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COMMERCIAL (COMMODITY) IMPORT PROGRAM FOR VIETNAM (FOLLOWUP INVESTIGATION)

THIRTY-FOURTH REPORT

BY THE

COMMITTEE ON GOVERNMENT OPERATIONS

OCTOBER 8, 1970.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, D.C., October 8, 1970.

Hon. JOHN W. MCCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: By direction of the Committee on Government Operations, I submit herewith the committee's thirty-fourth report to the 91st Congress. The commitee's report is based on a study made by its Foreign Operations and Government Information Subcommittee.

WILLIAM L. DAWSON, *Chairman.*

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COMMERCIAL (COMMODITY) IMPORT PROGRAM FOR VIETNAM (FOLLOWUP INVESTIGATION)

October 8, 1970.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. Dawson, from the Committee on Government Operations, submitted the following

THIRTY-FOURTH REPORT

BASED ON A STUDY BY THE FOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE

On October 7, 1970, the Committee on Government Operations approved and adopted a report entitled "Commercial (Commodity) Import Program for Vietnam (Followup Investigation)." The chairman was directed to transmit a copy to the Speaker of the House.

I. INTRODUCTION

On October 12, 1966, the House Committee on Government Operations published the first comprehensive congressional report on the efficiency and economy of the U.S. aid program for Vietnam. The report[1] was the result of intensive onsite investigations and hearings in Washington and Saigon by the Foreign Operations and Government Information Subcommittee under Chairman John E. Moss. The introduction to that report stated that—

> The committee has a continuing interest in the development of an efficient and economical aid program in Vietnam and intends to keep the situation under constant watch in the months to come, not only checking the effectiveness of recently instituted changes but also urging action toward further improvements.

[1] H.Rept. 2257, 89th Cong., 2d sess., "An Investigation of U.S. Economic and Military Assistance Programs in Vietnam."

In furtherance of that commitment, three subcommittee staff members traveled to Vietnam, in November 1966, to check on steps being taken to implement the recommendations made in the committee report and on June 29, 1967, the subcommittee left Washington for an onsite, followup investigation of U.S. assistance programs in Vietnam. The continued surveillance and followup investigation by the subcommittee resulted in the committee issuing six followup reports.[2] The seven reports included substantial recommendations to improve and correct U.S. foreign aid operations not only in Vietnam but worldwide.

Although the subcommittee directed most of its efforts to studies and investigations of aid programs in other parts of the world during 1968 and 1969, surveillance over the Vietnam program continued with the assistance of the U.S. General Accounting Office (GAO). On February 26, 1969, Chairman John E. Moss requested that the GAO make a detailed assessment of how well the weaknesses and irregularities previously reported by the subcommittee had been remedied.

In response to Chairman Moss' request, the GAO made onsite reviews during 1969. The GAO has provided a status report on the subcommittee's recommendations relating to the commercial (commodity) import program for Vietnam. The information provided by the GAO is the basis for this report.

II. SYNOPSIS

Foreign Exchange Spending

Government of Vietnam spending for purchases in the United States has increased since the subcommittee's recommendations were made. The increases have not always reached desired goals. Some of the purchases made will tend to generate future imports such as repair parts and replacements.

The Agency for International Development (AID) has been only partly successful in

—persuading the Government of Vietnam to keep its promise to increase its spending in the United States during 1969,

—identifying commodities produced only or mainly in the United States on which export prices (including shipping) would be competitive and would promote Government of Vietnam financed importation from the United States, and

—persuading the Government of Vietnam to use its $50 million escrow account to purchase rice and/or other products from the United States.

Licensing of Importers

AID has made some background reviews of specific importers but no systematic investigation of the reliability and integrity of commercial import program importers,

[2] H. Rept. 609, 90th Cong., 1st sess., "Illicit Practices Affecting the U.S. Economic Program in Vietnam." H.Rept. 610, 90th Cong., 1st sess., "The Commercial (Commodity) Import Program for Vietnam." H.Rept. 611, 90th Cong., 1st sess., "The Port Situation in Vietnam." H.Rept. 1142, 90th Cong., 2d sess., "Land Reform in Vietnam." H.Rept. 1148, 90th Cong., 2d sess., "Excessive Programing and Procurement of Sweetened Condensed Milk for Vietnam." H.Rept. 1228, 91st Cong., 2d sess., "A Review of the Inequitable Monetary Rate of Exchange in Vietnam."

AID has relied on a central importer file designed to accumulate in one place pertinent information on importers and others having influence over importers. Much of the file data came from questionnaires voluntarily returned by importers and others. However, the majority did not return their questionnaires; those who did seldom furnished complete reports; and little or no follow-up verification of the data was made.

The file cannot be considered an adequate substitute for the systematic background and qualifications review recommended by the subcommittee.

AID has not negotiated with the Government of Vietnam on the problem of uniformly applying newly established licensing rules to old as well as new importers, although recommended by the subcommittee. AID officials in Vietnam stated, in July 1969, that they had made informal suggestions to the Vietnamese Government but that they were not in a position to influence implementation.

Inequities in the licensing regulations are evident and their application unnecessarily restricts competition when (1) only new firms must meet stock registration, financial, facilities, citizenship, and minimum foreign exchange usage requirements, (2) only old firms remain restricted to a limited number of commodity categories, and (3) new firms can be registered only during designated periods.

Use of Commodity Analysis

AID is now using commodity analysts to estimate import commodity needs, and their reports include such aspects as market growth patterns, population trends, moneys available for imports, purchase lead times, and inventories, as well as import license applications. Continued use of analyses based on sound, current market data should help AID to continue to meet the import program's goals.

Textile and Paper Imports

Imports of paper products appear to have been satisfactorily curtailed, as recommended by the subcommittee. Imports of textile fabrics also were curtailed beginning in 1967; however, this did not prevent the buildup of excessive inventories.

AID has not fully convinced the Government of Vietnam that regulating fabric imports is necessary to avoid excessive inventories. An over-supply of textiles tends to reduce the prices of domestic goods causing an economic strain on the local manufacturing community and thus limits fuller utilization of the country's textile industry.

Procurement by General Services Administration

Consolidated purchases of commercial import program commodities by the General Services Administration were tried from July 1966 to September 1967, when Vietnam port congestion, diversion, collusion, etc., were major problems. Consolidated procurement was discontinued primarily because of higher costs, poor delivery experiences, and difficulties in arranging and coordinating requirements, specifications, licensing, and financing.

AID is not presently in favor of resuming this type of purchasing which is contrary to its objective of promoting self-sustaining direct contact between Vietnamese importers and U.S. exporters. However, in the interests of economy, the feasibility of this type of purchasing should be reconsidered in relation to conditions presently existing in Vietnam.

Audit Coverage

AID's overall dollar coverage of commercial import program audits has substantially increased since 1967, as recommended by the subcommittee. However, dollar values reported as covered by audits were often based on (1) total values stated in program agreements, (2) the total amount of licenses issued, or (3) total AID payments for commodities.

Test samples were generally selected from arrival records and may not have been representative of all transactions under a particular agreement or license. Reported audit coverages were sometimes inflated because higher values stated in agreements and licenses, instead of values of goods actually received, were reported. Verification of the end-use of commodities represented only a small fraction of the audit coverage reported by AID. AID should review the testing and reporting procedures to ensure that coverage claimed is commensurate with the work performed.

Prior Review of Transactions

AID has intensified its system of prevalidation checks of commercial import program shipments and suppliers before transactions are completed and has set up procedures to provide a reasonable review. These prevalidation procedures could be more effective if centralized automatic data processing were developed. Historical and current transaction data could then be consolidated and analyzed simultaneously, and the separate reviews by Washington and Vietnam AID personnel perhaps could be eliminated.

U.S. Customs Advisers

The number of U.S. customs advisers was increased, as recommended; was increased further when more were needed; and was reduced when port operations improved.

Distressed-Cargo Bidders

AID has not made independent reviews of the background and qualifications of all bidders for distressed cargo (goods not removed from port area within 90 days after arrival) sold at Government of Vietnam auctions. However, to safeguard U.S. interests, AID personnel are attending these auctions and keeping records on AID financed goods sold. Considering the relatively small quantities of goods sold at auction, AID actions are satisfactory, if the records are complete.

III. GVN FOREIGN EXCHANGE SPENDING IN UNITED STATES

Recommendations from Prior Reports

The Secretary of State should direct the U.S. Ambassador in Vietnam to insist that the GVN increase its foreign exchange spending in the United States. (Source: H. Rept. 610, dated Aug. 25, 1967, p. 16, No. 4.)

The AID mission should identify CIP commodities produced mainly by the United States and press the GVN to finance these commodities with its own foreign exchange. If the GVN refuses, AID should declare these commodities ineligible for U.S. financing. (Source: H. Rept. 610, dated Aug. 25, 1967, p. 16, No. 5.)

Basis for Prior Report Recommendations

The subcommittee investigation in 1967 disclosed that less than 10 percent of U.S. dollars accruing to the Government of Vietnam (GVN) from piaster sales for support of U.S. forces in Vietnam find their way back to the United States. Although the GVN expended $225 million of its own foreign exchange for imports in 1966, only $6.2 million was spent in the United States. Projections for 1967 indicated that the GVN would expend $300 million of its own foreign exchange for imports and that less than 10 percent would be spent in the United States although the projected piaster sales to the United States in 1967 was estimated at $296 million. It was apparent to the subcommittee that, unless immediate steps were taken to induce GVN to spend more of its dollars in the United States, the drain of U.S. gold and adverse effect on the U.S. balance-of-payments position would not only continue but would become increasingly worse.

In July 1967, AID officials informed the subcommittee of four major steps being taken to limit the adverse effect of the U.S. presence in Vietnam on the U.S. balance-of-payments position.

These steps included (1) deposit by the GVN in the counterpart fund for U.S. use, the piaster value of 300,000 tons of rice provided to the GVN on concessional sales terms, in accordance with the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), (2) prepayment in piasters of three former International Cooperation Administration loans, (3) deposit of most GVN foreign exchange reserves in U.S. banks, and (4) preparation of a list of CIP commodities produced mainly by the United States. The list was to be used as the basis for requesting the GVN to purchase these commodities from the United States with its own foreign exchange. Although the subcommittee found these steps to be commendable, it recognized that the first three were of a temporary and nonrecurring nature which did not limit GVN foreign exchange expenditures outside the United States.

In connection with the fourth step, the subcommittee recommended that the U.S. Agency for International Development, Vietnam (USAID/VN), identify commodities produced mainly by the U.S. and request the GVN to finance them with its own foreign exchange, with refusal to do so resulting in the commodities' being declared ineligible for U.S. financing.

Status of Implementation

In a letter to the AID Administrator, dated September 19, 1967, the subcommittee directed specific attention to its recommendation concerning increased GVN foreign exchange spending in the United States. On October 6, 1967, the AID Administrator informed the subcommittee that he was giving the matter careful consideration and that he expected to explore with the GVN Minister of Economy, during his visit to Washington, all feasible means of increasing the U.S. share of Vietnamese financed imports. Also, AID/Washington requested the U.S. Mission to pursue discussions with the GVN on ways to achieve at least $50 million worth of GVN financed purchases from the United States in calendar year 1968.

On April 19, 1968, USAID/VN in a letter to the GVN Minister of Economy suggested an increase of $50 million in GVN financed imports from the United States for 1968. On April 25, 1968, the GVN Minister of Economy specified five areas in which the GVN intended to import commodities valued at about $47.1 million from the United States during 1968. These intended imports together with an estimated $23 million of imports normally purchased from the United States produced an overall figure of $70.1 million for 1968.

On July 6, 1968, the GVN agreed to establish an escrow fund of $50 million to be maintained by the U.S. Treasury. This escrow fund was to be used for the purchase of rice in the United States during the period July 15, 1968, to August 15, 1969. The agreement provided that other uses for the account could be negotiated prior to its expiration. AID has attempted to negotiate the use of the rice escrow account for purchases of U.S. commodities other than rice but the GVN has not agreed. Authority to make payments from the account expired on August 15, 1969, after only one rice purchase of about $8.4 million was made on June 30, 1969.

Meanwhile the account has been invested in U.S. Treasury bills and has earned more than $5.6 million in interest through January 1970. This interest has been transferred to the National Bank of Vietnam, as earned, and is not available for additional purchases through the account.

AID/Washington officials indicated that there were two reasons for the reluctance of the GVN to fully utilize this fund. First, the frequently higher cost of U.S. commodities and the higher transportation costs combine to make U.S. products less competitive than those obtained in nearby countries. Second, the GVN officials felt that there was no need to increase the GVN foreign exchange spending in the United States as AID would supply necessary commodities under CIP or other programs. AID/Washington officials cited, as an example of this, the instance of 50,000 metric tons of rice ($8.4 million) purchased only after AID insistence.

In January 1970, the rice escrow account agreement was amended to allow payment for the purchase of other U.S. products and to allow payments for ocean freight for U.S. commodities shipped to Vietnam. A second rice purchase of 50,000 metric tons valued at about

$8 million was made by the GVN after strong insistence by AID. As of March 26, 1970, the Treasury Department had not received the necessary authorization to transfer funds from the escrow account for this purchase. Additionally, as of March 26, 1970, expenditures of $14.7 million for ocean freight and for U.S. commodities other than rice had been authorized by the GVN and transferred from the account by the Treasury Department. At least $8 million of these funds represented payments for ocean freight charges for shipment of U.S. commodities.

The total amount of funds obligated or expended from the escrow account, as of March 26, 1970, was approximately $31.1 million, of which the Treasury Department had transferred $23.1 million and was awaiting authority for transfer of $8 million. An additional expenditure of about $8 million is expected shortly for a third rice purchase resulting from negotiations with the GVN and issuance of invitations to suppliers for bids.

In the program assistance grant agreement for 1969, signed February 12, 1969, the GVN committed itself to development of policies and procedures to increase the U.S. market share of the GVN foreign exchange expenditures. On July 12, 1969, the Director, USAID/VN, proposed to the GVN Minister of Economy a 1969 target of $70 million in GVN-financed imports from the United States, specifying the commodities to be purchased. On July 26, 1969, the U.S. Embassy's commercial attaché made inquiries concerning the proposal in a meeting with the GVN Assistant Minister for Commerce, who did not wish to make a decision in view of an impending Cabinet change. Subsequently, the U.S. Mission advised that the subject would be reopened with the GVN.

The following schedule compares GVN foreign exchange (U.S. dollars) generated from the sales of piasters to U.S. personnel in Vietnam with the estimated and actual amounts of GVN licenses issued for purchases from the United States.

[Dollar amounts in millions]

Calendar year	Piaster sales	Estimated	Actual [1]	Percent of actual to piaster sales
1967	$290	$30.0	$24.0	8.3
1968	311	70.1	57.7	18.6
1969	388	70.0	58.4	15.1

[1] The 1968 amount includes the unlicensed purchase of 2 Boeing aircraft for $13,100,000; the 1969 amount does not include the $8,400,000 rice purchase from the escrow account for which Government of Vietnam licensing was not required.

These percentages are lower when computed on the basis of total purchases financed by GVN foreign exchange from all sources. On that basis, the U.S. share of GVN foreign exchange expenditures for 1967, 1968, and 1969, was 8.2 percent, 14.7 percent and 13.7 percent respectively. Also AID officials advised that not all GVN import licenses issued are used. They estimate that actual expenditures tend to be about 10 percent lower than reported licensing figures.

Regarding USAID/VN's preparation of a list of CIP commodities produced mainly by the United States, USAID/VN made an effort to construct such a list for the primary purpose of having the GVN finance these commodities with its own foreign exchange. In this effort, USAID/VN evaluated and analyzed U.S. Department of Commerce market data forwarded from Washington as well as market data available in Vietnam. USAID/VN found that few Vietnamese imports were produced only or mainly in the United States. USAID/VN was unable to construct a promising list of U.S. products that would be competitive in Vietnam, primarily because of higher product and transportation costs. USAID/VN also devoted efforts to reaching mutual agreement with the GVN to substantially increase imports from U.S. sources.

Conclusions

GVN foreign exchange spending in the United States has increased since the subcommittee's 1967 recommendations were made, although the increases have not always reached the estimates and goals established by AID. Some of the purchases tend to generate further imports such as repair parts, replacements, etc., so that future increases may be forthcoming.

USAID/VN has not been successful in identifying GVN financed items on which U.S. export prices would be competitive and which would promote GVN financed importation of these items from the United States. USAID/VN has urged the GVN, in some instances, to purchase certain commodities from the United States when CIP financing was not available.

The $50 million rice escrow account established to increase GVN-financed purchases in the United States has not fully served its intended purpose. During the 13-month period of the agreement establishing the account, there was only one rice purchase of $8.4 million, made just prior to the expiration of the agreement and then only after strong insistence by AID. In contrast, the account has earned more than $5.6 million in interest through January 1970, and this interest has been transferred to the National Bank of Vietnam as earned and is not available for additional U.S. purchases through the escrow account.

The recently stepped-up GVN expenditures from the escrow account, particularly for rice, have increased GVN spending in the United States. This increased activity, however, has been due primarily to AID's strong insistence to the GVN that the funds be utilized.

Although most of the funds in the account are being utilized, not all expenditures have necessarily increased the GVN foreign exchange spending in the United States. For example, at least $8 million was used by the GVN to pay ocean freight charges on shipments of U.S. commodities for which the GVN would normally be obligated to pay in any event. Moreover, the rice purchases represent temporary and nonrecurring transactions, since the GVN has been very reluctant to purchase U.S. rice when cheaper sources of supply are available and since Vietnam is expected to be self-sufficient in rice production by 1971.

IV. LICENSING OF IMPORTERS

Recommendations from Prior Reports

The AID mission should review the background and qualifications of all applicants for import licenses independent of the review conducted by the GVN. (Source: H. Rept. 2257 dated October 12, 1966, p. 24, No. 4.)

The Committee is repeating its recommendation that the AID mission review the background and qualifications of all applicants for import licenses independent of the review conducted by the GVN. (Source: H. Rept. 610 dated August 25, 1967, p. 15, No. 1.)

The AID mission should insist that established importers be required to conform to the same conditions that currently govern the issuance of import licenses to new applicants. If this would require an amendment to existing Vietnamese laws, the mission should formally request the GVN to take this step. (Source: H. Rept. 2257 dated October 12, 1966, p. 24, No. 6.)

The committee is repeating its recommendation that the AID mission insist that established importers be required to conform to the same conditions that apply to new applicants. Furthermore, the AID mission should insist on the removal of restrictions limiting established importers to the importation of certain commodities. This matter should now be negotiated at the highest levels of the U.S. mission and the GVN. (Source: H. Rept. 610, dated Aug. 25, 1967, p. 15, No. 2.)

Basis for Prior Report Recommendation

During its investigation of U.S. programs in Vietnam in 1966, the subcommittee found that about 2,000 importers had been authorized to import AID-financed commodities into Vietnam. The privilege was granted to these importers between 1956 and 1961. At that time, investigations of each applicant's political background and behavior were reportedly made by the GVN. The responsibility for monitoring importer activities since that time has been left to the GVN.

The subcommittee was concerned that the GVN had sole responsibility for investigating each importer's background and for giving permission to utilize AID-provided foreign exchange financing. Also of concern to the subcommittee was the fact that AID relied completely on punitive measures after infractions had been committed when it was too late to prevent such infractions of AID regulations and illicit practices. The subcommittee said that, although it was common knowledge that AID-financed commodities were being diverted to the Vietcong, USAID/VN had not established procedures for checking the background, loyalty, honesty, or secret connections of these importers.

Subcommittee investigation disclosed that only 23 of the 2,000 authorized importers had been declared ineligible and blacklisted by the GVN because of infractions of AID regulations and that 20 of the 23 importers had been blacklisted after the subcommittee initiated its own investigation.

AID advised the subcommittee, in 1966, that importers would be asked to fill out a questionnaire designed to help in analyzing the composition and working habits of any given firm. The questionnaires were to be screened, on a selected basis, to determine the validity of the statements and to develop in greater depth more information on the activities of the firms. USAID/VN hoped to have the questionnaires mailed and returned by August 31, 1966.

During its follow-up investigation in 1967, the subcommittee found that AID had failed to take the promised corrective action. Questionnaires were never mailed by AID, primarily because of lack of staff to conduct independent reviews of all importers. The subcommittee pointed out that implementation was feasible because (1) USAID/VN staff requirements had been largely met, (2) automatic data processing (ADP) systems were available to facilitate the collection and use of data, (3) USAID/VN still had no adequate procedure for identifying disloyal and dishonest importers prior to their committing infractions of AID regulations, (4) only a few unsystematic and fragmented background checks had been made of the 2,200 authorized CIP importers at that time, and (5) changes in the CIP program should have reduced the number of importer background checks necessary.

In 1966, the subcommittee found that, under the new system of open general licensing adopted by AID with the concurrence of the GVN, new firms and importers would be permitted to enter the previously closed import community if they could demonstrate that they were responsible firms, were 70 percent Vietnamese owned with at least 15 million piasters and paid-in capital, and had adequate warehouse facilities and if they deposited 1 million piasters as surety against illegal activities. These requirements, however, were not being applied to established importers. AID advised the subcommittee, on August 29, 1966, that the GVN took the position that application of these requirements to established importers would be contrary to Vietnamese law. The subcommittee felt that the new financial requirements were a desirable control device that would not be fully effective unless they applied to all importers.

AID officials cited advantages of the new importers over the old importers as a reason for not requiring the old importers to meet the financial requirements which had been imposed on new importers. The subcommittee noted that procedures in effect at that time limited old importers to the importation of only one commodity within a designated category, whereas new importers had greater latitude, they could import all of the commodities within a designated category.

The subcommittee felt that reasons cited by AID for not implementing the recommendations were unsound and did not justify the failure to take corrective action. Moreover, the subcommittee reported that the inequities in the regulations governing old and new importers were unfair to the importers themselves and detrimental to the economy of Vietnam because they restricted free competition among importers.

Status of Implementation

AID reported to the subcommittee in December 1966 and in July 1967 that it was not feasible to conduct a comprehensive investigation of the background of all importers; however, USAID/VN did make selective investigations where there were actual or suspected irregularities.

USAID/VN issued a policy and procedures order on November 28, 1967, for the establishment and maintenance of a central importer file. AID informed the subcommittee that the file was established on January 1, 1968. AID reported that the file contained considerable material on the background of importers including data from various AID/Washington and USAID/VN audits and investigations, U.S. Customs Advisory Group inspections, and compilations of U.S. Department of Commerce World Trade Directory Reports and that the file was continually supplemented with new material.

On August 31, 1968, USAID/VN broadened the central importer file to include information on suppliers, sales agents, and others who have some influential relationship to importers or whose activities warranted special attention. According to AID, the purpose of this file system is to centralize the cumulative knowledge available on those firms or individuals having access to the benefits of AID-financed transactions for the use of all USAID/VN organizational units.

The basic information document in the file relating to an importer's background is a questionnaire containing data from importers concerning ownership, responsible officers, capitalization, sales volume, and other pertinent details. The file generally contains copies of U.S. Department of Commerce trade reports based on bank reference information and responses to questionnaires prepared by the importers, where such questionnaires have been returned. The file includes copies of or references to those agency audits made, as well as ADP runs of CIP business activity for recent periods, although these runs are of questionable accuracy.

Available information indicated that a joint task force of personnel from USAID/VN and the U.S. Embassy Commercial Office was formed to develop a comprehensive questionnaire to serve two purposes: (1) to acquire data which would clear up the backlog of U.S. Department of Commerce requests for trade reports to assist U.S. firms in doing business with Vietnamese firms and (2) to establish input data for the file. Questionnaires were reportedly sent to 2,265 registered importers in April 1968. In October 1968, a second effort was made to obtain background information from 300 of the more active importers engaged in CIP transactions who had not responded to the first mailing. This second effort resulted in receipt of 230 additional questionnaires. The task force reported that, as of December 1968, a total of 987 completed questionnaires had been received and 1,587 interviews had been conducted. USAID/VN, in the meantime, had determined that only about 900 of the registered importers were actively engaged in CIP business and that the results of the questionnaires indicated a substantial number of the others were no longer in business.

An official of the U.S. Department of Commerce informed us that, as of January 9, 1970, approximately 748 World Trade Directory Reports containing commercial-type business information on Vietnamese firms were on file and available to the U.S. business community. He added that approximately two-thirds of the trade reports came in during 1968 as a result of the joint effort by USAID/VN and the Embassy Commercial Office.

The questionnaires, used both for the central importer file and for trade report preparation, contain little usable information and are seldom complete in all respects. As a result, the trade reports and the questionnaires often lack the specific and comprehensive information suitable for systematically evaluating an importer's background and qualifications. For example, even when the owners of an importing company are indicated, there is little assurance that they are the true and legal owners when the actual ownership status has not been verified. It is apparent that many questionnaires have not been followed with suitable verification and tests of accuracy.

Available information indicated that no new import firms were authorized by the GVN Minister of Economy between 1959 and 1966 except for end-use importers—that is, those who import solely for their own use. On June 18, 1966, the GVN issued a communique which provided for the formation of new companies to participate in importing activities. According to this announcement, the GVN recognized that import activities had been controlled by a few businessmen and were largely untouched by competition. Therefore, to create competition and to channel new moneys into import activities and thus assist the national economy, the GVN adopted this new policy which would authorize newly formed companies to enter the import community under the following general conditions:

1. The newly formed companies must be joint stock companies.
2. The newly formed companies must have a paid-in capital of 15 million piasters.
3. All shares of company stock must be registered.
4. An amount of 1 million piasters, as a surety, must be deposited with the GVN Treasury General.
5. The company must possess appropriate warehouse facilities.
6. Seventy percent of the shareholders and the majority of the company management must be Vietnamese citizens of at least 15 years' standing.

New companies thus formed were initially authorized to import commodities in a maximum of three categories, the same as long-established import companies. Current GVN regulations, as amended July 4, 1966, allow newly established import firms to operate in all commodity categories with some limitation. Also, effective in mid-1968, the deposit of 1 million piasters as a surety was no longer required.

USAID/VN recognized that, though new companies were formed, they were not necessarily newcomers to the import field since, if an old established company could meet the criteria of the new requirements, its owners could go through the necessary formalities and be authorized to import under both old and new regulations. However, these new conditions, particularly the collateral requirement and other financial requirements, were not being imposed on the established importers if they preferred not to expand their activities to other commodity categories under the new regulations.

Subsequent GVN communiques and notices regarding the establishment of new importing companies were concerned primarily with designation and extension of application periods and foreign exchange utilization. New applicants for import licenses could not file on a continuous basis after the issuance of the GVN communique in June 1966 allowing the formation of new import companies. During the 3-year period from June 1966 to July 1969, there were three designated filing periods totaling approximately 12 months.

A current listing of the actual status of each importer was not available. It appeared from the information available that approximately 300 new importing companies had been formed from June 1966 to March 1969. However, USAID/VN officials explained that the actual ownership status of these importers had not been ascertained, therefore, it was possible that some of the new firms could be completely inactive, end-users only, or subsidiaries of previously established importers.

In regard to foreign exchange utilization, GVN notices dated June 29, 1968, and December 13, 1968, required that newly established companies pledge themselves to use a minimum of $200,000 of foreign exchange every 6 months to avoid suspension of foreign exchange grants. Although no data was provided that would indicate the result of this requirement, it was apparently aimed at utilizing the reportedly increased foreign exchange availability and eliminating so-called paper importers.

In July 1969, USAID/VN officials explained that actual imposition of the new requirements on all importers rests with the GVN. They advised that USAID/VN had made informal suggestions to the GVN; however, USAID/VN was in no position to influence the implementation of the subcommittee's recommendations.

Conclusions

While USAID/VN has, in a few instances, made a background review on specific importers, no evidence was found to indicate that USAID/VN has conducted a systematic investigation of the reliability and integrity of CIP importers in general. Instead, USAID/VN has relied on the establishment of a central importer file designed to accumulate, centralize, and make available information pertaining to importers and others having some influential relationship to importers.

Although some benefits are being derived from the central importer file, it will require completion and constant maintenance and refinement over a period of time before reasonably accurate and sufficiently reliable data will be available to permit an acceptable evaluation of importer backgrounds and integrity. Under the current economic conditions in Vietnam, USAID/VN could not expect all or even a majority of the established importers to voluntarily disclose complete and accurate information pertaining to sales, ownership, working capital, and physical inventories—without some positive inducement such as requiring the submission of the business-type information as a condition for participation in AID financed transactions.

While there is, through the mechanism of the central importer file, certain pertinent information available regarding the importers, the file in its present stage of implementation cannot be considered a substitute for the systematic background and qualifications review recommended by the subcommittee for all applicants for import licenses. Information contained in the file is of doubtful value unless it is followed up with suitable verification and tests of accuracy.

No evidence was found of negotiations or formal requests by USAID/VN to the GVN regarding the uniform application of new conditions for issuance of import licenses. USAID/VN had made no strong effort to implement the subcommittee's recommendations.

USAID/VN has not vigorously pursued the implementation of the subcommittee's recommendations regarding the uniform application, to old as well as new importers, of newly established conditions for issuance of import licenses. The application of certain new conditions to old importers could be undesirable in some instances. For example, the requirement that 70 percent of the shareholders and the majority of a company's management must be Vietnamese citizens of at least 15 years' standing could be detrimental to some of the old established importing firms. The uniform application of financial requirements and unrestricted importing conditions could be of benefit to all importers and would heighten free competition among importers.

Inequities in the regulations are evident; for example, when (1) only new importing firms must meet conditions regarding stock registration, financial requirements, facilities, citizenship, and minimum use of foreign exchange, (2) only old importers remain restricted to operating in a maximum of three commodity categories unless they are willing to reorganize, and (3) although the GVN has liberalized the requirements for admission of new firms and has generally abolished the quota system under which certain importers have exclusive right to import certain commodities, the practice of designating limited periods of time during which new import firms can be established tends to unnecessarily restrict competition and the formation of new firms.

The conduct of business by the importing community under the existing regulations (1) lessens the effectiveness of control measures inherent in the regulations to guard against fraudulent practices and weed out firms without adequate capital or facilities to operate a legitimate import business and (2) tends to work against the general objectives of USAID/VN and the GVN to increase competition, avert monopolistic practices, and channel additional moneys into import activities.

V. USE OF COMMODITY ANALYSTS IN DETERMINING REQUIREMENTS

Recommendations From Prior Reports

The types and amounts of commodities imported under the CIP should be determined on the basis of comprehensive studies made by qualified AID commodity analysts. AID should not permit the determination of commodity requirements to be based solely on the license applications of Vietnamese importers. (Source: H. Rept. 2257 dated October 12, 1966, p. 24, No. 1.)

AID/Washington should promptly bring the authorized staff level of eight commodity analysts in Vietnam up to full strength. AID also should continuously evaluate the effectiveness of these commodity analysts and increase the staff if necessary. (Source: H. Rept. 2257 dated October 12, 1966, p. 24, No. 2.)

The Agency for International Development should speed the processing of security clearances for consultants so that consumer demand studies can be started immediately. (Source: H. Rept. 610 dated August 25, 1967, p. 16, No. 3.)

Basis for Prior Report Recommendations

The subcommittee's investigation in 1966 showed that CIP commodity requirements for Vietnam were being established on the basis of license applications from Vietnamese importers without regard to the real need or ultimate use of the commodities. The subcommittee reported that information essential to the determination of sound and realistic requirements for CIP was, for the most part, inaccurate or nonexistent. Furthermore, it was reported that the quantitative and qualitative studies or value judgments normally made by commodity analysts had not been made as there were no commodity analysts assigned to USAID/VN prior to February 1966 and, as of May 1966, only one of eight analyst positions authorized had been filled.

At the time of the subcommittee's follow-up investigation in July 1967, there were eight commodity analyst positions authorized and seven filled. The subcommittee concluded that its recommendation with respect to increasing the staff of commodity analysts had been satisfactorily implemented.

The subcommittee's follow-up investigation also disclosed that commodity analysts alone could not make the type of comprehensive, in-depth studies and market analyses envisioned by the subcommittee in 1966 when the recommendation related to analysis of commodity requirements was made. This deficiency was brought to the attention of USAID/VN by the subcommittee staff in November 1966. At that time, the U.S. mission intended to immediately contract for a study of commodity requirements. After a delay of over 6 months, a contract with a private research organization was signed in June 1967 to perform such a study. However, the study had not begun in early August 1967 at the time of the subcommittee's follow-up investigation, and AID officials did not know when the contractor's personnel would arrive in Vietnam as they were still undergoing security clearance. The subcommittee believed that this study was crucial in determining sound and realistic commodity requirements for Vietnam and recommended that the security clearance process be speeded up so that the studies could be started.

Status of Implementation

In comments transmitted to the subcommittee in October 1968, AID indicated that the subcommittee had been somehow misinformed about the delay in processing security clearances for the contractor personnel assigned to perform the consumer demand studies. The subcommittee was advised that AID's processing of security clearances had not delayed the studies. According to AID, security clearances on four contractor team members had been completed by July 28, 1967, and two members arrived in Saigon on July 31, 1967, and the other two arrived in mid-August.

The contract was signed by the contractor and AID on June 1 and June 9, 1967, respectively, with an effective date of July 5, 1967. An AID/Washington official explained that the contractor had requested postponement of the starting date because of vacation schedules and had again delayed in transmitting to AID the necessary information and names of designated employees for whom security clearances were to be processed.

Fieldwork on the first phase of the study was performed in August and September 1967. The contractor's first-phase report was submitted to AID/Washington and USAID/VN on November 17, 1967. This phase consisted of a trial study on a few selected commodities. The experience gained in this study was to provide the framework for a second-phase, comprehensive, in-depth market study. AID/Washington and USAID/VN, however, did not accept the conclusions of the report as valid and discontinued the study after the first phase, which cost $69,700. USAID/VN reported that the cost of the second phase of the study would have been $570,000 under the contract, and the results would have given AID little more than could be obtained by using in-house capabilities. AID explained that a completed study would be of limited value as the contractor's estimates would have been valid only for the period during which the study was made, whereas the real need was for a continuing studying and revision of estimates to provide the necessary data for CIP programming. USAID/VN concluded in-house capability for commodity analyses and market studies was sufficient to provide the necessary studies on a continuing basis.

USAID/VN's stated operational policy in determining commodity requirements is to follow market demand as demonstrated by requests for import licenses and to make independent analyses and assessments of requirements on the basis of historical import patterns and physical facilities. It is USAID/VN's contention that, by checking and balancing these inputs, the best reading of valid import requirements can be made.

Initial in-house market assessments and commodity analysis reports were prepared early in 1968 by USAID/VN. The industrial sectors covered by these reports included iron and steel, textiles, chemicals, machinery, and bulk commodities. A current series of commodity and market analysis reports for the industrial sectors were prepared during the period January 1, 1969, through July 1, 1969. These reports consolidate commodity analysts' opinions and evaluations into formal data on market structure and commodity requirements.

Review of the current series of reports showed that they were comprehensive in the coverage of each sector reported on. Although USAID/VN continues to use the importer license applications in estimating the requirements for CIP commodities, they do not rely solely upon these applications. Such factors as growth patterns, population trends, effect of substitute materials, inventories, availability of foreign exchange, procurement leadtime, and GVN regulations were considered.

Effort has increased to independently evaluate requests for CIP financing. For example, when bank warehouse stocks of textile raw materials were considered high in 1968, USAID/VN would not approve Office of Small Business, AID, procurement-advertising applications for these materials unless importers reported their current inventory, current rate of consumption, and their projected rate of consumption.

In August 1968, there were seven commodity analysts of the eight authorized. In September 1969, there were 10 positions authorized, of which seven were filled. The USAID/VN official responsible for commodity analysis advised that both AID/Washington and USAID/VN had attempted to recruit personnel to fill these positions but that they had been unable to find qualified personnel. Although there have been fewer analysts than authorized, these analysts have been able to make adequate studies and prepare reports on the market situation for a number of commodity sectors.

AID informed the subcommittee that both individual performance and total staff effectiveness of the commodity analysts had been evaluated on a continuing basis. An AID/Washington official advised that the Agency considered the group quite effective.

Conclusions

Although USAID/VN continues to use importer license applications in estimating requirements for CIP commodities, the commodity and market analysis reports show that such factors as market growth patterns, population trends, foreign exchange availability, procurement lead times, and inventories are also used in establishing comprehensive data on market requirements.

Commodity analysts' judgments, based on reliable and continuously updated market assessments, should provide the primary basis for meaningful decisions on the kinds and quantities of commodities to be financed by AID. Moreover, continuation of the increased effort to independently evaluate requests for CIP financing should help to maintain the integrity of the CIP by insuring that AID finances only such types and quantities of commodities as can be effectively absorbed by the country's economy—in such manner as to control inflation and curb speculation.

VI. TEXTILE AND PAPER IMPORTS

Recommendations from Prior Reports

> The AID mission should press the GVN to curtail the importation of textile fabrics and paper items so that in-country industry can produce to full capacity. The AID mission should also review Vietnam requirements for U.S. financed paper items and curtail importation as necessary. (Source: H. Rept. 610, dated Aug. 25, 1967, p. 16, No. 6.)

Basis for Prior Report Recommendations

The subcommittee found, during its investigations in 1966 and 1967, that AID was providing seemingly unlimited funds under CIP to flood the Vietnamese markets with enough AID commodities to "sop-up" the excess local currency and bring inflation under control. One of AID's primary objectives under CIP is to combat inflation in Vietnam by providing adequate supplies of basic commodities and by absorbing excess currency. The subcommittee, however, was concerned that the importation of commodities several times in excess of national requirements could adversely affect Vietnamese production and hamper the establishment and expansion of industry within Vietnam.

The subcommittee learned, in June 1967, that inventories of key commodities in Vietnam were excessively high and Saigon markets were overloaded. The situation had already caused damage and concern in certain industries including the textile and paper industries. The subcommittee also obtained information indicating that, although current inventories were high and textile and paper plants were working at less than full capacity, large amounts of textiles and paper products were still being imported into Vietnam.

In fiscal year 1967, the GVN imported over $42 million worth of textile and cotton fabrics and over $6 million in paper and related products. In addition, almost $10 million in U.S. financed pulp, paper, and related products was imported under CIP.

Status of Implementation

The GVN gradually suspended the import of most basic fabrics such as cotton, rayon, and nylon-finish fabrics, beginning in February 1967 and continuing through July 1968, to assist the recovery of the textile industry from a slump caused by excessive imports of fabrics in calendar year 1966. According to USAID/VN's May 1969 Textile Market Structure Report, this suspension was instrumental in restoring the textile industry to an improved position prior to the 1968 Tet attacks.

The textile industry sustained extensive damage to plant and equipment during the Tet offensive in the first half of 1968. Total damage to plant and equipment was estimated to be in excess of $25 million with about one-third of the textile industry destroyed. As a result, local production of textile fabrics was drastically curtailed.

To offset this drop in production, the GVN relaxed the import limitations in July 1968. During the latter part of 1968, the licensing for imports of fabrics increased substantially, resulting in excessive inventories in the first half of 1969. A USAID/VN official advised that, although the GVN has not issued any licenses for importing textile fabrics since May 1969, the local fabric producers are again in a market squeeze caused primarily by overproduction and excessive inventories, similar to conditions in 1967. Representative statistics on textile import licenses issued are as follows:

[In millions of dollars]

	Yarns and fibers	Fabrics	Total
GVN-financed in fiscal year:			
1967	$14.4	$44.4	$58.8
1968	9.7	13.5	23.2
1969	20.8	44.0	64.8
CIP-financed in fiscal year:			
1967	7.3	.3	7.6
1968	2.1	2.3	4.4
1969	4.4	1.2	5.6

With respect to fabric licensing, AID has not financed the import of any finished fabrics since early 1966. Amounts given in the foregoing table for fabric licensing under CIP represent licensing for fishnet imports.

No evidence was found to indicate that the USAID/VN had exerted any influence on the GVN to curtail the importation of textile fabric. A USAID/VN official explained that USAID/VN has no authority beyond advising or suggesting suitable actions in the curtailment of fabric imports financed by the GVN. USAID/VN officials have stressed the point that, in connection with imports financed by the GVN, they can only provide available market data for use by the importers in deciding on the importation of the commodities. The final decision to import still rests with the import community. USAID/VN makes suggestions and gives advice to the GVN informally through the Saigon Chamber of Commerce. For example, the USAID/VN official suggested that the GVN limit the importation of textile fabrics and finished goods to $2 million a month and thus hold imports of these commodities to $24 million annually. However, this suggestion received little support and was not adopted.

USAID/VN's textile commodity analyst found that prices of imported fabric are 10 to 20 percent higher than those produced locally. He points out, however, that, when higher quality imported goods are in oversupply, the prices of domestic fabrics are forced 10 percent or more below the official price level. The commodity analyst also explained that the production of cotton yarn, for example, was currently in excess of quantities needed for domestic weaving operations, to the extent that some spinners were finding it necessary to store their excess production.

AID financing of paper products was transferred to the GVN in March 1967 although licensing for import of newsprint furnished under CIP continued into fiscal year 1969.

In January 1968, AID indicated that paper manufacturers had convinced the GVN that imports competing with local products should be curtailed. Decreased importation of paper products by the GVN and steady growth of the paper industry indicate that this policy has been successful. Licensing of paper imports has decreased each year since 1967, and the licensing for import of newsprint previously financed by AID has leveled out at about $3 million for the last 2 years. The paper industry in Vietnam has experienced steady growth since 1963, although production dropped off slightly in 1968 apparently due to Vietcong attacks during the year.

Reports of operations in 1968 indicated that papermills operated at approximately 70 percent of capacity. Mill capacity for paper and paperboard had increased from 19,500 metric tons a year in 1965 to 46,000 metric tons a year in 1969. At the present time, paper imports include primarily the paper products not produced in Vietnam such as newsprint, fine writing paper, printing paper, and tissue paper.

Conclusions

The subcommittee's recommendation as it applies to paper products appears to have been satisfactorily implemented in that all imports of paper products were to be financed by the GVN starting in March

1967 and in that the GVN financed imported paper products were primarily limited to items not produced in Vietnam.

Concerning textile fabrics, the GVN did curtail imports beginning in 1967; however, this did not prevent the buildup of excessive inventories when decreased production in 1968 resulted in the relaxation of earlier import restrictions. USAID/VN has not been successful in impressing upon the GVN the necessity for regulating fabric imports to prevent excessive inventories. An oversupply of imported textiles tends to reduce the prices of domestic goods causing an economic strain on the local manufacturing community and limiting fuller utilization of the country's textile industry.

VII. CIP PROCUREMENTS BY GSA

Recommendation From Prior Report

> AID/Washington should expand the list of GSA procured commodities. This list should include, at a minimum, all bulk and uniform commodities as well as commodities particularly susceptible to diversion or of strategic value to the Vietcong. (Source: H. Rept. 2257 dated Oct. 12, 1966, p. 24, No. 3.)

Basis for Prior Report Recommendation

In July 1966, AID's Assistant Administrator for the Far East advised the subcommittee of the changes being implemented to improve the U.S. administration of CIP. One such change was the procurement of certain commodities in the United States and overseas on a consolidated basis through the General Services Administration (GSA).

In AID's view, combining requirements prior to procurement would facilitate the analyses of importers' requests, commodities in pipelines, and stocks in the country and would permit more meaningful evaluation and judgment as to the true need for the quantity requested and the priority of the request in relation to the entire CIP. Combining procurement held the promise of savings in procurement and transportation costs due to the larger quantities involved. It also would preclude collusion between suppliers and importers and relieve port congestion and expedite customs clearance.

In negotiations concluded in July 1966, leading to the GVN agreement permitting consolidated procurement, the GVN was apprehensive that the procedure involved might prove cumbersome and result in shortages of key commodities and accompanying price increases. They agreed, therefore, to include only seven commodity types initially. Three of the seven commodities, white cement, jute bags, and non-U.S. origin rice, were removed from the list of AID financed CIP commodities and transferred to GVN financing in March 1967 before any GSA procurement of these commodities was made. As of June 9, 1967, $28 million had been obligated for GSA procurement of the four remaining commodities—fertilizer, galvanized steel sheet, tinplate, and newsprint.

The commodities were to be shipped by the Military Sea Transportation Service, except when commercial vessels would be clearly preferable. When military transportation was used, the U.S. Army's inland transportation system in Vietnam was to be used to move commodities from the port area to first destination.

In March 1967, the GSA Acting Administrator advised that GSA was in a strong position to make a genuine contribution to the success of CIP. He pointed out that GSA had specialists available to provide procurement services to the extent necessary, and he recommended that the program for GSA participation be progressively expanded.

Several differences and associated difficulties under GSA procurement were noted when compared with import procedures under standard commercial practices. These differences, which often presented impediments, were concerned primarily with import licensing, bank financing, title passage and commodity ownership, loss indemnification, and commodity programing. As experience was gained, the difficulties could be corrected by AID, GSA, and the U.S. Army addressing themselves to resolving these problems.

Status of Implementation

Fertilizer

Importers had been reluctant to accept the GSA procured fertilizer which began arriving in December 1966, primarily because of GVN price controls and GVN subsidies on other fertilizer provided by the United States under the pacification program and because of difficulties associated with the devaluation of the piaster. In April 1967, fertilizer importation and distribution were transferred to a single Vietnamese entity and imported under the pacification program. Under this program, the fertilizer was given to the GVN and resold at subsidized prices by the GVN.

Since March 1968, virtually all of the country's needs for fertilizer have been met by imports financed under CIP. The procurement of urea fertilizer, which is considered a net import item in the United States and therefore ineligible for regular financing under CIP, is effected through direct barter by the Commodity Credit Corporation of the U.S. Department of Agriculture. All other fertilizers are procured through formal bidding by the GVN Directorate of Commercial Aid acting for the commercial importers in Vietnam. The actual importation of fertilizer is handled by farmers' organizations and commercial importers who must consolidate their shipments so that one letter of credit will cover an entire shipload.

Additionally, the GVN seeks to protect the interest of farmers by controlling the pricing practices of commercial importers. GVN regulations limit the profit margins allowed both wholesalers and retailers.

Newsprint

GSA procured newsprint resulted in higher cost than prior commercial procurement, primarily because of higher shipping and discharge rates. The Military Sea Transportation Service's freight billings were based on average rates rather than on rates for specific commodity classes. The GVN found it necessary to absorb the additional cost in the form of an increased subsidy in order that the previous selling price to newspaper publishers might be maintained. The GVN subsequently advised USAID/VN that it would procure all newsprint with its own foreign exchange, making it no longer necessary for AID to finance this commodity under CIP.

Tinplate

The technical requirements of the major end users of tinplate varied and their delivery requirements rarely coincided, making it extremely difficult to arrange consolidated procurements. Although GSA procured tinplate was cheaper on a delivered basis, the saving was nullified by higher U.S. Army freight handling rates to initial storage in warehouses. The importer incurred a second transportation cost to move the tinplate from the warehouses to his premises. This was unavoidable, as the material remained in U.S. custody until final cost data was obtained on which to bill the GVN and transfer the material. This delayed the granting of import licenses by the GVN.

Galvanized steel sheet

Higher transportation and handling costs were also obstacles to this GSA procured commodity. In addition, the producing mills and brokers were unable to provide deliveries in the periodic quantities desired by the GVN. It was necessary for USAID/VN to retain accountability for the material, and to do so required storing it in insecure outside storage areas until such time as the GVN accepted the quantities needed. USAID/VN concluded that future procurement should revert to commercial channels in the best interest of the Vietnamese economy and the AID/CIP program.

In mid-1967, the GVN requested the discontinuance of consolidated CIP procurements through GSA. USAID/VN also had concluded that the GSA program should be phased out because of (1) higher costs and poor delivery experiences, (2) reduction in number of commodities eligible for AID financing, none of which lent themselves to bulk procurement, and (3) the desire of the GVN to have CIP procurements effected through normal commercial channels. USAID/VN reported that GSA bulk procurement of CIP commodities was discontinued in September 1967.

Currently, AID officials believe that GSA procurement of CIP items would not be advantageous. In their view, GSA purchases would reduce direct contacts between American exporters and Vietnamese importers. AID officials have explained that one of the important aspects of AID's policy regarding CIP assistance is the promotion of a self-sustaining free enterprise system of import trade through recognized commercial channels. Therefore, the development of successful commercial trade relationships is one of CIP's prime objectives.

As of March 1970, AID planned no resumption of CIP procurements by GSA. However, AID has been procuring project assistance commodities through GSA for the pacification program in Vietnam. In fiscal year 1969, AID requested GSA to purchase over $7.2 million worth, or about 20 percent of the value, of project commodities authorized.

A GSA official believed that previously reported problems connected with GSA bulk procurement could have been worked out; however, he was not aware of any efforts to resolve the problems. This official was convinced of GSA's present ability and readiness to economically and efficiently procure bulk and other CIP commodity requirements in support of AID's assistance program.

Conclusions

USAID/VN endeavored to use GSA procurement capabilities for consolidated purchases of certain CIP commodities. However, USAID/VN's efforts were confined to a relatively short period from July 1966 to September 1967. During that period the AID assistance effort was beset with major problems including deficient commodity programming, port congestion, diversion, collusion, etc. GSA-consolidated procurement for CIP items has not been given a fair trial under the more normal conditions existing during the intervening period. USAID/VN in conjunction with GSA should evaluate the feasibility of GSA-consolidated procurement of eligible CIP commodities in the light of present conditions and in a further effort to reduce the cost of U.S. financed CIP imports.

VIII. CIP AUDIT COVERAGE

Recommendation From Prior Report

> The AID mission should expand the scope of end-use audits on CIP commodities to the dollar coverage of $75 to $100 million recommended by AID's own experts." (Source: H. Rept. 2257 dated October 12, 1966, p. 24, No. 8.)

Basis for Prior Report Recommendation

In January 1966, USAID/VN personnel responsible for CIP suggested that end-use checks shoud be made of at least 20 percent of all CIP commodities. The application of this criterion would have involved end-use checks of CIP commodities valued at about $75 million in fiscal year 1966 and of CIP commodities valued at over $100 million in fiscal year 1967. Subcommittee investigation disclosed, however, that only four end-use audits, of CIP commodities valued at about $8 million, were in process in January 1966. Responsible AID officials agreed with the subcommittee that surveillance over the distribution and final use of CIP commodities was inadequate. These officials attributed much of the inadequacy to the shortage of U.S. auditors in USAID/VN.

On July 19, 1966, the subcommittee was advised by AID that it had added three U.S. auditors since February 1966 increasing to 20 the number of auditors on the U.S. mission staff. AID also reported that 14 new end-use audits had been initiated since January 1966. The total dollar coverage for 12 of the 14 new audits amounted to only $4 million. Dollar coverage for the remaining two audits had not been determined at that time.

The number of end-use audits in process in July 1966 represented a marked improvement over the number in process in January 1966; however, the subcommittee doubted that total dollar coverage of the 14 new audits would approach the $75 million to $100 million suggested by AID personnel and recommended by the subcommittee.

Status of Implementation

In December 1966, AID/Washington reported that USAID/VN had expanded the scope of audits of CIP commodities to provide dollar coverage of more than $100 million for fiscal year 1967. In the subcommittee's follow-up investigation of CIP in July 1967, it was recognized that surveillance of certain aspects of the program had been intensified and dollar coverage of end-use checks on CIP commodities had been expanded from about $10 million a year to over $100 million a year. The subcommittee indicated that the recommendation had been satisfactorily implemented and that the corrective action taken had contributed significantly to general improvement in the managment of CIP.

USAID/VN reported coverage of CIP audits during fiscal years 1967, 1968, and 1969, of $157.3 million, $135.2 million, and $270.9 million respectively. The reported CIP audit coverage of $563.4 million for fiscal years 1967 through 1969 represents about 55 percent of the CIP funds expended in fiscal years 1964 through 1968. In many cases, however, dollar values reported as audit coverage are based on (1) the dollar value stated in procurement authorizations, (2) the total amounts of licenses issued, or (3) total AID expenditures for the authorized commodities—rather than total values of commodities paid for by AID and received in the country during the period under examination.

Much of the CIP audit work by U.S. mission auditors is performed in the areas of licensing, arrival, customs clearance, delivery to importers, and end-use verification. Generally, samples are selected and tested at various stages of the import transactions and data is gathered from which conclusions can be reached concerning a specific universe. Selections for tests in these key audit areas are normally made from arrival records—and not necessarily from records covering an entire program agreement or total licensing. Claiming audit coverage for the total value of a program agreement or the value of total licenses issued can be misleading, particularly when test selections made of key transaction stages are not entirely representative of a universe in which not all commodities have arrived in the country or been paid for by AID. Moreover, some USAID/VN audits reporting comprehensive coverage of complete commodity segments did not indicate work done in such important areas as (1) determination of commodity requirements, (2) compliance of suppliers and carriers to AID regulations, and (3) adherence of all parties to competitive bidding requirements.

Reported audit coverages for fiscal year 1967, were inflated because, in some instances, (1) the total amount for licenses issued was reported rather than the actual value of goods received in the country and (2) the total procurement authorization amount was used rather than the amount AID actually paid during the period under examination. In February 1968, AID issued a manual circular limiting reported audit coverage to the value of commodities received in the country. The circular also required that a representative selection of test items be made from the entire universe of commodities received.

Actual end-use verification—in the sense of determining proper utilization of commodities by tracing them to the final end-users or consumers in the country—represented only a small fraction of the audit coverage reported by USAID/VN during fiscal years 1967 through 1969. End-use checks are generally limited to verifying the receipt and disposition of goods by importers. Considering end-use auditing in the broader context of tracing goods to importer records and inventories, as well as to manufacturers, retailers, and other consumers, only $29 million or 21 percent of the audit coverage claimed in fiscal year 1968 could be considered end-use verification.

In a review of trucks and motor vehicle parts imported in fiscal years 1966 and 1967, USAID/VN reported an audit coverage of $36.7 million. However, commodities valued at only $1.3 million had been selected for end-use examination. In another report concerning the end-use examination of iron and steel products imported during fiscal years 1965, 1966, and 1967, the reported audit coverage was $26 million. Of this amount, the auditors selected for examination 23 importers who had purchased commodities valued at $3.7 million. Confirmation of sales made by these importers and end-use observations were made on commodities valued at $1.6 million.

U.S. Mission auditors have increased efforts to disclose the extent of audit coverage in individual audit reports. The reports generally showed the scope of the examination and the coverage accorded at specific control stages such as licensing, arrival, and end-use verification. Although individual audit reports indicated coverage accorded at principal control stages, no evidence was found to indicate that any similar stratification was used in consolidated reports of audit coverage prepared to assist top AID management in monitoring overall surveillance of CIP. Actual audit coverage at key control stages is not available to those responsible for program administration without specific analyses of individual audit reports. Consequently, management officials have tended to rely on reported dollar values, showing broad audit coverage, of questionable validity.

Conclusions

Since the subcommittee's visit to Vietnam in 1966, substantial increases have been made in the overall dollar value of audit coverage accorded to AID-financed CIP commodities. However, audit procedures and tests applied to selected control stages of CIP transactions have not always been representative of the full dollar value of audit coverage claimed. In terms of end-use verification, actual dollar values of commodities traced to importer records and to ultimate consumers represented only a small fraction of the audit coverage reported by USAID/VN. The validity of reported audit coverage is questionable when the audit reports are not properly qualified to show the extent of coverage accorded to principal review stages or when important areas are not included, such as reviews of commodity requirements, compliance of suppliers and carriers to AID regulations, and adherence to competitive bidding requirements.

USAID/VN has adopted, in some measure, an audit coverage reporting system reflecting the varying degrees of coverage accorded each management control stage. Stratified data of this type is generally given in the individual audit reports; however, it does not appear in the current audit coverage reporting system which consists only of a summary tabulation of overall dollar coverage of each program or commodity. USAID/VN has not developed a separate, consolidated system for reporting audit coverage to top management by principal control stages.

Each audit in the CIP area may differ in depth and extent of tests and physical sampling needed. These are matters to be evaluated by the auditors under the existing circumstances. However, every effort should be made to avoid the possibility of misleading persons responsible for program administration who may not be familiar with each audit or with the reporting procedures for audit coverage.

Broad audit coverage is necessary; however, AID should review the manner in which audit results are communicated to persons having responsibility for program administration, evaluation, and surveillance and should ensure that specific coverage data is representative of the work performed and is clear enough to avoid the possibility of misinterpretation.

IX. PRIOR REVIEW OF CIP TRANSACTIONS

Recommendations From Prior Reports

> AID/Washington should intensify its prior review of commodity import shipments and suppliers to prevent diversion and fraud problems from developing. Too many of these cases are attacked after the fact. (Source: H. Rept. 2257, dated Oct. 12, 1966, p. 24, No. 9.)

Basis for Prior Report Recommendation

In 1966, the subcommittee found that USAID/VN had neither the procedures nor the personnel to exercise proper surveillance over CIP. They found that there had been numerous forms of corruption in CIP including profiteering, fraud, overpricing, false certification of origin of commodities, and diversion to the Vietcong. Excessive amounts of commodities were being imported because of lack of proper AID management of CIP. An estimated 60 percent of AID financed goods were being diverted from their intended purpose.

The subcommittee believed that proper surveillance of CIP by AID should include screening of all import licenses; checks on suppliers, importers, commodity eligibility, prices, and quantities; checks on compliance with AID's Office of Small Business advertising requirements; and comparison of information on letters of credit and import licenses. At the time of the subcommittee's investigation, only one USAID/VN employee was engaged in commodity surveillance work. USAID/VN was planning to assign some of this work to a group of eight commodity analysts who were being added to the U.S. Mission staff.

In AID/Washington, the Office of the Special Assistance for Commodity Analysis had been established. Its purpose was to identify commodities particularly susceptible to diversion to the Vietcong and to advise USAID/VN of their arrival and need for special control measures. The subcommittee felt that AID should increase this type of prior review.

Status of Implementation

In a follow-up investigation, in 1967, the subcommittee found that this recommendation was, to a large extent, being implemented. Several improvements were noted. Seven of eight authorized commodity analysts had been employed. They were engaged in several phases of CIP surveillance—in particular, screening applications for import licenses and checking prices; supplier, importer, and commodity eligibility; and compliance with Office of Small Business requirements. This was done prior to issuance of the import licenses.

To supplement the surveillance work by USAID/VN, AID/Washington has taken several steps to prevent irregularities in CIP. In May 1968, a prevalidation procedure for eligibility of all AID-financed commodities was established. It is operated by the Commodity Eligibility and Price Analysis Branch of the Office of the Controller, AID/Washington. This office reviews AID Forms 11, "Application for Approval of Commodity Eligibility," submitted by suppliers.

This form provides data on commodity identification including source, components, and unit price. Transaction data regarding the supplier, importer, letter of credit, and contract terms is also given. AID gives limited approval to the sale described on the form, based primarily on a determination that the commodity which the supplier has described is eligible for AID financing. AID Forms 11 submitted by suppliers suspected of overpricing are reviewed by the Commodity Eligibility and Price Analysis Branch of the Office of the Controller prior to approval of the transaction. The prevalidated form is part of the documentation required by AID prior to payment to the supplier. In the first year of operation, over 40,000 applications involving about $950 million worth of commodities were approved and about $10 million worth were disapproved.

Early in 1967, the Office of Commodity Control and Surveillance was established in the Bureau for Vietnam, AID/Washington. One of its primary purposes is to identify irregular transactions and trade patterns and to recommend actions or policies to stop or prevent illicit or subversive use of AID material resources in Vietnam. An AID official pointed out that, although this identification is on an after-the-fact basis, the work of this office and the information developed has been useful in the overall prior review effort—for example, causing many unreliable suppliers to refrain from requesting AID financing.

The Commodity Analysis and Requirements Division of the Bureau for Vietnam, AID, studies the Vietnamese economy to determine reasonable commodity requirements. When requests for import licenses indicate an excessive demand for a particular commodity, USAID/VN is alerted so that the GVN can be requested to deny further licensing of the commodity.

Submissions to the Office of Small Business are reviewed. Because many of these do not result in actual transactions, however, the review is useful chiefly as a source of data for other areas of prior review of CIP.

Early in 1967, AID reported to the subcommittee that a system for electronically sorting letter-of-credit data by importer, supplier, and commodity was being established. This electronic sorting system would permit a review of CIP transactions in AID/Washington prior to shipment and a comparison with import license data available from Saigon. As of March 1970, no such system had been implemented.

Conclusions

It appears that AID has intensified its prior reviews of CIP shipments and suppliers. Several procedures are in effect in Washington and in Saigon which provide a reasonable means of review prior to completion of a transaction. Identification of irregular practices by suppliers and importers, although based primarily on an after-the-fact review, has been useful in curbing or preventing such practices.

Existing prior review procedures could be improved and made more effective if a centralized ADP function could be developed wherein past and current transaction information, now reviewed separately by USAID/VN and AID/Washington, could be combined, compared, and analyzed simultaneously. AID should consider the possible benefits of eliminating separate reviews in Washington and Vietnam and the value of having complete transaction data available at the right time in one location, so that actual or potential irregularities may be identified earlier and appropriate corrective action may be taken.

X. U.S. CUSTOMS ADVISERS

Recommendation From Prior Report

> AID/Washington and the Treasury Department should quickly bring the authorized staff level of 15 U.S. customs advisers in Vietnam up to full complement. (Source: H. Rept. 2257, dated Oct. 12, 1966, p. 24, No. 7.)

Basis for Prior Report Recommendation

The subcommittee was concerned with USAID/VN's failure to properly control CIP goods arriving in Vietnam. USAID/VN had been unable to effectively police the 90–10 componentry regulation which, basically, provides that no more than 10 percent of any CIP commodity may come from such free-world sources as Japan and countries of Western Europe where the U.S. has an unfavorable balance-of-payments position. Also, USAID/VN was not in a knowledgeable position to request refunds for goods remaining in customs warehouses for more than 90 days—a violation of AID regulations.

The subcommittee found that a shortage of USAID/VN personnel existed; and, in their opinion, this situation had an adverse impact on USAID/VN's ability to police the flow of CIP commodities through the Saigon commercial port. It was not until April 1966 that a customs advisory group, with an authorized strength of 15, was established to exercise surveillance over the arrival, safeguarding, and disposition of AID goods at the port. Six of the 15 persons authorized were in Vietnam at the time of the subcommittee's investigative trip in May 1966. The subcommittee recommended swift action to fill the remaining positions.

Status of Implementation

At the end of 1966, the USAID/VN customs staff consisted of 13 persons including five AID direct hires and eight U.S. Customs officials assigned in accordance with a participating agency service agreement. The customs advisory team was initially concerned with two objectives: (1) the surveillance and inspection of CIP commodities being imported into Vietnam and (2) assistance in the development of an effective GVN customs institution. These priorities continued during the U.S. economic buildup in fiscal year 1966. After the port began to clear in early 1968, emphasis on surveillance and inspection began to ease and increased emphasis was placed on development of the GVN customs organization.

In mid-1967, the authorized ceiling was set at 25 advisory positions. During its follow-up investigation in 1967, the subcommittee found that 21 persons were on the customs advisory staff and, therefore, reported that the recommendation made in October 1966 had been satisfactorily implemented.

At the end of 1967, there were 21 customs advisory personnel, and 17 of these were concerned primarily with CIP surveillance and inspections. They were assisted by 120 employees of a local inspection company who physically inspected commodities arriving in the port. There were four customs advisory personnel who were primarily concerned with the training and upgrading of GVN customs personnel.

The number of customs advisory personnel was reduced to 11 at the end of 1968 because of the easing of port congestion during the year. Seven advisers were assigned to training GVN customs staff and four advisers continued to work in the surveillance and inspections area.

As of September 5, 1969, there were seven customs advisory personnel in Vietnam and two vacancies existed in the nine positions authorized.

Conclusions

The subcommittee's recommendation has been satisfactorily implemented. The number of customs advisory personnel was increased as recommended and was increased further when more members were needed.

Subsequent reductions were made when port operations and the GVN customs service had improved to the point where fewer advisory personnel were needed.

XI. DISTRESSED-CARGO BIDDERS

Recommendation From Prior Report

> The AID mission should conduct an independent review of the background and qualifications of all bidders for distressed cargo sold at auction and take all other necessary action to prevent it from falling into the hands of the Vietcong. (Source: H. Rept. 2257 dated October 12, 1966, p. 24, No. 5.)

Basis for Prior Report Recommendation

The basis for this recommendation was centered around the subcommittee's concern regarding the diversion of AID-financed commodities to the Vietcong and the lack of control by USAID/VN over the sale of cargo considered to be abandoned and distressed; i.e., AID financed commodities which are not removed from port areas within 90 days after arrival. Such cargo is auctioned off periodically by the GVN. The proceeds are to be deposited in the counterpart fund and expended as mutually agreed upon by the United States and the GVN.

Subcommittee investigation in 1966 disclosed that the U.S. Mission had not maintained records on the type, quantity, or dollar value of distressed cargo, had not attended auctions, and had not maintained records on the proceeds from the auction sales. Furthermore the U.S. Mission had no control over the ultimate use of these proceeds because they were not being deposited in the counterpart fund. A USAID/VN official maintained that sales proceeds would be expended by the GVN whether they were deposited in the joint counterpart account or a GVN account and that the amounts involved were relatively insignificant.

In May 1966, following hearings held by the subcommittee in Vietnam, the GVN settled a long outstanding claim for distressed cargo by depositing payment in the counterpart fund. By so doing, the GVN indicated that it had agreed to deposit proceeds from the sale of distressed cargo in the counterpart fund. In addition, USAID/VN began reviewing and monitoring auctions of distressed cargo.

Status of Implementation

USAID/VN and AID/Washington officials advised that their respective divisions or offices had not made, or did not know of any, such reviews or investigations of bidders for distressed cargo sold at auction. It was explained that representatives of USAID/VN had been attending the auctions held by the GVN and had maintained records of AID financed commodities sold at these auctions since June 1966.

Auction sales of CIP commodities, totalling about $18.300, had been made during calendar years 1965, 1966, and 1967 and the proceeds had been finally deposited in the counterpart account during 1968. No sales involving CIP commodities were recorded for 1968; however, records were not always complete to show that all GVN auction sales involving AID financed and/or GVN financed distressed cargo were recorded. In April 1969, a distressed-cargo auction sale was conducted by the GVN, in which USAID/VN auditors found that approximately 44 percent of the goods sold were AID financed commodities. As a result, a bill for collection was issued to the GVN in July 1969 for the equivalent dollar value of $44,746.

USAID/VN had personnel assigned most of the time to identify distressed cargo, to contact importers, to review published auction announcements, to inspect listed cargo, to attend auction sales, and to record transactions involving the auction of AID financed commodities.

Conclusions

USAID/VN had not implemented the subcommittee's recommendation with respect to conducting an independent review of all bidders for distressed cargo sold at auction. USAID/VN had, however, taken certain other actions aimed at safeguarding its interest in distressed cargo. Personnel were assigned to identify distressed cargo and contact importers. A USAID/VN representative was assigned responsibility for reviewing published auction sale listings, examining goods offered, identifying AID financed items, and recording transactions at sales in which AID financed goods were involved.

The action taken by USAID/VN was reasonable, provided that all sales were recorded by USAID/VN and considering that relatively small quantities and values of distressed cargo were sold at auction. The established procedures, if continuously followed, should provide adequate protection of USAID/VN's interest in the disposition of distressed cargo.

APPENDIX

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 26, 1969.

Hon. ELMER B. STAATS,
Comptroller General of the United States, General Accounting Office, Washington, D.C.

DEAR ELMER: As you know, the House Foreign Operations and Government Information Subcommittee has maintained a close surveillance over the economy and efficiency of operations under the U.S. Economic Assistance Program to Vietnam since late 1965.

We have issued six detailed investigative reports on that important subject, beginning with the initial comprehensive volume sent to the House of Representatives October 12, 1966.

The findings contained in those reports sparked a major overhaul of U.S. aid operations with resultant savings of millions of dollars to the American taxpayer.

In response to our recommendation, the General Accounting Office stationed a team of highly qualified auditors in Vietnam to monitor not only aid expenditures but military assistance spending as well.

The Agency for International Development has periodically provided the committee with reports claiming significant improvements in operational effectiveness. In addition, the GAO has issued a number of reports following up on our original investigations in certain selected areas. These have been most helpful to the Congress and, I am sure, the executive branch.

However, in my view, it is now time to require a detailed assessment of how well any weaknesses and irregularities which we found have been remedied. This should include all of the recommendations contained in the subcommittee's reports as well as the resultant GAO studies.

I would appreciate it greatly if this assessment was made as promptly as possible with advance copies made directly to this subcommittee. If you should care to discuss this with me personally, I shall be most happy to meet with you.

In closing, I want you to know how much your past cooperation and work in this field has meant to me personally and more importantly, the Nation. It has been a major contributor and I am grateful we can continue our mutual effort.

Sincerely,

JOHN E. MOSS, *Chairman.*

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