



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

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LOGISTICS AND COMMUNICATIONS  
DIVISION



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JUNE 1, 1979

*[Use of Military Post Offices by Military Exchange  
Activities*

The Honorable Harold Brown  
The Secretary of Defense

Dear Mr. Secretary:

During our survey of the Department of Defense's (DOD's) postal operations in the Pacific, we observed that military exchange activities at several locations are using military post offices to transport foreign-made goods to other exchange locations for resale. As a result, foreign-manufactured goods move under postal rates which generally are less than commercial cargo fees. By not having to bear the full cost of commercial transportation, foreign products could be receiving a competitive advantage.

Giving foreign products this advantage is inconsistent with the policy of achieving a more favorable balance of payments by promoting the sale of U.S. goods.

We plan to issue a detailed report on the results of our overall survey. However, we are calling this matter to your attention so that corrective action can be taken without further delay.

DOD'S POLICY IS TO MINIMIZE  
ADVANTAGES GIVEN FOREIGN PRODUCTS

DOD Directive 4525.5, Postal Operations and Related Service, March 20, 1978, gives DOD nonappropriated fund activities permission to use the Military Postal System to ship goods to other exchange locations for resale to authorized exchange customers. However, DOD Directive 7060.3, International Balance of Payments Program--Nonappropriated Fund Activities, April 12, 1971, restricts these activities from trans-shipping foreign-made goods between nonappropriated fund activities in different market areas at appropriated-fund expense. The purpose of the restriction is to minimize

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the advantages given foreign products in competing with American-made goods. Because the denial of such advantages could influence the purchase of American goods, the balance of payments problem could be lessened.

The directive provides that:

"Trans-shipment of foreign-made goods between nonappropriated fund activities in different market areas is authorized (\* \* \*). [but] No appropriated funds will be used in this trans-shipment of merchandise."

The restriction was affirmed in a July 18, 1975, memorandum from the Assistant Secretary of Defense to the Assistant Secretaries of the military departments informing them that:

"\* \* \* mailings of foreign-made merchandise between NAF's (Non-appropriated Fund Activities) in different market areas via the MPS (Military Postal System) are prohibited except as authorized by DOD Directive 7060.3."

Some expenditure of appropriated funds occurs when exchange goods are shipped via the Military Postal System because DOD employees handle such goods, and the amount of postage fees charged overseas users of the postal system does not include any provision for these administrative-type expenses. The amount of unreimbursed expenditures attributable to exchange shipments is difficult to quantify since it is not clear whether eliminating exchange cargo from the Military Postal System would reduce the number of DOD employees engaged in this activity. However, allowing the exchanges to use the postal system could give foreign goods a competitive advantage because the cost of shipping via the postal system is substantially less than the cost of shipping commercially. Granting this sort of an advantage to foreign-made goods is inconsistent with the stated intent of DOD Directive 7060.3; i.e., to reduce the international balance of payments.

INSTANCES WHERE MILITARY POSTAL SYSTEM  
WAS USED TO TRANSPORT FOREIGN GOODS

During visits to military postal and nonappropriated fund activities in Japan, the Republic of the Philippines,

and Taiwan, we noted numerous instances where foreign-made goods had been shipped between activities via the Military Postal System. For example, at the Fleet Mail Center, Yokohama, Japan (which serves as the mailing outlet for the Navy exchange catalog warehouse), 381 boxes of mostly Japanese-made goods worth about \$635,000 were sent via the postal system to nonappropriated fund activities in Guam, the Republic of the Philippines, Australia, Bermuda, Sicily, and Taiwan during July and August 1978.

Most of the above mailings contained Japanese-manufactured electronic and camera items sent via registered mail, and most of the shipments went to Guam and the Republic of the Philippines. On one shipment which we witnessed, 18 boxes of Japanese cameras and lenses weighing 386 pounds were sent by registered mail to the Guam Navy exchange. Combined postage and registry fees paid by the Navy exchange on the cameras and lenses amounted to \$220.19. If the goods had been shipped to Guam as commercial air cargo, the exchange would have been charged about \$600.

In addition, Army/Air Force Exchange Service personnel in Japan advised us that 85 percent of the merchandise purchased for them by their vendors in Hong Kong and Thailand are delivered to the Japan exchange warehouse via the Military Postal System.

Although the postage collected from exchanges may be sufficient in certain cases to cover postal transportation costs, postage fees for the most part are significantly less than the cost to ship commercially. Postal rates between two overseas areas are based on the lowest U.S. Postal Service zone rate regardless of the distance involved. In one of the examples cited above, the exchange was able to ship products about 1,500 miles for the same fee a U.S. customer would pay to ship mail up to about 300 miles.

By taking advantage of the favorable postage rates, the exchanges are able to offer foreign-made products that are not burdened with higher commercial transportation costs. Avoiding these higher costs permits such products to compete more favorably with American-made goods.

#### CONCLUSIONS AND RECOMMENDATIONS

The exchanges are using the Military Postal System for interexchange transfers of foreign-made goods which is contrary to DOD's balance of payments policy as expressed in DOD

Directive 7060.3. By not having to bear the higher cost of commercial transportation, the foreign products could be receiving a competitive advantage over American-made products. This dilutes the basic reason the directive was issued, i.e., to lessen the balance of payments problem.

X We recommend that the Secretary of Defense direct the exchange services to discontinue the practice of using the Military Postal System for interexchange transfers of foreign-made goods.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen, House Committees on Appropriations, Armed Services, Government Operations, and Post Office and Civil Service; Senate Committees on Appropriations, Armed Services, and Governmental Affairs; and the Director, Office of Management and Budget.

We would appreciate being advised of actions taken on the matters discussed in this report.

Sincerely yours,



R. W. Gutmann  
Director