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Monday, August 28, 1967
7:15 p.m.

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MR. PRESIDENT:

Herewith Rad Poate comments on the Moss Sub-Committee Reports on Vietnam and attaches a copy of a memorandum which he sent to Secretary Rusk summarizing the report and actions taken (and not taken) in connection with it.

W. W. R.

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON

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OFFICE OF
THE ADMINISTRATOR

August 28, 1967

DECLASSIFIED

E.O. 12356, Sec. 3.4

NEJ 94-303

By zj, NARA, Date 9-28-94

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Moss Sub-Committee Reports on Vietnam

The House Government Operations Committee made public today three reports on the follow-up visit to Vietnam of the Sub-Committee on Foreign Operations during the first four days of July. We were not afforded an opportunity to comment on the reports in draft and received advance copies only a few hours before they were given to the press Friday for Monday release.

In a covering letter to the Secretary of State and in the preambles to each set of recommendations, the Committee urges a firmer stand by the United States Government in demanding cooperative action by the Vietnamese Government. Although many of the criticisms and recommendations deal with relatively minor technical matters, all are covered by the repeated warning that "without substantive GVN actions in a number of areas... prospects for success are minimal, the feasibility of continued United States involvement is questionable and could lead to a re-assessment of the United States' position."

I attach a memorandum to the Secretary of State summarizing the report and providing some background on the matters covered and current negotiations aimed toward completing some of the unfinished business of concern to the Committee.

We have taken the following actions:

1. The U.S. Mission was urged last week to press to an immediate conclusion the negotiations on refund claims, dollar-piaster conversion rate and tying of part of the GVN-financed import program to U.S. procurement. We expect to have good news on some of these issues momentarily, and propose to announce agreements when they go into effect, hopefully during September.

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2. The Mission will be asked to obtain GVN agreement to disclose the previous deposit of \$50 million by the GVN in the United States and earmarking of this fund for procurement of U.S. goods and services for agreed post-war development projects.

3. A.I.D. issued on Saturday the attached comment on the Sub-Committee reports for publication today.

4. A similar holding statement (attached) was furnished the State Department Press Officer for use if queried, pending determination of whether a more explicit rejoinder should be issued at this moment. No question was asked.

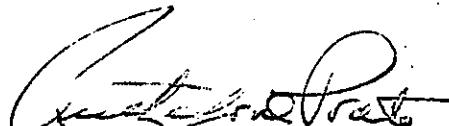
5. A summary of the Sub-Committee reports and the text of the letter have been cabled to Saigon.

6. We have asked Komer for an immediate report on pacification and land reform development to be used in possible White House comments and Congressional visits.

7. Negotiation and administrative action will be pursued vigorously by A.I.D., State and Defense on all the technical recommendations of the reports to the extent feasible.

I believe it would be far better to wait until we can report major accomplishment from the current negotiations -- after next Sunday's election -- rather than issue a rejoinder to the specifics in the reports today. We do not dispute that many of the administrative changes and impositions of U.S. control which the Committee recommends would be desirable from the U.S. viewpoint. In fact, the reports may help us get GVN agreements on some of these. We do feel, however, that the strong-armed actions demanded are in many cases proposals to shoot an ant with an elephant gun.

A.I.D. will assist State in developing a press backgrounder meeting the criticisms in the letter on the elections, land reform and pacification.



Rutherford M. Poats
Acting Administrator

Attachments

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON

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OFFICE OF
THE ADMINISTRATOR

August 28, 1967

~~DECLASSIFIED~~

E.O. 12356, Sec. 3.4
NEJ 94-303

By ____, NARA, Date 9-26-94

MEMORANDUM FOR THE SECRETARY

SUBJECT: Moss Sub-Committee Reports on Vietnam

This memorandum summarizes the three reports of the Foreign Operations and Government Information Sub-Committee of the House Committee on Government Operations which were submitted to you with a covering letter dated August 27 from Chairman John Moss and ranking minority member Ogden Reid. The memorandum also will provide some background on the Committee's attitude and on current negotiations with the Vietnamese Government relevant to the Committee's criticisms.

Chairman Moss and Congressman Cohelan of the Passman Sub-Committee, accompanied by staff of the Moss Sub-Committee, spent about four days in Vietnam at the beginning of July. They commended the AID Mission on improved management of the commercial import program and Saigon Port; in an oral debriefing upon return they also were complimentary except for reservations about the new U. S. Mission pacification organization.

In each report, immediately preceding their specific recommendations, there is an identical strong demand for action by the U. S. Government to induce GVN action on each matter covered; they apply to all recommendations the warning that "without substantive GVN action --- the advisability of continued U. S. involvement is questionable and could lead to a re-assessment of the United States' position."

HIGHLIGHTS OF THE REPORTS AND COMMENTS ON
THE COMMITTEE'S CRITICISMS AND RECOMMENDATIONS

(1) "The Port Situation in Vietnam"

A seven page report shows the Port of Saigon to be drastically improved as compared with the situation at the time of the Sub-

Committee's last report in October 1966. In fact there is no delay in movement of goods -- military, AID project, or commercial cargoes -- through the Port today, as a result of many actions taken by MACV, the AID Mission and the GVN. Nevertheless the Committee finds fault and proposes corrective measures in five particulars, four requiring MACV action and one AID Mission action.

Comment:

All the recommendations are of relatively secondary importance, but the agencies concerned will pursue them where feasible. We do not, however, believe that they are sufficiently important to warrant the harsh preamble quoted above.

(2) "The Commercial (commodity) Import Program for Vietnam"

This report notes that six of the nine recommendations of the October 1966 Sub-Committee report have been carried out, but these three have not:

(a) Prompt development of Vietnamese market analyses to permit imposition of controls on the amounts of particular commodities to be licensed for import. While questioning the feasibility of ever being in a position to anticipate the Vietnamese market demand more intelligently than Vietnamese businessmen or to impose precise quantitative controls, AID did agree to undertake studies which might provide general guidelines as to the quantities being financed by AID. A contract with the A. D. Little Company was concluded on June 8, 1967 but only now is the work beginning. The Sub-Committee criticizes this delay, resulting from our insistence on competitive invitations to qualified firms, negotiating difficulties regarding unreasonable contract terms demanded by A. D. Little, and subsequent difficulties by A. D. Little in obtaining and retaining staff. The A. D. Little staff has now been at work in Vietnam for several weeks.

(b) Investigation by AID on the background, qualifications and integrity of all 2200 Vietnamese importers. Our position right along has been that this blanket action was infeasible except where we had indications warranting investigation of irregularities. The AID Mission already is deeply involved in the Vietnamese Government's import licensing processes and conducts investigations of importers records which are far more intensive than in any other AID program.

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The AID agreements with the GVN obligate the GVN to police the eligibility and compliance of its importers with AID and GVN rules. The AID Mission recommends suspension of importers who violate rules but AID does not replace the GVN as the licensor of importers.

(c) Application to previously licensed importers of the same requirements as are imposed on newly licensed importers. The AID Mission and the GVN have opposed this recommendation. We will consider compromise formulas.

The Sub-Committee made two new findings:

(a) The GVN is not requiring its importers to "buy America" when they use dollars of the National Bank of Vietnam, as distinguished from the AID dollars, in their imports; consequently, more than 90% of the Vietnamese-financed imports are being bought from non-U. S. sources, primarily Japan, Hong Kong, and Western Europe. The AID Mission has negotiated several agreements which reduce GVN dollar reserves and earnings of dollars (largely derived from U. S. military piaster purchases), such as collecting 100% of the piaster proceeds of a recent PL 480 rice sale for U. S. uses and pre-payment of three outstanding ICA loans. The GVN also has deposited much of its foreign exchange holdings in U. S. banks and has set aside \$50 million of its holdings for procurement of post-war development goods and services from the United States only. The latter point is not cited in the report because it is confidential. We are proposing that it be made public in response to the Committee's criticisms. The AID-financed imports are either from the United States or bought with bartered goods or tied letters of credit.

The Vietnamese Central Bank Governor and Minister of National Economy has offered to direct some GVN-financed procurement to U. S. sources if we can provide a list of commodities not financed by AID which can sensibly be bought in the United States. No definitive result has come of this offer, partially because of the inability of AID and Commerce to identify with sufficient specificity, commodities which the GVN can economically buy in the U. S., in addition to those already financed for export by AID. A cable proposing prompt action on this matter through the use of a tied letter of credit to purchase some of the U. S. Government piaster requirements was sent to Saigon Saturday, but the Ambassador concluded that he could not add this proposal to the negotiating package at the moment.

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The Mission is now hopefully about to conclude very sensitive negotiations (EXDIS) which would further reduce GVN dollar earnings and the U.S. gold drain by nearly \$100 million. However, AID would offset this loss of dollar earnings to the GVN by increased AID commercial import financing and development project assistance (at no gold drain cost to us) so as to maintain GVN reserves at approximately the previously agreed level.

We need your support in pressing for tying of some of the GVN dollar expenditures to U.S. procurement, which would provide the best answer to the Committee's justifiable criticism.

(a) Excessive imports of textiles, paper and sweetened condensed milk. The Mission and GVN have taken action on these matters, making the routine adjustments necessary to protect the domestic Vietnamese industries.

(3) "Illicit Practices Affecting the U.S. Program in Vietnam"

The report notes improvements made to tighten surveillance against abuses but finds inadequate corrective measures in these fields:

(a) Excessive profit provided by some suppliers to Vietnamese importers who have the dual role of importer and sales agent. The Committee has confused the facts on this issue to leave the impression that the U.S. Government is suffering. In fact, our actions of earlier this year have produced large savings to AID by eliminating AID-financed dollar commission payments to non-U.S. agents.

(b) Black-market in currency and PX goods. The Committee noted improvements but urged additional efforts by MACV.

(c) Slow procedures for suspension of suppliers and importers who violate AID regulations. Additional actions have been taken in this field in recent months which are not reflected in the Committee's report.

(d) AID's failure to establish an escrow account from which to draw immediate GVN refunds for transactions violating AID regulations. The AID Mission has attempted to negotiate refund claim settlements which would obviate the need for trying to impose this escrow account with unilateral drawing rights for the United States. The further accumulation of claims and the slow pace of negotiations

on them led Congressman Moss to put through an amendment to the AID legislation last week expressing the sense of Congress that a \$10 million escrow account should be negotiated immediately. We hope to be able to report shortly the payment of the outstanding claims, now in excess of \$7 million, and eliminate this amendment in the House-Senate conference.

(e) Failure to obtain confiscated dollars and MPCs. The U.S. Government legal opinion is that dollars and MPCs are bearer notes which are not the property of the U.S. Government. The Committee asks that we set aside legal technicalities and demand that the GVN turn over the seized currency as a matter of cooperation with the U.S. Government. (This is not basically an AID concern but we have collaborated with State, DOD and Treasury in considering this issue.)

MATTERS NOT COVERED IN THE REPORTS

The covering letter to you states without elaboration a sweeping criticism of "the lack of meaningful progress and reform in the lagging and floundering pacification program; in dealing with the problems of refugees, inflation and land reform; in the conduct of the elections; and in overall administration with its entrenched and inefficient bureaucracy." However, the Sub-Committee's reports on these matters have not yet been completed.

Pacification: The Committee obtained testimony from Bob Komer and talked with Ambassador Bunker and others. In a debriefing on return from Saigon, Congressman Moss was highly critical of the "militarization" and "excessive Americanization" of the pacification effort.

Land Reform: The Sub-Committee sent a GAO team to Vietnam early this year to gather the facts on the land tenure situation and US/Vietnamese programs in this field. The GAO team orally expressed understanding and general endorsement of the U.S. approach on tactics, which include a strong and specific set of proposals to the newly elected government immediately after the election. A separate paper is being prepared on this subject.

Refugees: GVN execution of refugee assistance programs has fallen behind in I CORPS. We have continually added American and other foreign staff and in my view, CORDS is already running the risk of excessively Americanizing this element of the GVN-CORDS' (pacification) program. An on-scene examination by our AID/Washington refugee officer has just been completed and is being considered in the current program

planning meeting of the Saigon and Washington staffs in Honolulu.

Inflation: We have achieved remarkable success in blocking run-away inflation. The commercial import program, whose technical flaws the Committee criticizes, has been a vital instrument in maintaining the economic and psychological base of the Allied war effort. Price increases in domestic goods such as rice and pork have had a positive effect in raising peasant income and thereby improving prospect for pacification success in the Delta.

Elections: We have no indication of Moss's specific views on this subject.

GVN administration: The Government is weak and much of its bureaucracy is inefficient and demoralized. The election should help re-envigorate the public service. Further pay raises and better protection of local officials from VC assassination and intimidation are essential. More consistent enforcement of anti-corruption measures, from hamlet to Saigon, are continually urged by the U. S. Mission. Training and manpower planning programs also are being addressed to the fundamental problems of GVN ineffectiveness.

IMMEDIATE ACTIONS ON THE REPORT

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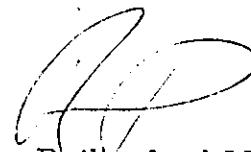
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Negotiation and administrative action will be pursued vigorously by AID, State and Defense on all the technical recommendations of the reports to the extent feasible.



Rutherford M. Poats
Acting Administrator

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