SITUATION IN VIETNAM

HEARINGS BEFORE THE
SUBCOMMITTEE ON STATE DEPARTMENT
ORGANIZATION AND PUBLIC AFFAIRS
OF THE COMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE
EIGHTY-SIXTH CONGRESS
FIRST SESSION
ON
THE SITUATION IN VIETNAM
DECEMBER 7 AND 8, 1959
PART 2

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## CONTENTS

Statements by—

<table>
<thead>
<tr>
<th>Name</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Battleman, Albert, controller</td>
<td>241</td>
</tr>
<tr>
<td>Boyd, Jack, deputy program officer</td>
<td>298</td>
</tr>
<tr>
<td>Boynton, Willard, Chief, public health adviser</td>
<td>348</td>
</tr>
<tr>
<td>Dunaway, Wade, international trade adviser</td>
<td>280</td>
</tr>
<tr>
<td>Durbrow, Elbridge, Ambassador</td>
<td>235</td>
</tr>
<tr>
<td>Elting, H., Deputy Chief of Mission (Embassy)</td>
<td>300</td>
</tr>
<tr>
<td>Funk, Stanton, highway engineer, Capitol Engineering Corp</td>
<td>314</td>
</tr>
<tr>
<td>Hopkins, Homer, Executive Officer, USOM</td>
<td>264</td>
</tr>
<tr>
<td>Lampert, James B., Brig. Gen., Deputy Chief, MAAG</td>
<td>250</td>
</tr>
<tr>
<td>McCauley, Deforest, transportation officer</td>
<td>244</td>
</tr>
<tr>
<td>Murphy, Frank, acting project manager, Johnson, Drake &amp; Piper Co</td>
<td>318</td>
</tr>
<tr>
<td>Plogge, James, medical education adviser</td>
<td>349</td>
</tr>
<tr>
<td>Renier, Lt. Col., MAAG staff</td>
<td>259</td>
</tr>
<tr>
<td>Ritchie, Fred, Chief, international trade adviser</td>
<td>280</td>
</tr>
<tr>
<td>Sabatini, Henry, Embassy administrative officer</td>
<td>265</td>
</tr>
<tr>
<td>Shahpazian, Yvunun, deputy transportation officer</td>
<td>343</td>
</tr>
<tr>
<td>Shutes, H. A., Maj., field representative of Temporary Equipment Recovery Mission, MAAG</td>
<td>260</td>
</tr>
<tr>
<td>Smith, Lawson, chief highway engineer</td>
<td>285</td>
</tr>
<tr>
<td>Smith, Rowland, program economist</td>
<td>237</td>
</tr>
<tr>
<td>Taylor, Milton C., special assistant to Deputy Chief, MAAG, for training</td>
<td>272</td>
</tr>
<tr>
<td>Taylor, William C., Special Supply Adviser, USOM</td>
<td>860</td>
</tr>
<tr>
<td>Welbert, Charles, international trade adviser</td>
<td>280</td>
</tr>
<tr>
<td>Williams, Samuel T., Gen., Chief, MAAG</td>
<td>258</td>
</tr>
</tbody>
</table>
PREFACE

This print, which has been published by the Committee on Foreign Relations, contains the record of hearings conducted by Senator Gale McGee, and me in Vietnam. We were assisted by a member of the committee staff.

This hearing, of which portions have been deleted for reasons of security, was nominally the responsibility of the Subcommittee on State Department Organization and Public Affairs. Although not a member of this subcommittee, I was asked by its chairman to assist the subcommittee in this matter. Senator McGee was designated by the chairman of the Appropriations Committee, of which he is a member, to participate in the undertaking. The Mansfield subcommittee will make a formal report on the entire investigation of American aid in Vietnam.

ALBERT GORE,
U.S. Senator.
SITUATION IN VIETNAM

MONDAY, DECEMBER 7, 1959

U.S. Senate,
Subcommittee on State Department
Organization and Public Affairs of the
Committee of Foreign Relations,
Saigon, Vietnam.

The subcommittee met, pursuant to call, at 11 a.m., in the conference room of the operations mission, Saigon, Vietnam, Senator Albert Gore presiding.

Present: Senators Gore and McGee.

Also present: The Honorable Elbridge Durbrow, U.S. Ambassador to Vietnam.

INVESTIGATION OF OVERALL AID PROGRAM IN VIETNAM

Senator Gore. The meeting will come to order. This meeting is called for the purpose of a record examination of the U.S. aid program to Vietnam. This hearing commences after Senator McGee and I and staff have spent several days in examination of projects, programs, undertakings, and records.

Before going further, I wish to express my appreciation for the hospitality and cooperation of Ambassador Durbrow, USOM staff, MAAG staff and other American officials and personnel. In that, I am confident that Senator McGee joins fully. I wish also to express appreciation for the hospitality and cooperation and frankness of the Vietnamese officials. We came here immediately after a 3-hour conference with President Diem which I believe you will agree, Mr. Ambassador, was a frank as well as a full exchange.

Mr. Durbrow. It certainly was. Yes, sir.

Senator Gore. Again, before going further I wish to thank you, Mr. Ambassador. You, too, have been frank and cooperative, as well as hospitable.

Mr. Durbrow. Thank you, sir.

Senator Gore. Before we begin, the committee will be pleased to accord you an opportunity to make whatever preliminary statement you wish to make.

Mr. Durbrow. Thank you, Mr. Senator—Mr. Gore and Mr. McGee. We have been on this particular problem, you know, basically since last July. I might say for myself that Mr. Colgrove, in a certain sense, did me a lot of good because I have learned more about the 1954, 1955, and 1956 programs than I otherwise would have.

Senator Gore. Our purpose is not to investigate specific charges which may or may not have been made. Our objective is examina-
tion of the whole program and evaluation of the program insofar as our capacity is concerned.

Senator McGee has just suggested that it might be appropriate to note that this is an executive hearing. We have considered the matter and concluded that it would not be proper to have a public hearing at this time in Vietnam. The proceedings of this hearing will, of course, be published as a committee document upon our return to Washington.

Mr. Dubrow. We realize that you want to look at the whole program and we have gotten up all the information we can. We will continue to be frank as possible and do everything we possibly can to give you the whole picture—the good and the bad and the other things we have done.

All the members of the USOM, Embassy, MAAG are here to testify before your committee and will give you the best of their knowledge in the fullest and frankest way and I hope that we are able to satisfy you on what we have done here in regard to our whole aid program in Vietnam.

I understand that you would like to start in on commercial import program practices.

**EXCHANGE RATE AND IMPORTATION OF GOODS**

Senator Gore. Thank you, Mr. Ambassador. I would like to start with an examination of the exchange rate, the import program, the counterpart operations and how they are interrelated.

I might say in beginning that the exchange rate of 35 to 1 appears to be an extremely arbitrary one. That is 35 piasters to $1. I do not know what the Hong Kong rate is today, which would reflect the world rate of exchange. Suffice it to say that a member of our group has had an opportunity to exchange his dollar at the rate of 87 piasters to $1 since being in Saigon. Exactly what the realistic exchange rate is I would not know, but I would like the record to show at this point the official international rate that Hong Kong gives today.

Mr. Newhouse, a staff consultant of the Senate Foreign Relations Committee, who will help us conduct this examination will supply this for the record.

(The information to be supplied is as follows:)

On December 7, 1959, the Hong Kong rate on the Vietnamese piaster was U.S.$1.00=VN$82.22.

Senator Gore. It seems to me that this arbitrary exchange rate operates as a subsidy from the U.S. Government. That the importation of goods at less than one-half of the piaster value in this country creates severe problems, offers opportunities for profiteering; for internal taxation, and for other operations which may not be entirely praiseworthy.

I realize that the Vietnamese Government receives a considerable portion of its revenue from import taxation. But this in itself would appear to be self-defeating. Basically, this is at fault because one of Vietnam’s fundamental problems is to gain enough strength to have a balance between its imports and exports and a dependence for internal revenues upon import duties or subsidy would appear to operate in the long run disadvantageously to the development of a balanced economy.
ORIGIN OF OFFICIAL EXCHANGE RATE

I would like to begin with an examination of this problem. If someone would be prepared to testify as to the source of this agreement and its effect, we would like to start there.

Mr. Durbrow. I would suggest, Mr. Senator, that this subject be discussed by Mr. Roland Smith who is head of the Finance Division of USOM.

Mr. Smith. The exchange rate of 35 to 1 has been in effect since May 1955. This rate applies to all essential imports. Sixty-five percent of all export proceeds are converted at that rate. Outward remittances, mostly for Government purposes and programs, official travel, transportation, and certain inward remittances which must be sold at the official rate, I might say a few words about black market rates.

Senator Gore. Well, first, by what agreement was this rate arrived at?

Mr. Smith. There is no agreement between the United States and Vietnam with respect to the rate of exchange. There is a bilateral aid agreement in which they agreed to deposit counterpart at the official rate of exchange. I believe in international practice, establishing a rate of exchange is the right of a sovereign country.

Senator Gore. There is no agreement between the United States and Vietnam to sustain this rate.

Mr. Smith. No, sir; not to my knowledge.

Mr. Durbrow. The rate was set when the French were here and they set the same rate for Cambodia and Laos, 35 to 1 for their respective currencies. This is the rate we found when we started on January 1, 1955, about 6 months after he, Diem, had taken over control of the country.

Senator Gore. Has the U.S. Government undertaken to persuade the Vietnamese Government of the unrealistic nature of this rate of exchange?

Mr. Smith. Yes, sir.

Senator Gore. With what effect?

Mr. Smith. With the effect that in March 1957, it enacted a production tax, which brought the effective cost of imports up to about 53 to 1, including exchange rate, customs duties, and production tax.

Senator Gore. That would still leave an enormous gap between 58 and 87.

Mr. Smith. Here I might point out that Vietnam’s exports can go out profitably at a rate of about 48 to 1. My experience has been, and I think most monetary and financial authorities will bear me out, that the closest thing to the real value of a country’s currency is the rate at which its exports can go out. Vietnam can export rubber, rice, and some other commodities at a rate of 48 to 1. The black market rate is mostly for people who want to get money out of the country for one purpose or another, either to turn into hard currencies, or to buy something abroad. The black market rate is something like the price of whisky in a dry State.

Senator Gore. Are you, by chance, from Tennessee? [Laughter]

Mr. Smith. No, sir.
Senator Gore. I think its consequences are considerably more far reaching than that. You were about to discuss the black-market operations. I would prefer to have you discuss the profiteering by an importer. First, the Vietnamese Government itself is an importer, which, as you know, in other countries has given rise to questionable practices and then, secondly, its operation with respect to a private importer who imports goods from some other countries at a rate of 35 to 1 and markets them in a market that goes as high as perhaps 90 to 1.

Mr. Smith. We found in 1957 after the introduction of the production tax that there was actually such a decline in the sale of imports that they were piling up in warehouses; bankers and other people were coming to us and saying that, "you have raised the costs of imports so high they cannot be sold."

The market has since adjusted itself and the demand from the market for imports today, I believe, is near to the supply of exchange on the market, which indicates that there is not a great deal of profiteering, unless you would call the levying of taxes profiteering by the Government. The Government does collect a tax of about 10 piasters per each U.S. dollar of aid.

Collection and Deposit of Production Tax on U.S. Imports

Senator Gore. Does our Government not have an agreement that this tax upon U.S. imports will create counterpart funds over which the United States has some direction and control?

Mr. Smith. The production tax was a substitute for the sales tax and the general turnover tax which had a very bad collection record in Vietnam. Shortly before this production tax was enacted, USOM technicians assisted the Government in Vietnam in developing the production tax, which was a substitute for the old sales tax and the turnover tax. The principal difference was that production taxes were to be collected at sources at the point of production in the case of locally produced commodities, and at the customs house in the case of imports. ICA regulations do not provide for the deposit of a sales tax and this tax has been deemed as a substitute for a sales tax.

I might add that there has been some question from the legal standpoint and USOM has made attempts to induce the Government of Vietnam to deposit the proceeds in counterpart.

Mr. Newhouse. The production tax?

Mr. Smith. Yes, but they flatly refused. At one time we told them they could use it for their civilian budget; but they refused. Another time we asked if they would deposit for accounting purposes and again they refused.

Senator Gore. Are you telling us that you have received no cooperation from the Vietnamese Government in identifying the import tax that is levied as a result of this unrealistic exchange rate?

Mr. Smith. We have been unable to induce them to deposit the production tax. From a financial and economic standpoint, I can see little benefit of forcing the Vietnamese Government to deposit a tax which we would probably return to them for budget support and to be used for the very same purpose that they are now using them. It seems to me that we should operate our program to have a minimum
of controls rather than a maximum of control over the largest possible amount of their resources.

Mr. Durbin. May I interrupt, Mr. Senator? I think Mr. Smith mentioned this in the beginning, but I should like to underline that this production tax is not just an import tax. It is a tax on other things produced inside the country. It is not derived only from American aid or other imports.

Mr. Newhouse. Is the production tax on imports any higher than it is on domestic products?

CUSTOMS DUTIES AS SOURCE OF COUNTERPART FUNDS

Mr. Smith. 15, 25, 35 percent on imports, depending upon the degrees of necessity with basic raw materials coming in at the 15-percent rate.

Senator Gore. What is the customs rate?

Mr. Smith. The customs duties vary from 5 to 80 percent. These are deposited in counterpart account.

Senator Gore. How many piasters have been deposited in the counterpart account from that source?

Mr. Durbin. You would like the total since 1955?

Mr. Smith. Through November 30, 4,302 billion piasters.

Senator Gore. Will you supply a copy of this document for the record to be included at this point?

Mr. Smith. Yes, sir.

(The information supplied is as follows:)
### Local currency deposits resulting from U.S. aid to Vietnam by calendar year

**[In plasters]**

<table>
<thead>
<tr>
<th>Year</th>
<th>Commercial imports</th>
<th>Cash grants</th>
<th>Triangular trade</th>
<th>Customs duties</th>
<th>Miscellaneous receipts</th>
<th>Total</th>
<th>U.S. owned from sec. 605 transactions</th>
<th>U.S. owned, Public Law 480</th>
<th>Grand total</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1954</td>
<td></td>
<td></td>
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<td>1955</td>
<td>1,257,071.097,18</td>
<td>2,257,445</td>
<td>1,313,820.00</td>
<td>220,175.00</td>
<td>144,121.00</td>
<td>7,680,757</td>
<td>5,245,000</td>
<td>12,925,757</td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>7,000,438,886.80</td>
<td>3,163,765</td>
<td>1,050,364.80</td>
<td>320,843.80</td>
<td>170,400.80</td>
<td>11,546,804</td>
<td>5,245,000</td>
<td>16,791,804</td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>6,257,468,733.98</td>
<td>3,350,017</td>
<td>925,075.00</td>
<td>214,834.80</td>
<td>120,400.80</td>
<td>11,152,967</td>
<td>5,245,000</td>
<td>16,402,967</td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>4,749,045,565.56</td>
<td>3,350,017</td>
<td>925,075.00</td>
<td>214,834.80</td>
<td>120,400.80</td>
<td>11,152,967</td>
<td>5,245,000</td>
<td>16,402,967</td>
<td></td>
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<tr>
<td>1959 through Nov.</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>30, 1959</td>
<td>4,000,505,919.56</td>
<td>50,023,595.96</td>
<td>878,690,719.47</td>
<td>50,993,220.00</td>
<td>000</td>
<td>4,995,810,001.80</td>
<td>807,371,805.00</td>
<td>6,665,845.56</td>
<td>8,478,511,155.17</td>
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<tr>
<td>Grand total</td>
<td>20,672,143,802.06</td>
<td>5,267,449</td>
<td>4,455,521,181.10</td>
<td>4,302,266,851.46</td>
<td>244,177,596.88</td>
<td>34,972,675,429.60</td>
<td>2,726,143,141.80</td>
<td>66,665,845.56</td>
<td>88,785,435,419.41</td>
</tr>
</tbody>
</table>

1 Out of VN$1,736,141,141.80, VN$1,736,141,141.80 have been allotted to this mission.  
2 Out of VN$1,995,266,805.00, VN$20,075,519 have been allotted to this mission.  
3 VN$2,361,414,881.56 have been directly deposited in USDO account. No amount has been allotted to this mission as yet.
U.S. ATTEMPTS TO AUDIT COUNTERPART ACCOUNT

Senator Gore. Has USOM audited this account?
Mr. Smith. I don't believe so, sir.

Senator Gore. Why haven't you?
Mr. Smith. Mr. Battleman?

Senator Gore. I think maybe this question the Ambassador should answer.

Mr. Durbin. I frankly don't know, sir. I think that question has come up recently. I know Mr. Battleman talked to Mr. Hickenlooper about it.

Senator Gore. It seems to me quite an important question. If you are the only one, Mr. Battleman—

Mr. Battleman. We have made available to Mr. Newhouse a chronological list of our attempts to audit the customs duties.

Senator Gore. I have that chronological account. It all adds up to the fact that you have made requests for an audit and that these requests have been refused.

Mr. Battleman. That is right.

Mr. Durbin. We have written the Minister of Finance and the last word I have indicates that they were going to let us go ahead.

Senator Gore. That will be included at this point in the record, a chronology of the attempts or requests USOM has made to obtain permission to make an audit of this account, which account belongs to the U.S. Government.

(The chronology referred to is as follows):

SUMMARY OF USOM EFFORTS TO OBTAIN CUSTOMS INFORMATION FROM THE MINISTRY OF FINANCE (GVN)

The summary below has been prepared in chronological order citing motions which started in April 1969.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
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<tbody>
<tr>
<td>Apr. 9, 1969</td>
<td>USOM controller requested permission by letter for Messrs. Milot and Hong to visit the accounting office of the Customs Directorate.</td>
</tr>
<tr>
<td>May 4, 1969</td>
<td>Since no reply was received to the above request, a second letter was sent to the Ministry of Finance.</td>
</tr>
<tr>
<td>May 20, 1969</td>
<td>Letter addressed to the U.S. Ambassador from the Minister citing the proposed presence of Mr. Milot at the Customs Directorate as offering propaganda opportunities to the Vietnam, and stating that Mr. Le Duy Hong (one of our local Vietnamese accountants), being employed by a foreign government, is not welcome within the accounting office of the Customs Directorate. An alternative procedure was offered to the USOM controller whereby any questions would be submitted in writing to the General Directorate of Customs and official answers were promised to each request of USOM.</td>
</tr>
<tr>
<td>June 9, 1969</td>
<td>USOM controller sent written request to the director General of Customs for an appointment in order to discuss and clarify problems on customs and imports.</td>
</tr>
<tr>
<td>July 2, 1969</td>
<td>The Director General of Customs replied to the above letter and set July 6 as the date for the conference.</td>
</tr>
<tr>
<td>July 6, 1969</td>
<td>In a conference with the Director of USOM, Mr. Ha Van the Director that the USOM controller would be granted access to the Directorate of Customs.</td>
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</tbody>
</table>
**July 6, 1959**—— Messrs. Battleman and Borresen met customs officials and requested that a conference be arranged between customs accounting staff and USOM accountants. The deputy director of customs, Mr. Lam Van Hai, would not agree to this, stating that he had only been authorized by the Minister of Finance to answer specific questions presented in writing by USOM. Mr. Battleman stated his opinion that a conference would be more desirable, but Mr. Hai gave him the same answers, as apparently instructed by the Minister of Finance. Finally, USOM presented five specific questions concerning customs operations applicable to American aid financed imports. Mr. Hai stated that it would take some time to obtain answers to these questions but that the answers would be given. The USOM controller again expressed his hopes that a conference and working sessions could be arranged rather than carrying on an endless correspondence.

**July 23, 1959**—— The GVN Secretary of State at the Presidency during discussion told Mr. Gardner that he would try to arrange with the Minister of Finance for USOM to obtain the information that had been requested.

**Sept. 10, 1959**—— The USOM controller met with the Minister of Finance (GVN) who repeated his stand that any questions regarding customs should be submitted in writing. Mr. Battleman stated that questions submitted on July 6 had not been answered. Mr. Vuong said he thought they had been answered already, but promised an early reply. He repeated his view that he does not want any USOM-employed Vietnamese personnel in his accounting office (despite the fact that the books are kept in Vietnamese). It was agreed that we would await the answers to the questions previously submitted and then set an appointment for formulating a work-plan so that the controller and one other American could observe the customs accounting procedures.

**Sept. 11, 1959**—— Letter received from deputy director of customs containing answers to questions submitted on July 6. (Answers to questions were vague and generally unsatisfactory.)

**Sept. 23, 1959**—— USOM controller replied to above letter stating that several points remained unclear and requested an appointment for further discussion of procedures and controls on American aid commodities.

**Oct. 16, 1959**—— A résumé of an October 12 meeting with Mr. Pho, Chief of Cabinet for the Ministry of Finance, was submitted by the USOM controller to Minister of Finance Vuong. The résumé pointed out the basis for USOM's requests for a meeting with customs accounting officials to obtain information on procedures and controls and expressed surprise that Mr. Pho intended to again present our request for information to the Minister for approval. Interest was stated in the methods of handling sales at auction of ICA-financed commodities and in customs warehouse inventories. Mr. Pho said that the Minister and the Vice President would have to approve such inspections as USOM wished to make. The résumé requested the action of the Minister of Finance on the above point in a spirit of mutual cooperation. Nothing has yet been received relative to this.

**Do.**—— The Director of USOM, in a conference with Dr. Vuong, stressed the necessity for the GVN's cooperation in permitting the USOM controller to gain access to customs accounting procedures and controls with respect to American aid-financed commodities. Mr. Gardner explained the spirit of the mutual assistance agreement. The Minister replied that if Mr. Battleman had any difficulties with Mr. Pho, then he (the Minister) should be informed.
Oct. 21, 1959—— At a meeting between Mr. Gardiner and the Secretary of State at the Presidency, Mr. Gardiner again raised the question of lack of cooperation on the part of the Ministry of Finance with respect to making customs information available to the USOM controller division. Mr. Gardiner agreed to make certain concessions on and use checks on commercial imports if the Ministry of Finance would at the same time cooperate with the USOM controller division by giving them an opportunity to study the customs accounting procedures and controls on American aid-financed imports.

Oct. 30, 1959—— Mr. Gardiner carried this problem to the level of the Vice Presidency in a conversation with Vice President Tho. He explained that USOM expects criticism because the Ministry of Finance has not furnished the information we have been requesting over a period of months. Mr. Gardiner subsequently sent Vice President Tho a copy of the October 16 letter which the controller had prepared for the Minister of Finance.

Nov. 6, 1959—— The Director received a diagrammatic chart describing the accounting and control mechanism of the customs office and a detailed list of goods in bonded warehouses. Both of these will be subject to further action by the controllers. The area still in question concerns the amount involved from the sales of ICA financed goods at auction and the eventual transfer of this amount to counterpart.

Senator Gore (continuing). Have you, Mr. Ambassador, made representation to their country on this point?

Mr. Durbrow. I have talked to them and the USOM people have tried to get permission to have this audit take place.

Mr. Battleman. Correction—this account does not belong to the United States. It belongs to Vietnam, over which the U.S. Government has the right of——

Senator Gore. The counterpart fund in this country and in others is a fund in which both the United States and the country government have an interest. It is a fund to which the United States has certain title, and it cannot be used, except by mutual agreement of both governments. Is that not correct, Mr. Ambassador?

Mr. Durbrow. Yes, sir; it is.

Senator Gore. Then the fact would appear to me that this is a fund to which the U.S. Government has entitlements, a fund subject to its disposition by agreement, a fund created as a result of American aid that comes to this country. Yet a fund which, according to the record thus far, the U.S. Government has not been permitted to audit or in any other way ascertain the true status of the account. Is that correct?

Mr. Battleman. It is only in the customs area that we have not been permitted to make an audit.

Senator Gore. That is the subject area of this immediate inquiry.

Mr. Battleman. This is exclusive of 33 to 1. On the 33 to 1, we have no problem. It is only customs.

Likelihood of Agreement to Let United States Audit Account

Mr. Newhouse. Mr. Vu Van Thai has told the mission that on December 1, a new IBM system of controls would be put into effect. The question is: Has this system been put into effect? Do we have any reasons to believe that Vietnamese auditors employed by USOM will be given access to these records?
Mr. Battleman. I have asked for an appointment to review this with Vu Van Thai. This should solve the future problems. It is the past we are still concerned with.

Mr. Newhouse. Is it true, Mr. Battleman, that the question of trying to begin to make audits of customs receipts arose when you arrived here in February; that yours was the first initiative taken in this area? Is that a fair statement, Mr. McCauley, that we had expressed no previous interest in auditing customs duty?

Mr. McCauley. I really don't know the answer to your question.

Senator Gore. What is your title, Mr. McCauley?

Mr. McCauley. I am now the Acting Director of USOM. My position is ordinarily Chief of TCP.

Senator Gore. I think the record should show that Senator McGee and I agreed to the attendance of Mr. Gardiner at the USOM Directors conference, subject to the understanding that upon our request he would return immediately.

Ambassador Durrow, this is a matter of sufficient importance, that action of our Government in Washington might be necessary to bring about the necessary cooperation to assure to the United States an accurate accounting of these piasters that will constitute a large part of the benefit to this country from America's aid. Have you made representation to the Government?

Mr. Durrow. I have. USOM has, on many occasions. I talked to Mr. Thuan about it and was given to understand that they are about ready to agree. [Deleted.]

Senator Gore. This would reach the level, it appears to me, of the Secretary of State himself as well as the Director of ICA; and if we don't get it, we go to the President himself.

Mr. Durrow. On past occasions we have quite often been able to work such matters out locally. It is hoped that we will get them to see the fundamental necessity of this particular matter being done. If it isn't done, we will have to go higher and higher.

Senator Gore. Why hasn't this been done before?

Mr. Durrow. I, personally, wasn't aware of the problem until a few months ago. I assumed we did have a knowledge of the amount that came in. As Mr. Battleman has said, we have on the $5 to 1, and on the customs we don't have. I wasn't aware of it until it was brought up earlier this year.

LACK OF COORDINATION OF COUNTRY TEAMS

Senator Gore. That illustrates one of the serious questions which Senator Mansfield raised, one of the matters of concern of several Members of the U.S. Congress, to wit, the lack of coordination of country teams. Such a serious problem, it would appear to me, should be brought to the attention of the Ambassador immediately. Are you not, in fact, the captain of the team in Vietnam?

Mr. Durrow. I am, sir; and this is the sort of thing that should have been brought to my attention. It was not brought up until the first of this year.

Senator Gore. When was it first brought to your attention?

Mr. Durrow. I do not remember, but it was the first part of this year.
Senator Gore. Will you supply for the record your chronology of your communications to Washington on this point?

Mr. Durbin. Yes, sir.

(The chronology which was supplied is as follows:)

**Chronology of Communications With Washington on Customs Duties and Related Problems**

1. July 27, 1959.—USOM/Controller's Quarterly Activity Report (TOICA A-232) discussed USOM efforts to check correctness of customs deposits reported by GVN.

2. September 17, 1959.—ICA/Washington expressed a desire (ICATO A-400) to be advised of the results of USOM efforts to obtain customs information.

3. October 8, 1959.—USOM/Controller's Quarterly Activity Report (TOICA A-769) indicated that the mission director was continuing to press for action on the customs problem.

**Negotiation Between the United States and Vietnamese Officers**

Senator McGee. Only to make sure that the record is clear, what instructions to press this further have you received from Washington?

Mr. Durbin. We have been asked to get this matter settled. [Deleted.]

Senator McGee. You have been given the authority to go to higher levels here, if necessary?

Mr. Durbin. We have that authority automatically, to talk to Government officials here, to get them to comply with requests that it is the interest of the United States to have information on. [Deleted.]

Senator McGee. You mentioned some time ago there was some sensitivity on the question of sovereignty, and most of us understand that this is largely a matter of national pride, and so forth, and an especially sensitive characteristic in most new countries. When you say that, do you intimate that there has been a reluctance on the part of our Government in Washington to press this matter hereofore?

Mr. Durbin. As far as I know, that did not come up until it came up earlier this year. On other subjects of that kind, either on our initiative or instructions to Washington, we have been going further in [deleted] these things.

I may have to go to the President himself. [Deleted.]

Senator McGee. And this has not been dealt with directly with the President of Vietnam?

Mr. Durbin. Not in my presence. Mr. Gardiner may have [deleted] but I do not know if Mr. Gardiner has taken it up with the President.

Senator McGee. Mr. Gardiner, in this kind of situation, would not have to go through you?

Mr. Durbin. It was set up before I arrived that the President sees the USOM Director on certain matters and they inform me by memos of what they take up with the President. Sometimes I go myself.

**Joint Efforts of U.S. Ambassador and USOM Director**

Senator McGee. Who would inform you that such a negotiation would—

Mr. Durbin. Mr. Gardiner has been keeping me informed on the question for the last 9 or 10 months. These memos come to my desk
and are brought up at the country team so that I should be informed of all important matters that General Williams and Mr. Gardiner have taken up with the President direct. On this particular matter, he, Mr. Gardiner, did mention it to the President but I didn’t hear about it. I know of two discussions in the country team about Mr. Gardiner’s efforts to obtain action on this problem.

I talked with the Secretary of State for the Presidency, Thuan, and we have [deleted] written letters in an effort to get agreement on this matter. If it doesn’t work that way, we will go to the President.

Senator McGee. So far as you know there had been no instruction from Washington to what we say “go to the mat” on this question?

Mr. Durbin. We have “gone to the mat,” but not to the President.

Senator McGee. You are prepared to go to the President?

Mr. Durbin. I certainly am.

Senator McGee. When?

Mr. Durbin. Well we tried talking to Mr. Thuan about it. He said he was led to believe they were going to work this matter out. Then if it doesn’t happen soon, I will go to the President. This month, next month, in the near future. I haven’t talked with Mr. Thuan on this subject for 2 or 3 weeks. We have been awfully busy doing other things and I haven’t gotten around to this lately.

DIFERENT EXCHANGE RATES

Senator McGee. Mr. Chairman, may I go back to one other point? So that the record will carry some explanation, I think this should be directed to Mr. Smith. What would happen if the agreement concerning the acquisition of counterpart were amended to stipulate that piasters be deposited at the going market rate? What would be the effect?

Mr. Smith. There would certainly a decline in the sale of imports which would lead to a lower standard of living.

Senator McGee. You are aware of the problem Senator Gore intimated already, a problem in the realm of public opinion, not just the man in the street—Senators as well who do not understand this double monetary standard. I think the record might well include an explanation, not in the economist jargon, but in three-letter words of why a double monetary standard has to be maintained.

Mr. Smith. Are you referring to what we call limited access free market rate? That is the 72 rate. That is what might be called a second official rate. That rate was instituted in 1956 by the Vietnamese Government with the aid and assistance of the International Monetary Fund principally for two purposes: (1) To permit the remittance of profits mostly of French firms here. The Vietnamese did not feel that they wanted to assess an additional tax on these profits and therefore did it through the exchange rate; (2) [Deleted] I understand there was some pressure on the part of Washington that money spent here for our services should go to the Vietnamese Government to lower their balance of payments deficit. It was worked out whereby the funds that we exchange here at the 72 rate on the limited access free market rate are used to pay part of the remittances of the profits of French concerns. Those were the two principal reasons for that special rate. It has been also made avail-
able to tourists and practically all outward remittances go out at that rate.

Senator McGee. There are in effect three or four exchange rates?

Mr. Smith. Only two official rates. We refer to the export rate as a special rate, but actually it is arrived at by the Vietnamese Government, converting 65 percent of export proceeds at the 35 rate and 35 percent at the free market rate, resulting in a rate of 47-48.

Senator McGee. The rate in Hong Kong today, would it be 72?

Mr. Smith. The rate in Hong Kong is now about 82-85.

Senator Gore. Actually, there are three or four exchange rates. The first official, the second official, the international rate and probably a slightly different one on the black market.

Mr. Smith. In any country that has exchange controls there is black marketing of currencies.

DISPOSAL OF DIFFERENCE BETWEEN EXCHANGE RATES

Senator Gore. But for the sake of cleaning up this fluctuation and variety of figures that we throw around, it seems to me the record should carry an elementary explanation of the operation of these varying exchange rates.

The next question that I would like to ask you is in the light of this difference between the 35 to 1 and the free market rate, the question arises in some minds, owing to practices in other Asian countries—not here, to my knowledge—of whether there is a takeoff in the disposal of the difference. Is it your impression here that there has been such individual profiteering as a result of the multiple exchange rate?

Mr. Smith. It is my opinion that there has been no takeoff on the part of private importers. The Government absorbed most of the excess profits through taxes, including the production tax. And also in the fact they have an effective price control for an Asian country.

Senator Gore. This large absorption by the Government I suppose has been to generate its own capital.

Mr. Smith. In order to generate Government revenue and to tax away from what otherwise might be excessive profits.

ECONOMIC EFFECTS OF NORTH-SOUTH DIVISION OF VIETNAM

Senator Gore. Had the civil war not divided the country as it did, economically, would this circumstance have been different?

Mr. Smith. I am sorry, I don't follow your question, sir.

Senator Gore. I'm thinking in terms of Government revenue. Had the country not been divided by civil war, were there no boundary at the 17th parallel, to the north of which I understand is located most of the industrial capacity, would it have been different?

Mr. Smith. The whole program would have been different because most manufactured goods were manufactured in the north and agricultural commodities were produced in the south. There would not be the necessity for the huge quantities of imports.

Senator Gore. In other words, you would like the record to show that the "discrepancy" between the figures used in the exchange rates is largely to make up for the circumstance in the economy of the coun-
try that resulted from the separation of southern Vietnam from the industrial northern part of the country?

Mr. Smith. It has resulted in the need for large quantities of imports.

Senator Gore. And from what else?

Mr. Smith. I am not sure that I follow your question.

Senator Gore. I want to try to show on the record what factors explain this situation. Goods are imported at the exchange rate of 35 to 1 when the free market rate is substantially more. You have suggested that there is a peculiar circumstance that stems from the consequences of the civil war, economically, that would explain what you say is part of it, not all of it. I'm asking what explains the rest of it? We wish the recorded light on this.

Mr. Smith. The lack of production. South Vietnam is not able to produce the varieties and quantities of commodities needed to maintain a standard of living sufficiently high to keep this country from going Communist.

Senator Gore. Even without a divided Vietnam? This would have been the circumstance without the civil war?

Mr. Smith. I'm sorry, I can't answer. I'm not familiar with that.

VIETNAMESE ARMED FORCES CONSTITUTE ECONOMIC BURDEN

Mr. Durbin. I think that as I pointed out to you the other day, one of the reasons why they have troubles economically here is the need to maintain an armed force level of 150,000 men. That, rightly or wrong, I think is a good bulwark in this part of the world. One of the reasons why they are not economically independent and won't get there sooner is that this is a rather heavy load to carry, maintaining an armed force of 150,000. If the Communists were not in the North and they didn't have such a big army, the situation would be quite different in South Vietnam from an economic point of view.

Senator Gore. The fact that explains this artificial difference is the abnormal burden in the defense or security concept. Aside from the economic split that the civil war produced, are there any other factors?

Mr. Smith. The damage done to the productive facilities in South Vietnam resulting from the 7-year war.

Mr. Durbin. Nine-year war.

Mr. Smith. And the destruction of the roads and bridges.

SOURCE OF REVENUE FOR VIETNAM GOVERNMENT

Senator McGee. The real purpose of an arbitrary exchange rate lower than the more realistic free market rate is to provide a source of governmental revenue.

Mr. Smith. One of the purposes also is to improve the standard of living of the people, to keep the cost down on basic commodities and imports bought by most of them at a reasonable price to the majority of the people.

Senator McGee. Which means the country selling the products either must bear that subsidy or the importer must bear it. In this case, whoever buys the goods must pay it.

Mr. Smith. Yes, sir.
Senator McGee. So it comes back to the same purpose; namely, to provide governmental revenue. Is it not a fact that a large proportion of the revenue of the Vietnam Government is derived from a tax on imports?

Mr. Smith. Yes, sir.

Senator Gore. Would you not agree, Mr. Ambassador, that it tends to be a disproportionate amount of this revenue?

Mr. Durbrow. That was the argument the President used this morning; namely, because of the lack of industries in South Vietnam, the need to reconstruct during the past 3 or 4 years, they have not had the kind of economic base which would permit them to start in doing more internal taxing. They do have internal taxes, but they cannot go much higher until they build up agriculture, business, and industry. The changeover to a more direct tax system will be very difficult so they have used this device which is out of proportion. They tax the imports to get most of their revenue.

Senator Gore. That is the device that lays a heavy hand on the U.S. Government. We find ourselves, either by necessity or choice, paying the difference in their balance of trade accounts. In addition to providing the actual assistance to the defense of this country, the United States is paying about 75 percent of the cost of imports.

Mr. Durbrow. For the defense side of the picture—

Senator Gore. I understand 75 percent of all imports.

Mr. Durbrow. I forget that exact figure, about 75 percent or commercial imports. One of the basic reasons for the commercial import program is to bring what are considered needed goods, but not luxury-type goods, into the country to be sold inside Vietnam for piasters, thereby effecting a basic exchange of piasters for goods and preventing an inflation. A serious inflation had taken place in Vietnam as in other places in the world, because of the war. The piasters thus received are basically used to support armed forces of 150,000.

**EXTENT OF U.S. CONTROL OF AID-GENERATED PIASTERS**

Senator Gore. I understand that, Mr. Ambassador. The question raised here is that the aid from the United States provides these piasters which, by agreement, are used by the United States and the Government of Vietnam for purposes mutually agreed on.

Mr. Durbrow. That is correct.

Senator Gore. Unless there is an actual accounting of such piasters, the U.S. Government is being denied its rights, and these piasters may be disposed of in some way to which we would not agree.

Mr. Durbrow. Correct.

Senator Gore. If it goes into the Vietnamese Government budget funds, the use of which is, of course, not subject to U.S. approval, we have a situation in which the United States has lost all influence over these piasters. If, instead, this money goes into the counterpart account, then its use is subject to ours and the Vietnamese Government's approval. Is that correct?

Mr. Durbrow. Yes, sir; except as I understand it as it was explained to me, the production tax was considered as a substitute for, or is still a sales tax which is something that is not by usual practice,
put into the counterpart fund. The sales tax is what the production
tax was substituted for.

Senator Gore. For the moment, we are speaking of custom receipts,
receipts from a custom tax upon imports.

Mr. Durbrow. I was talking about the production tax. I’m sorry.

AID PROGRAM ORIGINALLY INTENDED TO GENERATE PIASTERS

Mr. Smith. Excuse me, Senator, could I interject something here?
I think at this point it might be well to point out that our program
has changed. For the first 3 years it was based primarily on the need
to generate piasters to support the military, refugee program, and so
forth.

Senator Gore. That term, “generate piasters” is something that is
used widely and loosely. Do you mean by this term that the taxes on
imports provides revenue to the Vietnamese Government, measured
in amounts of piasters?

Mr. Smith. To generate piasters means the 35 to 1 obtained from
licenses for sales from the United States.

Senator Gore. We do not print piasters in the United States.

Mr. Smith. Generate piasters from sale of U.S. aid to importers.

Senator Gore. Which is in excess of import values.

Mr. Smith. To generate piasters means the 35 to 1 plus the customs
duties.

Senator Gore. That is what I said.

Mr. Smith. Our programs were based on a review of local cur-
currency needs, including the military program and other programs. At
this time, they are not based on the need for piasters but for imported
goods. Therefore, although the Vietnamese Government in 1959 or
1960 will have a deficit, our American aid has been planned on the
need for imported commodities.

Senator Gore. Why should you ever have based it on the need for
piasters? It should be goods, commodities, and technical aid.

Mr. Smith. In earlier years, Vietnamese programs needed pi-
asters—such as the military program, the refugee programs, et cetera.

USE OF COUNTERPART FUNDS TO CONSTRUCT AUDITORIUM

Senator Gore. Right now there is under construction an audi-
torium for the Vietnamese Army.

General Lampert. At the Command and General Staff College.

Senator Gore. Is that auditorium being constructed with counter-
part funds?

General Lampert. It is being constructed with counterpart funds.

Mr. Durbrow. It is part of the military budget which is financed
to a large degree from counterpart funds.

Senator Gore. You have supervision of that project?

General Lampert. Yes, sir.

Senator Gore. Are you the representative of MAAG?

General Lampert. I am one of General Williams two deputies. I
am here this morning in his place.

Senator Gore. You had a right as a representative of the U.S. Gov-
ernment to agree or not agree with the architectural standards of the
building?
General LAMPERT. Yes, sir; that is correct.

Senator GORE. You have the right to agree or not agree, to accept or reject the provisions of the contract for the use of the counter-part funds?

General LAMPERT. May I answer this question by outlining the steps?

Senator GORE. Let's stay with this particular one.

General LAMPERT. We had an opportunity to review the engineering designs and the opportunity to release funds.

Senator GORE. Did you review them?

General LAMPERT. Yes, sir.

Senator GORE. Do they comply with your recommendations?

General LAMPERT. Yes, sir.

Senator GORE. The engineering data and also, the actual design?

General LAMPERT. Yes, sir. We do not review the terms of the contract as made in the United States, but we make inspections to the limit of the manpower available. We are aware of the progress of the construction and that it is proceeding in accordance with the engineering design and the contract provisions.

MAAG APPROVAL OF BUILDING CONTRACT

Senator GORE. Did you or did you not approve the terms of the contract?

General LAMPERT. We approved the engineering specifications and the amount of money the Vietnam Government requested to enter into——

Senator GORE. Did you or did you not approve the terms of the contract?

General LAMPERT. I am sorry, I am not trying to avoid your question.

Senator GORE. I was not implying that you were.

General LAMPERT. Sir, the detailed contract is not presented to MAAG for approval under the existing agreements.

Senator GORE. What agreement?

General LAMPERT. When the Vietnamese enter into a contract, before they enter into it, it is necessary that they receive a letter from MAAG saying we concur in the obligation of funds to cover the amount of this contract. I understand your question to be does MAAG review the detailed clauses of the contract before it is signed.

Senator GORE. That includes the terms of the contract. If you merely read it and exercise no discretion——

General LAMPERT. We exercise a great deal of discretion, but the specific contract signed by the Vietnamese is one which is not submitted to MAAG for review. We review in detail the engineering specifications which are the technical heart of the contract and approve those specifications before it is advertised for bids.

Senator GORE. But you do not review, approve or disapprove or exercise discretion over the terms of the contract to determine whether or not those terms provide for the construction of the building in conformance with the standards which you have approved.

General LAMPERT. Yes, sir, we do because——
Senator Gore. Do you or do you not approve the terms of the contract between the Vietnamese Government and the contractor?

General LAMPERT. We approve the technical terms, but not the legal contract document.

AUDITORIUM CONSTRUCTION NOT IN CONFORMANCE TO CONTRACTUAL STANDARDS

Senator Gore. Well, I have received either a rumor or information—I am unable to determine whether it is rumor or accurate information—that this particular building is not being constructed according to the specified design and standards. Is that rumor or information?

General LAMPERT. I am not able to answer that question of my personal knowledge.

Senator Gore. Mr. Ambassador, how can we get the answer to that?

General LAMPERT. I can bring in an officer this afternoon who will be prepared to answer the question.

Senator Gore. Very well. I raise this question, Mr. Ambassador, because there have been a number of questions as to whether the U.S. Government officials here have been sufficiently diligent to assure that the expenditure of counterpart funds is in accordance with the requirements of the contract letting and performance.

Mr. DURBROW. As I understand it this sort of question has been discussed in the country team and as the general pointed out, they do have qualified engineering officers look at these buildings to see whether it has been done according to the specifications they have approved.

General LAMPERT. Yes, sir; that is true.

U.S. SUPERVISION AND ALLOCATION OF FUND USES

Senator Gore. This illustrates the necessity of an audit of counterpart funds. We have no such opportunity to see if strictly Vietnamese funds, though generated as a result of American aid and paid for in large part by American aid, are properly utilized in accordance with plans which the U.S. Government has approved. On the other hand, if this building is constructed with counterpart funds, we do have those rights. Is that not correct?

Mr. DURBROW. Yes, sir, the military budget uses counterpart funds. [Deleted.]

As far as I understand it, however, if this auditorium you are talking about has been built out of money which came from the production tax or other Government taxes which do not enter into counterpart funds, it would not necessarily be financed out of counterpart. Most of the military budget money comes from the 35 piasters turned over to the counterpart from the importation of a commodity, plus the duty on that particular product, and on the basis of that, money is finally made available to the military for expenditure. [Deleted.]

This particular building is being built out of counterpart funds and comes out of the military budget. We will get some firsthand knowledge from these gentlemen as to whether it is being done according to original specifications.
Senator Gore. Not only do we have the right to approve specifications, we have the right to agree or disagree with contracting procedure.

General Lampert. Yes, sir; we actually have quite an effective agreement concluded 16 months ago with the Vietnamese, supplemented by a memorandum of understanding whereby they have permitted us wide latitude to review construction drawings, make visits of inspection so that we have the most complete information about the design of their buildings and construction, limited only by the availability of our manpower to get out and inspect. For example, we make our own Government estimate before bids are taken. If it is greatly in excess of the Government estimate we withhold concurrence until satisfaction is reached. We make a very comprehensive effort to monitor the military construction program. We are satisfied we are getting value received.

Senator Gore. That is a satisfaction which I hope I am able to obtain. This comes back to the basic problem, Mr. Ambassador, that this unrealistic exchange rate gives rise to a whole series of problems about which Senator McGee was interrogating when I interrupted and I now yield to him.

**Production Tax as Government Revenue**

Senator McGee. What sum of money—what equivalent does this import conversion amount to as far as revenue to the Government is concerned?

Mr. Smith. Approximately 53 per U.S. dollar.

Senator McGee. What is the total in terms of a budgetary year for the Government?

Mr. Smith. How much revenue do they derive from the production tax?

Senator McGee. We sent the stuff in at 85 to 1—the second official rate doubles that. What is the revenue that the Government realizes from this disparity, making allowance for costs along the way?

Mr. Smith. Including that, paid into counterpart or excluding that paid into production tax?

Senator McGee. You told us the reason for this difference is that the Government has to derive revenue. What is the amount of that revenue?

Mr. Smith. We estimate the revenue from the production tax ranged from 1,200 billion to about 1,480 billion piasters per year.

Senator McGee. That is piasters?

Mr. Smith. Piasters; yes, sir.

Senator McGee. And what is our total direct aid, including this conversion scheme? What direct aid did we give in this last year, for example?

Mr. Smith. Our total aid program in dollars?

Senator McGee. That is correct.

Mr. Smith. Project aid for last year, fiscal year 1959, amounted to $36,488,000 and nonproject was $146,442,000.

**Total U.S. Aid to Vietnam**

Senator McGee. So that if we added together the revenue the Government derives from this exchange rate and the project aid that
we granted and nonproject aid would we then arrive at the total expenditures which this is costing the United States in this country?

Mr. Smith. That is the dollar aid made available to this country in 1959.

Senator McGee. What about the import conversion figure you gave me as ranging from 1.2 to 1.4 billions?

Mr. Smith. That results from the government tax on this dollar aid we mentioned.

Senator McGee. That ends up being our money?

Mr. Smith. The production tax is not deposited in counterpart.

Senator McGee. Your second two figures do not include the conversion into counterpart?

Mr. Smith. The $36 million of project aid does not generate counterpart. The $146 million does generate counterpart and most of it generates customs duties. Part of it is in the form of French francs. We sell cotton to the French and give the francs to the Vietnamese Government. In that instance, we do not get customs duties because that is considered to be a sale of a foreign currency to the Vietnamese Government.

Senator McGee. You tell us that the reason for the 35-to-1 rate as opposed to 72 or whatever it is, is to help the Government generate some revenue of its own.

Mr. Smith. That's one of the reasons.

Senator McGee. It does give the Government revenue and it is to our disadvantage.

Mr. Smith. To our disadvantage when we were on a local currency basis. Now that we are on a balance of payments basis, it is not a disadvantage because we are basing our aid on their need for imports.

Mr. Durbrow. They get revenue from other sources than importation. That is, however, the biggest source.

Senator McGee. Then I would be in error in concluding that our project and nonproject aid plus the revenue gained by the Government represented the total help from us.

Mr. Smith. I think, sir, that is double counting.

Senator McGee. That is what I want to make clear here.

ACCOUNTING FOR END USE OF IMPORTS

Mr. Newhouse. I have a few questions of Mr. Battleman. Mr. Smith mentioned that after the imposition of the production tax a lot of the imports were piling up in the warehouses. Is the ICA responsible under the law for an end use determination of these goods?

Mr. Battleman. I don't know of a legal obligation. I know from the standpoint of regulations, we frown on keeping goods in a warehouse for an extended period of time.

Mr. Newhouse. Have we tried to get an end use check prior to this year?

Mr. Battleman. I tried to get in at the same time we talked about the audit.

Mr. Smith. They were not all in customs warehouses. We were paid but the goods were in bank warehouses as security for bank loans.
Senator Gore. We did not get an answer to the question as to whether or not prior to this year, an effort had been made to obtain an end use accounting of imports.

Mr. Battleman. I don't know, sir; I arrived March 6. I did try to get into the warehouses shortly after that time.

Senator McGee. Do you know whether a previous effort had been made?

Mr. Battleman. I don't know.

Mr. Durrow. I don't know.

Senator McGee. Would we be able to find out from the records?

Mr. Battleman. We found no record of an attempt to audit or get into the warehouse.

Senator McGee. So far as anyone knows not until after March 1959—not before early this year had any attempt been made to obtain an end use accounting of imports.

Mr. Battleman. That is a very general statement.

Senator McGee. Is it true or not?

Mr. Battleman. It's not exactly true. What Mr. Newhouse was talking about is the fact that certain goods remain in bonded warehouses for certain periods of time. And that was what I was talking about.

Senator McGee. But no attempt had been made before 1959 to obtain such information. What success have we had?

Mr. Battleman. This was part and parcel of the problem of auditing the customs area and that information was refused to me until very recently when we received the list of goods in bonded warehouses.

Mr. Newhouse. The attempt to have an audit of these commodities was also a part of Mr. Battleman's initiative.

Senator Gore. Were you aware of this problem, Mr. Ambassador?

Mr. Durrow. Not until Mr. Battleman brought it up.

Senator Gore. Did he tell you about it?

PAYMENT OF PIASSTERS INTO COUNTERPART FUND

Mr. Durrow. Mr. Gardiner told me. I think if I am not mistaken, when the licenses are issued and the goods come in, we get some money in the counterpart fund, whether the goods stay in the warehouse or not.

Mr. Battleman. Yes, sir; the stateside bank notifies the Vietnamese bank that payment has been made. Then the Government of Vietnam takes steps to pay the amount into the counterpart. The 35 to 1 is paid shortly after payment is made in the States.

Senator Gore. How do you know it is made unless you have an audit of the counterpart account?

Mr. Battleman. At 35 to 1 we bill on the basis of the commensurate value of the ICA dollars spent. It is the customs area where we have to accept the figure that is given to us. The 35 to 1 does not pose a problem.

Mr. Newhouse. I would like to call attention to a memorandum sent to Mr. Howe, director of program and Mr. Boyd.

Senator Gore. The record will be supplied with this insert. (The document referred to is as follows.)
To: Mr. James Howe, Chief, Program Office.
    Mr. Jack Boyd, Deputy Chief, Program Office.
From: Controller files.
Subject: Counterpart funds from customs duties (note from Colegrove to Representative).

The above note apparently uses the refusal of the Finance Ministry to furnish information to make extravagant statements with respect to what may be happening. First of all, we have no basis for stating or estimating the amount of customs deposited or not deposited to counterpart. This can only be determined by a detailed audit covering the period from the inception of aid to date. Second, since the basic records are Vietnamese customs records it is, therefore, not possible for USOM to "keep track of the money" except by audit or review.

USOM has, therefore, in the past (see summary dated November 3, 1959) requested a detailed explanation of the procedure for collection of customs on ICA-financed commodities and their eventual transfer to the counterpart account in the national bank. Further, USOM has requested the details of ICA goods sold at auction under the GVN procedure whereby goods abandoned are sold within 48 days and finally USOM has requested information regarding ICA-financed commodities stored in bonded warehouses for excessive periods of time.

Up to November 6 all this information had been refused us despite the strenuous efforts of the mission director who finally carried the matter to the Vice President. On November 6 the Director received a diagrammatic chart describing the accounting and control mechanism of the Customs Office and a detailed list of goods in bonded warehouses. Both of these will be subject to further action by the controller. The area still in question concerns, the amount involved from the sales of ICA-financed goods at auction and the eventual transfer of this amount to counterpart. Since Vietnamese law provides for the deposit of this money to the national budget, this may pose some legal problems to be worked out in the future.

Mr. Battleman. I would like to point out that in addition to the problems with the customs, we are making progress in the end-use audits. So far as this auditing is concerned, it is for the most part satisfactory.

Mr. Newhouse. What percentage of the cost of goods sold at auction should go into counterpart?

Mr. Battleman. We don't know because this information has been denied to us.

Mr. Newhouse. Isn't there any way we can work out a mathematical formula?

Mr. Battleman. No; because included in the goods are non-ICA articles. You could use a yardstick and say so much aid is ICA and say 85 percent or 75 percent belongs to it but it would not be accurate.

Mr. Newhouse. Have we any estimate?

Mr. Battleman. It would be a guessimate.

U.S. DENIED ACCESS TO VIETNAMESE RECORDS

Mr. Newhouse. Could the USOM conduct its own audit of customs duties assuming the Vietnamese continue to deny us access to the records?

Mr. Battleman. I think the records are kept in Vietnamese and I don't speak Vietnamese.

Mr. Newhouse. It is my impression that the Vietnamese auditors employed by USOM have been denied access to the books. Could we then put this whole thing through an IBM system in Washington?

Mr. Battleman. We may if we get entree to study the question. One of the things we are curious about is the accounting procedure.
controls; how this all merges into a fund subsequently transferred to
the national bank. Until we review the internal controls of the opera-
tion I don't know how we could go about this.
Mr. Newhouse. Don't we have records ourselves of customs?
Mr. Battleman. We have no records of customs control. That is
a Vietnamese Government affair.
Mr. Newhouse. We have records of procurement authorizations.
We have records of the licenses and of everything that comes in under
the commercial import program.
Mr. Battleman. We have the dollar disbursements made by Wash-
ington.
Mr. Newhouse. And we have the tabulated list of customs duties
on all these commodities?
Mr. Smith. We have schedules of Vietnamese duties.
Mr. Battleman. You might find within a certain area that you
have five or six customs rates for machinery and the only way to tell
is to check the transaction all the way through.
Mr. Newhouse. Can we perform our own audit or do we have to
rely on Vietnamese figures?
Mr. Battleman. We could work up some yardstick figures by
average customs rates but we would have no basis for making it stick
if we had to talk to the Government about it.
Senator Gore. Gentlemen, the foreign aid program is a burden
which the American people do not exactly enjoy. It is one which the
President, Congress, and I hope the people have thought necessary in
the interests of our own security and the security of the free world. I
am one who thinks that continuation of the program in reasonable
amounts is necessary for those reasons. I believe that the American
people and the Government of the United States, and I am sure the
Congress of the United States wants assurance that the money which
we provide is being honestly and efficiently used.
We have, as part of the record this morning, testimony indicating
that we have no such assurance of counterpart funds in Vietnam—some
assurance, yes—but no assurance of record. You, as representatives
of our Government, have been denied access to such records. It would
appear to me that this is a matter of importance to the President of
the United States, and the Secretary of State, as well as to Congress.
I believe Vietnam is a sensitive area, that this, so to speak, is the
frontline between the Communist world and the free world. It is
all the more important in this sensitive and strategic area that the
administration of our program conform to strict standards. I hope
that the Vietnamese Government will realize the gravity of its ref-
sual of cooperation in this as well as in other fields. This is an
action of mutuality. Obligations fall upon the part of both govern-
ments. I want to see our Government perform its obligation and re-
sponsibility and I would hope for reciprocal action on the part of the
Vietnamese Government.

U.S. OFFICIALS MAKE END-USE CHECKS

Mr. Durrow. Mr. Senator, I should add one thing. We do have
end-use checks of the commercial import program and the project aid
we give here.

Senator Gore. Mr. Chairman.
Mr. Battleman. We make end-use checks both on the commercial import program and on the project program.

Mr. Durbinow. It is only in the particular field of customs procedures and audit that we have been denied access. USOM continuously goes through end-use checks of the commercial import program as well as project aid. [Deleted.]

**AFTERNOON SESSION, AUDITORIUM BUILDING**

Senator Gore. The meeting will come to order. In the morning session, questions were raised with respect to the auditorium building for the Command and General Staff School. The committee is pleased to note at the table General Williams, who may wish to comment on this or direct someone else to reply to the interrogation.

General Williams. I think I can comment on that, sir. As I understood it, this question was asked specifically—if I am wrong, please correct me—if we knew that the contract was not being carried out in certain respects and what action we had taken.

Senator Gore. There was a series of questions. First, whether this was being constructed with counterpart funds. No question but that the answer was "Yes." The next, whether the MAAG had exercised discretion in giving approval to the designs and architectural plans. The answer was "Yes." Next, whether or not MAAG had approved or exercised the right to approve the contract and the manner of letting the contract. I don't know whether I am quite correct in saying the answer was "No." It was a qualified answer.

Senator Gore. Then why didn't you exercise such discretion—such right?

**CONSTRUCTION PROGRAM PROCEDURE**

General Williams. I believe I can answer by telling what the procedure is. We have an overall plan and the yearly construction program is based on about what we hope to be a 5-year program. Each year, a certain amount of money is placed into the military budget to carry on this construction program. In the program, it is MAAG who does the approving of the program and no one questions it. The Vietnamese never questioned the construction that MAAG states should be made. The Vietnamese state, "We're going to construct so and so," if it's in the budget, we raise no objection.

We do not enter into the making of their contract, but we know what their contract calls for and the specifications. We inspect the construction as time goes on and see that it does follow the specifications. When it does not follow the specifications, we notify the chief ARVN engineer. We say there's a deviation here and a deviation there. The Army Engineers take steps to have the contractor correct those deviations. Prior to the time his payment is made, we see that those deviations are corrected. That is our procedure.

Senator Gore. You've told us what the procedure is, but you haven't answered why you have not exercised the right which is vested in the U.S. Government to approve or disapprove the manner in which this fund is obligated.

General Williams. I'm not sure that we don't do that. Because if they say they are going to build and we agree and approve and it is not
in the program and we see the specifications of that building—see that they are correct—see that the building is built according to the specifications.

Senator Gore. I don't know exactly, either, this part was left unclear, an important part. The building might be constructed according to specifications, but either at a cost of $5 million or $10 million.

General Williams. We've got that covered. Because we would never agree to any part of this thing if the construction cost was not within the bounds of what we consider to be in the proper area. That would be impossible.

Senator Gore. How do you determine what's in your area?

General Williams. That comes direct to me, personally, through the professional advice of my engineers. If they say it costs $500 or $5,000 to build that building, the only thing I can do is go on their judgment. Their judgment depends on their experience in construction.

Senator Gore. You in no way exercise the right of approval or disapproval with respect to the terms of a contract, duration of the contract, details of the contract. You only ascertain whether or not the building in its final form or through its stages is constructed in accordance with the specification which you have.

General Williams. And in the price range which we think is correct.

DETERMINATION OF PRICE RANGE FOR CONSTRUCTION

Senator Gore. At what point is that price range determined?

General Williams. Before we ever approve construction of the building.

Senator Gore. And what was your price range with respect to this auditorium?

General Williams. I couldn't tell you.

Lieutenant Colonel Renier. I'm an adviser to the Chief of Engineer Services, ARVN.

Senator Gore. Are you the supervisor of this particular phase?

Lieutenant Colonel Renier. I prefer to say "adviser" rather than "supervisor." I have a staff of four military people and eight civilians who assist me.

Senator Gore. Would anyone other than you have closer contact with this particular building in question?

Lieutenant Colonel Renier. Yes, personal contact. We have field inspectors. There is a Major Shutes here who has made field inspections of the building. To answer your question with regard to cost, the original estimate was $3.2 million and the actual bid was 2.5 million, in piastres.

Senator Gore. At what rate?

Lieutenant Colonel Renier. 35 to 1, sir.

Senator Gore. Was your 3.2 million estimate based on the same rate?

Lieutenant Colonel Renier. The 3.2 million was based on local cost experience for construction.

Senator Gore. You tell me that your estimate was 3.2 million, measured in piastres and the bid rate was 2.5 million measured in piastres—both at the same rate?

Lieutenant Colonel Renier. Yes, sir.

Senator Gore. What is the experience thus far?
Situation in Vietnam

Lieutenant Colonel Renier. What do you mean by that question?

Senator Gore. What is the cost of the building at this time?

Lieutenant Colonel Renier. It is still under construction. We don't have any accounting for cost to this date. As far as the U.S. side goes, we keep no accounting of cost. What we do is release money in the exact amount of the contract award.

Senator Gore. If it is within the bounds of your estimate?

Lieutenant Colonel Renier. That is correct.

Senator Gore. And according to specifications?

Lieutenant Colonel Renier. That is correct. We make a technical review of the project, approve drawings.

Building Inspections

Senator Gore. How often have you, or someone under your command, made an inspection of this particular building?

Lieutenant Colonel Renier. I can't tell you exactly, but not less than once a month.

Senator Gore. With what findings?

Lieutenant Colonel Renier. We have determined there are deficiencies existing at this time which must be corrected. I can't tell you how many, but Major Shutes can. He has a list.

Major Shutes. Maj. H. A. Shutes, 1st and Capitol Military Region, engineering representative. Sir, I have a list of deficiencies that I found on the 2d of November.

Senator Gore. When was the building commenced?

Major Shutes. It was started about the 20th of July, sir.

Senator Gore. And already, 15 deficiencies?

Major Shutes. Yes, sir; as of the last inspection.

General Williams. Will you read the deficiencies, please?

Deficiencies in Project

Major Shutes. The specifications called for a granite, concrete floor, paved with tile. Tiles are laid on 2 to 4 centimeters of mortar. The question arises, What is the method of attaching the auditorium seats, the student seats, to that type of tile flooring? They were lacking in the specifications as to the exact method to follow for anchorage purposes.

Senator Gore. Without proper anchorage, the seats will pry loose from the floor, which is a serious defect.

General Williams. May I interrupt? You said there was a question whether the anchorage was correct or not correct. Say what has been done completely wrong, but only if you know it is wrong. Tell the whole story as you go.

Major Shutes. We are requiring the contractor to submit the design acceptable to the school commandant and ARVN chief engineer.

Senator Gore. What is the story? Has the tile been laid?

Major Shutes. Yes, sir; the tile has been laid but a method of attaching the seats, has not been drawn up. It is on the drafting board now I was informed.

Senator Gore. No provision has yet been made for the attachment of the seats?

Major Shutes. It's in the form of a drift.
Senator Gore. Unless provision has previously been made, then you have a serious problem, do you not?

Major Shutes. No, sir. I am sure they will design an acceptable method.

Mr. Durbrow. Major, come up closer to the table, please.

Major Shutes. The design and method of attachment must be acceptable before approving the method by which they are going to attach the seats to the floor.

Senator Gore. Unless those fit well, funds will be withheld.

Major Shutes. Absolutely; there will be no payment.

General Williams. That's the purpose of our inspection.

Senator Gore. When did you make this report?

Major Shutes. On the 2d of November, sir.

Senator Gore. And you haven't had a report?

Major Shutes. No, sir.

Senator Gore. What's the next one?

Major Shutes. Sir, the next one is—the doors are not hung evenly, the clearances on the sill are not identical in each case. A small deficiency which can be corrected and is being corrected by the construction area office supervisor.

Senator Gore. The contractor is making the correction?

Major Shutes. Yes, sir; he is to correct them all. The roof gutter is also hung unevenly. The percent of fall for the proper drainage is not computed correctly. This was reported to the contractor for correction.

Senator Gore. When was that reported?

Major Shutes. On the same date, sir.

Senator Gore. Has it been corrected yet?

Major Shutes. Not yet, sir. The next is the parking lot and entrance pad was not properly crowned or sloped for proper drainage. The contractor is now taking action to correct that. There were numerous ceiling splices made for joining the isorell board. That is being corrected by the contractor.

Senator Gore. I don't understand that.

Major Shutes. Ceiling splices. According to building specifications, there are no ceiling splices with the 1-inch cut that they use for attaching the isorell board to the ceiling.

Senator Gore. But there were splices?

Major Shutes. It's a matter of replacing the laths.

Senator Gore. What did they use for the splicing?

Major Shutes. The lath was supposed to be in one piece, 8 feet long. Instead, they used, as an example, two 4-foot pieces. But he's replacing those. The doors, windows, latrine and office hardware is unworkable; due to overpainting. That's something very small, a matter of applying paint remover to correct it. The stage floor was warped and uneven. He's planing that down now to correct that. The drain spouts for the marquee were installed by breaking through set concrete instead of using a sleeve. He is correcting that now by replastering. The seats were not within the specifications called for. They were supposed to be 50 centimeters wide on centers and they actually measured 47. The height was to be 72 centimeters instead of 84 centimeters which increases the occupant leverage affecting anchorage.
Senator Gore: The seats have been already procured?

Major Shutes: There were 14 seats at time of inspection out of the 400 required and they, as I understand it, now have stopped procurement on it until the contractor redesigns it according to specifications and submits it to the commandant of the school and chief engineer for acceptance prior to further manufacture.

Senator Gore: How do they acquire 14 seats out of an order of 400—on a piecemeal basis?

Major Shutes: They ordered 400 and the manufacturer turned out 14 and delivered them to the site.

Senator Gore: It seems to me an inefficient way.

General Williams: In this case, it was very fortunate.

Major Shutes: I don’t handle the procurement, sir.

Senator Gore: But you can’t count on people making mistakes in order to permit us to discover these things.

Major Shutes: In this same seat foundation, the steel base straps were not cross braced and also specifications called for seat stops to be painted and that type of thing. There was a drain sump left exposed, now being corrected. They didn’t use bolt sleeves in the door casings. That is being corrected.

CORRECTING DEFICIENCIES

Senator Gore: Were any of these deficiencies detected by the Vietnamese authorities or did you, under necessity, call them to their attention?

Major Shutes: Some of them were noted by the Vietnamese themselves. I always make it a practice to take my counterpart with me and bring it to his attention and he, in turn, brings it to the attention of the contractor for correction.

Senator Gore: Thank you, Major. Mr. Ambassador, it seems there is some doubt as to whether that which had come to me was information or rumor. It was based on information, but I’m glad to note that the inspections have been made.

How far along, Major, is the construction?

Major Shutes: Sir, right now it’s about 70 percent completed, 70 to 75 percent.

Senator Gore: Have you been an inspector on other projects?

Major Shutes: A total of 106, both new construction, major rehabilitation, and RU projects within the 11 provinces.

Senator Gore: Is this a pattern of experience? Have there been many others like this?

Major Shutes: No, sir; there have not.

Senator Gore: This is one of the instances most deficient of performance!

Major Shutes: Yes, sir.

Senator Gore: In the others under your supervision or inspection, have the necessary corrections been made?

Major Shutes: Yes, sir; they have been.

Senator Gore: Without exception?

Major Shutes: Yes, sir; to the best of my knowledge.

General Williams: Is that true of all the projects, the construction projects, to your knowledge?

Major Shutes: To the best of my knowledge; yes, sir.
Senator McGee. Has all of your engineering experience been in the military?

Major Shutes. In the military, sir. That completes my inspection report, sir.

USE OF COUNTERPART-PURCHASED COMMODITIES BY U.S. OFFICIALS IN VIETNAM

Senator Gore. Mr. Ambassador, this is an example of information that has come either to me or the three men of our staff who have been here and we are under duty, I think, to make inquiry. It is not always pleasant. We have had information that automobiles, deep freezers, refrigerators, and so forth, that have been purchased by a cost-plus contractor, on the one hand, or purchased out of counterpart funds or other Government funds on the other, are now being used for the benefit and enjoyment of U.S. Government officials. I would like to inquire to what extent that is true, or if it is true.

Mr. Durrow. I have just heard about the freezers, Mr. Senator. When Mr. Hopkins talked to me about the question of the deep freezers, he told me a memorandum had been prepared. I have not had a chance to read it yet but hope it will be a satisfactory answer to you on both this question and the automobiles.

Senator Gore. Are you prepared to answer that, Mr. McCauley?

Mr. McCauley. The statement will be furnished for the record.

The statement referred to follows:

LIST OF USOM-OWNED DEEP FREEZERS

On June 20, 1968, this USOM ordered eight deep freezers for the Field Service Division to be used by them at their various field stations where it was quite difficult to obtain day-to-day supplies. With the termination of this Division these deep freezers were made available for other purposes. Their present disposition, along with the disposition of three other much older deep freezers, are shown below. Property records are not clear as to the source of the funding for the three old deep freezers. However, the other eight were purchased from technical support funds, project No. 99-000.

2 Westinghouse______________________ 19 Lanzarotte (director).
2 Westinghouse, 1 deep freezer (old)________________ Warehouse.
1 Howard (old), 1 Westinghouse_______ USOM, Laos.
1 Westinghouse______________________ Health and Sanitation Division (on loan to nutrition survey team).

Do____________________________ USOM photo lab.
Do____________________________ USOM snack bar.
1 Frigidaire (old)_____________________ Ambassador's residence.

Senator Gore. What was this project?

Mr. Battleman. It is a general term given to a category of project aid which cannot be pinpointed to a specific project and which across the board affects projects. We call it technical support.

Senator McGee. It might be applied to several projects overlapping; is that right?

Mr. Battleman. That is right.

DEEP FREEZERS PURCHASED UNDER PROGRAM

Senator Gore. Do I understand you to say now that two of these deep freezers are now in the home of the ICA Director?

Mr. McCauley. That is true.
Senator Gore. His home is—
Mr. McCauley. 19 Lanzarotte.

Senator Gore. Were they purchased for that use?
Mr. McCauley. The use which they were originally purchased for had disappeared with the closing out of the field services.

Senator Gore. Where were they first shipped?
Mr. Hopkins. Saigon, first. They came to Saigon. The Field Services Division had field stations in different parts of the country.

Senator Gore. They came into this country into the port of Saigon but what was their disposition?
Mr. Hopkins. They remained in Saigon.

Senator Gore. Were they purchased for that reason?
Mr. Durrow. They were purchased in June of 1958 and at that time we were expecting to continue our field offices of USOM for some time. We had a review of this operation later in 1958—I have forgotten the exact date—in our country team. We were given instructions by Washington to try to cut down our staff and eliminate unnecessary things and it was decided as of the end of last year, 1958, to eliminate the field offices of USOM. There were about seven or eight of these in the country where technicians were supervising Vietnamese and these men in various field stations were also training Vietnamese. It was our decision in the country team that the Vietnamese in general had learned enough so that it was no longer necessary to maintain these field offices. I assume the deep freezers were ordered when it was thought that the field offices would continue and by the time we looked at the personnel situation and the advancements made by the Vietnamese we decided to eliminate the field service. I assume that is why they did not get shipped out at the time they arrived.

Senator Gore. Mr. Hopkins, you say none of these deep freezers were ever sent to field offices.
Mr. Hopkins. No, sir.

USE OF DEEP FREEZERS

Senator Gore. Mr. McCauley, you say two are in the home of Mr. Gardiner. Were they ever used by anyone else other than Mr. Gardiner?
Mr. McCauley. I can't answer your question, except that they came into Saigon and were not shipped out. This must have been their first use.

Senator Gore. Do you have records? Is it possible to know what use has been made of eight deep freezers?
Mr. McCauley. Yes, sir.

Senator Gore. Will you supply that for the record?
Mr. McCauley. Yes, sir.

Senator Gore. What size are these deep freezers?
Mr. Hopkins. 8.9 cubic feet.

Senator Gore. Do I understand you to say that two of these deep freezers are still in the warehouse?
Mr. McCauley. Yes, sir.

Senator Gore. Have they ever been used?