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The Honorable William Proxmire
United States Senate

Dear Senator Proxmire:

As a result of your request of November 9, 1972, we have looked into gasoline prices at military bases on Okinawa. You based your request on a complaint by the American Federation of Government Employees (AFGE), Okinawa Local No. 1678.

After receiving your request, we advised your staff that we do not have authority for reviewing nonappropriated-fund activities and that, consequently, we are not in a position to examine the Okinawa Regional Exchange's pricing practices. We did agree to obtain data regarding the income from petroleum operations received and managed by the U.S. Civil Administrator for the Ryukyu Islands (USCAR).

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BACKGROUND

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Between 1957 and 1972, the United States, in accordance with the Treaty of Peace with Japan and Executive Order 10713, exercised legislative, administrative, and judicial power over the Ryukyu Islands through a Civil Administrator. The Administrator was to promote and encourage self-government, to assist the people in achieving a viable economy, and to encourage improvement in the standard of living on the Islands.

The High Commissioner (who also was the Commanding General of the U.S. Army, Ryukyu Islands) directed the functions of the Office of the Civil Administrator. Although the peace treaty with Japan gave the Commissioner extensive powers, his decisions and actions were expected to be sensitive to local views and political considerations. He also had to constantly consider the continuing policy of the United States to afford the Ryukyuan people an increased measure of self-government without impairing the effectiveness of our Ryukyuan military bases.

Congressional appropriations and earnings from USCAR's corporate and business activities provided financial support for the USCAR operation. One of the USCAR's business activities was the distribution of petroleum products. Under

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Executive Order 10713, which gave the Commissioner authority to promulgate laws, ordinances, and regulations to carry out his mission, USCAR controlled almost all policy and management aspects of petroleum products on the Islands.

The Commissioner created the Joint Petroleum Board within USCAR and established prices on all petroleum products. Various factors were used to establish prices, depending on the type of product and whether the product was to be sold locally or to Government agencies. USCAR always included a markup, regardless of the user. USCAR's major consideration was to generate revenue for the General Fund but, at the same time, to maintain stable prices for the benefit of the Ryukyuan economy.

The operation of and the financial accounting for the petroleum function was accomplished through the Petroleum Distribution Fund. This fund channelled the net earnings from sales of petroleum products to the USCAR General Fund. USCAR's customers included the entire civil economy and some U.S. Government agencies, including the Army, Navy, and Air Force; contract aircraft of the Military Airlift Command; ships of the Military Sealift Command; the Ryukyu Electric Power Corporation; the Okinawa Regional Exchange; Voice of America; and the USCAR motor pool.

INCOME FROM PETROLEUM OPERATIONS
USED TO AID OKINAWA

USCAR aided Okinawa by distributing water and electric power and by making loans through its Development Loan Corporation. It also made major contributions to highway, airport, and seaport construction; telecommunications; education; health; labor; welfare; and many other municipal and rural improvements. During fiscal years 1965 through 1970, USCAR distributed almost \$140 million in U.S. aid to the Islands. The Congress appropriated about \$81 million of this amount; USCAR operations generated the remainder of about \$59 million. Approximately 60 percent of the remainder was generated by the Petroleum Distribution Fund. A breakdown of the aid, by years, follows.

<u>Fiscal year</u>	<u>From appropri- ations</u>	<u>From USCAR operations</u>	<u>Total</u>
	(millions)		
1965	\$12.0	\$ 8.0	\$ 20.0
1966	12.0	7.3	19.3
1967	12.0	7.5	19.5
1968	12.0	12.8	24.8
1969	15.6	11.8	27.4
1970 (note a)	<u>17.5</u>	<u>11.4</u>	<u>28.9</u>
	<u>\$81.1</u>	<u>\$58.8</u>	<u>\$139.9</u>

^aEstimated.

Although Okinawa was officially returned to Japanese control in May 1972 by the Okinawa Reversion Agreement, several contingency reserve accounts in the USCAR General Fund--such as the scholarship program, special assistance to the municipalities, travel, severance pay, and the movement of household goods--remain open. The Department of Defense fiscal year 1974 budget presentation to the President included an accounting of the continuing disposition of the assets and liabilities of USCAR.

TAX QUESTION SHOULD BE SUBMITTED
TO INTERNAL REVENUE SERVICE

AFGE questioned whether the markup USCAR assessed on gasoline is a tax and, if so, whether it is a deductible item that may be claimed by a U.S. citizen on his Federal income tax return. We believe AFGE should submit this question to the Internal Revenue Service.

We trust that the above information is helpful. As requested, the correspondence submitted with your inquiry is enclosed.

Sincerely yours,



Comptroller General
of the United States

Enclosure