



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL DIVISION

6 A000457

MAR 30 1972



Dear Mr. Rains:

As part of our review of drawback payments on exported petroleum products, we reviewed drawback claims submitted by the Humble Oil and Refining Company. We noted that these drawback claims may have included claims for drawback on substantial quantities of lubricating oil sold to an agency of the U.S. Government.

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Section 313(b) of the Tariff Act of 1930, as amended (19 U.S.C. 1313) provides for the refund of duty (drawback) upon the exportation of items manufactured from duty-paid imported material or like material substituted for imported material. It is our understanding that this provision of law is designed to encourage exports by permitting the recovery of duties on products which compete with foreign made goods and, by permitting the substitution of like material for imported materials, avoid the administrative problems which would be involved in keeping separate records for imported and domestic materials.

Sales to the U.S. Government

Customs regulations (19 CFR 22.42) provides that manufacturers may claim drawback on articles sold to an agency of the U.S. Government only if the claim is accompanied by a certificate signed by an official of the purchasing agency stating that the right to drawback was reserved by the supplier with the knowledge and consent of the agency. We were informed by a Bureau of Customs official that the purpose of this requirement is to prevent manufacturers from recovering duties both in the price charged to the purchasing agency and in a drawback payment. A Humble official advised us that Humble had not reserved the right to drawback for any of its sales to the Government.

Many of the documents supporting recent drawback claims by Humble Oil and Refining Company for petroleum products shipped to Southeast Asia did not show a consignee or showed a Humble subsidiary as the consignee. Some of the documents contained information, however, such

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as citations to military specifications, a Defense Supply Agency (DSA) contract number, or the identification of the consignee as JUSMAG (Joint United States Military Advisory Group), which enabled us to identify about \$7,000 in drawback claims applicable to about 66,000 barrels of lubricating oils exported to Government agencies in 1967 and 1968. About \$3,000 was included in a drawback claim based on 1967 exports paid in 1970 and the balance was included in a drawback claim by Humble which had not yet been paid at the time of our review.

A limited review of Defense Supply Agency (DSA) contract files and Humble drawback claims, however, indicates that Humble may also have claimed drawback on other substantial shipments of lubricating oil to Southeast Asia under DSA contracts. For example, during calendar year 1967 a total of about 366,000 barrels of lubricating oils were exported to South Viet Nam and Thailand by Humble and other refiners from the Bureau of Customs Houston and New Orleans Districts, and Humble claimed drawback on 317,000 barrels shipped from its plants in these districts. In our limited review of DSA contract files we were able to specifically identify DSA contracts with Humble for the delivery of about 112,000 barrels of lubricating oils to South Viet Nam and Thailand in 1967. These contracts provided for refining at Humble's plants in the Houston or New Orleans Districts and delivery to a Humble subsidiary or depot in Southeast Asia for ordering as needed by the Government. We believe that the documents supporting Humble's 1967 drawback claim which did not show sufficient information to identify the consignee or showed a Humble subsidiary as the consignee may have included shipments under DSA contracts.

During calendar year 1968 Humble and other refiners exported from plants in the Bureau of Customs' Houston District about 577,000 barrels of lubricating oils to South Viet Nam and Thailand. We also noted that Humble had at least seven DSA contracts for the delivery of about 270,000 barrels of lubricating oil to South Viet Nam and Thailand in calendar year 1968 on which the drawback would amount to about \$53,000. Humble claimed drawback of about \$81,000 on shipments of about 400,000 barrels of lubricating oil to South Viet Nam and Thailand from its refinery in the Houston District during 1968.

The Customs official who liquidated, or approved, drawback claims in the Houston District advised us that drawback claims are not reviewed for sales to the Government since the manufacturer certifies that sales to the Government are not included in its drawback claim. Humble's representative who signs the certification concerning the exclusion of sales to the Government advised us that he assumed that no ineligible documents would be forwarded for drawback since the employees who submit these documents have been instructed not to forward any documents showing the Government as the consignee. Neither the Customs liquidator nor the company official were aware of the meaning of the DSA designation on some of the supporting documents indicating that the purchaser was the U.S. Government.

Customs regulations (19 CFR 22.43) provides for the reference of drawback documents by Collectors of Customs to the Customs Agency Service for verification when such reference is believed to be required for orderly and efficient administration. The regulations provides that such verification shall include not only the manufacturing records but also the sales and financial records relating to the transactions. We believe that our review has disclosed sufficient information to warrant a verification of Humble's sales and other records pertaining to its drawback claims for 1967, 1968, and subsequent years to determine the extent to which drawback was paid or claimed on sales of petroleum products to the Government.

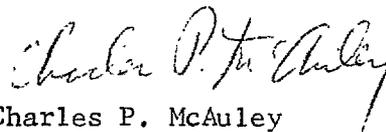
Recommendation

We recommend that the Customs Service Agency verify Humble's drawback claims for 1967 and subsequent years to determine the extent to which its drawback claims were paid or have been claimed on sales to the Government. If this verification shows that drawback was paid or claimed on substantial quantities of petroleum products sold to the Government, we recommend that the Bureau obtain information from DSA on sales of such products to the Government by other oil companies for delivery to Southeast Asia and other overseas locations and determine whether drawback has been paid or claimed on such sales.

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We will be pleased to discuss with you or your staff any of the matters covered in this report. Please advise us of any action taken on our recommendations.

Sincerely yours,



Charles P. McAuley  
Assistant Director

The Honorable Edwin F. Raines  
Acting Commissioner  
Bureau of Customs

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