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United States General Accounting Office

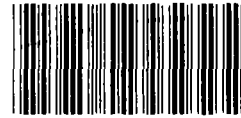
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Fact Sheet for the Honorable
Ernest F. Hollings, United States Senate

October 1987

ADDITIONAL COSTS TO GOVERNMENT

Reflagging Kuwaiti Ships and Protecting Them in the Persian Gulf



134177

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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-228983

October 8, 1987

The Honorable Ernest F. Hollings
United States Senate

Dear Senator Hollings:

You asked us to provide information on the additive costs to the U.S. government of reflagging 11 Kuwaiti ships and protecting them in the Persian Gulf with U.S. military forces. You also asked for information on the types and numbers of military assets involved. This fact sheet, together with its separate classified supplement, provides the information you requested.

Additive costs presented are estimates through September 30, 1987, based on forces assigned to protecting the reflagged Kuwaiti ships as of August 24, 1987. To the extent possible, we excluded costs that the government would have incurred had the ships not been reflagged or protected. However, the Navy was not able to completely isolate costs resulting solely from the need to protect the reflagged ships. As agreed, we did not attempt to validate the accuracy or completeness of these costs.

BACKGROUND

In March 1987, the administration announced that 11 ships would be transferred from Kuwaiti to United States registry, a process referred to as reflagging. The administration also announced that these ships would be treated no differently than other U.S. flag carriers and would receive U.S. military protection while operating in the Persian Gulf and transiting the Strait of Hormuz. Subsequently, in early July 1987, the number of U.S. Navy ships operating in the Persian Gulf and the Arabian Sea was increased, and the operational tempos of these ships and their on-board aircraft were increased.

COSTS OF REFLAGGING

As the agency responsible for registering U.S. ships, the United States Coast Guard was responsible for reflagging the Kuwaiti ships. The U.S. Maritime Administration (MARAD) and

the U.S. Federal Communications Commission (FCC) also had a small involvement in the reflagging process. MARAD is responsible for approving all charters for more than 6 months of U.S. ships by foreign companies, and the 11 ships were chartered by a Kuwaiti company. The FCC is responsible for licensing ship radio/telegraph equipment.

Costs incurred by these three agencies were primarily personnel costs. Because no overtime was paid in connection with the reflagging effort, none of the three agencies believed it had incurred costs beyond normal costs of operations. The Coast Guard did incur about \$19,000 in travel and per diem costs to send a team of inspectors overseas to inspect the ships; however, in accordance with its usual practice of performing overseas inspections, the Coast Guard billed the Kuwaiti shipping company to recover these costs.

Estimates by the three agencies of the staffdays expended in connection with the reflagging are contained in appendixes I and II.

COSTS OF PROTECTION

The military services estimate that \$69.0 million¹ in additive costs will have been incurred from July through September 30, 1987, to protect the 11 reflagged Kuwaiti ships. This estimate is as of August 24, 1987, and may increase if additional forces are assigned to protect the reflagged Kuwaiti ships. On August 26, 1987, the Department of Defense announced that some of the military personnel involved with protecting the reflagged ships would receive imminent danger pay. Estimates of this pay are included.

The military services do not believe it is feasible to estimate additive costs beyond September 30, 1987, due to the uncertainties involved.

Protection is being provided primarily by the Navy. The actual task of escorting the reflagged Kuwaiti ships is being done by the ships of the Navy's Middle East Force operating in the Persian Gulf. There is also one carrier battle group stationed in the Arabian Sea that supports the task. This

¹These costs do not include costs related to the May 17, 1987, U.S.S. Stark incident.

carrier group will soon be replaced by another carrier battle group and a battleship group. Other U.S. military forces are supporting this operation. For example, the Air Force is flying reconnaissance aircraft and refueling aircraft, and other military forces are flying unspecified aircraft.

The Air Force's additive costs are primarily for support of reconnaissance and refueling aircraft. The Navy's additive costs result from the increased tempo of operations being experienced by the ships comprising the Middle East Force and the battle groups in comparison with the tempos of operations that were budgeted for these ships (i.e., the ships are being steamed more and their aircraft are being flown more than was planned). Additive costs for other forces involved are detailed in the classified supplement and include such items as transporting aircraft to the area of operations. Appendixes III and IV provide estimated additive costs for the Navy and Air Force, respectively.

Navy officials informed us that all of the additional steaming and flying may not be attributable to the need to protect the reflagged Kuwaiti ships but were unable to more closely isolate changes resulting from the need to protect these ships.

The Navy's additive costs are for ship and aircraft fuel and some aircraft maintenance. The Navy has not identified any increased ship maintenance costs resulting from the increased tempo of operations, nor has it identified any increased depot-level aircraft maintenance costs. The Navy advised us that ship maintenance costs probably have not yet increased as a result of the heightened tempo, but they may increase in the future. A primary reason for such increased costs would be the prevalence of sand in the air over the Persian Gulf and the Arabian Sea, which may increase wear on equipment.

The Navy advised us that certain previously planned modifications to its helicopters have been accelerated as a result of the operation to protect the reflagged ships; however, no increased costs attributable to this have been identified.

Navy officials stated that, to date, neither operating tempos nor costs have increased for naval forces deployed in other

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areas of the world as a result of the need to assign additional ships to the Persian Gulf escort mission.

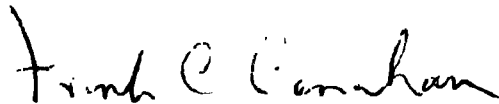
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The information shown in this fact sheet was provided by the various agencies involved. We discussed with agency personnel the nature and derivation of the costs provided and tested their reasonableness to the extent possible.

Unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 7 days from the date of issuance. At this time, we will send copies to the Secretaries of Defense and the Army, Navy, and Air Force and other interested parties.

If we can be of further assistance, please call Mr. John Landicho, Senior Associate Director, (202) 275-6504.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

COAST GUARD'S ESTIMATE OF
STAFFDAYS EXPENDED TO
REFLAG 11 KUWAITI SHIPS

<u>One-Time Expenditures</u>	<u>Staffdays</u>
<u>To date:</u>	
Inspections	168
Issuance of registry certificates	15
Time spent by headquarters ^a	<u>219</u>
Subtotal	<u>402</u>
<u>Future:</u>	
Reviews and inspections ^b	<u>580</u>
Total	982
	===
<u>Continuing Annual Expenditures</u>	
Annual inspections	90

^aTime spent for coordination, congressional testimony, media relations, etc.

^bThese reviews and inspections would normally have been made prior to issuance of U.S. registry certificates; however, a 1-year waiver of the need to meet certain ship safety requirements was granted. If these ships are still under U.S. registry at the end of the year, and if no further waiver is granted, they will be subject to the normal reviews and inspections that ships undergo when they are brought under U.S. registry.

ESTIMATES BY FCC and MARAD
OFFICIALS OF STAFFDAYS SPENT TO
REFLAG KUWAITI SHIPS

	<u>Staffdays</u>
<u>FCC</u>	
Approval of radio/telegraph equipment ^a	50
<u>MARAD</u>	
Approval of ship charters ^b	12
Monitor charter company's ship staffing plans	<u>6</u>
Total	68 ==

^aAdditional time is being spent to respond to labor union appeals against an FCC decision in this case. An estimate of the time involved with these appeals was not available.

^bThe 11 ships were chartered by a Kuwaiti company after they had been reflagged. In accordance with its usual practice, MARAD charged the shipping company \$250 to process each charter application. This charge is designed to reimburse the agency for application processing.

NAVY'S ESTIMATE OF ADDITIONAL COSTS^a
TO PROTECT 11 REFLAGGED KUWAITI SHIPS
THROUGH SEPTEMBER 30, 1987

<u>Types of Costs</u>	<u>Amount</u> (millions)
<u>Ship's fuel</u>	
Forces in the Persian Gulf	\$ 4.0
Forces in the Arabian Sea	<u>16.2</u>
Subtotal	<u>\$20.2</u>
<u>Flying hours</u>	
Forces in the Persian Gulf	\$ 5.6
Forces in the Arabian Sea	<u>5.2</u>
Subtotal	<u>\$10.8</u>
Transportation of material, supplies and personnel	\$25.0
Imminent danger pay	\$ 2.0
Miscellaneous	\$ <u>1.9</u>
Subtotal	<u>\$28.9</u>
Total	\$59.8 ^b ====

^aIncludes transit cost to Middle East

^bDoes not add due to rounding

AIR FORCE'S ESTIMATE OF ADDITIONAL COSTS
TO PROTECT 11 REFLAGGED KUWAITI SHIPS
THROUGH SEPTEMBER 30, 1987

<u>Types of costs</u>	<u>Amount</u> (millions)
Support costs for reconnaissance aircraft and refueling aircraft ^a	\$6.7
Temporary duty	0.6
Airlift	.3
Other	<u>.1</u>
Total	\$7.7 ^b ===

^aDoes not include any estimate for increased depot-level maintenance cost.

^bIncludes \$22,000 for imminent danger pay.

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