

Barondes who is Chief of the Commodity Eligibility and Price Branch in the Office of the Controller.

I was accompanied also by—I think he will be here—Mr. Leslie Grant, Deputy General Counsel of AID.

In accordance with the request of the committee we have submitted a prepared statement which I am prepared to present to the committee.

Senator NELSON. Go ahead.

Mr. DWINELL (continuing). If that is your desire, Mr. Chairman.

It is our hope that the joint exploration of the new practices adopted by our Agency will make a significant contribution to your continuing review of the pharmaceutical procurement policies of the various agencies of the U.S. Government. We found our appearance before you last August helpful in reevaluation of AID policies and in the formulation of the new eligibility standards for pharmaceuticals that I will discuss today.

First, may I summarize briefly my previous presentation of the mechanisms by which we finance the procurement of pharmaceuticals. Most of the pharmaceutical transactions which AID finances are between private buyers in the aid-recipient countries and private sellers in the U.S. under AID loans made to the developing nations of the free world. These nations repay the loans made to them in dollars under special concessional terms which include repayment of principal over a period of up to 40 years and with interest rates of $3\frac{1}{2}$ percent per annum. The private buyers however must purchase their foreign exchange needs with local currency at the prevailing official rate of exchange. Should they have to borrow this local currency, it would be at the interest rates in effect at the time—possibly 25 percent per annum or more.

To emphasize, the private buyer does not benefit from any special concession insofar as loan terms or interest rates are concerned—he pays full value in local currency for all pharmaceuticals that he buys.

A relatively small proportion of our expenditures for pharmaceuticals—currently about 15 to 20 percent—represent purchases made directly by AID or by other U.S. Government agencies procuring on behalf of AID. These purchases are subject to compliance with the Federal procurement regulations.

AID does not tell the borrower countries or the private buyers in the countries what they should buy. The Agency maintains a schedule which lists all the items which it is prepared to finance. From this list, the importing countries are free to choose what they wish to procure with AID financing. Excluded from this list are such commodities as luxuries of all kinds, items for which the United States is a consistent net importer, dietetic foods, and dangerous or ineffective drugs.

The Foreign Assistance Act establishes a limit on the prices which AID will finance for commodities. Specifically, the act provides in section 604(b) that:

No funds made available under this Act shall be used for the purchase in bulk of any commodities at prices higher than the market prices prevailing in the United States at the time of purchase, adjusted for differences in the cost of transportation to destination, quality, and terms of payment.