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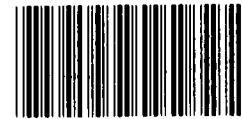
BY THE U.S. GENERAL ACCOUNTING OFFICE
Report To The Honorable John D. Dingell
House Of Representatives

DOD's Shipment Of Service Members'
Foreign-Made Automobiles

Although service members are entitled to ship one privately owned vehicle at government expense when transferred overseas, DOD has historically limited such shipments to vehicles manufactured or purchased in the United States. In May 1977, after the Japanese government imposed strict vehicle standards, DOD embargoed shipments to Japan of post-1976 vehicles. DOD, in an attempt to reconcile the hardship it felt it had placed on service members transferred to Japan, designated Guam as an "alternate port." This designation enabled uniformed service members to ship, at government expense, foreign-made vehicles purchased in Guam to their new duty stations upon completion of their tours in Japan.

DOD's actions were not inconsistent with the law. Whether its actions were inconsistent with congressional intent is questionable.

The alternate port policy has resulted in increased sales of Japanese-made vehicles since uniformed service members realize considerable savings by purchasing vehicles in Guam. In 1984, DOD spent about \$2 million shipping more than 1,300 Japanese-made vehicles from Guam.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-214996

The Honorable John D. Dingell
House of Representatives

Dear Mr. Dingell:

Your March 13, 1984, letter asked us to investigate the Department of Defense policy of shipping privately owned vehicles (POV) from the "alternate port" of Guam. You requested that we respond to seven specific questions on the matter. Although several of your questions related to service members stationed in both Japan and Singapore, we focused our review on those based in Japan since only two vehicles were shipped from Guam for Singapore-based members between May and December 1984.

Background on the subject; our objectives, scope, and methodology; and our response to each of the seven questions are contained in the appendix.

As you directed, we did not discuss this report with the Department of Defense or service branch officials. Unless you publicly announce its contents earlier, we will not make any further distribution of this report until 30 days after its issue date. At that time, we will make copies available to other interested parties.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan
Director



DOD'S SHIPMENT OF SERVICE MEMBERS'
FOREIGN-MADE AUTOMOBILES

One of the entitlements for Department of Defense (DOD) personnel sent overseas on a permanent change of station is the shipment, at government expense, of one privately owned vehicle (POV) to the new duty station for personal use. Separate statutes apply to uniformed service members and DOD civilians.

Under 10 U.S.C. § 2634, a uniformed service member who is ordered to make a permanent change of station to, from, or between places outside the United States is entitled to have one motor vehicle that is owned by the member, or a dependent of the member, and that will be for the member's personal use or the use of the member's dependents shipped at government expense to the port serving the member's new duty station or other place authorized.

Under 5 U.S.C. § 5727, the vehicle of a DOD civilian employee may be transported at government expense to, from, or between the continental United States and a post of duty outside the continental United States, when the employee is assigned to the post for other than temporary duty, provided the service secretary determines it is in the interest of the government for the employee to have use of the vehicle.

During the Eisenhower and Kennedy administrations, a great deal of attention was centered on the international balance of payments and efforts to discourage the military from purchasing foreign-made goods. Soon thereafter, DOD instituted an overseas expenditure reduction program which included a general prohibition against shipping foreign-made, privately owned vehicles at government expense. In 1971, DOD informed the Congress it intended to rescind its long-standing prohibition against the shipment of foreign-made vehicles at government expense from foreign countries. The Congress, after learning DOD had started shipping such vehicles under its fiscal year 1972 continuing resolution, reduced DOD's 1973 appropriations in an amount corresponding to the amount requested for shipment of the foreign-made vehicles and directed DOD to reinstate its prohibition. DOD complied and, for the first time, formally published the prohibition in its implementing regulations, the Joint Travel Regulations, effective January 1, 1973. This prohibition is still in effect today.

In 1976, Japan imposed strict motor vehicle standards which required that vehicles made to U.S. standards must have expensive conversions made before the vehicles could be driven in

Japan. Any vehicles which were converted to the Japanese standards and driven in Japan would have to be repaired upon return to the United States to meet U.S. motor vehicle standards. DOD attempted to negotiate with the Japanese government to avoid the application of those standards to service members' vehicles and as recently as 1984 pursued this avenue again. None of the negotiations have been successful.

In May 1977, DOD placed an embargo on the shipment of service members' POVs to Japan. DOD did this to avoid service members shipping their vehicles to Japan and finding they had to pay for costly conversions before the vehicle could be used. As a result of this embargo, service members currently wishing to have a motor vehicle in Japan have to purchase a Japanese vehicle in Japan and sell that vehicle at the end of their tour since the vehicles driven in Japan do not meet U.S. vehicle standards. In an attempt to partially alleviate the hardship DOD believed it imposed on service members assigned to Japan, DOD established Guam as an alternate port for service members which would allow them to ship a vehicle from Guam at government expense at the end of their tour in Japan.

The designation of Guam as an alternate port not only allows service members to exercise part of their entitlement, that is, to ship a POV at government expense at the end of their tour, but because of DOD definitions, the vehicle shipped can be a foreign-made vehicle, purchased in Guam at considerable savings over the U.S. price for the same vehicle. By DOD definition, vehicles purchased in the United States, its territories or possessions, are U.S. vehicles, regardless of where the vehicle is manufactured.

In February 1984, DOD changed its regulations which had allowed service members in several Far East countries, including Japan, to use the alternate port of Guam for the shipment of vehicles. This change resulted in termination of the use of Guam for non-Guam based service members in all countries, except Japan and Singapore. In October 1984, the Congress enacted legislation, Public law 98-525, which established a 100 vehicle per month ceiling on non-Guam based service members' POV shipments from Guam. In addition, Public Law 98-525 established September 30, 1985, as the expiration date for non-Guam based service members being able to use the port of Guam. During 1984, DOD spent about \$2 million shipping more than 1,300 Japanese-made vehicles from Guam.

OBJECTIVES, SCOPE, AND METHODOLOGY

Congressman John D. Dingell asked us to investigate DOD policy regarding shipment of POVs through Guam from two perspectives: (1) congressional directives and intent with regard to this subject and (2) the extent to which this policy promotes evenhanded treatment of service members stationed in Japan and Singapore. He asked us to respond to seven specific questions.

To answer these questions, we met with DOD and service officials in Washington, D.C.; Guam; and Japan. Discussions were held with

- the Office of the Assistant Secretary of Defense for Manpower, Installations & Logistics (the policy-making office for DOD in this matter);
- the Per Diem, Travel, and Transportation Allowance Committee (the implementing office for DOD policy relative to vehicle shipments);
- the Naval Supply Depot, Guam;
- the Command Navy Marianas Headquarters, Guam;
- the Naval Supply Depot, Yokosuka, Japan;
- U.S. Army, Camp Zama, Japan;
- U.S. Air Force, Yokota Air Base, Japan;
- U.S. Forces, Japan;
- the Military Traffic Management Command, Yokohama, Japan;
- U.S. Embassy, Japan; and
- various agents in Japan for Guam foreign automobile dealers and for the Overseas Military Sales Group representing U.S. vehicle manufacturers.

We reviewed the statutes and regulations governing POV shipments, legislation and hearings concerning DOD's alternate port policy, and Comptroller General decisions regarding this subject.

We also discussed the subject with officials of the U.S. Customs Service, the Army-Air Force Exchange Service (AAFES), and various automobile manufacturers' associations. Our discussions covered Customs' regulations and their applicability to POVs, annual auto sales by AAFES, and Japanese auto manufacturers' shipping costs. We also discussed the subject with service personnel who actually shipped vehicles during our review period.

Our review was made from August 1984 through April 1985. Data on specific shipments for the period May through September 1984 was obtained from the Naval Supply Depot, Guam.

We did not ask the Department of Defense to provide official comments on a draft of this report. Except as noted above, our work was performed in accordance with generally accepted government auditing standards.

Our responses to Congressman Dingell's seven specific questions follow.

RESPONSES TO SPECIFIC QUESTIONS

Question 1. "Did the service secretaries take action inconsistent with long-standing congressional policy and intent by designating Guam as an 'alternate port' for all service members stationed in Japan and Singapore so that they may ship at government expense Japanese-made vehicles?"

We found that DOD's actions comply with 10 U.S.C. § 2634, authorizing shipment of POVs, and Public Law 89-101, 79 Stat. 425, authorizing DOD to designate alternate ports.

DOD designated Guam as an alternate port after Japan issued unusually strict and costly safety and emission standards which made it prohibitive for service members to convert their vehicles to Japanese standards. The designation of Guam as an alternate port allowed uniformed service members, at the completion of their tours in Japan, to ship vehicles purchased in Guam to their next duty stations.

Although we did not find a conflict with the statutes, DOD's action may not have been consistent with congressional intent. During the Eisenhower and Kennedy administrations, a great deal of attention was centered on the international balance of payments and efforts to discourage the military from purchasing foreign-made goods. DOD instituted an overseas expenditure reduction program, which included a general prohibition against shipping foreign-made privately owned vehicles at government expense.

In 1971, DOD informed the Congress that it intended to rescind its long-standing prohibition against the shipment of foreign-made vehicles at government expense from foreign countries. The Congress, after learning DOD had started shipping such vehicles under its fiscal year 1972 continuing resolution, reduced DOD's 1973 appropriations in an amount corresponding to the amount requested for shipment of the foreign-made autos and directed DOD to reinstate its prohibition. DOD complied and, for the first time, formally published the prohibition in its implementing regulations, the Joint Travel Regulations, effective January 1, 1973. This prohibition is still in effect today.

By reducing DOD's 1973 appropriation, the Congress made its intent clear regarding DOD's paying for the shipment of foreign-made vehicles. DOD's definitions of foreign-made and U.S. vehicles are the basis for its position that it is following congressional intent.

According to DOD regulations, a foreign-made privately owned vehicle is:

"Any vehicle manufactured or assembled in a foreign country and purchased from a dealer for delivery outside the United States, Alaska, Hawaii, Puerto Rico, or a U.S. territory or possession." (Underscoring supplied.)

A U.S. privately owned vehicle is defined as:

"Any vehicle, regardless of where manufactured, purchased from a dealer in the United States, Alaska, Hawaii, Puerto Rico, or a United States territory or possession for delivery in these locations." (Underscoring supplied.)

Therefore, according to DOD's definitions, any vehicle purchased in Guam is considered a U.S. vehicle. Consequently, the vehicle is eligible for shipment at government expense under 10 U.S.C. § 2634.

Clearly there is congressional concern regarding the government paying for shipment of foreign vehicles. DOD's designation of Guam as an alternate port has, as is shown in our response to questions 2 and 3, increased the number of Japanese-made vehicles being shipped to the United States at government expense. Under current legislation (Public Law 98-525), DOD's authority to use Guam as an alternate port will expire on September 30, 1985.

Question 2. "Are the number of Japanese-made vehicles entering the U.S. through Guam increasing and likely to continue to increase as a result of the service secretaries' designation of Guam as an 'alternate port' for all service personnel stationed in Japan and Singapore?"

Question 3. "Will the Service Secretaries' decision encourage the purchase of Japanese-made automobiles over comparable American-made automobiles?"

Effective February 1984, DOD changed its regulations which had allowed several Far East countries, including Japan and Singapore, to use the alternate port of Guam for shipment of vehicles. This change resulted in termination of the use of Guam for all countries except Japan and Singapore. In October 1984, the Congress passed Public Law 98-525, which established a ceiling of 100 vehicles a month on non-Guam based service members' POV shipments from Guam. In addition, Public Law 98-525 also set September 30, 1985, as the expiration date for non-Guam based service members being able to use the alternate port of Guam.

The following table shows that the number of vehicles shipped through Guam as an alternate port increased from fiscal year 1982 through fiscal year 1984. On the basis of this data, we believe the number of vehicles probably would have continued to increase except for the regulatory and legal changes cited above.

<u>Member's duty station</u>	<u>Alternate Port Shipments From Guam</u>			1985
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>(3 months)</u>
Japan (including Okinawa)	402	880	1,308	245
The Philippines	69	173	146	-
Korea	25	100	84	-
Other	<u>31</u>	<u>47</u>	<u>81</u>	<u>2</u>
Total	527	1,200	1,619	247
	====	====	====	====

The Department of Defense's decision to designate Guam as an alternate port for personnel stationed in Japan gave service

members the opportunity to purchase Japanese-made automobiles at a lower price than the members could purchase the same vehicle or a similar U.S. vehicle in the United States. The decision also allowed service members to potentially save additional costs by avoiding customs duty.

According to buyers, the motivation for the purchase of Japanese made vehicles through Guam dealers is price--the lower Japanese vehicle price versus the higher U.S. and Japanese vehicle prices in the United States. Aside from the fact that prices are lower, the service member gains an additional savings to the extent DOD pays the shipping charges, and, if the service member stops in Guam and takes physical possession of the vehicle, the member avoids payment of customs duty. We found the practice of members taking physical possession of the vehicle in Guam to be extremely limited.

Agents for the Guam dealers have offices just outside the major U.S. bases in Japan. Some U.S. government personnel, acting in their off-duty hours, are involved in selling vehicles for the Guam dealers. But neither DOD nor the services seem to have promoted the opportunity to use the alternate port. The services have not allowed sales offices or sales promotions on base or advertisements in official publications. Nevertheless, sales advertisements are on billboards just outside the bases and in nonofficial publications directed toward military personnel, such as the Navy Times.

Sales of U.S.-made vehicles to U.S. service members completing their tours in Japan are increasing, but sales of Japanese vehicles are increasing even more. AAFES sales outlet data shows U.S. vehicle sales for the 1984 model year increased 28 percent over the 1983 year. In 1982, U.S. vehicles outsold Japanese models nearly 3 to 1, but in 1984 the numbers were nearly even.

Sales to U.S. Service Members in Japan

	<u>1982</u>	<u>1983</u>	<u>1984</u>
AAFES sales of U.S. autos in Japan	1,195	1,053	1,355
Japanese vehicles shipped through the "alternate port" of Guam	402	880	1,308

Note: Model year, for U.S. vehicles; fiscal year shipments, for Japanese vehicles.

Question 4. "What is the per-car cost to the U.S. taxpayer of shipping Japanese-made cars routed through Guam as opposed to the costs paid by Japanese automobile manufacturers who ship directly from Japan to the United States?"

The per-car shipping cost to the government for Japanese-made vehicles from Guam varies between \$1,429 and \$2,577. Differences are due to car sizes, destinations, and methods of shipment. A sample of the applicable charges between September 1984 and March 1985 follows.

Per Car Shipping Cost to the Government
(Paid to the Ocean Carriers)

<u>Vehicle</u>	<u>Destination</u>	
	<u>West Coast</u>	<u>East Coast</u>
Toyota Tercel	\$1,429	\$1,707
Nissan 300ZX	1,536	1,836
Toyota Cressida	1,748	2,088
Toyota Van Wagon	2,157	2,577

Representatives of Japanese automobile manufacturers told us that the cost to ship an automobile from Japan to the United States is proprietary information and consequently not available.

Question 5. "Do the benefits under this DOD policy extend to all military personnel, regardless of rank, and to persons other than military personnel such as DOD or affiliated service civilian employees or persons who do contract work with DOD on either a temporary or permanent basis? Please request DOD to provide a detailed criteria to qualify for the benefits in question as well as a list of those persons who have purchased Japanese-made automobiles pursuant to this policy."

The benefits under DOD's policy extend to all uniformed military personnel, regardless of rank. Prior to August 1984, the benefits also extended to civilian service personnel, but

the policy was terminated for civilians effective August 1, 1984.¹ Authorization for shipments by contract personnel must be specified in the personnel contracts.

The entitlement for uniformed military personnel is provided in the Joint Travel Regulations, volume 1, chapter 11, paragraph M11002. It reads, in part:

". . . a member who is ordered to make a permanent change of station to, from, or between places outside the United States or upon official change in home port of the vessel to which assigned, is entitled to have one motor vehicle owned by the member, or a dependent of the member, and for the member's personal use or the use of the member's dependents, shipped to the port serving the member's new duty station, or other place authorized in this paragraph . . ."

To qualify for shipment of a privately owned vehicle, each uniformed service member must have a permanent change of station order. The Guam dealer agent in Japan requires the member to make partial payment on the vehicle and provide (1) a copy of this order, (2) a special power of attorney for the dealer to register the vehicle in Guam and to deliver it to the military for shipment, and (3) a letter sent to the military officials indicating the vehicle is the only vehicle to be shipped under the order and agreeing to reimburse the government for any excess costs for shipping from Guam versus costs of shipping from the normal Japanese entitlement port. Air Force members must also provide an authorization letter from the local base commander for use of an alternate port. Beyond this data, there are no detailed criteria for use of the alternate port.

The following table summarizes (by member's rank) the numbers of vehicles shipped through the alternate port of Guam for Japan-based personnel from May through September 1984.

¹DOD terminated these benefits to civilian personnel by revising its Joint Travel Regulations. The regulations were revised as a result of a Comptroller General Decision, B-208695, dated November 30, 1982, which provided that shipment of a POV from an overseas station to the United States could only be authorized if the vehicle was shipped overseas at government expense.

Shipments Through the Alternate Port of Guam
for Japan-Based Personnel
(May through September 1984)

Officers (pay grade/rank):	<u>Number of vehicles</u>	<u>Percent of grand total</u>
O-8 Major General/Rear Admiral	2	-
O-7 Brigadier General/ Commodore	5	1
O-6 Colonel/Captain	34	5
O-5 Lieutenant Colonel/ Commander	58	8
O-4 Major/Lieutenant Commander	66	9
O-3 Captain/Lieutenant	135	18
O-2 First Lieutenant/ Lieutenant (J.G.)	17	2
O-1 Second Lieutenant/ Ensign	6	1
W-X ^a Warrant	<u>14</u>	<u>2</u>
Total	<u>337</u>	<u>46</u>
Enlisted personnel (pay grade/rank):		
E-9 Sergeant Major/Master Chief Petty Officer/ Chief Master Sergeant	26	3
E-8 Master Sergeant/Senior Chief Petty Officer/ Senior Master Sergeant	23	3
E-7 Sergeant 1st Class/Chief	65	9

	Petty Officer/Master Sergeant		
E-6	Staff Sergeant/Petty Officer 1st Class/Tech- nical Sergeant	103	14
E-5	Sergeant/Petty Officer 2nd Class/Staff Sergeant	113	15
E-4	Corporal/Petty Officer 3rd Class/Sergeant	44	6
E-3	Private 1st Class/ Seaman/Airman 1st Class	6	1
		<hr/>	<hr/>
Total		<u>380</u>	<u>51</u>
Others:			
	Civilians/contractor personnel/ nonappro- priated fund personnel	21	3
		<hr/>	<hr/>
Grand total		<u>738</u>	<u>100</u>

^a Represents warrant officers at levels 1-4.

A listing of personnel who shipped Japanese-made vehicles for a selected period of time is being furnished under separate cover.

Question 6. "Apart from Congressional intent as expressed over the years with regard to the DOD policy in question, what actions can DOD take to redress the higher car-related costs borne by all service members who serve in Japan and Singapore, without restricting taxpayer benefit to those who buy Japanese-made cars?"

DOD has considered several options, but they appear more costly than the present policy. The options include (1) paying a vehicle storage entitlement and (2) paying for the conversion of one vehicle to meet the Japanese safety and emission standards and reconversion on return to the United States.

Service studies showed commercial vehicle storage costs for a person sent overseas range from about \$1,715 to \$2,850 per vehicle (\$82.50 preparation fee per car plus \$68 to \$77 storage per month per car). These figures are similar to what DOD pays to have a Japanese-made vehicle shipped through the alternate port of Guam. However, payment would have to be made for every service member incurring storage costs. DOD submitted a proposal for authorizing payment of storage costs in May 1983, but the Office of Management and Budget rejected it as too costly.

The second option entails converting a service member's auto to comply with Japanese emission standards and reconverting it upon return to the United States. In May 1977, following the Japanese government's announcement that all vehicles manufactured after March 31, 1976, must have heat shields and warning devices,² DOD prohibited the shipment of post-1976 vehicles to Japan. It did so because the modifications and inspection to satisfy Japanese standards cost about \$1,000 per vehicle. An additional \$1,000 in transportation costs were charged for those members stationed in Okinawa since all inspections took place on the Japanese mainland. The subsequent reconversion to meet U.S. standards upon return would involve at least replacing the vehicle's catalytic converter.³ Therefore, the cost to DOD for converting and reconverting a vehicle would be at least \$1,000 plus transportation to and from the United States. The cost to ship an American-made compact vehicle to Japan and back to the West Coast is about \$2,000 and the cost to and from the East Coast is about \$3,100.

DOD tried to change the Status-of-Forces Agreement with Japan, which permits Japan to impose its strict standards. The proposed change would have allowed DOD to ship service members' vehicles to Japan without any costly modifications. During the

²Heat shields are protective devices for catalytic converters. Warning devices are lights indicating excessive catalytic converter temperature.

³Because of the lack of readily available unleaded gasoline in Japan, catalytic converters normally need to be replaced upon return to the United States.

1970's, DOD pursued this route several times in talks between the Commander, U.S. Forces, Japan, and the government of Japan; before the United States-Japan Joint Committee (twice); and through the State Department and the Japanese Embassy in Washington. Each time its efforts failed.

In 1984, the Congress directed DOD to pursue this avenue with Japan again. Our discussion with DOD personnel indicated their efforts were unsuccessful.

Question 7. "If legislation is required to ensure fair and equitable redress to all service members costs of serving in Japan and Singapore, what recommendations would GAO make to accomplish such treatment?"

Both of the options cited under question 6 would require congressional approval. If the Congress desires to compensate all service members for costs associated with serving in Japan it could pass legislation authorizing DOD to pay the conversion costs of privately owned vehicles. A major disadvantage of passing such legislation, however, is that it could be very costly, depending on the number of service members choosing to take their vehicles to Japan.

We do not believe the option of paying for a member's POV storage costs is reasonable since most vehicles would be stored for 2 to 3 years and the member would still be without transportation while in Japan.

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