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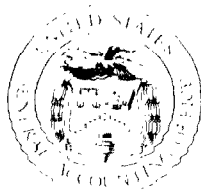
United States General Accounting Office

Report to the Chairman, Subcommittee
on Oversight of Government
Management, Committee on
Governmental Affairs, U.S. Senate

October 1990

INTERNAL CONTROLS

Black Marketing of U.S. Commissary and Base Exchange Merchandise in South Korea



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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October 30, 1990

The Honorable Carl Levin
Chairman, Subcommittee on Oversight of
Government Management
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

As you requested, we reviewed the black marketing of duty-free goods acquired from U.S. retail outlets in South Korea for profit or personal gain.

We plan no further distribution of this report until 30 days from its issue date, unless you release its contents earlier. At that time, we will send copies to other interested committees and Members of Congress, the Secretary of Defense, and the Director of the Office of Management and Budget. We will make copies available to other interested parties upon request.

Please call me on (202) 275-8412 if you or your staff have questions on this report. Other major contributions are listed in appendix VI.

Sincerely yours,

Donna M. Heivilin
Director, Logistics Issues

Executive Summary

Purpose

Black marketing in Korea is the act of transferring duty-free goods to unauthorized individuals for profit or personal gain. The Status of Forces Agreement requires the U.S. government, in cooperation with the Republic of Korea, to prevent the black marketing of duty-free goods acquired from the U.S. Forces, Korea, retail outlets. The Chairman, Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, asked GAO to estimate the scope of black market activities in Korea and evaluate the effectiveness of the ration control system.

Background

The black marketing of U.S. and other foreign-made products has been a problem since the end of the Korean War. Even though there is a great demand for these products, Korean government trade restrictions and high tariffs have limited their legal import and increased their prices. At the same time, the unlimited duty-free import of these products by the U.S. military for its forces and other authorized individuals has resulted in a thriving black market.

Under the Status of Forces Agreement with South Korea, U.S. military personnel and other specified individuals are entitled to purchase items from U.S. retail outlets, which are not subject to Korean taxes. In return for this privilege, authorized users have an obligation not to sell or transfer these items to unauthorized individuals.

U.S. Forces, Korea, commissary and exchange sales amounted to \$250.4 million during fiscal year 1988. Food, appliances, and clothing are some of the types of merchandise sold. There were about 70,300 customers, including about 20,800 dependents, authorized to shop at U.S. outlets. The commissaries and exchanges are basically self-supporting, but the U.S. government pays the cost of shipping merchandise to Korea from the United States. Shipping costs and other U.S.-appropriated funds support, excluding funds for the ration control system, amounted to about \$23.7 million in fiscal year 1988.

To reduce black marketing, U.S. Forces, Korea, operates a ration control system that sets monthly monetary and quantity limits on customers' purchases.

Results in Brief

The black marketing of duty-free goods appeared to be widespread throughout South Korea. GAO often saw goods from the U.S. Forces, Korea, retail system in Korean markets and stores. However, GAO was unable to accurately estimate how much of the goods were making their way to the black market.

The ration control system established to prevent black marketing has not been effective. Sales rates for selected items indicated that authorized customers could not be consuming all of the items sold. For example, during fiscal year 1989, Army and Air Force commissaries in South Korea received about 1.2 million pounds of oxtail meat for sale, or more than 16 pounds for every man, woman, and child authorized to buy commissary items. In most of the cases GAO reviewed, the U.S. commissaries and exchanges were paid for the items that were black marketed.

Some ration control system procedures were not consistently followed. For example, cashiers at U.S. commissaries and base exchanges did not always verify customer identification or record sales data. In addition, renewed efforts to work with Korean government officials to deter black market activities appear warranted.

Principal Findings

Extent of Black Market Activities

GAO often found a significant amount of merchandise from U.S. Forces, Korea, retail outlets at large open markets and regular retail stores. Neither GAO nor military officials can accurately measure the magnitude of black marketing in terms of the number of people involved or the value of duty-free goods that reach Korean retail outlets.

Sales of some merchandise from U.S. Forces, Korea, retail outlets are much higher than the number of authorized customers could be expected to consume. Items such as oxtail meat, rice, Spam, hot dogs, cheese, chicken, hair spray, and Chivas Regal Scotch have unusually high sales rates. For example, almost 315,000 bottles of Chivas Regal 12-year-old Scotch were sold by these outlets in 1988. Per capita, U.S. military personnel in Korea purchased 46 times more of this Scotch than their counterparts in Europe.

The Ration Control System Is Ineffective

Black marketeers are able to obtain duty-free merchandise operating within the ration control system because purchase limits are high and small purchases are not recorded. U.S. commissary and exchange cashiers and clerks are generally Korean, and some work as accomplices to black marketeers by not recording all sales. Black marketeers also receive diverted merchandise and use fraudulent or altered ration control plates and identification cards. For example, GAO found that as much as 26 percent of certain appliances and stereo equipment at two stores were purchased with fraudulent ration control plates.

GAO found that the ration control system was not being implemented as designed. Ration controls that were in place were not being followed; for example, cashiers did not consistently check identification cards. In addition, the system did not always track some sales data, especially for sales involving temporary ration control cards. During 1987, the latest year for which data were available, the ration control system cost about \$12 million, mostly for personnel costs.

Enforcement Actions

Under the Status of Forces Agreement, the United States, in cooperation with the Korean government, is responsible for preventing abuses of the commissary and exchange privilege system and deterring black market activities.

Army and Air Force investigations and security units have jurisdiction over ration control violations by U.S. military personnel. In fiscal year 1988, the latest year for which data were available, these enforcement groups investigated about 790 cases involving ration control violations. In the same year, 66 military members were court-martialed for black market activities, and an unknown number received less serious penalties, such as losing ration privileges or prohibited access to U.S. bases.

The Korean government considers black marketing a customs violation and does not maintain separate statistics on the number of individuals prosecuted for black marketing U.S. merchandise. However, U.S. officials believe that only a small number of offenders have been prosecuted.

Recommendation

GAO recommends that the Secretary of Defense direct the Commander, U.S. Forces, Korea, to (1) implement cost-effective ration control system procedures that provide reasonable assurance that the objectives of the system will be accomplished and (2) work with U.S. embassy officials in Korea to develop new approaches to encourage the Korean government to increase its efforts to deter black market activities.

**Agency Comments and
GAO's Evaluation**

GAO did not obtain official agency comments; however, it obtained the views of responsible agency officials during its review and incorporated their comments where appropriate.

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Abbreviations

AAFES	Army and Air Force Exchange Service
DOD	Department of Defense
GAO	General Accounting Office
USFK	U.S. Forces, Korea

Introduction

As used in this report, black marketing is the act of transferring duty-free goods acquired from U.S. Forces, Korea (USFK), commissaries, base exchanges, and other retail outlets to unauthorized individuals for profit or personal gain. The Status of Forces Agreement requires the U.S. government, in cooperation with the Republic of Korea, to prevent the black marketing of these goods.

Requirements Under the Status of Forces Agreement

Under the Status of Forces Agreement with South Korea, U.S. military personnel and other specified individuals are entitled to purchase items from USFK retail outlets that are not subject to Korean taxes. In return for this privilege, authorized users have an obligation not to sell or transfer duty-free items to others not authorized to receive them. The U.S. armed forces, in cooperation with the Korean government, are required to take steps necessary to prevent abuse of this privilege.

The services use a ration control system to (1) fulfill U.S. obligations under the Status of Forces Agreement regarding the disposition of duty-free goods, (2) ensure that adequate supplies of goods are available to meet the needs of authorized purchasers, and (3) deter black market activities. Based on 1987 data, USFK estimated that it costs almost \$12.1 million to operate the ration control system—\$2.7 million in direct costs and \$9.4 million in indirect costs. Indirect costs include partial salary costs for personnel who spend most of their time on nonration control duties.

U.S. forces in South Korea have had a ration control system since the end of the Korean War. USFK has used various versions of manually controlled systems, including punch cards and coupon books. None were totally effective in stopping the black marketeers. USFK changed the system in 1971 by replacing the paper cards with the current plastic ration control plate, which is similar to a credit card.

How the Ration Control System Works

The current ration control system uses three types of controls: monthly monetary limits, monthly quantity limits, and specifically controlled items. A ration control plate and a picture identification card are normally required when making purchases. Authorized customers use temporary ration control cards until they receive their permanent plates.

Cashiers record purchases of duty-free goods by using the plastic ration control plate. The plate is embossed with raised identification data, such as the individual's name, social security number, rank, sex, family size,

and expiration date. When an authorized person makes a purchase, the sales clerk makes an impression of the plate onto a three-part sales card, which is similar to running a credit card through an embossing machine. The customer keeps one copy of the sales card, the retail outlet keeps the second, and the USFK Data Management Division receives the third copy for processing. At the Division an optical character reader scans the paper cards and records the information in a database.

The database contains an individual's purchases for each month recorded by social security number. Each month, sales data are compared with the control limits to determine if violations have occurred. The database identifies those individuals who exceed their monthly limits or buy unauthorized items. Purchase reports for violators are produced monthly and are sent to the violator's military unit for appropriate action—for example, counseling, reprimand, or court-martial.

Ration Control Enforcement

A number of military organizations are responsible for managing and enforcing the ration control program and deterring black market activities. The Office of the USFK Assistant Chief of Staff, J-1 (Manpower and Personnel Directorate), and its Data Management Division implement and manage the ration control program. Area, installation, and unit commanders have certain responsibilities for ensuring compliance with the ration control system and administering disciplinary actions.

Various military law enforcement groups are involved in trying to suppress black market activities. USFK's provost marshal investigates lost and stolen documents, maintains a file of controlled-item sales cards, collects data on ration control violations, and coordinates efforts to suppress black market activities. The U.S. Army Criminal Investigation Command and the Air Force Office of Special Investigations investigate violations of the ration control system and black market activities. They generally conduct major investigations involving items valued at more than \$1,000. The Army military police and the Air Force security police at the installation level investigate black market cases involving smaller amounts.

The Commissary and Exchange Systems in Korea

Three major military organizations in South Korea sell duty-free goods. The largest, in terms of retail sales, is the Army and Air Force Exchange Service (AAFES), which has 103 retail outlets in South Korea. This includes 8 main exchanges, 38 branch stores, 33 small annexes, 13 military clothing stores, and 11 auto parts and gasoline stations. These outlets sell items ranging from refrigerators and televisions in the exchanges and branch stores to snack food and beer in the annexes.

The Army's Far East Commissary District operates three full-service food stores and other smaller annexes in South Korea. Similarly, the Air Force Commissary Service operates two full-service stores and other small annexes. The commissaries sell all types of grocery items, including meats, fruits, cigarettes, cheeses, juices, snacks, and Korean food. There are also 28 Class Six outlets currently operated by AAFES.¹ The Class Six outlets sell liquor, wine, beer, cigarettes, cheeses, juices, snacks, and other items.

AAFES is a sales-oriented, profit-motivated, and nonappropriated fund organization. It is the largest contributor to the military Morale, Welfare, and Recreation Fund. It contributes 50 percent of its net profits to the fund and uses the remainder for capital improvements.

The commissaries, although also sales-oriented, sell their merchandise at cost plus a 5-percent markup. Although they receive some appropriated funds, they are primarily funded through customer purchases, and profits are used to pay for operating expenses and construction.

Objectives, Scope, and Methodology

On September 15, 1988, the Chairman, Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, requested us to review black market activities occurring on and near military bases in South Korea. Based on concerns voiced by the Chairman, our objectives were to estimate the scope of black market activity and evaluate the effectiveness of the current ration control system.

We conducted audit work in the Republic of South Korea, Hawaii, and various locations in the continental United States. In South Korea, we reviewed records and interviewed officials at Yongsan Army Garrison,

¹Class Six is the name given to the Army and Air Force package alcoholic beverage operation. The name was changed from Class VI to Class Six when AAFES took over management on March 25, 1989.

Osan Air Base, and Camps Casey, Coiner, Howez, Long, Market, and Page. We visited several well-known black market areas in Seoul, near Camp Casey or Osan Air Base.

We discussed the black market and ration control system in Korea with officials in command positions and other officials from the following areas:

- USFK Data Management Division, which is responsible for operating the ration control system;
- U.S. Army's Criminal Investigations Command and USFK provost marshal's office, which conduct investigations of black marketing;
- Army and Air Force Exchange Service, Army Far East Commissary District, Air Force Commissary Service, Class Six Stores, and other Morale, Welfare, and Recreation operations, which operated the retail facilities in South Korea;
- USFK judge advocate's office, which provided statistics on prosecutions for ration control abuses for both U.S. and Korean violators;
- USFK Public Affairs Office, which provided published and videotaped information concerning the black market and the ration control system; and
- Military Traffic Management Command, which provided estimates of the cost of shipping duty-free goods to Korea.

We also interviewed and obtained documents from unit commanders stationed at various Army, Air Force, and Navy units throughout South Korea and officials at a number of other U.S. and Korean organizations. Among these were the American embassy, the U.S. Status of Forces Agreement Secretariat, Korea-U.S. Economic Council, Korean Chamber of Commerce and Industry, the American Chamber of Commerce in Korea, Korean Customs, and the Korean National Police.

In Hawaii we obtained data from officials at the Headquarters, U.S. Pacific Command, Camp Smith; Air Force Commissary Service-Pacific Region, Pacific Air Force's Office of Special Investigations, and Security Police at Hickam Air Base; and Army and Air Force Exchange Services-Pacific, Honolulu.

We also interviewed officials from the Office of the Assistant Secretary of Defense for Force Management and Personnel; Office of the Assistant Secretary of Defense for Production and Logistics; Defense Logistics Agency, Cameron Station, Alexandria, Virginia; Defense Personnel Support Center, Philadelphia, Pennsylvania; U.S. Army Troop Support

Agency, Fort Lee, Virginia; U.S. Air Force Commissary Service, San Antonio, Texas; U.S. Army and Air Force Exchange Service, Dallas, Texas; U.S. Army Criminal Investigations Command, Falls Church, Virginia; and U.S. Air Force Office of Special Investigations, Bolling Air Force Base, Maryland.

To determine the overall extent of the black market for high value items, we compared numbers of items received by two AAFES retail stores for sale with (1) recorded sales made using counterfeit ration control plates and (2) total recorded sales of the same items. We obtained data on sales of high value items using fraudulent cards from a U.S. Army Criminal Investigations Command database. The Command gave us the database, and we modified it slightly by removing sales prior to the date on which our analysis started and sales after the date our analysis ended. Total recorded sales came from the ration control database.

AAFES was unable to give us sales data for those specific high value items we wanted to analyze because it tracks sales only by dollar amounts of similar groups of items (e.g., electronic equipment or appliances), not by specific item (e.g., Sony 27-inch televisions). In addition, AAFES was unable to give us a beginning inventory or an ending inventory for these items. Therefore, we analyzed receipts of the selected high value items at two AAFES exchanges minus transfers from the exchanges between September 1, 1988, and April 15, 1989. We assumed that receipts less transfers approximated sales and used these figures in our analysis so we could estimate the percentage of sales of selected AAFES items using fraudulent ration control cards. We also inventoried the selected exchange items as of April 15, 1989. Similarly, since sales figures for selected liquors were not readily available, we assumed that issues from the Yongsan liquor warehouse were equal to total sales of those items at the Class Six stores.

To calculate the per capita sales rates, we used all 70,328 authorized consumers during 1988 as our universe, which included 37,428 service members with no dependents in Korea and 8,000 service members with 15,909 dependents. Also, 1,557 civilians in Korea have no dependents and another 2,483 civilians have 4,951 dependents. Given the large number of unaccompanied authorized consumers who eat in military dining facilities and live in barracks, we believe that our universe of actual consumers is too large. As a result, many of the per capita sales rates are lower than they would be if only actual consumers of the items could be determined and measured. (Appendix I contains demographic data on military personnel in Korea.)

We conducted our work between January 1989 and June 1990 in accordance with generally accepted government auditing standards.

Indications of the Black Market Problem

Black marketing is widespread in South Korea. During our visits to large Korean black market shopping areas and regular Korean retail stores and small shops, we saw products that were originally sold at USFK commissaries, base exchanges, Class Six stores, and other retail outlets. Items are being sold on the black market for between two and three times their price in USFK retail stores.

We cannot accurately measure the magnitude in terms of the number of people participating or the value of USFK duty-free goods that reach Korean retail outlets. Also, USFK, its provost marshal, Office of Special Investigations, and U.S. Army Criminal Investigations Command officials are unable to estimate, with any confidence, how many people are participating in black market activities or how much of the U.S.-provided goods reach the black market. However, we believe it is a serious problem and that the current ration control system cannot ensure items purchased in USFK retail outlets do not reach Korean markets and stores.

Large Number of Korean Retail Outlets Selling USFK Duty-Free Goods

One of several large market areas in Seoul where black market goods are sold is called Namdaemun. It has many small shops selling a variety of USFK duty-free goods along with Korean products. Many of the items still have the exchange or Class Six price sticker on them. Commissary items are not as easily identified because the commissaries use bar coding rather than price stickers, except on meat.

In addition to large markets, "hawkers" on the streets of Itaewon, a shopping area near the Yongsan Army Garrison in Seoul, sell all types of American products, such as beer, wine, canned meats, peanut butter, and jelly. Stores also sell a variety of repriced American products. In some cases, under a sticker or two, the exchange or Class Six stickers can be seen. Food and liquor are not the only items sold on the black market. We also found Korean stores selling a variety of American products. For example, in one store we visited, a 19.6-cubic foot General Electric refrigerator still had an AAFES sticker on its shipping box.

Unusually Large Sales and Purchase Rates

Current sales and purchase rates for some items popular on the Korean economy are good indicators of the nature and extent of black marketing. We calculated the per capita sales rates for selected USFK duty-free items we saw frequently on the black market. The products with unusually high sales rates were rice, Spam, hot dogs, cheese, and hair spray. In addition, a commissary study showed unusually high chicken

sales during the 1988 Summer Olympics. Table 2.1 shows the per capita rates for the high selling items.

Table 2.1: Per Capita Rates for High Selling Consumable Items for 1988

Item	Rate
Rice	170 lbs.
Spam	12 lbs.
Hot dogs	365 to 456 packages
Sliced American cheese	34 lbs.
Aqua Net hair spray	33 cans per female

Of the consumable items, rice sales were much higher than expected. While the per capita rate for USFK personnel in Korea was 170 pounds, it was 13.6 pounds in the United States (see app. II). The rate for Army dining facilities was 10.3 pounds of rice for all active duty personnel stationed in South Korea. In one case, a serviceman's wife purchased 625 pounds of rice during a 2-month period.

During the Seoul Summer Olympics, sales of 40-ounce bags of chicken drumsticks increased from 12,000 bags per month to an estimated 40,000 bags per month. After the Olympics, sales went back to normal. According to the Commander of the Army Far East Commissary District, the black market caused the increased demand. When the stock of chicken was depleted, the commissary issued high priority requisitions to have chicken flown in from the United States. Table 2.2 shows the growth in sales for 40-ounce bags of chicken drumsticks, as reported by the commissary in August 1988.

Table 2.2: Average Sales of 40-Ounce Bags of Chicken Drumsticks During the Olympics

Sale period	Bags sold
Average monthly sales through	
April 1988	12,000
May	15,400
June	17,000
July 1st through 13th	24,000
August 1st through 5th	9,500
6th through 7th	1,800

Although we did not see oxtail (generally used to make oxtail soup, which is a traditional Korean dish) sold on the black market, the commissaries had difficulty keeping it in stock. The Yongsan Commissary

allowed only one package to be purchased per shopper per visit. During fiscal year 1989, the commissaries purchased about 1.2 million pounds of oxtail, or over 16 pounds for every authorized consumer.

Chivas Regal Scotch Whisky and Other Alcoholic Beverages

Sales of Chivas Regal Scotch whisky show the impact of the black market. Class Six stores in South Korea received 314,748 1-liter bottles of Chivas Regal 12-year-old Scotch in 1988 for sale at about \$23 a bottle. In addition, the stores received 25,680 three-quarter liter bottles of Chivas Regal Royal Salute 21-year-old Scotch in 1988 for sale at \$65 a bottle.

We saw many boxes of Chivas Regal, many with Class Six price stickers still attached, in Korean markets and stores. According to U.S. Army Criminal Investigations Command and Air Force Office of Special Investigation officials, Koreans who can afford it prefer Chivas Regal.

We compared overall sales figures for Chivas Regal 12-year-old Scotch with the number of active duty military in South Korea and Europe and found that sales were significantly larger in Korea.¹ In Europe approximately 306,000 military members purchased 47,085 liters of Chivas Regal during fiscal year 1988, or 0.15 liters per soldier per year. Chivas Regal was not among the top 25 brands of liquor sold in U.S. military Class Six stores in Europe. In Korea approximately 45,500 active duty military members purchased 314,748 liters of Chivas Regal during calendar year 1988, or 6.9 liters per soldier per year. In other words, fewer military members in Korea—15 percent of the total in Europe—purchased more than six times the number of Chivas Regal bottles purchased in Europe. On a per capita basis, 46 times more Chivas Regal was purchased in Korea than was purchased in Europe. Other alcoholic beverages also have unusually high sales rates, but none is as unusual as Chivas Regal. Appendix III contains more details on liquor sales.

¹Active duty military in Europe includes Air Force and Army personnel as of September 30, 1988. Active duty military in South Korea includes all service members as of September 30, 1988. Liquor sales in Korea were calculated based on shipments to stores.

How Black Marketeers Operate

Black marketeers use various schemes to acquire USFK duty-free goods. Whether these schemes are used to circumvent the ration control system or to work within the system, they are difficult to detect and stop.

We identified the various schemes by reviewing investigative case files on violators, interviewing military criminal investigators and police, and observing on-scene activities. Generally, black marketeers work as a team or as an organized ring, with several servicemen's wives who assist the ringleaders by recruiting other dependents and service members to purchase duty-free goods.

Black Market Schemes Outside the Ration Control System Limits

Schemes used by black marketeers that work outside the ration control system include (1) "racetracking," (2) using cashiers and clerks, generally Koreans who do not record purchases, as accomplices, (3) diverting items from the warehouse or showroom, and (4) using fraudulent or altered ration control documents.

Racetracking

Racetracking is defined as making multiple daily purchases from the same or different sales facilities but always keeping the purchase under \$5, either to avoid ration control or to circumvent shelf limits. Cashiers were not required to record purchases under \$5 (subsequently reduced to \$2), which then did not count against the shopper's monthly monetary limit. As a result, shoppers making multiple purchases under \$5 became one of the more visible means of circumventing the ration control system.

In one case involving an AAFES convenience store, the U.S. Army Criminal Investigations Command identified several servicemen's wives who made frequent trips to the store and each time left with a purchase under \$5. One shopper made seven purchases within an hour. According to the case file, store staff allowed the practice to occur to circumvent the ration control system.

The Command estimated a racetracker could earn about \$57 in 30 minutes, just by shopping at one housing area in Seoul. To avoid detection, a shopper from this housing area could take an exchange taxicab to Yongsan—about a 5-minute ride—and visit several other convenience stores. A Command special agent estimated that after paying all taxicab fares, a racetracker could earn about \$171 in less than 2-1/2 hours.

In some locations racetracking was made easier by the retail outlets' stockage policy and store location. One housing area in Seoul has three separate retail outlets: a commissary, an exchange, and an exchange-managed delicatessen and ice cream store. At least two and sometimes all of the outlets sold similar American products, such as rice, hot dogs, chicken, cheese, and shampoo—items in demand on the Korean economy. We visited this housing area and saw a large number of shoppers buying items popular on the black market. Many purchases were under \$5.

Use of Cashiers and Clerks

Nearly 98 percent of AAFES personnel in South Korea, or 5,040 out of 5,164, are local national employees. Cashiers' complicity with shoppers is a major problem, according to a U.S. Army Criminal Investigations Command officer. One case involved six Korean cashiers at the Osan Air Base Commissary. According to Office of Special Investigations documentation, the operation was well organized and run as if it were a legitimate business, with participants sharing profits. Servicemen's wives from Osan and Camp Humphreys were recruited as shoppers by several women acting as ringleaders. Others were introduced to the ring by friends already involved.

Prior meetings or prearranged signals were used to identify which cashiers and shoppers were members of the ring. The shoppers would go through the checkout line of a particular cashier, usually shopping off-peak hours to avoid using a cashier they did not know.

The cashiers used several methods to avoid recording the purchase. If the cashiers were not being observed, they either would not record the sale or record it for less than the actual purchase. More commonly, the cashiers would record the amount properly, but hide the card for later destruction. The shoppers then took the items to one of several black market houses off base. For \$100 of purchases, each shopper received a profit of almost \$80, which she split with the cashier.

More than 15 servicemen's wives were linked to the ring in some fashion. One made a profit of over a \$500 in 11 visits to the Osan Commissary. Another had \$27,000 in a bank account, and the source of most of the money could not be accounted for other than from black marketing.

The Office of Special Investigations estimated that before its investigation, the commissary was selling between 15,000 and 20,000 25-pound

bags of rice per month. However, ration control records showed that only 8,000 to 9,000 bags were being sold. The month after the cashiers were apprehended, the commissary sold 6,000 fewer bags of rice.

In another case, a soldier testified that prior to a July 1988 purchase at an exchange, a black marketeer told him to take a 6-pack of juice to the television counter so that the sales clerk would know he was there for a particular television. The black marketeer gave the soldier a counterfeit letter of authorization, a counterfeit ration control plate, and \$1,700 to purchase the television set. The soldier was also given \$60 to bribe two exchange workers to expedite the illegal sale of the television. In his testimony the soldier said he followed these instructions.

Another soldier testified in June 1988 that a black marketeer told him he had connections who could ensure the sales cards would not be recorded. Four of his eight exchange purchases were never entered into the ration control database. The U.S. Army Criminal Investigations Command investigators presumed the copies were destroyed or removed from the system. According to U.S. military investigators, dependents caught black marketing said that the Korean cab drivers and, in some cases, the Korean gate security guards are part of the overall black market scheme. The cab drives the black marketeers to the USFK retail outlets and transports them and their purchases off base. The Korean gate security guards allow the cabs to leave the base with the merchandise for the black market.

Diversion of Duty-Free Items by Employees

Another scheme is diversion, which involves employees, usually Korean nationals, buying items from U.S. retail outlets for their own use or resale to black marketeers. According to the Chief of the AAFES Merchandise Security Office in Korea, the diverted items usually end up on the black market. The employees diverting the items normally ensure that the money representing the retail selling price is put into the cash register and rung up as a sale. It appears as if the item was sold legitimately and no crime was committed. This reduces the chance of generating criminal investigations.

According to USFK officials, black marketeers pay for items they sell and prefer not to sell stolen goods. USFK officials said that actual theft is not significant. However, we did find inventory shortages, which indicate instances of theft of products that could have ended up on the black market. For example, during fiscal year 1988, three main exchanges had shortages of inventory worth over \$1.2 million.

One case involved the diversion of about \$30,000 in televisions and stereo equipment while the items were being transported from Osan Air Base to the main exchange at the Yongsan Army Garrison in Seoul. The Office of Special Investigations was told about the planned diversion and arranged to have the vehicle watched leaving Osan and arriving at Yongsan. The truck left Osan carrying the equipment but arrived at Yongsan empty. According to the driver's testimony, he sold the merchandise between the two locations and planned to pay for the merchandise after he returned to Osan. According to the Office's case file, approximately 1 month after the diversion, the driver's wife paid the exchange \$30,000 as restitution for her husband's crime.

Use of Fraudulent Documents

We believe the use of fraudulent documents to purchase high value items from AAFES stores is one of the most serious black market problems because of the potential dollar amounts involved. It is impossible to determine how many purchases are made using fraudulent documentation. The most commonly forged documents are the permanent ration control plates, temporary ration control cards, identification cards, and letters of authorization.

In most cases, the purchasers are U.S. military members who are approached by Korean nationals and asked if they want to make extra money. If they show interest, they are given false identification and ration control plates and sufficient cash, transported to exchange outlets, and told what items to purchase. According to some case files, service members have to give their military identification card and ration control plate to the black marketeers in exchange for the forged documents. Once the member buys the merchandise and transfers it to the black marketeers, the identification card and plate are returned.

The black marketeer encourages the service member to make multiple purchases in a short period of time. According to one case file, one service member made eight purchases, including television sets and refrigerators, totaling almost \$3,500 on three shopping days between May 31 and June 8, 1988, at five different stores.

Extent of Black Marketing Using Fraudulent Plates

The U.S. Army Criminal Investigations Command did an analysis to determine the number of fraudulent purchases of refrigerators and washers made with altered or counterfeit ration control plates. It analyzed sales of these high value items during October and November 1988 at the Yongsan Main Exchange and the Exchange Furniture Store—

2 stores out of 8 main exchanges, 38 branch exchanges, and 33 annexes in the AAFES system in South Korea. The Command examined sales records and identified which ones had been made with counterfeit controlled item purchase/refund records. The analysis showed that 107 sales, or 43 percent of the total sales of 244, were made to personnel with either altered or counterfeit ration control plates. Out of the 137 valid sales, 45 were made to noncommand sponsored soldiers, i.e., those having no dependents in Korea.

We analyzed AAFES sales of appliances and stereo equipment at these two stores and combined our analysis with the work performed by the Command. Overall, about 5.4 percent of the items were purchased with fraudulent ration control plates, and as much as 26 percent of certain types of appliances and stereo equipment were sold that way. Table 3.1 shows the results of these analyses for purchases between September 1, 1988, and April 15, 1989.

Table 3.1: Purchases With Fraudulent Ration Control Plates (September 1, 1988, to April 15, 1989)

Type of item	Total number purchased	Purchased with fraudulent plates	
		Number	Percent
Washers	150	39	26.0
Refrigerators/freezers	456	111	24.3
Ranges	129	15	11.6
Dryers	31	2	6.5
Music systems	1,134	72	6.4
Speakers	1,768	72	4.1
Televisions	2,461	97	3.9
Video recorders	2,057	30	1.5
Total	8,186	438	5.4

The value of the 438 items purchased with fraudulent plates over the study period was \$303,074.

We did not include fraudulent purchases made with temporary ration control cards, which are never entered into the ration control system, or purchases made with valid ration control plates and later transferred illegally to the black market.

The U.S. Army Criminal Investigations Command also performed a study in fiscal year 1988 of the use of fraudulent ration control plates at Camp Casey. This study indicated that fraudulent documents were used to purchase 674 high value items costing \$258,908.

Black Market Earnings From Exchange Items

Black marketing can be very profitable and, according to case files, money is one of the major inducements for involvement. One soldier's case file indicated that he was paid at least \$1,870 for purchasing 17 items from July 2 to September 18, 1988--a period when he made 13 separate shopping trips to 5 different exchanges. His testimony indicated he had earned \$60 for each videocassette recorder, \$150 for each television, and \$450 for a refrigerator he purchased for the black market ring.

Black Marketing Within the Ration Control System

It is possible to stay within the ration control system limits and still be involved with the black market. The system currently has three types of controls: monthly monetary limits, monthly quantity limits, and specially controlled items. Some limits are so high that they may actually encourage black marketing, and some ration controls have been reduced, which also makes black marketing easier.

High Monthly Dollar Allowances Contribute to Black Marketing

Many of the military commanders we interviewed believe the monetary limits set by the ration control system are too high, especially for unaccompanied service members in South Korea. These service members are authorized to spend up to \$500 each month for consumable goods.¹ Since about 88 percent of these service members live on base and many eat in military dining facilities, many commanders do not believe that these members require \$500 worth of goods. Due to the high monetary limit, personnel could use the amount above their own personal needs to purchase items for resale on the black market.

The security officer, the USFK's provost marshal, said that it is extremely difficult to detect abusers who are shopping within their dollar limits for the black market. Except for the transfer of goods to the black marketer, these individuals are completely within their rights. To prove they are involved with the black market, they must be observed transferring or reselling the goods to an unauthorized person.

The USFK's official position is that the dollar limits are adequate to ensure a good quality of life and spending flexibility for military personnel. The limits apply to unaccompanied service members authorized to live off base and individuals living in barracks and eating at military dining facilities. A few commanders said that the monthly limit should be about \$200 for an unaccompanied service member living on base.

¹All military personnel were authorized commissary privileges effective June 8, 1982.

The monetary limits were changed in August 1985 and again in July 1987. According to a USFK document, these “changes are based on a periodic review that evaluates the imposed ration control limits in light of salaries versus commodity costs, black marketing trends, and the dollar/won ratio.” However, USFK officials were unable to produce a copy of the last review. Table 3.2 shows changes in the monthly monetary limits.

Table 3.2: Ration Control Monetary Limits

Period	Family size					
	One	Two	Three	Four	Five	Six or more
Prior to July 1985	\$275	\$550	\$680	\$850	\$980	\$1,075
August 1985 to June 1987	256	470	580	725	835	915
July 1987 to present	500	700	800	900	1,000	1,200

Some purchases do not count against the monthly monetary limits. Because expensive items sold in exchange outlets could quickly reach the monthly dollar limits, the ration control system exempts from the limits purchases of single items priced at \$50 or more. Other items that do not count against the purchaser’s monthly dollar limit regardless of their price are the following:

- military uniforms and accessories;
- records, computer software, and other prerecorded items;
- clothing and footwear;
- liquor, cigarettes, and beer whose alcohol content is over 3.2 percent by weight;
- wine, soft drinks, water, and ice;
- gasoline; and
- nonconsumable, Korean-made products.

Monthly Quantity Limits

Cigarettes and some types of alcoholic beverages are the only duty-free items that have monthly quantity limits. Table 3.3 shows ration control monthly limits² for alcoholic beverages and cigarettes based on family size.

²In the past more items were controlled, but limits have been eliminated for such black market items as coffee, salt, mayonnaise, and pepper.

Table 3.3: Ration Control Quantity Limits

Family size	Alcoholic beverages	Cigarettes
One	4 units	60 packs
Two or more	7 units	100 packs

Note: Liquor and beer are rationed in units. One case (24 cans or bottles) of beer with over 3.2 percent alcohol by weight is one unit, and one bottle (usually a liter) of liquor is one unit. Partial units are accumulated through the month. Wine is not recorded.

Although alcoholic beverages and cigarettes are controlled, in some instances, people can purchase some of these items without them counting against the quantity limits. For example, individual purchases of less than \$5 do not count against the limits. This amount has since been lowered to \$2. In addition, all types of wine and beer with 3.2 percent or less alcohol content by weight do not count against the limits. We saw both of these items on the black market.

Controlled High Value Items

Purchases of certain types of merchandise, such as televisions, refrigerators, ranges, washers, and dryers, are specifically controlled and recorded in the ration control database. Individuals below the pay grade equivalent of E-6 or GS-6 are required to obtain written permission to purchase controlled items over \$50. All other individuals may purchase controlled items without permission. Purchases of controlled items are recorded in the ration control system, and purchasers may be required to account for any item purchased while in Korea. This requirement, however, is not applied all the time. According to commanders, usually only individuals suspected of ration control abuses are required to account for items purchased.

Ration-Free Items

Some items that are not controlled (ration-free items) are also sold on the black market. Authorized personnel can purchase as many of these items as they want each month, and the purchase does not count against their monthly limits. We saw wine, light beer, military uniforms, clothing, and U.S.-made toys in many Korean markets and stores. Many of the items still had AAFES and Class Six price stickers on them. For example, a recent U.S. and Korean investigation at Kwang-Ju City, near Osan Air Base, identified a person trying to sell 85 bottles of liquor, wine, and other items that came from U.S. military retail outlets, according to the Office of Special Investigations.

Weaknesses in the Ration Control System Contribute to Black Market Activities

The current ration control system is not being implemented as designed. Controls designed to prevent many of the violations we have described are not being followed. Some sales data, especially for sales involving temporary ration control cards, are missing from the system. Recent changes, such as the elimination of retail outlet ration control monitors, have further weakened the system. All these weaknesses contribute to the black market problem.

Procedures to Prevent Abuses Are Not Being Followed

USFK has regulations and procedures to prevent ration control abuses. Managers, cashiers, and sales clerks, however, do not always comply with the requirements of the ration control system. According to AAFES management officials, ration control is a USFK responsibility. AAFES officials support the ration control system, but they do not believe that they should or can monitor it, because they do not receive the necessary appropriated funds to do so.

Requirement to Verify Identification

USFK Regulation 60-1, "Exchange Service, Ration Control," requires cashiers to verify identification and record all required sales. It requires the cashier to inspect the ration control plate or temporary card and the purchaser's identification, even if the items purchased do not count against the dollar limit or are not recorded. Some facilities do not have entrance monitors, and some individuals try to circumvent the system by using a different plate or temporary card at the cash register.

When we made daily purchases at exchange outlets, Class Six stores, and smaller commissaries and annexes, we found that the only documentation required was the ration control plate, and only if the item had to be recorded in the ration control database. It was rare that the cashiers compared the ration control plate and our identification cards.

Requirement to Record Sales

The AAFES Safety and Security Office has identified cases in which exchange managers and cashiers did not record purchases as required. For example, in January 1988, a merchandise security specialist conducted an on-site review of the Camp Falling Water Exchange. The specialist concluded that from October 27 through November 25, 1987, only 106 (11.7 percent) of the 907 customer transactions that should have been recorded actually were. A 1988 review of the Camp Red Cloud Post Branch Exchange showed that approximately 72 percent of the sales had not been recorded. The retail manager admitted to security specialists that he had failed to record merchandise sold. According to the

memorandum of inquiry, the manager said this had been done to increase sales because some customers put merchandise back on the shelf when he tried to record their purchases. A sales clerk at the same exchange also said he had not recorded purchases for the same reason, and he admitted that he sometimes had not rung up the right price. For instance, he would ring up a 3-pound box of cheese priced at \$7.75 as \$6.20, representing the price of a case of soda, which does not have to be recorded. The difference would then be made up in another transaction. The clerk said that he would also ring up customers' purchases as separate transactions under \$5 to avoid the requirement to record sales totaling \$5 or more.

Checks for Fraudulent and Altered Plates

Procedures require retail employees to check for fraudulent and altered documents; however, these employees do not always do so. In some cases, the same fraudulent plates and identification cards are used repeatedly in the same retail outlets. According to a USFK report, AAFES clerks and managers are unable to identify the simplest errors on bogus plates, due to lack of training.

Checks for Lost and Stolen Plates

Black marketeers also purchase high value items with lost and stolen plates. Although the USFK provost marshal provides lists of lost and stolen plates to retail outlets and cashiers are supposed to check these lists if the purchase is for controlled items, alcohol, cigarettes, or items costing over \$100, they frequently do not. This was confirmed by a team from the Data Management Division when it conducted several visits to commissary and exchange outlets at the end of March 1989.

All Sales Data Are Not Properly Recorded

In many instances, the current ration control system cannot identify violators because actual sales data are not entered in the database, as required. For example, all purchases made with a temporary ration control card are not entered into the database because many purchasers with temporary cards are new or are on travel and are not in the database. Thus, the sales data would be recorded as unmatched data and rejected.

Another problem is that some retail outlets report sales data to the Data Management Division late. Monthly sales data dealing with monetary and quantity limits are not entered into the database or analyzed if they are received after the fifth working day of the following month.

Some morale, welfare, and recreation retail facilities (e.g., bowling centers) were not reporting any sales data to the Division. As a result, data on high demand black market items, such as bowling equipment, were not collected and reported to commanders and supervisors. For example, we found that the Osan Bowling Center was not reporting sales. In response to our findings, the Data Management Division issued a letter reminding all morale, welfare, and recreation facilities they are required to record and report sales.

Changes Have Weakened the Ration Control System

Since 1987, USFK has made changes to the system that we believe have weakened it and made transferring goods to the black market easier. It increased the ration control amount above \$1, reduced the number of personnel required to obtain written approval before purchasing controlled items, and reduced the types of merchandise requiring a written authorization to purchase. USFK also eliminated funding for retail outlet ration control monitors.

Threshold for Recording Purchases

In July 1987, USFK increased the threshold for recording ration control purchases from \$1 to \$5. It realized that this increase could lead to more racetracking. The increase was supposed to reduce the number of sales cards to process, improve the timing of ration control reports, and provide greater convenience to the customer. As of July 1, 1989, the recording threshold had been reduced to \$2. According to USFK, the change was supposed to reduce racetracking, which had become one of the most visible violations of the ration control system, and ensure better availability of goods on store shelves.

Reduced Purchase Approval for Certain Buyers

Controlled items are defined as high value (\$50 or more) items that are in demand on the black market. On October 1, 1987, USFK reduced the number of personnel required to obtain written approval to purchase controlled merchandise. To make these purchases more convenient, personnel in pay grades equivalent to E-6 or GS-6 or above are no longer required to obtain written approval. During 1988, this change increased the number of authorized customers by almost 14,700 active duty military personnel, not including their dependents.

The requirement remains in effect for personnel in pay grades equivalent to E-5 or GS-5 and below. The approval must be documented on USFK form 48, "Letter of Authorization Purchase Record," and the

applicant is supposed to demonstrate a valid need for the item.¹ Once the letter of authorization is approved, the purchaser takes one copy to the exchange, and the unit maintains the other copy. The purchaser has 30 days to buy the item and return the form to the unit. Many of the military commanders we interviewed required less time.

**List of Controlled Items
Reduced**

Effective October 1, 1987, USFK reduced the types of merchandise requiring written authorization. It deleted 13 items from the controlled list and consolidated the remaining 32 items into 15 categories. Some of the items deleted from the list were typewriters, dish sets, irons, rice cookers, vacuum cleaners, and air conditioners. A USFK committee studying black marketing concluded that these items were no longer in high demand on the black market. It also concluded that many of the items were generic and could be consolidated to simplify the purchase process for customers and sales clerks. Although these changes have simplified the process, some of these items are still in demand on the black market. Consequently, shipments for some of these items to Korea were unusually high. For example, 49,177 irons and 35,079 Corning Visionware dish sets were shipped in 1988. Also, 42,536 toasters and toaster ovens, which were not controlled items but were popular with black marketers, were shipped.

**Ration Control Monitors
Eliminated**

At the end of fiscal year 1988, because of severe budget constraints, USFK eliminated ration control monitors to save money. The monitors, who were employed at about 25 percent of the retail outlets, checked identification cards, ration control plates, and temporary ration cards at the entrance of major retail outlets and collected sales slips and cards at the exits. They could also require a patron to sign a register of items purchased. In addition, monitors were allowed to punch a hole in or tear an altered or fraudulent plate or temporary card.

In opposing the action to eliminate funding for the monitors, an Army provost marshal said they were an invaluable source of information to the U.S. Army Criminal Investigations Command's Office of Special Investigations and the military police, since each monitor provided one

¹According to USFK Regulation 60-1, "Exchange Service, Ration Control," personnel residing in government bachelor quarters or barracks may not purchase washing machines, clothes dryers, ranges, refrigerators, or freezers unless (1) the items are authorized for use in government quarters, (2) there is a statement of nonavailability of government furniture, and (3) there is a demonstrated need for the item.

to three leads every month. The provost marshal also said sales personnel are generally more concerned with accurate sales transactions and/or making a profit than with the validity of identification cards or ration control plates. Office of Special Investigations case files showed that all five cases involving the use of fraudulent documents had been initiated as a result of actions by ration control monitors.

The Number of Authorized Purchasers Has Gradually Increased

The number of noncommand-sponsored dependents authorized to use U.S. retail facilities in South Korea has gradually increased since 1982. Noncommand-sponsored dependents are those not authorized by the Department of Defense (DOD) to be in Korea. Therefore, they are normally not allowed the privileges given to command-sponsored dependents. Giving noncommand-sponsored dependents commissary privileges, according to USFK documents, was supposed to increase the quality of life for U.S. troops. The effect of this, however, was an increase in the number of people who are associated with the black market.

In 1982, USFK established the "limited command-sponsored" dependent category for dependents of noncommand-sponsored individuals who extended their tour of duty to at least as long as the command-sponsored tour (24 months). Beginning July 5, 1982, these dependents received the same shopping privileges and ration control limits as command-sponsored dependents. During 1988, 6,591 dependents were "limited command-sponsored." On October 1, 1982, eligible dependents of U.S. civilian employees were granted the same benefits as military dependents. During 1988, 1,160 dependents were in this category.

In 1984, DOD implemented a 1-year test program to allow 3,000 noncommand-sponsored dependents to use the retail outlets in Korea. This program is still in effect. These changes added over 10,000 dependents to the list of eligible patrons. By the end of 1985, virtually all dependents in South Korea had access to USFK retail facilities.

U.S. and Korean Efforts to Deter Black Market Activities

Under the Status of Forces Agreement, the United States, in cooperation with the Korean government, is responsible for preventing abuses of the ration control system and deterring black market activities.

U.S. Enforcement Efforts

U.S. efforts against the black market in South Korea are only a portion of the enforcement activities carried out by the Army's Criminal Investigations Command and provost marshal and the Air Force's Office of Special Investigations and security police. These enforcement groups have jurisdiction over ration control violations by U.S. military personnel. The Command, which investigates cases involving \$1,000 or more, performed 147 black market investigations—22 percent of the total 655 investigations conducted in fiscal year 1988.

The USFK provost marshal issued a 1988 report on the number of black market cases throughout South Korea, as shown in table 4.1.

Table 4.1: Ration Control Violations
(Fiscal Year 1988)

Offense	Number of cases
Wrongful transfer of duty-free goods	216
Multiple purchases to avoid having purchases recorded	102
Exceed shelf limits	98
Wrongful use and disposition of another's ration control plate, identification card, or letter of authorization	51
Circumvention of the ration control system	39
Failure to show disposition of controlled items	25
Total	531

The Office of Special Investigations initiated 40 black market cases during 1988—all involving criminal fraud. In addition, Air Force security police initiated 71 black market cases. The majority of these cases involved racetracking.

Statistics on Violators

A significant number of individuals violate the ration control system. According to USFK Pamphlet #4, "Ration Control," more than 1,000 individuals violate system limits every month. It notes that although many simply exceed the limits, others flagrantly violate the system.

Statistics on offenders who have received an Article 15 hearing² and courts-martial are maintained for all services in Korea by the USFK judge advocate. According to commanders, many of these individuals were problem soldiers and were punished for being involved in the black market and other criminal offenses. Table 4.2 shows the number of personnel punished for these offenses.

²An Article 15 hearing is a non-court-martial punishment administered under the Uniform Code of Military Justice.

Chapter 4
Weaknesses in the Ration Control System
Contribute to Black Market Activities

Table 4.2: Number of Individuals Punished for Black Market Activities

	1987	1988
Courts-martial	64	66
Article 15 hearings	229	168
Total	293	234

Many investigations lead to results other than Article 15 hearings or courts-martial. These include losing some or all of the exchange privileges for the military members and their dependents, losing on-base driving privileges, or being debarred from a U.S. base or bases Korea-wide.

Korean Government Enforcement Efforts

At a 1986 Status of Forces Agreement meeting, U.S. officials requested that the Korean government close down the black market retail stores that had openly sold U.S.-provided duty-free goods and do more to identify and punish Koreans involved in black market activities. U.S. officials asked that the Koreans close the black market area called Namdaemun in Seoul, but the Korean government did not do so.

Even though the Korean government has prosecuted some customs and/or black market offenders, a 1988 Office of Special Investigations talking paper on the black market noted that although both the Korean customs authority and Korean national police know about the problem, only a small number of Korean offenders have been prosecuted. The Office concluded that the Korean government has little interest in prosecuting black marketeers or deterring black marketing because the black market is an accepted part of the Korean economy. Another Office document discussing a 1988 news segment on black market activities concluded that the U.S. government should encourage the Koreans to assist in enforcement efforts or the United States would never completely resolve the black market issue. In contrast, USFK officials said that U.S. authorities should not question Korea's sovereign prerogative to enforce its own laws as it sees fit.

The Korean government does maintain statistics on customs and/or black market offenses. According to U.S. and Korean officials, the Korean government does not have a law against black marketing. Instead, it is considered a customs violation. According to the Korean customs liaison in the USFK judge advocate's office, the Korean Office of Customs collects statistics on these offenses and provides them to USFK. The liaison said the statistics are a combination of customs and/or black

market offenses and that black market cases cannot be separated from customs offenses. In 1988, the Korean Office of Customs reported a total of 2,111 cases.

Korean Trade Restrictions

In addition to law enforcement, many U.S. officials believe that the key to deterring black market activities in South Korea is for the Korean government to lift its trade restrictions on U.S.-made and other foreign products and reduce its tariffs. USFK officials expect that as the trade barriers lessen, the number of U.S. and other foreign products on the Korean economy will increase, and the demand for items from USFK retail outlets will then decrease.

The 1988 tariffs on some items still remain high. For example, the Korean government has 100-percent tariffs on beer, wine, and whiskey. For example, Chivas Regal Scotch sold for about \$45 per bottle on the Korean economy. Korea also had 30-percent tariffs on speakers and music systems and large appliances, such as refrigerators, ranges, and washing machines. According to a Korean Ministry of Finance document, tariffs on these items are scheduled to decrease through 1993.

According to the Executive Vice President of the American Chamber of Commerce in Korea, black marketing can be eliminated by opening the Korean market to imports through legitimate business channels. He also said that the Korean government's policy is to keep its markets closed to foreigners. Through the black market, the Korean government can keep its markets closed and still have the products it wants at a lower cost than the cost the Koreans would incur to produce the same item or import it. The Executive Vice President said the black market serves the officials who are supposed to make policy and laws to eliminate it.

According to the Economic Minister-Counsellor at the U.S. embassy in Seoul, Korea, the embassy has from time to time used black market sales as confirmation of popular desire for greater market liberalization and demand for U.S. products. Moreover, U.S. embassy officials in Korea also said that black market items could take business away from Korea. These include such high value items as electronic equipment and appliances. The Republic of Korea believes that it cannot open its markets to outsiders because the Korean people fear competition.

Conclusions

U.S. commissaries and base exchanges are primarily funded through customer purchases and, in most of the cases we reviewed, the commissaries and exchanges were paid for the items that were black marketed. However, over \$36 million in fiscal year 1989 appropriated funds were used to pay for shipping goods and other related activities, the ration control system, and U.S. enforcement activities.

Because black marketing is illegal and U.S. resources are being spent in an effort to stop it, we believe USFK needs to ensure that the ration control system functions as intended. The system should provide reasonable assurance that its objectives will be accomplished, but the cost of the system should not exceed the benefits to be derived from it.

Factors outside the U.S. government's control, which may limit the impact of the steps it can take unilaterally, need to be considered. For example, Korean law enforcement authorities prosecute few Korean nationals involved in black marketing U.S. goods, and Korean trade restrictions, which limit the availability of foreign products, foster black marketing.

Recommendations

GAO recommends that the Secretary of Defense direct the Commander, U.S. Forces, Korea, to (1) implement cost-effective ration control system procedures that provide reasonable assurance that the objectives of the system will be accomplished and (2) work with U.S. embassy officials in Korea to develop new approaches to encourage the Korean government to increase its efforts to deter black market activities.

General Demographic Data on USFK Personnel for Calendar Year 1988

Category	Number
Active duty U.S. military, accompanied	
Male	7,791
Female	209
Total	8,000
Officer	1,528
Enlisted, above E-5	2,578
Enlisted, E-5 and below	3,894
Total	8,000
Military dependents	
Command-sponsored dependents ^a	6,671
Noncommand-sponsored dependents ^b	2,647
Limited command-sponsored dependents ^c	6,591
Total	15,909
Korean born spouses	5,372
Non-Korean born spouses	2,628
Dependents under 36 months of age	3,082
Dependents over 36 months of age	4,827
Total	15,909
Active duty U.S. military, unaccompanied	
Male	33,325
Female	4,103
Total	37,428
Officer	3,962
Enlisted, above E-5	6,628
Enlisted, E-5 and below	26,838
Total	37,428
Civilians, accompanied ^c	
Male	2,225
Female	258
Total	2,483
Dependents	
Command-sponsored dependents	3,602
Noncommand-sponsored dependents	189
Limited command-sponsored dependents	1,160
Total	4,951
Korean born spouses	1,443
Non-Korean born spouses	1,040
Dependents under 36 months of age	487
Dependents over 36 months of age	1,981
Total	4,951

(continued)

**Appendix I
General Demographic Data on USFK
Personnel for Calendar Year 1988**

Category	Number
Civilians, unaccompanied	
Male	1,089
Female	468
Total	1,557
Total personnel	70,328

^aCommand-sponsored dependents are transported to and from Korea at government expense and are entitled to all applicable benefits.

^bNoncommand-sponsored dependents are not transported to Korea at government expense and are not entitled to benefits, although they may be given some.

^cLimited command-sponsored dependents are not transported to Korea at government expense, but they are given limited benefits because the service member has extended his or her stay in Korea to at least 2 years.

Comparison of U.S. and USFK Per Capita Rice Shipments and/or Sales

Pounds in thousands	
Rice shipments and/or sales (1988)	Amount
Shipments for Army commissaries	6,433
Shipments for Air Force dining facilities and commissaries	3,000
Shipments for Army dining facilities	326
Total 1988 shipments	9,759
AAFES average monthly sales times 12 months	2,217
Total shipments and/or sales	11,976
Rice in pounds	
Consumption for authorized personnel compared with U.S. population and Army dining facilities in Korea	Amount
Average number of personnel in South Korea during 1988 eligible for commissary and exchange privileges	70,328
Per capita shipments and/or sales of rice in South Korea	170
Per capita consumption of rice in the United States during 1987-88 ^a	13.6
Per capita consumption of rice in dining facilities by Army active duty personnel in South Korea	10.3

^aBased on U.S. Department of Agriculture data.

Comparison of Consumption Rates for Chivas Regal Scotch Whisky in Europe and Korea

Organization	Number of active duty military ^a	Total Scotch	Consumption rate	Per capita	
				12-year-old	21-year-old
U.S. Forces, Europe	305,947	228,140	48,615	47,085 (0.15)	1,530
U.S. Forces, Korea	45,501	496,596	334,008	314,748 (6.93)	19,260

Note: This table compares fiscal year 1988 U.S. Forces, Europe (Army and Air Force only), sales versus USFK calendar year 1988 issues to stores because USFK data on sales were not available.

^aAs of September 30, 1988, U.S. Forces, Europe, includes Army and Air Force personnel only, while USFK includes all service personnel.

USFK Retail Facility Appropriated Funds Support (Fiscal Year 1988)

Figures in thousands

Outlet	Amount
Army and Air Force commissary combined support ^a	
Transportation costs	\$12,173
Army commissary	
Operations and Maintenance costs	\$64
Personnel	
Military	355
Civilian	4,734
Air Force commissary	
Operations and Maintenance costs	\$18
Personnel	
Military	187
Civilian	1,057
AAFES	
Transportation costs	\$4,651
Class Six	
Transportation costs	\$486
Total costs	\$23,725

^aIncludes both surface and airlift transportation costs for Army and Air Force commissary goods.

Cost of USFK Ration Control System (Fiscal Year 1987)

Direct cost	Amount
Personnel	
Data management	\$667,900
201st Signal Support Company	156,000
Investigators	820,000
Issuing agencies	523,000
Total personnel cost	\$2,166,900
Supplies	397,196
Equipment	4,725
Contract (data processing)	104,500
Total direct cost	\$2,673,321
Indirect cost	
Personnel	9,362,188
Total costs^a	\$12,035,509

^aThese costs are the latest available from the USFK Data Management Division.

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