095463

256.03

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

72-0272

INTERNATIONAL DIVISION

B-146749

DEC 29 1971

6

LM095463

Dear Mr. Secretary:

Over the years the United States has accumulated millions of dollars of foreign currencies as a by-product of its foreign aid loan programs and its sales of agricultural commodities under the authority of title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 480). On May 28, 1971, we sent to the Departments of State and Treasury a draft report dealing with selected aspects of the management of U.S.-owned excess foreign currency, particularly with respect to sales of currencies to tourists and non-profit organizations for dollars and to conversions to dollars or other currencies. Comments were received from the respective departments on September 28, 1971, and July 13, 1971. Our draft report covered the following matters:

Effect of Accounting Practice on Balance-of-Payments

From 1961 through 1970 the Treasury Department's convertible currency accounts were charged with the equivalent of $110 million to pay for general U.S. Government obligations. These obligations could have been paid for with non-convertible currencies which would have increased the potential for benefitting the U.S. balance-of-payments position. Since the convertible currencies are available for sale to tourists and non-profit organizations, when U.S. obligations are paid with these currencies, that much less is available for sale for dollars.

The Department of Treasury acknowledged that

> "***consultations between the GAO and Treasury staffs during the process of writing your report had stimulated a highly useful reexamination of procedures for the sales or conversions of local currencies in excess currency countries.
>
> "The procedures now in effect in excess and near-excess countries operate so as to preserve the convertible portion of local currency holdings for

~~700887~~

095463

> convertible uses, as recommended in your report. As the report indicates, we have already restored almost three quarters of the $110 million you estimate were drawn from convertible local currency balances when the use of non-convertible accounts would have served the purpose. Additional amounts are being restored."

The Department of Treasury response pointed out, however, that because of the fairly large excess currency balances, there was no balance of payments loss by the use of the old sales procedures. It went on to say that the new procedures may yield future balance of payments benefits as accruals to convertible currency accounts diminish with the termination of P.L. 480 sales for local currency (scheduled for December 31, 1971).

Potential for Greater Balance-of-Payments Benefits Through Sales or Conversions of Excess Foreign Currencies

Approximately 90 percent of the cumulative total of $167 million of U.S.-owned excess foreign currencies available for sale to U.S. tourists and non-profit organizations remained unsold as of December 1970.[a] In view of the reported difficulties in selling foreign currencies to eligible parties, and the precedent established in converting these currencies on a government-to-government level, we proposed that host country conversion of unsold amounts be pursued as the most practical means for the United States to achieve maximum benefits from these currency holdings.

The Department of State disagreed with this recommendation saying:

> "We believe it impracticable to reopen the terms of old agreements for the sole purpose of modifying them in the U.S. financial interest. The greatly tightened payment terms required by law in new P.L. 480 sales agreements leave little leverage for adjustment of payment terms in prior agreements, purely for United States benefit."

They suggested an alternative solution in the utilization of these amounts for payment of U.S. obligations, in particular for

[a]We understand that during the period January 1, 1971 through June 30, 1971, an additional $1 million of the amount available was sold.

payment of international travel. The Department of Treasury advised that the basic agreements usually impose no limitation for payments of international travel; the estimates for international travel are significant--for all excess currency countries $7 million were expended in calendar year 1969, the only year for which figures are available.

We agree that the alternative solution offers good prospects for additional utilization. In view of the Department of State's belief that it is impracticable to reopen the terms of the old agreements, we do not plan to pursue our earlier proposal on this matter at this time.

Delays in Conversion of Foreign Currencies

Delays in conversion of foreign currencies for agricultural market development purposes and to finance cultural and educational exchange programs have occurred as a result of (1) administrative procedures of the U.S. Government for requesting conversions and (2) the failure of certain countries to promptly effect conversions requested. These delays have been costly in terms of additional interest cost on increased U.S. Treasury borrowings because of unconverted funds. There is also potential loss from devaluation of currencies.

During the course of our review we suggested certain modifications to U.S. Government administrative procedures for conversion of foreign currencies. As a result of these suggested changes, a Treasury official acknowledged that the new system reduced the usual time for conversions from about 6 months to about 3 months.

Concerning delays in conversions by foreign governments, we proposed to the Department of State that it provide the necessary monitoring service and follow up with appropriate foreign government officials to minimize conversion delays.

The Department of State replied: "We have no objection to this recommendation. We will continue to fulfill this role in the future, as we believe that we have in the past, together with the Treasury Department and the appropriate American embassies." The Department was concerned that our report might leave the impression that they have been lax in seeking conversions for educational exchange and wished to emphasize that they have assiduously pursued the most rapid conversions possible; that the significant reason for delayed conversions has been the difficulties of the foreign governments in effecting timely conversions; and that the political and economic reasons for the present inability to make conversions in the outstanding balances in the United Arab Republic and Pakistan are self evident.

* * * * *

In view of the actions taken and proposed to be taken by the departments, we do not plan any further reporting on this matter.

This letter is also being addressed to the Secretary of State.

Copies of this letter are being sent today to the Senate and House Committees on Government Operations, the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations; the Senate and House Appropriations Committees; the Senate Foreign Relations Committee; the House Foreign Affairs Committee; and the Office of Management and Budget.

We should like to express our appreciation for the cooperation and assistance given our representatives during the course of this review.

Sincerely yours,

Oye V Stovall

Oye V. Stovall
Director

The Honorable
The Secretary of the Treasury