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REPORT TO THE CONGRESS

74-0516



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Should Appropriated Funds
Be Used For Transportation
Procured Specifically For
Armed Forces Exchange Goods?

B-169972

Department of Defense

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

AUG. 6, 1973

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D. C. 20548

B-169972

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

This is our report entitled "Should Appropriated Funds Be Used for Transportation Procured Specifically for Armed Forces Exchange Goods?"

We made our review 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).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretaries of the Army, Navy, and Air Force.

James B. Axtell

Comptroller General
of the United States

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office
MAC	Military Airlift Command
MSC	Military Sealift Command
MTMTS	Military Traffic Management and Terminal Service

D I G E S T

WHY THE REVIEW WAS MADE

Military exchanges provide members of the Armed Services with goods and services not furnished by the Government. Because the exchanges operate primarily with funds generated from their operations, they are considered non-appropriated-fund activities. Exchanges receive some appropriated funds for transportation of goods.

GAO wanted to see if the appropriated funds were being used as intended by the Congress.

FINDINGS AND CONCLUSIONS

During fiscal years 1966-72 the Department of Defense (DOD) paid more than \$400 million of congressional appropriations for transportation of Army, Air Force, Navy, and Marine Corps exchange cargo between the continental United States and points overseas and between overseas points. About \$320 million of this amount was used to procure transportation specifically for exchange goods. (See p. 4.)

Statutes governing the Army and Air Force permit appropriated funds to be used for transportation costs of exchange cargo when it is carried in public transportation not required for other purposes. Although there is no legislative history defining the term "public transportation," a reasonable interpretation would mean those conveyances owned, leased, or

chartered by the Government where the Government is already obligated to pay for the space whether it is used or not. (See p. 4.)

Since at least 1954 the Army and Air Force have interpreted the statutes more broadly. Their regulations provide for use of space in all conveyances owned, leased, or chartered by the Government, regardless of whether that space is required for DOD cargo.

The regulations also permit the use of space on commercial facilities for which the Government would not have to pay if the exchange cargo were not shipped.

As a result, DOD paid transportation costs solely because exchange cargo had been transported, not because the Government was under any obligation to pay for the space or service. (See p. 4.)

The regulations are more permissive than the statutory provisions. However, in view of the statute's history, the length of time the regulations have been in effect, and congressional awareness that some appropriated funds are being used for transportation of exchange goods, GAO cannot say the regulations or payments made pursuant thereto were invalid or illegal. (See p. 4.)

There are no similar statutes governing the Navy and Marine Corps, but they have issued regulations similar to those of the Army and Air Force. (See p. 5.)

RECOMMENDATIONS

GAO has no recommendations to the executive branch, but it is making a recommendation to the Congress as specified in the last section of this digest dealing with matters for consideration by the Congress.

AGENCY ACTIONS AND UNRESOLVED ISSUES

DOD agreed in general with GAO's findings but believed the proper interpretation of the legislative history of pertinent statutes permitted use of appropriated funds to procure public transportation for exchange goods. (See p. 11.)

However, GAO's interpretation of "public transportation" differed from DOD's. GAO expressed the opinion that the term was intended to mean only use of transportation facilities which are owned by the Government or for which the Government is otherwise obligated to pay. (See p. 11.)

DOD also said legislative history clearly indicated that Congress was aware of and agreed with the use of appropriated funds for exchange shipments. (See p. 12.)

GAO recognizes that the Congress is aware that appropriated funds are being used to pay the cost of transporting some exchange goods. But, GAO could find nothing to indicate that the Congress is

aware that funds are being used to procure transportation specifically for exchange goods. (See p. 12.)

DOD commented further that eliminating appropriated funds for exchange shipments would adversely affect military personnel. The exchanges would increase the price of merchandise sold overseas or would reduce their contributions to the various welfare funds. (See p. 12.)

GAO was aware of possible consequences and considered them in this report. GAO reported that, if the transportation costs were allocated on a worldwide basis, the increase in the price of merchandise would be slight--about 2 percent--and would not discriminate against anyone because of the location of his duty assignment. (See p. 13.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should consider whether it is appropriate for the Government to continue funding the cost of transporting exchange goods by using space on transportation facilities which are not owned by the Government or for which the Government is not otherwise obligated to pay. (See p. 14.)

GAO does not suggest that the Congress withdraw appropriated-fund support from the exchanges. It believes, however, that the Congress should consider the issue. (See p. 14.)

AVAILABLE

CHAPTER 1

INTRODUCTION

Military exchanges operate retail department stores, gasoline service stations, and a host of other sales and service activities which provide our Armed Forces with goods and services not furnished by the Government. From early one-man operations, the exchanges have grown into giant retail systems with a combined annual sales volume exceeding \$3 billion.

Although they were created by the military departments and continue to be governed by the departments' regulations, the exchanges are organizations technically separate from the military. They do, however, retain a status as instrumentalities of the Federal Government. Even though the Congress has never specifically authorized creation of the exchanges, it is clear from congressional appropriations hearings, debates, etc., that the Congress is aware of and approves of their existence.

Currently, there are three military exchange systems: the Army and Air Force Exchange Service, the Navy Resale System Office, and the Marine Corps Exchange Service. A brief description of the organization and objectives of each system is included as appendix I.

Because the exchanges operate primarily with funds generated from their own operations, they are considered non-appropriated-fund activities. They do, however, receive appropriated-fund support for, among other things, the overseas transportation of exchange goods. Although this transportation support appears to have peaked in fiscal year 1970, the more than \$60 million furnished in each of the following years was still significant.

We limited this review to the use of appropriated funds to pay the cost of transporting exchange goods overseas.

CHAPTER 2

NEED TO CONSIDER APPROPRIATENESS

OF PAYING COST OF TRANSPORTATION

PROCURED SPECIFICALLY FOR EXCHANGE GOODS

During fiscal years 1966-72, DOD paid more than \$400 million from congressional appropriations for the transportation of Army, Air Force, Navy, and Marine Corps exchange cargo. About \$320 million of this amount was spent to procure transportation specifically for exchange goods.

Our review of congressional appropriations hearings indicated that the Congress was aware that appropriated funds were being used to pay some of the transportation costs of exchange goods. However, the Congress may not be aware that most of the funds are being used to procure space specifically for exchange goods.

Statutes governing the Army and Air Force permit appropriated funds to be used to pay the transportation costs of exchange cargo when that cargo is transported in public transportation which is not required for other purposes. Although there is no legislative history defining the term "public transportation," we believe that a reasonable interpretation would mean those conveyances owned, leased, or chartered by the Government where the Government is already obligated to pay for the space used.

Since at least 1954 the Army and Air Force have interpreted the statute more broadly. Their regulations provide for the use of space in all conveyances owned, leased, or chartered by the Government, regardless of whether or not that space is required for DOD cargo, as well as space on commercial facilities for which the Government would not have to pay if the exchange cargo were not shipped. As a result, DOD paid transportation costs solely because exchange cargo had been transported, not because the Government was under any obligation to pay for the space or service.

We believe these regulations are more permissive than the statutory provisions, but in view of the history of the statute, the length of time the regulations have been in effect, and congressional awareness that some appropriated funds

are being used for the transportation of exchange goods, we cannot say the regulations or payments made pursuant thereto are invalid or illegal.

There are no similar statutes governing the Navy and Marine Corps, but they have issued regulations similar to those issued by the Army and Air Force.

In view of the amount of appropriated funds being spent to procure transportation specifically for exchange goods, we believe the Congress should consider whether it is appropriate for the Government to continue funding such payments.

CURRENT PROCEDURES FOR FINANCING THE TRANSPORTATION OF EXCHANGE GOODS

As noted earlier, the military exchanges are non-appropriated-fund activities. Merchandise purchased by these activities is procured with non-appropriated funds; therefore the procurement is not subject to the regulations to which appropriated-fund activities must adhere.

The extent to which the exchanges must pay for transportation costs has been defined by the services in their regulations governing the use of appropriated funds for exchange support. Shipment of goods between points within the continental United States is paid, with a very minor exception, entirely from nonappropriated funds. For these shipments, the exchanges must arrange for their own transportation.

For shipments to overseas locations (points outside the continental United States), the exchanges have two options. First, which is the exception rather than the rule, the exchanges may arrange for the transportation and pay for it from their own funds.

On the other hand, the exchanges may request the military services to provide or pay for the transportation of exchange goods from a continental United States aerial or water port to an overseas port of debarkation. In this case, the exchange arranges and pays for the transportation cost to the origin port but then turns the goods over to a military transportation activity for the transocean movement. This is the point at which the goods enter the Defense Transportation System--a term applied to the Military Airlift Command (MAC), the Military

Sealift Command (MSC), and the Military Traffic Management and Terminal Service (MTMTS).

These agencies are major commands of the Air Force, Navy, and Army, respectively, and are responsible for operating and procuring air and water transportation and handling services for all DOD shippers. They provide or procure these services and handle the exchange cargo the same way they handle military cargo. Nearly all the transportation and handling costs incurred from the time of entry into the Defense Transportation System are paid first by MAC, MSC, AND MTMTS and then reimbursed to these agencies by the military service sponsoring the particular exchange goods. No reimbursement is sought or required from the exchanges.

In summary, the transportation costs of exchange goods found in stateside outlets are paid entirely from nonappropriated funds; whereas the costs for U.S. goods found in overseas exchanges are generally paid partly from nonappropriated funds and partly from appropriated funds.

STATUTORY AUTHORITY AND SERVICE REGULATIONS
CONCERNING USE OF APPROPRIATED FUNDS

The Army appropriation act for fiscal year 1893 (27 Stat. 178) (see app. II) provides that money appropriated for the support of the Army cannot be spent for post exchanges. The Congress stated in the act, however, that this prohibition should not be construed to prohibit post exchanges from using public buildings or public transportation which, in the opinion of the Quartermaster General, are not required for other purposes. Subsequent to the organization of the Air Force, a similar provision of law was enacted to cover its exchanges. See appendix II for codification (10 U.S.C. 4779(c) for the Army and 10 U.S.C. 9779(c) for the Air Force).

We are not aware of any similar law which has been enacted to cover Navy and Marine Corps exchanges. However, we are including these exchanges in our discussion to give a full view of the amount of appropriated-fund support in the form of subsidized overseas transportation which all the exchanges receive.

Army Regulation 37-23 and Air Force Regulation 172-15, dated September 1970, in addition to similarly worded previous Army and Air Force regulations, authorize the Army and Air Force to participate in financing from appropriated funds the cost of port handling and ocean or air transportation of exchange cargo by the Defense Transportation System. These regulations also specify that Army and Air Force exchange material will be shipped via MAC and MSC on a space-required basis (as opposed to a space-available basis) without cost to these exchanges.

Navy and Marine Corps regulations are the same as those of the Army and Air Force except that they also authorize the payment of overseas drayage costs; that is, the cost to move the shipment from the overseas port to its destination. These drayage costs have been included in our estimate of costs encountered specifically for exchange goods.

In effect, these regulations authorize the expenditure of appropriated funds to procure space solely for exchange goods as opposed to space already contracted for but not required for DOD cargo.

There was no discussion in the applicable acts or their codified counterparts of the meaning of the phrase "public transportation that is not required for other purposes." In the context used, however, it seems reasonable to us that the provision was intended to authorize the utilization of space on transportation facilities for which the Government is otherwise under obligation to pay or which the Government owns.

SUMMARY OF PAYMENTS FOR TRANSPORTATION
PROCURED SPECIFICALLY FOR EXCHANGE GOODS

We found that during fiscal years 1966-72 the services paid about \$320 million to procure transportation specifically for exchange goods. This was transportation that the Government was not otherwise obligated to pay for. The following table summarizes our findings.

<u>Fiscal year ended June 30</u>	<u>Total appropriated- fund payments made for exchange shipments</u>	<u>Estimate of payments made to procure space specifically for exchange shipments</u>
(000 omitted)		
1966	\$ 34,381	\$ 22,625
1967	44,059	26,585
1968	56,830	38,792
1969	71,343	56,713
1970	75,617	62,037
1971	61,586	54,852
1972	<u>63,771</u>	<u>57,285</u>
Total	<u>\$407,587</u>	<u>\$318,889</u>

The means of transportation procured specifically for exchange goods could not, in our opinion, be construed as "public transportation not needed for other purposes." Records show that the shipment costs had been paid solely because the exchange goods were transported and not because the Government was under any obligation to pay for the space or service. To determine the payment amounts, we used the billing records prepared and used by MSC and MAC for obtaining reimbursement from the military services.

POSSIBLE CONSEQUENCES OF CHANGING METHOD
OF FINANCING TRANSPORTATION OF EXCHANGE GOODS

In considering the appropriateness of continued funding of transportation procured specifically for exchange cargo, the Congress should be aware of the possible consequences of a change in the current funding arrangements.

Restriction of appropriated-fund support would probably require the exchanges to either raise the sales prices of its goods or reduce its contributions to the military welfare and recreation funds.

If the exchanges chose to raise the price of their goods, we estimate that an average increase of less than 2 percent would have been required during fiscal year 1972.

If the exchanges chose to absorb the cost of transportation procured specifically for exchange goods, their contributions to the military welfare and recreation funds would be reduced.

CHAPTER 3

AGENCY COMMENTS AND OUR EVALUATION

We brought our findings to the attention of the Secretary of Defense in a draft report dated April 30, 1973. We informed him that we were planning to recommend that cognizant committees of the Congress consider whether it is appropriate to continue funding the cost of transporting exchange goods by using space on transportation facilities which are not owned by the Government or for which the Government is not otherwise obligated to pay.

DOD, in commenting on our findings in a letter dated June 29, 1973 (see app. III), stated that it agreed in general with our findings but that, contrary to the view expressed in our draft, it considered that proper interpretation of pertinent statutes permitted the expenditure of appropriated funds for the acquisition of public transportation to move exchange goods. DOD cited the provisions of the 1893 Army Appropriation Act which restricted the exchanges to the use of "public transportation" not required for other purposes, and it indicated that DOD's transportation practices were in accord with its interpretation of the legislative history of the statutes.

In our opinion, the term "public transportation" was intended to mean only use of transportation facilities which are owned by the Government or for which the Government is otherwise obligated to pay. (See p. 4.) The Congress has never defined "public transportation," but it did enact a provision which said that the exchanges could use only space not required for other purposes. DOD can decide whether or not transportation is needed for other purposes only if DOD already owns or is already obligated to pay for that transportation. It cannot make any determination of space use on commercial ships. Only the ship operator can decide how the space is to be used.

Therefore, as previously stated, we believe that the Army and Air Force regulations are more permissive than the statutory provisions. Although DOD maintains that its current transportation practices are in accord with its interpretation of the statutes, there remains doubt as to the extent that the Congress intended that appropriated funds be used to fund the transportation cost of the exchanges.

DOD also stated that legislative history clearly indicated that the Congress was aware of and agreed with the use of appropriated funds to transport exchange goods. DOD furnished several examples to support its position.

We fully recognize that the Congress is aware that appropriated funds are being used to pay the cost of transporting some exchange goods. (See p. 4.) But we could find nothing to indicate that the Congress knows that the funds are being used to procure transportation specifically for exchange goods. In other words, there is considerable doubt as to whether the Congress is aware that the funds are being used to buy space solely for exchange goods.

The fact that the funding of exchanges' transportation cost was mentioned frequently in congressional hearings or that such costs were contained as a line item in DOD's 1965 budget hearing does not in any way prove that the Congress is aware that DOD is buying space solely for the exchanges' use. Much or all of these budgeted costs could have been an allocation of the cost of ships that were leased primarily to haul military cargo.

DOD commented further that eliminating appropriated funds for exchange shipments would adversely affect military personnel and their dependents. It stated that one of the unfavorable consequences would be an increase in the price of merchandise sold overseas which would subject personnel to penalty for overseas duty. Alternatively, DOD stated the exchanges could absorb the transportation costs and reduce their contributions to various welfare funds. According to DOD either alternative would result in a severe blow to the morale of military personnel stationed overseas.

DOD further stated that the adverse effect of a price increase on morale could be eliminated by an increase in station cost-of-living allowances but that this action would reduce or negate the savings to appropriated funds realized from reimbursement of transportation costs for exchange materials. DOD also said that, by increasing the cost of goods sold overseas, the appeal for foreign merchandise would be increased and would affect the international balance-of-payments program of DOD.

We are aware of the possible consequences and, with the exception of the possibility that DOD could increase the station cost-of-living allowances and the balance-of-payment aspect, dealt with them in this report. (See pp. 9 and 10.) We agreed that military personnel should not be penalized for overseas duty. If prices are to be increased, consideration could be given to having the cost of transportation allocated on a worldwide basis. The impact would be far less--about 2 percent--and would not discriminate against anyone because of the location of his duty assignment. The slight increase in prices would hardly cause a major change in customers' buying preferences and would, therefore, have a minimum effect on the balance-of-payments position of the United States.

In connection with DOD's suggestion that the adverse effect of a price increase could be eliminated by increasing the cost-of-living allowance in overseas areas, we believe that the impact would not be sufficient to warrant such an increase. But, if it did, the use of funds in such a manner would be highly visible and, in our opinion, would enable the Congress to exercise more control over the use of these appropriated funds than it now does over funds used for paying transportation costs.

In addition to its general comments, DOD offered for our consideration a list of specific changes to the draft report. We have incorporated those suggested changes that we felt were appropriate.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATION

CONCLUSIONS

We recognize that the Congress is aware of and apparently approves of the use of appropriated funds to pay some transportation costs of the exchanges. We believe, however, that the Congress is unaware that such funds are being spent to procure transportation solely for exchange goods.

After reviewing the matter and after evaluating the various interpretations of the pertinent statutes, there is-- in our opinion--considerable doubt as to the intent of the Congress with respect to using appropriated funds to finance the exchanges' transportation costs. Because of the amount of appropriated funds now being used for transportation, we believe the Congress should clarify its position at this time.

RECOMMENDATION

We recommend that the Congress consider whether it is appropriate for the Government to continue funding the cost of transporting exchange goods by using space on transportation facilities which are not owned by the Government or for which the Government is not otherwise obligated to pay.

We do not suggest that the Congress withdraw appropriated-fund support from the exchanges. We believe, however, that the Congress should consider the issue.

CHAPTER 5

SCOPE OF REVIEW

We made our review to determine (1) the amount of money DOD is providing to finance military exchange shipments and (2) whether the money was being spent for the purposes intended by the Congress.

We did work at:

- Headquarters, Army and Air Force Exchange Service, Dallas, Texas.
- Headquarters, Navy Resale System Office, Brooklyn, New York.
- Headquarters, Military Sealift Command, Washington, D.C.
- Headquarters, Marine Corps Exchange Service, Arlington, Virginia.
- Headquarters, Military Airlift Command, Scott Air Force Base, Illinois.
- Finance & Comptroller Information Systems Command, U.S. Army, Washington, D.C.
- Transportation Directorate, U.S. Army, Europe, Heidelberg, Germany.
- Transportation Command, U.S. Army, Japan, Yokohama, Japan.
- Naval Supply Depot, Yokosuka, Japan.

We discussed our report with officials of the Office of Assistant Secretary of Defense (Manpower and Reserve Affairs) and with representatives of the various military services.

We obtained statistical data for exchange shipments from the shipping and billing records furnished by MSC and MAC.

ORGANIZATION AND OBJECTIVES
OF THE EXCHANGE SYSTEMS

ARMY AND AIR FORCE EXCHANGE SERVICE

The Army and Air Force Exchange Service is the largest of the three exchange systems. Accounting for about 70 percent of the combined sales volume of all the exchanges, the Army and Air Force system has an annual sales volume of over \$2 billion, ranking it as one of the largest retail organizations in the United States.

With headquarters in Dallas, Texas, the system operates more than 800 retail stores within the continental United States and around the world, including its offshore exchange system and three overseas exchange systems--the European Exchange System, the Pacific Exchange System, and the Alaskan Exchange System. It is governed by the Secretaries of the Army and Air Force and is administered by the chief of the exchange service, who acts for a 14-member board of directors.

The stated objectives of the Army and Air Force system are (1) to provide to its patrons--for necessity and convenience--merchandise and services not furnished through Federal appropriations, (2) to sell the merchandise and services at the lowest practicable prices, substantially uniform worldwide, and (3) to generate from the sales reasonable profits as are determined necessary to supplement appropriated funds for the support of Army and Air Force welfare and recreational programs.

THE NAVY RESALE SYSTEM OFFICE

The Navy Resale System Office is the central office of Navy and Military Sealift Command exchanges, both operated with nonappropriated funds, and the Navy commissary stores and ships stores afloat, both operated with appropriated funds.

The Navy system operates approximately 160 main and supporting Navy exchanges worldwide. It administers the exchanges at the end of a chain of command extending from the Secretary of the Navy, the Chief of Naval Operations, the

APPENDIX I

Chief of Naval Material, and the Naval Supply Systems Command. A committee of business and educational advisors make recommendations on policies, operations, and organization.

The objectives of the Navy exchanges are (1) to provide patrons with convenient and reliable sources of articles and services at the lowest practicable sales prices, (2) to provide, through profits, a source of funds to be used for the welfare and recreation of naval personnel, and (3) to promote the morale of the command.

THE MARINE CORPS EXCHANGE SERVICE

The Marine Corps Exchange Service is an administrative division under control of the Quartermaster General of the Marine Corps. It provides policy and technical direction to the 27 Marine Corps exchanges in the continental United States, Hawaii, the Canal Zone, Puerto Rico, Japan, and Cuba.

The mission of the Marine Corps exchanges is (1) to provide, at reasonable prices, military personnel and dependents with articles and services necessary for their health, comfort, and convenience and (2) to provide, through reasonable profits, recreational funds for its patrons.

ARMY APPROPRIATION ACT FOR FISCAL YEAR 1893

27 STATUTE 178

"* * * And provided further, That hereafter no money appropriated for the support of the Army shall be expended for * * * post gardens or exchanges, but this proviso shall not be construed to prohibit the use by post exchanges of public buildings or public transportation when, in the opinion of the Quartermaster-General, [they are] not required for other purposes."

CODIFICATION OF 27 STATUTE 17810 United States Code 4779 (c)

"No money appropriated for the support of the Army may be spent for post gardens or Army exchanges. However, this does not prevent Army exchanges from using public buildings or public transportation that, in the opinion of the office or officer designated by the Secretary, are not needed for other purposes." (Underscoring supplied.)

10 United States Code 9779 (c)

"No money appropriated for the support of the Air Force may be spent for base gardens or Air Force exchanges. However, this does not prevent Air Force exchanges from using public buildings or public transportation that, in the opinion of the Secretary, are not needed for other purposes." (Underscoring supplied.)

APPENDIX III



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

MANPOWER AND
RESERVE AFFAIRS

29 JUN 1973

Mr. Henry W. Connor
Associate Director
Logistics and Communications Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Connor:

This is in reply to your letter of April 30, 1973, to the Secretary of Defense, requesting comments on your draft report concerning "Need to Consider Appropriateness of Funding Transportation Costs of Armed Forces Exchange Goods on a Space-Required Basis." (OSD Case #3614)

The proposed report discusses the legal authority for, and the propriety of, payment of overseas transportation costs for military exchange merchandise. It concludes with the recommendation that "...cognizant Committees of Congress consider whether it is appropriate for the Government to continue funding the cost of transporting exchange goods by using space on transportation facilities which are not owned by the Government, or for which the Government is not otherwise under obligation to pay."

This office is in general agreement with the findings of the report, however, contrary to the view expressed in the draft, it is considered that the legislative history concerning the pertinent statutes may be properly interpreted as indicative of the original intent of Congress to permit the expenditure of appropriated funds for the acquisition and use of public transportation for the movement of military exchange merchandise. In this regard, the House of Representatives original version of the 1893 Army Appropriation Act contained no allowance for public transportation. The Senate in its consideration added language permitting the use of public transportation "when not required for other purposes." The final conference report stated that "exchanges shall be permitted to use" public transportation under the conditions

set forth (emphasis added). Our current transportation practices are in accord with this interpretation.

The Legislative history subsequently developed by Congressional actions clearly indicates that the Congress is aware of and in agreement with the use of appropriated funds for transportation of merchandise to military exchanges. The appropriateness of this practice has been recognized in various ways. For example, in 1903, Congress appropriated funds for the construction, equipment and maintenance of suitable buildings for the conduct of exchange activities. This practice continues today. A vivid expression of the view of Congress was stated by Chairman Vinson, House Armed Services Committee in 1949.

"But certainly when a man is sent across the ocean and outside the United States to perform a military mission ... he has to go and the Government recognizes its obligation to sell to him things he has to have there -- he certainly should not be required and have to pay the cost that the Government might incur in delivering the article" (Hearings before the House Armed Services Committee, House Report No. 104, May 24, 1949, Page 3742).

In the hearings before the House Appropriations Committee on Department of Defense Appropriations of 1951, Part 5, Page 2670, Mr. Schaub, speaking for the Director of the Bureau of the Budget, on this specific subject, stated as follows:

"The Senate Committee in its report on the 1950 appropriation bill suggested that all cost incident to the operation of retail sales outlets operated by the Services be absorbed from sales receipts. To a large degree that was our recommendation to the Secretary of Defense. We felt that you could not do that overseas to a great extent. At least, you could not pay the transportation charges involved in overseas shipment. (Underscoring supplied)

APPENDIX III

Similarly, the budget justification for Department of Defense Appropriation Act, FY 1965, contained a line item provision for appropriated funds to finance transportation costs for the overseas movement of Army and Air Force exchange merchandise, (Page 141, DoD Appropriations for FY 1965, Hearings before a Subcommittee of the Committee on Appropriations, H.R., 88th Congress, 2nd Section - Part 2).

Any proposal to eliminate the use of appropriated funds to pay for transporting exchange merchandise overseas will adversely affect the military personnel and their dependents. Some of the unfavorable consequences of such a proposal would be:

- a. Increasing the price of merchandise sold overseas above the price of identical items in the United States would subject military personnel to a penalty for overseas duty. Alternatively, if ocean transportation costs are absorbed by the exchanges rather than reflected in higher selling prices, the impact would be the elimination of a majority of the funds available for the various welfare and recreation projects. Either alternative would be viewed as discriminatory and would result in a severe blow to the morale of our military personnel stationed overseas. The adverse effect of this unfavorable consequence could be eliminated by the reevaluation of the cost of living in overseas areas. However, any resulting new station cost of living allowances would reduce, or negate the savings to appropriated funds realized from reimbursement of transportation costs for exchange materials.
- b. Increasing the price of merchandise sold overseas would increase the appeal of foreign merchandise by enlarging existing unfavorable price differentials between foreign and U.S. merchandise. To the extent that these price differentials discriminate against the sale of U.S. merchandise they will be inconsistent with the goals of the DoD International Balance of Payments Program.

The present policy on appropriated fund support of exchanges was developed with full regard to legal and practical considerations. It has been sanctioned and concurred in by Congress and is responsive to the practical needs of the Military Departments in supporting the members of our Armed Forces.

A list of proposed specific changes to the draft of the report is enclosed for your consideration.

Sincerely,



Robert C. Taber
Lieutenant General, U. S. Army
Principal Deputy

Enclosure

APPENDIX IV

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF DEFENSE

AND THE MILITARY DEPARTMENTS

RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES

DISCUSSED IN THIS REPORT

Tenure of office

From To

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

James Schlesinger	July 1973	Present
William P. Clements, Jr. (acting)	Apr. 1973	July 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
Clark M. Clifford	Mar. 1968	Jan. 1969
Robert S. McNamara	Jan. 1961	Feb. 1968

DEPUTY SECRETARY OF DEFENSE:

William P. Clements, Jr.	Jan. 1973	Present
Kenneth Rush	Feb. 1972	Jan. 1973
David Packard	Jan. 1969	Dec. 1971
Paul H. Nitze	July 1967	Jan. 1969
Cyrus R. Vance	Jan. 1964	June 1967

ASSISTANT SECRETARY OF DEFENSE
(INSTALLATIONS AND LOGISTICS):

Arthur I. Mendolia	June 1973	Present
Hugh McCullough (acting)	Jan. 1973	June 1973
Barry J. Shillito	Feb. 1969	Jan. 1973
Thomas D. Morris	Sept. 1967	Feb. 1969
Paul R. Ignatius	Dec. 1964	Sept. 1967

DEPARTMENT OF THE ARMY

SECRETARY OF THE ARMY:

Howard H. Callaway	June 1973	Present
Robert F. Froehlke	July 1971	June 1973
Stanley R. Resor	July 1965	June 1971

Tenure of office	
<u>From</u>	<u>To</u>

DEPARTMENT OF THE ARMY (continued)ASSISTANT SECRETARY OF THE ARMY
(INSTALLATIONS AND LOGISTICS):

Vacant	May 1973	Present
Dudley C. Mecum	Oct. 1971	May 1973
J. Ronald Fox	June 1969	Sept. 1971
Vincent P. Huggard (acting)	Mar. 1969	June 1969
Dr. Robert A. Brooks	Oct. 1965	Mar. 1969

DEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY:

John W. Warner	Apr. 1972	Present
John H. Chafee	Jan. 1969	Apr. 1972
Paul R. Ignatius	Sept. 1967	Jan. 1969
Charles F. Baird (acting)	Aug. 1967	Sept. 1967
Robert H. B. Baldwin	July 1967	Aug. 1967
Paul H. Nitze	Nov. 1963	July 1967

ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND LOGISTICS):

Jack L. Bowers	June 1973	Present
Charles L. Ill	July 1971	June 1973
Frank Sanders	Feb. 1969	July 1971
Barry J. Shillito	Apr. 1968	Feb. 1969
Vacant	Feb. 1968	Apr. 1968
Graeme C. Bannerman	Feb. 1965	Feb. 1968

DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE:

Dr. John L. McLucas (acting)	June 1973	Present
Dr. Robert C. Seamans, Jr.	Jan. 1969	May 1973
Dr. Harold Brown	Oct. 1965	Jan. 1969

ASSISTANT SECRETARY OF THE AIR
FORCE (INSTALLATIONS AND
LOGISTICS):

Lewis E. Turner (acting)	Jan. 1973	Present
Philip N. Whittaker	May 1969	Jan. 1973
Robert H. Charles	Nov. 1963	May 1969