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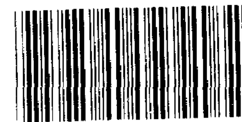
Report to Congressional Requesters

June 1988

HOUSEHOLD GOODS

Adjustment of DOD's Shipping Rates Based on Foreign Currency Fluctuation



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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June 30, 1988

The Honorable Jim Wright,
Speaker of the House
The Honorable Bill Lowery
The Honorable Duncan Hunter
House of Representatives

On October 19, 1984, the Military Traffic Management Command (MTMC) informed the commercial household goods moving and storage industry that it was discontinuing its foreign currency rate adjustment program effective April 1, 1985. Under the program, MTMC had allowed companies transporting Department of Defense (DOD) household goods shipments to adjust their otherwise contractually-fixed shipping rates weekly to compensate for fluctuations in foreign currency exchange rates. When the U.S. dollar fell in value against foreign currencies, MTMC authorized the companies to raise their rates. When the dollar rose in value, it required the companies to refund a portion of their charges to DOD.

In terminating the program, MTMC said that the program had the potential for fraud, waste, and abuse and that it had decided that the program

- was no longer necessary, particularly in light of forecasts that the long-term value of the dollar would become stable and therefore the impact of currency fluctuations would be relatively small and within the ability of the industry to manage;
- resulted in adjustments that did not reflect actual moving company costs;
- had not fostered competition, one of the major goals of MTMC's rate procurement system;
- was administratively burdensome, both to the government and industry; and
- placed on the government all risks associated with foreign exchange costs.

You advised us that you had received complaints from the industry concerning MTMC's termination of the program. You asked us to review MTMC's decision.

Although we question the validity of some of the reasons offered by MTMC for terminating the program, we find no overriding reason to recommend that MTMC reinstitute the currency fluctuation program. MTMC

has transferred the risk inherent in exchange rate fluctuations from DOD to the moving industry where we believe it should be. Currency risks are not inherently different from other risks moving companies face with respect to the cost of labor, materials, interest rates, fuel, and other transportation costs. Such costs can and have changed, yet moving companies are not protected by rate adjustment mechanisms for these fluctuations.

The rates submitted by moving companies during the 2 years following termination of the program showed that the industry continues to demonstrate a willingness to offer MTMC rates that are comparable to those offered when the program was in effect. DOD is shipping at a cost that is reasonably close to what it incurred when the foreign currency adjustment program was in effect and without the administrative burden it had incurred previously in computing the weekly rate adjustments. However, as we stated in an interim report on this matter, we could not verify the specific reason for the increases or decreases in forwarders' rates or conclude that the rates would have changed more or less had MTMC not terminated the currency adjustment program.

Our findings and conclusions are discussed more fully in appendix I. Our objectives, scope, and methodology are described in appendix II.

In commenting on a draft of this report, DOD concurred with our findings and conclusions. Two of the three moving company associations that we asked to comment also responded. Both questioned the validity of MTMC's stated reasons for discontinuing the adjustment program. One expressed the view that, contrary to our conclusion, there was a basis for us to recommend that MTMC reinstate the program.

After carefully reviewing the associations' comments and evaluating the additional data provided, we still do not believe that reinstatement of the currency fluctuation program is warranted. The major issues raised by the associations and our evaluation of each such issue are discussed in detail in appendix I. The full text of the associations' comments can be found in appendixes III and IV. Copies of this report are being sent to

the Secretaries of Defense, the Air Force, the Army, and the Navy and to the Director, Office of Management and Budget.

Frank C. Conahan
Assistant Comptroller General

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Abbreviations

AMC	American Movers Conference
CONUS	continental United States
DOD	Department of Defense
GAO	General Accounting Office
GSA	General Services Administration
HGFA	Household Goods Forwarders Association of America
MTMC	Military Traffic Management Command

Adjustment of DOD's Shipping Rates for Foreign Currency Fluctuation

The Military Traffic Management Command (MTMC) is the Department of Defense's (DOD) agent for establishing transportation rates for the movement of household goods and unaccompanied baggage. In recent years, MTMC has relied almost exclusively on commercial forwarders to transport the personal effects of military members and DOD civilian personnel moving in connection with overseas assignments.

Forwarders are essentially middlemen in the shipment of personal property. They act as a single point of contact for handling the entire movement of a household goods shipment from origin to destination. They have little transportation or handling equipment but rather arrange for all the services required, including the packing, crating, drayage to aerial or water ports, over-ocean transportation, destination drayage, uncrating, and unpacking. These services are provided by the forwarders' local agents and under contract or agreement with for-hire land, water, and air transportation companies.

Magnitude of the International Personal Property Shipping Program

In fiscal year 1986, DOD paid forwarders nearly $500 million to move household goods and unaccompanied baggage between locations in the continental United States (CONUS) and points outside CONUS and between overseas locations.

About $440 million was paid to move approximately 210,000 household goods shipments and $44 million to move 168,000 unaccompanied baggage shipments. In the last 10 years, as many as 225 and as few as 83 individual forwarding companies have been authorized to participate in the MTMC program for international shipments.

In 1986, shipments were forecasted by MTMC to move to and from 17 foreign countries. More than half of the forecasted shipments and weight was destined for or originated in Germany. The next highest country in terms of shipments and weight was the United Kingdom, representing about 10 percent of the total program weight. Eight countries—Germany, the United Kingdom, Japan, Italy, the Philippines, Korea, Panama, and Spain—represented over 93 percent of the total international household goods program.

Table I.1 shows the foreign countries in the DOD household goods program. Also shown are the number of shipments and tonnage of household goods MTMC forecasted would be moving to and from foreign countries during April through September 1986 and the percentage the country's tonnage represents of the total program.

Table I.1: Countries in the DOD Household Goods Shipping Program During April Through September 1986

Forecasted weight in hundreds of pounds

Foreign country	Number of shipments forecasted	Forecasted weight	Percent of total weight
Germany	35,935	876,193	54.2
United Kingdom	4,704	156,516	9.7
Japan	4,499	123,155	7.6
Italy	2,633	91,815	5.7
Philippines	2,587	89,587	5.5
Korea	4,810	80,995	5.0
Panama	1,425	47,673	2.9
Spain	1,295	45,474	2.8
Turkey	887	29,378	1.8
Greece	677	20,800	1.3
Netherlands	411	14,490	0.9
Belgium	386	14,154	0.9
Iceland	302	11,391	0.7
Portugal	327	7,461	0.5
Australia	127	5,014	0.3
Canada	101	2,189	0.1
Norway	36	1,152	0.1
Total	**61,142**	**1,617,437**	**100.0**

Note: Countries are listed in descending order, according to weight of shipments.

MTMC's Procurement Program

MTMC solicits rates at 6-month intervals called rate cycles. Rates are requested by type of movement (household goods or unaccompanied baggage), by mode of transportation (forwarder-procured surface or air transportation, DOD-provided surface or air transportation), and by route (based on combinations of 52 CONUS origin and destination rate areas and 32 foreign origin and destination rate areas).

Forwarders may submit rates on any or all services they wish to offer. A forwarder wishing to provide household goods and baggage service from all sections of CONUS to all overseas locations has to submit nearly 15,000 separate rates.

Each solicitation for most routes is divided into two phases. In the first, or "initial," phase, which ends about 3 months before the contract period begins, MTMC requests all interested forwarders to submit rates for all routes they intend to serve. The forwarder offering the lowest rate on each route is named the low-rate forwarder and is given the

right of first refusal on a specific percentage of traffic on that route. The low-rate forwarder must accept and move at least a predefined percentage of all shipments moving on that route.

In the second, or "me-too," phase, which ends about a month before the contract period begins, MTMC offers the remaining forwarders the opportunity to meet, or equalize, the low rate or to lower their initial rates. Forwarders equalizing the low rates receive the right of first refusal on the residual traffic and must be willing to accept and move a solicitation-defined percentage of those shipments. Forwarders that do not equalize the rates can participate, in low-rate order, in whatever traffic remains.

While MTMC guarantees specific percentages of traffic on each route, it does not guarantee that any specific number of shipments or amount of weight will actually be generated on any given route. Each solicitation contains MTMC's forecast of shipments and tonnage, by origin and destination, for each route, but such data is estimated, based on past history, and may or may not bear any relation to the actual tonnage that materializes.

Rates filed with and accepted by MTMC may be cancelled at MTMC-specified periods, generally 60 and 90 days into the contract period. Cancellation removes the forwarder from further participation in traffic on that route for the duration of the contract period.

MTMC's Rate Adjustment Programs

In the early 1970s, MTMC established several programs that allowed adjustments during the contract period to rates forwarders had offered prior to the contract. Adjustments generally were made for changes in the underlying prices forwarders paid for their transportation or for changes in costs.

Turbulence in world oil prices and the decision to allow the value of the dollar to float in relation to other currencies in the early 1970s had a major impact on the price of transportation. For household goods forwarders, rates they had submitted to MTMC based on one set of cost estimates soon became obsolete based on much higher actual costs. Many forwarders had to cancel rates they found were no longer profitable or compensatory.

MTMC soon became concerned about the magnitude of rate cancellations and the resulting losses of forwarder services and developed a series of

rate adjustment programs. These programs were intended to allow forwarders to recoup additional costs that were beyond their control and to adjust the rates they had previously offered to MTMC. Adjustments were allowed, for example, for increases in overseas port fees, such as Guam wharfage and handling; overseas railroad price increases, such as those related to the German National Railroad; ocean rate increases, such as those for ocean service to Hawaii and Australia; ocean carrier fuel surcharges; and for changes in foreign exchange rates, first, for the German mark revaluation and later for more than a dozen different foreign currencies.

The Foreign Currency Rate Adjustment Program

The foreign currency rate adjustment program was based on several factors: (1) a "peg date," or a date to serve as the basis for measuring changes in the value of the dollar, (2) low-rate forwarders' cost data, broken down by cost elements, from which MTMC could compute the average, or "standard," cost subject to adjustment, (3) the date or dates during the contract period that would be used to fix the fluctuation in each currency, and (4) a fluctuation threshold, or point at which an adjustment would be required.

MTMC advised the forwarders of the specific "peg date" with each solicitation. This date, called the "pegged quotation date," was usually set at the Friday that preceded the initial filing date by at least 20 calendar days (later this was changed to at least 25 days).

MTMC required each forwarder to submit cost data covering every route and type of service for which it had filed an accepted rate. The cost data essentially was the forwarder's bid rate divided into 11 cost elements:

1. Origin services (pre-move survey, servicing of appliances, packing, tagging, wrapping, padding, bracing, securing and sealing, shipment weighing, marking, and strapping).

2. Origin container (based on average depreciation of door-to-door containers).

3. Line-haul to the port of embarkation.

4. Port of embarkation processing costs (pre-lodge fees, port agent fees, port handling, stevedoring, wharfage, export service charges, documentation, and any other processing costs at port).

5. Ocean or air transportation between port of embarkation and port of debarkation.

6. Port of debarkation costs (port agent fees, port handling, stevedoring, wharfage, import service charges, documentation, and other costs at port).

7. Line-haul from port of debarkation to destination.

8. Destination costs (costs of delivery; placement of shipment in the residence, warehouse, or other building; and unpacking as required).

9. Overhead (not including claims) (average costs associated with DOD personal property shipments before taxes, such as insurance, advertising, communications, utilities, office supplies, postage, rent, interest, rate-filing salaries, janitorial services, etc.).

10. Claims.

11. Profit before taxes.

MTMC then computed a "standard" origin and destination cost for each route. These costs were to represent the portion of the forwarder rate affected by fluctuations in exchange rates. The "standard" was established as the average overseas cost of the low-rate forwarder and all the others that equalized that rate or offered a rate within 5 percent of the low rate on that route.

Each week, MTMC compared the U.S. dollar's value against each foreign currency as measured from the "peg date" to the new week. The dollar's value was based on the Friday "buying quotation" published by the Federal Reserve Bank of New York. If the difference was 2.5 percent or more, the percentage figure was multiplied by the origin or destination "standard" cost to arrive at the authorized adjustment.

The same adjustment would apply to all forwarders regardless of their specific costs or whether they actually paid anything in a foreign currency. The adjustments stayed the same until the currency fluctuated by an additional percentage point or until the end of the rate cycle. When the difference between the "peg date" value and the new date value was less than 1.5 percent, the adjustment was ended until the fluctuation again became at least 2.5 percent.

Decision to Terminate the Programs

In 1983, in response to forwarders' concerns over the applicability of rates, MTMC initiated a review of all the rate adjustment programs. The review included a public dialogue to provide the forwarder industry an opportunity to comment on the adjustment procedures.

On April 15, 1983, MTMC announced termination of the ocean rate adjustment program. It said that continuation of the ocean rate adjustment program was not in consonance with the intent of the Congress as expressed in the Household Goods Transportation Act of 1980. Moreover, it said, such a program did not foster competition among forwarders, and it placed on DOD all the risks associated with increased costs. Thus, all the adjustment programs, except the currency adjustment program, were canceled.

Almost a year later, in a July 25, 1984, letter to all approved international forwarders, MTMC said that its review of the international shipping program raised questions as to whether the currency adjustment procedures should be continued. It asked for comments from the industry about the following issues:

- Currency adjustments were initiated when the dollar was weak and unstable, but in 1984 the dollar was stronger and more stable and, consequently, adjustments were no longer justifiable.
- Most contracts for carriers or overseas agents were written in U.S. dollars, thus removing the foreign exchange risk and the need for any currency adjustments.
- Currency adjustments did not reflect actual costs.
- Managing foreign currency exchange risk was a normal practice of companies engaged in international business.
- It was extraordinary to provide economic adjustment clauses for procurement performance periods of 1 year or less.
- Adjustment procedures imposed an administrative burden on both the carrier industry and government.

Over the next several months, MTMC reviewed the industry comments on the issues raised in its letter. It decided that the currency adjustment program was no longer required and not in the best interests of DOD. It announced the termination of the program on October 19, 1984, effective with rates applicable to shipments made on or after April 1, 1985.

Analysis of MTMC's Decision to Terminate the Currency Adjustment Program

In terminating the currency fluctuation program, MTMC concluded that continuation of the program was not in the best interest of DOD. It said that the program had the potential for fraud, waste, and abuse and that it had decided that the program

- was no longer necessary, particularly in light of forecasts that the long-term value of the dollar would become stable and therefore the impact of currency fluctuations would be relatively small and within the ability of the industry to manage;
- resulted in adjustments that did not reflect actual carrier costs;
- had not fostered competition, one of the major goals of its rate procurement system;
- was administratively burdensome both to the government and industry; and
- placed on the government all risks associated with foreign exchange costs.

Our analysis of each point in MTMC's decision to terminate the program follows.

Stability of the U.S. Dollar

In its 1984 deliberations on the question of whether the foreign currency rate adjustment program was still necessary, MTMC said that the program had been initiated when the dollar was weak and unstable against foreign currencies. Leading economists, it noted, had forecasted that the long-term value of the dollar would be relatively stable.

Contrary to such forecasts, events have shown that the value of the dollar, as measured against the currencies of countries where the forwarders are providing service, remains relatively unstable. This instability is confirmed by the number of times the dollar's value has risen or fallen by at least 2.5 percent (MTMC's threshold for allowing adjustment when the adjustments program was in effect).

Over the 10-year period from May 1976 through March 1986, covering rates effective November 1976 through March 1987, MTMC had solicited rates 21 times. In its March 1986 solicitation, rates were requested for routes to and from 18 different countries. From November 1976 through the end of calendar year 1986, the value of the dollar had moved, either up or down, by at least 2.5 percent against every currency but two[1] in at least half of the 21 rate cycles. For some currencies, the value of the

[1] In these two instances, the currency was pegged to the U.S. dollar.

dollar had moved by 2.5 percent in 95 percent of the rate cycles. Movement occurred about as often during the time immediately before termination of the adjustment program as it occurred during the time immediately thereafter. Most recently, the direction of the movement against most currencies has changed from positive to negative.

Table I.2 shows how often the dollar fluctuated by 2.5 percent—up or down—and by how much. The first two columns show the percentage of times in the 21 rate cycles the fluctuation was at least 2.5 percent, as measured from the "peg date" to a particular month in the rate cycle. The first column shows how often the fluctuation was 2.5 percent during the first month of the rate cycle, and the second column shows how often the fluctuation was 2.5 percent during the last month of the rate cycle.

The next six columns of the table show how much the dollar fluctuated, on average, over (1) the entire 21 rate periods (November 1976 through December 1986), (2) the 4 rate cycles immediately preceding termination of the program (April 1983 through March 1985), and (3) the 4 rate cycles immediately after MTMC's termination of the program (April 1985 through December 1986), again, as measured from the "peg dates" to the first month of each rate cycle and to the last month of each cycle.

As the table shows, the value of the U.S. dollar, as measured against the currencies of foreign countries, has been relatively unstable.

Impact of Currency Fluctuations

Because it felt that the dollar would become stable in the long-term, MTMC concluded that the impact of currency fluctuations would be relatively small. MTMC, however, did not maintain data to show how much it cost DOD or how much was returned to DOD in the form of refunds as a result of the foreign currency adjustment program during the years the program was in effect.

To illustrate the impact that might have occurred after the adjustment program had been terminated, we attempted to estimate, for tonnage to and from each country in the shipping program, how much money might

Table I.2: Changes in the Value of the U.S. Dollar (Up or Down) **During MTMC Rate Cycles**

Figures in percentages

U.S. dollar compared with the	Percentage of rate cycles in which dollar moved at least 2.5 percent: At the First month	At the Last month	Average percentage change in the value of dollar (1) for all cycles, (2) for the 4 cycles immediately preceding termination of the program, and (3) for the 4 cycles immediately after termination of the program: At the first month 1	At the first month 2	At the first month 3	At the last month 1[a]	At the last month 2	At the last month 3[a]
German mark	76.2	90.0	6.9	7.6	10.3	11.0	12.6	17.6
British pound	85.7	90.0	6.2	9.1	5.7	11.1	16.4	8.8
Japanese yen	85.7	80.0	7.7	6.6	10.1	12.1	9.8	18.1
Italian lira	61.9	85.0	6.6	8.0	9.2	11.8	16.6	14.7
Philippine peso	42.9	65.0	6.2	23.2	4.7	11.7	40.6	9.7
Korean won	47.6	60.0	3.0	2.5	2.5	5.9	4.9	4.1
Panamanian balboa[b]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Spanish peseta	76.2	90.0	8.0	11.7	6.6	15.2	19.0	9.6
Turkish lira	90.5	95.0	17.8	25.5	12.7	41.4	51.8	27.4
Greek drachma	66.7	75.0	8.0	16.1	6.0	14.6	29.0	8.4
Netherlands guilder	81.0	80.0	6.8	6.8	10.3	11.1	13.6	17.7
Belgian franc	66.7	95.0	7.4	7.4	9.5	12.8	13.9	16.3
Icelandic krona	76.2	95.0	16.1	23.3	3.6	36.8	45.3	5.8
Portuguese escudo	76.2	90.0	9.8	17.4	5.8	18.8	33.9	9.2
Australian dollar	57.1	75.0	5.6	6.4	13.7	8.8	13.8	12.9
Canadian dollar	38.1	50.0	1.9	1.9	1.6	3.5	4.5	2.2
Norwegian krone	76.2	75.0	5.4	6.4	6.0	8.9	12.7	10.0
Bermudian dollar[b]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

[a]Percentages in these columns do not include the fourth cycle (rate cycle 53) because exchange rates for the last month of that cycle were unavailable at the time data was prepared.

[b]In these instances, the currency was pegged to the U.S. dollar.

have been involved during one rate cycle. Assuming that the average expense actually incurred in each country was about $20 per hundredweight,[2] currency fluctuations would have resulted in an added expense to the forwarders of $3.7 million, or about $61 per shipment, for all the shipments that were forecasted to move during the 6-month period. DOD paid about $213 million to move its members' household goods during that time. A summary of the estimated impact of currency fluctuations is shown in table I.3.

[2]This was based on our analysis of forwarders' cost data submitted to MTMC during a rate cycle when the adjustment program was still in effect.

Numbers in the first column of the table represent the average monthly fluctuation of the value of the dollar against each currency during the cycle. For example, the dollar's value against the German mark averaged 16.5 percent below its previous value set at the "peg date."[3] Against the Canadian dollar, the U.S. dollar averaged 0.6 of a percent above its previous value.

Numbers in the second column show the cost impact of the fluctuation on the entire forecasted tonnage to and from each country. A negative number indicates that DOD would have had to pay extra charges; a positive figure indicates that DOD would have been entitled to a refund. For example, the impact of the changing value of the dollar against the German mark on all forecasted German shipments would have been an extra charge over the entire rate cycle of $2,891,437. For Canadian shipments, the impact would have been a refund of $263.

Numbers in the third and fourth columns show the cost impact on the average-sized, forecasted shipments. For example, the impact caused by a 16.5-percent drop in the value of the dollar against the German mark would have been an extra charge to DOD of $80 for the average-sized shipment, which was forecasted to be 2,438 pounds, to and from Germany. For the average Canadian shipment where the value of the dollar rose 0.6 percent, there would have been a refund of $3 on the average-sized shipment of 2,167 pounds. These figures are based on the forecasted tonnage and shipment data MTMC provided the forwarders at the time of the solicitation for the summer 1986 cycle rate.

Because the currency adjustment program was not in effect during this time, the figures actually represent the estimated exchange rate costs and profits to the forwarding industry. What would have been an extra charge to DOD of $2,891,437 on shipments to and from Germany actually would have become a cost to the forwarding industry, again assuming that expenses were actually incurred in foreign currencies. That cost compares to $43 to $53 million in total anticipated revenues for the German household goods shipments during that time.

[3]The actual average percentage changes were
first month: -12.5 percent,
second month: -14.0 percent,
third month: -13.9 percent,
fourth month: -17.0 percent,
fifth month: -20.3 percent, and
sixth month: -21.1 percent.

Table I.3: Impact of Foreign Currency Fluctuation on Forwarder Industry Costs
(April Through September 1986)

Shipments to and from	Average change in U.S. dollar value against foreign currency (percent)	Currency fluctuation impact if overseas costs averaged $20 per 100 pounds of goods shipped	Forecasted average shipment size (pounds)	Average impact per shipment
Germany	−16.5	−$2,891,437	2,438	−$80
United Kingdom	−4.0	−125,213	3,327	−27
Japan	−19.9	−490,157	2,737	−109
Italy	−15.1	−277,281	3,487	−105
Philippines	9.4	168,424	3,463	65
Korea	−0.7	−11,339	1,684	−2
Panama	0.0	0	3,345	0
Spain	−10.9	−99,133	3,512	−77
Turkey	22.6	132,789	3,312	150
Greece	−9.4	−39,104	3,072	−58
Netherlands	−16.4	−47,527	3,526	−116
Belgium	−15.1	−42,745	3,667	−111
Iceland	−1.6	−3,645	3,772	−12
Portugal	−7.2	−10,744	2,282	−33
Australia	1.6	1,604	3,948	13
Canada	0.6	263	2,167	3
Norway	−5.2	−1,198	3,200	−33
Total		**−$3,736,445**	**2,645**	**−$61**
Total (excluding countries where movement was less than 2.5 percent)		**−$3,723,327**		

As the table shows, the impact of foreign currency fluctuation on the forwarder industry for this cycle could have amounted to about $3.7 million, or $61 per shipment.

Forwarders' Ability to Manage Risk

MTMC said that it found no valid reason that the risks of higher exchange costs should be borne by the government as a shipper. In connection with its conclusions concerning the long-term stability of the dollar and the relatively small impact of currency fluctuations, DOD said that the moving industry could manage the fluctuations and eliminate the risks through various financial plans offered by banks and brokers.

Some forwarders argued that, while they could take measures to forecast and subsequently control most costs, they could not forecast and

control cost increases due to foreign currency fluctuations. They maintained that such costs were affected by the unpredictability of government actions, the long length of the contracts, the lack of any guarantee of a specific amount of cargo generating, and the inability on their part to obtain financial instruments to hedge their currency risks. They pointed out that to hedge against increased costs due to fluctuations in exchange rates, the forwarders had to know in advance what their potential risk or exposure would be. They said that they were unable to predict these factors, however, because they were bidding on price and not on the tonnages of cargo that would have to be shipped. They noted that MTMC made no guarantees to a low bidder that it would receive any specific amounts of cargo. MTMC only guaranteed that the winning bidder would be offered a certain percentage of whatever cargo was generated.

While MTMC noted that there were actions that it felt forwarders could take to protect themselves from currency risks (such as purchasing currency options), its basic argument was that it wanted a fixed-price contract that forced the forwarders, not DOD, to bear the risk of all increased costs and would still provide it with an adequate number of forwarders ready, willing, and able to meet its needs at a reasonable cost. How the forwarders covered their costs and controlled cost increases was the forwarders' responsibility.

We found nothing improper in MTMC's attempt to shift the risk of cost increases to the forwarders. However, we recognize that in the private sector it is not unusual for transportation companies to force shippers to bear any cost increases associated with currency fluctuations. For example, as noted in a 1978 publication, currency clauses for ocean liner service became more frequent in the 1970s. Specifically, some carriers included a clause in their bills of lading—the main contractual document in ocean liner service—that provided for rate adjustments due to currency fluctuations.

Ocean liner conferences also have included currency clauses in their tariffs, or published rate schedules. The United Nations Conference on Trade and Development Shipping Code, Article 17, noted:

"Exchange rate changes, including formal devaluation or revaluation, which lead to changes in the aggregate operational costs and/or revenues of the shipping lines members of a conference relating to their operations within the conference provide a valid reason for the introduction of a currency adjustment factor or for a change in the freight rates. The adjustment or change shall be such that in the aggregate the

member lines concerned neither gain nor lose, as far as possible, as a result of the adjustment or change. The adjustment or change may take the form of currency surcharges or discounts or of increases or decreases in the freight rates."

We also noted that the Federal Maritime Commission, on three separate occasions (August 1973, April 1980, and July 1982), took up the issue of uniformity in currency clauses but stopped short of specifying any manner in which such clauses had to be determined or phrased. Consequently, carriers or their conference members may now account for currency fluctuations either by raising or lowering their freight rates or by imposing positive or negative surcharges under almost whatever rules they wish to establish.

We found that some financial instruments were available to companies, such as forwarders, for hedging against the fluctuations in exchange rates. Generally, these are currency options, which are traded on the Philadelphia Stock Exchange. Currency options are a means whereby a party, such as a forwarder, can obtain the right, without incurring any obligation, to buy foreign currencies at a fixed rate of exchange, at any time up to a specified future date. As a rule, such instruments are limited to periods of less than 1 year, apply only to the major currencies, and have a minimum transaction amount. For example, on July 8, 1986, the day MTMC made its initial awards to the forwarders, minimum transaction amounts were 62,500 German marks ($28,650), 12,500 British pounds ($19,122), 6,250,000 Japanese yen ($38,900), and 50,000 Canadian dollars ($36,230).

A currency option requires payment of a premium, like an insurance premium. Sales prices are listed in the Wall Street Journal. The selling price of a contract for German marks purchased in July 1986 for delivery in September was about $700, plus brokerage fees. Such options, however, are not always available for periods longer than 3 months.

Table I.4 puts into perspective the currency option problem by illustrating the time between the filing of rates and their effective dates, the contract period, and the periods when rates could have been cancelled. It uses the chronology of MTMC's rate cycle 53 (winter 1986-1987).

The time between the filing of initial rates and the date they became effective is about 4.3 months. The time between filing and effective dates for the "me-too" forwarders is about 1.5 months. The contract period lasts 6 months, and forwarders can cancel their rates after 2 and 3 months of the contract period.

Table I.4: Chronology of Events for MTMC's Rate Cycle 53

Action	Date	Time elapsed from initial rate-filing date (months)
MTMC issued solicitation.	Mar. 10, 1986	
Forwarders filed initial rates.	May 22, 1986	
MTMC made initial awards. Low-rate forwarder informed that it would receive a certain percentage of all traffic on the given route.	July 8, 1986	1.5
Forwarders filed "me-too" rates.	Aug. 14, 1986	2.8
MTMC made "me-too" awards. Rate equalization forwarders informed that they would receive some percentage of the residual traffic on the given route.	Sept. 9, 1986	3.6
Rates became effective.	Oct. 1, 1986	4.3
Forwarders who wanted to cancel rates, effective December 1, advised MTMC of their intentions.	Oct. 16, 1986	4.8
Forwarders who wanted to cancel rates, effective January 1, advised MTMC of their intentions.	Nov. 13, 1986	5.8
Rate cycle ended.	Mar. 31, 1987	10.3

One forwarder argued that, even if there were options available, under MTMC's bidding and award system, there is no assurance that any cargo will move, and MTMC's forecasts of tonnage have often been highly inaccurate, making it impossible to hedge—i.e., determine in advance how many units of foreign currency will be needed to carry out the requirement.

Table I.5 lists some of the highest volume routes to and from Germany during rate cycle 52 (summer 1986). The statistics show that the forecasts of the number of shipments to Germany were generally overstated and that the forecasts of the number of shipments from Germany were generally understated. In some instances, the amount of weight from Germany was more than twice the forecasted amount. Such imprecision would have presented a problem for low-rated forwarders in that it would have been difficult to determine the number of currency units needed to hedge against the fluctuations in the German mark.

Table I.5: Comparison of MTMC's Forecast With the Actual Number of Shipments and Weight on Selected Routes

Route		Number of shipments		Weight (pounds)	
Origin	**Destination**	**Forecasted**	**Actual**	**Forecasted**	**Actual**
District of Columbia	Germany-South	208	203	709,400	1,081,825
District of Columbia	Germany-North	206	202	709,400	1,027,752
Georgia	Germany-South	711	449	1,651,900	1,110,168
Georgia	Germany-North	596	467	1,373,900	1,226,195
Texas-North	Germany-South	730	572	1,598,300	1,440,174
Texas-North	Germany-North	691	1,094	1,647,700	2,675,190
Germany-South	District of Columbia	376	505	1,152,800	2,443,982
Germany-North	District of Columbia	388	631	1,157,800	3,418,729
Germany-South	Georgia	913	1,020	2,135,200	3,258,063
Germany-North	Georgia	904	1,036	2,122,600	3,166,066
Germany-South	Texas-North	913	996	2,607,800	3,248,559
Germany-North	Texas-North	1,007	1,596	2,584,300	4,831,553

Currency Adjustment Program Not Based on Actual Costs

Although its currency adjustment program was not designed to consider actual forwarder costs in calculating adjustments, MTMC was concerned that some forwarders were getting the advantage of the adjustments even though they did not actually pay anything in foreign currency.

In its 1984 letter to the forwarder industry, MTMC asked for comments about whether agent contracts for the overseas portion of their services were written in foreign currencies or whether they were in U.S. dollars. The responses indicated that some contracts specified payment in foreign currencies and others did not. We reviewed some of the agreements forwarders had made with overseas agents. It appeared that contracts in industrialized countries, such as Germany and Japan, were more likely to be written in local currency and that contracts in developing countries, such as Turkey, were more likely to be written in U.S. dollars.

One large forwarder suggested that the currency adjustment program should apply only to shipments to and from countries with "hard," or commercially significant, currencies and countries with significant numbers of service members located there. Under those criteria, it identified only seven countries—Germany, the United Kingdom, Japan, Italy, Spain, the Netherlands, and Belgium—that would qualify for the adjustment program. Over the years, MTMC has allowed adjustments to six more countries—the Philippines, Greece, Portugal, Australia, Turkey, and Norway.

The forwarder further commented that the decision of which currency—local or U.S.—to establish contracts in is often controlled by the overseas company. Companies in "hard" currency countries, such as Germany and Japan, generally require their contracts to be written in the local currency. However, the forwarder argued that, even if the contracts were written in U.S. dollars, the adjustment procedures should apply because the overseas agent or contractor would still have to exchange the dollars for local currency to pay the local personnel and companies and, thus, the cost of exchange would still be passed along to the forwarder.

Over the years of the adjustment program, and as called for under the program, MTMC consistently allowed forwarders to bill a currency surcharge irrespective of the currency actually used as the unit of compensation between the forwarder and its agent. Moreover, the costs for which MTMC allowed adjustments were based on the forwarder's contention that the costing data submitted was valid. According to a MTMC official, MTMC did not verify the data. Finally, the standard cost, against which MTMC based its adjustment, was an average of the low-rated forwarders' costs. It was not the actual cost to the forwarders.

Once a forwarder offered any rate to or from an overseas area, MTMC required it to submit cost data for shipments moving between that area and three specific stateside areas: the District of Columbia, Kentucky, and California-North. Even if a forwarder offered rates between all 52 stateside rate areas and the overseas area, it only had to provide cost data on rates between MTMC's three specified areas and the overseas area. If the forwarder did not include rates between an overseas area and the District of Columbia, Kentucky, and California-North, it had to submit cost data for the stateside areas nearest those three areas. MTMC's regulations gave it the right to review the forwarders' costs, but there is no evidence that MTMC ever reviewed this data.

MTMC averaged the overseas cost factors of the lowest-rated forwarders and of all other forwarders within 5 percent of the lowest to come up with a "standard" origin and destination cost factor that would serve as the basis for the foreign currency adjustment. The eventual adjustment was then paid or demanded in refund regardless of whether the forwarder had ever incurred any expenses in foreign currencies or whether the "standard" cost factor bore any relation to the costs of the specific forwarder handling the shipment.

In summary, adjustments were not based on actual costs incurred by the forwarders.

Fostering of Competition

Another reason given by MTMC for termination of the foreign currency adjustment program was that the program subverted the market-pricing system and was inconsistent with MTMC's goal to enhance the competitive procurement of transportation services. MTMC questioned whether the adjustment program amounted to anything more than an artificial protective device to save the low-rated forwarders from imprudent pricing strategies.

Underlying MTMC's belief that competition would follow the termination of the foreign currency adjustment program was the belief that effective competition was dependent on the forwarders' taking full responsibility for their own pricing, free of government regulation or interference.

MTMC felt that rates would rise no higher than necessary as long as effective competition existed. It said that the market should be allowed to work out whatever rate increase was necessary.

Statistics in tables I.6 through I.12 show data and changes in the forwarder marketplace. Table I.6 shows the number of forwarders offering rates at the beginning of the competitive procurement system in 1976 through the present. It shows that the number of forwarders offering rates to DOD dropped off after termination of the adjustment program. At the beginning of the 10-year period, 102 companies were submitting rates. The number declined to 83 in mid-1980 and then rose to 225 in 1984 just before the currency adjustment program was terminated. The number then dropped to 165 in the next cycle, and in the last cycle it was at 118, a number equal to the highest number in the first 6 years of the program.

Table I.6: Number of Companies Submitting Rates to MTMC for Transporting Household Goods to and From Overseas Areas

Rate cycle number	Number of companies submitting rates	Date initial rates due
33	102	July 8, 1976
34	109	Feb. 1, 1977
35	109	July 1, 1977
36	94	Jan. 11, 1978
37	95	July 3, 1978
38	91	Jan. 10, 1979
39	92	July 3, 1979
40	95	Jan. 3, 1980
41	83	July 2, 1980
42	90	Jan. 6, 1981
43	101	June 3, 1981
44	111	Dec. 2, 1981
45	118	May 26, 1982
46	134	Nov. 24, 1982
47	156	May 25, 1983
48	198	Nov. 23, 1983
49[a]	225	May 25, 1984
50	165	Dec. 14, 1984
51	123	May 31, 1985
52	112	Dec. 18, 1985
53	118	May 22, 1986

[a]Last rate cycle in which currency adjustments were allowed.

Table I.7 shows the number of rates the forwarders filed with MTMC for one type of service and the number that were cancelled. Under MTMC's regulations, forwarders are required to maintain rates at least 60 days into each contract period. They can, however, cancel rates at the 60-day and 90-day points of a contract, provided that they give MTMC notice 45 days in advance. The table shows, except for an aberration in rate cycle 52, no major difference in cancellations between the time frames immediately before and immediately after termination of the currency adjustment program.

Table I.7: Number of Household Goods Rates Filed and Cancelled

Rate cycle number	Number of rates filed	Number of rates cancelled	
		Total	Percent of total
46	288,771	**3,178**	1.10
47	[a]		
48	446,232	**19,041**	4.27
49[b]	429,815	**35,989**	8.37
50	445,699	**13,829**	3.10
51	267,818	**13,686**	5.11
52	252,233	**25,111**[c]	10.04
53	251,158	**12,171**	4.85

[a]Data for rate cycle 47 is unavailable.

[b]Last rate cycle in which the currency adjustment program was in effect.

[c]An additional 7,849 rates were purged by MTMC from its files because the forwarders had gone into bankruptcy proceedings, were under suspension, or were otherwise no longer in an approved status.

Table I.8 shows data on shipments, rates, rate levels, and rate cancellations on 30 selected routes for rate cycle 53 (October 1986-March 1987). This data provides some indication of the number of forwarders MTMC had to meet its requirements on these routes, the percentage of the rates that were within 10 percent of the low rate, and whether the low rate had been cancelled. For example, for the route from the District of Columbia to Germany-South, 102 forwarders submitted rates. MTMC had forecasted 18 shipments on that route for the 6-month period. Seventeen percent of the 102 forwarders submitted rates that were the low rate or within 10 percent of it. Two of the 10 low-rated forwarders cancelled their rates during the rate cycle, but the low-rate forwarder did not. At least 10 forwarders remained on this route after the period for cancellation of rates had expired.[4]

For the route from Germany-South to Texas-North, 104 forwarders submitted rates. MTMC had forecasted 1,310 shipments on that route for the 6-month period. Sixteen percent of the 104 forwarders submitted rates that were the low rate or within 10 percent of it. Only 1 of the 10 low-rated forwarders cancelled its rate during the rate cycle, but the low-rate forwarder did not. At least 10 forwarders remained on this route after the period for cancellation of rates had expired.

[4]The initial rates in rate cycle 53 had to be filed May 22, 1986. "Equalization" rates had to be filed August 14, 1986. The rates became effective October 1, 1986, for application through March 31, 1987.

Forwarders had two opportunities to cancel rates: (1) on or before October 16, 1986, for cancellations effective December 1, 1986, and (2) on or before November 13, 1986, for cancellations effective January 1, 1987.

Table I.8: Rates Offered MTMC During Rate Cycle 53

Route		Shipments forecasted for route	Forwarders submitting		Low rate canceled?/ At least 10 forwarders remaining who had rates within 10%?
Origin	Destination		Rates	Rates at or within 10% of the low rate	
District of Columbia	Germany-South	18	102	17	No/Yes
District of Columbia	Germany-North	220	102	18	No/Yes
Georgia	Germany-South	712	103	23	No/Yes
Georgia	Germany-North	712	103	21	No/Yes
Texas-North	Germany-South	695	103	15	No/Yes
Texas-North	Germany-North	860	102	19	No/Yes
Texas-South	United Kingdom	111	103	33	Yes/Yes
California-North	United Kingdom	139	103	36	Yes/Yes
California-South	United Kingdom	108	103	42	Yes/Yes
Texas-South	Japan-Central	31	96	58	Yes/Yes
California-North	Japan-Central	71	104	31	Yes/Yes
California-South	Japan-Central	125	104	36	Yes/Yes
Texas-South	Korea	23	96	42	Yes/Yes
California-North	Korea	59	98	35	Yes/Yes
California-South	Korea	45	98	37	Yes/Yes
Germany-South	District of Columbia	30	102	19	No/Yes
Germany-North	District of Columbia	32	102	17	No/Yes
Germany-South	Georgia	1,217	104	12	Yes/No[a]
Germany-North	Georgia	1,137	104	13	Yes/No[a]
Germany-South	Texas-North	1,310	104	16	No/Yes
Germany-North	Texas-North	1,177	104	14	No/Yes
United Kingdom	Texas-South	132	103	30	No/Yes
United Kingdom	California-North	136	103	22	No/Yes
United Kingdom	California-South	166	103	41	No/Yes
Japan-Central	Texas-South	42	103	24	No/Yes
Japan-Central	California-North	94	103	12	No/Yes
Japan-Central	California-South	156	103	14	No/Yes
Korea	Texas-South	192	92	39	Yes/Yes
Korea	California-North	311	97	26	Yes/Yes
Korea	California-South	211	97	28	Yes/Yes

Note: Rates for rate cycle 53 were effective October 1, 1986, through March 31, 1987.
[a]There were 8 remaining forwarders within 10% of the initial low rate.

Table I.9 shows how many forwarders decided to "equalize" the low rate on the same 30 routes. MTMC's competitive procurement system produces three levels of forwarders on each route: low-rated forwarders, forwarders who "equalize" the rates of the low-rated forwarders, and

all the rest. Under MTMC's two-phase procurement procedures, all forwarders submit an initial rate for all routes. The low-rated forwarder receives priority treatment for a certain percentage of all shipments on a given route. The remaining forwarders are advised of the low rate and given a chance to meet, or "equalize," the low rate or to lower the rates they have filed. Those "equalizing" the low rate receive priority treatment for certain percentages of the residual shipments.

As part of our analysis, we examined the rates for 30 selected routes during the four rate cycles immediately before and the four cycles immediately after MTMC's termination of the currency adjustment program to see if there had been any changes in the number of forwarders equalizing rates.

In the four rate cycles immediately preceding MTMC's termination of the currency adjustment program, the next lowest 19 forwarders nearly always "equalized" the low rate. In subsequent rate cycles, "equalizing" occurred much less frequently. In some cases there was no "equalizing" at all. This indicates that MTMC is achieving its goal of making forwarders take full responsibility for their pricing.

Table I.9: Number of Forwarders Who "Equalized" the Initial Low Rate on Selected Routes

Route		Number of forwarders "equalizing" the low rate							
		Rate cycle number							
Origin	Destination	46	47	48	49[a]	50	51	52	53
District of Columbia	Germany-South	19	19	19	19	1	11	18	8
District of Columbia	Germany-North	19	19	19	19	1	11	13	8
Georgia	Germany-South	19	19	19	19	1	17	18	9
Georgia	Germany-North	19	19	19	19	3	18	15	9
Texas-North	Germany-South	19	19	19	19	2	7	10	8
Texas-North	Germany-North	19	19	19	19	1	7	9	10
Texas-South	United Kingdom	18	19	17	19	0	7	19	17
California-North	United Kingdom	15	19	19	19	0	9	19	19
California-South	United Kingdom	17	19	19	19	2	4	19	19
Texas-South	Japan-Central	19	19	19	1	19	1	14	19
California-North	Japan-Central	19	19	12	1	19	5	15	11
California-South	Japan-Central	19	19	19	5	7	6	16	11
Texas-South	Korea	19	19	19	1	3	2	19	13
California-North	Korea	19	19	19	19	19	17	19	14
California-South	Korea	19	19	19	19	7	9	19	11
Germany-South	District of Columbia	19	19	19	19	1	5	2	10
Germany-North	District of Columbia	19	19	19	19	1	6	1	9
Germany-South	Georgia	19	19	19	19	0	8	5	3
Germany-North	Georgia	19	19	19	19	1	12	3	3
Germany-South	Texas-North	19	19	19	19	2	5	0	0
Germany-North	Texas-North	19	19	19	19	1	8	0	0
United Kingdom	Texas-South	19	19	19	19	0	2	19	7
United Kingdom	California-North	19	19	19	19	0	9	8	11
United Kingdom	California-South	19	19	19	19	4	3	8	11
Japan-Central	Texas-South	19	19	19	8	11	5	14	7
Japan-Central	California-North	19	19	19	3	5	16	18	6
Japan-Central	California-South	19	19	19	14	5	19	19	6
Korea	Texas-South	19	19	19	19	4	8	19	6
Korea	California-North	19	19	19	19	2	19	19	12
Korea	California-South	19	19	19	19	2	16	19	11

[a]Last rate cycle in which the currency rate adjustment program was in effect.

Without the benefit of a currency adjustment program, forwarders have had to absorb any increased costs due to unanticipated decreases in the value of the dollar, or they have retained the profits that resulted from unanticipated increases in the dollar's value.

In our interim report on this issue dated September 30, 1986, we said that the rates offered to MTMC and actually paid by DOD did not increase significantly in most cases. We noted, however, that we could not tell whether the rates would have dropped or risen less if MTMC had not terminated the currency adjustment program.

Tables I.10 through I.12 provide more data on the rates offered to MTMC and actually paid by DOD for selected routes covering the four rate cycles immediately preceding MTMC's termination of the currency rate adjustment program and the four rate cycles immediately after termination of the program. Table I.10 shows the lowest rate filed with MTMC for 30 routes, and table I.11 shows the average of the 20 lowest rates for the same routes.

In general, rates offered to and from Germany, the United Kingdom, and Korea have dropped or stayed nearly the same since the termination of the adjustment program. Rates to and from Japan have generally risen.

Table I.12 shows the average rate actually paid for the same time frames. Generally, the rates to and from Germany stayed steady or rose only slightly. Rates to and from the United Kingdom, Japan, and Korea rose somewhat. In many cases, however, the rates paid while the adjustment program was in effect were higher than rates paid after the program was terminated.

Table I.10: Low Rates Filed With MTMC for Selected Routes

Rate in dollars

Route		Rate per 100 pounds[a] Rate cycle number							
Origin	Destination	46	47	48	49[b]	50	51	52	53
District of Columbia	Germany-South	64	59	54	44	49	48	51	49
District of Columbia	Germany-North	64	57	52	44	48	47	50	48
Georgia	Germany-South	71	64	58	53	55	54	54	52
Georgia	Germany-North	70	62	60	53	54	53	53	51
Texas-North	Germany-South	69	63	57	52	54	54	54	51
Texas-North	Germany-North	68	62	56	52	54	54	53	52
Texas-South	United Kingdom	71	60	55	51	50	54	61	57
California-North	United Kingdom	75	69	68	59	59	65	69	65
California-South	United Kingdom	74	67	65	59	63	62	67	65
Texas-South	Japan-Central	90	81	65	59	68	67	75	87
California-North	Japan-Central	79	72	55	49	58	59	64	72
California-South	Japan-Central	80	70	60	54	57	59	62	72
Texas-South	Korea	109	97	78	74	89	88	92	102
California-North	Korea	96	93	70	77	82	83	80	83
California-South	Korea	100	95	72	76	80	81	79	83
Germany-South	District of Columbia	70	60	56	51	49	50	55	57
Germany-North	District of Columbia	70	59	55	50	48	50	55	56
Germany-South	Georgia	72	66	59	54	52	54	57	56
Germany-North	Georgia	72	63	57	53	52	55	57	56
Germany-South	Texas-North	73	67	60	55	55	55	58	59
Germany-North	Texas-North	72	66	57	55	55	54	58	59
United Kingdom	Texas-South	67	64	59	53	52	56	65	60
United Kingdom	California-North	81	73	67	63	61	67	69	65
United Kingdom	California-South	77	73	66	61	63	64	68	68
Japan-Central	Texas-South	91	83	73	72	78	78	78	87
Japan-Central	California-North	82	72	62	59	64	68	65	71
Japan-Central	California-South	82	71	63	62	63	68	66	73
Korea	Texas-South	118	110	94	100	103	107	100	102
Korea	California-North	113	104	85	86	86	98	88	88
Korea	California-South	114	104	86	87	87	97	87	88

[a]Figures rounded to the nearest dollar.

[b]Last rate cycle in which the currency rate adjustment program was in effect.

Table I.11: Average of the 20 Lowest Rates Filed With MTMC for Selected Routes

Rate in dollars

Route		Rate per 100 pounds[a] Rate cycle number							
Origin	Destination	46	47	48	49[b]	50	51	52	53
District of Columbia	Germany-South	64	59	54	44	54	50	51	51
District of Columbia	Germany-North	64	57	52	44	54	49	51	50
Georgia	Germany-South	71	64	58	53	59	54	54	53
Georgia	Germany-North	70	62	60	53	59	53	54	53
Texas-North	Germany-South	69	63	57	52	57	58	55	54
Texas-North	Germany-North	68	62	56	52	57	58	55	53
Texas-South	United Kingdom	71	60	55	51	57	60	61	57
California-North	United Kingdom	76	69	68	59	67	68	69	65
California-South	United Kingdom	74	67	65	59	67	68	67	65
Texas-South	Japan-Central	90	81	65	65	68	74	76	87
California-North	Japan-Central	79	72	55	56	58	62	64	73
California-South	Japan-Central	80	70	60	56	59	61	62	73
Texas-South	Korea	109	97	78	77	93	95	92	97
California-North	Korea	96	93	70	77	82	83	80	84
California-South	Korea	100	95	72	76	82	83	79	84
Germany-South	District of Columbia	70	60	56	51	57	55	59	58
Germany-North	District of Columbia	70	59	55	50	57	53	59	58
Germany-South	Georgia	72	66	59	54	59	57	60	60
Germany-North	Georgia	72	63	57	53	59	56	60	60
Germany-South	Texas-North	73	67	60	55	60	58	63	64
Germany-North	Texas-North	72	66	57	55	60	57	63	63
United Kingdom	Texas-South	67	64	59	53	58	60	64	62
United Kingdom	California-North	81	73	67	63	66	69	71	67
United Kingdom	California-South	77	73	66	61	66	68	70	69
Japan-Central	Texas-South	91	83	73	74	79	81	78	90
Japan-Central	California-North	82	72	62	62	67	68	65	76
Japan-Central	California-South	82	71	63	62	67	68	66	77
Korea	Texas-South	118	110	94	100	107	108	100	104
Korea	California-North	113	104	85	86	94	98	88	90
Korea	California-South	114	104	86	87	94	97	87	90

[a]Figures rounded to the nearest dollar.

[b]Last rate cycle in which the currency rate adjustment program was in effect.

Table I.12: Average Rates Actually Paid by DOD for Selected Routes

Rate in dollars

Route		Rate per 100 pounds[a] Rate cycle number							
Origin	**Destination**	**46**	**47**	**48**	**49[b]**	**50**	**51**	**52**	**53**
District of Columbia	Germany-South	c	60	57	47	60	50	69	c
District of Columbia	Germany-North	c	59	54	46	60	51	57	c
Georgia	Germany-South	c	65	58	53	58	53	54	c
Georgia	Germany-North	c	63	60	53	56	53	53	c
Texas-North	Germany-South	c	64	57	53	58	57	54	c
Texas-North	Germany-North	c	63	56	53	57	57	55	c
Texas-South	United Kingdom	c	63	55	51	56	60	61	c
California-North	United Kingdom	c	70	68	62	64	67	69	c
California-South	United Kingdom	c	74	64	57	65	65	67	c
Texas-South	Japan-Central	c	81	66	61	69	71	76	c
California-North	Japan-Central	c	72	55	51	58	60	65	c
California-South	Japan-Central	c	70	60	55	59	60	62	c
Texas-South	Korea	c	93	79	73	93	91	94	c
California-North	Korea	c	86	71	77	84	84	80	c
California-South	Korea	c	96	73	76	83	79	80	c
Germany-South	District of Columbia	c	64	58	62	80	58	58	c
Germany-North	District of Columbia	c	66	60	62	68	57	58	c
Germany-South	Georgia	c	67	59	55	59	56	58	c
Germany-North	Georgia	c	65	59	56	57	55	58	c
Germany-South	Texas-North	c	68	60	55	59	56	62	c
Germany-North	Texas-North	c	67	57	55	58	55	61	c
United Kingdom	Texas-South	c	64	61	54	57	62	65	c
United Kingdom	California-North	c	73	67	64	66	70	69	c
United Kingdom	California-South	c	75	66	61	67	69	69	c
Japan-Central	Texas-South	c	83	73	73	74	79	79	c
Japan-Central	California-North	c	72	62	59	67	60	66	c
Japan-Central	California-South	c	71	63	63	82	62	69	c
Korea	Texas-South	c	111	95	101	98	106	99	c
Korea	California-North	c	106	86	87	91	97	85	c
Korea	California-South	c	106	87	88	91	96	83	c

[a]Figures rounded to the nearest dollar.

[b]Last rate cycle in which the currency rate adjustment program was in effect.

[c]Data unavailable.

Administrative Burdens of Adjustment Program

MTMC officials said that the foreign currency adjustment program was administratively burdensome and costly to both the industry and the government. They said that one of the basic reasons for using forwarders was to reduce the administrative burden, not increase it, and the adjustment program did not further that goal.

MTMC estimated that the additional annual cost to the industry for the adjustment program was over $800,000. For the government, MTMC estimated the additional cost at nearly $400,000.

Forwarders, MTMC said, had to spend considerable effort to develop and submit to MTMC with each rate cycle the cost data required for the currency adjustment program. MTMC then compiled the data and developed the "standard" cost factors for each type of service and for each route. It had to maintain overview over more than a dozen foreign exchange rates and calculate the weekly adjustments. This information had to be furnished to the forwarder associations, which then had to publish the approved adjustments in their rate tenders and disseminate the information to all their members.

The adjustment program also added to the work load of the various military services' payment offices, which had to review and check an additional cost item that, on most occasions, was billed on a separate or supplemental bill. The General Services Administration (GSA) needed additional audit time to verify that the additional charges for positive adjustments were correct and forwarders had not omitted any appropriate refunds for negative adjustments.

DOD also discovered that many, if not most, forwarders regularly failed to make refunds to the government when negative currency adjustments were determined appropriate.[5] GSA said that in 1983 about 50 percent of all audited household goods bills of lading had overcharges; about 85 percent of these overcharges were attributable to the forwarders' failure to make currency adjustment refunds. GSA advised MTMC that 63 forwarders owed about $2.5 million, one owing as much as $300,000, due to their failure to refund negative adjustments.

Concerns about the additional time and money spent because of the program appear valid. Some of the additional time burdens, however, might have been caused by the timing of MTMC's adjustments. MTMC reviewed

[5]Negative adjustments resulted from increases in the value of the dollar.

the changes in the value of the dollar weekly but disseminated the information on what precise adjustments would be allowed only sporadically. In some rate cycles, information about adjustments was disseminated only twice. Consequently, at the time they submitted their bills, forwarders did not know what adjustments, if any, had been approved. Any additional billing or refunding, by necessity, had to be accomplished on a supplemental bill, which added significantly to the industry's and the government's work load.

Summation of Our Analysis of MTMC's Decision to Terminate the Program

Although questions can be raised about the validity of some of MTMC's reasons for terminating the rate adjustment program, we find no basis to recommend that MTMC reinstitute the program. MTMC has transferred the risks associated with exchange fluctuations to the moving industry where we believe it should be. In our opinion, currency risks are no different from other cost elements, such as labor, material, and interest rates, which are subject to change. When these costs increase, the forwarders merely increase their rates and pass such higher costs on to the customer. The same option is available to the forwarders to compensate for currency changes.

The ultimate test of the merits of MTMC's decision, we believe, is whether MTMC is able to retain an adequate supply of forwarders willing to offer DOD acceptable service at a reasonable cost. This, we believe, has been accomplished.

In the future, there may be circumstances under which an adjustment program may have to be reconsidered. Should MTMC find that forwarders are either unable to or unwilling to meet DOD's needs at shipping rates MTMC feels are reasonable and that nothing else can adequately address the problem, the issue may have to be reconsidered. As of the date of our review, we do not find that is the case and, therefore, we find no overriding reason why MTMC should reinstitute the program.

Agency and Industry Comments and Our Evaluation

We asked DOD and three moving company associations—the American Movers Conference (AMC), the Household Goods Forwarders Association of America, Inc. (HGFA), and the Household Goods Carriers Bureau—to review and comment on a draft of this report.

DOD concurred with our findings and conclusions without specific comments. The AMC and HGFA provided specific comments. The Household Goods Carriers Bureau did not comment.

AMC Comments

AMC's major comments and our evaluation are summarized below. The complete text of the AMC comments are in appendix III.

AMC raised several questions regarding MTMC's forecast of a stable dollar and the possible alternatives to a currency adjustment program. It noted that the long-term value of the dollar had not become as stable as MTMC had predicted. It said that there were many things that affected foreign currency fluctuations—international interest rates, deficit trade balances, and the volatility of the stock market—none of which the government, let alone the moving industry, could control or predict.

We agree that MTMC's prediction of the stability of the dollar was inaccurate. As shown in our report, the dollar, since termination of the foreign currency rate adjustment program, has been very unstable.

The AMC also stated that the filing of rates with MTMC 5 months in advance of the 6-month rate cycle required moving companies to predict currency fluctuations almost 1 year in advance. This, it said, was not a reasonable business requirement and put the moving industry in an unfair position. It contrasted currency fluctuations with what it described as normal business costs—labor, equipment cost and depreciation, material costs, and second- and third-party transportation costs—which it said could be predicted.

The need for forwarders to submit rates 4 months in advance of the 6-month rate cycle is, in part, a product of the two-phase rate solicitation cycle used by MTMC to obtain rates. If one of the phases were eliminated, more than 2 months' lead time could be eliminated. MTMC has proposed to eliminate the second phase of the solicitation process, but the moving industry has opposed this action until MTMC has formally studied the impact of such a change.

The AMC questioned the merits of possible alternatives to the currency adjustment program, which we described in our draft report. Since we did not attempt to evaluate the feasibility or impact of any alternatives, we have eliminated the alternatives from our final report.

HGFA Comments

The HGFA's comments and our evaluation are summarized below. The complete text of the HGFA comments are in appendix IV.

The HGFA did not agree with our conclusion that there was no basis upon which to recommend that MTMC reinstate the program. It said that it

found several of MTMC's reasons for terminating the currency adjustment program faulty, shallow, and without foundation. HGFA noted that MTMC's prediction that the dollar would remain stable had proven wrong.

The HGFA also said that MTMC had incorrectly assumed that overseas contracts were written in dollars and not local currencies. In addition, it said that the manner in which MTMC used the forwarders' cost data tended to favor the government. For example, it said that using the cost data of the three low-rate forwarders favored the government since these three forwarders generally had the lowest overseas costs because of their traffic volumes.

Our review showed that MTMC had canvassed the forwarder industry and found that, although most contracts in hard currency countries were written in foreign currency, some overseas contracts were actually written in dollars.

The HGFA statement that MTMC used only the three low-rate forwarders' cost data in establishing its currency adjustments is not accurate. MTMC used the forwarder-provided cost data of not only the low-rate forwarder but of all the others within 5 percent of the low rate. For example, on one route from Germany to the United States, 154 forwarders submitted acceptable rates, 56 of which were within 5 percent of the low rate. MTMC used the cost data of the low-rate forwarder and all the other 56 forwarders to calculate the currency adjustments.

It is important to emphasize that the currency adjustments were never designed to reflect or compensate for actual changes in the forwarders' costs. Instead, they were based on unverified cost data provided by the forwarders. The data selected was then averaged to develop a standard cost factor, which was then adjusted weekly, as the dollar fluctuated, to make the allowable currency adjustment. Each forwarder was paid or required to refund the same amount regardless of whether its costs were more or less than the adjustment that was allowed. Our review of some of the costs submitted by the forwarders showed that the low-rate forwarders did not always report having the lowest overseas costs. Those forwarders filing identical rates sometimes had double the overseas costs of the other forwarders. Some forwarders even showed zero for overseas costs.

The HGFA also said that MTMC was shortsighted when it said that currency adjustments had not fostered competition and the program should

be terminated. The HGFA argued that the exclusion of the adjustment program was anticompetitive in and of itself because it precluded the government from receiving the lowest possible rates. Because of the termination of the adjustment program, forwarders had to include a "fudge" factor in their rates to protect themselves from currency fluctuations. It said that some forwarders have filed rates that have proven to be non-compensatory and thus have had to be cancelled. The result, it said, was that MTMC had fewer forwarders to choose from and that those still offering rates were doing so at levels that did not provide the government with the lowest possible rates.

We do not agree that exclusion of the adjustment program was anticompetitive and that it precluded the government from receiving the lowest rates. Currency adjustments are a cost element that forwarders must consider in formulating their bids. Expansion of the forwarders' cost base should not affect competitiveness.

Whether MTMC has fewer forwarders to choose from is only important if there are not enough forwarders to meet DOD's requirements or forwarders' rates are, in MTMC's opinion, unreasonable. We have found nothing to suggest that there are not enough forwarders to move DOD shipments or that the rates they offer are unreasonable.

The HGFA further commented that the major administrative burden the industry felt resulted from MTMC's lateness in publishing the currency adjustments and that the government's own administrative burden was self-induced because of its lack of prompt attention to currency changes. It said that this situation could be remedied in less than 20 hours by one person using a simple "spreadsheet" software program on a personal computer. The HGFA stated that publication and distribution of the material could be processed within another 20 hours.

We did not attempt to establish the validity or feasibility of HGFA's proposal to calculate and publish currency adjustments. However, this is just one part of the administrative burden associated with the adjustment program. The other administrative details—filing and receiving the cost data and paying and auditing the adjustments—would still be encountered and would certainly have to be considered in assessing the merits of the adjustment program.

The HGFA also criticized MTMC for saying, without outlining actual examples, that the adjustment program had the potential for fraud, waste, and abuse. If it were concerned, the HGFA said, MTMC should have been

more timely in determining the allowable adjustments and more efficient in running its financial collection and recovery programs. Past nonpayment of negative adjustments, it said, was not based upon any misrepresentation by a carrier but upon the presumption that billing for such payment would be made by GSA in much the same manner as overcharges were handled. HGFA summarized by saying that the lack of an efficient government collection/recovery effort should not be blamed on the forwarder industry.

We recognize that MTMC did not update the adjustments monthly but disagree with HGFA's position. It was MTMC's stated purpose to look at the fluctuations and make adjustments as appropriate, each week, or in effect, 26 times during the 6-month rate cycle. The adjustments would then be given to the forwarder associations monthly so that they could update and republish their rate tenders.

MTMC generally made the adjustments long after the changes in the value of the dollar had occurred and, consequently, the forwarders could not publish them in their tenders for purposes of billing or refund until long after most shipments had been made. Sometimes the adjustments were made available and published only twice during the entire rate cycle. This meant that each shipment having an allowable adjustment had to be billed on a supplemental bill. Although this added to the administrative expense of billing for the adjustments, it did minimize the publication expenses that would have been incurred had the adjustments been published weekly.

Even so, we believe that there was ample requirement for the forwarders to make refunds required by their tenders without any specific claim by the government or any change in its collection or recovery system. To fault the government's collection/recovery effort shifts responsibility from the primary cause to a secondary one. When forwarders became aware of the currency fluctuations that favored the government, they had a responsibility to make refund payments to the government.

On the matter of transferring risk to the carrier industry, the HGFA said that the forwarding industry should not be expected to exist without a currency adjustment program while different governments unpredictably influence dollar levels. It said that the U.S. government, through DOD, should stabilize the currency situation in the shipping program in order to obtain the lowest possible rate levels. It noted that our report had cited instances in which government agencies, such as the Federal

Maritime Agency, have put currency adjustment programs into effect and that such programs can be found in commercial transportation.

Our report did not present any evidence indicating that a governmental agency had imposed a foreign currency adjustment program. Rather, we acknowledged that ocean carriers and their conferences have put such programs into effect and that the Federal Maritime Commission, acting out of concern for the lack of standardization of existing carrier and conference adjustment procedures, had looked into the matter. Ultimately, the Commission decided not to take action to change what it had already allowed.

The HGFA said that forwarders were protected by MTMC from other unpredictable costs related to bunker fuel surcharges, war risk surcharges, and port congestion surcharges. We note that the protection cited comes into effect only when bunker fuel, war risk, and port congestion surcharges are actually charged to the forwarders by the underlying ocean carriers pursuant to these carriers' regularly filed Federal Maritime Commission tariffs and that such charges are separately stated on the carriers' bills of lading. In order for the forwarders to pass these costs along to DOD, they must provide DOD with a copy of the ocean carrier's bill of lading and bill the actual amount charged them. In these instances, DOD will pay the actual costs incurred. This situation differs from the currency adjustments, which were never based on costs actually incurred or supported with paid bills.

The HGFA also commented that, when we showed that shipping rates to and from Germany, the United Kingdom, and Korea had either dropped or remained at least steady after MTMC terminated the adjustment program, we did not show any reason for the general rate stability. The HGFA said that the primary reason for the rate stability was that the increases necessary to hedge for fluctuations in the dollar had been offset in part by decreases in ocean costs, beginning in October 1984 and continuing through the present.

We agree with the HGFA that reduced ocean costs might have influenced the stability of forwarder rates, but we do not know whether reduced ocean cost was the only factor that contributed to rate stabilization. In looking at the forwarder rate level over a period of time, we can only say that the rates offered to the government did not increase significantly. It is possible that, had the currency rate adjustment program been in effect, the rates might have been lower. However, paying increased costs based on the currency adjustment factor would have

diluted this savings, and the overall cost to the government might have remained essentially unchanged.

HGFA acknowledged that the previous currency adjustment program had resulted in some situations in which carriers failed to pay the government for negative currency adjustments. It suggested a new procedure to overcome the problem.

This suggested procedure dealt with just one of the administrative problems inherent in the currency adjustment program. MTMC would still have to collect cost data, determine fluctuations, and publish adjustment factors. The finance center would still have to review carrier bills and ensure that proper adjustments were made. GSA would still have to audit to ensure proper billings by the forwarders and would have to take action when such billings were incorrect.

Objectives, Scope, and Methodology

In early 1986, several Members of Congress advised us that they had received complaints from the industry concerning MTMC's termination of the foreign currency rate adjustment program. They said that they had been advised that, as a result of the decision, the household goods forwarder industry was experiencing severe financial problems and that DOD almost certainly would have to pay higher rates in the future if it did not reinstitute the program. The Members asked us to review MTMC's decision.

We met with officials from MTMC, DOD's agent for procuring international household goods rates, to review the history of the international household goods rate procurement system, which began in 1976, and the foreign currency and other rate adjustment programs. We discussed the reasons for deciding to terminate the program with responsible MTMC officials.

We looked in detail at the levels of rates offered to MTMC and those actually paid by DOD for a sample of the rate areas covering the four rate cycles immediately preceding MTMC's termination of the currency rate adjustment program and the four rate cycles immediately after termination of the program. We analyzed the 20 lowest rates for 30 routes from and to Germany, the United Kingdom, Japan, and Korea to obtain a better understanding of the rates and how they are filed under MTMC procedures.

We reviewed the Federal Maritime Commission's decisions on currency surcharges and literature on the commercial implementation of ocean rate carrier adjustment programs. We also discussed matters dealing with ocean freight rates with officials of the Military Sealift Command.

We analyzed foreign exchange rates for 19 currencies over a 10-year period and determined their levels of fluctuation relative to the U.S. dollar. We also discussed the use of foreign currency instruments for hedging against currency fluctuations with knowledgeable banking officials.

We corresponded with forwarder associations about the problems forwarders were having with the termination of the foreign currency program. In addition, we met with officials of one of the larger forwarder companies handling DOD shipments to discuss the currency problems in detail.

Our review was conducted from May 1986 through September 1987 in accordance with generally accepted government auditing standards.

Comments From the American Movers Conference

CHARLES C. IRIONS
Major General, USAF (Ret.)
President

February 12, 1988

Mr. Henry W. Connor
United States General Accounting Office
National Security and International
Affairs Division
Washington, DC 20548

Dear Mr. Connor:

The American Movers Conference appreciates the opportunity to comment on your draft report entitled "Household Goods: Adjustment of DOD's Shipping Rates Based on Foreign Currency Fluctuations" (Code 393173).

Upon review of your draft report, we do not take exception to the statistical data provided by MTMC used in your report. We do object to some of MTMC's rationale in terminating the foreign currency fluctation program. We would like to provide you with the following comments:

In your report you recognized that MTMC terminated its foreign currency rate adjustment program based on the fact that, at the time, long term value of the dollar would become stable but in hindsight the dollar has not proven to be as stable as MTMC thought it would be. There are many things that effect foreign currency fluctuations, such as international interest rates, deficit trade balances and the volatility in the stock market which no one, including the U.S. government, let alone the moving industry, can possibly control or predict. In addition, the filing of rates with MTMC requires that they be submitted five months in advance of the six-month rate cycle. This requires moving companies to predict currency fluctuations almost one year in advance. Moving companies can predict normal business costs, such as labor, equipment cost and depreciation, material cost and second and third-party transportation costs. To require a moving company to predict currency fluctuations that even the U.S. government cannot do one year in advance, is not a reasonable business requirement, and puts the moving company in an unfair position.

You stated there are a number of actions that MTMC could consider to lessen the forwarders' exposure to currency

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fluctuations. These proposed actions have no studies to support them, and we believe they would be detrimental to the DOD Personal Property Program.

1. MTMC adopt a single phase procurement process.

The recommendation of going to a single phase procurement process, eliminating the "me-too" phase gives no consideration to the total movement requirements that no single carrier can meet. DOD is the largest shipper of personal property and you need a number of carriers in order to obtain total transportation capability to satisfy the origin transportation officer shipping requirements.

2. MTMC consider guaranteeing traffic to forwarders or allowing the maximum freedom to decide how much they want to move at a given shipping rate.

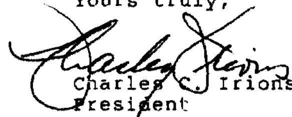
This consideration really misses the whole point that carriers are given a certain percentage of the tonnage in order that they can consolidate enough freight tonnage to bid competitively. MTMC will provide statistical moving data, but in the past would not guarantee any set amount of tonnage in any given channel. We believe this proposal, without any type of study to support it, would create an unacceptable bidding process to the moving industry.

3. MTMC would arrange for the movement within a foreign country.

Your alternative to use a forwarder only for that portion of a move occurring outside a foreign country, and to procure the rest of the service directly from the overseas agents and contractors the forwarder has been using would, in our opinion, be a disaster. In this situation, MTMC would arrange for the movement within a foreign country and would thereby assume the risk of foreign currency fluctuations. This would destroy the present thru-put system in which one carrier provides quality service from origin to final destination. Sole responsibility from one carrier would be broken. We believe that service would be reduced, and the service member would be the ultimate loser in receiving quality service.

I hope that the above comments will assist you in completing your final report.

Yours truly,



Charles C. Irions
President

Comments From the Household Goods Forwarders Association of America

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

HOUSEHOLD GOODS FORWARDERS ASSOCIATION OF AMERICA, INC.

1500 MASSACHUSETTS AVENUE, N.W. SUITE 525 WASHINGTON, D.C. 20005
TELEPHONE: (202) 293-1800 TWX: 710-822-1108

A. QUINN BELL
Chairman
Jacksonville, Florida

MARIO S. RIZZO
Vice Chairman
Chicago, Illinois

JERROLD D. EFFENBERGER
Executive Committee
Member at Large
Edmonds, Washington

GEORGE A. FOUCH
Executive Committee
Member at Large
Bellevue, Washington

DAVID W. McCREIGHT
Executive Committee
Member at Large
Alexandria, Virginia

JACK R. SPENCER
Executive Committee
Member at Large
Grandview, Missouri

JOHN DAY
Associate Members' Representative
Norfolk, Nebraska

DONALD H. MENSCH
Executive Director
Washington, D.C.

ALAN F. WOHLSTETTER
General Counsel
Washington, D.C.

February 29, 1988

Mr. Mark E. Gebicke
Associate Director
U.S. General Accounting Office
441 G. Street, N.W. Rm. # 5132
Washington, D.C. 20548

Dear Mr. Gebicke:

We thank you for the oppertunity to provide comments on the draft report entitled Household Goods: Adjustment of DOD's Shipping Rates Based on Foreign Currency Fluctuation.

The Association has examined the draft report carefully and as a result, it does not agree with the General Accounting Office finding that there is "no basis to recommend that MTMC reinstate the program."

Reviewing the reasons given by MTMC for terminating the currency adjustment program (CAP), we found several reasons used by MTMC to make their decision to be faulty, shallow and without foundation. First, the MTMC prediction that the long-term value of the dollar would be stable underscores the inability to predict currency fluctuations. The MTMC assumption that the impact of currency fluctuations would be relatively small and within the ability of the industry to manage has proven totally faulty and is acknowledged by the GAO draft report.

Even the Department of Defense (DOD) suffers by this unpredictable currency fluctuations as noted by the DOD Comptroller Robert W. Helms' statement in a newspaper article wherein he stated: "the Pentagon had been caught by surprise just as businessmen had - by the dollar's rapid fall (enclosure 1). Additionally, Congressman Bennett has introduced a bill (H.R. 3842) to offset the effects of foreign currency fluctuations for members of the Armed Forces (enclosure 2). It would appear that if a CAP is needed by the DOD with its dollar resources and ability to utilize the best government economists to protect the DOD from currency fluctuation, nothing less than a CAP is needed by the forwarder industry which operates in the same unstable currency environment.

continued..................

Now on p. 20.
Now on pp. 9-10.

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Next, the termination reason that the CAP resulted in adjustments that did not reflect actual carrier costs, exhibits MTMC's shallow understanding of the need for a CAP. MTMC admits they assumed that overseas contracts were written in dollars and not local currency which is generally incorrect (PP-22 Draft Report). Whatever cost data MTMC requested was provided by the industry. Therefore, using the cost data elements outlined on page 12 of the draft report from the three low-rate forwarders surely favored the government, since these carriers generally had the lowest overseas cost because of their traffic volume.

The short sightedness of the MTMC decision is exemplified by saying: currency adjustments do not foster competition and for that reason it should be terminated. The primary business of forwarders is not money speculation but moving personal property. The exclusion of a CAP in the MTMC international Rate Solicitation is anti-competitive in itself. It precludes the government from receiving the lowest possible rate because forwarders must build into their rate levels a "fudge" factor to protect themselves from currency fluctuations. Forwarders do not have any reliable "crystal balls" to predict large changes in currency fluctuations. Arriving at a "fudge" factor is very difficult as can be seen by the DOD Comptroller's previously discussed statement regarding the unpredictable currency fluctuations experienced by DOD.

Some forwarders have filed rates which proved to be non compensatory when there was a large change in currency value and their rates had to be cancelled. Thus, fewer carriers were available to perform the workload at a higher cost to DOD. Also, when forwarders "guessed" incorrectly, this contributed to service failures and affected shipments belonging to the military members and the stability of their business. Speculation on money fluctuations is nothing more than "gambling" and many forwarders will not engage in this type of business. Consequently, they file rates at very conservative levels, which does not provide the government with the lowest possible rate levels and this becomes anti-competitive in itself.

Now on p. 18.

Buying money "options" does not offer a solution to the currency fluctuations. The GAO has agreed with forwarders on page 42 of the draft report that purchasing "options" in foreign currency did not offer protection from currency fluctuation for the duration of the contract because such "options" were not readily available in the market place. Speculation on money fluctuation should not be use to foster competition. Rather, a CAP should be used to provide a level currency playing field and competition should primarily be based upon service (DOD Regulation 4500.34R, paragraph B1, Chapter 1) (enclosure 3).

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The major administrative burden industry felt resulted from the lateness in the publication of the adjustments which required supplemental billings to recover revenue due carriers. The government's administrative burden is simply one that was self-induced and caused by lack of promt attention to currency changes. With the most simple and least costly of "spread-sheet" software program used on a "PC" type computer one employee should be able to generate all the applicable adjustments for a designated adjustment period in a matter of less than 20 hours. Publication and distribution of the material could be processed within another 20 hours. The administrative burdens for both the industry and MTMC should not have been one the bases for terminating the CAP.

To make the statement that the CAP had a potential for fraud, waste and abuse without outlining actual examples is nothing but an unfounded statement. If there was concern by MTMC that the currency adjustment program resulted in fraud, waste and abuse situations where carriers failed to pay negative currency adjustments, MTMC should have made more of an effort in publishing the required negative adjustments and required more efficient collection/ recovery programs at the responsible Finance Centers. The lack of an efficient government collection/recovery effort should not be blamed upon the forwarder industry.

The transfer of risk inherent in exchange rate fluctuations from DOD to the forwarder industry is not recognizing that the forwarder industry has little or no influence in stabilizing the dollar. Currency fluctuations are not determined in the transportation market place but are a merging of our government and foreign governments joint stabilization actions. Currency fluctuations, especially now that the U.S. dollar is the subject of joint control under agreement between the United States and other countries,are so volatile that it is nearly impossible to file single factor rates pursuant to MTMC solicitations which are low enough to be truly competitive and give the government the benefit of the lowest reasonable rates, and yet high enough to cover changes in the valuation of the U.S. Dollar occurring between the deadline for filing the initial rates and end of the traffic cycle.

To expect the forwarding industry to exist without a CAP while the different governments unpredictably influence the dollar level appears to be grossly unrealistic. Therefore, it should be the US Government through the DOD who must stabilize the currency situation in the international program in order to obtain the lowest possible rate levels.

Now on p. 18.

There are several instances where government agencies such as the Federal Maritime Agency, have put a CAP in effect. Some are citied in Appendix 1 (PP 36-37) of the draft report. Additional CAPs can be found in the commercial transportation such as the Transpacific Westbound Rate Agreement (TWRA), a commercial tariff which has instituted a currency adjustment factor (CAF) on January 1, to 28% from 24% for cargo moving from North America to Japan. The TWRA has filed additional adjustments to raise

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the CAF up to an unprecidented 45% to be effective April 1, 1988 (see enclosure 4). The MTMC publishes the Base Line Tariff used in the International program, therefore, there are a number of precidents for MTMC to include a CAF in its tariff.

It is clear that an adjustment item is needed for currency fluctuations. Eventhough forwarders can provide for increases in the cost of origin/destination services, containers, line haul transportation, port costs. These latter costs are more predictable than currency fluctuations and can be partially influenced by the forwarders' "locking in" the overseas origin/destination labor, material, line haul transportation and port costs for the six month rate cycle. Further, forwarders are protected from other unpredictable cost increases such as Bunker Fuel Surcharges, War Risks Surcharges and Port Congestion Surcharges by item 432 of the Rate Solicitation. Since these unpredictable costs are comparable to the origin/destination overseas costs and are covered by a tariff item, there should be no reason why currency fluctuation risks should not also be handled in the same manner with a CAP item.

Now on pp. 29-31.

GAO states on page 3, "we could not tell if the rates would have dropped or risen less had MTMC not terminated the currency adjustment program." The GAO tables 1.11 through 1/13 Appendix 1 (PP 45-47) shows rates to and from Germany, the United Kingdom and Korea either dropped or remained at least steady after discontinuing the currency adjustment regulation. What the GAO draft report does not show is any reason for this general rate stability.

The primary reason for the rate stability after discontinuing currency adjustments was reductions in ocean rates which began with rate volume 50 and has generally continued through volume 55. This reduction in ocean freight tariffs has offset or obscured the normal increases which might have occurred due to the decline of the dollar against foreign currencies. For example:

1. In October of 1984 the American Coastal Line Steamship Company Joint venture signed a slot charter agreement with four large forwarders which effectively reduced ocean rates anywhere from $400.00 to $700.00 per container which, of course, carried over into a reduction in the single factor rates filed with DOD. This also added another 2 vessel American flag service to the trade.

2. In late 1985 Fednav Lakes Service entered the trade, adding yet another 2 vessel American flag service in the European trade, also at favorably reduced rates using the Great Lakes port of Toledo, Ohio in the summer and East Coast ports in the winter. This helped keep single factor rates from rising to and from the European countries.

3. In mid-1986 Automar now called American Transport Lines added still another 2 vessel American flag service between U.S. East Coast ports and European ports at approximately the same reduced rate levels as American Coastal (by now bankrupt) and Fednav Lakes.

-5-

4. Finally the Top Gallant Steamship Company entered the business in late 1986 with another 2 vessel American flag service between East Coast and European ports and reduced the rates even further to the lowest level in the history of the ITGBL program.

As stated previously, we believe that if the GAO report were to include an analysis of ocean freight rate changes between the U.S. and Europe and between the U.S. and Far East countries they would find the following:

1. European Code 4 "average" transportation rates actually show a general decline between 1984 and the volume 55 rate cycle starting in October of 1987, primarily because of ocean freight cost reductions that were not entirely offset by rising currency costs.

2. Conversely, a similar analysis of Code 5 & T single factor rates between 1984 and volume 55 <u>which are not affected by ocean freight costs</u> would show a gradual "increase" between Europe and CONUS.

3. Yet another analysis of Code 4 single factor rates from 1984 through volume 55 starting October 1, 1987 between the Far East and CONUS would show a steady increase in average rates because both the ocean rates <u>and the currency costs have gradually increased.</u>

We appreciate your advice that you will withdraw the three suggested MTMC actions contained in the draft report, (single-phase procurement, traffic guarantee, and DOD purchasing overseas services) since they were admittedly without supporting facts or studies.

The MTMC has the mission of obtaining the best service at the lowest possible rate. For reasons previously stated, the international Rate Solicitation without a CAP is anti-competitive and does not produce the lowest possible rate for DOD. The CAP should be implemented in future rate volumes beginning with volume 57.

We understand that the previous currency adjustment program resulted in some situations where carriers failed to pay negative currency adjustments. This problem, in our opinion, can be largely overcome by adding a new provision to the program. It would be our suggestion that when a carrier billed its single factor rate, it would be required to place a statement on its billing under penalty of 18 I.S.C. $1001, along the following lines:

"A currency adjustment of $________per cwt.
is applicable to this shipment."

"No currency adjustment, negative or
positive, is applicable to this shipment."

This would require a carrier to state a negative adjustment and, by appropriate direction, such billings, if not reflecting in appropriate credit, could be transmitted to the GSA for audit and collection. We believe that this method would solve the past problem since the non-payment of negative currency adjustments was not based upon any misrepresentation by a carrier, but upon the assumption that billing for such payment should be made by GSA much in the same manner as in a Notice of overcharge.

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The Association has received two supportive letters from MTMC regarding their willingness to meet with industry and address the feasibility of developing workable procedures should a CAP be determined necessary and appropriate (enclosure 5 and 6). We are trying to develop alternate satisfactory procedures. However, we are being subverted in this effort by the GAO draft letter transmitting the GAO draft report on this subject to the Honorable Jim Wright (page 2), wherein the GAO states, "we find no basis to recommend that MTMC reinstate the program."

Recognizing that fluctuations in currency are unpredictable and uncontrollable and that for reasons previously stated, a lack of an appropriate currency adjustment item in the ITGBL procurement is anticompetitive and also contrary to public interest, since it requires forwarders to gamble in the money market, rather than to bid on known and predictable costs, we ask the following: " That the Comptroller General urge MTMC and the household goods industry to work together to develop an appropriate currency adjustment item,which item is to be submitted to the Comptroller General for prompt review."

Sincerely,

HOUSEHOLD GOODS FORWARDERS
ASSOCIATION OF AMERICA, INC.

Donald H. Mensch
Executive Director

GAO Comments

The enclosures to this letter have been deleted from our report. A list of the enclosures is as follows:

1. Article on page A22 of the November 13, 1987, Washington Post.

2. H.R. 3842, January 25, 1988.

3. Excerpt from Department of Defense Personal Property Traffic Management Regulation, DOD 4500.34-R, May 1986.

4. Article on page 86 of the February 1988 American Shipper.

5. December 21, 1987, letter from Headquarters, Military Traffic Management Command, Director of Personal Property, to the Executive Director of the Household Goods Forwarders Association of America, Inc.

6. February 19, 1988, letter from Headquarters, Military Traffic Management Command, Director of Personal Property, to the Executive Director of the Household Goods Forwarders Association of America, Inc.

*U.S. G.P.O. 1988-201-749:80162

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