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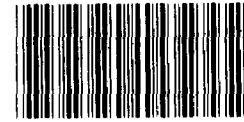
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INTERNATIONAL DIVISION

B-203673

JUNE 23, 1981

The Honorable Caspar Weinberger
The Secretary of Defense



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The Honorable Alexander M. Haig, Jr.
The Secretary of State

Subject: [Improvements Can Be Made In Military
Assistance Equipment Disposals] (ID-81-43)

The General Accounting Office has recently completed a survey of the controls and procedures exercised over the management and disposal, including related proceeds, of Military Assistance Program (MAP) materiel.

Our survey has disclosed that

- there are no comprehensive records of the extent and value of MAP materiel in recipient countries that the United States still has exercisable residual rights to;
- the cost of disposing of MAP materiel declared excess by recipient countries is increasing and sometimes exceeds the sales proceeds; and
- there is only limited information available on the proceeds being realized from MAP disposals and sales, and where the funds are being deposited or used.

We believe reversionary rights sales, and, as an alternative, host country disposal sales, would eliminate or alleviate many of these problems, provide increased revenue to the United States, and enhance U.S. relations with the recipient countries. Further details on our observations follow:

LIMITED INFORMATION ON MAP
MATERIEL STILL IN-COUNTRY

During the last 30 years the United States provided about \$60 billion in MAP materiel assistance to 71 countries. This assistance was provided under the condition that when the military

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materiel was no longer needed by the recipient country's military services it would be offered for return to the United States. Thus, the United States maintained residual rights to the MAP materiel. These residual rights have a monetary value because when the materiel is declared excess by the recipient country it can be transferred to meet other U.S. or foreign countries' needs, or be sold, with the proceeds accruing to the United States.

The United States, however, has only limited information on the extent and value of the MAP materiel that was provided and is still in the recipient countries for which the United States has exercisable rights. While we believe this remaining materiel to be significant, at least several billion dollars based on acquisition costs, much of the granted MAP materiel has been used up (e.g., supplies and ammunition), transferred, or sold under Foreign Military Sales (FMS), reversionary rights sales, or sold for scrap through U.S. overseas disposal offices. In some cases and for apparently political reasons (e.g., Yugoslavia and Taiwan) the United States relinquished its residual rights at no cost to the recipient countries.

The only current information available on the extent of MAP materiel still in recipient countries is that obtained from some countries by U.S. in-country representatives. The completeness of the data varies widely from country to country and for some countries no data is available. For instance, the value of the remaining MAP materiel in France and Japan is about \$400 million and \$700 million respectively, while in most Latin American countries the value is unknown. There is no attempt by the Department of Defense to maintain inventory records on MAP materiel still in recipient countries by showing the deletions and additions to that previously provided. Generally U.S. military personnel in these countries have not maintained such inventories for the last several years because of reductions in their staffing. The annual Congressional Presentation for the Security Assistance Programs shows only the amounts originally provided to a recipient country. In fact if an item was originally provided under the MAP, and subsequently sold under an FMS case, it would appear in the Congressional Presentation under both MAP and FMS assistance.

We suggest that the Department of Defense through its in-country representatives obtain from the recipient countries a priced-out listing of all significant MAP materiel still in their possession. This information should assist the Departments of Defense and State in predicting future disposal costs and proceeds and in seeking alternative disposal methods such as reversionary rights sales.

INCREASING MAP DISPOSAL COSTS

During our survey we made only limited inquiries about the administrative costs associated with managing and disposing of

MAP materiel. We did, however, consider the information contained in the Defense Audit Service report of October 1980 (No. 81-011) and the costs being charged by the Defense Property Disposal Region in Europe. For instance the Defense Audit Service report stated

"* * * there is a high probability, based on the type, age, and condition of MAP property, that the amount of DLA appropriated funds needed for disposals will soon be more than the sales proceeds going to the MAP account."

We believe this statement is supported by the fact that currently disposal costs often exceed 50 percent of the proceeds and in some cases costs are expected to be greater than disposal proceeds. For instance several years ago France and Belgium declared certain MAP provided ammunition, with an original total acquisition value of \$5 million, excess to their needs. The Department of Defense after finding there were no valid requirements for this type of ammunition among U.S. forces or allies, decided to demilitarize it and sell it for scrap. An analysis, however, showed that expected costs of demilitarizing and handling the ammunition would exceed estimated scrap sale proceeds. The Defense Logistic Agency (DLA), therefore decided in February 1981 to offer the ammunition to the recipient countries without a charge for residual rights. The countries agreed to accept the United States offer which allows them to use the ammunition for their forces or to scrap it after demilitarization. If the countries had not agreed to accept the ammunition the United States could have been obligated to remove it from Belgium and France, and probably would have incurred costs in disposing of it. Other MAP disposal costs, at least in terms of time and effort, are also incurred by the processing of various transfers, disposal and cannibalization requests from host country personnel to U.S. in-country representatives, the U.S. Unified Commands, the Military Services, the Defense Security Assistance Agency (DSAA), and the Department of State.

LIMITED INFORMATION AVAILABLE
ON DISPOSAL PROCEEDS

In reviewing some of the procedures related to funds realized from MAP disposals and sales we noted there are no comprehensive records (1) showing the total funds realized and (2) where the funds are deposited or used.

Funds realized from MAP disposals handled by the DLA disposal regions are generally deposited to the MAP account (11 x 1080). This is in accordance with section 605(d) of the Foreign Assistance Act which provides that funds realized by the United States from the sale, transfer, or disposal of defense articles returned to the U.S. Government by a recipient country be credited to the respective appropriations fund, or account used to procure such defense articles.

In fiscal year 1976 proceeds deposited to the MAP account amounted to about \$5 million and in 1980 to about \$3 million. The decrease in proceeds is expected to continue as less materiel is made available and disposal costs continue to increase. For fiscal year 1982 the Department of Defense has estimated this revenue will be \$1.1 million.

However, the MAP account does not contain the proceeds from the sale of old MAP materiel under FMS to either recipient or other countries. These sales, which could be significant, we were told are deposited to the general funds of the Treasury. We noted MAP materiel with an original acquisition value of \$772,000 was purchased by Denmark, and sold in 1980 by the United States under FMS to Korea for \$397,000. We did not verify where these funds were deposited or used. These sales are conducted by several Defense organizations and the central sales records in DSAA are not segregated between MAP and non-MAP sales. Thus it is difficult to obtain the extent of these types of sales.

We would like your views on the feasibility of developing a comprehensive system showing the total proceeds being realized from MAP disposals and sales, and where they are being deposited or used.

CONSIDERATION SHOULD BE GIVEN TO REVERSIONARY
RIGHTS SALES AND DISPOSALS BY RECIPIENT COUNTRIES

We have for a number of years strongly supported reversionary rights sales of old and obsolete MAP materiel to countries no longer receiving MAP assistance. We also noted that DLA has favored such sales for some time and has taken certain initiatives in this area. In addition, the above mentioned Defense Audit Service report of October 1980 recommended assessing the potential for selling reversionary rights of MAP property to host countries. We believe that such sales reduce U.S. and recipient countries administrative expenses, provide funds to the United States, and have the potential for establishing stronger relations with the recipient countries. The latter aspect we believe results from the removal of irritants between the U.S. and recipient countries. These irritants result when MAP equipment declared excess by the recipient countries are not removed promptly and the continuing requirement for the recipient countries to maintain inventory records for U.S. use and inspection.

The actual funds that would result from reversionary rights sales are difficult to predict, but we believe they could be significant. For instance:

- In 1962, Germany purchased residual rights to all MAP materiel previously furnished that had an original acquisition cost of \$885 million for \$75 million, or about 8 percent of acquisition costs.

--In 1972, Norway purchased residual rights to MAP-supplied spare parts with an original acquisition cost of \$7.3 million for \$140,000, or about 2 percent of original acquisition cost. The Norwegian Government stated they were purchasing the residual rights to eliminate costly administrative work for both parties and to free personnel for work of higher priority.

--In 1974 in a report to the Congress (B-133283, dated August 26, 1974), we recommended the sale of reversionary rights to MAP equipment to Brazil for reasons similar to those advanced by Norway. The Departments of Defense and State acted upon our recommendation, and in March 1977, a reversionary rights sale of army and navy MAP materiel was concluded for \$500,000. The sales price was about 1 percent of \$44 million, the original acquisition cost of materiel still in-country.

The Brazilian Air Force decided not to purchase residual rights to Air Force MAP equipment originally valued at about \$81 million. We do not know what is happening to this equipment as it becomes old, obsolete, and unserviceable but no proceeds from Brazilian disposal sales have been reported in at least the last 5 years.

Since the Brazilian reversionary rights sale we are not aware of any similar type sale taking place, although DLA has sought to conclude such sales particularly with France and Japan.

We believe the reversionary rights sales have not taken place or negotiations sufficiently advanced because there has not been effective cooperation and active support among all Defense Department activities and the State Department. DSAA has not provided full support to DLA's proposals for looking into the feasibility of selling reversionary rights, because in DSAA's opinion funds realized from reversionary rights sales would go to the general funds of the Treasury instead of the MAP account. Also the State Department apparently did not comply with a Japanese Foreign Ministry request for details on reversionary rights sales to Germany to help them in their deliberation on a proposal made by DLA's representative in Japan. We have asked a State Department official to look into this situation.

For countries where it has been determined that reversionary rights sales should not or cannot be made, we believe the United States should consider entering into disposal agreements with the recipient countries. We know of two such agreements or arrangements. Great Britain disposes of unneeded MAP equipment and retains all the proceeds for common defense purposes. Norway retains 30 percent of the proceeds to cover administrative expenses and common defense needs and returns 70 percent to the United States, most of which goes to the MAP account.

We are not in accord with the agreement with Great Britain but favor an agreement similar to the one with Norway that provides for the country to cover its expenses and provides for some small incentive to the recipient country to excess unneeded MAP equipment. The lack of an incentive may account for the fact that little old and obsolete MAP equipment has been reported to the United States in certain countries such as Pakistan, India, and most Latin American countries, even though large quantities of equipment have been provided over the years.

DSAA, however, does not generally favor this approach. They stated MAP disposal funds realized by host country disposals, whereby the recipient country is subject to the provisions of section 505 (f) of the Foreign Assistance Act, must be deposited to the general funds of the Treasury, unless specifically authorized in appropriations for other uses, instead of being deposited to the MAP account. This provision is applicable to countries receiving MAP assistance after July 1, 1974, and not to countries like Norway and Great Britain where MAP assistance was terminated prior to that time. We believe, however, that the best interests of the U.S. Government should not be determined solely on the basis of where the funds are to be deposited.

Thus, in summary, we suggest that the Department of Defense in conjunction with the Department of State encourage reversionary rights sales, of old and obsolete MAP materiel and when not feasible, agreements should be entered into for disposals to be conducted by host countries. The Department of Defense may also wish to discuss with the Congress the application of MAP disposal proceeds that will best serve the needs of the Department and the U.S. Government, and any changes in legislation that may be necessary. Legislation changes may be needed to provide incentives to host countries to handle the disposal of MAP materiel and to encourage the Department of Defense to more actively support reversionary rights sales.

We appreciate the assistance provided by your staff and would appreciate any additional information you feel is pertinent to our understanding of the subject area, and any actions or initiatives you are planning. We would most specifically like to know if you will give active support to reversionary rights sales of MAP materiel, and if not, for what reasons.



Frank C. Conahan
Director