REPORT TO THE HOUSE COMMITTEE ON APPROPRIATIONS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Adoption Of A Single Method Of Shipping Household Goods Overseas--Pros And Cons

Department of Defense

The Committee on Appropriations questions the need for using two separate methods for moving service members' household goods internationally.

GAO has found that there are a number of reasons why it may be desirable to continue using two methods of shipping household goods overseas.

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

B-152283

The Honorable George H. Mahon, Chairman
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

This report describes the pros and cons of adopting a single method of shipping the household goods of Department of Defense personnel overseas. This review was requested by your Committee incident to its review of the 1974 Department of Defense Appropriations Bill (House of Representatives Report No. 93-662).

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

CONUS	continental United States
DOD	Department of Defense
DPM	direct procurement method
GAO	General Accounting Office
ITGBL	international through Government bill of lading
JPPSO	Joint Personal Property Shipping Office
MTMC	Military Traffic Management Command

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D I G E S T

Basically, there are two methods for shipping household goods of military personnel overseas--the direct procurement method under which the Government makes arrangements with individual firms for all required services and the international through Government bill of lading method under which the Government pays a household goods forwarder to make the arrangements. (See pp. 1 and 2.)

In fiscal year 1974 the Department of Defense spent $181 million to move 141,600 household goods shipments between the United States and overseas points. More than 95 percent of these shipments moved under the international through Government bill of lading method. (See p. 1.)

In House of Representatives Report No. 93-662 on the Department of Defense appropriations bill for 1974, the Committee on Appropriations questioned the need for the Department of Defense to use two separate methods for moving service members' household goods internationally.

The Committee asked GAO to review the feasibility of selecting either a single method of shipment on a worldwide basis or selecting a method for each major shipping point where large numbers of U.S. personnel are stationed.

WHAT GAO FOUND

Although it is uneconomic to administer two systems for shipping household goods overseas, there are reasons why it would not be desirable under present circumstances to adopt either the international through Government bill of lading method or the direct procurement method as the sole system of shipping. (See p. 3.)

As constructed by GAO, the direct cost by the direct procurement method system is, in most instances, lower than the international through Government bill of lading cost. Also the international through Government bill of lading rates are high in relation to GAO's estimate of the reasonable costs of providing the service. (See p. 3.)

But adopting the direct procurement method of shipping and exluding the household goods forwarding industry

--would have an adverse effect on the Department of Defense's program to increase combat strength by decreasing support personnel,

--could destroy many capable businesses, and

--would be contrary to the Government's general policy of relying on the private enterprise system to supply its needs. (See p. 3.)

The international through Government bill of lading method of shipping is convenient in that the forwarders assume certain administrative and traffic management responsibilities. But the introduction of the international through Government bill of lading method created new management problems, and adopting this method as the sole system would ignore these problems. (See p. 3.)

Another factor to be considered is the need to retain the direct procurement method of shipping as a competitive hedge for use in those areas in which the international through Government bill of lading service is not available and for those instances where, because of the size of shipments or other circumstances, the international through Government bill of lading method is not economically feasible. (See p. 3.)

One of the reasons for the high international through Government bill of lading rates appears to be the lack of a sufficiently competitive Department of Defense rate-setting procedure. During 1973 the Department of Defense adopted a more competitive rate-setting procedure for international through Government bill of lading shipments of military unaccompanied baggage moving over certain routes in the Pacific with resulting savings ranging from 20 to 45 percent. (See p. 8.)

The Department of Defense recently initiated more competitive rate-setting procedures on a test basis for household goods shipments moving between the continental United States and Okinawa. As a result, forwarders' rates have been reduced by about 19 percent. (See p. 8.)

GAO'S CONCLUSIONS

There are a number of reasons why it may be desirable to continue to use both systems. (See p. 16.)

However, if the international through Government bill of lading method is continued as the principal method, the Department of Defense should obtain rates more in line with the reasonable cost of providing the services. In GAO's opinion, this can best be done by introducing more competition into the rate-setting procedures. (See p. 16.)

GAO believes that, if efforts to improve competition are not successful, the Department of Defense should require auditable cost and pricing data to support the forwarders' rate proposals. This would permit a determination that such rates are not excessive but are at a level to return carriers' costs and a reasonable profit. (See p. 16.)

GAO believes that, if reasonable rates are not attainable through such modification of the Department of Defense rate-setting procedures, the Department of Defense may have to revert to the direct procurement method, or statutory regulation of the forwarder industry may be required to achieve that objective. (See p. 16.)

The Department of Defense concurs in GAO's findings and conclusions. (See p. 12.)

The Household Goods Forwarders Association of America, Inc., took issue with some assumptions made in the report. However, it agreed with the conclusion that some modification of the present rate-filing procedures is required to insure that the international through Government bill of lading rates are reasonable. (See pp. 12 and 13.)

CHAPTER 1

INTRODUCTION

Under the provisions of sections 406(b) and 411(a) of title 37, United States Code, members of the military services, in connection with a temporary or permanent change of station, are entitled to have their household goods and baggage moved at Government expense, including packing, crating, drayage, ocean transportation, temporary storage, and unpacking.

The Worldwide Personal Property Movement and Storage Program of the Department of Defense (DOD) is managed by the Military Traffic Management Command (MTMC) under the guidance of the Assistant Secretary of Defense (Installations and Logistics). According to MTMC statistics, 141,600 DOD-sponsored international household goods shipments were moved during fiscal year 1974 at a cost of more than $181 million. More than 95 percent of these shipments were handled by household goods forwarders under the international through Government bills of lading (ITGBL) method. The remainder was moved under the so-called direct procurement method (DPM).

Under the ITGBL shipping method, a single Government bill of lading is issued to a household goods forwarder covering the entire movement from origin to destination. Charges to the Government are based on a single-factor rate per net hundred pounds, plus certain adjustments and accessorial charges provided for in the forwarders' tenders.

Forwarders generally do not perform the basic transportation; they manage the shipments and arrange with local moving companies, line-haul carriers, port agents, and ocean carriers for the required services. The Government deals only with the forwarders.

Shipments under DPM are handled much the same as under the ITGBL method, except that the Government manages the shipments and contracts directly with the companies providing the underlying services. The forwarders and the Government use the same underlying packing and crating contractors and transportation companies. Generally, DPM is used only for:

--Shipments originating in or destined to areas not served by household goods forwarders.

--Shipments to a continental United States (CONUS) port for which ultimate delivery instructions have not been received.

--Shipments destined to nontemporary storage.

--Shipments weighing less than 500 pounds. Forwarders have a 500-pound minimum rate, so shipments weighing less than 500 pounds would be charged at the 500-pound rate if tendered to the forwarders.

The DPM is not a Government transportation system unique to household goods. DOD has over 3 million different items in its inventory of equipment and supplies, many of which--including sofas, chairs, desks, lamps, rugs, and beds--are comparable to the items shipped by a service member as household goods. In addition, DOD ships delicate electronic and other valuable, delicate, and high-cost technical equipment. DOD items are shipped between points within the United States and throughout the world. For the bulk of these shipments, DOD manages the transportation through its worldwide network of traffic management organizations; transportation fleets, such as the Military Airlift Command; and military and commercial air and ocean terminals.

In making these shipments, DOD uses rail, motor, ocean, air, and pipeline carriers in addition to its own fleets. DOD also uses airfreight forwarders and surface freight forwarders. But it is DOD's general policy to use these forwarders only when their rates are more cost effective than if DOD were to tender the shipments directly to the underlying carriers which actually carry the goods.

CHAPTER 2

ADOPTION OF A SINGLE METHOD OF SHIPPING HOUSEHOLD GOODS--PROS AND CONS

Although it is uneconomic to administer two systems for shipping household goods overseas, there are reasons why it would not be desirable under present circumstances to adopt either the international through Government bill of lading method or the direct procurement method as the sole system of shipping.

As constructed by us, the direct cost by DPM is, in most instances, lower than the ITGBL cost. Also the ITGBL rates are high in relation to our estimate of the reasonable costs of providing the service. But adopting the DPM shipping method and excluding the household goods forwarding industry (1) would have an adverse effect on DOD's program to increase combat strength by decreasing support personnel, (2) could destroy many capable businesses, and (3) would be contrary to the Government's general policy of relying on the private enterprise system to supply its needs.

The ITGBL shipping method is convenient in that the forwarders assume certain administrative and traffic management responsibilities. But the introduction of the ITGBL method created new management problems, and adopting this method as the sole system would ignore these problems.

Another factor to be considered is the need to retain DPM as a competitive hedge for use in those areas in which ITGBL service is not available and for those instances where, because of the size of shipments or other circumstances, the ITGBL method is not economically feasible.

Although there are valid arguments for retaining both methods, these arguments raise some question as to the extent each system should be employed. We believe that, if ITGBL is retained as the principal shipping method, procedures should be adopted which would insure the availability to DOD of reasonable rates--rates that will return to the carrier costs plus a reasonable profit--and which encourage high-quality service to the military member.

EARLIER REPORT SHOWED DPM TO BE LESS COSTLY

In our report to the Congress, entitled "Cost Evaluation for Movement of Household Goods Between United States and Germany" (B-152283, Jan. 6, 1969), we concluded that the Department of Defense could have saved about $3 million during fiscal year 1965 if household goods shipments between Germany and CONUS had been moved under the DPM rather than the ITGBL method of shipment. We pointed out certain inaccuracies in the cost comparison used to select a shipping method, and we recommended a number of actions intended to eliminate some of the diseconomies inherent in operating two systems of shipping.

After our earlier review, DOD officials rescinded the requirement for comparing costs in selecting a shipping method, and on October 14, 1971, the Office of Assistant Secretary of Defense (Installations and Logistics) issued a memorandum directing that the use of DPM shipments be curtailed in favor of the ITGBL method.

In an audit report dated June 12, 1972, the Assistant Secretary of Defense (Comptroller) questioned the decision to curtail the use of DPM. He estimated that this decision would increase shipment costs between CONUS and 15 installations in Germany by about $1 million annually and recommended the reinstatement of DPM. On June 28, 1972, the October 1971 memorandum was rescinded, and both the DPM and the ITGBL method were to be used with preference given to the method most practicable in a given situation.

DPM STILL COST FAVORABLE

In our current review of DOD's household goods program, we estimated the cost of moving household goods shipments between three major installations in CONUS and nine overseas installations located in Germany (5), the United Kingdom (1), Italy (1), Spain (1), and Hawaii (1). We considered various cost elements, including complete origin and destination services, transportation, containers, claims, and administrative costs.

We constructed DPM costs which, in our opinion, would have been applicable if household goods shipments that were actually moved during fiscal year 1973 by ITGBL carriers on the traffic channels studied had been diverted to DPM. Our estimate of transportation costs for DPM shipments was based on the assumption that traffic over these high-volume channels could have been distributed so as to take advantage of the lower line-haul rates available on truckload movements and that such traffic was sufficient to permit the loading of seavans with the equivalent of 10 type-II household goods containers. Considering the high volume of traffic moving over the channels reviewed, we believe these to be reasonable assumptions.

In estimating the cost of the ITGBL method, we considered the single-factor rate adjusted to reflect any allowable increases for changes in carriers' costs.

In estimating administrative costs for both the DPM and the ITGBL method of shipping, we generally considered personnel costs at the installation transportation offices up through the working supervisors. We did not include a factor for possible increased costs of awarding any additional pack-and-crate contracts that would be required as a result of an increase in the volume of shipments moving by DPM. Even though such an increase in DPM volume could necessitate the award of contracts to additional contractors each time bids are solicited, such additional costs would be relatively insignificant when distributed over the increased volume of traffic and would occur only once each year.

Also we did not include a cost factor for MTMC headquarters administration of the ITGBL shipment program. Although headquarters personnel presently expend substantially more administrative effort on the ITGBL method of shipment than on the DPM, we believe that, if DPM were selected as the principal method of shipment, more attention would be directed to this method.

On the basis of cost figures developed under the foregoing assumptions, we concluded that, had DPM been used as the sole method of shipping, the costs to the Government would have been less than the costs incurred under the ITGBL method on the large majority of the traffic channels studied.

Following are examples showing the estimated cost of shipping 100 pounds of household goods under the two methods and the potential savings by using DPM.

	Estimated cost to the Government		Potential savings using DPM	Potential savings as percent as ITGBL cost
	ITGBL	DPM		
Seckenheim, Germany, to Cameron Station, Va.:				
Door to pier	$43.65	$37.25	$ 6.40	14.7
Door to door	43.65	32.24	11.41	26.1
San Antonio, Texas, to Mildenhall Air Base, United Kingdom				
Door to pier	41.55	30.82	10.73	25.8
Door to door	41.55	30.10	11.45	27.6
Naval Supply Center, Oakland, California, to Honolulu, Hawaii:				
Door to pier	30.60	26.50	4.10	13.4
Door to door	30.60	26.01	4.59	15.0

Note: Door-to-pier shipments are stuffed into seavans at the origin installation, unstuffed at the port of debarkation, and transported to destination by rail or motor carriers. Door-to-door shipments are stuffed into seavans at the origin installation and unstuffed at the destination installation.

On several of the channels we reviewed, the ITGBL method was less costly than the DPM. For example, on the traffic from Hawaii to Cameron Station, the estimated DPM rate for 100 pounds of household goods was $44.04, compared with an ITGBL rate of $38.57, a difference of $5.47.

A detailed analysis of the comparative costs for all the channels covered by our review, broken down by the various cost elements, is included as appendix I. A narrative setting forth the bases for computing each cost element is included as appendix II.

To further evaluate the potential for savings by using door-to-door seavan service in conjunction with DPM moves, we collected actual cost data on a series of DPM shipments moved during 1973. From April through October 1973, the Army moved more than 130 household goods and baggage shipments from installations in Germany to the Joint Personal Property Shipping Office (JPPSO), Cameron Station. Our analysis of 79 shipments weighing 303,475 pounds, originating at Stuttgart and Seckenheim, showed actual DPM transportation costs to be about 21 percent below what ITGBL costs would have been. In addition to realizing savings in transportation costs, the Government realized considerable savings in the cost of storing the household goods while awaiting delivery at destination.

Costs under the two methods were as follows:

	Cost without storage	Storage costs	Total costs
ITGBL (estimated)	$149,383	$12,816	$162,199
DPM	118,657	688	119,345
Savings using DPM	30,726	12,128	42,854
Percent of savings	21	95	26

The unusually high savings on storage were primarily attributable to the fact that, under DPM contracts for destination services, storage charges do not begin until the sixth day after receipt of the shipment at destination, whereas, under the ITGBL method of shipping, charges begin on the day of receipt. Under both methods charges are incurred in 30-day increments, so shipments that were delivered to the residence on the second through the fifth days with no storage charges under the DPM method would have incurred a 30-day charge if they were moving under the ITGBL method.

FORWARDERS' RATES HIGH IN RELATION TO ESTIMATED COSTS

To evaluate the reasonableness of the ITGBL rates, we estimated the reasonable costs to the freight forwarder industry for providing this service. These costs were developed from March through July 1974 and cover the same traffic channels discussed elsewhere in this report. We compared the estimated costs of providing transportation services to the weighted average ITGBL rate in effect during the March through July period and found that the forwarders' profit was more than 10 percent of the estimated cost on 79 percent of the traffic channels reviewed and more than 15 percent on about 70 percent of the channels. (See app. III.)

These profit margins are higher than those considered reasonable by the Interstate Commerce Commission for motor carriers. Of the carriers for which the Commission publishes guidelines, the motor carriers' operations most closely parallel those of the forwarders. Historically the Commission has considered a profit of 7 percent of revenue (equivalent to 7½ percent of cost) to be reasonable for motor carriers.

Forwarders' actual payments to the underlying carriers and other businesses actually performing services for them are not a matter of public record, and we have no authority to audit the forwarders' costs, payments, or intercompany settlement accounts. Therefore the cost data we have used to identify forwarder costs is "constructed" using cost figures published or otherwise available to the forwarders as the contractual basis for the services they buy. Details concerning the methods we used in developing the various cost elements are described in appendix II.

NEED FOR MORE COMPETITIVE RATE-SETTING PROCEDURE

Under the procedure for setting ITGBL rates for household goods shipments (commonly referred to as the "me-too" procedure), all participating forwarders submit proposed rates to MTMC. Upon determining the low rate for each traffic channel, MTMC conveys this information to the forwarders and gives them the chance to match the low rates. All forwarders agreeing to the low rates are then given the chance to share equally in the available business. The carriers submitting the initial low rates are not rewarded, and consequently there is no incentive for forwarders to initially submit their lowest possible rates.

We believe that introducing more competition into rate setting would reduce rates and would result in savings in transportation costs. This fact is borne out by recent reductions in ITGBL rates for unaccompanied baggage. Before 1973, ITGBL rates for baggage were also set using the me-too procedure. In 1973 MTMC started competitive rate setting for baggage shipped from five locations in the Pacific to CONUS. As a result, ITGBL rates were reduced from 20 to 45 percent. We estimate that this reduction in rates will result in savings in transportation costs of about $1.9 million annually.

To determine whether similar savings could be realized on ITGBL household goods shipments, MTMC introduced competitive rate setting on a test basis for household goods moving between CONUS and Okinawa. The new rates, which went into effect January 1, 1975, are an average 19 percent lower than the me-too rates they replaced.

Under the competitive concept employed in the Okinawa test, all traffic between Okinawa and low-volume States is offered to the low bidder. Traffic between Okinawa and medium-volume States is offered to the three lowest bidders and to the five lowest bidders on high-volume States with the lowest bidders being offered the largest percentage of total traffic.

COMPARABLE SERVICE UNDER BOTH METHODS

We attempted to evaluate the quality of service to the military members under the two methods of shipping by reviewing the transit times and frequency of claims for loss and damage.

We compared transit times for 77 DPM shipments from Seckenheim and Stuttgart, Germany, to Cameron Station with transit times for 66 ITGBL shipments over the same or similar traffic channels during the same period; there was little difference. Transit time for the DPM shipments averaged 53 days, compared with 51.5 days for the ITGBL shipments.

Our comparison of the frequency of loss and damage claims on shipments received at the overseas installations included in our review follow.

Installations	Percent of shipments with claims	
	DPM	ITGBL
Seckenheim	18.0	31.0
Kaiserslautern	5.0	19.0
Frankfurt	7.0	26.0
Ramstein Air Base, Germany	17.0	12.0
Wiesbaden Air Base, Germany	29.0	19.0
Mildenhall Air Base	6.0	7.5
Rota, Spain	0.4	22.0
Naples, Italy	4.0	34.0
Hawaii	16.0	29.0

Although relatively fewer DPM shipments involved claims, we believe that this may have been attributable to the generally smaller size of DPM shipments and not to the method of shipment.

Inasmuch as the same contractors and carriers handle the shipments under both shipping methods, the quality of service should be essentially the same under both methods, provided that the service requirements now imposed on the ITGBL shipping method were to be imposed on the DPM method.

ARGUMENTS FOR RETAINING ITGBL METHOD

Although the DPM shipping method might seem to be the simple and obvious solution, since it is the lowest cost method, there are counter arguments to be considered.

If we were only now evaluating the potential benefits of ITGBL and whether a new industry should be created, no harm could be done by eliminating ITGBL. But many of the ITGBL forwarders have been in existence for about 20 years and many are highly dependent on DOD business. To revert to DPM could have the effect of destroying many capable businesses.

Although we believe that there are diseconomies in dealing with a large number of ITGBL forwarders, many of the individual firms are highly efficient, innovative entities that are providing high-quality service. For example, some of these forwarders have developed and are using their own specially developed household goods containers that are highly effective, and they have instituted controls over those containers which maximize container use. As another example, some forwarders innovated the use of flat-bed trucks for long-distance hauling of containers i the United States, which provided faster, more flexible service to and from posts. To discontinue the services of these forwarders now would deny to DOD the benefits of the forwarders' effective and innovative management.

The creation of this new industry has had benefits outside DOD. Many of the forwarders, building on their DOD base, have developed commercial accounts and are providing these accounts through services which are not otherwise available. Also the forwarders, through their development of the through-container concept, have won authority from the Interstate Commerce Commission to furnish containerized household goods service in domestic commerce.

Thus DOD has provided the stimulus for the development of commercial services which have been recognized by individuals, businesses, and the regulatory agency as useful and needed services.

Also it is the Government's general policy to rely on the private enterprise system to supply its needs. The Senate Committee on Appropriations, in Report No. 93-617, December 12, 1973, reporting on the Department of Defense Appropriations Bill for 1974, expressed this policy with respect to the use of forwarders for the management of DOD household goods.

To revert to the DPM method could have an adverse effect on the present DOD program to increase its combat personnel by reducing its support personnel. Although our comparisons showed that the DPM cost per shipment was generally lower than ITGBL, there is no doubt that moving the bulk of DOD's household goods by DPM would require some military or civilian staff increases, both in the United States and in the overseas area. To the extent that forwarder services obviate the need for DOD staff increases, the objective of increasing the numbers of combat personnel is served.

For the above reasons, as well as the convenience the ITGBL method offers, it is doubtful that DOD would favor a return to DPM as the primary method for shipping its overseas household goods.

If the ITGBL system is retained, however, DOD should seek to strengthen its management of the system to insure that DOD is receiving quality service at reasonable costs with fair and reasonable compensation to the firms hired to manage shipments.

INTRODUCING THE ITGBL METHOD CREATED NEW MANAGEMENT PROBLEMS

The ITGBL forwarder industry was literally created by DOD in the 1950s. The concept was designed to turn the management of overseas household goods shipments over to a forwarder so that DOD managers would issue only a single bill of lading, make the origin and destination arrangement with the forwarders, and the forwarder would handle everything in between. As we understand the historical development, DOD made some experimental shipments, concluded they were successful, and authorized the use of the forwarders. DOD made no cost or economic impact analyses and no formal studies.

Given DOD authorization, the ITGBL forwarder industry mushroomed overnight and about 100 forwarders appeared on the scene. Virtually 100 percent of their business was DOD business, and even at present, DOD business constitutes the largest share of their business.

Whatever DOD management functions the ITGBL concept may have reduced, the introduction of a wide range of forwarders of varying competence created a whole new range of management problems for DOD. Transportation officers found that forwarder representatives, competing for business, were changing their rates on a daily and sometimes an hourly basis. Rates varied radically from and to military bases in close proximity to one another. Special common carrier rates for the Government were not available to the forwarders. Quality of service standards were lacking. Standards of forwarder financial responsibility had not been established, and some of the forwarders went bankrupt or simply disappeared.

DOD had to step in and assume the role of regulator. It established rate-filing rules and regulations; centralized and computerized rate filing; a worldwide distribution system; a forwarder rotation system at each post, camp, base, or station for awarding shipments to forwarders; controls to detect and prevent a single forwarder from obtaining more than its fair share of the business by operating under different company names; limitations on the number of forwarders that could service a single base; quality control standards; a system of terminating unsatisfactory forwarders; and appeal and reinstatement procedures.

In short, instead of using what appeared to be a simple, single bill-of-lading substitute for the DPM system, DOD actually had to develop a costly and sophisticated management system to control and manage the new industry it had created. DOD had to maintain its own traffic management organization for military reasons and was now paying (through the rate structure) costs of managing the movement of household goods which its own traffic managers had previously handled.

DOD officials told us that they preferred to have the ITGBL method continued as the principal method of shipping DOD household goods between CONUS and overseas areas, but they believe that the competitive rate-setting methods used in the Okinawa test should be expanded to produce more favorable ITGBL rates. They believe also that DPM should be continued to service those areas where ITGBL service is not available and to provide a form of competition in instances where ITGBL rates still appear unreasonably high.

AGENCY COMMENTS

The Acting Assistant Secretary of Defense (Installations and Logistics), in responding to our preliminary report, said that DOD concurred in our report. (See app. IV.)

HOUSEHOLD GOODS FORWARDERS ASSOCIATION OF AMERICA, INC., COMMENTS AND OUR EVALUATION

Although association officials agreed with our conclusion that some modification to present MTMC rate-filing procedures is required to insure that ITGBL rates are reasonable, they did not agree with certain assumptions upon which they felt our cost analyses were based. They took the position that the diseconomies which GAO found to exist in using the two competing modes of transport, namely, ITGBL and DPM, could be eliminated with the ITGBL method as the continuing method operating with the restraints of reasonable rates determined by an independent regulatory agency.

The assumptions that the association took issue with and our comments are discussed below.

1. Assumption--The channels and installations studied were representative of total ITGBL traffic. The association took the position that channels studied were high-density-traffic channels and did not represent a fair basis for costing out the system.

Our comments--We at no time assumed the channels selected for review to be typical of the entire ITGBL system; however, we do believe them to be typical of the high-density channels over which the bulk of international household goods traffic is moved. Statistics show that most household goods shipments move between major installations and not between out-of-the-way places.

2. Assumption--Shippers could take advantage of lower truckload rates for transportation between installations and ports, and the equivalent of 10 type-II containers could be loaded into a 40-foot seavan. The association expressed the opinion that it was not possible to hold traffic long enough to permit the loading of the equivalent of 10 type-II containers into a seavan for movement from one origin to one destination and still meet the required delivery date imposed by installation transportation offices.

Our comments--With respect to obtaining truckload rates, if all traffic moving over the channels reviewed were shipped under the control of the Government (by DPM) rather than being distributed between more than 60 ITGBL carriers, we believe that all shipments could move at rates available for truckloads. In fact, local agents told us that, even under the ITGBL system, truckload rates were generally obtained.

As for loading the equivalent of 10 type-II containers in seavans for shipment from origin to destination, the volume of traffic over the channels reviewed is sufficent to permit this practice during most of the year. However, on the chance that traffic during the slack season would be insufficient to permit such "door to door" use of seavans, we also estimated the cost if seavans were used from origin to destination port (door to pier). We found that DPM was generally still cost favorable. (See app. I.)

Concerning our estimate of ITGBL carriers' costs, we assumed that seavans would be used only for the ocean transportation (pier to pier). Under this assumption, there is little doubt that maximum utilization could be achieved.

In addition to challenging our assumptions, the association said that our cost analyses did not reflect taxes paid by ITGBL carriers. This is true. During our review we concluded that we would not recommend adopting DPM as the sole method of shipment of household goods. Therefore we did not perform the substantial work required to estimate taxes paid by the many different ITGBL carriers. However, the only taxes involved would be those paid by the forwarders themselves, since there would be little change in the incomes or taxes paid by the contractors actually providing the underlying services. Furthermore, the criterion we used for measuring the reasonableness of the forwarders' profit (rates)--motor carrier profit rates allowed by the Interstate Commerce Commission--was prior to taxes paid.

In addition, association officials took issue with our reference to the conclusion reached during earlier studies that DPM was cost favorable. With regard to our 1969 report, they stated that a substantial portion of the potential savings estimated from the use of DPM came from the use of vessels presently in the Maritime Administration's "laid-up fleet" in competition with the American merchant marine. This simply is not the case. As stated on page 49 of the 1969 report, in estimating the cost of moving household goods by DPM, we considered <u>only</u> the use of regular commercial transportation services.

Association officials questioned the conclusions reached in the Department of Defense 1972 report. We did not review this report in detail, and therefore we placed no reliance on it in this report. We cited it only to show the basis for DOD's return to using DPM.

Association officials also suggested that the sharp reduction in rates (20 to 45 percent) in 1973 for transporting military unaccompanied baggage from selected locations in the Pacific to CONUS may have been attributable to the fact that 18, instead of 11, carriers were allowed to participate in the traffic rather than to the introduction of competitive rate-setting procedures. In response to this suggestion, we can only point out that the me-too rate-setting procedure employed for all ITGBL baggage shipments before 1973, and still employed for virtually all ITGBL household goods shipments, are, in our opinion, not stimulating sufficient competition. In short, the low bidder is not rewarded and all participants are aware of the fact that they will be allowed to match the low bid and share equally in the traffic. Consequently, regardless of whether there are 11 participants or 18, there is no incentive to bid low. In contrast, under the competitive-bidding procedures used for baggage, the low bidder is rewarded in that it is given all the traffic it can handle, thus providing an incentive to bid as low as is feasible.

Association officials further stated that our estimate of $1.9 million savings resulting from competitive rates for baggage was based on the estimated quantity of baggage traffic to be moved and that this quantity did not materialize so our estimate was not supported. There must have been some misunderstanding on this point. Our estimate of savings was based on MTMC's computation of $950,000, the actual savings realized during the 6-month period ended March 31, 1973. Although the $1.9 million arrived at by annualizing the 6-month actual savings is not exact, this estimate is reasonable.

Finally, association officials imply that reduced ITGBL rates resulting from competitive rate-setting procedures employed in the Okinawa test are noncompensatory. They support this contention by pointing out that all four of the original low bidders in the first phase of the trial period withdrew from that phase because their rates were noncompensatory.

Although it is true that several carriers did cancel selected rates covering shipments moving over west coast ports, these cancellations were due to a dispute with MTMC over whether they should be allowed to "pass through" increases in ocean tariffs which were known before the bid opening and took effect between the date of bid opening and the effective date of the bid ITGBL rates. We do not believe that this dispute over a contract technicality demonstrates that competitive rates are by nature noncompensatory or that the viability of the household goods forwarder industry is endangered. We observed that the number of responsive bids received for the third phase of the test period were still an average 10 percent lower than the me-too rates in effect before the beginning of the trial in spite of a year's inflation.

Household Goods Forwarders Association comments are included as appendix V.

CONCLUSIONS

Good arguments can be made for continuing to use both systems. However, if the ITGBL shipping method is to be continued as the principal method, we believe that action should be taken to bring ITGBL rates more in line with the reasonable cost of providing the services. This can best be done by introducing more competition into the rate-setting procedures.

We further believe that the Secretary of Defense should require MTMC, by June 1977, to evaluate and report on the progress made in bringing about effective competition. This report should include a comparative cost analysis of the type contained in the appendixes to this report. If efforts to improve competition are not successful, DOD should require auditable cost and pricing data to support the forwarders' rate proposals so as to permit a determination that such rates are not excessive but are at a level to return carriers' costs and reasonable profit.

If reasonable rates are not attainable through such modification of the DOD rate-setting procedures, DOD may have to revert to DPM, or statutory regulation of the forwarder industry may be required to achieve that objective.

Regardless of the results of negotiations with the forwarders, it will be necessary to retain DPM of shipping as a competitive hedge for use in those areas in which ITGBL service is not available and for those instances where, because of the size of shipments or other circumstances, the ITGBL method is not economically feasible.

APPENDIX I

COMPARISON OF COST OF SHIPPING HOUSEHOLD GOODS UNDER ITGBL METHOD AND DPM FOR FY 1973

(costs and rates per 100 pounds net weight)

	Between JPPSO Cameron Station and Seckenheim			
	Door to pier		Door to door	
	Outbound	Inbound	Outbound	Inbound
Origin service	$12.86	$10.73	$12.86	$10.73
Container	5.41	4.31	5.41	4.31
Line-haul to port	1.07	2.01	1.07	2.01
Port handling	-	-	-	-
Ocean transportation	8.90	8.25	8.90	8.25
Port handling	1.95	3.82	-	-
Line-haul to destination	4.05	2.25	2.47	1.06
Destination services	4.26	5.12	4.26	5.12
Administrative	.62	.60	.60	.60
Claims	.16	.16	.16	.16
Total DPM	$39.28	$37.25	$35.73	$32.24
ITGBL rate	$42.50	$43.26	$42.50	$43.26
Administrative	.60	.39	.60	.39
Total ITGBL	$43.10	$43.65	$43.10	$43.65
ITGBL over or under (-) DPM	$ 3.82	$ 6.40	$ 7.37	$11.41
Percent over or under (-) expressed as percent of ITGBL cost	8.9	14.7	17.1	26.1

	Between JPPSO Cameron Station and Kaiserslautern			
	Door to pier		Door to door	
	Outbound	Inbound	Outbound	Inbound
Origin service	$12.86	$10.47	$12.86	$10.47
Container	5.50	4.16	5.50	4.16
Line-haul to port	1.07	2.02	1.07	2.02
Port handling	-	-	-	-
Ocean transportation	8.90	8.25	8.90	8.25
Port handling	1.95	3.82	-	-
Line-haul to destination	3.87	2.25	2.42	1.06
Destination services	4.02	5.12	4.02	5.12
Administrative	.73	.84	.71	.84
Claims	.16	.16	.16	.16
Total DPM	$39.06	$37.09	$35.64	$32.08
ITGBL rate	$42.50	$43.69	$42.50	$43.69
Administrative	.66	.43	.66	.43
Total ITGBL	$43.16	$44.12	$43.16	$44.12
ITGBL over or under (-) DPM	$ 4.10	$ 7.03	$ 7.52	$12.04
Percent over or under (-) expressed as percent of ITGBL cost	9.5	15.9	17.4	27.3

	Between JPPSO Cameron Station and Frankfurt			
	Door to pier		Door to door	
	Outbound	Inbound	Outbound	Inbound
Origin service	$12.86	$11.12	$12.86	$11.12
Container	5.45	3.96	5.45	3.96
Line-haul to port	1.07	1.62	1.07	1.62
Port handling	-	-	-	-
Ocean transportation	8.90	8.25	8.90	8.25
Port handling	1.95	3.82	-	-
Line-haul to destination	3.44	2.25	2.13	1.06
Destination services	4.73	5.12	4.73	5.12
Administrative	.68	.72	.66	.72
Claims	.16	.16	.16	.16
Total DPM	$39.34	$37.02	$35.96	$32.01
ITGBL rate	$42.50	$43.48	$42.50	$43.48
Administrative	.63	.41	.63	.41
Total ITGBL	$43.13	$43.89	$43.13	$43.89
ITGBL over or under (-) DPM	$ 3.89	$ 6.87	$ 7.17	$11.88
Percent over or under (-) expressed as percent of ITGBL cost	9.0	15.7	16.6	27.1

APPENDIX I

	Between JPPSO Cameron Station and Ramstein				Between JPPSO Cameron Station and Wiesbaden				Between JPPSO Cameron Station and Mildenhall			
	Door to pier		Door to door		Door to pier		Door to door		Door to pier		Door to door	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound
Origin service	$12.86	$11.16	$12.86	$11.16	$12.86	$11.45	$12.86	$11.45	$12.86	$ 9.91	$12.86	$ 9.91
Container	5.52	4.50	5.52	4.50	5.51	4.28	5.51	4.28	5.42	3.07	5.42	3.07
Line-haul to port	1.07	2.02	1.07	2.02	1.07	1.62	1.07	1.62	.92	.95	.92	.95
Port handling	-	-	-	-	-	-	-	-	-	-	-	-
Ocean transportation	8.90	8.25	8.90	8.25	8.90	8.25	8.90	8.25	9.71	9.96	9.71	9.96
Port handling	1.95	3.82	-	-	1.95	3.82	-	-	.68	3.84	-	-
Line-haul to destination	4.99	2.25	2.42	1.06	4.06	2.25	2.13	1.06	1.89	2.25	.96	1.00
Destination service	4.65	5.12	4.65	5.12	4.91	5.12	4.91	5.12	4.08	5.12	4.08	5.12
Administrative	.66	.48	.64	.48	.65	.65	.63	.65	.60	.43	.58	.43
Claims	.16	.16	.16	.16	.16	.16	.16	.16	.16	.16	.16	.16
Total DPM	$40.76	$37.76	$36.22	$32.75	$40.07	$37.60	$36.17	$32.59	$36.32	$35.69	$34.69	$30.60
ITGBL rate	$42.50	$43.69	$42.50	$43.69	$42.50	$43.34	$42.50	$43.34	$39.68	$38.24	$39.68	$38.24
Administrative	.59	.36	.59	.36	.73	.40	.73	.40	.64	.39	.64	.39
Total ITGBL	$43.09	$44.05	$43.09	$44.05	$43.23	$43.74	$43.23	$43.74	$40.32	$38.63	$40.32	$38.63
ITGBL over or under (-) DPM	$ 2.33	$ 6.29	$ 6.87	$11.30	$ 3.16	$ 6.14	$ 7.06	$11.15	$ 4.00	$ 2.94	$ 5.63	$ 8.03
Percent over or under (-) expressed as percent of ITGBL cost	5.4	14.3	15.9	25.7	7.3	14.0	16.3	25.5	9.9	7.6	14.0	20.8

APPENDIX I

	Between JPPSO Cameron Station and Rota				Between JPPSO Cameron Station and Naples				Between JPPSO Cameron Station and JPPSO Hawaii			
	[a]Door to pier		Door to door		Door to pier		Door to door		[b]Door to pier		Door to door	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound
Origin service	$12.86	$ 9.56	-	-	$12.86	$ 8.36	$12.86	$ 8.36	$12.86	$ 8.80	-	-
Containe	5.65	3.72	-	-	5.65	3.19	5.65	3.19	5.54	4.81	-	-
Line-haul to port	2.97	-	-	-	1.05	.79	1.05	.79	11.89	-	-	-
Port handling	-	-	-	-	-	-	-	-	2.83	-	-	-
Ocean transportation	-	-	-	-	19.22	18.90	19.22	18.90	9.50	10.88	-	-
Port handling	-	-	-	-	1.47	3.88	-	-	-	1.62	-	-
Line-haul to destination	-	2.97	-	-	.75	2.25	.82	1.26	-	11.89	-	-
Destination service	2.80	5.12	-	-	3.57	5.12	3.57	5.12	4.75	5.12	-	-
Administrative	.50	.39	-	-	.56	.39	.56	.39	.93	.76	-	-
Claims	.16	.16	-	-	.16	.16	.16	.16	.16	.16	-	-
Total DPM	$24.94	$21.92	-	-	$45.29	$43.04	$43.89	$38.17	$48.46	$44.04	-	-
ITGBL rate	$26.19	$27.67	-	-	$42.68	$41.20	$42.68	$41.20	$39.14	$37.79	-	-
Administrative	.63	.35	-	-	.62	.33	.62	.33	.97	.78	-	-
Total ITGBL	$26.82	$28.02	-	-	$43.30	$41.53	$43.30	$41.53	$40.11	$38.57	-	-
ITGBL over or under (-) DPM	$ 1.88	$ 6.10	-	-	$-1.99	$-1.51	$-0.59	$ 3.36	$-8.35	$-5.47	-	-
Percent over or under (-) expressed as percent of ITGBL cost	7.0	21.8	-	-	-4.6	-3.6	-1.4	8.1	-20.8	-14.2	-	-

APPENDIX I

	Between JPPSO San Antonio and Seckenheim				Between JPPSO San Antonio and Kaiserslautern				Between JPPSO San Antonio and Frankfurt			
	Door to pier		Door to door		Door to pier		Door to door		Door to pier		Door to door	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound
Origin service	$ 4.95	$10.73	$ 4.95	$10.73	$ 4.95	$10.47	$ 4.95	$10.47	$ 4.95	$11.12	$ 4.95	$11.12
Container	3.09	4.35	3.09	4.35	3.24	4.25	3.24	4.25	3.16	4.03	3.16	4.03
Line-haul to port	3.74	2.10	3.74	2.10	3.74	1.83	3.74	1.83	3.74	1.59	3.74	1.59
Port handling	-	-	-	-	-	-	-	-	-	-	-	-
Ocean transportation	11.06	11.42	11.06	11.42	11.06	11.42	11.06	11.42	11.06	11.42	11.06	11.42
Port handling	2.14	7.17	-	-	2.14	7.17	-	-	2.14	7.17	-	-
Line-haul to destination	4.05	2.09	2.73	3.10	3.87	2.09	2.09	3.10	3.44	2.09	1.77	3.10
Destination service	4.26	1.93	4.26	1.93	4.02	1.93	4.02	1.93	4.73	1.93	4.73	1.93
Administrative	.35	.35	.35	.35	.46	.59	.46	.59	.41	.47	.41	.47
Claims	.16	.16	.16	.16	.16	.16	.16	.16	.16	.16	.16	.16
Total DPM cost	$33.80	$40.30	$30.34	$34.14	$33.64	$39.91	$29.72	$33.75	$33.79	$39.98	$29.98	$33.82
ITGBL rate	$43.51	$45.66	$43.51	$45.66	$43.51	$45.87	$43.51	$45.87	$43.51	$45.66	$43.51	$45.66
Administrative	.43	.32	.43	.32	.49	.36	.49	.36	.46	.34	.46	.34
Total ITGBL	$43.94	$45.98	$43.94	$45.98	$44.00	$46.23	$44.00	$46.23	$43.97	$46.00	$43.97	$46.00
ITGBL over or under (-) DPM	$10.14	$ 5.68	$13.60	$11.84	$10.36	$ 6.32	$14.28	$12.48	$10.18	$ 6.02	$13.99	$12.18
Percent over or under (-) expressed as percent of ITGBL cost	23.1	12.4	31.0	25.8	23.5	13.7	32.5	27.0	23.2	13.1	31.8	26.5

APPENDIX I

	Between JPPSO San Antonio and Ramstein				Between JPPSO and San Antonio and Wiesbaden				Between JPPSO San Antonio and Mildenhall			
	Door to pier		Door to door		Door to pier		Door to door		Door to pier		Door to door	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound
Origin service	$ 4.95	$11.16	$ 4.95	$11.16	$ 4.95	$11.45	$ 4.95	$11.45	$ 4.95	$ 9.91	$ 4.95	$ 9.91
Container	3.26	4.61	3.26	4.61	3.26	4.37	3.26	4.37	3.11	3.12	3.11	3.12
Line-haul to port	3.74	1.83	3.74	1.83	3.74	1.59	3.74	1.59	5.21	1.11	5.21	1.11
Port handling	-	-	-	-	-	-	-	-	-	-	-	-
Ocean transportation	11.06	11.42	11.06	11.42	11.06	11.42	11.06	11.42	10.31	12.16	10.31	12.16
Port handling	2.14	7.17	-	-	2.14	7.17	-	-	.78	7.21	-	-
Line-haul to destination	4.99	2.09	2.09	3.10	4.06	2.09	1.77	3.10	1.89	2.09	1.95	5.52
Destination service	4.65	1.93	4.65	1.93	4.91	1.93	4.91	1.93	4.08	1.93	4.08	1.93
Administrative	.39	.23	.39	.23	.38	.40	.38	.40	.33	.18	.33	.18
Claims	.16	.16	.16	.16	.16	.16	.16	.16	.16	.16	.16	.16
Total DPM cost	$35.34	$40.60	$30.30	$34.44	$34.66	$40.58	$30.23	$34.42	$30.82	$37.87	$30.10	$34.09
ITGBL rate	$43.51	$45.66	$43.51	$45.66	$43.51	$45.66	$43.51	$45.66	$41.08	$39.91	$41.08	$39.91
Administrative cost	.42	.29	.42	.29	.56	.33	.56	.33	.47	.32	.47	.32
Total ITGBL	$43.93	$45.95	$43.93	$45.95	$44.07	$45.99	$44.07	$45.99	$41.55	$40.23	$41.55	$40.23
ITGBL over or under (-) DPM	$ 8.59	$ 5.35	$13.63	$11.51	$ 9.41	$ 5.41	$13.84	$11.57	$10.73	$ 2.36	$11.45	$ 6.14
Percent over or under (-) expressed as percent of ITGBL cost	19.6	11.6	31.0	25.0	21.4	11.8	31.4	25.2	25.8	5.9	27.6	15.3

APPENDIX I

	Between JPPSO San Antonio and Rota				Between JPPSO San Antonio and Naples				Between JPPSO San Antonio and JPPSO Hawaii			
	[a] Door to pier		Door to door		Door to pier		Door to door		[b] Door to pier		Door to door	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound
Origin service	$ 4.95	$ 9.56	-	-	$ 4.95	$ 8.36	$ 4.95	$ 8.36	$ 4.95	$ 8.80	-	-
Container	3.47	3.89	-	-	3.47	3.39	3.47	3.39	3.29	4.98	-	-
Line-haul to port	5.91	-	-	-	2.09	.86	5.21	.86	8.20	-	-	-
Port handling	-	-	-	-	6.20	-	-	-	2.83	-	-	-
Ocean transportation	-	-	-	-	20.16	19.80	20.16	19.80	9.50	10.88	-	-
Port handling	-	-	-	-	-	6.93	1.52	-	-	1.62	-	-
Line-haul to destination	-	5.91	-	-	.87	2.09	.75	5.14	-	8.20	-	-
Destination service	2.80	1.93	-	-	3.57	1.93	3.57	1.93	4.75	1.93	-	-
Administrative	.23	.14	-	-	.29	.14	.29	.14	.66	.51	-	-
Claims	.16	.16	-	-	.16	.16	.16	.16	.16	.16	-	-
Total DPM cost	$17.52	$21.59	-	-	$41.76	$43.66	$40.08	$39.78	$34.34	$37.08	-	-
ITGBL rate	$28.79	$29.74	-	-	$42.70	$45.92	$42.70	$45.92	$32.64	$34.19	-	-
Administrative	.46	.18	-	-	.45	.26	.45	.26	.80	.71	-	-
Total ITGBL	$29.25	$29.92	-	-	$43.15	$46.18	$43.15	$46.18	$33.44	$34.90	-	-
ITGBL over or under (-) DPM	$11.73	$ 8.33	-	-	$ 1.39	$ 2.52	$ 3.07	$ 6.40	$-0.90	$-2.18	-	-
Percent over or under (-) expressed as percent of ITGBL cost	40.1	27.8	-	-	3.2	5.5	7.1	13.9	-2.7	-6.2	-	-

APPENDIX I

	Between NSC (note c) Oakland and JPPSO Hawaii				Between NSC (note c) Oakland and Rota				Between NSC (note c) Oakland and Naples			
	Door to pier		Door to door		Door to pier		Door to door		Door to pier		Door to door	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound[a]	Outbound	Inbound	Outbound	Inbound[b]	Outbound	Inbound
Origin service	$ 6.88	$ 8.80	$ 6.88	$ 8.80	$ 6.88	$ 9.56	-	-	$ 6.88	$ 8.36	-	-
Container	4.07	4.75	4.07	4.75	4.19	3.68	-	-	4.19	3.15	-	-
Line-haul to port	-	-	-	-	11.56	-	-	-	9.16	.86	-	-
Port handling	-	-	-	-	-	-	-	-	5.95	-	-	-
Ocean transportation	9.50	10.88	9.50	10.88	-	-	-	-	20.16	19.80	-	-
Port handling	.49	1.62	-	-	-	-	-	-	-	6.93	-	-
Line-haul to destination	-	-	-	-	-	11.56	-	-	-	9.16	-	-
Destination service	4.75	3.83	4.75	3.83	2.80	3.83	-	-	3.57	3.83	-	-
Administration	.65	.85	.65	.85	.22	.48	-	-	.28	.48	-	-
Claims	.16	.16	.16	.16	.16	.16	-	-	.16	.16	-	-
Total DPM	$26.50	$30.89	$26.01	$29.27	$25.81	$29.27	-	-	$50.35	$52.73	-	-
ITGBL rate	$30.04	$29.89	$30.04	$29.89	$31.19	$30.94	-	-	$48.40	$47.02	-	-
Administrative	.56	.86	.56	.86	.22	.43	-	-	.21	.41	-	-
Total ITGBL	$30.60	$30.75	$30.60	$30.75	$31.41	$31.37	-	-	$48.61	$47.43	-	-
ITGBL over or under (-) DPM	$ 4.10	$-0.14	$ 4.59	$ 1.48	$ 5.60	$ 2.10	-	-	$-1.74	$-5.30	-	-
Percent over or under (-) expressed as percent of ITGBL cost	13.4	-	15.0	4.8	17.8	6.7	-	-	3.6	11.2	-	-

[a] ITGBL traffic to and from Rota moves via Code 5 under which the Government provides port handling and ocean transportation.
[b] DPM cost figures are based upon pier-to-door outbound and door-to-pier inbound. Door-to-door service was not available.
[c] Naval Supply Center.

Note 1: Door-to-pier shipments stuffed into seavans at origin installation, unstuffed at port of debarkation, and transported to destination by rail or motor carriers. Door-to-door shipments stuffed into seavans at origin installation and unstuffed at destination installation.

Note 2: The DPM cost shown in this appendix is based on the assumption that all ITGBL traffic moving in the traffic channels reviewed would be diverted to DPM and move in truckload quantities with all seavans being stuffed with the equivalent of 10 type-II household goods containers. (See p. 4.)

APPENDIX I

The useful life of containers was assumed to be three moves.

Claims--The added cost to the Government for claims on DPM shipments was considered to be that portion of total claims on ITGBL shipments paid by the forwarders. In responding to our earlier report, the forwarding industry estimated that its cost of claims averaged $6.87 for each shipment, or about 16 cents per net hundred pounds on an average 4,200-pound shipment.

Government administrative cost--Administrative costs to the Government were estimated on the basis of the specific administrative functions required under the two methods of shipment. To save time and audit work, we generally developed costs on only those administrative functions peculiar to the specific method of shipment.

Forwarders' overhead costs--When responding to our earlier report, the forwarding industry said that its overhead costs averaged $97.41 for each shipment. By adjusting this figure in accordance with changes to the consumer price index we estimated that current overhead costs would be about $150 for each shipment, or about $3.57 per net hundred pounds.

Single-factor rate--We developed weighted average single-factor rates (see p. 20) on the basis of the number of calendar days that different rates were in effect. These rates were adjusted for currency fluctuations and other pertinent factors.

EVALUATION OF ITGBL RATES FROM APRIL THROUGH JUNE 1974
(cost and rates per 100 pounds net weight)

	Between Cameron Station and Seckenheim		Between Cameron Station and Kaiserslautern		Between Cameron Station and Frankfurt		Between Cameron Station and Ramstein		Between Cameron Station and Weisbaden	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound
Origin service	$10.28	$18.75	$10.28	$18.75	$10.28	$18.75	$10.28	$18.75	$10.28	$18.75
Container cost	2.82	3.62	2.90	3.85	2.89	3.67	2.90	3.41	2.94	3.67
Line-haul to port	1.34	(a)	1.34	-	1.34	-	1.34	-	1.34	-
Port handling	1.28	(a)	1.28	-	1.28	-	1.28	-	1.28	-
Ocean transportation	11.84	12.51	11.84	12.51	11.84	12.51	11.84	12.51	11.84	12.51
Port handling	-	1.28	-	1.28	-	1.28	-	1.28	-	1.28
Line-haul to destination	-	1.34	-	1.34	-	1.34	-	1.34	-	1.34
Destination cost	10.00	3.66	10.00	3.66	10.00	3.66	10.00	3.66	10.00	3.66
Overhead cost	3.57	3.57	3.57	3.57	3.57	3.57	3.57	3.57	3.57	3.57
Total cost to forwarder	$41.13	$44.73	$41.21	$44.96	$41.20	$44.78	$41.21	$44.52	$41.25	$44.78
Adjusted weighted average single-factor rate	$53.56	$54.35	$53.56	$54.95	$53.56	$54.65	$53.56	$54.95	$53.56	$54.45
Forwarder profit	12.43	9.62	12.35	9.99	12.36	9.87	12.35	10.43	12.31	9.67
Profit as a percent of total cost	30.2	21.5	30.0	22.2	30.0	22.0	30.0	23.4	29.8	21.6

APPENDIX III

	Between Cameron Station and Mildenhall		Between Cameron Station and Rota		Between Cameron Station and Naples		Between Cameron Station and JPPSO Hawaii	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound
Origin cost	$10.28	$15.91	$10.28	$12.78	$10.28	$ 8.50	$10.28	$10.66
Container cost	3,20	4.12	2.85	3.68	2.85	3.42	3.01	3.61
Line-haul to port	1.34	-	3.54	(b)	1.34	-	12.32	-
Port handling	1.28	-	(b)	(b)	.45	-	.50	-
Ocean transportation	11.84	13.11	(b)	(b)	22.59	23.32	10.47	9.16
Port handling	-	1.28	(b)	.50	-	1.28	(b)	.50
Line-haul to destination	-	1.34	(b)	3.54	-	1.34	(b)	12.32
Destination cost	13.13	3.66	6.97	3.66	4.50	3.66	3.82	3.66
Overhead cost	3.57	3.57	3.57	3.57	3.57	3.57	3.57	3.57
Total cost to forwarder	$44.64	$42.99	$27.21	$27.73	$45.58	$45.09	$43.97	$43.48
Adjusted weighted average single-factor rate	$51.06	$47.32	$33.87	$37.20	$51.85	$50.47	$45.26	$40.15
Forwarder profit (over or under (-))	6.42	4.33	6.66	9.47	6.27	5.38	1.29	-3.33
Profit (over or under (-)) as a percent of total cost	14.4	10.1	24.5	34.2	13.8	11.9	2.9	-7.7

APPENDIX III

	Between JPPSO San Antonio and Seckenheim		Between JPPSO San Antonio and Kaiserslautern		Between JPPSO San Antonio and Frankfurt		Between JPPSO San Antonio and Ramstein		Between JPPSO San Antonio and Weisbaden	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound
Origin cost	$ 8.50	$18.75	$ 8.50	$18.75	$ 8.50	$18.75	$ 8.50	$18.75	$ 8.50	$18.75
Container cost	3.02	3.55	3.11	3.78	3.10	3.59	3.11	3.35	3.15	3.61
Line-haul to port	2.27	(a)	2.27	-	2.27	-	2.27	-	2.27	-
Port handling	.50	(a)	.50	-	.50	-	.50	-	.50	-
Ocean transportation	17.26	17.25	17.26	17.25	17.26	17.25	17.26	17.25	17.26	17.25
Port handling	-	.50	-	.50	-	.50	-	.50	-	.50
Line-haul to destination	10.00	2.27	10.00	2.27	10.00	2.27	10.00	2.27	10.00	2.27
Destination cost	-	3.00	-	3.00	-	3.00	-	3.00	-	3.00
Overhead cost	3.57	3.57	3.57	3.57	3.57	3.57	3.57	3.57	3.57	3.57
Total cost to forwarder	$45.12	$48.89	$45.21	$49.12	$45.20	$48.93	$45.21	$48.69	$45.25	$48.95
Adjusted weighted average single-factor rate	$54.00	$57.49	$54.00	$57.79	$54.00	$57.49	$54.00	$57.49	$54.00	$57.49
Forwarder profit	8.88	8.60	8.79	8.67	8.80	8.56	8.79	8.80	8.75	8.54
Profit as a percent of total cost	19.7	17.6	19.4	17.7	19.5	17.5	19.4	18.1	19.3	17.4

APPENDIX III

	Between JPPSO San Antonio and Mildenhall		Between JPPSO San Antonio and Rota		Between JPPSO San Antonio and Naples		Between JPPSO San Antonio and JPPSO Hawaii	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound
Origin cost	$ 8.50	$15.91	$ 9.00	$12.78	$ 8.50	$ 8.50	$ 8.50	$10.66
Container cost	3.43	4.05	3.06	3.60	3.06	3.34	3.22	3.52
Line-haul to port	2.27	-	6.74	(b)	2.27	-	7.66	-
Port handling	.50	-	(b)	(b)	.50	-	.50	-
Ocean transportation	17.25	18.17	(b)	(b)	21.50	20.53	10.47	9.16
Port handling	-	.50	(b)	.50	-	.50	(b)	.50
Line-haul to destination	13.13	2.27	(b)	6.74	-	2.27	(b)	7.66
Destination cost	-	3.00	6.97	3.00	4.50	3.00	3.82	3.00
Overhead cost	3.57	3.57	3.57	3.57	3.57	3.57	3.57	3.57
Total cost to forwarder	$48.66	$47.47	$29.34	$30.19	$43.90	$41.71	$37.74	$38.07
Adjusted weighted average single-factor rate	$50.80	$49.56	$34.97	$40.73	$49.15	$52.47	$38.76	$36.55
Forwarder profit (over or under (-))	2.14	2.09	5.63	10.54	5.25	10.76	1.02	-1.52
Profit as a percent of total cost (over or under (-))	4.4	4.4	19.2	34.9	12.0	25.8	2.7	-4.0

APPENDIX III

	Between NSC (note c) Oakland and Rota		Between NSC (note c) Oakland and Naples		Between NSC (note c) Oakland and JPPSO Hawaii	
	Outbound	Inbound	Outbound	Inbound	Outbound	Inbound
Origin cost	$ 9.50	$12.78	$ 9.30	$ 8.50	$ 9.30	$10.66
Container cost	3.18	3.52	3.18	3.28	3.37	3.43
Line-haul to port	12.84	(b)	9.70	-	(b)	(b)
Port handling	(b)	(b)	.50	-	.50	-
Ocean transportation	(b)	(b)	21.50	20.53	10.47	9.16
Port handling	(b)	.50	-	.50	-	.50
Line-haul to destination	(b)	12.84	-	9.70	(b)	-
Destination cost	6.97	3.34	4.50	3.34	3.82	3.34
Overhead cost	3.57	3.57	3.57	3.57	3.57	3.57
Total cost to forwarder	$36.06	$36.55	$52.25	$49.42	$31.03	$30.66
Adjusted weighted average single-factor rate	$37.37	$42.03	$55.95	$57.27	$36.16	$32.25
Forwarder profit	1.31	5.48	3.70	7.85	5.13	1.59
Profit as a percent of total cost	3.6	15.0	7.1	15.9	16.5	5.2

[a]In origin costs.
[b]Not applicable.
[c]Naval Supply Center.

Note 1: Forwarders' costs are not a matter of public record and are not subject to audit by GAO. Costs therefore had to be constructed.

APPENDIX III

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

INSTALLATIONS AND LOGISTICS

15 SEP 1975

Mr. F. J. Shafer
Director, Logistics and Communications Division
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Shafer:

This is in response to your letter of July 21, 1975, to the Secretary of Defense transmitting copies of your draft report concerning "Adoption of a Single Method of Shipping Household Goods Overseas - Pros and Cons," assignment Code 943223, OSD Case #4126.

The Department of Defense (DoD) concurs with this report.

With respect to the suggestions on page 21 of the draft report, the DoD is increasing competitive rate filings for unaccompanied baggage by initiating action to expand Code "J" service to Europe. The extent of use of competitive rate filings for household goods will be determined following an evaluation of the Okinawa Trial during the first half of CY 1976.

We found this draft report to be extremely well done and anticipate that the suggestions it offers will be of great value in our future actions.

Sincerely,

PAUL H. RILEY
Acting Assistant Secretary of Defense
(Installations and Logistics)

HOUSEHOLD GOODS FORWARDERS ASSOCIATION OF AMERICA, INC.

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(202) 293-1800

1500 MASSACHUSETTS AVENUE, N.W. SUITE 525 WASHINGTON, D.C. 20005

February 10, 1976

Mr. Henry W. Connor
Associate Director
Logistics & Communications Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Connor:

We have carefully reviewed the GAO Report (Code 943223), dated January 8, 1976, and submit our comments for your consideration.

We take no issue with the GAO conclusion that some modification of present MTMC filing procedures is required in order to assure the Government that the ITGBL rates filed are reasonable. By reasonable rates we concur with the GAO definition that such rates must return carrier costs and a reasonable profit. (Report, p.21). As stated in your report, such rates should be set at levels to "return to the carrier costs plus a reasonable profit and which will encourage high quality service to the military member." (Report, p.9).

Although GAO takes the position that the Secretary of Defense should attempt to bring this change about administratively and make a report by June of 1976 on its accomplishments, and this should be done prior to regulation of the household goods forwarding industry (Report, pp.4, 21), it is our opinion that the desired results can be obtained only by regulation.

We do not agree, however, with the costs attributed to ITGBL shipments as shown on Appendix III because such costs were based upon an inadequate and non-representative sample; assumed the availability of low truckload rates for all movements between inland points and ports; assumed an optimal, and we submit impractical, stowage of the equivalent of 10 Type II containers in a sea van in every instance, and failed to reflect the taxes paid by ITGBL carriers, which are lost to the government when the shipments move in the DPM system.

The conclusions in the GAO report are based, as clearly set forth therein, on a number of assumptions as follows:

(1) The assumption that all household goods shipments would be diverted from ITGBL to DPM.

(2) The assumption that traffic could be distributed so as always to permit, without unreasonable delay and additional costs, the movement in truckload lots and movement of sufficient traffic to require 10 Type II household goods containers from one origin to one destination.

(3) The assumption that the traffic channels studied are representative of the traffic handled in the ITGBL system, and that the points selected within a given channel are representative of the costs of servicing that channel.

We do not agree with those assumptions.

First, the question of whether the distribution of household goods of military dependents could be reordered so as to permit the accomplishment of the required delivery dates needed by the military members is a traffic and not an audit determination. With all due respect, we do not feel that the General Accounting Office has the expertise of a traffic manager and that this determination is one to be made in the first instance by MTMC. From an industry viewpoint, and based upon industry's experience, it is not possible to hold traffic to permit the equivalent of 10 Type II containers moving from one origin to one destination and still meet the RDD's imposed by the installation transportation officers to meet the needs of the military member. This difficulty would be exacerbated when consideration is given to the lower volume traffic channels not studied by the GAO.

Second, it is our understanding, based on discussions during which the basis for your report was thoroughly considered, that no attempt was made to ascertain that the channels studied were in fact representative of the total ITGBL traffic, except to make certain that there was covered an Army, an Air Force, and a Navy installation. Furthermore, it is our understanding that no attempt was made to determine that the point or points selected within a given traffic channel were in fact representative from a cost standpoint of the studied channel.

It is the Association's position that the channels studied are the high density traffic channels and do not represent a fair basis of costing out the entire ITGBL system. It is further our position that within a given channel, the point or points selected are not representative since, for example, Rota was taken as the point for Spain, which installation is located at the port, whereas a substantial amount of traffic originates and destines at Torrejon Air Base, which is located several hundred miles from the port and which, therefore, adds additional line haul expense not reflected in the GAO study. Lastly, as pointed out, in the study made by the Logistics Management Institute for the Department of Defense (Task 69-26), the comparing of point-to-point charges in connection with DPM with point-to-country-wide costs and point to state-wide rates and costs for ITGBL unfairly weights the comparison in favor of DPM and against the ITGBL mode.

In support of your over-all conclusion some limited reliance appears to be placed upon previous studies. It is not our intention to resubmit in detail the position of the Association on these past studies. However, we do have the following brief comments:

(1) To the extent that reliance is placed upon the 1969 GAO Report, we have previously submitted detailed comments in opposition to the conclusion reached in that Report, including the fact that a substantial portion of the savings estimated by GAO flow from the use of vessels presently in the Maritime Administration's laid up fleet and their operation in competition with the American Merchant Marine. It is our understanding that such competition with private industry is not permissible under the present law.

(2) To the extent that reliance is placed upon the Army Audit Report dated June 12, 1972, we point out, as we did in our letter of September 26, 1972, addressed to the Honorable Barry J. Shillito, Assistant Secretary of Defense (Installations & Logistics), that the alleged savings set forth in that report flow from the type of inaccuracies underscored by the study of the Logistics Management Institute and are based upon the availability of underlying transportation services which are either very limited or non-existent.

We note that you attempt to derive support for the GAO conclusion that the ITGBL rates are high by reference to experience encountered in connection with ITGBL shipments of military unaccompanied baggage under the Code J program and indicate that solely as a result ofthe elimination of the "me too" cycle rates were reduced from 20 to 45 per cent (Report, pp. iii, 14-15). We respectfully point out that in 1972 MTMC created a competitively restrictive environment by imposing as a condition to participation in the Code J program that all carriers have exclusive agents at all military installations overseas, with the result that only eleven carriers were found qualified to participate in this business. On the other hand, in the request for rate submissions covering the 1973 traffic, MTMC withdrew the requirement for exclusive agency arrangements, thus opening up competition, with the result that eighteen carriers submitted rates for this traffic. As a result, we feel it is both simplistic and inaccurate to conclude that the rate reductions were solely attributable to the modification of the rate filing system.

Furthermore, the estimated savings of $1.9 million is unsupportable. We were advised that it was predicated upon the assumption that the estimated quantity of unaccompanied baggage traffic moving under the Code J program during 1973 is consistent with traffic actually transported. The fact is that the traffic actually moved in Code J during 1973 was substantially under MTMC's estimated traffic requirements for a number of reasons: first, the withdrawal and reduction in force levels at all Code J program locations, and second, the diversion of Code J traffic to DPM, even though the DPM costs were higher. As a result, a fair determination of economies achieved would, at the very least, have to be related to actual traffic handled under the program and not predicated upon an estimated traffic volume which has proven to be totally unreliable.

Lastly, the GAO Report attempts to derive support from the MTMC experience during the experimental so-called Okinawa trial. In response to that, we point out that no evaluation has been made as yet of the reduction in agent capability resulting from this procurement method, its applicability to other areas and its adverse impact on the viability of the ITGBL carriers involved. We must point out that the four original low bidders during the first phase of the Okinawa trial, which transported over 95 per cent of the traffic, all, within the first 120 days, withdrew from this phase of the program upon determining that their rates had been reduced to non-compensatory levels, and one of these carriers has brought suit in the United States Court of Claims for damages in excess of $200,000.

As GAO recognized in its Report, any change in the competitive rate-filing procedures should be such that would permit carriers to file rates which will return their costs and an element of profit and will "encourage high quality service to the military member." Until it is determined that the alleged savings realized from the Okinawa trial have not resulted from carrier rates being depressed to non-compensatory levels, we submit that this experience in no way bears upon the reasonableness of the ITGBL rate levels considered in the GAO study.

Despite the setting forth of what we conceive to be deficiencies in the GAO Report, we are the first to recognize the almost impossible nature of the task of collecting actual total costs on DPM shipments and nothing stated herein is to be taken as any criticism of the good faith of your organization's effort in this regard. There is no doubt that this study is considerably more detailed and considers many more of the problems than any study which preceded it.

As we understand it, this study was taken pursuant to a request by Congress that the General Accounting Office determine the feasibility of selecting either the ITGBL or the DPM method as the single method for international household goods movements. For the reasons stated in your Report, we concur that there is no basis to divert the tonnage presently handled by ITGBL to DPM and utilize that method as the sole mode of transport. We earnestly submit, however, that if regulation is adopted which protects the Government against unreasonable ITGBL rates, the primary basis for the DPM method would be eliminated. To the extent that DPM might be required for shipments held at the port for military instruction or for shipments below 500 pounds, it is the position of our Association that good faith negotiations between MTMC and the industry would produce rates for these services which would be reasonable to the government, and furthermore, the reasonableness of such rates would be subject to review should the proposed legislation be enacted.

Because of this, it is the Association's position that the diseconomies which you find exist in using two competing modes of transport, viz., ITGBL and DPM, can be eliminated with the ITGBL method as the continuing method, operating with the restraints of reasonable rates determined by an independent regulatory agency.

I want to express our sincere appreciation for the complete cooperation and courtesies shown to me and our working group during the course of our discussions.

Sincerely,

HOUSEHOLD GOODS FORWARDERS
ASSOCIATION OF AMERICA, INC.

By Calvin W. Stein

Calvin W. Stein
President

GAO Note: Page number reference in this appendix may not correspond to pages of this report.