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

RELEASED

2 Addresses

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B-114898

JUN 25 1973

The Honorable Russell B. Long
Chairman, Committee on Finance,
United States Senate

Dear Mr. Chairman:

Section 313 of the ~~Tariff Act of 1930~~, as amended (19 U.S.C. 1313), provides for the refund of duty (drawback) on exports of items manufactured from duty-paid imported material or like domestic material substituted for duty-paid imported material. This provision is designed to encourage exports by recovering duties on exports which compete with foreign-made goods and by substituting like domestic material for imported material, to avoid the administrative problems involved in keeping separate records for imported and domestic materials. The Bureau of Customs, Department of the Treasury, is responsible for administering section 313.

Our review of drawback payments for exported petroleum products showed that refunds were being made for petroleum products exported under programs of the Agency for International Development (AID) even though these products did not compete with foreign petroleum products.

The ~~Foreign Assistance Act of 1961~~, as amended (22 U.S.C. 2151), states that, whenever practicable, foreign assistance shall consist of U.S. products. Also sales to foreign governments are made under AID agreements which generally include provisions that virtually preclude foreign competition. Therefore we believe that products exported under AID programs should be ineligible for drawback payments.

Statistics published by AID show that, during fiscal year 1971, AID also financed through grants and loans the procurement of numerous products, such as aluminum, chemicals, and steel, on which drawback was paid. We did not attempt to determine the amount of drawback payments made for exports under AID programs, but we believe that such payments could be substantial. One drawback claim, filed in August 1970 for exports of petroleum products from one refinery, amounted to about \$1.2 million, of which \$49,000, or about 4 percent, was for exports under AID programs. Total drawback payments for

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petroleum products for fiscal years 1970, 1971, and 1972 amounted to about \$12 million, \$11 million and \$8 million, respectively.

INTENT OF THE DRAWBACK PROVISION

Refunds of duties paid on imported material subsequently exported as a manufactured product is a policy of long standing that had its origin in the act of 1791 (1 Stat. 199), which provided a specific allowance of 3 cents a gallon on exports of spirits distilled in the United States from imported molasses. According to the preamble of this act, the provision was enacted to encourage the export trade of the United States. When the drawback provision was incorporated into the Tariff Act of 1930, the House Ways and Means Committee reaffirmed that one of the chief purposes of drawback was to build up a creditable foreign commerce.

RESTRICTIONS ON USING AID FUNDS

AID agreements contain a source-of-procurement restriction which generally requires the recipients of AID funds to purchase products from U.S. sources. Statistics published by AID show that from fiscal year 1967 through 1971, 96.2 to 99.7 percent of the commodities purchased with AID funds were purchased from U.S. suppliers. AID regulations require manufacturers to certify that exported articles are produced from domestic source material or contain no more than an allowable percentage of imported material as prescribed by AID.

BUREAU'S POSITION

In responding to a letter of inquiry made in connection with an earlier review, the Bureau of Customs advised us in May 1968 that the Tariff Act provided no basis for denying drawback when the products are exported under AID programs.

CONCLUSION

Payment of drawback on exports under AID programs is not necessary to encourage foreign commerce because the terms of the AID agreements virtually preclude foreign competition. Accordingly, we believe the Tariff Act of 1930 should be amended to preclude payment of drawback on AID sales.

RECOMMENDATION

We recommend that the Committee consider legislation to amend section 313 of the Tariff Act of 1930 to prohibit drawback for products exported under AID programs.

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⁶² We are also sending this report to the Chairman, Committee on Ways and Means, House of Representatives. Copies are being sent to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Chairman, Subcommittee ⁶³ on Foreign Operations, Senate Committee on Appropriations.

Sincerely yours,



Comptroller General
of the United States