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REPORT TO THE CONGRESS



Economic Advantages Of Using American Ingredients To Satisfy Milk Requirements In Western Europe B-172539

Department of Defense
Department of Agriculture

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

JUNE 3, 1971

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-172539

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the economic advantages of using American ingredients to satisfy milk requirements in Western Europe. Federal participation in this project would be shared by the Departments of Defense and Agriculture.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of State; the Secretary of Defense; and the Secretary of Agriculture.

A handwritten signature in cursive script, reading "James B. Axtell".

Comptroller General
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

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U.S. balance-of-payments deficits continue to be a matter of concern to the U.S. Government. In 1969, the United States experienced the largest deficit in its history, nearly \$7 billion, calculated on the basis of liquidity. The deficit for 1970 was more than \$4 billion.

U.S. military expenditures abroad are an important factor underlying these continuing deficits. The Department of Defense (DOD), together with other Government agencies, is constantly searching for practicable ways to reduce the impact of its programs on the Nation's balance-of-payments position. One such way is to buy American products when the economics of the situation permit.

Studies made by Department of the Army agencies in 1962 and 1968 concluded that substantial economic advantages could be realized by the United States if recombined-milk plants were established in Europe and if our troops and their dependents were supplied with filled-milk products which would then be produced by those plants rather than with fresh whole-milk products purchased from European sources. Filled milk--a milk substitute made from American ingredients--is supplied to U.S. personnel in every part of the world except Western Europe. (See pp. 9 and 10.)

In addition to having economic advantages, filled milk has certain outstanding noneconomic characteristics such as taste, keeping quality, appearance, and consumer acceptability.

The 1962 study concluded that the United States, by using filled milk, could reduce its dollar payments abroad by \$19 million annually. The 1968 study pointed to reductions in dollar payments abroad of \$9.4 million annually, as well as annual cost savings of \$2.8 million to the Government and \$1.8 million to military personnel and their dependents.

For a variety of reasons, the Department of the Army has continued to buy fresh whole milk from European sources. In view of potential savings, the General Accounting Office (GAO) made a review to evaluate the merits of the Army's arguments in favor of these continued purchases abroad.

FINDINGS AND CONCLUSIONS

The Department of the Army has not disputed the conclusion that substituting filled milk for fresh whole milk would result in savings in direct costs and in reductions in military-related dollar payments abroad. The Army believes, however, that discontinuance of its milk purchases in Europe would affect adversely American grain exports to Europe and that a policy of providing only filled milk would prompt some consumers to buy fresh whole milk from the local economy instead of from military sources.

GAO agrees that, to the extent that these possibilities materialize, potential balance-of-payments advantages of providing filled milk would be reduced. It should be noted, however, that cost savings to the Army would not be reduced.

Even after allowances for these factors, GAO believes that economic advantages to the United States would justify establishing a capability to supply filled milk in Western Europe.

GAO bases its conclusions on the following considerations.

1. The U.S. Department of Agriculture (USDA) believes that the likely impact on U.S. feed grain exports would be small. The impact on foreign producers also could be cushioned if the transition were time phased to permit an orderly adjustment among affected sectors of the European dairy industry. (See p. 16.)
2. If the military were to require that filled milk be served only in troop mess facilities (which account for 60 percent of the demand for milk and milk products) but to allow commissary patrons the option of buying either fresh whole milk or filled milk, diversions of purchases from military supply sources to the local economy would be unlikely. The cost advantages of purchasing filled milk would give commissary patrons the option of substantial savings in their food purchases. Since the cost of filled milk would be substantially less than that of fresh whole milk, there should be a demand for this product and economy-minded commissary patrons could save substantial amounts. (See pp. 16 through 19.)
3. Ingredients for filled milk (vegetable oil and nonfat dry milk) are in surplus supply in the United States, are frequently acquired by USDA to support domestic market prices, and are disposed of through various domestic and foreign donation programs. The use of these surplus ingredients would benefit the overall U.S. budget. (See pp. 12 and 13.)
4. DOD Buy American policies authorize the payment of higher prices for military supplies and equipment of U.S. origin for use abroad unless the delivered cost of U.S. products is more than 50 percent above that of foreign products. Filled milk produced from U.S. surplus ingredients actually is less costly than the fresh whole milk being procured in Europe. (See p. 13.)

The Department of the Army has expressed concern at the possible effect that discontinuance of fresh whole milk procurements might have on troop morale in Europe. Although morale is an intangible GAO cannot measure, GAO believes that the problem could be minimized if the military were to give adequate advance notice of its intention to switch to filled milk and to provide educational material designed to inform military personnel and their families of the wholesome characteristics of filled milk, the general practice of providing filled milk at all other overseas locations, the growing commercial demand for filled milk in the United States, and the overall economic advantages to the United States of supplying filled milk in Western Europe.

RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that the Secretary of Defense evaluate the Department of the Army's objections to the establishment of filled-milk plants in Europe in the light of the additional considerations outlined in this report. (See p. 20.)

GAO recommends also that, should a decision be made to establish such plants, the Secretary of Defense instruct the services to give military personnel and their families adequate advance notification and justification for supplying filled-milk products. (See p. 20.)

GAO recommends further that DOD establish close liaison with USDA and with the Department of State to ensure that the transition is timed to minimize potential economic or political repercussions to broader U.S. interests. (See p. 20.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of the Army, on behalf of the Secretary of Defense, advised GAO that a decision had been made to conduct an objective consumer acceptance test in Europe.

USDA informed GAO that it was prepared to cooperate with DOD in whatever decision DOD might make in this matter.

The Department of State advised GAO that it foresaw no political repercussions and agreed with the decision made by the Secretary of Defense.

GAO is in agreement with the action contemplated by DOD and intends to follow up on the consumer acceptance test at some appropriate future date.

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO believes that this report is of timely importance and interest to the Congress because it presents a way in which U.S. agricultural surpluses can be used, the economic burden of stationing U.S. troops in Europe can be reduced, and savings by the Government can be realized.

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office
USDA	U.S. Department of Agriculture

D I G E S T

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Studies made by Department of the Army agencies in 1962 and 1968 concluded that substantial economic advantages could be realized by the United States if recombined-milk plants were established in Europe and if our troops and their dependents were supplied with filled-milk products which would then be produced by those plants rather than with fresh whole-milk products purchased from European sources. Filled milk--a milk substitute made from American ingredients--is supplied to U.S. personnel in every part of the world except Western Europe. (See pp. 9 and 10.)

In addition to having economic advantages, filled milk has certain outstanding noneconomic characteristics such as taste, keeping quality, appearance, and consumer acceptability.

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CHAPTER 1

INTRODUCTION

Continuing deficits in the U.S. balance-of-payments position in recent years have focused attention on the need to identify and act on those areas where the United States could reduce its dollar outflow. The Department of Defense has been in the forefront of Federal agencies mindful of the need to take all reasonable steps to alleviate our Nation's balance-of-payments problems because of the substantial dollar drain involved in stationing troops abroad. DOD follows a general policy that purchases of supplies for use outside the United States shall be restricted to U.S. end products; in furtherance of this policy, in 1965 DOD adopted an interim measure whereby a differential of 50 percent in favor of U.S. end products was to be applied.

Various exceptions to this Buy American policy are provided for in current DOD procurement regulations. One exception permits the purchase of perishable subsistence items for use outside the United States if it is determined that delivery from the United States would destroy or significantly impair the quality of the items at the point of consumption.

In October 1967, DOD outlined a program to reduce international balance-of-payments expenditures for subsistence in foreign countries. Under this program all items being purchased overseas were to be evaluated as to whether an acceptable product could be delivered from the United States to meet the requirements of the military consumer. The intent of the plan was to minimize offshore procurement of subsistence items for troop issue and commissary resale purposes.

Specific guidelines included: (1) eliminating those items where no valid need existed, (2) determining which items could be supplied from the United States without significantly impairing their quality, and (3) determining what items could be replaced by items available from the United States.

One of the largest subsistence items procured in Western Europe by DOD in fiscal year 1969 was fresh whole milk, for

which approximately \$13.5 million was spent. The procurement of whole milk has been gradually declining over a period of years, mainly because of troop reductions in Europe. Nevertheless, because of the still-significant amount involved and because of our feeling that a suitable domestic substitute is available this report presents the case both for and against procurement of fresh whole milk in Western Europe.

CHAPTER 2

CHARACTERISTICS AND GENERAL ACCEPTABILITY

OF FILLED MILK

Filled milk--a substitute for whole milk--looks like milk, tastes like milk, and feels in the mouth virtually the same as milk. It provides nonfat dry milk plus a vegetable oil in place of butterfat. The Armed Forces provide filled milk to their troops and commissary patrons in virtually all overseas locations except in Western Europe. There, because of its general availability, fresh whole milk is purchased for troop consumption and for sale to commissary patrons.

A comparison of filled-milk and whole-milk characteristics made by an Army procurement activity in Japan reveals that a strong case can be made for using filled milk. The study disclosed:

<u>Characteristic</u>	<u>Finding</u>
Price	Very inexpensive
Taste	Comparable to whole milk
Keeping quality	Above normal
Component stability	Very stable
Appearance	White
Bacteriological quality	Superior to whole milk
Consumer acceptability	Excellent

In the United States, milk substitutes are among the most rapidly accepted new products in the food industry. Although production of imitation and/or filled milk currently is limited to nine states, a U.S. dairy specialist has predicted that sales will be nationwide within the next 2 years. In a recent study by Messrs. R. F. Holland and D. K. Bandler of the Department of Food Science at Cornell University, it was disclosed that filled milk had captured about 15 percent of the fluid-milk market in Arizona and that sales were increasing at a steady 0.2 percent a month. In Hawaii, filled milk accounts for 25 percent of the market. The reason for the rapid increase in sales of filled milk can be attributed fundamentally to its lower price.

We were informed by officials of dairy product manufacturing firms as well as by researchers that there was no distinguishable difference in taste between chilled filled milk and chilled fresh whole milk. A supply officer of a large U.S. Navy carrier told us that he had received no complaints from the crew on those occasions when he had served filled milk because of the unavailability of fresh whole milk. He stated that on such occasions the milk had been served chilled or as chocolate milk and that the crew could not tell that they were drinking filled milk.

A USDA official commented:

"As to acceptability of filled milk versus natural milk, a number of factors govern. Usually these include the quality of raw material and their freedom from developed flavors and odors. Another condition is temperature. Producers of filled milk usually offer it chilled which masks any difference which the consumer might detect. With high quality raw materials and cool temperature, the average consumer would not know the difference."

Finally the Council on Food and Nutrition of the American Medical Association, in a study entitled "Substitutes for Whole Milk," concluded that filled milk contained as much nonfat milk solids as did skim milk, was fortified with vitamins A and D, and was a nourishing product giving a price advantage to the consumer.

CHAPTER 3

COST AND BALANCE-OF-PAYMENTS ADVANTAGES

OF USING SURPLUS FILLED MILK INSTEAD OF

BUYING FRESH WHOLE MILK IN WESTERN EUROPE

Studies made by Department of the Army agencies have concluded that substantial budgetary and balance-of-payments advantages could be realized if fresh whole-milk products being purchased in Europe were replaced with filled-milk products reconstituted with American ingredients shipped to Europe. Despite the indicated economic advantages, the Army had decided to continue its offshore procurements because of a number of factors which are discussed in this report.

In fiscal year 1969, approximately \$13.5 million was spent by DOD for fresh-milk products--60 percent for troop mess facilities and 40 percent for sale through commissaries.

U.S. ARMY STUDY IN 1962

In 1962 the U.S. Army studied the balance-of-payments benefits of supplying filled milk in place of purchasing fresh whole milk from European suppliers. Investigation disclosed that U.S. owned or leased land would have been available; that suitable prefabricated buildings could have been constructed; that no local laws, regulations, or agreements would have prohibited the establishment of milk plants; and that an initial investment of about \$4 million would have been sufficient to establish the eight plants then considered necessary to meet milk requirements in Germany, France, and Italy. The price of filled milk would have been equivalent to fresh whole milk procured under then-existing contracts.

An estimated \$19 million a year in dollar expenditures abroad would have been avoided. Cost advantages had seemed likely if existing European dairies had converted their operations to process U.S. furnished filled milk, but the balance-of-payments advantage would have been only \$14 million compared with the \$19 million reduction possible if U.S. facilities had been constructed.

The Army report concluded that, despite the feasibility of establishing recombined milk plants in Europe, the possibility of adversely affecting existing favorable U.S. grain exports to Europe was sufficient reason to not discontinue purchases of whole milk in Europe, which purchases then totaled about \$22 million a year. The report recommended, however, that packaging materials, butter for resale in commissaries, and butterfat for ice cream manufacture be procured from the United States, which would reduce dollar expenditures abroad by approximately \$4.8 million annually.

ARMY AUDIT AGENCY REPORT OF 1969

In May 1969, the Army Audit Agency issued a report on certain aspects of the Army food program. This review, begun in 1968, included a study of Army milk purchases¹ and reconfirmed the findings of the 1962 study--that it was economically feasible to replace European purchases of fresh whole milk with U.S.-supplied filled milk.

As a result of troop reductions after 1962, gold-flow savings in 1969 were estimated at \$9.4 million a year. Cost savings not available in 1962 were now possible, however, since the price of fresh whole milk had risen to an average 18.4 cents a quart, while filled milk could have been supplied at between 8 to 12 cents a quart, depending on production levels. Using a conservative cost estimate of 12 cents a quart, filled-milk procurement could have saved about \$4.6 million a year--\$2.8 million in direct budgetary savings for mess hall consumption and \$1.8 million in savings available to commissary customers.

The Army Audit Agency calculations of economic benefits, based on fiscal year 1969 estimated requirements, are shown below.

¹ Army milk purchases represented more than 90 percent of milk purchases by the military services in Europe in fiscal year 1969.

	Amount (000 omitted)	
Cost of whole milk		\$14,000
Less cost of filled milk		<u>9,437</u>
Net cost savings from using filled milk		4,563
Net cost of U.S. products used:		
Filled milk products bought in the United States	\$6,134	
Less U.S. products used in whole milk	<u>1,202</u>	<u>4,932</u>
Net reduction in dollar expenditures abroad		<u>\$ 9,495</u>

In view of the substantial economic advantages that could be realized, the audit report recommended that filled milk be procured from U.S. processors as a substitute for fresh whole milk currently being purchased in Europe. The Department of the Army rejected this recommendation, and no change in European milk purchases was contemplated. The reasons for the Army's decision not to implement this apparently advantageous proposal are discussed further in the next chapter.

GAO COMMENTS ON ECONOMIC BENEFITS

There is little doubt, from the studies made, that substantial economic benefits would accrue to the United States if DOD were to supply filled milk rather than purchase fresh whole milk in Europe.

A further significant factor which, we believe, should be considered is the role of the USDA price-support program. Millions of dollars are spent annually by the Commodity Credit Corporation for the purchase of nonfat dry milk, the principal ingredient in filled milk, under its price-support program. USDA officials advised us that they had consistently supported the price of nonfat dry milk in past years and that there was reasonable expectation that purchases of nonfat dry milk by the Commodity Credit Corporation would continue in the foreseeable future. The same situation applies to soybeans, one possible source of the vegetable oil used in the production of filled milk.

Assuming that there is a relationship between the amounts of nonfat dry milk and soybeans consumed and the amounts needed to be purchased by USDA to support market prices, it could be argued that, if DOD acquired these surplus commodities from commercial sources in the United States for consumption in Europe, the need for USDA to acquire as much of them for price-support purposes would be reduced.

From a Government-wide standpoint, therefore, overall expenditures would be reduced.

Another possibility would be for DOD to acquire surplus commodities from USDA, which would involve a transfer of funds from one Government agency to another, with a comparable economic effect.

Although there would be no budgetary savings to DOD beyond the inherent price advantage of filled milk over fresh whole milk (about \$2.8 million for fiscal year 1969), the Government as a whole would save on the cost of ingredients. Thus the overall appropriation needs of USDA (and interest costs for financing the national debt) would tend to be reduced. The significance of the potential

savings can be gauged from calculations prepared by the Army Audit Agency, shown on page 11, which indicate that about \$6 million in surplus U.S. ingredients could have been used if filled milk had been supplied in fiscal year 1969.

Another important consideration which seems not to have been given sufficient weight is the DOD policy of favoring U.S. procurement to obtain balance-of-payments benefits. DOD, in furtherance of its Buy American policy, is willing to pay up to 50 percent more to favor the use of American products. The continued purchase of fresh whole milk in Western Europe seems to indicate that the Army unduly emphasized taste rather than emphasized economy and DOD's Buy American guidelines, since American products could be supplied at less cost than foreign products.

CHAPTER 4

ANALYSIS OF DEPARTMENT OF THE ARMY OBJECTIONS TO USE OF FILLED MILK IN WESTERN EUROPE

The Department of the Army position on the Army Audit Agency recommendation that "filled milk be procured from U.S. provisions as a substitute for fresh whole milk currently purchased in Europe" is presented below.

ARMY POSITION

"For reasons stated in subsequent paragraphs, the Army currently plans to continue to use fresh whole milk for troop consumption and commissary resale where it is available locally.

1. "Fresh whole milk has been procured in Europe for over 20 years. This is primarily true because the supplying countries have milk sheds that are capable of furnishing high quality product, comparable to that found in the United States. Since this capability is not available in other areas of the world, the military must obtain milk from recombining plants. These plants were constructed, not for reasons of economy, but as a practical source of whole milk substitute otherwise unavailable to our forces."
2. "The foreign milk supplying countries place economic reliance on these sales and this permits them to import foodstuffs (feedgrains) from the United States. This, in turn, creates a healthy international balance of trade."
3. "Of the anticipated budgetary saving of \$4.6 million, \$1.8 million represents commissary resale which is reimbursed to the government in its entirety and reflects no actual savings (to the Government)."

4. "Additionally, if the European Exchange Service sales outlets were permitted to continue the sale of fresh whole milk while the troop dining facilities and commissaries could only utilize filled milk, there would be justified cause for dissatisfaction. Commissary customers desiring whole milk would be forced to pay higher prices in the Exchange or on the local economy which further impacts unfavorably upon gold flow. Also, if fresh whole milk were available locally but not in the troop dining facilities, the soldier would be apt to feel that he was being treated as a 'second class citizen' as compared to his continental U.S. counterpart, with a deleterious impact on morale."
5. "The adverse effects upon troop morale and commissary customer satisfaction are considered valid factors and were previously verified in a similar matter concerning ice cream. In that case the Department of Defense authorized the European Command to manufacture ice cream instead of imitation ice cream for troop and commissary resale consumption based on surveys taken in that area."

GAO ANALYSIS OF ARMY POSITION

Our comments are numbered to correspond to the objections presented by the Army.

1. Availability of high-quality fresh whole milk in Europe

Although it is true that filled-milk plants were constructed in other areas of the world, not for reasons of economy but as a practical source of whole milk not otherwise available, we submit that this is not a logical reason why the economics of the situation should not prevail, since filled milk is acceptable from a nutritional standpoint and since its use has generally been acceptable at other overseas locations.

2. Milk sales permit import of U.S. feed grains

Responsible officials at USDA advised us that the potentially adverse effects on U.S. feed grain exports to Europe should be minimal, based on the economics of the European milk industry. They explained that feed grains were consumed primarily by meat animals, rather than by dairy animals, and that U.S. exports had been declining, primarily because of increasing European production and European protectionist policies and subsidies.

It is noteworthy that the value of whole milk purchased in fiscal year 1968 from the Netherlands, which supplied more than 40 percent of the total U.S. Army milk requirements in Europe, represented less than 1 percent of that country's estimated annual milk production.

In any event, we believe that, if the impact on foreign producers were a cause for concern to USDA and the Department of State, such an impact could be cushioned if the transition were time phased to allow for orderly adjustment among the affected sectors of the European dairy industry.

3. Savings disputed

We agree that \$1.8 million of the \$4.6 million savings reported by the Army Audit Agency represent commissary resales, the savings on which are passed on to individual patrons and do not accrue to the U.S. Government. The remaining \$2.8 million which would be savings to the Government, together with an estimated \$9.4 million reduction in dollar expenditures abroad, would still be compelling economic reasons for switching to U.S. ingredients. Also, as noted on page 12, DOD would be buying surplus commodities and there would be substantial additional budgetary advantages available to the Government as a whole through a reduction in USDA expenditures and appropriations.

4. Purchases on local market will reduce gold-flow impact

It seems to us that the Army is unduly pessimistic in its speculations. About 60 percent of the milk is consumed

in troop mess facilities, so fresh whole-milk purchases for these outlets could be cut substantially with little danger of market displacement. Moreover it does not follow that all the commissary customers now buying the remaining 40 percent of the whole milk consumed would refuse to buy filled milk if it were available. The potential 35- to 55-percent price differential might very well make filled milk an attractive bargain, particularly since the characteristics of filled milk compare favorably with those of whole milk.

According to the 1969 Army Audit Agency report, filled milk has proved to be an acceptable substitute in U.S. military commands outside Western Europe. It seems logical to suppose that filled milk could gain equal acceptance in Western Europe.

5. Troop morale and
commissary customer satisfaction

Although morale is an intangible that we cannot measure, we believe that the potential problem could be minimized if the military were to give adequate advance notice of its intention to switch to filled milk and to provide educational material designed to inform military personnel and their families of the wholesome characteristics of filled milk, the general practice of providing filled milk at all other overseas locations, the growing commercial demand for filled milk in the United States, and the overall economic advantages to the United States of supplying filled milk in Western Europe.

As for commissary customers, the proposed substitution of filled milk for whole milk need not be an "either or" proposition. Both whole milk and filled milk could be made available to these customers, if necessary. U.S. dairy officials have advised us that, where filled milk enjoys a significant price advantage, demand for this product can be expected. Currently there is no means by which a European commissary customer can register his feelings as to the acceptability of milk products. In our opinion, the true test of a commodity's acceptability takes place in the market, and we believe that the commissary patron should be given the option of purchasing either filled or fresh whole

milk. This option would permit commissary patrons to save significant amounts on their food purchases if they choose to, and it could be argued that this saving would be a morale booster.

As a further indication that filled milk can be competitive with fresh whole milk in Europe, we have found that an American dairy firm presently is contemplating building filled-milk plants throughout central Europe.

CHAPTER 5

CONCLUSIONS, RECOMMENDATIONS, AGENCY COMMENTS, AND GAO EVALUATION

The Department of the Army has not disputed the Army Audit Agency's conclusions that a substitution of filled milk for fresh whole milk would result in direct cost savings and reductions in military dollar payments abroad. The Army believed, however, that discontinuance of its milk purchases in Europe would adversely affect American feed grain exports to Europe and that some consumers would continue to purchase fresh whole milk on the local economy.

To the extent that these possibilities materialize, we agree that potential balance-of-payments advantages of providing filled milk would be reduced. It should be noted, however, that cost savings to the military would not be reduced.

The major ingredients of filled milk--nonfat dry milk and vegetable oil--are in surplus supply and are included in the USDA's price-support program. These commodities are disposed of through various domestic and foreign donation programs. The use of these ingredients would benefit the overall U.S. budget and would reduce interest costs on the national debt.

DOD follows a general policy of favoring purchases of U.S.-produced supplies which allows the purchase of American items even though they may cost 50 percent more than like foreign items. Not only is a suitable U.S. item available within the 50-percent cost margin, but also the U.S. supplies actually cost less than the foreign supplies now being procured.

In view of the growing acceptance of filled milk at home and abroad--because of its cost advantage, taste comparability, nutritional value, and keeping qualities--it seems that commissary patrons in Europe should be accorded the opportunity to save on their food budgets. As for the possible adverse effect on the morale of troops, we believe

that the problem could be minimized through adequate advance notice and education.

RECOMMENDATIONS

We recommend that the Secretary of Defense evaluate the Department of the Army's objections to the establishment of filled-milk plants in Europe in the light of the additional considerations outlined in this report.

We recommend also that, should a decision be made to establish such plants, the Secretary of Defense instruct the services to give military personnel and their families adequate advance notification and justification for supplying filled-milk products.

We recommend further that DOD establish close liaison with USDA and with the Department of State to ensure that the transition is timed to minimize potential economic or political repercussions to broader U.S. interests.

AGENCY COMMENTS AND GAO EVALUATION

A draft of our report was sent to DOD, USDA, and the Department of State.

USDA informed us that it was prepared to cooperate with DOD in whatever its decision might be in this matter.

The Department of the Army, on behalf of the Secretary of Defense, advised us that a decision had been made to conduct an objective consumer acceptance test in Europe.

The Department of State advised us that it foresaw no political repercussions and agreed with the decision made by the Secretary of Defense.

We are in agreement with the action contemplated by DOD, and we intend to follow up on the consumer acceptance test at some appropriate future date.

CHAPTER 6

SCOPE OF REVIEW

Our review was directed toward an evaluation of whether it would be to the advantage of the U.S. Government, from the standpoint of dollar costs and balance-of-payments considerations, to buy U.S. surplus agricultural commodities for use in producing filled milk in Western Europe as a substitute for fresh whole milk being bought from European suppliers.

Our review included an examination of available records and discussions with military, commercial, and civilian officials in Europe and in Washington, D.C., and other locations in the United States.

APPENDIXES



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D.C. 20310

12 March 1971

Mr. Oye V. Stovall
Director, International Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

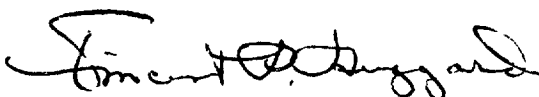
This is in reply to your letter of 18 June 1970 to the Secretary of Defense requesting comments on your draft report titled: "Economic Advantages of Using American Ingredients to Satisfy Milk Requirements in Western Europe" (OSD Case #3130).

In view of your recommendation that the Secretary of Defense evaluate the Army's objections, a decision has been made to conduct an objective consumer acceptance test in Europe.

You will be advised of the results of this test upon completion.

This reply is made on behalf of the Secretary of Defense.

Sincerely yours,


Vincent P. Huggard
Acting Assistant Secretary of the Army
(Installations and Logistics)

APPENDIX II



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

July 16 1970

Mr. Oye V. Stovall, Director
International Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

This is in reply to your letter of June 18 enclosing a draft of a Comptroller General's report to the Congress on the economic advantages of using American ingredients to satisfy milk requirements in Western Europe.

As you point out, the draft deals with matters which are mainly the responsibility of the Department of Defense. This Department is prepared to cooperate with the Department of Defense in whatever its decision may be in this regard.

We appreciate your giving us the opportunity to comment on the proposed report.

Sincerely,

A handwritten signature in cursive script that reads "Clarence D. Palmby".

Clarence D. Palmby
Assistant Secretary

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF DEFENSE AND
THE DEPARTMENT OF AGRICULTURE
HAVING AN INTEREST IN THE MATTERS
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE:		
Melvin R. Laird	Jan. 1969	Present
ASSISTANT SECRETARY OF DEFENSE (INSTALLATION AND LOGISTICS):		
Barry J. Shellito	Feb. 1969	Present
<u>DEPARTMENT OF AGRICULTURE</u>		
SECRETARY OF AGRICULTURE:		
Clifford M. Hardin	Jan. 1969	Present
ASSISTANT SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS:		
Clarence D. Palmby	Jan. 1969	Present