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BY THE U.S. GENERAL ACCOUNTING OFFICE  
 Report To The Chairman, Subcommittee On  
 Commerce, Consumer And Monetary Affairs,  
 Committee On Government Operations  
 House Of Representatives

**U.S. Role As Contracting Agent For The  
 U.S.-Saudi Arabian Joint Commission  
 On Economic Cooperation**

U.S. government agencies act as procurement agents for the U S -Saudi Arabian Joint Commission on Economic Cooperation, a partnership designed to facilitate the flow of American goods and services and to help develop Saudi Arabia. Since the Joint Commission began operations in 1975, the Saudi government has contributed over \$961 million to a dollar deposit account with the U.S. Treasury to fund projects. The United States, which equally funds one project, has contributed about \$50 million.

U S. agencies, while not legally bound, do comply with U S government contracting procedures or regulations to the extent possible. The majority of a sample of contracts reviewed by GAO were sole source awards with 18 percent directly influenced by the Saudis; major dollar value contracts were awarded competitively. No incidents of "hidden" payments related to Joint Commission contracts or "side business" relationships between the Saudis and U S contractors were found. However, GAO notes that to uncover any such dealings would require techniques beyond those employed by GAO in fulfilling its statutory requirements for audit and program evaluation. U S anti-boycott legislation prohibits U S officials from refusing to do business with firms boycotted by the Arabs. Although GAO found no documented evidence of violations of this legislation, situations were identified which could be perceived as a violation--the possibility that boycotted firms are avoided rather than risk having Joint Commission projects impaired.



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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

NATIONAL SECURITY AND  
INTERNATIONAL AFFAIRS DIVISION

B-205154

The Honorable Doug Barnard, Chairman  
Subcommittee on Commerce, Consumer  
and Monetary Affairs  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

This report responds to a request made by the former Chairman of the Subcommittee in his letter dated October 26, 1982, that we

- review U.S. government contracting procedures for contracts awarded on behalf of the U.S.-Saudi Arabian Joint Commission on Economic Cooperation;
- identify Saudi Arabian involvement in or influence over the award and administration of U.S. government contracts;
- report on any instances of firms being excluded from competing for awards by the Arab boycott against Israel;
- identify any instances of payments resulting from "side" business relationships between U.S. contractors and Saudi interests;
- determine whether violations of U.S. procurement and contracting laws, regulations, and procedures had occurred during this process; and
- describe U.S.-Saudi Arabian Joint Commission projects.

The U.S.-Saudi Arabian Joint Commission on Economic Cooperation was established in June 1974, primarily to assist in the internal development of Saudi Arabia through cooperative programs in a broad range of fields including agriculture and water, industrialization, trade, and science and technology. Saudi Arabia has contributed more than \$961 million to a dollar deposit account with the U.S. Treasury to fund Joint Commission projects. The United States, which equally funds one project,

has contributed about \$50 million. With interest on contributions amounting to over \$110 million, total deposits to the dollar deposit account have exceeded \$1.1 billion. Since the inception of the cooperative arrangement in 1975, almost \$800 million has been expended, leaving a balance in excess of \$300 million as of September 30, 1983.

U.S. government agencies (the Departments of Agriculture, Commerce, Energy, Interior, Labor, Treasury, and Transportation and the Farm Credit Administration, General Services Administration, and National Science Foundation) act as agents for the Saudis in awarding contracts, resulting in significant trade and political benefits to the United States. The Department of Treasury's role is substantially broader than that of other agencies; the Secretary co-chairs the Joint Commission with the Saudi Arabian Minister of Finance and National Economy, and Treasury is responsible for disbursing dollar deposit account funds and coordinating project activities.

When the agreement between the two governments was made in 1975, the United States was experiencing an unfavorable balance of trade with Saudi Arabia because of significant price increases in petroleum imports. The Joint Commission provided the United States with a mechanism to facilitate the flow of American goods and services to Saudi Arabia while contributing to the economic development of that country through technical assistance. Procurements valued at about \$430 million have been awarded to U.S. firms as a direct result of U.S. involvement in the Joint Commission. The Saudis have benefited by having been provided an opportunity to learn from working with U.S. contracting officials and observing how the U.S. contracting process works. In helping the Saudis gain the necessary contracting expertise, especially in the more technical areas, U.S. officials believe the United States has gained good will and improved relations with Saudi Arabia.

We reviewed 83 contracts awarded in support of Joint Commission programs: 54 by the Department of Treasury and 29 by the other participating U.S. agencies. Of the Treasury contracts, 43 (80 percent) were sole source awards; by contrast, only 11 (38 percent) of the other agency contracts were sole source. Saudi influence over awards ranged from little or none to actively reviewing and approving, and sometimes selecting, contractors. Fifteen (18 percent) of the contracts we reviewed were awarded to sole source contractors selected by the Saudis.

We were told that U.S. agencies attempt to comply with U.S. government procurement regulations, notwithstanding that less than 5 percent of total funds expended were U.S. funds. Agency regulations stipulate that such regulations are expected to be followed to the extent practicable. However, the application of U.S. policies in a foreign culture is not always possible or feasible. For example, equal employment opportunity clauses for women are essentially inoperative because women are not allowed

to work with men in Saudi Arabia and, therefore, are not placed in advisory positions in the Saudi ministries where most Joint Commission work is performed.

Saudi Arabia enforces the Arab boycott against companies who do business with Israel; products from such companies are prohibited from entering the country. U.S. anti-boycott legislation prohibits U.S. officials from refusing to do business with U.S. companies on the Arab boycott list. Although we have no documented evidence that this actually occurred, based on our interviews, we identified situations which could be perceived as possible violations of the legislation.

A project team official stated it would be futile to continue to try to import products that had been denied entry or to order from known boycotted firms to fill project requirements. He believed that to knowingly cause problems on the project because of unfilled orders from boycotted firms was in conflict with his responsibility to implement projects as efficiently as possible. In another instance, a former United States official told us his group would not order from companies it knew were on the boycott list. The dilemma facing U.S. employees procuring goods for Joint Commission projects is that they may well be placed in the position of either tacitly complying with the boycott to facilitate project implementation, thereby provoking violations of anti-boycott legislation, or complying with anti-boycott legislation and possibly impairing Joint Commission projects.

The results of our review are discussed in more detail in appendix I. At the Subcommittee's request, we did not obtain agency comments.

As arranged with your office, unless you publicly announce the contents earlier, we plan no further distribution of this report until 30 days from date of issuance. At that time, we will send copies to the U.S. agencies participating in Joint Commission projects and to other interested parties.

Sincerely yours,

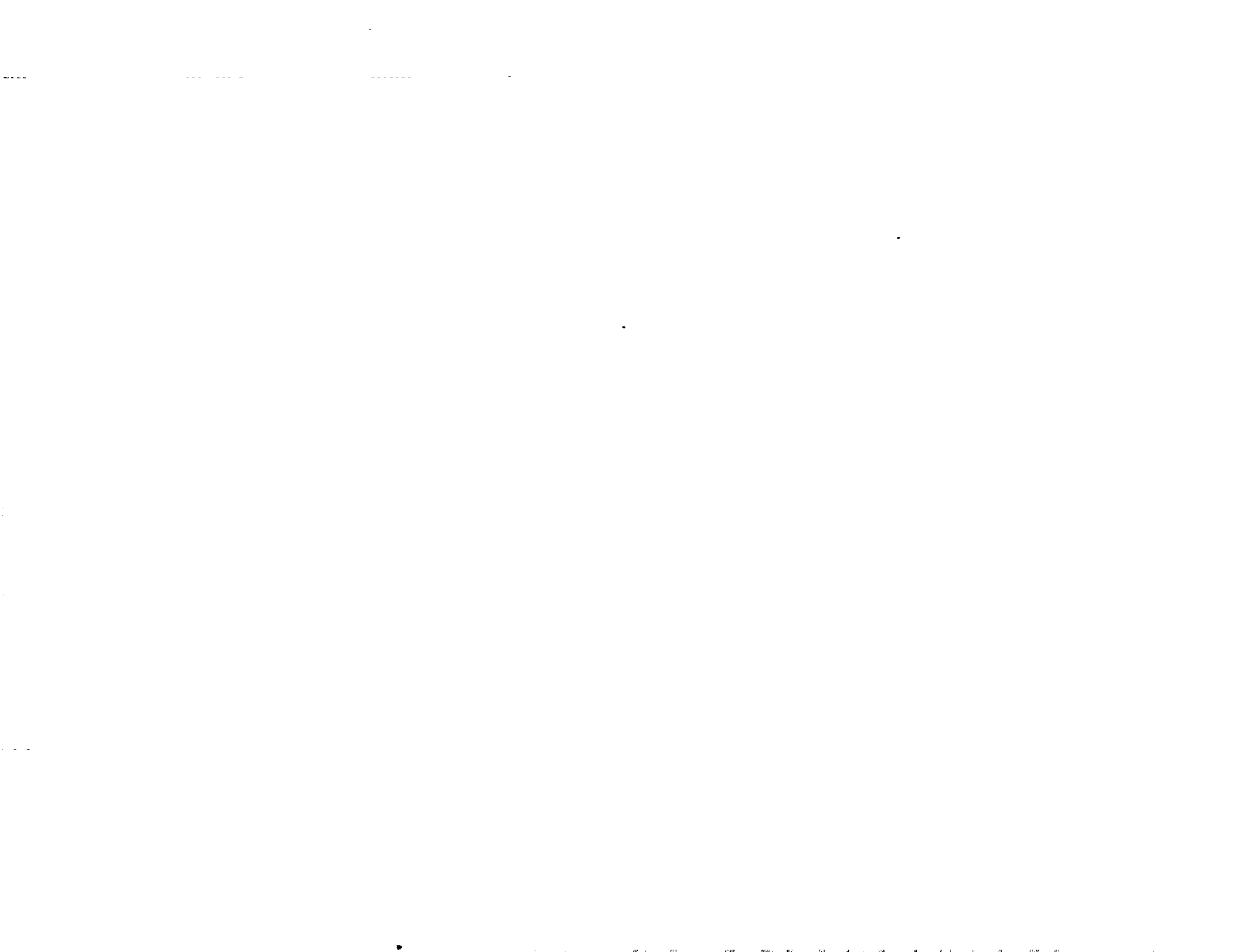


Frank C. Conahan  
Director



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U.S. ROLE AS CONTRACTING AGENT FOR THE  
U.S.-SAUDI ARABIAN JOINT COMMISSION  
ON ECONOMIC COOPERATION

U.S. CONTRACTS AND JOINT  
COMMISSION-U.S. AGENCY PROJECTS

Since the Joint Commission was formed in June 1974, 24 projects have been initiated, 2 projects have been consolidated as one, 5 have been completed, and one is inactive, leaving 17 ongoing projects. Seven U.S. government departments (Treasury, Agriculture, Commerce, Energy, Interior, Labor, and Transportation) and three agencies (Farm Credit Administration, General Services Administration, and National Science Foundation) have major roles in implementing Joint Commission projects. All 10 organizations have issued contracts in support of the projects.

All funds for Joint Commission projects are provided by Saudi Arabia except for the Solar Energy Research and Development project, which is funded equally by the United States and Saudi Arabia. As of September 30, 1983, the Saudis had deposited over \$961 million into a fund (referred to as the dollar deposit account) from which payments are made for the projects. With the U.S. contribution of over \$50 million to the solar energy project, total deposits have amounted to over \$1 billion. Dollar deposit account funds are deposited with the Treasury, and interest earned on investments in Treasury bills has exceeded \$110 million. Payments from the account amounted to almost \$800 million: nearly \$760 million from Saudi deposits and about \$40 million from U.S. deposits.

A Technical Cooperation Agreement signed by the two governments in February 1975 provided the basis for U.S. government agencies to enter into contracts with public and private firms and institutions on behalf of the Joint Commission. Contracts and purchase orders between U.S. agencies and U.S. contractors let in the United States amounted to \$430 million, or 78 percent of total procurements of \$549 million as of April 30, 1983. The remaining \$119 million was for procurements by U.S. "in-country" agency representatives from local contractors, mostly for support of U.S. personnel living in Saudi Arabia. The remainder of the \$800 million total expenditures was mostly for U.S. government salaries, benefits, and related expenses.

The Treasury Department, the primary U.S. government agency involved, awarded approximately 1,800 contracts and purchase orders from the time the first projects were initiated in August 1975 through August 1983. The awards totaled \$10 million in fiscal year 1982 and \$12 million in fiscal year 1981.

The number and total value of contracts awarded by the other participating U.S. agencies as of October 31, 1982, are shown in the following table. Statistics for the Customs Service, an agency of the Treasury Department, are not included in the above totals and are shown separately in the table.

Number and Value of Contracts  
Awarded Through October 31, 1982

<u>U.S. agency</u>	<u>Number of contracts awarded</u>	<u>Dollar Value</u>
Agriculture Department	3	\$ 3,600,000
Census Bureau (Commerce)	37	47,700
Customs Service (Treasury)	7	38,900,000
Energy Department <sup>a</sup>	28	51,700,000
Farm Credit Administration	8	842,700
General Services Administration	2	7,869,600
Interior Department	34	3,979,200
Labor Department	15	4,805,300
National Science Foundation	2	442,200
Transportation Department	4	1,308,300

<sup>a</sup>Includes subcontracts let by the prime contractor under the Department of Energy contract.

### The United States as contracting agent

The U.S. government acts as the procurement agent for the Saudis. U.S. officials told us that this is because the Saudis lack expertise in the contracting/procurement area, which has placed them at a competitive disadvantage in past dealings with contractors. Also, the safeguards in U.S. government contracts and U.S. regulations provide controls which appeal to the Saudis. As they go through a learning process and until they gain more experience in letting contracts and properly monitoring implementation, they want to work closely with U.S. contracting officials and observe first-hand how the U.S. contracting process operates. The U.S. government has agreed to let these contracts to help the Saudis gain the necessary experience, especially in more technical areas, and as a gesture of good will to build better U.S.-Saudi relations.

In addition to the good will created, the United States has accrued direct benefits through business opportunities. In 1974, when the two countries agreed to enter into programs of cooperation, the United States was experiencing an unfavorable balance of trade with Saudi Arabia because of significant price increases in petroleum imports. The Joint Commission provided the United States with a mechanism to facilitate the flow of American goods and services to Saudi Arabia while contributing to the economic development of that country through technical assistance. The Treasury Department delineated the promotion of trade between the two countries as a Joint Commission objective in a policy statement which declared that cooperative project procurements be awarded either to U.S. or Saudi firms. Since 1975, when the Joint Commission began operations, about \$430 million in direct contracts and purchase orders has been awarded to U.S. firms. A U.S. official told us that an additional but indeterminable amount of Saudi business has accrued to U.S. private sector firms as a result of associations established through the Joint Commission.

### APPLICATION OF U.S. CONTRACT PROVISIONS AND LAWS

The majority of the funds expended on behalf of the Joint Commission are contributed by the Saudis. Nevertheless, U.S. agencies, in contracting for goods and services, attempt to comply with standard U.S. government contract provisions and law. However, it is not always practicable or possible to do so.

Most officials we talked to said U.S. government standardized contract clauses are included in contracts let for Joint Commission projects. We found that provisions such as equal

employment opportunity, nondiscrimination, and clean air and water were included in contracts we reviewed.

We found only a few instances in which the Saudis insisted that U.S. agencies change standard clauses or "boiler plate" language in contracts. The Saudis have pressed U.S. companies to "buy Saudi," i.e., make more purchases in Saudi Arabia. A clause was inserted in a recent contract requiring that 30 percent of all subcontracted business go to Saudi firms. The Saudis did not request that any specific companies be given contracts. According to a corporate official, a U.S. contracting agency changed the "Fly America" clause in his firm's contract to a preference for U.S. or Saudi carriers, at the request of the Saudis. In a few cases, the technical specifications and requirements drawn up by U.S. agencies were changed at the request of the Saudis.

The majority of the contracts are awarded by the U.S. Department of the Treasury. A Treasury document states that funds placed in the dollar deposit account by the Saudis are not considered to be U.S. government monies and that disbursements from the account have to meet "the terms and conditions of the agreement or statute pursuant to which the account was established and may or may not fulfill statutory requirements applicable to U.S. government funds." Furthermore, Treasury's Directives Manual (ch. TD70, sec. 06.G, item 5), dated May 17, 1982, states that procurements made pursuant to the U.S.-Saudi Arabian Technical Cooperation Agreement and financed by the dollar deposit account

"shall, to the maximum extent practicable, consistent with the fulfillment of the purposes and effective and efficient conduct of the Saudi Program mission and objectives, be made in accordance with the Federal Property and Administrative Services Act . . . and the policies and regulations prescribed thereunder."

While U.S. agencies awarding contracts on behalf of the Joint Commission are not irrevocably bound to follow U.S. government procurement law and regulations when contracting with Saudi funds, they do recognize the desirability to do so if possible.

Equal employment opportunity requirements are particularly hard to enforce. U.S. government directives requiring equal opportunity for women are not followed in Saudi Arabia because of Saudi religious and cultural sanctions on women working with men. Therefore, women do not work in the Saudi ministries,

where most U.S. advisors are located and Joint Commission operations take place. We did not find instances of discrimination against Jewish U.S. citizens. U.S. officials that we contacted stated that they had not been instructed that Jewish employees would not be allowed in Saudi Arabia. Jewish employees of U.S. contractors and agencies have worked in-country on Joint Commission projects. We did not find that the Saudis make a special effort to determine whether a U.S. citizen is Jewish.

Sometimes, Saudi involvement directly prevents compliance. In one instance, a contractor initially decided to withdraw a bid to supply logging units to Saudi Arabia because the Treasury Department required cost and pricing data to be submitted in support of the price proposal. However, the Saudi Ministry of Agriculture and Water wanted the company's equipment and requested that it be purchased. Treasury finally waived the requirement for cost and pricing data and certification and entered into a contract with the company. One reason given was that there appeared to be no viable alternative that could meet the tight time frames set by the Saudis.

#### Restrictions on employment of women in Saudi Arabia

Restrictions on employing women in Saudi Arabia place a constraint on U.S. agencies hiring for technical and managerial project positions. The U.S. government positions require continual contact with Saudi males working in counterpart positions. The Saudi prohibition against women and men working together renders equal employment opportunity inoperative for women employees of U.S. agencies for assignments in Saudi Arabia, other than temporary short-term visits. This prohibition is endemic to Saudi Arabian culture and outside of the Joint Commission's sphere of control.

Female U.S. government officials as well as Joint Commission contractor women employees have visited Saudi Arabia on short visits. Their trips included meetings in various ministries, where they were well received, officials said. This holds true for women employed by contractors of the Joint Commission.

We found one case involving the Department of Interior's national park development project where a woman had been determined to be the best qualified to fill a long-term advisor position at the Ministry of Agriculture and Water in Saudi Arabia. After learning of the difficulties a woman would have working on the assignment, U.S. Department of Interior officials selected someone else for the position. The applicant told us she was

denied the position because she is a woman. She said that Department of Interior officials told her that to pursue this matter would not be in the best interest of her career. The selecting official, in a memorandum responding to an inquiry about the selection, acknowledged that the equal employment opportunity clause should have been eliminated or at least modified with regard to the position.

The above example is not directly related to a Joint Commission contract, procurement, or procedure but involves a personnel problem and a decision internal to a U.S. agency. However, it is illustrative of restrictions on employing women in U.S. advisory positions in Saudi Arabia.

An official of the General Services Administration stated that the Administration tries to discourage potential female applicants by emphasizing how restrictive Saudi Arabia is toward women. Among other things, women are not allowed to drive or go to restaurants and other public places alone. He added that no woman applicant has withdrawn her application as a result of these talks.

A Joint Commission official said the Saudis have made an exception to their basic law forbidding women to work with men. There are women, wives of Joint Commission and Corps of Engineers employees for the most part, who are hired locally as secretaries and for other clerical positions. These women work only within the American complex. Officials said they could not operate without them because there aren't enough qualified males to fill all clerical positions.

We were told that the Saudis did not like this arrangement and made the point quite clear. One former U.S. official said the Saudis rarely made any direct comments--most criticisms were given through oblique hints--but this was one case where they openly expressed their displeasure. They are opposed to women working with men at the Joint Commission because of religious and cultural reasons, another U.S. official said.

#### NATURE AND EXTENT OF SAUDI INVOLVEMENT IN THE CONTRACTING PROCESS

The majority of contracts we reviewed were awarded sole source, although the major dollar value awards were competitive. We also found that Saudi Arabian involvement in procurements by U.S. participating agencies for Joint Commission projects ranged from little or none to actively reviewing and approving potential and actual contractors and, in some cases, designating which contractors were to receive the awards. Saudi officials,

on some occasions, have disapproved products and contractors recommended by U.S. officials. U.S. agencies have honored the Saudi selections primarily because the program is funded by Saudi Arabia. Also, Saudi participation in decision making and other aspects of management is viewed as vital to develop Saudi self-sufficiency, an essential goal of the Joint Commission.

We reviewed 83 procurement actions--54 contracts and 29 purchase orders--awarded by the Department of Treasury on behalf of the Joint Commission in fiscal years 1979 through 1982. In terms of dollar value, these actions represented (1) all awards from October 1, 1978, through September 30, 1982, valued at \$50,000 or more (53 separate awards) and (2) 30 of 103 awards in the \$10,000 to \$49,999 range awarded through September 30, 1982, selected randomly using a computerized statistical sampling program. Of the 54 contracts

--43 (about 80 percent) were awarded to a sole source,

--8 (about 15 percent) were competitively negotiated--several companies submitted proposals when requested and the contracts were awarded to those judged to have the best proposals, and

--3 (about 6 percent) were competitively advertised.

We also reviewed all awards of \$40,000 and more made since inception of the program by the other participating agencies as of September 30, 1982. Of the 29 contracts which met this criteria, 11 (almost 32 percent) were awarded without any competition.

The Saudis place emphasis on prior experience or associations in selecting contractors; they like dealing with institutions and firms they know and which know them and their culture. Potential contractors have been rejected by the Saudis because they were believed to lack experience. Of the 54 Treasury contracts reviewed, 14 (over 25 percent) were awarded to contractors requested by the Saudis; 13 of the 14 were sole source awards and one was negotiated competitively--a Saudi official picked the contractor he wanted from three names provided by Treasury. One of the sole source contractors for the design and management of a construction project was a U.S. firm selected by the Saudis against the advice of a Treasury contracting officer. The Saudis were familiar with the company and wanted it to continue work under the new contract. The contracting officer felt

that the firm's performance on a prior contract was poor and that it lacked sufficient capital to fulfill the follow-on contract.

In our sample of 29 contracts awarded by other participating agencies, the Saudis selected the contractors in two instances. One of the contractors selected was a former deputy governor of the Farm Credit Administration who had worked closely with the Saudis. The other Saudi sole source selection was an architectural and engineering firm to design and oversee a construction project. An architectural review committee of the U.S. contracting agency, Customs, considered the choice a good one and beneficial to all parties.

The Saudis have disapproved the selection of products solicited under Joint Commission procurements. For example, U.S. project advisors recommended the purchase of one firm's word processing equipment, yet the Saudis insisted on another product, despite the fact that most of the prospective users of the equipment had been trained on the recommended firm's equipment. Also, we were told that a good reason was needed to import rather than purchase goods locally. For example, cars had to be purchased locally rather than directly from a U.S. automobile manufacturer even though the unit cost was \$300 to \$400 more.

The extent of Saudi involvement varied from one ministry to another and generally depended on the ministry's experience and expertise in an area. We did not identify any established criteria used by the ministries to evaluate proposed contracts or potential contractors; each ministry used its own set of standards based on experience.

We found that in one ministry, the Saudi project managers and/or high-level ministry officials carried out the Saudi's review of contractors and the selection process. For example, we were told that in soliciting bids for training Saudi Agriculture Bank employees, a bank review team comprised of Saudi Arabians assessed proposals from prospective contractors and recommendations from a U.S. advisory team and provided comments to the bank director, who made the final selection. On occasion the U.S. team provided recommendations directly to the bank director.

Factors other than the technical requirements are given significant consideration by the Saudis. For example, in contracting for stateside training for 20 employees of the Saudi Agriculture Bank, the schools were evaluated as to (1) climate of the area (not too frigid), (2) size of the city where the school is located (large cities least preferred), and (3) Saudi



population in the surrounding area (large contingents avoided to minimize dependency).

PAYMENTS OR SIDE BUSINESS RELATIONSHIPS  
BETWEEN U.S. CONTRACTORS AND SAUDI  
INTERESTS ON JOINT COMMISSION PROJECTS

The Saudi Arabian government requires foreign companies transacting business in the Kingdom to have a Saudi partner or agent. This is not a requirement for contracts awarded on behalf of the Joint Commission by U.S. agencies. However, Saudi representation on such contracts is assured through the U.S./Saudi Arabian partnership arrangement of the Joint Commission. We found no evidence of "under-the-table" payments connected with contracts let for Joint Commission projects or instances of "side" business relationships between U.S. contractors and Saudi interests. Normally, to uncover any such dealings would require techniques beyond those employed by GAO in fulfilling its statutory requirements for audit and program evaluation.

Saudi regulations (established by royal decree) govern the relationship between foreign contractors and their Saudi agents and apply to all contracts between foreign companies and the Kingdom of Saudi Arabia but not to those between U.S. agencies and contractors of the Joint Commission. The regulations suggest that a foreign contractor who does not have a Saudi partner should have a Saudi agent; agents should be Saudis and reside in the Kingdom of Saudi Arabia; and agents must be paid for services rendered--not to exceed 5 percent of the contract value. (Some of the salient features of these regulations are included in a booklet, Doing Business in Saudi Arabia, published by the Saudi government.)

According to one U.S. official, Saudi partners/agents provide a broad spectrum of services in the normal flow of business in Saudi Arabia, from pursuing Saudi Arabian government contracts and developing markets to lobbying government officials and facilitating visas. In the opinion of a Department of Commerce official, an agent rather than a partner may suffice in some highly specialized, technical businesses where little Saudi expertise exists. In more competitive fields, such as construction, a Saudi partner is probably needed. Some corporate officials and current and former U.S. government employees with whom we spoke believed that foreign companies need either a Saudi partner or agent to do business there. U.S. business officials whom we contacted during our review said they had not retained agents or otherwise used them to help get Joint Commission awarded contracts. Joint ventures formed by U.S. and Saudi companies have received Joint Commission contracts.

The Saudi Arabian government promotes national ownership of companies doing business in the Kingdom. Firms with 25 percent or more Saudi interest qualify for favorable government loans and other benefits. Companies with majority Saudi ownership get priority on contract awards when dealing directly with the Saudi Arabian government. A former U.S. official said that Joint Commission contracts were advertised through normal channels, but the Saudi government insisted that Saudi ownership be one of the factors judged in prequalification evaluations. This gave such firms a better chance of being judged among the most qualified. Once the most qualified firms were specified, the contract was awarded to the lowest bidder, the official said.

Some Joint Commission contracts were awarded by U.S. procuring agencies to U.S.-Saudi joint ventures. The Al Bilad-Vinnell joint venture (50 percent Saudi, 50 percent owned by the Vinnell Corporation) was awarded a contract in excess of \$3.5 million to provide custodial and maintenance services to the Joint Commission. Rea Saudi Arabia, a U.S.-Saudi joint venture affiliated with the J.A. Jones Corporation, upgraded the Nasseriah power plant, which serves the king's palace, under a Treasury Department contract valued at almost \$22 million. Also, Wirth-Berger Associates had a Saudi partner for part of a design services and construction management contract. The partner had worked with Wirth-Berger on jobs prior to the Joint Commission contract. Two of these Joint Commission awards to the joint ventures were competitively advertised; the other was competitively negotiated.

The concept of joint ventures has been identified by the United States and Saudi Arabia as a mutually beneficial arrangement in furthering Joint Commission objectives. The Saudis saw a need for a structure that would assist young businessmen to become acquainted with U.S. companies working in the United States and Saudi Arabia; U.S. officials saw an opportunity to attract a wider range of capable U.S. firms in areas of industry, agriculture, and services. As a result, promotion of the establishment of joint venture projects between American and Saudi Arabian firms was formalized during the Seventh Session of the Joint Commission in December 1982.

#### APPLICATION OF ARAB BOYCOTT

We found no documented evidence of violations of the anti-boycott legislation. However, from our interviews with current and former U.S. agency employees, there were indications of possible violations. These situations resulted from officials being placed in the position of either tacitly complying with the Arab boycott to facilitate project implementation or

complying with the legislation and possibly risking impairment of Joint Commission projects.

In 1979, anti-boycott legislation (Pub. L. No. 96-72, §8) was enacted because of the growing impact of the Arab boycott against Israel on American business. Among other things, the legislation prohibits any U.S. person, including the U.S. government, from refusing to do business with any person pursuant to an agreement with, a requirement of, or a request from or on behalf of a boycotting country. Federal regulations state that refusals to do business include situations in which U.S. persons choose or select one person over another on a boycott basis. Thus, if for boycott reasons a supplier is not given consideration or a contract is awarded to one supplier over another, the responsible U.S. employee's actions constitute a refusal to do business and violate the legislation.<sup>1</sup>

All products being imported into Saudi Arabia must be approved by Saudi customs; Saudi government policy is to exclude products from companies boycotted because of their associations with Israel. Most U.S. government officials whom we interviewed were aware of the existence of the boycott and of some of the companies on the list; they knew about the prominent boycotted companies. Some officials said they had seen a boycott list. None of the former nor current U.S. government or corporate officials with whom we spoke had been told by the Saudis not to contract with certain companies. However, Saudi intentions not to permit boycotted goods into the country have been communicated indirectly by their refusal to deal with prominent firms such as Coca-Cola, Ford, Sears, and Xerox and their confiscation of shipments from these as well as other firms.

For the most part, our interviews disclosed that U.S. companies are not explicitly being denied U.S. government contracts because of the Arab boycott of Israel. In November 1982, the U.S. Director of the Joint Commission issued a memorandum which advised project personnel that to be guided by a boycott list when placing orders is contrary to U.S. law and policy, and to have copies of the boycott list or otherwise refer to it would give the appearance of violating such law and policy. Nevertheless, based on our interviews with agency officials, it appears some tacit compliance with the boycott has occurred.

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<sup>1</sup>The legislation and implementing regulations allow for various exceptions including compliance by a U.S. employee with a selection made unilaterally by a boycotting country of a supplier of goods or services to be imported into, or performed within, that country. Pub. L. No. 96-72, §8(a)(2)(C); 15 C.F.R. §369.3(c).

Almost all officials we interviewed disassociated themselves with any use of a boycott list. However, interviews with two officials disclosed that they were reluctant to deal with boycotted firms at the expense of project goals. A project team official stated it would be futile to continue to try to import products that had been denied entry or to order from known boycotted firms to fill project requirements. He believed that to knowingly cause problems on the project because of unfilled orders from boycotted firms was in conflict with his responsibility to implement projects as efficiently as possible. In another instance, a former U.S. official told us his group would not order from companies it knew were on the boycott list. However, to avoid placing orders, project disruptions notwithstanding, is a violation of the anti-boycott legislation. We were not able to ascertain whether either of the two groups which these individuals represented had, in fact, refused to place orders with boycotted companies.

We were told of a U.S. company's chemical products being boycotted by the Saudis. The products, which were ordered by a Department of Agriculture project team, were detained by Saudi customs. Joint Commission officials pursued the matter to no avail, and the shipment was held in customs for at least a year. Department officials were not certain, but they believed the chemicals were finally destroyed because of deterioration. The project team acquired the needed chemicals from another firm. We were told that the original supplier was paid by the Joint Commission with Saudi funds; products for shipment to Saudi Arabia were not subsequently ordered from the company. Nevertheless, it does not appear that this incident violated the legislation; that is, the boycott action was taken by the Saudis, not a person representing the United States, and the boycotted goods were paid for.

Based on the above, we believe the threat of boycott, to some extent, does influence how business is transacted by U.S. agencies in Saudi Arabia. Notwithstanding the anti-boycott legislation which prohibits U.S. government officials and companies from refusing to do business with boycotted firms, it is apparent that situations could arise where orders are not placed with known boycotted companies rather than delay or otherwise affect project accomplishment. From what we were told in discussions with employees, it is evident that the Joint Commission program and the anti-boycott legislation in some respects serve different interests. As a result, when U.S. employees procure goods for Joint Commission projects where boycotted companies could be suppliers, they have been and continue to be placed in

a position of either tacitly complying with the boycott by avoiding such companies, thereby provoking violations of anti-boycott legislation, or dealing with boycotted companies and possibly risking delays in completing projects. As stated above, a reluctance does exist to order products which are known to be inadmissible into the country.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

Our review was initiated at the request of the former Subcommittee Chairman, and the work was continued at the request of the present Chairman. In a letter dated October 26, 1982, the former Chairman asked that we

- review U.S. government contracting procedures for contracts awarded on behalf of the U.S.-Saudi Arabian Joint Commission on Economic Cooperation;
- identify Saudi Arabian involvement in or influence over the award and administration of U.S. government contracts;
- report on any instances of firms being excluded from competing for awards by the Arab boycott against Israel;
- identify any instances of payments resulting from "side" business relationships between U.S. contractors and Saudi interests;
- determine whether violations of U.S. procurement and contracting laws, regulations, and procedures had occurred during this process; and
- describe U.S.-Saudi Arabian Joint Commission projects.

Our work consisted of (1) interviewing current and former U.S. government officials who worked on Joint Commission activities in the United States and Saudi Arabia, (2) interviewing representatives from U.S. companies who had government contracts, and (3) reviewing government contract and project files.

We met with representatives from all 10 U.S. agencies involved in Joint Commission projects. They are the Departments of the Treasury (including the Customs Service), Agriculture, Commerce (including the Census Bureau), Energy, Interior, Labor,

and Transportation and the Farm Credit Administration, General Services Administration, and National Science Foundation. We also spoke with 24 former and current U.S. government employees who had worked on Joint Commission activities in both the United States and Saudi Arabia. We used information obtained from nine other former Joint Commission staff members who were interviewed for an earlier GAO assignment and from eight others interviewed by a Subcommittee staff member. In addition, we talked to representatives from 11 U.S. companies who had U.S. government contracts to do work for the Joint Commission. Most discussions with former employees and business representatives were conducted by telephone because of the distances involved.

Our work on this assignment was stopped for almost 6 months at the request of Treasury's Inspector General, who asked us to discontinue our review while his staff completed work they were doing at the Joint Commission offices in Riyadh, Saudi Arabia. We agreed to this request with the concurrence of the Subcommittee staff. In so doing, we cancelled a visit to Saudi Arabia planned as an extension of our work in the United States. We do not believe that discussions with in-country U.S. government officials would have provided information different from that obtained from former and current employees here in the United States.

Except for not getting agency comments, our review was performed in accordance with generally accepted government auditing standards.

As of March 1984, the Inspector General, Department of the Treasury, is continuing a review of the management of U.S. Joint Commission operations in Saudi Arabia, concentrating on procurement--particularly compliance with existing regulations, inventory control, and property disposal. Inspector General officials could not estimate a completion date for their work because of the breadth of scope of their inquiry.

DESCRIPTION OF ACTIVE JOINT COMMISSION PROJECTS  
OBJECTIVES, STATUS, COSTS,<sup>a</sup> AND PERSONNEL<sup>b</sup>

## ACTIVE PROJECTS

1. Project Title: Audit Services (AUDIT)

Date Agreement Signed: May 15, 1978

Agreement Termination Date: None stated

Cost: \$6,930,000

Personnel:

In United States: -

In Saudi Arabia: 10

Implementing Agency: Department of Treasury

Specialists in auditing and accounting are assisting the Saudi General Auditing Bureau in a broad program encompassing organizational, managerial, and technical aspects as well as training and education. A draft of comprehensive auditing standards, when finalized, will provide criteria against which the quality and effectiveness of auditing can be measured, and will serve as the cornerstone for a higher level of professionalism in the Bureau. The project is involved in a number of diversified training and educational activities and a long-range plan is being developed which will comprise training and educational elements for all Bureau auditors.

2. Project Title: Desalination Research and Training (HYDROS)

Date Agreement Signed: May 3, 1977

Agreement Termination Date: None stated

Cost: \$35,941,000

Personnel:

In United States: -

In Saudi Arabia: 3

Implementing Agency: Department of Interior

Saudi Arabia's Saline Water Conversion Corporation continues extensive seawater desalination plant construction and

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<sup>a</sup> Project costs as of November 1, 1983.

<sup>b</sup> Reimbursable federal employees as of October 1, 1983.

operation. In this context the Department of Interior is providing assistance relating to research, development and training. A major part of the program involves the establishment of a Research, Development and Training Center.

3.a. Project Title: Highway Administration<sup>C</sup>  
(HIGHWAY)

Date Agreement Signed: August 26, 1977

Agreement Termination Date: August 1983

Cost: \$15,544,000

Personnel:

In United States:	2
In Saudi Arabia:	8

Implementing Agency: Department of Transportation  
(Federal Highway  
Administration)

The Federal Highway Administration is working with the Saudi Arabian Ministry of Communications in the area of highway transportation. The team's function is to assist in the strengthening of the Ministry of Communication's highway transportation management capabilities and in the upgrading and modernizing of the country's existing highway system. Technical expertise is provided in a wide range of highway engineering specialities. The team is assisting in the upgrading and expanding of the central materials laboratory and the contract administration system, and it is helping to organize and develop a traffic safety department as well as a management information system. Operational manuals are being developed for the Ministry which will standardize all aspects of highway design, construction and maintenance.

3.b. Project Title: Transportation Services  
(TRANSNET)

Date Agreement Signed: November 18, 1978

Agreement Termination Date: Originally March 1983  
Extended to March 1984

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<sup>C</sup> Merged, in November 1983, with Transportation Services project (TRANSNET) shown as 3.b. to form a single project, Technical Cooperation in Transportation (TRANSPORT). Costs and personnel of the two projects were consolidated to continue the project objectives of developing transportation systems and the capabilities to manage them.



Cost: \$5,167,000

Personnel:  
 In United States: 3  
 In Saudi Arabia: 6

Implementing Agency: Department of Transportation

Specialists are assisting the Ministry of Communications in planning and developing programs to meet present and future transportation responsibilities in Saudi Arabia. Advisory services provided include: review and advice on continuing planning studies; review of public transportation programs and operations and advice on future directions; technical support on international maritime conventions and assistance in and development of Saudi Maritime Regulations; assistance in identifying and developing appropriate in-country and out-of-country training and staff development programs for Ministry personnel; advice and participation in the development of in-country recruitment programs; and advice and assistance in the development of management information system within the Ministry.

4. Project Title: National Center for Financial and Economic Information (NCFEI)

Date Agreement Signed: May 3, 1977

Agreement Termination Date: None stated

Cost: \$67,079,000

Personnel:  
 In United States: -  
 In Saudi Arabia: 33

Implementing Agency: Department of Treasury

The National Center was created to provide the Ministry of Finance and National Economy with timely information, analyses and reports, and a source of effective presentations of information to Saudi officials and their guests. U.S. advisors are assisting the Saudis in the areas of economic analyses; information, reference and research; assembling media production equipment; and providing non-print media services.

5. Project Title: Agriculture Bank Management and Training (AGRIBANK)

Date Agreement Signed: November 18, 1978

Agreement Termination Date: November 1983  
 Cost: \$11,628,000  
 Personnel:  
   In United States: 1  
   In Saudi Arabia: 12  
 Implementing Agency: Farm Credit Administration

Specialists are assisting the Saudi Arabian Agriculture Bank to improve its administration and operations. Areas of assistance include advisory cooperation, manpower development, and technology transfer. U.S. experts are assisting all bank departments to streamline banking operations and provide faster and sounder credit to farmers and agricultural developers. A study of the feasibility and cost of using computers for selected bank operations is presently being made. A large training program currently involving 175 Saudi bank personnel is being conducted with U.S. universities supplemented by on-the-job experience in U.S. banking institutions.

6. Project Title: Agriculture and Water Development (AGWAT)  
 Date Agreement Signed: November 23, 1975  
 Agreement Termination Date: None stated  
 Cost: \$113,778,000  
 Personnel:  
   In United States: 5  
   In Saudi Arabia: 62  
 Implementing Agency: Departments of Agriculture and Interior

The U.S. experts are working with the Saudi Ministry of Agriculture and Water to provide technical assistance in the fields of (1) water resources, (2) technical support in planning, design, preparation and evaluation of contracts including construction monitoring, (3) agriculture research and development support including land records, management classification and mapping, (4) information and data processing support for technical and administrative functions, including the development of a Ministry library.

7. Project Title: Solar Energy Research and Development (SOLERAS)  
 Date Agreement Signed: October 30, 1977

Agreement Termination Date:	Originally January 1983 extended to January 1986
Cost:	\$84,736,000 <sup>d</sup>
Personnel:	
In United States:	-
In Saudi Arabia:	2 <sup>e</sup>
Implementing Agency:	Department of Energy (with Midwest Research Institute)

This project is an equally funded solar energy research and development program of the United States and Saudi Arabia consisting of four major program areas: rural/agricultural, resource development, urban application, and industrial application. In the rural/agriculture program the Saudi Solar Village is a functioning photovoltaic power system, and work has started in the area of a prototype solar-powered, controlled environment agriculture system. Three design studies including the proposal for construction and operation of these systems are under review. In the resource development area, a solar desalination workshop was held during which Saudi and U.S. experts and representatives from foreign nations exchanged ideas. In the urban application area, four solar active cooling systems were tested and evaluated. Contracts were awarded to four universities in Saudi Arabia for detailed design of cooling laboratories. In the industrial area, a solar energy water desalination project was started.

8. Project Title:	Supply Management Development (CENPRO)
Date Agreement Signed:	July 13, 1978
Agreement Termination Date:	None stated
Cost:	\$12,668,000
Personnel:	
In United States:	3
In Saudi Arabia:	14
Implementing Agency:	General Services Administration

The U.S. is assisting the Saudi Ministry of Finance and National Economy in developing a centrally controlled

<sup>d</sup>Includes the U.S. equal share of about 42.4 million.

<sup>e</sup>Contractor personnel as of October 31, 1983.

procurement supply management system. Work is ongoing to develop (1) a supply classification and catalog system; (2) a catalog of common use items; (3) a specification and standards system; and (4) training programs for Saudi Arabian managers and staff.

9. Project Title: Consumer Protection  
(CONPROT)

Date Agreement Signed: May 3, 1977

Agreement Termination Date: None stated

Cost: \$27,422,000

Personnel:

In United States:	-
In Saudi Arabia:	1 <sup>f</sup>

Implementing Agency: Department of Treasury and  
Food and Drug Administration  
(with Midwest Research  
Institute)

The U.S. is assisting the Saudi Ministry of Commerce Consumer Protection Department and Quality Control Directorate in establishing a system of food quality controls in its four major laboratories. Specific programs to improve operations are being undertaken. They include the introduction of standard methods of analysis; modern and practical equipment for all laboratories; computerized data collection system; library facilities' ordering system; and repair and maintenance programs. In addition to the above, a regulatory inspection program of commercial weighing and measuring devices has been established and is operating in the Riyadh area.

10. Project Title: Customs Administration and  
Training (CUSTOMAT)

Date Agreement Signed: June 22, 1978

Agreement Termination Date: None stated

Cost: \$95,611,000

Personnel:

In United States:	14
In Saudi Arabia:	12

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<sup>f</sup> Contractor personnel as of October 31, 1983.

Implementing Agency: Department of Treasury

The project is focusing on training Saudi customs officers, computerizing Saudi customs operations, and using dogs for the detection of contraband coming into Saudi Arabia. The training program is centered at Arkansas State University and includes a 4-month program, a computer/micrographics vocational program, and both graduate and undergraduate degree programs. A contract for the computerization of Saudi customs operations and procedures was awarded to a U.S. firm, and work is underway to construct a new computer center. A program is underway to use dogs for the detection of contraband in cargo and passenger baggage coming into Saudi Arabia.

11. Project Title: Cooperation with King Faisal University (JAMIAH)

Date Agreement Signed: April 15, 1980

Agreement Termination Date: None stated

Cost: \$8,208,000

Personnel:

In United States:	-
In Saudi Arabia:	5 <sup>g</sup>

Implementing Agency: Department of Treasury (with Academy for Educational Development)

The objective of this project is to provide a range of assistance activities to King Faisal University. These include technical assistance in the higher education process and operations and exchange of university personnel in academic administration and other professional areas.

12. Project Title: Support for the Saudi Arabian National Center for Science and Technology (SANCST)

Date Agreement Signed: February 29, 1976

Agreement Termination Date: None stated

Cost: \$6,185,000

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<sup>g</sup>Contractor personnel as of October 31, 1983.

Personnel:  
 In United States: 4  
 In Saudi Arabia: -

Implementing Agency: National Science Foundation

The project is assisting in the development of Saudi Arabia's science capabilities. Current emphasis is being placed on applied research and coordination of activities at Saudi scientific centers.

13. Project Title: Statistics and Data Processing (STADAP)

Date Agreement Signed: September 23, 1975

Agreement Termination Date: Originally August 1980; extended to August 1985

Cost: \$36,483,000

Personnel:  
 In United States: 3  
 In Saudi Arabia: 28

Implementing Agency: Department of Commerce (Census)

The project is assisting the Central Department of Statistics in the overall improvement of Saudi Arabian statistical and data processing programs and resources. Work is ongoing in the areas of statistical services, computer data processing, and specialized program support. Training of the Saudi staff is being carried out in both Saudi Arabia and the United States.

14. Project Title: Manpower Training and Development (VOTRAKON)

Date Agreement Signed: June 12, 1976

Agreement Termination Date: June 1985

Cost: \$121,247,000

Personnel:  
 In United States: 15  
 In Saudi Arabia: 50

Implementing Agency: Department of Labor and  
General Services Administration

U.S. agencies are working with the Saudi General Organization for Technical Education and Vocational Training to assist in developing a strengthened vocational training system in Saudi Arabia. Ongoing activities include the design for construction of 18 new training-related facilities; the design, field test, and implementation of instructional materials for entry level courses in eight trades; developing, testing, and implementing a teacher-training curriculum; and the development of a nationwide on-the-job training system.

15. Project Title: National Park Development  
(KINAPARK)

Date Agreement Signed: February 16, 1977

Agreement Termination Date: None stated

Cost: \$6,493,000

Personnel:

In United States:	1
In Saudi Arabia:	1

Implementing Agency: Department of Interior

The Asir National Park construction was completed during 1982 and acceptance by the Saudi Ministry of Agriculture and Water is pending. The U.S. National Park Service is now working with Ministry officials in advising on the management and operation of the park.

16. Project Title: Tax Assistance and Training  
(TAXTRAIN)

Date Agreement Signed: May 17, 1981

Agreement Termination Date: Sept. 1984

Cost: \$1,407,000

Personnel:

In United States:	-
In Saudi Arabia:	3

Implementing Agency: Internal Revenue Service

The project calls for the development of a tax audit training program in the U.S. for examiners from the Zakat and Income Tax Department. In addition, two preliminary data base programs are underway. The first program is to sort and accumulate import values for each importer. The second program is the development of a computer master file of all taxpayers. Plans are also being completed for Internal Revenue Service instructors to train the Saudi Arabian examiners in a variety of subjects including techniques in audit principles, international bookkeeping, and accounting procedures.

17. Project Title:	Saudi Organization and Studies (SAUDOS)
Date Agreement Signed:	October 8, 1982
Agreement Termination Date:	None stated
Cost:	\$456,000
Personnel:	
In United States	-
In Saudi Arabia	2 <sup>h</sup>
Implementing Agency	Department of Treasury

The objective of this project is to improve the reporting capabilities and faculty performance evaluations for King Saud University, Department of Organization and Studies.

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<sup>h</sup>Contractor personnel as of October 31, 1983.



	<u>TOTALS</u>	
	<u>Costs</u>	<u>Personnel</u> <u>U.S.</u> <u>Saudi Arabia</u>
Active projects	\$656,983,000	51    252
Completed projects, <sup>i</sup> miscellaneous studies, and prepaid expenses	\$182,652,000	
U.S. Directorate <sup>j</sup> (including Procurement and Telecommunications Office)	\$ <u>31,432,000</u> <sup>k</sup>	<u>27</u> <u>16</u>
	<u>\$871,067,000</u>	<u>78</u> <u>268</u> <sup>l</sup>

<sup>i</sup>Four projects directed to procurement, installation, planning, and modernization of Saudi Arabian power stations; and one aimed at teaching, research, and educational curriculum development for a meteorological and environmental studies department at King Abdulaziz University.

<sup>j</sup>There are eight positions not shown that are U.S. funded.

<sup>k</sup>Costs represent the Saudi-based U.S. Directorate of the Joint Commission. Washington-based costs of the U.S. Directorate and Procurement and Telecommunications Offices have been distributed to the projects.

<sup>l</sup>Included in the total are 22 contractor personnel.

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