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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

B-172539

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Dear Mr. Secretary:

The General Accounting Office (GAO) is performing a review in Europe to see whether cost and balance-of-payments benefits could be realized by increasing the use of U.S. agricultural commodities in lieu of offshore procurements to satisfy military requirements in Europe.

Our European Branch has informed us that the European Exchange System (EES), which is part of the Army and the Air Force Exchange Service and a non-appropriated fund activity in Europe, uses approximately 820,000 pounds of coconut oil to produce about 2.2 million gallons of imitation ice cream annually. The purchase of this coconut oil, a net import item, adversely affects our Nation's balance-of-payments position by about \$200,000 annually.

In view of the increasing inventory of surplus butter (presently in excess of 100 million pounds), we inquired of EES if unsalted butter might be substituted in place of coconut oil. We are advised that butter is the desired commodity in the manufacture of ice cream but that coconut oil was substituted because of price considerations. The amount of unsalted butter needed to replace the coconut oil is about 1,360,000 pounds per year. In order to be competitive with coconut oil, the unsalted butter will have to be offered at 16 cents per pound, f.o.b. New Jersey.

While we recognize that the price EES would be willing to pay for unsalted butter is considerably less than the support costs incurred by the Department, it seems to us that this is still more advantageous than maintaining a substantial supply of surplus butter, which imposes budgetary costs for storage and handling.

We understand that the Department recently initiated a program to make butter for export sales available on an announced price basis, which will bring greater returns than the 16 cents that EES is willing to pay. Nevertheless, we believe that the EES offer is worthy of further exploration so long as the more advantageous sales programs do not deplete the supply of surplus butter.

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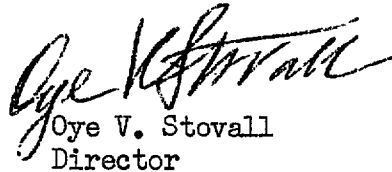
Department of Defense officials advise us that additional care must be exercised in the shipment, handling and storage of butter as compared with coconut oil. We recognize that although EES is willing to pay 16 cents per pound for unsalted butter (f.o.b. New Jersey), the Department of Defense may ask for a lower price in view of the need for refrigerated shipment and storage as well as for closer management of stocks to keep butter from turning rancid. Despite the additional cost considerations, we estimate budgetary benefits to the Department of Agriculture of about \$200,000 annually for EES's potential use of unsalted butter even at a 14 cents per pound price. A subsidiary benefit to the Nation's balance-of-payments position would also be realized.

In view of the economic benefits possible, we suggest that the Department of Agriculture explore the possibilities of making unsalted butter available to the EES for use in the preparation of ice cream. We understand that similar situations exist in other parts of the world, both in military and exchange activities. We therefore suggest that the Department of Agriculture query the Department of Defense and the military exchange services to determine additional potential for use of unsalted butter in place of coconut oil in the manufacture of ice cream.

We would appreciate receiving the Department's views and advice as to any action taken or contemplated.

Copies of this letter are being sent today to the Subcommittee on Foreign Operations and Government Information, the House Committee on Government Operations, the Secretary of Defense, the Office of Management and Budget, and the Headquarters Army and Air Force Exchange Service.

Sincerely yours,

  
Oye V. Stovall  
Director

The Honorable  
The Secretary of Agriculture

Attention: Assistant Secretary Clarence D. Palmbly