

B-133258
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UNCLASSIFIED

REPORT TO

RELEASED

THE CONGRESS OF THE UNITED STATES



LM087805

UNNECESSARY DOLLAR GRANTS
TO IRAN
UNDER THE FOREIGN ASSISTANCE PROGRAM

AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF STATE

This material contains information affecting the national defense of the United States within the meaning of the espionage laws, Title 18, U.S.C., Secs. 793 and 794, as respectively amended, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.



Declassified by the Department of State
and AID, February 1992

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BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

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FEBRUARY 1965

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087805

Memorandum

Date: February 12, 1992
To: COTR, OIMC Contracts - John R. Butters
From: Director, OSS -  Harold G. Thomas
Subject: Declassified GAO Report

Attached is a copy of a declassified GAO report which may be added to the unrestricted reports database and released to the public when requested. The report is:

-- "Unnecessary Dollar Grants to Iran Under the Foreign Assistance Program", B-133258, dated February 26, 1965.

Attachment



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-133258

FEB 26 1965

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

In our review of certain aspects of the foreign assistance program to Iran, we found that dollar grants made to Iran during 1961 as part of the United States economic assistance program to that country had enabled Iran to procure substantial quantities of wheat from Australia at a time when the United States had large stocks of surplus wheat available for disposal. This situation occurred because the Agency for International Development and the Department of State did not exercise controls to ensure that the cash grants would be used by Iran to import commodities from the United States and because these agencies were not effective in reaching an agreement with Iran that maximum utilization would be made of available United States surplus agricultural commodities. (UNCLASSIFIED)

The Agency for International Development advised us, in a letter dated August 10, 1964, that it believed that it had in fact maximized the use of surplus agricultural commodities under Public Law 480 in lieu of other forms of aid. The Agency pointed out that the United States was already providing Iran with all the wheat it could absorb, beyond the amount it was required to purchase from third countries. The requirement for such third-country purchases, called usual marketings, was established under the terms of a title I, Public Law 480, sales agreement signed in September 1960. This section of the law is designed to protect agricultural markets of exporting countries from the possible adverse effects of sales of surplus agricultural commodities by the United States. The Department of Agriculture took a similar position in its letter to us dated June 18, 1964. (~~CONFIDENTIAL~~)

The Agency for International Development pointed out also that Iran was not restricted in its use of the cash grants to financing imports from only the United States because of overriding political considerations. We were furnished no indications of the nature of these political considerations. (~~CONFIDENTIAL~~)

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Our review disclosed, however, that Iran's usual marketing requirements for third-country purchases, established under the September 1960 agreement, was unrealistically high and that as a result United States cash grants had enabled Iran to purchase wheat from Australia in fiscal years 1961 and 1962 in quantities considerably in excess of the quantities which would be justified on the basis of normal historical purchases. (UNCLASSIFIED)

We are recommending that the Secretary of State and the Administrator, Agency for International Development, consult with the Secretary of Agriculture in all instances in which dollar grants are made to foreign countries, to assure that maximum use is being made of surplus agricultural commodities to meet recipient countries' requirements in lieu of making cash grants. Such consultation should fully consider existing Public Law 480 sales agreements, to determine whether such agreements can be amended to provide needed commodities from United States surplus agricultural commodities. (UNCLASSIFIED)

This report is being transmitted to the Congress because we believe that it indicates the need for more attention on the part of the Executive Branch to possibilities for maximizing the utilization of surplus agricultural commodities under Public Law 480. (UNCLASSIFIED)

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



Comptroller General
of the United States

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REPORT ON
UNNECESSARY DOLLAR GRANTS
TO IRAN
UNDER THE FOREIGN ASSISTANCE PROGRAM
AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF STATE

INTRODUCTION AND BACKGROUND

The General Accounting Office has reviewed the provision of dollar grant aid to Iran by the United States under the foreign assistance program. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). (UNCLASSIFIED)

Our review was directed primarily toward an evaluation of the actions taken by the Department of State and the Agency for International Development (AID) in providing cash grants to Iran. We examined records and held discussions with responsible United States officials both in Iran and in Washington. (UNCLASSIFIED)

United States aid to Iran, administered by the predecessor agencies of AID, began in 1951 as a modest technical assistance program but was increased substantially starting in 1952 when the nationalization of Iran's oil industry brought on a serious political and economic crisis. Emergency aid, together with the cost of numerous economic and technical development activities, aggregated about \$200 million during the 4-year period 1952 through 1955. During the subsequent 5-year period 1956 through 1960, economic assistance totaled \$169 million, of which \$131 million was for budgetary support. Total economic aid provided to Iran through June 30, 1963, amounted to about \$800 million and surplus agricultural commodities valued at an additional \$100 million were furnished under Public Law 480. (UNCLASSIFIED)

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The Agricultural Trade Development and Assistance Act of 1954, commonly known as Public Law 480, authorizes the President, under title I of the act, to negotiate and carry out agreements with friendly nations or organizations of friendly nations for the sale of surplus agricultural commodities and to accept foreign currencies in payment thereof. Further, the act provides that, under title I agreements, the Commodity Credit Corporation, Department of Agriculture, is required to make its surplus price-supported agricultural commodities available for sale to domestic exporters and to make funds available to finance the sale and exportation of surplus agricultural commodities, whether from private stock or its own stock.

Foreign governments often request the United States to sell them surplus agricultural commodities for foreign currencies under title I of the act. The Department of Agriculture considers the requests and drafts proposed sales agreements for negotiation with foreign governments. The proposed agreements are submitted for approval to the Interagency Staff Committee on Agricultural Surplus Disposal, which is comprised of representatives of interested United States Government agencies, including the Department of Agriculture, the Department of State, and AID. The approved proposed agreements are forwarded to the Department of State for negotiation with foreign governments.

Section 101 of Public Law 480 provides that, in negotiating sales agreements, the President safeguard the usual marketings of commodities in the United States and avoid undue disruption of world prices of agricultural commodities or normal patterns of commercial trade with friendly countries. On February 29, 1960, the Mission to Iran was instructed to begin negotiations for a

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title I, Public Law 480, sales agreement. These instructions stated that Iran, which was largely self-sufficient in grain production, had imported wheat in significant quantities in only 2 of the previous 7 years and that it was not necessary to establish in the agreement a requirement that Iran procure commercially any fixed quantities of commodities. Such a requirement is called a usual marketing requirement.

The sales agreement signed July 26, 1960, therefore did not contain a usual marketing requirement. The amendment to this agreement, signed in September 1960, however, contained a requirement that 55,000 metric tons of wheat be purchased by Iran from countries friendly to the United States; the sales agreement with Iran signed in September 1964 increased Iran's usual marketing requirement to 90,000 metric tons.

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FINDING, CONCLUSIONS, AND RECOMMENDATION

UNNECESSARY DOLLAR GRANTS TO IRAN

Dollar grants made to Iran during 1961 as part of the United States economic assistance program to that country enabled Iran to procure substantial quantities of wheat from Australia at a time when the United States had large stocks of surplus wheat available for disposal. This situation occurred because AID and the Department of State did not exercise controls to ensure that the cash grants would be used by Iran to import commodities from the United States and because these agencies were not effective in reaching an agreement with Iran that maximum utilization would be made of available United States surplus agricultural commodities.

(UNCLASSIFIED)

For fiscal years 1961 and 1962, the United States provided substantial quantities of both economic and military assistance to Iran in the form of supplies, equipment, training, and services. In those 2 years the United States provided also dollar grant aid of \$39 million. Dollars were furnished to Iran because of what the Department of State considered to be urgent political considerations and because a previously established commodity import program was being largely ignored by the Iranian importers who, as a result, were not making payments in local currency to be deposited into a special counterpart fund account for the Iranian Government's eventual use. As a result Iran was short of funds it needed to operate the Government. The depositing of local currency resulting from the sale of AID-financed commodities into a special counterpart fund account was an obligation undertaken by the Iranian Government as a condition for receiving United States economic assistance. (~~CONFIDENTIAL~~)

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In view of the failure of the commodity import program, the United States decided to provide immediate relief by turning over dollar checks to the Iranian Government that it could convert to rials at the Central Bank and use for Iranian Government expenditures. The United States placed no restrictions on the use of the dollars except that they could not be used to repay loans from other countries. The United States authorized dollar checks as follows: ~~(CONFIDENTIAL)~~

June 2, 1961	\$ 9 million	for Iranian military budget expenditures
July 18, 1961	\$15 million	for Iranian military budget expenditures
Nov. 17, 1961	\$15 million	for Iranian general budget expenditures

~~(CONFIDENTIAL)~~

In separate agreements between the United States and Iran, the military budget expenditures for which the rials could be used had been identified as expenditures such as for pay, clothing, and construction. For fiscal years 1961 and 1962, Iran expected to spend \$2.4 million of counterpart funds and about \$3.6 million of its own funds for procurement of wheat and wheat flour, or a total of \$6 million. Other Iranian Government agencies also may have budgeted funds for wheat procurement. Although Iran purchased wheat from the United States to meet its requirements under a Public Law 480 sales agreement, Iranian Government statistics show that Iran imported also \$12.5 million worth of wheat and wheat flour from Australia, from which no significant amounts of wheat

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had been purchased previously. The wheat Iran purchased from Australia could have been purchased from United States surplus stocks of wheat. (UNCLASSIFIED)

The following table shows Iran's wheat imports from 1956 through 1961 in thousands of metric tons. (UNCLASSIFIED)

<u>Country</u>	<u>1956-57</u>	<u>1957-58</u>	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
United States	78.6	36.4	4.4	3.9	250.0
Australia	30.5	12.0	6.4	110.0	55.0
Canada	-	-	-	-	-
Soviet Union	10.0	-	-	-	-
Others	4.0	4.5	2.8	-	-

(UNCLASSIFIED)

It is evident from the above table that the cash grants given Iran enabled that country to use United States dollars or other foreign exchange to purchase wheat from countries other than the United States. During this period Iran was faced with a serious shortage of foreign exchange reserves, and one of the reasons advanced by United States agencies for undertaking the cash grant program was to assist Iran in alleviating this shortage. We have been unable to establish precisely how the Iranian Government paid for its purchase of wheat from Australia. It is apparent, however, that the cash grants to Iran augmented its foreign exchange reserves and enabled it to procure agricultural commodities from countries other than the United States which it otherwise would not have been able to do. (~~CONFIDENTIAL~~)

We believe that United States officials missed an opportunity to reduce the flow of dollars from the United States and dispose of surplus wheat at the same time. Agency officials advised us that

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there was no overall policy during fiscal years 1961 and 1962 regarding control over dollar funds granted to foreign governments. It is evident, however, that United States foreign aid officials did not place restrictions on the use of dollars granted to Iran. Subsequently, in December 1962 AID formulated a policy that dollars granted to foreign governments or their Central Banks and dollars to be used to purchase local currency for programs of local cost financing be made through letters of credit issued by United States commercial banks in favor of recipient governments and that these credits be drawn upon to finance imports from only United States sources. (UNCLASSIFIED)

Agency comments

AID advised us, in a letter dated August 10, 1964, that it believed that it had in fact complied with our suggested policy of maximizing the utilization of surplus agricultural commodities under Public Law 480 in lieu of other forms of aid. AID pointed out that, at the time of the cash grants, the United States was already providing Iran, under Public Law 480, with all the wheat it could absorb, beyond the amount of wheat it was required to purchase from third countries. The requirement for such third-country purchases, called usual marketings, was established under the terms of a title I, Public Law 480, sales agreement signed in September 1960. This agreement called for purchase by the Government of Iran of 55,000 metric tons of wheat in each of United States fiscal years 1961 and 1962 from countries friendly to the United States and is consistent with section 101(a) of Public Law 480. This section of the law is designed to protect agricultural markets of exporting countries from the possible adverse effects of Public Law 480 sales. ~~(CONFIDENTIAL)~~

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AID stated that it understood that deliveries during fiscal years 1961 and 1962 of wheat purchased by Iran from third countries just about equaled its usual marketing requirements. AID pointed out also that Iran was not restricted in its use of the cash grants to financing imports from only the United States because of overriding political considerations. We were furnished no indications of the nature of these political considerations. ~~(CONFIDENTIAL)~~

The Department of Agriculture advised us in its letter of June 18, 1964, that it would not be in accordance with the overall interests of the United States to provide through Public Law 480 sales all Iran's imports of wheat and wheat products which had previously been supplied by a number of other friendly exporting countries and that, in years when wheat is imported by Iran, Australia has an established trade of exporting to Iran. (UNCLASSIFIED)

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Evaluation of agency comments

In view of the foregoing AID comments, we performed a follow-up review to determine the basis on which the usual marketing requirements had been established. We concluded from this review that these requirements had been set at unrealistically high levels and that as a result United States cash grants had enabled Iran to purchase wheat from a third country in quantities considerably in excess of the quantities which could be justified on the basis of normal historical purchases. As near as we have been able to determine, responsible United States agencies did not give any consideration to amending Public Law 480 agreements with Iran to increase the quantities of wheat to be furnished to that country in lieu of dollar grants. (UNCLASSIFIED)

Prior to fiscal year 1961, Iran, which was largely self-sufficient in wheat production, did not have a usual supplier of wheat. For the 3 fiscal years 1957 through 1959, the wheat imported by Iran from all free-world sources averaged only 20,000 metric tons a year. (UNCLASSIFIED)

The lack of a usual supplier of Iranian wheat was recognized by AID in negotiating the sales agreement of July 26, 1960. In the instructions of February 29, 1960, to begin negotiations for the agreement, the Mission was advised that Iran had imported wheat in significant quantities in only 2 of the 7 years preceding the proposed agreement and that it was not necessary to establish in that agreement a requirement that Iran procure commercially any fixed quantities of commodities. (UNCLASSIFIED)

Despite the urgings of the United States Government that Iran obtain the wheat it needed from the United States, however, in about May 1960 Iran elected to purchase a large quantity of wheat

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from a third country. AID believed that Iran had acted too hastily, and AID made the United States position clear to the Government of Iran at that time. ~~(CONFIDENTIAL)~~

Notwithstanding the representation made to Iran, an amendment to the July 26, 1960, agreement dated September 26, 1960, included a usual marketing requirement for the purchase of 55,000 metric tons of wheat annually by Iran from third countries. Discussions with agency officials disclosed that the high levels of usual marketing requirements had been established on the basis of the single large purchase of wheat by Iran in May 1960. It should also be noted that Iran had made the May 1960 purchase without having consulted the United States and that the purchase was made at a time when the United States was providing substantial assistance to the Iranian economy. ~~(CONFIDENTIAL)~~

AID has pointed out that since, at the time of the cash grants, we were already providing Iran, under Public Law 480, with all the wheat it could absorb, beyond usual marketings, AID believed that the utilization of surplus agricultural commodities under Public Law 480 in lieu of other forms of aid was maximized.

~~(CONFIDENTIAL)~~

We disagree. We see no reason why Public Law 480 sales agreements could not have been amended in 1961 and 1962 to increase the quantities of wheat sales to Iran and, as a consequence, to reduce the amount of dollar grants. Although this would have meant a reduction in the usual marketing requirements of the Public Law 480 sales agreements and a subsequent reduction in wheat sales to Iran by third countries, such reductions would have been consistent with

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the position of the United States at the time that AID objected to Iran's procurement in 1960 of large quantities of wheat from Australia which had not previously exported wheat to Iran. As far as we have been able to determine, no consideration was given by responsible United States agencies to amending Public Law 480 sales agreements in this manner. ~~(CONFIDENTIAL)~~

Recommendations

We recommend that the Secretary of State and the Administrator, AID, consult with Secretary of Agriculture in all instances in which dollar grants are made to foreign countries, to assure that maximum use is being made of surplus agricultural commodities to meet recipient countries' requirements in lieu of making cash grants. Such consultation should fully consider existing Public Law 480 sales agreements, to determine whether such agreements can be amended to provide needed commodities from United States surplus agricultural commodities. (UNCLASSIFIED)

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APPENDIX

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PRINCIPAL OFFICIALS RESPONSIBLE FOR THE
ECONOMIC ASSISTANCE PROGRAM FOR IRAN
DURING THE PERIOD OF THIS REPORT

Appointed or
Commissioned

SECRETARY OF STATE:

Dean Rusk
Christian A. Herter

Jan. 1961
April 1959

ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOP-
MENT (formerly International Cooperation Ad-
ministration):

David E. Bell
Fowler Hamilton
Henry R. Labouisse
James W. Riddleberger

Dec. 1962
Sept. 1961
Feb. 1961
March 1959

UNITED STATES AMBASSADOR TO IRAN:

Julius C. Holmes
Edward T. Warles

May 1961
June 1958

DIRECTOR, UNITED STATES OPERATIONS MISSION TO
IRAN:

Robert M. Macy
Harry A. Brenn

Feb. 1962
Jan. 1958

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