



RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations, a record of which is kept by the Distribution Section, Publications Branch, OAS
COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

73-0325
3-27-07
090700

B-168240

OTR

RELEASED

OCT 4 1972

19

Dear Mr. Gaydos:

This is in response to your letter of April 19, 1972, in which you referred to statistics from the SCM Corporation that indicated the takeover of the American calculator and typewriter industries by foreign competitors. Because of your concern over the Nation's trade imbalance and the loss of domestic industry, you requested that we fully investigate the Federal Government's purchasing policies.

P. 2086

Specifically, you wanted to know:

- What type of office equipment is purchased abroad, the quantity and cost of these purchases, where the equipment is purchased and how it compares with equipment bought from domestic sources.
- Our opinion as to whether the purchases of foreign-made equipment violated Executive Order No. 10582, which implements the Buy-American Act.

Because your letter specifically mentions certain office machines, we reviewed only office machines, Federal Supply Class 74, which covers accounting, adding and subtracting machines, calculators, typewriters, composers, sound recorders, and reproducers.

Generally, Government and non-Government agencies purchased office machines directly from companies that have indefinite-quantity contracts with the General Services Administration (GSA). The items available under these contracts are listed in the Federal Supply Schedule, which is furnished to the various Government agencies and other authorized users. The Federal Supply Schedule identifies foreign-produced items as those items for which the cost of foreign components is 50 percent or more of the cost of all components in the product.

A brief discussion of Federal Supply Schedule contracting and the Buy-American Act requirement, considered pertinent to your inquiry, follows.

904493 [090700]

FEDERAL SUPPLY SCHEDULE CONTRACTING

The Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471) made GSA responsible for procuring common-use supplies and services for Federal agencies and authorized recipients. The Federal Supply Service procures and distributes supplies for GSA through (1) a stores stock program to replenish supplies stocked in GSA depots for shipment to Federal agencies when needed, (2) a program of direct delivery from suppliers to Federal agencies under definite-quantity contracts, and (3) indefinite-quantity term contracts listed in Federal Supply Schedules--called schedule contracts.

GSA uses schedule contracts for commercially available items, including foreign-made office machines, when definite-quantity contracts for stockage or for direct delivery either are not feasible or offer no advantage because of infrequent ordering of the items, difficulty of forecasting requirements, or infeasibility of developing Federal specifications. By using the schedules, under which several suppliers agree to sell essentially similar items, the agencies can order the specific items which best fulfill their particular requirements.

The purpose of schedule contracts is to obtain a potentially larger sales volume and more favorable prices for the Government by offering benefits to the suppliers, including eliminating the need for order-by-order negotiation by individual Federal agencies.

In negotiating the contracts GSA obtains the most favorable terms--discount and other concessions--available from one of the suppliers and then seeks comparable concessions from the other suppliers.

There is no restriction on awarding a schedule contract for a foreign product if GSA's discount policy is met.

BUY-AMERICAN ACT

The Buy-American Act, as implemented by Executive Order No. 10582, requires that the Government buy a domestically produced item rather than buy a comparable foreign-produced item unless the foreign-produced item, including duty, costs less by a specified percentage. Generally this percentage is 6 percent unless the domestically produced item is made by a small business firm or by a labor surplus area firm; then the price preference is 12 percent, rather than 6 percent.

The Department of Defense, in order to alleviate the impact of its expenditures on the Nation's balance of international payments, buys a domestically produced item unless a comparable foreign-produced item costs 50 percent less, exclusive of duty.

Buying agencies are responsible for making Buy-American Act determinations for most office machines. Since most office machines are purchased under schedule contracts, which show whether the machine is a foreign product (see p. 1), the buying agency can determine whether they should apply the Buy-American Act differential.

If imposing the differential would result in a higher price for the foreign machine, its purchase would require a justification of need.

Our comments on the information that you requested follow.

PRIOR REVIEW OF BUY-NATIONAL
PROCUREMENT POLICIES

02
/ We had previously reviewed Federal procurement policies under the Buy-American Act and the Balance-of-Payments Program. The objective of our review was to inquire into the effectiveness of those policies. Our report to the Congress, entitled "Coordinated Consideration Needed of Buy-National Procurement Policies" (B-162222, Dec. 9, 1971), discussed these policies and pointed out that a reporting system was

B-168240

needed to accumulate information to evaluate the effect of these policies on the balance of payments. We are enclosing a copy of this report for your information.

PURCHASING FOREIGN-MADE OFFICE MACHINES

The enclosed schedule shows the types of office machines purchased abroad, where they were made, and the cost of these purchases compared with the cost of domestically made machines. We were unable to obtain information on quantities bought. Purchases totaled about \$80 million for fiscal year 1971, and foreign purchases totaled about \$12 million, or 15 percent, of that amount.

This information was developed from monthly reports of orders received that Federal Supply Schedule contractors furnished to GSA. These contractors prepare the reports from information furnished by their dealers located throughout the United States. Information on quantities bought is not reported. The requirements for these reports are such that some purchases of foreign-made items are not separately identified, but we believe this limitation is not significant.

GSA authorized certain non-appropriated-fund activities, e.g., wholly owned Government corporations, to buy under Federal Supply Schedule contracts. GSA does not require reports from contractors to separately identify sales to non-appropriated-fund activities. Consequently, we were unable to identify that portion of procurements of office machines.

In your letter you specifically mentioned typewriters and electronic calculators. The schedule shows that Japan is the principal supplier of foreign-made electronic calculators, whereas Germany is the principal supplier of foreign-made mechanical and electric calculators. Italy is the principal supplier of foreign-made typewriters.

In your letter you also mentioned that the Internal Revenue Service (IRS), Department of the Treasury, purchased Japanese-produced electronic calculators for the newly opened

Memphis Service Center. IRS records showed that the price of the Japanese calculator, including the differential, was the lowest.

The SCM Corporation prepared a document, attached to your letter, which referred to the rapidly changing nature of the electronic calculator market. We noted a recent article in the weekly financial newspaper, "Barrons," dated July 24, 1972, which stated that, due to a technological improvement in electronic calculator manufacture, domestic companies now offset the foreign country advantage of lower priced labor.

OPINION ON VIOLATION OF BUY-AMERICAN ACT

We made limited tests of purchases in the New York City, San Francisco, and Washington, D.C., areas, to determine whether purchases of foreign-made equipment violated Executive Order No. 10582.

In the New York City and San Francisco areas, some buyers of foreign-made office machines were unaware of their responsibility for making determinations required by the Buy-American Act as implemented by Executive Order No. 10582. Of those contacted, we found that eight of 16 in the San Francisco area and three of 26 in the New York City area were unaware of this responsibility. Many stated that they thought GSA had already made the Buy-American Act determination for the items listed in the Federal Supply Schedule. We made tests of purchases of foreign machines in the San Francisco area and found that foreign prices plus the 6- or 12-percent differential were below the prices of their domestic competitors. We believe, however, that lack of knowledge on the part of Government buyers could result in purchases that do not meet the price differential criteria established by the Executive order.

We are planning more extensive examinations into GSA's policies and practices in awarding Federal Supply Schedule contracts and into agencies' use of such contracts. We will report the results of these examinations to the Congress.

B-168240

We did not provide the Government agencies with copies of this report for comment. In view of buyers' unawareness of their responsibility for making Buy-American Act determinations, we believe that the contents of this report would interest the Administrator of GSA. Release of this report, however, will be made only upon your agreement or upon public announcement by you concerning its contents. We hope the above information is responsive to your needs. Please let us know if we can be of further assistance.

Sincerely yours,


Deputy Comptroller General
of the United States

Enclosures - 2

cl x R
The Honorable Joseph M. Gaydos
House of Representatives

PURCHASE OF OFFICE MACHINES
 REPORTED BY FEDERAL SUPPLY SCHEDULE CONTRACTORS
 FOR FISCAL YEAR 1971

Types of office machines purchased abroad	Purchase of foreign-made machines							Total foreign	Percent of foreign total purchases	Total purchases
	Germany	Japan	Italy	Great Britain	The Netherlands	Sweden	Denmark, Switzerland, Liechtenstein, and Belgium			
Accounting	\$ -	\$ -	\$ 79,000	\$ -	\$ -	\$ -	\$ -	\$ 79,000	5.8	\$ 1,360,000
Adding and subtract- ing	636,000	110,000	379,000	1,000	-	4,000	26,000	1,156,000	36.0	3,203,000
Calculators:										
Electronic	709,000	2,288,000	812,000	140,000	-	-	1,000	3,950,000	19.9	19,856,000
Mechanical and elec- tric	1,808,000	251,000	395,000	-	498,000	5,000	23,000	2,980,000	57.2	5,208,000
Typewriters	485,000	-	1,113,000	-	-	46,000	2,000	1,646,000	5.7	28,736,000
Composers	3,000	-	-	-	-	8,000	-	11,000	.13	8,302,000
Sound recorders and reproducers	1,405,000	25,000	5,000	641,000	-	-	11,000	2,087,000	28.9	7,234,000
Miscellaneous	<u>316,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>133,000</u>	<u>1,000</u>	<u>455,000</u>	7.2	<u>6,295,000</u>
Total dollar amounts	<u>\$5,362,000</u>	<u>\$2,674,000</u>	<u>\$2,783,000</u>	<u>\$787,000</u>	<u>\$498,000</u>	<u>\$196,000</u>	<u>\$64,000</u>	<u>\$12,364,000</u>		<u>\$80,194,000</u>
Percent of total purchases	<u>6.62</u>	<u>3.34</u>	<u>3.47</u>	<u>.98</u>	<u>.62</u>	<u>.24</u>	<u>.08</u>	<u>15.4</u>		<u>100</u>