

095725

~~b. 51-05~~

71-267
~~12~~



REPORT TO THE CONGRESS



Opportunities To Economize On Purchases Of Dairy And Bakery Products For U.S. Forces In Southeast Asia B-171428

Department of Defense
Department of State

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

095725

~~700512~~

FEB. 4, 1971



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B- 171428

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our review on opportunities to economize on purchases of dairy and bakery products for U.S. Forces in Southeast Asia.

The review was made as part of our continuing examination of U.S. expenditures in the Far East area, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of State; and the Secretary of Defense.

A handwritten signature in cursive script, appearing to read "James P. Abate".

Comptroller General
of the United States

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	3
2 SOURCE OF INGREDIENTS USED IN DAIRY AND BAKERY PRODUCTS	5
Thailand	5
Agency comments	6
Conclusion and recommendation	7
3 TAXES PAID ON DAIRY AND BAKERY PRODUCTS	9
Thailand	10
Tax agreements with Royal Thai Government	10
Action taken to obtain tax-and duty-free entry of dairy products	11
Action taken to obtain tax-and duty-free entry of bakery products	13
Taiwan	15
Philippines	15
Agency comments	15
Conclusion and recommendation	15
4 SCOPE OF REVIEW	17
APPENDIX	
I Letter dated August 4, 1970, from Deputy Assistant Secretary of Defense, to GAO	21
II Letter dated October 21, 1970, from Deputy Assistant Secretary for Budget and Finance, Department of State, to GAO	24
III GAO estimate of possible increase in price of a 20-ounce loaf of bread procured for U.S. Forces in Thailand if bread is made from American flour	26

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) undertook this review (1) to see if surplus U.S. agricultural commodities had been used in dairy and bakery products manufactured for U.S. Forces in the Far East and (2) because of indications that import duties and taxes had been levied on agricultural products used by U.S. Forces in the Far East.

A prior GAO report questioned the payment of taxes by U.S. Forces worldwide. (B-133267, Jan. 20, 1970.)

FINDINGS AND CONCLUSIONS

The major ingredients for dairy products--used by the United States in Vietnam, Thailand, the Philippines, and Taiwan--were from U.S. sources. Except for Thailand, this is true for bakery products also. More than half the wheat used for bakery products by U.S. Forces in Thailand (\$115,400 worth) came from Australia because the contracts for bakery products did not require the use of U.S. wheat. This resulted in lost sales of U.S. wheat and an unfavorable effect on the U.S. balance of payments. (See p. 5.)

Contractors supplying dairy products to U.S. Forces in Vietnam were not required to pay Vietnamese import duties or taxes. On bakery products in the same country, the contractors avoided duties and taxes because the military furnished the ingredients. Relatively minor amounts of taxes were paid on dairy products in Taiwan and on bakery products in the Philippines. In Thailand during fiscal year 1969, however, import duties and taxes amounting to \$434,000 were paid on dairy and bakery products. (See p. 9.)

The United States and Thailand have agreements which exempt military assistance and construction programs from Thai import duties and taxes, but these agreements do not adequately cover the present tax structure in Thailand or the current U.S. military situation. Consequently, negotiations on a case-by-case basis have been required to obtain exemptions. (See p. 11.)

GAO found, the American Embassy did not consult with the Royal Thai Government until 21 months after the Military Assistance Command initially requested relief from such duties and taxes on ingredients imported for dairy products. The Embassy's position was that the time was not right for presenting the question to the Thai Government. Also, U.S. officials had not taken action to obtain tax relief on bakery products bought in Thailand. (See pp. 10 and 11.)

RECOMMENDATIONS OR SUGGESTIONS

The Department of Defense should include a requirement in its contracts for bakery products in Thailand that flour of U.S. origin be used. (See p. 8.)

The Department of State should

- direct its officials in Thailand to consult with Royal Thai Government officials regarding the possibility of obtaining relief from taxes on dairy and bakery products purchased for U.S. Forces and
- seek an equitable rebate for taxes and duties levied in the past. (See p. 16.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of the Army said that the United States Army, Pacific, would be requested to examine into the economy of using U.S. wheat; and, if it is clearly demonstrated that there will be an advantage in the use of U.S. wheat, the Thailand procurement office will be requested to make this a requirement in its contracts. The Army said also that an agreement had been reached with the Thai Customs Department for a 1-year, duty-free entry of raw materials for milk products into Thailand effective April 1, 1970. This should result in savings to the United States of \$300,000 for the year. Other taxes, however, will still be imposed.

The Department of State in its response stated that GAO's views and recommendations had been referred to a joint State/Defense committee on foreign tax relief and that the committee would give priority attention to tax-relief matters in Vietnam and Thailand. GAO was also told that data would be developed to assist U.S. officials consulting with the Royal Thai Government on tax relief for wheat and bakery products.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is being issued to the Congress because of the increasing concern by its members over economical use of U.S. funds.

CHAPTER 1

INTRODUCTION

The General Accounting Office has made a review of expenditures for dairy and bakery products purchased for the use of United States Forces in the Republic of Vietnam, Kingdom of Thailand, the Republic of the Philippines, and the Republic of China (Taiwan). The primary objectives of our review were (1) to determine whether the major ingredients used in bakery and dairy products were obtained from U.S. sources and (2) to determine whether the United States was paying, either directly or indirectly, any taxes or customs duties levied by the host countries on the ingredients imported or on the end products. The scope of our review is shown on page 17.

Dairy products for U.S. use in Vietnam, Thailand, and Taiwan are purchased from private dairy contractors. Dairy products for U.S. use in the Philippines are purchased from the U.S.-operated regional exchange with the exception of some ice cream and novelty items, which are procured from a private Philippine company.

Some bakery products are purchased locally from local bakeries in Vietnam, Thailand, and the Philippines. In addition, military bakeries in Vietnam and exchange bakeries in the Philippines provide a portion of the bakery product requirements. In Taiwan, bakery products are purchased from the Navy exchange.

The dollar values of expenditures during fiscal year 1969 for dairy and bakery products for U.S. use were as follows:

	<u>Dairy products</u>	<u>Bakery products</u>
Vietnam	\$22,302,900	\$1,120,700 ^a
Thailand	1,939,500	417,900
Philippines	1,050,300	343,400
Taiwan	<u>725,800</u>	<u>63,100</u>
Total	<u>\$26,018,500</u>	<u>\$1,945,100</u>

^aExcludes cost of bakery products produced in Army field bakeries in Vietnam.

Estimated import duties and taxes paid during fiscal year 1969 were as follows:

	<u>Dairy products</u>	<u>Bakery products</u>
Vietnam	\$ -	\$ -
Thailand	314,200	119,900
Philippines	-	1,200
Taiwan	<u>6,300</u>	<u>-</u>
Total	\$320,500	\$121,100
	(_____)	
	<u>\$441,600</u>	

CHAPTER 2

SOURCE OF INGREDIENTS USED

IN DAIRY AND BAKERY PRODUCTS

Our review showed that the major ingredients for dairy products used by the United States in Vietnam, Thailand, the Philippines, and Taiwan were from U.S. sources. We also found that the major ingredients for bakery products used by the United States in Vietnam, the Philippines, and Taiwan were from U.S. sources. However, more than 50 percent of the wheat used for U.S. bakery product requirements in Thailand was obtained from Australia.

Our findings concerning use of major ingredients from other than U.S. sources are discussed in more detail below.

THAILAND

The U.S. Army Procurement Office, an element of the U.S. Army Support Command, Thailand, purchases bakery products for U.S. Forces in Thailand from Thai bakeries. During fiscal year 1969, purchases of bakery products for U.S. Forces in Thailand amounted to \$417,900.

We were advised by an official of the U.S. Army Procurement Office that flour used in bakery products purchased in Thailand was of U.S. origin. We were furnished a copy of a memorandum, dated August 1, 1969, to the Ambassador, concerning the Army's investigation of an allegation that U.S. wheat and flour were not being utilized. The memorandum states that:

"An intensive investigation concerning the subject matter has been completed. The allegation that the United States was not requiring local bakers to use flour from U.S. wheat when baking for U.S. military installations is unfounded. All bakery products for military consumption in Thailand are baked under Federal Specifications EE-B-671c and is so stated in existing contracts. All contracts containing the specification state that flour from U.S. wheat must be utilized. ***"

Our review of the bakery product contracts has shown that, although Federal Specifications EE-B-671c are cited in the contracts, neither the specifications nor the contracts state that flour used must be from U.S. wheat.

We visited bakeries which were furnishing bakery products under U.S. military contracts and found that the bags containing the two brands of flour used by these bakeries had been stamped "From American Wheat." All flour used by these bakeries was milled by the same flour mill. We visited the flour mill to observe whether the wheat milled into flour was, in fact, U.S. wheat. We have found that the flour mill was importing mostly Australian wheat (about 70 percent). We have found that one brand of flour was a 50-50 mixture of Australian hard wheat and U.S. wheat whereas the other brand was milled entirely from Australian soft wheat.

We estimate that about 1,400 metric tons of Australian wheat, valued at \$115,400, was utilized to produce the flour used in the bakery products purchased for U.S. Forces in Thailand during fiscal years 1968 and 1969. This represents a corresponding loss in utilization of U.S. wheat and unfavorable balance of payments.

AGENCY COMMENTS

In response to our interim memorandum on the use of non-U.S. wheat, the Commander, U.S. Military Assistance Command, Thailand, advised us, in December 1969, that:

"***When the question of the use of U.S. Flour arose, an inspection was made by the Veterinarian Detachment. Because the bags containing flour used in baking bread products for the Government bore the legend, Made from American Wheat, it could only be assumed that the flour was milled from U.S. wheat. There is no contractual requirement in the above specification [Federal Specification EE-B-671c] that the wheat be of U.S. origin."

By letter of August 4, 1970, the Deputy Assistant Secretary of Defense (Installations and Logistics) sent us the

Department of the Army comments on a draft of this report, which contained our proposal that action be taken to ensure that flour milled from U.S. wheat be used for bakery products procured in Thailand for U.S. Forces.

The Department of Army stated that the Army Support Command had estimated that use of U.S. flour would increase the average contract price for a 20-ounce loaf of bread from 17 cents to 20 or 21 cents. On the basis of data developed during our review, however, we estimate that any price increase resulting from the use of U.S. wheat would amount to about 1/2 to 1 cent a loaf rather than the 3 to 4 cents estimated by the Army Support Command. The basis for our estimate is set forth more fully in appendix III.

Whereas the use of U.S. wheat might be slightly more costly to the Department of Defense, the small premium involved (using either the GAO or the Army estimate) is well within the Department's "Buy American" guidelines which permit payment of an extra 50 percent to favor the consumption of U.S. products abroad. Even this small increase in cost might be avoided, however, if the Department of Defense were able to arrange with the Department of Agriculture for the use of surplus U.S. wheat. In this regard, we were informed that the Thailand regional exchange was able to purchase such surplus wheat at about 80 percent of the cost paid by the Army.

In addition, we believe that, if U.S. wheat were utilized for the bakery products for U.S. troop requirements, a stronger case could be made for obtaining exemption from import duties imposed by the Thai Government.

CONCLUSION AND RECOMMENDATION

The use of U.S.-grown agricultural products to manufacture dairy and bakery products overseas obviously has several advantages. Overseas dollar expenditures are reduced; and exports of U.S. agricultural products, some of which are traditionally in a surplus position, are increased.

Procurement officials in the countries reviewed have recognized these advantages and have generally required the use of U.S.-grown agricultural commodities by requiring the

use of U.S.-grown commodities for production of dairy and bakery products through contractual arrangement. Such was not the case in Thailand.

Consequently, we feel that the Department of Defense should include a requirement in their contracts for bakery products in Thailand that flour of U.S. origin be used.

CHAPTER 3

TAXES PAID ON DAIRY AND BAKERY PRODUCTS

In January 1970, we reported to the Congress¹ on the subject of foreign taxation of U.S. military expenditures abroad. In the report, we conclude that substantial amounts of avoidable expenditures have been made because of direct and indirect taxes paid on overseas military procurements. We have pointed out that the wide variety of problems associated with the administration of tax matters affecting defense expenditures in other countries indicated the need for a thorough management review and analysis of the matter.

Both the Department of State and the Department of Defense generally agreed with the report. Both Departments have pointed out that effective economical administration of the tax-relief provisions of the current agreements in certain countries is a continuing task. The Departments have recognized that some unresolved issues remained but have pointed out that the United States has obtained and will continue to obtain substantial tax relief in the various countries.

This chapter supplements the prior report and is based on more current data concerning taxes paid on dairy and bakery products.

During our current review, we have found that contractors supplying dairy products to U.S. Forces in Vietnam were not required to pay Vietnam import duties or taxes. We have also found that Vietnam import duties and taxes on bakery products were avoided because the military furnished the ingredients to the bakeries. Due to administrative delays, however, and the Embassy's position that the time was not right for presenting the question to the Thai Government, import duties and taxes on dairy and bakery products amounting to about \$434,000 were paid during fiscal year 1969 in Thailand. Additionally, we have found that, during fiscal year 1969, taxes on dairy products in Taiwan amounted to about \$6,300 and taxes on bakery products in the Philippines amounted to about \$1,200.

¹"Questionable Payment of Taxes to Other Governments on U.S. Defense Activities Overseas," B-133267, dated Jan. 20, 1970.

Details concerning taxes paid in Thailand, Taiwan, and the Philippines are discussed below.

THAILAND

We estimate that, during fiscal year 1969, import duties and taxes were paid on dairy and bakery products purchased by U.S. military forces in Thailand as follows:

Dairy products:		
Customs	\$207,500	
Sales taxes	<u>106,700</u>	
		\$314,200
Bakery products:		
Import duty (wheat)	\$ 82,700	
Municipal and business taxes:		
wheat	3,200	
flour	10,900	
Business tax (bakery items)	<u>23,000</u>	
		<u>119,800</u>
Total		<u>\$434,000</u>

We found that no action had been taken to obtain tax relief on bakery products procured in Thailand. We also found that the Military Assistance Command, Thailand, had made repeated requests to the American Embassy to approach the Royal Thai Government for tax relief on ingredients imported by a dairy contractor, which produced dairy products for U.S. Forces in Thailand. The American Embassy, however, did not approach the Thai Government until 21 months after the Military Assistance Command's original request.

Tax agreements with Royal Thai Government

The "Agreement Respecting Military Assistance Between the Government of the United States of America and the Government of Thailand," dated October 17, 1950, and the "Memorandum of Agreement as to the Implementation of Construction Projects under United States of America Direct Forces Support Program," dated April 6, 1956, are the two governing

documents relating to tax matters in Thailand. These agreements provide for exemption from import duties and taxes for products, materials, and equipment imported for military assistance and related construction programs.

These agreements are general in nature and do not adequately cover the present tax structure of Thailand or the current U.S. military situation in Thailand. The lack of formalized tax-exemption procedures has resulted in case-by-case negotiations to obtain tax exemption in specific circumstances.

Action taken to obtain tax-
and duty-free entry of dairy products

On January 9, 1967, the Military Assistance Command requested the assistance of the American Embassy in determining the position of the Thai Government toward permitting duty-free entry of milk ingredients required for in-country production of dairy products for U.S. military activities. The Military Assistance Command pointed out that the prices of dairy products included a 30-percent import duty and a 10-percent tax.

At the request of the American Embassy, on March 27, 1967, a more definitized memorandum was submitted by the Military Assistance Command to replace the previous one. This memorandum sets forth the monthly and yearly requirements of dairy products for fiscal year 1968.

A memorandum dated May 7, 1968, indicated that the Military Assistance Command had made numerous follow-ups on this matter but, as a rule had been advised by an official of the American Embassy that the time was not right for presentation to the Thai Government.

On June 8, 1968, during our prior review of tax-exemption agreements in Thailand, the Military Assistance Command again requested the assistance of the American Embassy in obtaining duty-free admission of raw materials for milk products and to obtain a waiver of local business taxes. The Military Assistance Command estimated that the cost of duties and taxes was approximately \$323,000 a year.

On September 4, 1968, the Military Assistance Command again requested assistance from the American Embassy in obtaining duty-free admission of raw materials for milk products and waiver of local business taxes. The Military Assistance Command pointed out that, since its first request for assistance on January 9, 1967, the U.S. Government had paid more than \$360,000 for import duty and taxes on milk products, all of which was gold flow.

Finally on September 27, 1968, the American Embassy presented the matter to the Thai Director General Customs who advised that there was no problem in bringing in U.S. supplies for the troops duty free but that there was a problem in keeping products separate from materials to be used commercially.

The Thai Government agreed July 1, 1969, to a procedure for duty-free importation of U.S. milk powder, vegetable fat, and chocolate or cocoa for reconstituting into milk products for U.S. use.

The Embassy confirmed the agreement on September 8, 1969. However, the agreement does not provide for exemption from the Thai Government sales tax which amounted to about \$106,700 during fiscal year 1969.

Although the agreement permitting the free importation of ingredients for milk products was confirmed by the American Embassy on September 8, 1969, the procedures for the duty-free importation were not implemented until April 1, 1970. Import duties estimated at \$128,000 have been paid on the ingredients imported during the interim.

An official of the Army Procurement Office informed us that, at the time the tax agreement was concluded in September 1969, the Office of the Directorate of Procurement, Japan, was evaluating proposals received for a new milk contract in Thailand. The officials stated that the dairy contractor was not willing to implement the control procedures required for duty-free importation unless they were assured of a new contract as their existing contract had been extended only to March 31, 1970.

On November 26, 1969, the Office of the Directorate of Procurement, Japan, awarded a new contract effective April 1, 1970, to the dairy contractor. This contract provides for the control procedures required for duty-free importation of dairy products.

Action taken to obtain tax-
and duty-free entry of bakery products

Notwithstanding the lack of a formal tax agreement, it is obvious that officials of the Thai Government are willing to grant tax relief to military procurement if they can be assured that the exempted products will not enter the Thai commercial economy.

All the advantages of obtaining relief from internal Thai taxes and duties accrue to the United States. Under these conditions, the burden of initiating and devising a control mechanism satisfactory to the Thai Government rests with United States Government personnel.

We found, however, that neither the American Embassy nor the Military Assistance Command had taken action to obtain tax relief on bakery products. An American Embassy official advised us that the matter had not been brought to the Embassy's attention.

An official of the Military Assistance Command stated that the Command did not request the Embassy to attempt to obtain tax relief on the ingredients used in bakery products because it did not wish to disrupt the negotiations with the Thai Government for the tax-exempt privilege for milk ingredients imported by the dairy contractor.

Unlike the use of dairy products, where only one contractor is involved, the problems associated with bakery products are more difficult to resolve because five prime contractors and a subcontractor are involved.

At the conclusion of our review, we were informed by Embassy officials that the necessary data would be developed for subsequent discussions with Thai officials on the matter of tax relief for wheat and bakery products.

The Department of the Army did not comment on our finding that no action had been taken to obtain tax relief on bakery products procured in Thailand.

TAIWAN

We found that the United States had received exemptions on import duties and related taxes on ingredients imported for use in dairy products produced for U.S. Forces in Taiwan.

A business tax of .75 percent of sales and a stamp tax of .4 percent on sales were still in effect at the time of our fieldwork, but a tax agreement, dated October 15, 1969, between the United States and the Republic of China is being implemented to obtain relief from the business tax and a preferred (one tenth of 1 percent) stamp tax rate. In fiscal year 1969, the business tax and stamp tax paid by the United States on dairy products amounted to about \$6,300.

Our review showed that no duty or taxes had been incurred on bakery products procured for U.S. Forces in Taiwan.

PHILIPPINES

Bakery and dairy products purchased from the U.S.-operated Philippines regional exchange are free of duties and taxes. Import duties and taxes are included in bakery products purchased locally, but these taxes have been nominal due to limited local procurements. We estimate that the duties and taxes included in bakery products procured locally in fiscal year 1969 were about \$1,200.

AGENCY COMMENTS

By letter dated October 21, 1970, the Deputy Assistant Secretary of State for Budget and Finance commented on a draft of this report. He stated that the views and recommendations in our draft report had been noted and that the report had been referred to the Joint State/Defense Interdepartmental Committee on Foreign Tax Relief, which was established on June 25, 1970. He further stated that this committee would give priority attention to tax-relief matters in Vietnam and Thailand.

CONCLUSION AND RECOMMENDATION

We believe that payment of import duties and taxes on dairy and bakery products has largely been avoided in

Vietnam, Taiwan, and the Philippines but that this matter continues to be a problem in Thailand. Although import duties on raw materials imported for milk products are no longer paid to Thailand since April 1, 1970, significant sales taxes are still imposed. We believe that efforts should be continued to obtain relief from sales taxes on bakery and dairy products and relief from import duties on bakery products in Thailand.

One of the recommendations made in our prior report was that:

The Secretary of State, in coordination with the Secretary of Defense, take appropriate steps to negotiate a clearly defined and adequately worded tax agreement with the Government of the Kingdom of Thailand.

In their response to the prior report, the Department of State and Defense has stated that they were prepared to undertake necessary preparatory studies of the Thai tax structure as it presently affects U.S. common defense expenditures.

On the basis of the results of these studies, the two Departments will consider initiating negotiations with the Thai Government if these results show such a need.

While this data is being developed and until an overall tax agreement is negotiated, we believe that efforts should be continued on a case-by-case basis to obtain relief from duties and taxes which have already been identified, such as those in this report.

Consequently, we believe that the Department of State should direct its officials in Thailand to consult with Royal Thai Government officials regarding the possibility of obtaining relief from sales tax on dairy and bakery products and duty-free entry of the major products used in bakery products purchased for the use of U.S. Forces in Thailand. The State Department should seek an equitable rebate for taxes and duties levied in the past.

CHAPTER 4

SCOPE OF REVIEW

Our review of the procurement of dairy and bakery products for U.S. use in the Republic of Vietnam, the Kingdom of Thailand, the Republic of the Philippines, and the Republic of China included an examination into (1) procurement actions for dairy and bakery products, and (2) country-to-country tax agreements and other understandings.

During the course of our fieldwork, which was performed during the period October 1969 through January 1970, we met with representatives of the various military commands who were administering the procurement of bakery and dairy products and with responsible officials of the American Embassy, Bangkok. We also met with representatives of the contractors supplying these commodities, reviewed the contracts or purchase agreements under which the commodities were being procured, and visited various facilities in which the products were being produced.

APPENDIXES



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

4 AUG 1970

INSTALLATIONS AND LOGISTICS

Mr. C. M. Bailey
Director
Defense Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Bailey:

This is in response to your letter dated May 13, 1970 transmitting copies of your draft report entitled, "Review of Dairy and Bakery Products Used by U.S. Forces in Southeast Asia" (OSD Case #3118).

Attached are comments of the Department of the Army on this case with which this office concurs.

Sincerely,

A handwritten signature in cursive script that reads "Glenn V. Gibson".

Glenn V. Gibson
Deputy Assistant Secretary of Defense

Enclosure
a/s

Chas Bailey
8/7/70

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
Washington, D.C. 20310

Comments of the Department of the Army on GAO Draft Report dated 13 May 1970, "Review of Dairy and Bakery Products Used by U.S. Forces in Southeast Asia" (OSD Case #3118)

Reference is made to GAO Draft Report, dated 13 May 1970, "Review of Dairy and Bakery Products Used by U.S. Forces in Southeast Asia" (OSD Case #3118).

GAO found that in Thailand more than half of the wheat used to fill the needs for bakery products by U.S. Forces (\$115,400 worth) was obtained from Australia because the contract did not require the use of American wheat. This results in a loss of utilization of an American surplus commodity (wheat) and an unfavorable balance of payments effect. GAO found that no action had been taken to obtain tax relief on bakery products procured in Thailand. GAO also found that for ingredients imported for dairy products, the American Embassy did not approach the Royal Thai Government until 21 months after the U.S. Military Assistance Command, Thailand's (USMACTHAI) initial request for possible relief from duties and taxes. As a result, the United States had paid import duties and taxes estimated at \$119,900 for bakery products and \$314,200 for dairy products procured in Thailand in Fiscal Year 1969.

The problem of furnishing bakery products to U.S. Forces was under consideration at the time of the GAO review and a proposal to construct two bakeries had been submitted by Commanding General, U.S. Army Support Command, Thailand (USARSUPTHAI) in January 1969, Due to current circumstances in Thailand, the plan to construct the bakeries was cancelled in April 1970. At present, Bakery Products are purchased from five (5) bakeries, two (2) of which are located outside of Bangkok.

[See GAO note, p. 23]

[See GAO note.]

Army Procurement Office, USARSUPTHAI advises that if the contractors were required to use U.S. flour, it is estimated that the current average contract price of \$.17 for a 20 oz. loaf would increase to \$.20 - \$.21 per loaf. Both prices include all taxes. Bread Products and Pastry are authorized for procurement from foreign sources by the Commander in Chief, U.S. Army, Pacific, pursuant to the authority contained in ASPR 6-805.2(a)(iv) and 6-805.2(a)(v). However, since neither the GAO report nor the information received from USARPAC contains any cost analysis of the economy involved in using U.S. wheat, other than the tax consideration, USARPAC will be requested to examine that area. If it is clearly demonstrated that there will be an advantage in the use of American wheat the Thailand Procurement Office will be requested to make this a requirement in their contracts.

[See GAO note.]

GAO note: Deleted comments relate to matter in the draft report but omitted from the final report.



DEPARTMENT OF STATE

Washington, D.C. 20520

OCT 21 1970

Mr. O. V. Stovall, Director
International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

I refer to your letter dated May 13, 1970, transmitting copies of the draft report entitled "Review of Dairy and Bakery Products Used by U.S. Forces in Southeast Asia" for review and comment on matters which fall within the purview of the Department of State. I regret the delay in replying to your letter.

The draft report refers in part to the efforts of the American Embassy, Bangkok in trying to obtain customs and tax relief on dairy and bakery products purchased for the use of U.S. forces in Thailand.

With regard to the payment of duties and taxes on milk products, as far back as 1966 or 1967, Foremost Dairy, an American firm which had the contract to supply milk to the U.S. military, had made efforts to obtain exemption from the duties on raw ingredients. However, because of the situation faced by the Embassy during the early days of the military build up, priorities were such that the Embassy did not consider it opportune to pursue the matter. Later, the U.S. military authorities decided to build their own milk plant. After disapproval of the funds for the building of the proposed plant, efforts were undertaken to obtain duty free import of the raw ingredients, and they are now exempted from Thai duties. Since the exemption was only granted in 1970 for one year, further efforts will be required in the future in order to continue this exemption.

As noted in the draft report, the question of tax exemptions on bakery products was complicated by the lack of effective control over several different bakeries engaged in the importation of ingredients for processing into bakery products.

The views and recommendations of the GAO expressed in the draft report have been noted. The draft report has been referred to the Joint State/Defense Interdepartmental Committee on Foreign Tax Relief, which was formally established on June 25, 1970, for attention along with the previous GAO report on "Questionable Payment of Taxes to Other Governments on U.S. Defense Activities Overseas", B-133267 dated January 20, 1970. The Joint State/Defense Interdepartmental Committee will give priority attention to tax relief matters in Viet-Nam and Thailand.

Sincerely yours,



Joseph F. Donelan, Jr.
Deputy Assistant Secretary for
Budget and Finance

APPENDIX III

GAO ESTIMATE OF POSSIBLE
INCREASE IN PRICE OF A 20-OUNCE LOAF
OF BREAD PROCURED FOR U.S. FORCES
IN THAILAND IF BREAD IS
MADE FROM AMERICAN FLOUR

Facts:

Flour used to make bread equals about 75 percent of the weight of the baked bread.

Flour obtained by milling wheat equals about 80 percent of the weight of the whole wheat.

Cost of American and Australian wheat (per metric ton):

<u>Type of wheat</u>	<u>Cost</u>	<u>Insurance</u>	<u>Trans- portation</u>	<u>Total cost</u>
American	\$80.00	\$4.00	\$14.00	\$98.00
Australian, hard	71.50	3.575	10.00	85.075
Australian, soft	65.00	3.25	10.00	78.25

Computation of price increase using American wheat:

Cost of wheat per ounce:

1 metric ton = 2,204.6 lbs. = 35,273.6 oz.
 American wheat: \$98.00 per metric ton ÷ 35,273.6 oz. = \$0.00278 per oz.
 Australian hard wheat: \$85.075 per metric ton ÷ 35,273.6 oz. = \$0.00241 per oz.
 Australian soft wheat: \$78.25 per metric ton ÷ 35,273.6 oz. = \$0.00222 per oz.

Quantity of wheat in 20-ounce loaf of bread:

20 oz. of bread x .75 = 15 oz. of flour
 15 oz. of flour ÷ .80 = 18.7 oz. of wheat

Cost of wheat in 20-ounce loaf of bread:

American wheat: \$0.00278 per oz. x 18.7 oz. = \$0.0520 per loaf
 Australian hard wheat: \$0.00241 per oz. x 18.7 oz. = \$0.0451 per loaf
 Australian soft wheat: \$0.00222 per oz. x 18.7 oz. = \$0.0415 per loaf

Conclusion:

Use of American wheat would be \$0.007 and \$0.0105 more costly than Australian hard and soft wheat, respectively, per 20-ounce loaf of bread.