market. The risk inherent in this transaction falls to the importer, the profit or loss also goes to him.

The dollar cost of the commodities and of transportation, if on U.S. flag vessel, is paid to the supplier against documents he submits to a U.S. bank, out of funds ear-marked for the program.

The importer's bank pays the local currency equivalent into a special account at the National bank. Through this mechanism, local currency is in effect transferred from the private sector to the government for uses jointly agreed to by the U.S. and the aid receiving country.

All this is by way of prologue to pharmaceutical procurement with AID funds. It explains to a degree why we authorize the expenditure of dollars to buy commodities, including pharmaceuticals, that are at times directly related and at other times indirectly related to approved economic development programs.

But perhaps it would be well to bring the pharmaceutical segment of our procurement activities into perspective. During fiscal year 1969, AID-financed commodity expenditures totaled $1.02 billion. Pharmaceutical products accounted for $20.6 million or about 2.0 percent of that total. The figures for fiscal year 1968 showed a higher ratio for pharmaceuticals with expenditures of $31.7 million or 2.7 percent of the $1.06 billion expended for commodities. Detailing these figures further, commodity expenditures for specific Technical Assistance projects totaled $5 million in fiscal year 1969 and $13 million in fiscal year 1968. These were respectively, 24 percent and 41 percent of total expenditures for pharmaceuticals.

In the case of Technical Assistance, pharmaceutical requirements are developed by the technical experts assigned to the respective projects, stated in generic terms, and procured in accordance with government regulations.

This procedure was followed in buying project pharmaceuticals valued at $5 million in FY 1969 and $13 million in FY 1968.

Purchases financed under Technical Assistance for project use are for the most part purchased on behalf of AID by other U.S. government agencies, specifically the General Services Administration or the Defense Supply Agency of the Department of Defense. In rare instances—notably of emergency nature, such as earthquakes, epidemics and other disasters—AID may itself undertake to purchase pharmaceuticals. In still less frequent cases, where there is demonstrated ability to handle transactions effectively, the borrower-grantee is permitted to buy directly or through a purchasing agency that it selects.

The procurement practices and procedures followed by GSA are those set forth in the Federal Procurement Regulations, supplemented by "Additional Program Bidding Terms and Contract Provisions" developed expressly by GSA for its procurement on behalf of AID. These additional terms and provisions cover such items as eligible source, bidding terms, taxes and duties, shipping, labeling, and other requirements peculiar to AID. The Defense Supply Agency in its procurement for AID follows rules of the Armed Services Procurement Regulation. Purchases made directly by AID conform to requirements of the AID Procurement Regulations. Those by a borrower-grantee or its private sector agent, must comply with the rules in AID Regulation 1, usually with an added requirement that the formal invitation for bid procedure be used.

I turn now to activities where AID finances commercial transactions—programs under which we financed pharmaceuticals valued at $15.6 million in FY 1969 and $18.7 million in FY 1968. In these Commercial Import Programs only unfinished pharmaceuticals may be purchased, except that contraceptives in finished dosage form are authorized.

Transactions involving commercial imports must comply with the provisions of AID Regulation 1 as supplemented by special requirements that the Agency applies to pharmaceutical products. AID Regulation 1 prescribes the basic rules that govern AID financed transactions. It covers conditions of eligibility of commodities and services, the responsibilities of importers and suppliers, the payment and reimbursement requisites, and the price rules for commodities and commodity related services. These provisions apply uniformly to all commodities financed by AID under a commercial import program.

There are, however, special requirements that apply only to pharmaceutical products. These relate to commodity eligibility, commodity quality, and commodity certification. As already indicated, pharmaceuticals in finished dosage form are not eligible for financing under our Commercial Import Programs. In addition, drug substances and drug products must meet all requirements