,111 |
| *Hemisphere* | 8,718 |
| *Ho Fung* | 7,121 |
| *Inchstaffa* | 5,255 |
| *Inchstuart* | 7,043 |
| *Ivy Fair* (now *Cosmo Trader*, British, broken up) | 7,201 |
| *Jeb Lee* (trip to Cuba under ex-name, *Garthdale*, British). | |
| *Jollity* | 8,660 |
| *Kali Elpis*[1] (trips to Cuba under ex-name, *Ardmore*, British). | |
| *Kinross* | 5,388 |
| *La Hortensia* | 9,486 |
| *Linkmoor* | 8,236 |
| *Magister* | 2,339 |
| *Nancy Dee* | 6,597 |
| *Nebula* | 8,924 |
| *Newdene*[1] (now *Free Navigator*, Cypriot). | |
| *Newforest* (now Cypriot). | |
| *Newgate* | 6,743 |

See footnotes at end of table.

| Flag of registry—Name of ship | Gross tonnage |
|---|---|
| British—Continued | |
| *Newglade* | 7,368 |
| *Newgrove*[1] (now Cypriot). | |
| *Newheath* | 7,643 |
| *Newhill* | 7,855 |
| *Newlane* | 7,043 |
| *Newmeadow*[1] (now Cypriot). | |
| *Newmoat* | 7,151 |
| *Newmoor* | 7,168 |
| *Nils Amelon* | 6,281 |
| *Oceantramp* | 6,185 |
| *Oceantravel* | 10,477 |
| *Peony* | 9,037 |
| *Phoenician Dawn*[1] (previous trips to Cuba under ex-name, *East Breeze*, (British) | 8,708 |
| *Redbrook*[1] (now *E. Evaneglia*, Greek) | 7,388 |
| *Ruthy Ann* | 7,361 |
| *St. Antonio*[1] (now Maltese). | |
| *Sandsend* | 7,236 |
| *Santa Granda* | 7,229 |
| *Sea Amber* | 10,421 |
| *Sea Coral* | 10,421 |
| *Sea Empress* | 8,941 |
| *Seasage* | 4,330 |
| *Shienfoon* | 7,127 |
| *Shun Fung*[1] (wrecked) | 7,148 |
| *Soclyve*[1] (now Maltese). | |
| *Southgate*[1] (previous trips to Cuba under ex-name *Arlington Court*, British) | 9,662 |
| *Stanwear* | 8,108 |
| *Suva Breeze* (now *Cathay Trader*, Panamanian) | 4,970 |
| *Swift River*[1] (now *Kallithea*, Cypriot). | |
| *Timios Stavros*[1] (now Maltese flag, previous trips to Cuba, Greek). | |
| *Venice* | 8,611 |
| *Vercharmian* | 7,265 |
| *Vergmont* | 7,381 |
| *Yungfutary* | 5,388 |
| *Yunglutaton* | 5,414 |
| *Zela M* | 7,237 |
| Lebanese: (55 ships) | 374,134 |
| *Aiolos II* | 7,256 |
| *Ais Giannis* | 6,997 |
| *Akamas*[1] (now Cypriot). | |
| *Al Amin* | 7,186 |
| *Alaska* | 6,989 |
| *Anthas* | 7,044 |
| *Antonis* | 6,259 |
| *Ares*[1] (constructive total loss) | 4,557 |
| *Areti* | 7,176 |
| *Aristefs* | 6,995 |
| *Astir* | 5,324 |
| *Athamas* | 4,729 |
| *Carnation*[1] (sold Spanish breakers) | 4,884 |
| *Claire* | 5,411 |
| *Cris* | 6,032 |
| *Dimos* | 7,187 |
| *E. Myrtidiotissa*[1] (aground, trips to Cuba under ex-name, *Kalliopi D. Lemos*, Lebanese). | |
| *Free Trader*[1] (now Cypriot). | |
| *Georgios M. II* | 5,028 |
| *Giannis* | 5,270 |
| *Giorgos Tsakiroglou* | 7,240 |
| *Granikos* | 7,282 |

See footnotes at end of table.

| *Flag of registry—Name of ship* | *Gross tonnage* |
|---|---|
| Lebanese—Continued | |
| *Ilena* | 5,925 |
| *Ioannis Aspiotis* | 7,297 |
| *Kalliopi D. Lemos*[1] (now *E. Myrtidiotissa*, Lebanese) | 5,103 |
| *Katerina* | 9,357 |
| *Leftric* | 7,176 |
| *Malou* | 7,145 |
| *Mantric* | 7,255 |
| *Maria Despina*[1] (broken in two) | 7,254 |
| *Maria Renee* | 7,203 |
| *Marichristina* | 7,124 |
| *Marymark*[1] (sold German ship breakers) | 4,383 |
| *Mersinidi* | 6,782 |
| *Mousse* | 9,307 |
| *Nictric* | 7,296 |
| *Noelle* | 7,251 |
| *Noemi*[1] (aground) | 7,070 |
| *Olga*[1] (now Greek) | 7,199 |
| *Panagos* | 7,133 |
| *Parmarina* | 6,721 |
| *Razani*[1] (broken up) | 7,253 |
| *Reneka*[1] (now *San Carlo*, Panamanian flag) | 7,250 |
| *Rio* | 7,194 |
| *St. Anthony*[1] (broken up) | 5,349 |
| *St. Nicolas* | 7,165 |
| *San Spyridon* | 7,260 |
| *Sheik Boutros*[1] (trips to Cuba under ex-name, *Cavtat*, Yugoslav). | |
| *Stevo* | 7,066 |
| *Taxiarhis* | 7,349 |
| *Tertric* | 7,045 |
| *Theodoros Lemos* | 7,198 |
| *Tony* | 7,176 |
| *Toula* | 6,426 |
| *Troyan* | 7,243 |
| *Vassiliki* | 7,192 |
| *Vastric* | 6,751 |
| *Vergolivada* | 6,339 |
| *Yanxilas* | 10,051 |
| Greek: (35 ships) | 261,119 |
| *Agios Therapon* | 5,617 |
| *Akastos*[1] (now Cypriot). | |
| *Alice* | 7,189 |
| *Ambassade*[1] (sold Hong Kong ship breakers) | 8,600 |
| *Americana* | 7,104 |
| *Anacreon* | 7,359 |
| *Anatoli*[1] (now *Sunrise*, Cypriot). | |
| *Andromachi*[1] (previous trips to Cuba under ex-name, *Penelope*, Greek) | 6,712 |
| *Antonia*[1] (now *Amfithea*, Cypriot). | |
| *Apollon* | 9,744 |
| *Athanassios K* | 7,216 |
| *Barbarino* | 7,084 |
| *Calliopi Michalos* | 7,249 |
| *Embassy*[1] (broken up) | 8,418 |
| *E. Evangelia*[1] (trips to Cuba under ex-name, *Redbrook*, British). | |
| *Eftychia* | 10,865 |
| *Flora M.*[1] (now *Liberian*) | 7,244 |
| *Gloria*[1] (now *Helen*, Greek). | |
| *Helen*[1] (previous trips to Cuba under ex-name, *Gloria*, Greek) | 7,128 |
| *Irena* | 7,232 |
| *Istros II* | 7,275 |
| *Kapetan Kostis*[1] (broken up) | 5,032 |

See footnotes at end of table.

| *Flag of registry—Name of ship* | *Gross tonnage* |
|---|---|
| Greek—Continued | |
| *Kyra Hariklia* [1] (broken up) | 6,888 |
| *Maria Theresa* [1] (now *Ingrid Anne*, South African) | 7,245 |
| *Marigo* [1] (now *Amfitriti*, Cypriot) | 7,147 |
| *Maroudio* [1] (now *Thalie*, Panamanian) | 7,369 |
| *Mastro-Stelios II* [1] (now *Wendy H.*, South African) | 7,282 |
| *Nicolaos F.* [1] (previous trip to Cuba, under ex-name, *Nicolaos Frangistas*, Greek) | 7,199 |
| *Nicolaos Frangistas* [1] (now *Nicolaos F.*, Greek). | |
| *Nikolis M* | 7,176 |
| *Olga* [1] (trips to Cuba, Lebanese). | |
| *Pamit* [1] (now *Bambero*, Liberian) | 3,929 |
| *Pantanassa* | 7,131 |
| *Paxoi* | 7,144 |
| *Penelope* [1] (now *Andromachi*, Greek). | |
| *Presvia* [1] (broken up) | 10,820 |
| *Redestos* | 5,911 |
| *Roula Maria*, tanker | 10,608 |
| *Seirios* [1] (broken up) | 7,239 |
| *Sophia* | 7,030 |
| *Stylianos N. Vlassopulos* [1] (now *Antonio II*, Cypriot) | 7,303 |
| *Timios Stavros* [1] (formerly British flag, now Maltese). | |
| *Tina* | 7,362 |
| *Western Trader* | 9,268 |
| **Polish**: (18 ships) | 136,680 |
| *Baltyk* | 6,963 |
| *Bialystok* | 7,173 |
| *Bytom* | 5,967 |
| *Chopin* | 9,148 |
| *Chorzow* | 7,237 |
| *Energetyk* | 10,843 |
| *Huta Florian* | 7,258 |
| *Huta Labedy* | 7,221 |
| *Huta Ostrowiec* | 7,175 |
| *Huta Zgoda* | 6,840 |
| *Hutnik* | 10,897 |
| *Kopalnia Bobrek* | 7,221 |
| *Kopalnia Czladz* | 7,252 |
| *Kopalnia Miechowice* | 7,223 |
| *Kopalnia Siemianowice* | 7,165 |
| *Kopalnia Wujek* | 7,033 |
| *Piast* | 3,184 |
| *Transportowiec* | 10,880 |
| **Cypriot**: (19 ships) | 129,385 |
| *Acme* | 7,159 |
| *Adelphos Petrakis* | 7,170 |
| *Akamas* [1] (previous trips to Cuba, Lebanese) | 7,285 |
| *Akastos* [1] (previous trip to Cuba, Greek) | 7,331 |
| *Aktor* [1] (sunk) | 6,993 |
| *Amfiali* | 7,110 |
| *Amfithea* [1] (previous trip to Cuba under ex-name, *Antonia*, Greek) | 5,171 |
| *Amfitriti* [1] (trip to Cuba under ex-name, *Marigo*, Greek). | |
| *Amon* [2] | 7,229 |
| *Antonia II* [1] (trip to Cuba under ex-name, *Stylianos N. Vlassopulos*, Greek). | |
| *Artemida* | 7,247 |
| *El Toro* | 5,949 |
| *Free Enterprise* [1] (previous trips to Cuba, British) | 6,807 |
| *Free Merchant* [1] (previous trips to Cuba, British) | 5,237 |

See footnotes at end of table.

| *Flag of registry—Name of ship* | *Gross tonnage* |
|---|---|
| Cypriot—Continued | |
| *Free Navigator*[1] (previous trips to Cuba under ex-name, *Newdene*, British) | 7,181 |
| *Free Trader*[1] (previous trips to Cuba, Lebanese) | 7,067 |
| *Kallithea*[1] (previous trips to Cuba under ex-name, *Swift River*, British) | 7,251 |
| *Newforest*[1] (previous trips to Cuba, British) | 7,185 |
| *Newgrove*[1] (previous trips to Cuba, British and Haitian) | 7,172 |
| *Newmeadow*[1] (previous trips to Cuba, British) | 5,654 |
| *Sunrise*[1] (previous trips to Cuba under ex-name, *Anatoli*, Greek) | 7,187 |
| Italian: (15 ships) | 123,058 |
| *Achille* | 6,950 |
| *Agostino Bertani* | 8,380 |
| *Andrea Costa*[1] (tanker, broken up) | 10,440 |
| *Aspromonte* | 7,154 |
| *Caprera* | 7,189 |
| *Elia* (tanker) | 11,377 |
| *Geremia*[1] (previous trips to Cuba under ex-name, *Mariasusanna*, Italian) | 2,479 |
| *Giuseppe Giulietti* (tanker) | 17,519 |
| *Graziella Zeta*[1] (trips to Cuba under ex-name, *Montiron*, Italian). | |
| *Mariasusanna*[1] (now *Geremia*, Italian). | |
| *Montiron*[1] (now *Graziella Zeta*, Italian) | 1,595 |
| *Nazareno* | 7,173 |
| *Nino Bixio* | 8,427 |
| *San Francesco* | 9,284 |
| *San Nicola* (tanker) | 12,461 |
| *Santa Lucia* | 9,278 |
| *Somalia*[1] (now *Chenchang*, Nationalist Chinese) | 3,352 |
| Yugoslav: (9 ships) | 60,800 |
| *Bar* | 7,233 |
| *Cavtat*[1] (now *Sheik Boutros*, Lebanese) | 7,266 |
| *Cetinje* | 7,200 |
| *Dugi Otok* | 6,997 |
| *Kolasin* | 7,217 |
| *Mojkovac* | 7,125 |
| *Plod* | 3,657 |
| *Promina* | 6,960 |
| *Trebisnjica* (wrecked) | 7,145 |
| French: (8 ships) | 41,476 |
| *Arsinoe* (tanker, sunk) | 10,426 |
| *Circe* | 2,874 |
| *Enee* | 1,232 |
| *Foulaya* | 3,739 |
| *Mungo* | 4,820 |
| *Nelee* | 2,874 |
| *Neve*[1] (now *Drameoumar*, Guinean) | 852 |
| *Senanque* (tanker) | 14,659 |
| Moroccan: (5 ships) | 35,828 |
| *Atlas* | 10,392 |
| *Banora*[1] (sunk) | 3,082 |
| *Marrakech* | 3,214 |
| *Mauritanie* | 10,392 |
| *Toubkal* | 8,748 |

See footnotes at end of table.

| *Flag of registry—Name of ship* | *Gross tonnage* |
|---|---|
| Maltese: (5 ships) | 33,788 |
| *Amalia*[1] (previous trips to Cuba, British) | 7,304 |
| *Ispahan* | 7,156 |
| *St. Antonio*[1] (broken up, previous trip to Cuba, British) | 6,704 |
| *Soclyve*[1] (previous trips to Cuba, British) | 7,291 |
| *Timios Stavros*[1] (previous trips to Cuba, British and Greek) | 5,333 |
| Finnish: (4 ships) | 32,919 |
| *Augusta Paulin* | 7,096 |
| *Hermia*[1] (trip to Cuba under ex-name, *Amfred*, Swedish) | |
| *Margrethe Paulin* | 7,251 |
| *Ragni Paulin* | 6,823 |
| *Sword* (tanker) | 11,749 |
| Netherlands: (2 ships) | 999 |
| *Meike* | 500 |
| *Tempo* | 499 |
| Norwegian: (2 ships) | 10,002 |
| *Ole Bratt* | 5,252 |
| *Tine* (now *Jezreel*, Panamanian flag, wrecked) | 4,750 |
| Swedish: (2 ships) | 9,318 |
| *Amfred*[1] (now *Hermia*, Finnish) | 2,828 |
| *Dagmar*[1] (now *Bali Mariner*, Panamanian) | 6,490 |
| Monaco: (1 ship) | 7,314 |
| *Saint Lys* | 7,314 |

Guinean:
*Drameoumar*[1] (trip to Cuba under ex-name, *Neve*, French).
Haitian:
*Newgrove*[1] (now Cypriot).
Liberian:
*Bambero*[1] (trips to Cuba under ex-name, *Pamit*, Greek).
*Flora M.*[1] (trips to Cuba, Greek).
Nationalist Chinese:
*Chenchang*[1] (trip to Cuba under ex-name, *Somalia*, Italian).
Pakistani:
*Ardpatrick*[1] (trip to Cuba, British).
Panamanian:
*Bali Mariner*[1] (trips to Cuba under ex-name, *Dagmar*, Swedish).
*Jezreel*[1] (trip to Cuba under ex-name, *Tine*, Norwegian, wrecked).
*Cathay Trader*[1] (trips to Cuba under ex-name, *Suva Breeze*, British).
*San Carlo*[1] (trip to Cuba under ex-name, *Reneka*, Lebanese).
*Thalie*[1] (trip to Cuba under ex-name, *Maroudio*, Greek).
South African:
*Wendy H.*[1] (trip to Cuba under ex-name, *Mastro-Stelios II*, Greek).
*Ingrid Anne*[1] (trip to Cuba under ex-name, *Maria Theresa*, Greek).

[1] Ships appearing on the list that have been scrapped or have had changes in name and/or flag of registry.
[2] Added to Report No. 73, appearing in the Federal Register issue of June 29, 1966.

Section 2. In accordance with approved procedures, the vessels listed below which called at Cuba after January 1, 1963, have reacquired eligibility to carry United States Government-financed cargoes from the United States by virtue of the persons who control the vessels having given satisfactory certification and assurance:

(a) that such vessels will not, henceforth, be employed in the Cuba trade so long as it remains the policy of the United States Government to discourage such trade; and

(b) that no other vessels under their control will thenceforth be employed in the Cuba trade, except as provided in paragraph (c) and

(c) that vessels under their control which are covered by contractual obligations, including cahrters, entered into prior to December 16, 1963, requiring their employment in the Cuba trade shall be withdrawn from such trade at the earliest opportunity consistent with such contractual obligations.

| Flag of registry, name of ship: | *Gross tonnage* |
|---|---|
| a. *Since last report* | None |
| b. *Previous reports:* | *Number of ships* |
| *Flag of registry (total)* | 95 |
| British | 39 |
| Cypriot | 2 |
| Danish | 1 |
| Finnish | 2 |
| French | 1 |
| German (West) | 1 |
| Greek | 25 |
| Israeli | 1 |
| Italian | 5 |
| Japanese | 1 |
| Kuwaiti | 1 |
| Lebanese | 5 |
| Norwegian | 4 |
| Spanish | 6 |
| Swedish | 1 |

Section 3. The ships listed in Sections 1 and 2 have made the following number of trips to Cuba since January 1, 1963, based on information received through July 12, 1966.

| Flag of registry | 1963 | 1964 | 1965 | 1966 | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Jan. | Feb. | Mar. | Apr. | May | June | July | |
| British | 133 | 180 | 126 | 5 | 11 | 11 | 11 | 13 | 6 | 1 | 497 |
| Lebanese | 64 | 91 | 58 | 3 | 3 | 4 | 5 | 2 | | | 230 |
| Greek | 99 | 27 | 23 | 3 | 2 | 2 | 3 | 1 | 4 | | 164 |
| Italian | 16 | 20 | 24 | 2 | | | 2 | 2 | | | 66 |
| Yugoslav | 12 | 11 | 15 | | 2 | 1 | 2 | 1 | | | 44 |
| Cypriot | | 1 | 17 | 1 | 6 | 4 | 2 | 1 | 3 | | 35 |
| French | 8 | 9 | 9 | | | | | 1 | | | 27 |
| Spanish | 8 | 17 | | | | | | | | | 25 |
| Norwegian | 14 | 10 | | | | | | | | | 24 |
| Moroccan | 9 | 13 | 1 | | | | | | | | 23 |
| Finnish | 1 | 4 | 5 | 1 | 2 | | 2 | 1 | | | 16 |
| Maltese | | 2 | 6 | 1 | | | | | | | 9 |
| Netherlands | | 4 | 2 | | | | | | | | 6 |
| Swedish | 3 | 3 | | | | | | | | | 6 |
| Kuwaiti | | 2 | 1 | | | | | | | | 3 |
| Israeli | | | 2 | | | | | | | | 2 |
| Danish | 1 | | | | | | | | | | 1 |
| German (W) | 1 | | | | | | | | | | 1 |
| Haitian | | | 1 | | | | | | | | 1 |
| Japanese | 1 | | | | | | | | | | 1 |
| Monaco | | | | | 1 | | | | | | 1 |
| Subtotal | 370 | 394 | 290 | 16 | 27 | 22 | 27 | 22 | 13 | 1 | 1,182 |
| Polish | 18 | 16 | 12 | | 2 | 1 | 1 | 1 | 1 | 1 | 53 |
| Grand total | 388 | 410 | 302 | 16 | 29 | 23 | 28 | 23 | 14 | 2 | 1,235 |

NOTE.—Trip totals in this Section exceed ship totals in Sections 1 and 2 because some of the ships made more than one trip to Cuba. Monthly totals subject to revision as additional data become available.

By Order of the Acting Maritime Administrator.

Dated: July 14, 1966.

JAMES S. DAWSON, Jr.,
*Secretary.*

Mr. LOWENFELD. They are unlawful under Greek law.

Mr. BEASER. But nothing has been done about enforcing the law.

Mr. LOWENFELD. No, I wouldn't say that, but it is true that the enforcement measures have not been fully effective. That is——

Mr. BEASER. I understand so. I agree.

I would like to have a listing of such vessels included in this hearing record—a listing which shows the ownership of those vessels carrying supplies to Cuba.

(The above-mentioned listing follows:)

## EXHIBIT 20

### CERTAIN GREEK FLAG SHIPS AND THEIR REGISTERED OWNERS

| Owned and/or controlled by | Owned by | Name of vessel | Year built | Gross tons | Flag |
|---|---|---|---|---|---|
| Aegis Shipping Co., Ltd., 52 Odos Zossimadon, Postbox 30, Piraeus, Greece. | Cia, Nav. Y de Comercio Apolo, Ltda., San Jose, Costa Rica. | *Akastos* (as of June 1966, Agenor Shipping Co., Ltd., Nicosia, Cyprus). | 1946 | 7,331 | Greek. Cypriot. |
| Bray Shipping Co., Ltd., Bevis Marks House, 23-24, Bevis Marks, London, E.C. 3. | Almadin Cia. Nav., S.A., Panama. | *Maroudio* (now *Thalie* October 1965, Pan African Atlantic Corp., Inc., c/o Oceanic Steamship Co., S.A., Via Sottoripa la, 102, Genoa, Italy). | 1946 | 7,369 | Greek. Panamanian. |
| Carapanayoti & Co., Ltd., 19 Eastcheap, London, E.C. 3. | Marmira Nav. Cia, Ltd., Panama. | *Athanassios K* | 1943 | 7,216 | Greek. |
| Embiricos, Andrew-Michael, c/o Todos Mares, S.A.M., Palais de la Scala, Monte Carlo, Monaco. | Cia. de Nav. Penelope, S.A., Panama. | *Penelope* (now *Andromachi*, April 1964, Dalia Cia. Nav., S.A., Panama, c/o Franco Shipping Co., Ltd., 65 Odos Patission, Athens, Greece). | 1945 | 6,712 | Do. |
| Embiricos, Hariton, 6 Odos Panepistimiou, Athens, Greece. | Hegif Nav. Co | *E. Evangelia* | 1942 | 7,388 | Do. |
| Fafalios, Ltd., Dunster House, 37 Mincing Lane, London, E.C. 3. | Cia. Lamia de Nav., S.A., Panama. | *Redestos* | 1937 | 5,911 | Do. |
| Faros Shipping Co., Ltd., 32-38 Duke's Pl., London, E.C. 3. | Athenian Shipping Co., S.A., Panama. | *Apollon* | 1957 | 9,744 | Do. |
| Franco Shipping Co., Ltd., 65 Odos Patission, Athens, Greece. | A. Frangistas & E. Athanasiou. | *Gloria* (now *Helen*, September 1964, Olistim Nav. Co. (Sp. Mar. S.A.), Athens, Greece, c/o Olistim Navigation Co., Ltd., 19 Avenida Antonio Augusto de Aguiar, Lisbon, Portugal). | 1943 | 7,128 | Do. |
| | A. Frangistas & others | *Nicolaos F* | 1944 | 7,199 | Do. |
| | | *Pantanassa* | 1943 | 7,131 | Do. |
| | Dalia Cia. Nav., S.A., Panama. | *Andromachi* (x *Penelope*) | 1945 | 6,712 | Do. |
| | Lestam Greek Shipping Co., Ltd. | *Sophia* | 1929 | 7,030 | Do. |
| | Olisfan Cia. Nav., S.A., Panama. | *Kyra Hariklia* (sold April 1966 to be broken up) | 1943 | 6,888 | Do. |
| | Olissipo Cia. Nav., S.A., Panama. | *Irena* | 1943 | 7,232 | Do. |
| | Stamie Cia. Nav., S.A., Panama. | *Alice* | 1944 | 7,189 | Do. |
| | | *Barbarino* | 1943 | 7,084 | Do. |
| Halcoussis, A., & Co., 38 Akti Posidonos, Postbox 60, Piraeus, Greece. | A. Halcoussis | *Pamit* (now *Bambero*, March 1966, Banbero Compania Naviera, S.A., c/o Paul-Rene Abela, 45 Orchard Rd., Chessington, Surrey). | 1945 | 3,929 | Do. Liberian. |
| Lemos & Pateras, Ltd., St. Clare House, 30-33 Minories, London, E.C. 3. | San Therapon Cia. Nav., S.A., Panama. | *Agios Therapon* | 1946 | 7,413 | Greek. |

| Owned and/or controlled by | Owned by | Name of vessel | Year built | Gross tons | Flag |
|---|---|---|---|---|---|
| Livanos, John, & Sons, Ltd., Liverpool House, 15-17 Eldon St., London, E.C. 2. | Drive Shipping Transports Organization Co., Ltd., The, 148 Britannia St., Valletta, Malta. | *Timios Stravros* | 1939 | 5,333 | Maltese. |
| | Lamda Shipping Enterprises Corp., S.A., Panama. | *Anatoli* (now *Sunrise*, March 1965, Niki Marine Operations Co., Ltd., Nicosia, Cyprus, c/o Livanos, John, & Sons, Ltd., above). | 1943 | 7,216 | Greek. Cypriot. |
| | | *Antonia* (now *Amfithea*, June 1965, Tramping & Freighting Concern Co., Ltd., Nicosia, Cyprus, c/o Livanos, John, & Sons, Ltd., above). | 1939 | 5,171 | Greek. Cypriot. |
| | Nevada Co., Ltd., Monrovia, Liberia. | *Marigo* (as of June 29, 1966, Amfitriti Shipping Co., Ltd., Nicosia, Cyprus). | 1942 | 7,147 | Greek. |
| Margaronis, Dem. P., & Sons, 46 Odos Patission, Athens, Greece. | ---------- | *Eftychia* (now *Boaz*, July 1965, Cia. Nav. Pearl, S.A., c/o Teh Hu S.S. Co., Ltd., 27 Connaught Rd. West, Victoria, Hong Kong). | 1943 | 7,223 | Do. Panamanian. |
| Matsas, Loucas G., Lemos Maritime Building, 35-39 Akti Miaouli, Piraeus, Greece. | Loucas G. & Char. L. Matsas. | *Flora M.* (as of June 15, 1966, Marenviado Cia. Nav., S.A., Panama.) | 1941 | 7,244 | Greek. Liberian |
| Mattheos Mavridoglou, 48 Vasilissis Sophias, Athens, Greece. | Miltiades Navegacion, S.A. | *Nikolis M* | 1944 | 7,176 | Greek. |
| Michalinos Maritime & Commercial Co., Ltd., 38 Odos Filonos, Piraeus, Greece. | N. Michalos & Sons Maritime Co., Ltd., Marine Building, Odos Georg. Skouze, Post-box 2, Piraeus, Greece. | *Calliopi Michalos* | 1944 | 7,249 | Do. |
| Olistim Navigation Co., Ltd., 19 Avenida Antonio Augusto de Aguiar, Lisbon, Portugal. | Olistim Nav. Co., Ltd., Monrovia, Liberia. | *Tina* | 1942 | 7,362 | Do. |
| | Olistim Nav. Co. (Sp. Mar. S.A.), Athens, Greece. | *Helen* (x *Gloria*) | 1943 | 7,128 | Do. |
| Pappas, George, & Stavros Eleftheriades, Megaron El-Pa., Akti Miaouli 3, Piraeus, Greece. | Cia. de Nav. Faraklata, S.A., Panama. | *Roula Maria* | 1950 | 10,608 | Do. |
| Poseidon Shipping Agencies, Ltd., 9 Camomile St., London, E.C. 3. | Cosmar Shipping Corp., Monrovia, Liberia. | *Anacreon* | 1944 | 7,359 | Do. |
| Victoria Steamship Co., Ltd., 29-30 Broad St. Avenue, Blomfield St., London, E.C. 2. | Cia. Nav. Palma, S.A., Panama. | *Kapetan Kostis* (sold Mar. 23, 1966, to be broken up). | 1940 | 5,032 | Do. |

CERTAIN GREEK FLAG SHIPS AND THEIR REGISTERED OWNERS—Continued

| | | | | | |
|---|---|---|---|---|---|
| Vlassopulos, N. & J., Ltd., Bevis Marks House, 23-24 Bevis Marks, London, E.C. 3. | Altos Mares Cia. Naviera, S.A., Panama. | *Americana* | 1944 | 7,104 | Do. |
| | Marimperio Cia. Nav., S.A., Panama. | *Paxoi* | 1943 | 7,144 | Do. |
| | Philip N. Vlassopulos, Ithaca, Greece. | *Stylianos N. Vlassopulos* (now *Antonia II*, November 1965, Amfithea Shipping Co., Ltd., Famagusta, Cyprus, c/o Livanos, John, & Sons, Ltd., Liverpool House, 15-17 Eldon St., London, E.C. 3). | 1943 | 7,303 | Do. Cypriot. |
| | Ulysses Shipping Enterprises, S.A., Piraeus, Greece. | *Mastro-Stelios II* (now *Wendy H.*, September 1965, First Freighters (Pty.), Ltd., 721 Maritime House, Loveday St., Johannesburg, Republic of South Africa). | 1943 | 7,282 | Greek. South African. |
| | Western Transport Corp., Monrovia, Liberia. | *Western Trader* | 1959 | 9,268 | Greek. |
| Vlassopoulos Agencies, Inc., Diamantidou 61, Psychico, Athens, Greece. | Vegas S.S. Corp., Monrovia, Liberia. | *Maria Theresa* (now *Ingrid Anne*, November 1965, First Freighters (Pty.), Ltd., 721 Maritime House, Loveday St., Johannesburg, Republic of South Africa). | 1943 | 7,282 | Do. South African. |
| | Veritas Shipping Corp., Panama. | *Istros II* | 1943 | 7,275 | Greek. |

SCRAPPED VESSELS

| | | | | | |
|---|---|---|---|---|---|
| Compagnie de Navigation Fraissinet et Cyprien Fabre, 3 & 15 Rue Beauvau, Boite Postale 857, Marseilles, France. | Soc. Generale de Transports Maritimes. | *Ambassade* (x *Mont Ventoux*), (sold to Belvientos Cia. Nav., Panama; broken up March 1964). | 1939 | 8,600 | Greek. |
| Donaldson Bros. & Black Ltd. 14 St. Vincent Pl., Glasgow, C.1. | Donaldson Line Ltd. | *Embassy* (x *Calgaria*) (sold to Fortaleza Cia. Nav., S.A.; broken up August 1963). | 1941 | 8,418 | Do. |
| Nederlandsch-Amerikaansche Stoomvaart Maatschappij, N.V., 86 Wilheiminakade, Postbus 486, Rotterdam, Holland. | | *Presvia* (x *Dalerdyk*) (sold to Belvientos Cia. Nav., Panama; broken up December 1963). | 1930 | 10,820 | Do. |
| Panchripol, Ltd., 194 Bishopsgate, London, E.C. 2. | Dido Cia. Nav., S.A., Panama. | Seirios (broken up April 1964) | 1943 | 7,239 | Do. |

Senator GRUENING. Don't you think if we withheld future shipments the law might be enforced?

Mr. WATERS. Mr. Chairman, I doubt if in the circumstances, the President would call for that type of retaliation against the Greek Government when it is going——

Senator GRUENING. It isn't retaliation.

Mr. WATERS (continuing). Going so far that it has been challenged in its own courts. We could have the same problem here in this country—of trying to enforce a law and somebody getting an injunction. This is a fairly recent development of getting it into the civil courts of Greece, and the Government, so far as we are concerned, is in good faith trying to stop this one shipowner from this practice. So we don't really see need for action against the Greek Government. We are trying every way we can to bring about a proper solution.

Senator GRUENING. Well, thank you very much for coming. We appreciate your coming and giving us this testimony.

We will stand in recess until further call of the Chair, unless you have a further statement.

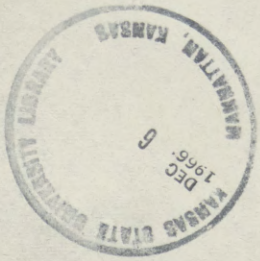
Mrs. JACOBSON. I would just like to make one comment, Mr. Chairman, that we appreciate your judgments and will give very serious consideration to what you think and say and suggest about our operating of Public Law 480; but I do want to say that to the best of our knowledge we do not concede that there are violations of the agreements for which we do not try to exact a penalty. To the best of our ability we have tried to check violations, to prevent them, and to exact penalties when they are deserved. But we do appreciate your judgments and we will certainly examine carefully what you say.

Senator GRUENING. Well, I think there are one or two countries that seem to be somewhat immune to enforcement and those are the countries I think that you should be vigilant about.

Thank you very much.

(Whereupon, at 12:20 p.m., the subcommittee recessed, to reconvene at the call of the Chair.)

○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