



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



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Dear Senator Proxmire:

In response to your request of November 11, 1970, and subsequent discussions with your office we are providing information relating to the agreement for disposal of foreign excess United States personal property in Iceland. It was agreed that we would determine (1) what the latest agreement with the Iceland Government includes, (2) whether the provisions of the agreement were in accordance with relevant policy guidance, and (3) how the agreement with Iceland compares with agreements pertaining to disposal of foreign excess United States personal property in other countries. In addition it was agreed that we would compare the rate of return from disposal activities in Iceland with the rate of return worldwide.

We reviewed the terms of the agreement between the United States and Iceland pertaining to disposal of foreign excess United States personal property and compared these terms with relevant policy guidance, and with foreign excess property disposal agreements between the United States and China, Italy, Denmark (concerning Greenland), and Turkey.

We found that:

- The agreement with Iceland provides that any sales of foreign excess property in Iceland must be made through the Icelandic Government or its agent on a negotiated basis unless otherwise mutually agreed between the two Governments. The United States may remove the property from Iceland without any restrictions, in the event the United States does not choose to sell the property in Iceland, or agreement for sale in Iceland is not reached.
- The agreement with Iceland is within the allowable limits of Department of Defense policy guidance and was coordinated with the Department of State for foreign policy consideration as required by the Federal Property and Administrative Services Act of 1949, as amended.

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--The agreement with Iceland, relative to the foreign excess property disposal agreements with four other countries, is generally more restrictive in that it provides for negotiated sales whereas the other four agreements provide for a combination of negotiated and competitive bid sales. Also, the rates of return from foreign excess disposal activities in Iceland for fiscal year 1970 were lower than the return on worldwide foreign sales.

These matters are discussed in more detail in the following sections.

The Agreement with Iceland

The general agreement between the United States and Iceland entitled "Defense of Iceland Pursuant to North Atlantic Treaty" was signed and entered into force on May 5, 1951. The general agreement contains the basic conditions for establishing U.S. military facilities in Iceland. Several annexes have been negotiated implementing the detailed arrangement in the general agreement. Disposal of U.S. excess personal property was provided for in a classified general annex which allowed disposal in Iceland by the United States as agreed upon with the Icelandic authorities. The general annex was further implemented in an unclassified operating agreement signed in 1953 by a United States Air Force officer, as commanding officer of the Icelandic Air Defense Force, and a representative of the Icelandic Government.

The 1953 operating agreement was updated in 1962 in the form of a new agreement containing essentially the same provisions as the 1953 agreement. The new agreement was approved by the commanding officer of the Icelandic Defense Force and the Minister for Foreign Affairs of the Republic of Iceland. Both the 1953 and the current 1962 operating agreements provide that the agreement may be terminated by either party upon written notice.

The operating agreement further provides, in effect, for negotiated sales in that all salvage, excess or surplus property sold in Iceland must be sold to the duly appointed agent of the Icelandic Government unless other disposal is arranged by mutual agreement. Otherwise the United States may remove the property from Iceland as it chooses.

Conformance of Icelandic Agreement
with Relevant Policy Guidance

The Department of Defense Disposal Manual requires that foreign excess disposal programs be developed and conducted with the coordination and approval of the State Department. The Federal Property and Administrative Services Act of 1949, as amended, requires that disposal of foreign excess property conform to the foreign policy of the United States.

The Department of Defense Disposal Manual, 4160.21-M provides that it is the policy to sell foreign excess property by competitive type sales to the maximum extent practicable. However, it also provides exceptions to competitive bid sales as follows:

"*** in some instances, the host government concerned may insist on having the first right of refusal on U.S. Foreign excess property generated in the country; or may insist on being the only authorized buyer or the only authorized sales agency. **** Sale by negotiation may be made when approved by the major overseas commander, whenever he determines that it will be in the best interest of the United States to dispose of the property by negotiation rather than by competitive bid."

The operating agreement with Iceland was negotiated and signed in 1953 by the local United States military commander, and approved by the State Department representative in Iceland and forwarded to the State Department in Washington for their consideration.

We believe the agreement with Iceland is within the allowable limits of Department of Defense policy guidance and conforms to the Federal Property and Administrative Services Act of 1949, as amended, inasmuch as it was coordinated with the Department of State for foreign policy consideration.

The Agreement with China

The agreement with China was executed by the United States Ambassador at Taipei and the Chinese Minister of Foreign Affairs by an exchange of notes signed at Taipei July 22, 1959.

In the agreement with China it is provided that the Chinese Government need not be consulted in connection with sales of waste such as refuse, containers and packaging materials in less than commercial quantities and such material may be sold directly. All other excess material, whether scrap or usable property, must be offered first to the Chinese Government for first right of refusal.

If no agreement is reached on sale to the Chinese Government, and the Chinese Government does not object for security reasons, the material may be offered to other private customers for use in China or for export.

The Agreement with Italy

The agreement with Italy was executed by a representative of the State Department and a representative of the Republic of Italy. It was signed at Rome on June 22, 1957.

In the case of Italy the agreement requires different procedures depending on whether the excess property is waste, scrap or usable property. As in the agreement with China waste such as garbage, refuse, or shipping containers may be sold without consultation with the Italian Government. However, in Italy the amount of waste which can be sold without consultation with the Italian Government is not restricted to amounts less than commercial quantities.

In regard to excess waste and scrap not in the class of refuse or garbage and including materials such as ferrous and nonferrous scrap metal, the agreement provides that the Italian Government has the first right of refusal. If the Italian Government does not elect to purchase the material it may be sold to individuals, firms or non-governmental entities authorized to do business in Italy in aggregate total of \$400,000 sales value in a calendar year. The agreement also provides that the ceiling of \$400,000 may be increased to meet requirements in any particular year. We were also informed that Italy waived the right of first refusal on waste and scrap in a note as of June 10, 1958.

In regard to usable excess property, the Italian Government has the right to first refusal and the right to disapprove any sales to Italian individuals, firms or other entities authorized to do business in Italy whether the purchases might be for internal use or for export. Sales to foreign customers for export are not subject to any restrictions.

The Agreement Concerning Greenland

Greenland is an integral part of The Kingdom of Denmark. The agreement concerning Greenland was executed by the United States Ambassador to Denmark and a representative of the Government of The Kingdom of Denmark. It was signed at Copenhagen on April 27, 1951 and entered into force on June 8, 1951.

The official agreement with Denmark concerning the Defense of Greenland provides that after consultation with the Danish authorities, the United States may either remove the property from Greenland free of restriction or dispose of it in Greenland.

To implement the excess property disposal provisions of the agreement for the Defense of Greenland an operating agreement was entered into on July 10, 1957 between the Chief of Staff of the Headquarters Eighth U.S. Air Force and the Director of the Royal Greenland Trade Department as agent for the Denmark Government. The operating agreement provides that all salvage, excess or surplus property sold in Greenland for internal use or for export shall be first offered for sale to the Royal Greenland Trade Department. If the Royal Greenland Trade Department does not make an acceptable bid it may then be offered to all eligible bidders.

The Agreement with Turkey

The agreement with Turkey was executed by the United States Ambassador to Turkey and the Turkish Minister of Foreign Affairs. It was effected by an exchange of notes signed at Ankara October 6 and November 13, 1959.

The agreement with Turkey provides for disposal of excess personal property in essentially the same manner as provided in the Icelandic agreement. For instance, the Turkish agreement provides that the property may be sold in Turkey only through an agent designated in the agreement. However, the agreement with Turkey is more liberal than the agreement with Iceland in that if no agreement is reached with the agent the United States may sell the property to a foreign customer (non-Turkish) for export from Turkey.

Comparison of Return Between Iceland and Worldwide Property Disposal Activities

We compared the acquisition cost, tonnage, sales receipts, and the percent of return between Iceland and worldwide foreign excess property disposal activities.

In the case of usable property for fiscal year 1970, the disposal activities in Iceland reported sales of usable property having an acquisition cost of \$269,154 with receipt of \$4,172 for a return of 1.5 percent. The Department of Defense reported worldwide foreign excess property sales of usable property for fiscal year 1970 as having an acquisition value of \$231,148,704 and receipts of \$14,824,246 for a return of 6.4 percent.