



Department of Defense INSTRUCTION

NUMBER 7060.03

December 7, 2005

USD(P&R)

SUBJECT: International Balance of Payments Program - Nonappropriated Fund Activities

- References:
- (a) DoD Directive 7060.3, "International Balance of Payments Program - Nonappropriated Fund Activities," September 8, 2004 (hereby canceled)
 - (b) Deputy Secretary of Defense Memorandum, "DoD Directives Review – Phase II," July 13, 2005
 - (c) DoD Directive 5124.2, "Under Secretary of Defense for Personnel and Readiness (USD(P&R)), " October 31, 1994
 - (d) Section 136 of title 10, United States Code
 - (e) DoD Directive 1330.9, "Armed Services Exchange Policy," November 27, 2002

1. REISSUANCE AND PURPOSE

This Instruction:

- 1.1. Reissues reference (a) as a DoD Instruction according to the guidance in reference (b).
- 1.2. Provides policy and procedures governing purchase of foreign goods and services by DoD nonappropriated fund (NAF) instrumentalities (including nonappropriated concessionaire activities) outside the United States, its possessions, and Puerto Rico, and construction, sustainment, restoration, and modernization of such facilities.

2. APPLICABILITY AND SCOPE

This Instruction applies to the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense, the Defense Agencies, the DoD Field Activities, and all other organizational entities in the Department of Defense (hereafter referred to collectively as the "DoD Components").

3. DEFINITIONS

Terms used in this Instruction are defined in enclosure 1.

4. POLICY

It is the policy of the Department of Defense to favor and promote the sale of U.S. merchandise items and services in overseas NAF instrumentalities. Details are identified in enclosure 2.

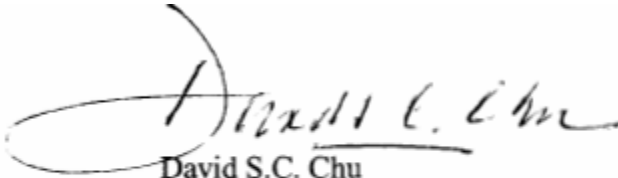
5. RESPONSIBILITIES

5.1. Pursuant to DoD Directive 5124.2 and Section 136 of title 10, United States Code (references (c) and (d)), the Under Secretary of Defense for Personnel and Readiness is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for NAF policy; DoD military and civilian morale, welfare, and recreation programs, military exchange services, lodging funds, and other authorized NAF activities and instrumentalities; and the Defense Commissary Agency, and shall oversee the implementation of this Instruction.

5.2. The Heads of the DoD Components shall issue implementing documents when needed.

6. EFFECTIVE DATE

This Instruction is effectively immediately.



David S.C. Chu
Under Secretary of Defense for
Personnel and Readiness

Enclosures - 2

E1. Definitions

E2. Policy Guidance for the International Balance of Payments Program - Nonappropriated fund (NAF) Activities

E1. ENCLOSURE 1

DEFINITIONS

E1.1. DEFINED TERMS

E1.1.1. Excess Foreign Currencies. The currencies of countries held by the U.S. Treasury in excess supply for all U.S. Government needs, and periodically declared to the Office of Management and Budget by the U.S. Treasury as excess. The lists of countries are transmitted to the DoD Components from time to time by appropriate DoD issuances.

E1.1.2. Foreign Goods. Goods produced or manufactured in a foreign country and physically located outside the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, and the territories and possessions of the United States, including goods located in bonded warehouses or foreign trade zones within the aforementioned areas. This term does not include foreign-made or -produced exchange-type retail merchandise purchased from sources within the United States.

E1.1.3. Local Market. The area surrounding a nonappropriated fund instrumentality that provides services to U.S. personnel who are served by such nonappropriated fund activity, as defined by the regional combatant commander. Combatant commanders shall include only the area in which there is effective competition with the nonappropriated fund activity.

E1.1.4. Nonappropriated Funds (NAF). For the purpose of this Instruction, NAFs are monies derived from sources other than congressional appropriations and commissary surcharge funds, primarily from the sale of goods and services to DoD military and civilian personnel and their family members.

E1.1.5. U.S. Goods and Merchandise. Goods produced or manufactured in the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, and the territories and possessions of the United States.

E2. ENCLOSURE 2

POLICY GUIDANCE FOR THE INTERNATIONAL BALANCE OF PAYMENTS PROGRAM - NAF ACTIVITIES

E2.1. PROCUREMENT AND STOCKING

E2.1.1. General. Overseas exchange officers and heads of other procuring NAF activities shall, within the limits of sound business practice, stock U.S. merchandise in preference to equivalent merchandise from foreign sources, and take the following steps to maximize the sale of U.S. merchandise by NAF resale activities.

E2.1.1.1. Label and segregate foreign merchandise displays.

E2.1.1.2. Display U.S. merchandise prominently.

E2.1.1.3. Avoid inferior foreign imitations and substitutes of U.S. merchandise.

E2.1.1.4. Respond rapidly to consumer preference for U.S. merchandise through established exchange procurement channels.

E2.1.1.5. Cooperate with potential U.S. suppliers in meeting foreign competition where customer demand in overseas exchanges indicates a shift to foreign products.

E2.1.2. Foreign Goods For Resale. It is recognized that, when locally available foreign goods are procured by U.S. personnel in overseas areas, a more favorable effect on the U.S. balance of payments shall result if such goods are purchased through U.S.-operated NAF resale activities rather than procured directly on the local economy or from other foreign outlets.

E2.1.2.1. Restrictions. Overseas NAF resale activities may procure foreign goods available in the local market for resale to authorized personnel, subject to the same restrictions that apply to the exchanges contained in DoD Directive 1330.9 (reference (e)) and under the following conditions:

E2.1.2.1.1. The price of foreign goods sold in NAF activities shall be based upon a markup percentage that is no less than that applied to similar categories of U.S. merchandise. Other provisions notwithstanding, the resale price of an item need not exceed the local price.

E2.1.2.1.2. Only foreign goods available on the local market shall be sold by NAF instrumentalities, except under the following conditions.

E2.1.2.1.2.1. Foreign goods purchased with excess foreign currencies may be stocked and sold.

E2.1.2.1.2.2. In remote geographic areas where DoD personnel are isolated and where a local market does not exist, the combatant commander may authorize foreign goods to be stocked to the extent dictated by morale and welfare considerations.

E2.1.2.1.3. Transshipment of foreign goods between NAF instrumentalities in different market areas is authorized where the resale price of the transshipped items, including markup and transshipment transportation costs, results in significant savings to the authorized patrons compared to purchase of the items from local importers at the resale area. No appropriated funds shall be used in this transshipment of merchandise, except when commercial transportation is not available or in contingency operations.

E2.1.2.2. Exceptions to Subparagraph E2.1.2.1. The following categories of foreign goods procured by overseas NAF resale activities are not subject to the conditions stated in subparagraph E2.1.2.1.

E2.1.2.2.1. Perishable subsistence items, beverages, and similar items purchased for consumption on the premises of NAF activities engaged in serving foods and beverages. However, these purchases should be reviewed continuously with the view to change to U.S. sources if feasible and financially advantageous.

E2.1.2.2.2. Goods for which there are no acceptable substitutes of U.S. manufacture and which are required to operate and/or maintain customer-owned equipment, such as 220v/110v transformers; bulbs, sockets and accessories; and repair parts for watches, radios, electronic equipment and household appliances.

E2.1.2.2.3. Infant caskets.

E2.1.2.2.4. Distinctive unit insignia.

E2.1.2.2.5. Printed matter such as maps, postcards, magazines, newspapers, travel books, greeting cards, and newsprint and ink for printing of "Stars and Stripes."

E2.1.2.2.6. Soft drinks.

E2.1.2.2.7. Items of supply and materials for use in connection with hobby craft shop and craft programs of the Military Departments.

E2.1.2.2.8. Purchases made or required pursuant to treaty or Executive agreement.

E2.1.2.2.9. Emergency purchases.

E2.1.2.2.10. High octane gasoline, kerosene, and heating and cooking fuels, which are not otherwise available from, appropriated fund stocks.

E2.1.2.2.11. Automotive supplies for U.S.-made cars where supplies of American manufacture are not available from either bonded warehouses or foreign distributors and where existing facilities preclude these supplies otherwise being made available for the upkeep of privately owned vehicles.

E2.1.3. Foreign Goods Not For Resale

E2.1.3.1. Overseas NAF instrumentalities are authorized to buy, but not to sell foreign goods if procurement is:

E2.1.3.1.1. Made pursuant to treaty or Executive agreements.

E2.1.3.1.2. Estimated not to exceed \$100,000 in foreign currency.

E2.1.3.1.3. Obtainable from foreign sources only and for which it is not feasible to forego filling the requirements or to provide a U.S.-made substitute for them.

E2.1.3.2. Procurement of other "not for sale" goods, except as provided in paragraph 5., shall be U.S. materials and end products from domestic suppliers provided the cost of U.S. goods (including transportation and handling costs) is estimated to be no more than six percent above the cost of foreign goods if the domestic offer is from a large business or no more than 12 percent, if the domestic offer is from a small business concern.

E2.2. CONSTRUCTION, SUSTAINMENT, RESTORATION, AND MODERNIZATION OF REAL PROPERTY OUTSIDE THE UNITED STATES

Nonappropriated-funded construction, sustainment, restoration, and modernization projects shall be accomplished to the maximum extent possible under procedures that use:

E2.2.1. U.S. contractors, U.S. materials, and end products from domestic suppliers.

E2.2.2. U.S. Government-furnished material and equipment.

E2.2.3. U.S. flag carriers.

E2.2.4. Prefabricated installations and structures manufactured in the United States;
and

E2.2.5. Competent available troop labor.

E2.3. EXCEPTIONS

E2.3.1. Canada, Korea, and Mexico. NAF activities located in these countries are authorized to purchase and sell goods produced or manufactured in the respective countries notwithstanding paragraphs E2.1.2. and subparagraphs E2.1.3.1. and E2.1.3.2.

E2.3.2. Greenland. NAF activities located in Greenland are authorized to purchase and sell goods produced or manufactured in the Kingdom of Denmark without application of the pricing provisions of paragraphs E2.1.2. and subparagraphs E2.1.3.1. and E2.1.3.2.

E2.3.3. Excess Foreign Currencies. NAF activities are authorized to purchase, with excess foreign currencies acquired from the U.S. disbursing officer, goods produced or manufactured in countries in which the U.S. Treasury holds an excess supply of the currency of the country concerned. Payments for such procurements may also be made in both local currency and dollars if the dollar portion is limited to the supplier's validated direct-dollar costs of the portion of the procurement that was exported from the United States. Purchase and sale of such goods and services are not subject to the other provisions of this Instruction.