U.S. ECONOMIC ASSISTANCE FOR THE KHMER REPUBLIC (CAMBODIA)

THIRTEENTH REPORT
BY THE
COMMITTEE ON GOVERNMENT OPERATIONS

JUNE 16, 1972.—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,

Hon. Carl Albert,
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 thirteenth report to the 92d Congress. The committee's report is based on a study made by its Foreign Operations and Government Information Subcommittee.

Chet Holifield, Chairman.
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JUNE 16, 1972—Committed to the Committee of the Whole House and ordered to be printed

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

THIRTEENTH REPORT

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

On June 14, 1972, the Committee on Government Operations approved and adopted a report entitled "U.S. Economic Assistance for the Khmer Republic (Cambodia)." The chairman was directed to transmit a copy to the Speaker of the House, the Secretary of State, and the Administrator of the Agency for International Development.

I. INTRODUCTION

This report concerns the economy and efficiency of U.S. economic assistance programs for Cambodia (now known as the Khmer Republic) which are administered by the U.S. Agency for International Development (AID). The U.S. economic assistance program for Cambodia, as presented to and authorized by the Congress, is limited in scope to the financing of minimal essential commodities needed to sustain the Cambodian civilian economy.

The Foreign Operations and Government Information Subcommittee maintains a continual review of the economy and efficiency of U.S. foreign aid operations in Southeast Asia, including Cambodia, Indonesia, Laos, the Philippines, Thailand, and Vietnam. Over the years, the subcommittee has also performed reviews of many of AID's programs in other areas of the world. Initial public hearings on U.S. economic assistance for Cambodia were held by the subcommittee, in

2 On Oct. 9, 1970, the Cambodian government officially changed the name of Cambodia to the Khmer Republic. For consistency, however, the term "Cambodia" is used in the balance of this report.
Washington, on July 12, 1971, under the chairmanship of Congressman William S. Moorhead. During the last quarter of calendar year 1971, subcommittee staff examined and extensively studied many documents and files relating to the U.S. financed economic assistance program for Cambodia. Subsequently, on February 17 and 24, 1972, the subcommittee held additional executive and public hearings in which subcommittee staff and witnesses from the Agency for International Development, the General Services Administration, and the Department of State testified.


II. SYNOPSIS

U.S. assistance to Cambodia initially started in September 1951 and was terminated, at the request of the Cambodian Government, in November 1963. U.S. military and economic assistance, during 1951–63, totaled more than $350 million and was essentially directed toward budgetary support for the Cambodian Government. From a developmental viewpoint, the initial program in Cambodia was largely a failure. As a direct result of the U.S. support of its budget, however, Cambodia had done quite well financially. Cambodia had started out in 1955 with foreign exchange reserves of $50 million. By 1963, Cambodia had “saved” an additional $76 million and—on termination of U.S. financial assistance—had a total of $126 million in the bank in the form of gold and hard currencies. Because of irregularities in the prior U.S.-financed commodity import program, Cambodia still owes the United States over $2 million in claims, some dating back to 1956. No effort has been made to pay any of these claims. Likewise, U.S. officials have made no real effort to collect the amounts due. The United States had given Cambodia over $350 million as a gift from the American taxpayers; yet, when faced with $2 million in claims—forcertain irregularities at which they had been caught—Cambodia refused to pay its just debts to the United States. Part of this debt is now 16 years old.

In early 1970, while the Cambodian Chief of State was absent from Cambodia, internal strife broke out in several areas. During April 1970, appeals were made to the United States for a resumption of U.S. assistance. In answer to these appeals, over $100 million in military assistance was provided to Cambodia by Presidential order. In November 1970, requests were presented to Congress for authority to provide military and economic assistance to Cambodia. In the request for authority to provide economic assistance, leading officials of the Department of State and the Agency for International Development made basic assurances to Congress that:

1. U.S. economic assistance to Cambodia would be used only to provide essential civilian goods. The level of U.S. support would be to meet Cambodia’s minimal economic import needs and to withstand economic dislocations.

2. Except for the initial startup, the U.S.-financed commodities would come from U.S. sources of supply.

3. Local currency generated as a result of the U.S. economic and Public Law 480 programs would be released to the Cambodian government primarily for military pay and allowances. However, unlike the previous U.S.-program in Cambodia, the level of U.S. support would, in no way, be tied to the stability of the Cambodian government.

4. Local currency paid by Cambodian-importers for U.S.-financed commodities would be at realistic market exchange rates to be negotiated with the Cambodian Government.

*P. 49.
5. Initially, AID's staff of employees physically located in Cambodia would be small in order to avoid excessive intervention in Cambodian affairs. If further staffing became necessary, AID would move in that direction expeditiously in order to insure reasonable and prudent controls over all AID financed imports into Cambodia.

6. An intensive review would be made of Cambodian financial and import mechanisms. As problems or weaknesses were detected, prompt recommendations would be made for change and improvement.

7. U.S. economic assistance to Cambodia specifically would not be used for developmental activities such as technical assistance or capital projects.

In some respects, these assurances were complied with but serious deviations have occurred. U.S. officials made it clear in their testimony that economic assistance to Cambodia was to be limited to supplying essential commodities needed to meet the minimal import needs of the Cambodian people. The fact remains, however, that AID's concept of essential assistance appears to contain too much of a "luxury" flavor. The Government of Cambodia, is or should be fighting for its political and economic survival. The U.S. has agreed to assist it. In doing so, however, it neither benefits Cambodia nor future U.S. public support for U.S. economic assistance if a "business-as-usual" attitude is maintained.

While indicating that U.S. assistance would be limited to essentials only, AID failed to take the necessary steps to determine through its own officials, international experts, and Cambodian government officials, the categories of commodities needed by the Cambodian people to preserve their existence. As recently as March 1972, AID officials had readily admitted * that "We do not have data on the demand for specific commodities * * *" AID has made essentially no effort to determine specifically what—in the way of food, clothing, shelter materials, and other truly essential commodities—are needed by the average Cambodian. Consequently, AID officials were approving for U.S. financing such imports as television sets, automobiles for Government and banking officials, soft drink concentrates, and so forth.

Closely related to the above is the fact that AID failed to abide by another of its assurances to Congress. While indicating that the great majority of U.S. financed commodities would be supplied from U.S. sources—thereby aiding the U.S. economy and balance of payments—the fact is that, by using its source waiver powers, AID eliminated U.S. source requirements for $45 million of the original $70 million which Congress had appropriated for a "U.S. source" commodity import program for Cambodia. Of the $25 million which is to come from U.S. suppliers, AID has already used $11 million for the funding of commodities for U.S. sponsored projects.

AID can, to some degree, be held up to criticism for engaging in forms of project assistance after having assured Congress that it had no intention of doing so. While assisting specific projects might be of benefit to Cambodia, AID and Department of State officials had informed Congress correctly so it would seem—that the U.S. would not become involved in project-type aid to Cambodia. In spite of the

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* For a complete listing of commodities approved for U.S. financing, see app. D, p. 60.
assurances to Congress, AID entered into a number of cooperative arrangements with the U.S. Information Agency and the Department of Defense primarily to provide commodities necessary to support project aid. Even while these assurances were being made to Congress, U.S. technicians were busy in Cambodia finalizing U.S. sponsored projects. Technicians from the U.S. Information Agency, AID, and the Department of Defense had arrived in Cambodia as early as September 1970. Technical studies were conducted and, almost immediately, proposals were made to establish major improvement projects. By mid-1971, financing requests were being approved by AID to finance the costs of major modernization projects.

AID officials initially led Congress to believe that most U.S. financed commodities destined for Cambodia would be purchased and shipped by the General Services Administration. AID believed that GSA would be able to obtain lower overall prices, facilitate shipping and ensure greater use of U.S. 'flag vessels,' minimize large U.S. supplier representation in Cambodia, and reduce the risk of irregularities in procurement and shipping and related corruption. GSA established the necessary staff to perform this function. As it turned out, however, GSA became only minimally involved in the U.S. financed commodity program. Cambodian importers were unfamiliar with GSA procurement practices, goods cost more than if acquired in other markets, selection was inadequate and merchandizing practices unfamiliar, and shipment times were too lengthy. Similar excuses were given for waiving the U.S. sources requirement even for commodities obtainable through U.S. commercial outlets.

It is important to be mindful of the fact that, prior to the start of the U.S. commodity import program, the trade pattern of Cambodia was such that only three percent of all imports came from U.S. sources. While this could justify difficulties in the early months of the U.S. financed program, from the standpoint of the U.S. taxpayer, Cambodia must be willing and able to adjust to U.S. sources of supply if she desires our aid dollars. The U.S. has offered to furnish essential commodity assistance to Cambodia to help it survive. If Cambodia desires such assistance, it can be properly and adequately furnished through U.S. sources. If that, in Cambodia's viewpoint, is not sufficient, then it is free to shop elsewhere.

In this regard, AID and State, while remaining from becoming entwined in the responsibility for managing the Cambodian economy (as it has in other countries) encouraged and convinced Cambodian officials that major monetary and fiscal reforms had to be instituted internally to prevent inflation and enhance domestic budgetary support and to head off other dangerous developments. In doing so, however, U.S. officials supported or commented in the devaluation of the Cambodian currency under a dual rate structure whereby U.S. foreign exchange could be obtained at a preferential rate by Cambodian importers if it was to be used to purchase goods in the United States. While the devaluation concept, culminating in a floating exchange rate, was sound and while the concept behind the preferential rate appears charitable on the surface, the overall political, social, and psychological effect of the concept were not clearly understood. The effect of the preferential rate is to subsidize Cambodian importers as an inducement to help them acquire U.S. source commodities financed under the U.S. assistance program. Such an inducement is demeaning, at least as far as the U.S. officials are concerned.
is concerned and it lacks dignity. It is also not required. If Cambodians desire U.S. assistance under existing circumstances, they can obtain it directly from U.S. sources. If not, they are welcome, of course, to seek such assistance elsewhere.

In lieu of concentrating its efforts into studies to determine specific commodities needed by the Cambodians and ways to assure that U.S. exports are used to fill this need, AID officials were more concerned with the Cambodian economy and economic reforms. When all else failed, AID officials offered Cambodian officials an outright gift of $20 million to get Cambodia to undertake some economic reforms, the two key elements of which were a floating exchange rate and an "Exchange Support Fund." In October 1971, Cambodia devalued its currency and established a floating rate. AID transferred $10 million to Cambodia's bank account in New York. In March 1972, Cambodia issued a governmental decree establishing an Exchange Support Fund—AID transferred another $10 million to Cambodia's bank account.

AID officials were especially interested in these two elements of the Cambodian economic reform package. The devaluation results in soaking up local currency in Cambodia and thus "maximizing" the budgetary support benefits to be derived from the U.S. economic assistance program. AID officials strongly supported the creation of the Exchange Support Fund because it "created a multilateral fund that would provide reserve funds for the Khmer Republic for those kinds of things that we [AID] either did not wish to, or legally could not, finance out of a commodity import program." AID officials had volunteered the information that, through the Exchange Support Fund, they would be able to do things that they "legally" could not do under the U.S. financed commodity import program. Furthermore, the "multilateral" appearances of the Exchange Support Fund are deceiving.

Once the Exchange Support Fund scheme was surfaced by the subcommittee, AID officials offered a substantial amount of rhetoric that the Exchange Support Fund for Cambodia is entirely different in purpose from the Foreign Exchange Operations Fund in Laos which was severely criticized in House Report No. 92-718, titled "U.S. Economic Assistance for Laos—Stabilization Programs." The Exchange Support Fund is to be designed to limit use of dollars in the Fund to financing commodities. Dollars contributed to the Exchange Support Fund will be exchanged for local currency which will then be transferred to the local currency accounts of the Cambodian government to apply toward its budgetary deficit. In neither fund will Congress, the General Accounting Office, the Inspector General, nor AID's own auditors be permitted to perform extensive audits and investigations to insure that U.S. contributions to the Exchange Support Fund—if permitted by Congress—and, local currency generated thereby, are economically and efficiently used. As with the Foreign Exchange Operations Fund in Laos, any fraud, corruption, or waste in the Cambodian Exchange Support Fund can be effectively concealed.

Of even greater concern, any U.S. contribution to the Exchange Support Fund would provide foreign exchange to Cambodia to acquire commodities on the world market which would not otherwise be available under direct U.S. assistance arrangements. The consequence of this, if approved, would be to enable the Cambodian government to...
finance local importer acquisitions of commodities which even AID, in their loose interpretation of "essential," would determine to be non-essential, if not luxurious. This would certainly not be in keeping with the assurances to Congress or with a sound concept of the type of assistance that U.S. taxpayers are now prepared to support.

If Cambodia desires to obtain economic assistance for the maintenance of a "business-as-usual" society, they should approach affluent neighbors and trading partners. The United States can no longer sustain such affluent practices, especially in light of its tenuous international economic condition. The sooner the Department of State and the Agency for International Development, as well as other nations, recognize this fact, the better for the American economy will become.
III. RECOMMENDATIONS

The committee recommends that the Secretary of State, the Administrator of the Agency for International Development, and the appropriate committees of Congress:

1. Reexamine the desirability and acceptability of committing U.S. financial resources to the Exchange Support Fund for Cambodia.

2. Reexamine the desirability and acceptability of preferential exchange rates for U.S. financed commodities for Cambodia.

And, the committee further recommends that the Secretary of State and the Administrator of the Agency for International Development take immediate action to:

3. Collect, as soon as possible, the $2 million due from Cambodia for irregularities in the pre-1964 U.S. assistance program to Cambodia.

4. Assign experienced, well-qualified personnel to determine specific essential commodity needs of the Cambodian civilian population and to adequately audit and monitor U.S. economic assistance in Cambodia.

5. Redirect the U.S. economic assistance for Cambodia into a true U.S. source commodity import program limited to minimal essential import needs of the Cambodian civilian population as clearly intended by Congress. Full consideration should be given to utilizing authority granted in titles I and II of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 480).

6. Arrange to the maximum extent practical for prompt procurement of U.S. financed commodity needs for Cambodia by full use of other U.S. government agencies, such as the General Services Administration.

7. Insure that U.S. economic assistance is not used for project funding, or to meet military needs in Cambodia—either directly or indirectly—unless specifically authorized and funded by Congress.
IV. BACKGROUND

Cambodia is geographically a country of some 70,000 square miles, bounded by Thailand, Laos, South Vietnam, and the Gulf of Siam, with a population of about 7 million people. If, for purposes of comparison, we placed Cambodia in the United States, it would be the 19th largest State, almost the same size as Missouri and with a population density about one and a half times that of Missouri.

Economically, Cambodia was, and will remain for the foreseeable future, primarily agricultural. It does not have sufficient important mineral resources, such as coal, oil, or iron ore, to meet the diversified needs of a developing economy. The principal resources of the country are, a relative abundance of agricultural land, timber, and fresh water and marine fish. The climate is tropical with an abundance of rainfall during half of the year. Cambodia has traditionally been self-sufficient in terms of food supply and the simple requirements of an agricultural and fishing society.

PRIORITY U.S. ASSISTANCE TO CAMBODIA

In September 1951, Cambodia, then a nominally independent country, within the French Union, signed a bilateral agreement with the United States providing for U.S. economic and technical assistance. Initially, this assistance was made available through a Special Technical and Economic Mission, established in Saigon to administer U.S. aid for all the states of the French Indochina area. Records are lacking in any detail as to the quantity and type of aid provided to Cambodia under this arrangement and virtually nonexistent as to how it was administered. Though U.S. personnel located in Saigon made occasional visits to Cambodia for programming and inspection purposes, such assistance as was provided (1951-1954) was administered, in effect, by the French and agencies of the United Nations. After Cambodia attained its full independence from France, another agreement was reached and a U.S. aid mission was established in Cambodia in January 1955. Later that same year, another agreement was signed providing U.S. military assistance to Cambodia. U.S. economic and military assistance to Cambodia in the period 1955-1960 totaled $360 million.

With a national history going back to the ninth century, a relatively homogeneous population, except for Chinese and Vietnamese minorities concentrated in Phnom Penh and provincial capitals, a common language and a monarchy recognized throughout the country, U.S. officials believed that the investment of U.S. assistance that Cambodia had the potential to develop its limited resources in a program of economic and social development. Cambodia had emerged as a sovereign nation, however, with little internal preparedness in the way of institutions and trained people for the effort of effecting rapid economic progress. Its only contact with the Western nations had been France.
Administratively, the Cambodian Government was at best a loose grouping of separate agencies whose heads, the only ones willing or able to make judgments or decisions, often seemed more interested and adept in politics and personal gain than administration or advancing the economy. Coupled with this lack of skill was a reluctance on the part of most of the Cambodian Government administrators to accept foreign technical advice due both to questions of face and pride as well as a distrust of the motives of the foreign experts. In the context of these limitations, the U.S. economic aid program attempted to complement Cambodia's efforts to construct needed facilities, build institutions, and greatly expand the supply of trained manpower in all fields and at all levels. The end result was designed to increase both agricultural, and to a lesser extent industrial, output while at the same time developing a cohesive, viable society.

Abruptly, in a note dated and delivered to the American Embassy in Phnom Penh on November 20, 1963, Cambodia requested a termination of all U.S. economic, cultural, and military assistance to Cambodia. Immediately following the request, the U.S. assistance program was halted and the U.S. aid mission to Cambodia was withdrawn. For all practical purposes, the U.S. assistance program for Cambodia had been largely a failure. Undoubtedly, the prior U.S. funded programs had been overly ambitious relative to U.S. and Cambodian capacities for comprehension and implementation. A more detailed presentation of the pre-1964 U.S. assistance program for Cambodia is contained in appendix A of this report. Major deficiencies noted during subcommittee studies of that program were reported in House Reports No. 1250, 87th Congress, 1st session, titled “Cambodian Port/Highway: A Supplemental Report” and No. 1907, 87th Congress, 2d session, titled “Commingling of United States and Communist Foreign Aid.”

Events Leading Up to Resumption of U.S. Assistance

On March 8, 1970, demonstrations broke out in several Cambodian border areas in protest against the presence of North Vietnamese troops—demonstrations that were encouraged, if not organized, by the leaders of the present Cambodian Government. These demonstrations continued through March 10. On March 11, the North Vietnamese and Provisional Revolutionary Government Embassies in Phnom Penh were sacked by a group of demonstrators. The Chief of State of Cambodia, Prince Sihanouk, was absent from Cambodia at the time. He had left in early January, for France. In the Cambodian capital, the affairs of government were being directed by Prime Minister Lon Nol and First Deputy Prime Minister Sirik Matak. On March 12, Lon Nol, in the name of the government, issued an ultimatum demanding that North Vietnamese and Vietcong troops leave Cambodia within 72 hours. At about the same time, Sirik Matak canceled the trade treaty between Cambodia and the Provisional Revolutionary Government. On March 14, Lon Nol’s ultimatum expired, its demands unmet.

On March 15, Prince Sihanouk was removed as Chief of State by a unanimous vote of the Cambodian Parliament. He was informed of
his ouster while en route to Peking. On March 23, Peking released a statement by Prince Sihanouk announcing his intention to form a National Liberation Army. On the same day, in Phnom Penh, the North Vietnamese and Provisional Revolutionary Governments informed the Cambodian Government that they would not attend a scheduled meeting to discuss Cambodian demands for the withdrawal of their forces, a step that marked the end of formal discussions on this subject. On March 25 and 26, there were pro-Sihanouk riots in several provincial towns. The next day, most of the personnel of the North Vietnamese and Provisional Revolutionary Government Embassies in Phnom Penh left by air for Hanoi.

During April 1970, North Vietnamese and Vietcong moved against Cambodian border posts and serious fighting erupted in Cambodia. On April 17th, a Cambodian military spokesman advised that the North Vietnamese and Vietcong were in control of three of Cambodia’s 17 Provinces and were occupying more than half of five other Provinces. On the same day, North Vietnamese and Vietcong forces took the town of Saang—20 miles south of Phnom Penh. In Washington, it was announced that a specific request had been received from the Cambodian Government for arms and military equipment. Again, on April 30th, Lon Nol appealed, in a personal letter to President Nixon, for U.S. arms and for the assistance of ethnic Cambodians, native to South Vietnam, who had been serving in Civilian Irregular Defense Group teams with U.S. Special Forces in Vietnam.

U.S. assistance to Cambodia was resumed in April 1970 on the basis of a Presidential determination that the United States would provide small arms and other materials for the defense of Cambodia against armed Communist aggression. With this Presidential determination, the current U.S. military assistance program was officially launched.

Early guidance from the President and the Secretary of Defense concerning assistance for Cambodia was succinct. The program was to be unsophisticated and simple and was to be designed to maintain a non-Communist government in Cambodia. During the last quarter of fiscal year 1970, $33.9 million was provided in U.S. military assistance. The fiscal year 1971 U.S. military assistance program for Cambodia was designed to provide follow-on support of the 1970 program and to support a specified Cambodian armed force structure. U.S. military assistance funding for fiscal year 1971 totaled $165 million, including $20 million earmarked for the procurement of combat-related commercial imports.

**APPEAL TO CONGRESS FOR FUNDING**

The fiscal year 1971 foreign aid request submitted to the Congress early in calendar year 1970 did not contain a request for either military or economic aid for Cambodia. As the crisis in Cambodia began to develop, practically all members of the Senate Foreign Relations Committee urged the administration to start a large aid program since it would inevitably lead to deeper involvements. The President, between April and November 1970, however, made four separate determinations which resulted in giving or pledging to give Cambodia a
total of $108.9 million in military aid by invoking various emergency provisions in the Foreign Assistance Act and the Appropriations Act. On November 18, 1970, the President transmitted to Congress an urgent request for the authorization and appropriation of additional foreign aid funds. This request constituted the first appeal to Congress for resumption of U.S. assistance to Cambodia and included a proposal for $185 million for military assistance and $70 million for economic assistance to Cambodia.

In appearing before House and Senate authorizing committees in support of the request, Secretary of State William P. Rogers testified that—

The $70 million in supporting assistance funds requested, as well as Public Law 450 title I assistance, will be used to provide essential civilian goods such as machinery and equipment, trucks and replacement parts, pharmaceutical and chemical products, and selected foodstuffs. This level of support is needed to meet Cambodia’s minimal economic import needs.

The meager resources of the country were needed to repair roads, bridges, and other installations destroyed or damaged by the fighting. In comparing U.S. economic assistance to Cambodia with that furnished by other nations, Secretary Rogers advised the Senate Committee on Foreign Relations that—

The French Government previously had authorized a loan of some $25 million for construction in the country; and, recently, the Cambodian Legislature accepted the loan, drew it down, with the understanding that the French Government would expand it so that it would not necessarily be used only for construction purposes. The French Government now has made the loan of $25 million to Cambodia available generally for imports.

Subsequently, a statement was furnished for the record showing, in part, non-U.S. economic assistance to Cambodia as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Assistance Provided</th>
<th>Amount (in millions)</th>
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<tbody>
<tr>
<td>Australia</td>
<td>Grant, transportation and communications equipment</td>
<td>32.0</td>
</tr>
<tr>
<td>Japan</td>
<td>Grant, emergency food and medical supplies, civilian trucks and ambulances</td>
<td>4.0</td>
</tr>
<tr>
<td>France</td>
<td>Loan, port development and supplier credits</td>
<td>4.3</td>
</tr>
<tr>
<td>Belgium</td>
<td>Loan, highway equipment</td>
<td>4.0</td>
</tr>
<tr>
<td>Asian Development Bank</td>
<td>Loan, sugar plant construction</td>
<td>7.0</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3 plane loads of tents, blankets, medical equipment, and medicines</td>
<td>1.7</td>
</tr>
<tr>
<td>Philippines</td>
<td>60 tons of medicine, clothing, and rice seed</td>
<td>12.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Grant, food for refugee relief</td>
<td>9.0</td>
</tr>
<tr>
<td>Israel</td>
<td>Medical supplies</td>
<td>6.0</td>
</tr>
<tr>
<td>South Korea</td>
<td>Medical supplies</td>
<td>12.0</td>
</tr>
</tbody>
</table>

*Value unknown.*

12 Ibid., p. 19.
13 Ibid., pp. 20 and 21.
Assistant Administrator Roderic L. O'Connor, of the Agency for International Development, testifying in support of the $70 million economic assistance request, explained that Cambodia's—

Exports traditionally have averaged about $90 million annually * * * and I am talking now about an average over a period of 5 years * * * so there has been a pretty good general balance of payments there. Exports have shrunk, in their best estimates, which we agree with, * * * from the $90 million average to something around $20 million; a net loss of $70 million in terms of foreign exchange. Therefore, our plan * * * is to start a modest commodity import program of those commodities that we feel are necessary to maintain their economy in operation. Those would be largely the kind of commodities that would be needed to put into their plants as either raw materials or essential capital items of equipment, so that those plants can keep operating, and can keep money circulating in that country. Essentially we plan for approximately half of that $70 million to go out for commodity imports during the remainder of this fiscal year, and roughly half of it will be forward funding of a pipeline of commodities, for the early part of fiscal year 1972. As I think you all know, the commodity pipeline for items from the United States to get out to Asia is a matter of 5 or 6 months.

It thus appeared that the $70 million funding level was designed simply to offset the entire estimated loss of foreign exchange earnings of the Cambodian Government for calendar year 1971. It is not clear that consideration was given to Cambodia's foreign exchange reserves — $65 million at the beginning of December 1970—or to financial assistance being received under the U.S. financed military assistance program and economic assistance from other donors, or the drastic probable change in type and quantity of commodity import demands caused by the war in Cambodia. Three studies had been made prior to submission of the $70 million funding request. However, each of these studies was based on exceptionally short visits to Cambodia and unconfirmed statistical data supplied mostly by Cambodian authorities.

Immediately prior to the December 1970 Senate hearings, professional staff members of the Foreign Relations Committee visited Cambodia for an onsite inspection. The staff confirmed 12 that the economic situation in Cambodia promised to be serious. The Lon Nol government was faced with the prospects of a drastic fall in both domestic revenues and export earnings as a result of extensive damage to Cambodia's infrastructure—interdiction of railways and roads, destruction of bridges, rubber processing plants, a cement plant, a paper mill, a fertilizer plant, a munitions plant, and several rice mills—and the mobilization of Cambodian manpower to defend Cambodia.

The Lon Nol government had neither a clear idea of what its financial position would be at the end of calendar year 1970 nor a firm budget estimate for calendar year 1971. In fact, it was literally impossible for anyone—foreigner or Cambodian—to have a precise idea of what was going on in Cambodia, or what the Cambodian people needed in the way of essential commodity imports. Nevertheless, some Cambodian officials believed that the calendar year 1971 budget deficit might go as high as $400 million. On the basis of this possible deficit, the Lon Nol government requested $400 million in U.S.-financed assistance for calendar year 1971. The American Embassy in Phnom Penh expressed the view that a deficit of such magnitude was unnecessary and that, in fact, a deficit in excess of $100 million would be hazardous to the economic stability of Cambodia. It was recognized that the principal factor controlling the amount of the Cambodian deficits is the size of its military establishment—it had grown from 35,000 men in May to 165,000 by December 1970, and to 200,000 by June 1971. Adding to the prospect for a substantial budgetary deficit was the fact that pay and allowances of Cambodian recruits ($30 monthly and about twice what a South Vietnamese recruit is paid) are quite high by Asian standards.

After assurances that U.S.-financed assistance for Cambodia would in no way be tied to the deficit spending by the Cambodian Government,15 U.S. funding was provided in the amounts of $386 million for military assistance and $70 million for economic assistance. It was also planned to make up to $30 million in Public Law 480 funds available. Appropriations for the Cambodian program were enacted into law on January 8, 1971.

V. IMPLEMENTATION OF FISCAL YEAR 1971 U.S. ECONOMIC ASSISTANCE PROGRAM

Congressional Insistence Upon Economy and Efficiency

Immediately upon resumption of aid to Cambodia, Representative Chet Holifield, chairman of the House Committee on Government Operations, and Representative John E. Moss, former chairman of the Foreign Operations and Government Information Subcommittee, requested "specific details on the scope of the program in Cambodia and the steps taken by State and AID to insure that the taxpayer's funds will be prudently expended with appropriate controls over the types of merchandise or commodities which will be financed by AID, the types of studies which have been and will be undertaken to determine the commodity needs of the government of Cambodia, and the steps which will be taken to insure against the abuses which have characterized our commodity import programs."

Representatives Holifield and Moss further requested "details of the kind of monitoring which will be undertaken to insure proper use of imported commodities, to insure meaningful auditing of the program, and, above all, to prevent diversion of commodities or funds."

In closing, Secretary Rogers was reminded "of the problems which have troubled those of us in Congress charged with the responsibility of auditing the activities of government in an effort to determine the economy and efficiency of governmental operations," and alerted that the subcommittee would concern itself with program implementation in Cambodia.

A copy of the Holifield-Moss letter to Secretary Rogers is included in Appendix B to this report together with AID's Administrator John Hannah's reply. Dr. Hannah advised that he, too, was concerned that "this new program be run economically and efficiently," adding that "We plan to apply more intensive program management as well as detached auditing to detect problem areas in the Cambodia program at an early stage to permit timely corrective action." Initially, according to Dr. Hannah, a portion of the U.S. economic assistance to be provided to Cambodia would be made available under a "special procedure" in order to expedite the entry of about $10 million of imports needed by Cambodia on an urgent basis before the regular commodity import program pipeline is established. The remainder of the $70 million would be made available for financing those minimal import needs that could not be financed by Cambodia's own foreign exchange reserves or by other donors during the balance of calendar year 1971. AID intended that "the United States will be the source for most of these imports although in cases of urgent or where the United States is an inappropriate source for a needed commodity, limited free world procurement will be authorized in selected cases."
AID, because of very little specific reporting since 1968, on Cambodian import requirements, relied on studies made during calendar year 1970 of Cambodia's import needs, recent import patterns, anticipated Cambodian military force levels, stock levels in Cambodia, and so forth, in formulating its calendar year 1971 commodity import program for Cambodia. AID intended “to rely extensively on existing Cambodian institutions to implement those elements of the commodity import program related to import licensing, arrival accounting, and the physical security and distribution of AID financed commodities.”

Dr. Hannah further advised that the “staffing in * * * Phnom Penh of five AID employees is designed to deal with the initial phase of the commodity import program. If further staffing is required, we will of course move in that direction expeditiously in order to insure reasonable and prudent controls over all AID financed imports into Cambodia.” In closing, Dr. Hannah assured Representatives Hollifield and Moss that “we will do all that is necessary, both in program management (including our staffing in Phnom Penh) and in our detached auditing activities, to provide a reasonable and prudent degree of control over all AID financed imports to Cambodia.”

EARLY INDICATIONS OF PROBLEMS IN IMPLEMENTATION OF PROGRAM

Assigning top priority to the necessity of insuring the utmost of economy and efficiency in the newly authorized U.S. economic assistance program for Cambodia, the subcommittee held public hearings, in Washington, on July 12, 1971, to insure that plans for implementing the Cambodian program were progressing satisfactorily and in accordance with the intent of Congress. Six months had elapsed since Congress had been assured that economic assistance to Cambodia was urgently needed and had responded by appropriating $70 million in economic assistance for Cambodia. Surprisingly, in reply to Chairman Moorhead's questioning, Assistant Administrator O'Connor responded 17 that “on the question of * * * AID funds being available and not being used, that, unfortunately, is quite true.”

Deputy Assistant Secretary of State for East Asian and Pacific Affairs, Herman H. Barger, explained to the subcommittee, in his opening statement, and later assured the subcommittee, that—

An additional problem which we encountered at the outset, was that little was in fact known about the Cambodian economy. We had not had an AID program in Cambodia since the latter part of 1963, and no representation whatsoever from early 1965 until mid-1969. Compounding this was the fact that the Cambodians themselves had very little precise feel for the state of their own economy. Under Prince Sihanouk, it was the practice for the various technicians to fabricate statistics and information, either at his direction to satisfy his political ends or in an effort to please him. So when we approached the Cambodian economy, we were looking at an unknown quantity.**

We have sought** in our AID request, which Congress has approved, to provide only that amount of aid to make up for the loss of imports which Cambodia has suffered as a

17 July 1971 hearings, p. 25.
result of the war. The effort is to keep the economy going, but not to take on the responsibility for the economic activities in the country. Our input will help make up that shortfall. It is that gap that we have been trying to assist them with. 19

Mr. O'Connor also clearly spelled out the direction which the newly established economic assistance program in Cambodia was to take:

Our program is intentionally limited in scope. It will concentrate on filling what is hopefully a short term import gap until peace is restored and Cambodia again builds up her exports. 20

A byproduct of our commodity assistance is financial support for Cambodia's domestic military costs to meet increased budgetary outlays for sharply increased force levels. The new currency generated from AID-financed imports and from Public Law 480 sales as well, will be applied to Cambodia's budget expenditures. 21

Up to $20 million of the fiscal year 1971 program will be used to reimburse the Cambodian Government for purchases of essential commodities made with its own foreign exchange. The remainder of our fiscal year 1971 program, $50 million obligated in May, will be used to procure goods, primarily from the United States, under regular procedures, to meet Cambodian import needs through the end of this calendar year. 22

All commercial imports will generate local currencies; at present the effective rate has been set at 83 riels to the dollar. This rate represents a Cambodian Government decision to impose a special 50-percent war tax on top of the official 55-1/4-1 rate. This tax helps increase the level of budget support resulting from the U.S. commodity import program and decrease the amount of currency in circulation. The large budget deficit of the past year has already brought about sharp price increases in some commodities and a realistic rate of exchange for imports is needed to minimize potential commodity diversions and windfall profits. 23

During his testimony on June 14, 1971, Assistant Administrator O'Connor had provided information for the record, and later during the hearings clarified his remarks, that—

All U.S. aid to Cambodia is aimed at preserving economic stability. A consequence of our aid is to generate local currencies (counterpart) which is released to the Cambodian budget thus providing support of basic government operations. 24

In Cambodia, under the arrangements for the commodity import program and the Public Law 480 program, portions of the generated local currency will be utilized for budget

18 Ibid p. 40.
19 Ibid p. 7.
21 Ibid p. 8.
22 House Appropriations Hearings, fiscal year 1972, June and July 1971, 92d Cong., 1st sess., pp. 175 and 176.
support for specific line items as jointly agreed, primarily for military pay and allowances.\textsuperscript{22}

State and AID officials had the intent of Congress clearly in mind when establishing a framework for implementation of the U.S. economic assistance program for Cambodia. Agreements had been entered into with the Cambodian Government to make U.S. financing readily available for essential commodity imports. The U.S. Government, however, had little idea of what was needed in Cambodia. Further, apparently because of the restrictive nature of U.S. financing of imports, very little in the way of import licenses—less than $4 million under a $70 million program—had been issued under the U.S. commodity import agreements.

Shortly after the July 12 public hearings, Chairman Moorhead instructed the subcommittee staff to initiate—immediately upon completion of the subcommittee’s study of the U.S.-financed stabilization programs in Laos\textsuperscript{23}—an extensive study of the U.S. economic assistance program for Cambodia. Subcommittee staff initiated an extensive study of AID’s documents and files relating to its Cambodian program in October 1971. The study was concluded in early January 1972, and was followed shortly thereafter with executive and public hearings held on February 17 and 24, 1972, respectively.

Cambodian Use of U.S. Assistance Provided for Financing Commodity Imports

On resumption of U.S. economic assistance to Cambodia, five professional AID employees were assigned to the economic section of the American Embassy, Phnom Penh, Cambodia, to deal with the initial phase of the U.S.-financed commodity import program. The initial agreement to provide U.S. funds to finance Cambodia’s import requirements was signed in March 1971 and totaled $20 million. To expedite delivery of the most urgently needed commodities, it was agreed that Cambodia would purchase its essential needs from non-U.S. sources with its own foreign exchange reserves. After delivery of the commodities into Cambodia and review of the documentation, U.S. funds would be transferred to reimburse Cambodia’s foreign exchange reserves.

Importation of goods into Cambodia moved slowly. A large segment of the young male population had been mobilized and their import needs were being met through direct donation by aid donor countries; transportation had been seriously curtailed, new construction was at a standstill, about a third of the population was no longer under Cambodian Government control, and other segments of the population had moved from insecure areas to Phnom Penh to live with relatives or friends. Prices increased substantially and consumer demand for imported goods remained low. Essentially, the demand was being filled from in-country stocks. Importers held up placing orders for merchandise which possibly they would be unable to sell at inflated prices and escalating taxes. Price increases are shown in the following table furnished by AID.

\textsuperscript{22} Ibid., p. 848.
In spite of the nonutilization of the $20 million U.S. commodity import grant, AID officials in Washington advised AID officials in Phnom Penh, on May 21, 1971, that it was imperative that the $50 million balance on hand for the Cambodian program be obligated prior to June 30th. Another agreement was signed by U.S. and Cambodian officials on May 31, 1971, whereby the United States undertook to finance $50 million of commodities to be imported into Cambodia from the United States. By the end of June 1971, less than 10 percent of the $70 million in U.S. economic assistance for Cambodia had actually been used. The need to urgently import $35 million in commodities to meet the essential minimum needs of Cambodia during January-June, and establish a pipeline of an additional $35 million of U.S. source commodities to be delivered during July-December 1971, proved to be not so urgent after all. Total import licenses issued by Cambodian authorities under the $20 and $50 million agreements were as follows (cumulative in millions):

<table>
<thead>
<tr>
<th>End of period</th>
<th>$20 Million Grant</th>
<th>$50 Million Grant</th>
</tr>
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<tbody>
<tr>
<td>June</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>July</td>
<td>$3.0</td>
<td>$0.0</td>
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<tr>
<td>August</td>
<td>$14.0</td>
<td>$3.0</td>
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<tr>
<td>September</td>
<td>$19.1</td>
<td>$9.0</td>
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<tr>
<td>October</td>
<td>$19.8</td>
<td>$10.7</td>
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<tr>
<td>November</td>
<td>$19.8</td>
<td>$11.1</td>
</tr>
<tr>
<td>December</td>
<td>$19.8</td>
<td>$11.1</td>
</tr>
</tbody>
</table>

*1st report from Phnom Penh as of August 16 at which time $1,300,000 in importers' purchase applications had been accepted by Cambodian authorities.
* Total of $1,300,000 showed balance budgeted prior to date of U.S. grant agreement, but deliveries made after that date.


Because of the lack of utilization of AID's $20 million grant, AID/Washington had its top trade specialist to Phnom Penh in June 1971 to assist the Cambodians to get imports moving into the country. AID's trade specialist remained in Phnom Penh for 2 weeks during which he reviewed pro forma invoices representing over $10,5 million in proposed imports, rejecting about 10 percent primarily because of...
excessive prices. Continued prodding by AID officials in Phnom Penh, after return of the trade specialist to AID/Washington, resulted in acceleration of Cambodian approvals for importation of commodities under the $20 million grant agreement. By October 1971, import licensing for the $20 million had been issued. Reimbursements under the agreement totaled $15.2 million, as of March 10, 1972, including $1.5 million for contracts awarded by Cambodian importers prior to the date of the U.S. $20 million grant agreement.

GSA PROCUREMENT SUPPORT

Immediately upon resumption of economic aid to Cambodia, U.S. officials in Phnom Penh recommended that "despite obvious balance-of-payments disadvantages, we believe the $70 million commodity aid should not be tied to U.S. sources. Tying aid to procurement in the United States would retard deliveries because of distances and importer unfamiliarity with U.S. products, thus impairing timely use of-payments disadvantages, we believe the $70 million commodity aid foreign aid grants should be in the form of commodities created by American productivity as clearly intended by Congress."

AID/Washington officials readily recognized that, in recent years, Cambodia had obtained very little of its imports from the United States; and thus Cambodian officials and importers lacked familiarity with U.S. markets. AID officials in Washington insisted, in spite of objections from U.S. officials in Phnom Penh, on using the procurement services of the U.S. General Services Administration to procure commodities for Cambodia under the $50 million U.S. source grant agreement. AID/Washington believed that GSA would be able to obtain lower overall prices; facilitate shipping and ensure greater use of U.S.-flag vessels; minimize large U.S. supplier representation in Phnom Penh, and reduce the risk of irregularities in procurement and shipping and related corruption.

GSA officials, in testifying before the subcommittee, explained the procedures which they had specifically set up to provide procurement support for the U.S.-financed commodity import program for Cambodia:

Upon receipt by GSA each requisition is reviewed as to the adequacy of description of the item required, particularly with respect to brand name or equal products. If the description is inadequate, it is reviewed by our standardization division for the availability of a Federal specification or a purchase description is prepared specifying salient characteristics of the item to be procured.

As soon as we are satisfied that the requirement is in order, offers are requested from all known qualified sources. In addition, the requirement is synopized in the Commerce Business
Daily. To date, all procurements have been restricted to U.S. source material. Every effort is made to obtain maximum competition consistent with the type of procurement being used. Additional negotiation is conducted where necessary, particularly if the price is considered excessive. An analysis of prices is made prior to award using previous procurement history; manufacturers price lists, domestic and export; trade publications; and labor statistics. Offers are evaluated and awards recommended in accordance with current procurement regulations and delegations of authority.

After the contract is awarded it is continuously monitored for delivery and compliance with its terms and conditions. Inspection is normally performed by GSA quality control representatives prior to shipment. AID and GSA management personnel are furnished with detailed semi-monthly reports of procurement and shipping status.

GSA was asked to participate in this program so that the purchasing of the products involved would be subjected to the normal and specific requirements of Federal procurement statutes and regulations, as well as to funnel more of the requirements to U.S. sources. By making these normal procedures applicable to these procurements, it would assist in eliminating the possibility of collusion or other questionable practices which seemed to be possible if other methods of acquisition were used. Through prudent procurement action, use of Federal specifications to the fullest possible extent and inspection by the Government at source prior to shipment, the best possible products have been and will be obtained.

In soliciting offers, we request offers from the firm submitting a pro forma invoice to the importer as well as from all known sources of supply. For the most part, contracts have been awarded at prices less than those given to the importers even by the same sources. A sampling of 15 procurement actions indicates that prices ranged from 5 to 32 percent less with an overall average reduction of 8.2 percent. It is interesting to note that eight proprietary and sole agency procurements on which there was limited competition, were awarded at an average of 6.8 percent less than prices furnished to the importers.

It thus appeared that action was being taken to control the commodity import program for Cambodia. However, even before the first approved importers’ applications were forwarded to AID/Washington, on September 19, 1971, AID was considering lifting the U.S. source requirements. This became known in Phnom Penh. This was followed by action taken on October 18, 1971, by AID’s Acting Administrator, to permit half of the $50 million to be used to purchase commodities from non-U.S. sources. Further, substantial delays took place in forwarding importers applications from AID/Washington to GSA for procurement action and the volume of applications substantially declined.
The delays resulted in substantial price increases, in many instances, because of increased ocean freight and war-risk insurance costs. Recommendations to permit GSA to purchase commodities and separately contract for ocean freight and insurance were not supported by AID. Further, as of March 10, 1972, 15 percent of the applications which had been sent to AID/Washington for procurement action were canceled at the specific request of the Cambodian importers. Finally, on April 7, 1972, GSA was informed of AID's decision—which, based on January 1972 recommendations from AID officials in Phnom Penh, was made in late March 1972—to terminate use of GSA procurement services for processing Cambodian importers applications. Some 10 days later, AID provided the following information for the record in replying to questioning by Congressman Zablocki of the House Committee on Foreign Affairs:

*Mr. ZABLOCKI. One of the assurances in the presentation last year that most procurement would be stateside was that the General Services Administration would have a role in the procurement processes in order to prevent the kinds of abuses and corruption which occurred in Vietnam.

It is my understanding there is some criticism of this procedure in AID circles. Will the GSA continue to perform its function? What percentage of the fiscal year 1972 programs will be handled by GSA?

*Mr. O'CONNOR. We will supply that for the record.

(The information requested follows:)

**USE OF GSA IN CAMBODIA CIP PROCUREMENT**

While AID plans to continue use of GSA in its procurement activities for Cambodia, we are reviewing all of the implementing procedures affecting the CIP, including the extent of participation of GSA. As to the percentage to be handled by GSA, we estimate that of the funds for procurement of commodities for fiscal year 1972, 30-35% will be channeled to GSA.
In the U.S. foreign aid program throughout the world, lists have been developed which broadly classify commodities eligible for U.S. financing. AID's eligible listing, however, while possibly adequate for most developing countries, is simply inadequate for war-torn countries such as Cambodia and Vietnam.

As a direct consequence of the Vietnam experience, concerning which this committee has expressed continuous criticism, AID has developed a special commodity listing in such detail that virtually every individual commodity which is eligible for financing under the U.S. commodity import program for Vietnam can be specifically identified. A similar listing for Cambodia was not developed nor has meaningful analysis been made by AID to determine Cambodia's specific commodity needs. In response to subcommittee questioning, AID officials replied that "we do not have data on the demand for specific commodities." 6

As a direct result of AID's failure to assign personnel to determine essential commodity needs of the Cambodian economy, two incidents occurred in the fall of 1971, which seriously damaged U.S. prestige in the eyes of the Cambodian people. As a direct result of the incidents, aid to Cambodia was held in suspense.

Farms in the Battambang area of Cambodia have for years grown the jute required by a state-owned factory in Battambang, which manufactures the jute used to store and transport rice and other farm products. The plant for the jute which was harvested in the fall of 1971, however, was not processed because harvesters had not been trained to harvest it properly. More than 5,000 tons of the entire harvest of 1971 were permitted to rot in the fields. No effort was made to leave the jute in the ground. In fact, AID officials in Cambodia...
were not even aware—at that time—that the crop was being permitted
to rot in the fields. Instead, AID officials were busy obtaining waivers
from AID/Washington to permit the Cambodian Government to buy
3,000 tons of jute from Thailand at a price of $250 per ton. Because of
the urgency of the situation, AID officials in Phnom Penh advised
Cambodian officials that they were prepared to give prompt and favor­
able consideration to a request of the Khmer Government to waive the
AID competitive bidding requirement for the first 1,000 tons.

AID's discovery of the total loss of the Cambodian jute crop occurred
purely by accident. An AID/Washington auditor while temporarily
assigned to look over AID's operation in Phnom Penh decided that
he would like to see the Cambodian countryside prior to his return
to Washington. On a day off, and at his own expense, he went to
Battambang—just to see what was there. During the course of his
visit, he quickly learned of the plight of the farmers because of the
unfair prices set for their jute crop. The AID/Washington auditor
also learned of the farmers resentment not only toward their own
Government for failing to support fair prices to the farmer for his
jute but also toward the United States for financing the importation
of Thailand jute at three times the price offered to Battambang
growers.

Immediately upon his return to Phnom Penh, AID's auditor con­
veyed the foregoing information to the senior AID official at the
Embassy. Almost a month elapsed before AID officials in Phnom Penh
reported to AID/Washington that they recommended that no award
for jute should be made at all in which the Cambodian Government
concurred. They also urged the Government to review their pricing
policy in regard to jute so as to once again encourage local production
and thus avoid unnecessary outlay of foreign exchange. This action
accomplished little more than to compound the problem. The jute
which had rotted in the fields could not now be harvested. Nor, could
the resentment of the farmers toward U.S. interference be overcome
by this gesture. Without jute, the Battambang sack factory—
which normally employs hundreds of area residents—will be
unable to continue in operation.

The second incident which AID poorly handled involved sugar
needed for the production of condensed milk in Cambodia. Since sugar
accounts for 43 percent of all ingredients in condensed milk—and since
the major consumers of the product are the Cambodian children, espe­
cially infants—exceptional care should have been exercised once this
commodity request was received by AID. Quick decisions should have
been made as to whether the sugar could be financed by the United
States.

The milk company submitted its application to import 5,520 metric
tons of sugar, along with a cash deposit equivalent to $721,479 (U.S.),
in early September 1971. Cambodian and AID officials in Phnom Penh
promptly processed the import application and forwarded it to AID/
Washington within a week. AID officials in Washington were well
aware that sugar is a net import in the United States and that its
domestic price is less than parity. (Section 604(e) of the Foreign
Assistance Act prohibits AID's funding procurement of an agricul­
tural commodity outside the United States when the domestic
price is less than parity.) Attempts were made to obtain
the sugar through barter procedures permitted under section 303 of Public Law 480 in spite of the fact that AID had already been advised, in a letter dated August 6, 1971, that "the requirement *** for barter funds are far in excess of the program potential to generate such funds" and that further "barter transactions for AID would not be in furtherance of the program interests *** and would not contribute to an improvement in the overall balance of payments position of the United States.

More than 2 months elapsed, however, before officials of the Cambodian milk plant were advised that AID financing of sugar for Cambodia was doubtful. Another month went by and still the milk company had not received a refund of its cash deposit nor had it received authorization to use Cambodia's foreign exchange to purchase the sugar needed from its regular supplier in Singapore. In the meantime, however, during October 1971, the Cambodian Government had—at AID's insistence—devalued its currency, the Cambodian riel, by more than 50 percent. Furthermore, a drastic increase in the world price of sugar had taken place during December 1971. It is reported, however, that Cambodian officials made a special concession to permit the milk company to still obtain the sugar at the pre-October 1971 exchange rate. The 8,520 metric tons of sugar would have cost the milk company 78 million riels, in September 1971—as compared to a January 1972 cost of 166 million riels—had AID promptly advised Cambodian officials that AID was unable to finance the sugar requirements and permitted Cambodia to use its own foreign exchange to finance the purchase. This additional cost—equivalent to more than $1 million (U.S.)—will naturally have to be passed on to the Cambodian consumers. As a result of an increase in the retail price of condensed milk in August 1971, it is reported that consumption dropped from 110,000 cases per month to 60,000 cases. Further increases in the price of condensed milk could well result in further decreases in consumption.

IMPORTS OF A NONESSENTIAL, LUXURY, OR FRIVOLOUS NATURE

Listed in appendix D to this report are the urgently needed commodities which the U.S. taxpayer had paid for under AID's $20 million grant agreement for Cambodia. Also listed are those essential imports which AID officials have approved for financing under the $50 million U.S. source commodity import program. As previously shown in this report, most of the approved licenses for importation of commodities from U.S. sources were canceled at the Cambodian importers' request—shortly after AID waived U.S. source requirements for importation of $25 million in commodities under the $50 million grant agreement. Also, as previously noted, AID has not developed a detailed listing of specific commodities which the United States should finance for Cambodia. Over the years, however, AID has developed and refined a listing of commodities which are eligible for U.S. financing and those which it will not finance for Vietnam because of their nonessential, luxury, or frivolous nature. When questioned on the matter of restrictions on luxury items, AID officials responded as follows: $8 $9

$8 P. 22
$9 P. 28

February 1972 hearings, p. 20.
Mr. Horton. What about restrictions on luxury items? Is there some effort to restrict luxury items?

Mr. O'Connor. Luxury items are not on our list, and we are not financing them. You know, a lot depends on what your definition is.

Mr. Horton. I was going to ask you: What is a luxury item? Is film a luxury item?

Mr. O'Connor. Do we have a set definition, or do we do it by what it says on the list?

Mr. Schmeisser. It depends who uses it and for what purpose as to whether you might consider film to be a luxury.

Mr. Horton. Why don't you define what you mean by that?

Mr. Schmeisser. It used to be so defined by the Agency, and that has been changed in the past few years so that unprocessed film is eligible for financing.

Mr. Horton. Well, you still have not explained why. You said that it is; but why is it?

Mr. Schmeisser. I, frankly, do not know, sir. I know that change was made in the list several years ago.

Mr. Horton. Well, do you have a list of items that are so-called luxury items, or do you have a list of items that are not luxury items?

Mr. Schmeisser. We have a list of items that are eligible that are supposedly not luxury items.

Mr. Horton. Do we have that list, Mr. Chairman?

Mr. Moorhead. We do not; but you can supply that.

Mr. O'Connor. That is the list that we agreed to supply.

(Subcommittee Note.—A listing by broad categories was provided; however, the listing is too general for determination purposes.)

Mr. Horton. I am sorry. OK. You are going to supply that. But on this particular item, the processed film or unprocessed film, there is no definition, so far as you know, classifying that?

There is no reason for it except that it is just included?

Mr. Schmeisser. I do not know, Congressman Horton.

Mr. Horton. Could you find out about that?

Mr. Schmeisser. I shall.

(The information follows:)

INCLUSION OF UNPROCESSED MOVIE FILM AS AN ELIGIBLE CIP ITEM

AID/Washington determines which commodities are eligible for financing by AID, which commodities are provisionally eligible (that is, eligible only under certain conditions), and which commodities are ineligible for AID financing. The composition of the AID commodity eligibility listing is based on considered judgments, over time, as to the importance and essentiality of commodities to a society's quality of life, as well as their intrinsic economic importance.

Unexposed movie film is included in this listing because it is essential, in many developing countries, for economic, scientific and social development applications; and its produc-
tion is generally beyond the technological capability of underdeveloped countries.

The AID commodity eligibility listing is designed to serve as a guide in the preparation of listings of commodities eligible for financing under specific commodity import programs. It can be tailored to the needs of individual countries either through the approval of more limited eligibility lists, or through license review procedures in the recipient country. The suitability of the current listing for use in Cambodia is under periodic review, and it will be necessary to make changes from time to time if it appears that the present license review system is not responsive to our policy of financing only commodities essential to Cambodia's specific needs.

South Vietnam and Cambodia share a long border. Both countries currently suffer essentially the same internal strife. Yet, many of the commodities listed in appendix D, for importation into Cambodia under U.S. financing, would not be eligible for financing under the U.S. commodity import program for Vietnam. To permit U.S. financing of commodities for Cambodia—which are ineligible for financing under the United States-Vietnam program because of their nonessential, luxury, or frivolous nature—could promote smuggling depending on price differential between the two countries, availability, and the effectiveness of policing of these commodities, either in original or manufactured form, into Vietnam to supply the Vietnamese commodity black market. Further, many of the commodities being financed by the United States will not meet the essential needs of the average Cambodian but, instead, because of price, will be available only to the wealthy elite.

Essentially, appendix D speaks for itself regarding weaknesses in the type of commodities which AID officials have approved for U.S. financing for Cambodia. Many of the commodities financed under the $20 million grant agreement—which was specifically to provide urgently needed essential commodities—obviously cannot, under any stretch of the imagination, be classified as urgently needed essential commodities for a country which is at war. Likewise, many of the commodities approved for financing under the $50 million U.S. source grant agreement—such as air-conditioning equipment, automobiles for government and banking officials, photographic supplies, cigarette and soft drink manufacturing equipment and materials, and television sets—simply are not classifiable as minimum essential commodities.

Reinsurance on U.S.-Financed Commodities

The cost of marine insurance coverage on U.S.-aid commodity import programs is eligible for payment from AID funds. It is AID's policy that the insurance—including any reinsurance—must be from either the United States or free-world less developed countries. Ordinarily, the supplier of the commodities is required to obtain the insurance and the merchandise is brought on CIF (cost, insurance, and freight) terms. Generally, neither the importers nor suppliers are advised or instructed from whom to purchase the insurance.

It was noted during the course of the subcommittee's study of the U.S. economic assistance program for Cambodia that insurance
on U.S.-financed commodities for Cambodia will probably cost in the neighborhood of $5 million for the $70 million fiscal year 1971 commodity import program. AID officials, in reply to subcommittee questioning, replied that "The Foreign Assistance Act, section 604(d) now provides that AID may pay marine insurance of commodities it finances. AID believes 'self-insurance' by the receiving government appropriate in the case of goods destined for public sector end use, but that, for the protection of the private importer, he will have to have his goods insured." AID's reply, however, does not indicate the extent of its thought on this matter. In view of the substantial sums of AID money involved—not only for the Cambodian program, but for all of AID's programs—it would seem that either self-insurance or blanket policy principles should be followed.

For the initial shipments of Public Law 480 commodities to Cambodia, marine insurance was placed with the Cambodian state-owned insurance agency. The Cambodian agency, in turn, reinsured 32% of the insurance risk with a Russian state-owned insurance company. AID's response to questioning, indicated, furthermore, that there is little assurance that other U.S.-financed commodities are not also being reinsured with Soviet bloc agencies.

Question. Do you know where the supplier is obtaining the insurance from?
Response. No; we do not know from where each of the suppliers is obtaining their insurance.

Question. They [Soviet Bloc state-owned agencies] could well be involved with reinsurance for many other insurance companies in the area, could they not?
Response. Yes.

PROJECT FUNDING

In appearing before the Foreign Operations and Related Agencies Subcommittee of the House Committee on Appropriations, on June 14, 1971, AID officials replied to questioning concerning the content of U.S. economic assistance to Cambodia that "we are not involved in projects, we are not involved in technical assistance." On July 12, 1971, before the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations, AID officials reiterated their position that "we are not involved in developmental activities and are not now contemplating technical assistance or capital projects."

Yet at the time they testified in July 1971, AID officials had already become involved in a form of project funding by approving one financing request and finalizing others to obtain the commodities needed for U.S.-sponsored improvement projects in Cambodia. U.S. technicians from the U.S. Information Agency, AID, and the U.S. Department of Defense had arrived in Cambodia as early as September 1970. Technical studies were conducted of radio broadcasting capabilities, road and bridge conditions, port conditions, and powerplant

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32 February 1972 hearings, pp. 95 and 96.
33 House Appropriation Hearings, fiscal year 1972, 92d Cong., 1st sess., p. 244.
40 House Appropriation Hearings, fiscal year 1972, 92d Cong., 1st sess., p. 7.
operations. Almost immediately, proposals were made to establish four major improvement projects, as follows:

*Port Facilities.*—A preliminary survey of port handling facilities was completed in March 1971. It was concluded that the port facilities needed to be modernized at an estimated cost of $8 million. In June 1971, AID officials in Phnom Penh reported to AID/Washington that they had reached an informal understanding with Cambodia officials on improvement of the Phnom Penh port. They also reported that the U.S. port survey team would complete its work by July 7 and preliminary engineering and cost analysis by August 1.

Essentially, AID officials planned to have U.S. Navy personnel stationed in Bangkok, Thailand, provide engineering, design, and construction management services. Construction would be accomplished by a private contractor under contract to the officer in charge of construction (U.S. Navy), Bangkok. Construction costs would be split between AID ($109,841), the Cambodian government ($28,579), and the Department of Defense ($55,714). Additionally, the Cambodian Government would pay local currency costs for in-country local labor. Financing requests for a portion of the equipment needed for the project, estimated to cost $1,228,000, were approved by AID under the U.S.-financed commodity import program and sent to AID/Washington on November 18, 1971. Additional equipment needed for the project, estimated to cost slightly over $1 million, is to be provided from excess equipment stocks currently positioned in South Vietnam.

On December 10, 1971, an additional financing request was approved by AID officials in Phnom Penh, for $110,000 in commodities for the military hazardous cargo pier, and sent to AID/Washington. As explained in a telegram from AID officials in Phnom Penh, the chief, military equipment delivery team, Saigon, had "requested AID funds for the hazardous cargo pier in exchange for AID's use of Department of Defense funds for certain noncommodity costs for the civil port improvement."

*Powerplant.*—In December 1971, AID officials in Phnom Penh advised AID/Washington that "We require the TDY services of a specialist in city power generating matters. The city of Phnom Penh is expected to become power short sometime next year. We are contemplating along with Cambodia the procurement of up to $3.5 million worth of generating and other capital goods under the $50 million agreement." On December 10, 1971, an AID engineering power specialist arrived in Phnom Penh to provide the technical assistance required.

*Radio Broadcasting.*—In February 1971, U.S. officials in Washington sent AID officials in Phnom Penh a proposed plan, which had been prepared by personnel of the U.S. Information Agency, "to complete the U.S. Government program of upgrading Cambodian broadcast capability and in the process to provide a permanent broadcast facility at Kompong Som and Battambang." The plan called for the Cambodian Government to obtain the land needed for transmitter sites, provide the labor and building materials to construct the buildings and erect antennas and install equipment, and provide personnel to man and operate the facili-
Financing requests for the equipment needed for the project, estimated to cost $318,500, were approved and sent to AID/Washington on July 6, 1971. Also included in the financing request was a $6,500 authorization for U.S. military airlift of four excess radio towers, valued at $4,000, from a U.S. air station in the Philippine Islands.

In June 1971, AID/Washington advised U.S. officials in Phnom Penh that, "USIA radio engineers estimate completion of USG-assisted program for technical upgrading. Radio Cambodia will require at least 18 months from July 1, 1971. It is essential that American radio engineer be assigned full time to Cambodia for duration this project. Believe best solution would be to establish regular position with U.S. mission under some such title as 'radio technical specialist,' utilizing USIA personnel being considered."

Road and Bridge Improvements.—AID officials in Phnom Penh reported in August 1971, that the "bridge and highway reconnaissance team from U.S. Army Engineering Command, Vietnam * * * has just completed 6-week detailed reconnaissance of Cambodian requirements for repair and rehabilitation of bridges and roadway. * * * minimum of approximately $5.2 million over 3-year period is required for foreign exchange costs of materials and equipment. * * * recommend that first year foreign exchange costs of this program, now estimated at $8.4 million, be financed $50 million as noncounterpart generating item." On October 4, 1971, AID authorized the purchase of roadbuilding equipment ($1.7 million) to be delivered to the Cambodian Ministry of Public Works. Subsequently, in December 1971, AID authorized the procurement of bridging equipment and materials valued at $3.8 million. The entire $5.5 million was financed under the U.S. commodity import program.

In response to subcommittee questioning as to whether AID had congressional approval to participate in project funding, AID officials replied: 42

Well, the question of what is and what is not a project, is over the history of AID, always a rather vague one. The things that you refer to * * * as projects, might be construed in this context, but I want to make this point, that the role that we in AID are playing in these operations, those matters have been confined exclusively to the bringing in of various commodities that are needed in the projects, whether it be bridge steel, or cement, or in one case some electric equipment. We have not provided engineering services, technical assistance of any kind. We are not managing a project in the sense that we are putting out bids or getting the roads built; and so forth.

In each case I can give you how that breaks down, but at least in those cases AID, itself, in no case is doing the work or accepting responsibility for the work that is being done. We are supplying commodities which we think are perfectly legitimate ways of meeting the needs and requirements of this country for imports. * * *

42 February 1972 hearings, p. 102.
The U.S. Ambassador to Cambodia had cabled in February 1971, that "** program of economic aid presently excludes technical assistance projects and that relief generated by commodity sales would not normally be used to fund specific projects." AID technicians from Washington and Saigon had studied the need for civil port and power-plant improvements in Phnom Penh as early as March 1971. AID officials in Phnom Penh had prepared and submitted "611 certifications" for both the civil port improvement project and the road and bridge improvement project, thus, clearly indicating that they considered these as "AID projects."

**Funding of Military Assistance Shortfall**

By May 1971, U.S. officials in Phnom Penh had concluded that they had an extra $20 million in the fiscal year 1971 U.S. economic assistance program for Cambodia. AID's plans for the creation of an exchange support fund for Cambodia could not move forward because of the Cambodian Government's refusal to devalue its currency. Further, it was recognized that the $20 million was not required for the U.S.-financed commodity import program. There was a need, however, to fund over $20 million in commodities required under the U.S. military assistance program (MAP) for Cambodia for which military funding was simply not available. U.S. officials in Phnom Penh suggested that the most appropriate way they could identify to cover even partially the MAP shortfall would be to use the transfer authority to augment the present military program by an additional $20 million. AID/Washington officials replied that they were unwilling to propose a Presidential transfer of $20 million fiscal year 1971 AID funds to MAP as it would raise serious questions of validity of the supplemental request to Congress, as well as of proposed fiscal year 1972 request of $110 million.

Among the commodities identified as military shortfall items were barrier materials and petroleum products for the Cambodian military forces. These two commodities alone were estimated to cost $10 million. Additionally, such items as river tugs, earth moving equipment, and bridging materials were included as military shortfall items. U.S. officials in Phnom Penh proposed an alternate solution to the MAP shortfall problem: Designation of the Department of Defense as AID's agent for port improvements, bridging, tugs, and earth moving equipment projects, using economic assistance funds, would solve part of the problem. AID/Washington was also advised that further relief would come if barrier materials and petroleum were also funded under economic assistance.

**Barrier Materials.**—Studies made by Cambodian military forces, in early-August 1971, clearly indicated that large quantities of barbed wire would be required for the proper protection of all military and civilian installations, such as bridges, roads, airports, powerplants, and radio transmitters. Estimated requirements, at that time, totaled almost $5 million. In its presentation before the Foreign Operations and Government Information Subcommittee, AID officials advised that:

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*P. 38.  
*Foreign Assistance Act of 1951, as amended, see. 610(a).  
*February 1972 hearings, p. 70.
AID is prepared to finance wire imports for a factory in Phnom Penh that would convert the wire to barbed wire. The order for the wire has not been received yet from the Cambodian Government. There was a view in some quarters that about half of this import requirement should be financed from MAP funds since Cambodia military forces (FANK) allegedly will buy about half the product of the factory. Upon further investigation we found this argumentation difficult to sustain. In the first instance, no one could be sure the FANK would buy half, a quarter, or any fraction of the plant production. Second, it was clear that the FANK's use of barrier materials was more often than not related to a civilian installation or need rather than a purely military one. We concluded that the civilian uses of barbed wire significantly predominated even when the FANK was the instrumentality for using the barbed wire. On these grounds AID has decided to fund all the wire import requirements.

Petroleum Products.—AID officials in Phnom Penh have reported that all petroleum (POL) products are imported by Tela Khmer, a Cambodian state-owned firm. Since there is only one distribution system, the Cambodian military forces must rely on the civilian distribution system. Cambodian military POL requirements were estimated, at that time, at $5 million yearly. Contradictory statements were presented to the subcommittee by AID/Washington officials, however, when the subcommittee was advised* that:

There was some discussion of having AID finance all the POL requirements of the country—even that portion going to the Cambodian military forces. The reasons for this proposal were fungibility between military and civilian uses and the fact that such a system would lessen the possibility of black marketing military gasoline to the civilian sector. Because the military ordering and distribution system for POL is separate and distinct from the civilian system, and military requirements were clearly identified even before the POL was ordered, it was decided that AID could not fund military POL even though military trucks were meeting civilian requirements. This case is significantly different from the barrier materials case because of the separate ordering and separate distribution system.

As shown in appendix D, AID has reimbursed the Cambodian Government for petroleum products imported into Cambodia which are valued at $8 million. Since March 10, 1972, over $400,000 in additional invoices for POL have been processed under the $20 million grant agreement. Authorizations for economic assistance funding of POL under the $50 million grant agreement already total another $7 million. In response to subcommittee inquiries, Department of Defense officials have advised that, through March 1973, DOD had funded only slightly more than a million dollars worth of POL for Cambodian military forces. DOD had made its position known many months before that it would not fund POL until satisfactory procedures were put into effect to insure that MAP-funded POL will be used only by

* Ibid.
FANK for military purposes. It is probable that POL being financed under the U.S. economic assistance program is largely to meet Cambodian military requirements. It is also likely that barbed wire is for the military defense of Cambodia to protect both military and civilian facilities.

Regarding the use of economic assistance funds to provide barbed wire and petroleum products to meet Cambodia's military requirements, AID's own policy determination (No. 45), as set forth in AID Manual Order No. 1000.4, dated March 9, 1970, clearly provides that "Economic assistance funds are not to be used to finance * * * any articles, regardless of the recipient thereof, when the United States primary purpose in making the assistance available is to meet present military requirements of the recipient country."
VI. FISCAL YEAR 1972 ECONOMIC ASSISTANCE PROGRAM

Request for Funds To “Continue” U.S.-Financed Commodity Import Program

The fiscal year 1972 budget request presented to Congress for continued U.S. financial assistance for Cambodia totaled $330 million—$200 million for military assistance, $110 million for economic assistance, and $20 million for Public Law 480 sales. In testifying before the Congress, on the economic assistance portion of the request, administration officials from the Department of State and AID reiterated the position that—

We have a single program objective in Cambodia: the financing of essential imports. The ravages of war have greatly reduced Cambodian export earnings—from a level of $322 million in 1969 to an estimated $14 million for 1971. Without aid, Cambodia could not long pay for the imports needed to keep the economy functioning and to prevent drastic lowering of living standards ** *. The import program for Cambodia also absorbs some of the excess spending power created by the Government’s deficit financing of its military costs.

Congress was again assured that “our supporting assistance objective is to provide the commodities necessary to meet Cambodia’s essential needs for imported goods **.”

U.S. AID officials in Phnom Penh rationalized their fiscal year 1972 request of $110 million to finance commodity import requirements for Cambodia on the basis of the calendar year 1971 program of $70 million plus $10 million for additional loss of exports in calendar year 1972 plus $7.5 million for additional transportation costs plus $10 to $20 million for additional production losses plus $10 million for restocking. They recognized, however, that “in absence of any experience in rate of utilization of CIP these calculations are at best only estimates.” At the time, they were fully aware that Cambodian imports for calendar year 1970 were only about $47 million at an exchange rate of 55:1. The 1971 program was greatly overstated, and the 1972 program was even more so. Cambodian commodity import requirements for calendar year 1971 and calendar year 1972 would appear to be more in the neighborhood of $80 million, rather than the $180 million which was requested.

In reply to specific questioning as to whether the U.S.-financed commodity import program for Cambodia was based on import desires, needs, or what the Cambodians could get by on, Assistant

47 Ibid., House, p. 166; Senate, p. 661.
Administrator O'Connor replied, "We are financing against a list of what we consider to be their essential items of need." In further reply to questioning concerning the content of U.S. economic assistance to Cambodia, Mr. O'Connor further testified "There we have taken quite a different view of an aid program. We are not involved in projects, we are not involved in technical assistance." He further replied that AID was not involved in direct budget support, that the economic assistance was purely a commodity import program.

After substantial overall reductions in foreign assistance appropriations, AID found that it could get by with $37 million in economic assistance for Cambodia for fiscal year 1972. Even before enactment of fiscal year 1973 foreign assistance legislation, AID used a major part of the $37 million to provide a $20 million outright cash grant to Cambodia. AID officials considered the $20 million cash grant necessary to bring about economic reforms in Cambodia, the key elements of which were a more realistic exchange rate for the Cambodian riel and establishment of an "exchange support fund." Essentially no mention was made of AID's extensive activities in attempting to establish, in Cambodia, an "exchange fund" similar to the "foreign exchange operations fund" in Laos. In fact, when Mr. O'Connor was asked "Is there anything comparable to FEOF in Cambodia?" the reply was "No, sir." Likewise, no mention was made of the possibility of a cash grant to Cambodia. When questioned on this matter by Congressman Zablocki of the Foreign Affairs Committee, during the fiscal year 1973 hearings on the Foreign Assistance Act, AID officials replied as follows:

Mr. ZABLOCKI. Thank you, Mr. Chairman.
I too want to welcome you, Mr. Williams, and your associates.
As you recall, Mr. Williams, in the presentation last year the executive branch had assured this committee that the Cambodian supporting assistance program would be used to provide essential commodities, and I quote, "primarily from the United States." Do you agree that my recollection is accurate?
Mr. WILLIAMS. Yes, sir; primarily from the United States.
That is correct.
Mr. ZABLOCKI. Now, it is my understanding that from the $37 million obligated in fiscal 1972, $20 million is in a "no-strings attached" cash grant; is that correct?
Mr. WILLIAMS. That is correct.
Mr. ZABLOCKI. Of the remaining $17 million, about one-half is likely to go for offshore procurements. Is that correct?
Mr. WILLIAMS. That is correct, sir.
Mr. ZABLOCKI. That leaves about $8.5 million for U.S. purchases, or about 23 percent of the total U.S. funding. How do you justify that small percentage with the assurances given Congress that the Cambodian program would result in pro-

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49 Ibid., p. 244.
52 Ibid., footnote 80, pp. 118 and 119.
curement primarily from the United States? Would you call that procurement primarily from the United States?

Mr. Williams. No, Mr. Chairman; I would not.

Mr. Zablocki. Then you would say that your Agency was less than frank with us last year?

Mr. Williams. No; I would not say that, Mr. Chairman. We were stating a policy objective and it is still a policy objective at the Agency.

Mr. Zablocki. Your objectives were only words and false hopes. If this committee is looking forward to justifying this program, we must go to the floor of the House and convince people that you met your objectives.

Mr. Williams. If I may explain, Congressman Zablocki, there have been unusual difficulties in setting up the commodity import program into Cambodia in the wartime situation there. For those reasons, given the emergency, we undertook the cash grant that you mentioned and what constituted emergency procedures—the switching of sources, the procedures that needed to be followed under the wartime situation. It is still our objective that most of the commodities for Cambodia would be imported from the United States. In the commodity program that we propose for fiscal year 1973 some $55 million out of the total of over $70 million will be for imports largely from the United States. The difficulties that you note were the difficulties of a startup of a new program in terms of a major change in market outlets and procedures, sir.

Mr. Zablocki. Mr. Williams, granting that such a contingency did develop, is it not true that AID gave the Cambodians a no-strings-attached fund in fiscal 1972 as a sweetener to get the Government there to undertake some economic reforms; yet the possibility of such a grant was never raised by the executive branch in any of the presentations before this committee when the authorization was before us? Was the committee informed that such a grant was being contemplated? Was there any notification to this committee when the decision was made to give the grant?

Mr. Williams. I will ask Mr. O'Connor to reply to that question; Congressman Zablocki.

Mr. O'Connor. Mr. Congressman, as Mr. Williams already said, we faced a real emergency in Cambodia last fall when they told us that their reserves were down to a very narrow margin; indeed, that is why we made this emergency one-time cash grant. Now in that process, sir, we did go to the Appropriations Committees as required by law and informed them that the chairmen of those two subcommittees did not pose any objection.

I do not recall at this moment to what extent we consulted with this committee, that had not been in the past our practice, but it very well perhaps should have been, sir.

Mr. Zablocki. It would be a pretty good idea, Mr. Chairman, I think, if we were also advised. If you just go to the Appropriations Committee you may well be assured you won't get the authorization as readily as you did in the past.