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U.S. MILITARY PRESENCE IN EUROPE

Issues Related to the Drawdown

Statement of Joseph E. Kelley, Director-in-Charge, International Affairs Issues, National Security and International Affairs Division

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Mr. Chairman, Members of the Committee:

I am pleased to be here today to discuss GAO's work on issues related to the U.S. military drawdown in Europe. My testimony today will cover a number of issues. For some of these issues we have performed detailed work; for others we have not.

-- First, I will give you a status report on the drawdown, including problems created by changing requirements. GAO's observations are based on our monitoring of the drawdown over the past 2 years and recent discussions with U.S. military officials.

-- Second, I will discuss in detail U.S. and host nation financial obligations related to the base closures in Europe. The key issues here are residual value negotiations and severance pay for local nationals. My comments are based upon our reports issued last year, plus recent follow-up work in Europe.

-- Finally, at the request of the committee, I will make a few comments on burden sharing and efforts to dispose of excess equipment. We have not completed as much work on these latter issues.

SUMMARY

Before going into the details of these topics, I will first summarize our work. While the size of U.S. forces has been drastically reduced, there has been no reduction in their missions. In addition, frequent changes in the planned size of U.S. forces in Europe have hampered efforts to draw down in an orderly and cost-effective manner.

Regarding financial issues, on the negative side, negotiations with Germany on the residual value of U.S. real property investments left behind are bogged down and high-level intervention is needed to break the deadlock. On the positive side, good progress has been made in terminating thousands of local national employees at closing bases. While the new indemnity agreement with German unions has increased U.S. liabilities, it appears to have reduced litigation and expedited the lengthy termination process.

Regarding burden sharing, no new agreements have been reached. To release $175 million in restricted Operations and Maintenance obligational authority, DOD certified that the percentage of stationing costs paid by NATO allies have gone up. However, some of the costs paid by these allies appear overstated to us.

Regarding excess equipment, we have found that the drawdown will result in millions of tons of equipment becoming excess. Too much of this material is being turned in to disposal offices, without being screened for current requirements. Managing this excess equipment is putting a major strain on U.S. forces' transportation, maintenance, and repair resources.

AGREEMENT NEEDED ON END STATE TO PROMOTE EFFICIENCY AND MAINTAIN READINESS

Now let me give you a status report on the drawdown, and some of the problems associated with it. My first comments relate to the attached figures. As shown by the first figure, DOD has made substantial reductions in U.S. forces in Europe since 1990, when the drawdown began. The size of the Army has been cut in half, and the Air Force has been reduced by about a third. Smaller reductions have taken place in the Navy, which has historically had a much smaller European presence.

The second figure shows the evolution of plans for the remaining force in Europe. The 1990 drawdown plan, based on the Conventional Forces in Europe talks, called for reducing forces from 310,800 to 225,000. In April 1991, the 225,000 target was revised downward to 150,000. The Army and the Navy had planned to achieve their portions of this 150,000 target by September 1993--2 years earlier than expected. However, in February 1993, DOD directed the services to plan for a fiscal year 1996 troop level of 100,000, based on a provision included in the fiscal year 1993 Defense Authorization Act. U.S. officials have not released the details of how they will achieve these additional reductions. However, we were advised that, due to budgetary constraints, the Army plans to achieve its targeted level of 65,000 by the end of fiscal year 1995--a year earlier than expected.

Taken together, these changes raise three issues we would like to bring to your attention.

First, major changes--particularly in the Army--will be needed in how the United States meets its commitments to NATO at this lower level. Throughout the drawdown, the Army has tried to retain a corps of forces in Europe. The 1990 drawdown plan containing 158,500 Army troops called for a robust corps of 2-2/3 divisions. The subsequent plan called for 92,200 Army troops organized into 2-1/3 divisions with a leaner complement of support troops at the corps level. That force would have required substantial auxiliary support from the United States. Given its projected 65,000 target, it appears that the Army will not be able to retain two full divisions in Europe. This will significantly alter how the United States fulfills its commitments to NATO, since U.S. plans called for a European presence of two full divisions.

Second, various national security documents call for a corps of Army forces to achieve a variety of missions in Europe. These include fulfilling U.S. commitments to NATO; responding either unilaterally or with allies to regional contingencies throughout

Europe, Africa, and the Middle East; and participating in such noncombat missions as humanitarian assistance, disaster relief, noncombatant evacuations, nation-building, counter-terrorism and counternarcotics. It appears that these latter noncombat missions could become increasingly important. However, despite the fact that these forces will have been reduced to a third of their pre-drawdown state by the time the reductions are completed, there has been no downward revision in the missions they are expected to carry out. At the projected target level, we believe that there is a need to reexamine whether these forces can realistically carry out all of the missions assigned to them, what missions might need to be sacrificed or accomplished in an alternative manner, and what actions could be taken to reduce the associated risks.

Finally, a great deal of inefficiency has arisen in attempting to adjust drawdown plans to changing targets. Each time a new target was set, officials in Europe painstakingly developed plans for inactivating forces, consolidating and moving forces and activities, and closing facilities. Each time, they developed a blueprint for achieving efficient and effective future operations associated with the projected target. When the target changed, U.S. officials halted some planned actions that no longer made sense. However, in other cases, such actions had already been taken. It is now clear that some adjustments, which entail additional costs, will have to be made. The details of these adjustments cannot be made public because the associated military and local communities have not yet been notified. However, we were advised last week that some unit moves and facility upgrades that were reasonable under earlier plans no longer make sense and that some units will now need to move again or else be inactivated. If certain communities indeed close, as now appears likely, DOD can only hope to recoup some of the costs recently spent on improving their facilities during residual value negotiations.

Two elements are crucial to avoiding inefficiency, unwarranted costs, and unnecessary turbulence affecting the readiness of remaining U.S. forces. First, a longer-term vision of the end state of remaining U.S. Forces must be established. Second, the Congress and the Administration must reach agreement on what that end state will be.

RESIDUAL VALUE NEGOTIATIONS DEADLOCKED WITH GERMANY

Now let me move on to discuss the issue of U.S. and host nation financial obligations related to base closures. My main focus will be on Germany because that is where U.S. forces have had the largest presence and are drawing down the most.

Let me start by discussing negotiations on the residual value of U.S. real property investments. My comments are based on unclassified excerpts from our classified report last year. To avoid compromising the U.S. bargaining strategy, my testimony will be limited to discussing the basis for residual value, past settlements, and general observations on current negotiations. At the request of DOD, I will refrain from citing certain figures on current negotiations, such as the amounts of U.S. claims and counter claims.

This testimony represents the fourth time that GAO has reported on residual value negotiations with Germany. Unfortunately, little progress has been made since our reports in 1972, 1978, and 1992. While the backlog of pre-drawdown cases, extending back to 1963, has been resolved, there is still no smooth process for settling current cases. In July 1991, U.S. forces reached a verbal agreement with German officials to settle and pay on all cases by the end of the fiscal year after each installation's release. However, this agreement has broken down, and current negotiations are deadlocked.

In our opinion, DOD has consistently been overly optimistic about the potential recoupment of residual value in Germany. While we said that negotiations would be difficult, DOD dismissed almost all of the negotiating difficulties pointed out in our report. According to the verbal agreement I mentioned, almost all fiscal year 1991 turnovers should have been settled by March 1992. But in November 1992, with no settlements reached, DOD told us that the verbal agreement was working and that negotiations were progressing well. At that time, DOD also said the German government was making a "best effort" to expedite negotiations.

Determining Residual Value

But before I discuss the reasons for the current deadlock, let me further define residual value and summarize what we know about cases already settled. Residual value is the negotiated amount that Germany will compensate the United States for U.S. investments in the construction or major improvements on facilities returned to Germany. Residual value should not be confused with "market value" because a market value approach assumes several potential purchasers in a competitive market. The German federal government is the only purchaser for U.S. investments at released installations; U.S. forces cannot sell directly to third parties, as private companies do. In addition, the market value approach assumes that property values are a combination of buildings and land--but the Germans own the land (and sometimes the buildings) at U.S. installations. In urban areas with housing shortages, the land itself may be more valuable than U.S. investments. This situation could lead to the demolition of U.S. investments, thus negating their residual value.

Determining the value of U.S. investments is only half of the story. According to the NATO Status of Forces Supplementary

Agreement with Germany, the value of U.S. investments can be offset by damages, including a lack of maintenance. And now the new Supplementary Agreement, signed March 18th of this year, explicitly cites environmental damage caused by U.S. forces as an offset to residual value.

Previously Settled Cases

Now let me summarize our information on cases already settled. We identified 20 settled cases during our earlier field work. Many of these cases, which were released back to Germany between 1965 and 1976, were minor installations. While the initial U.S. residual value claim was for about $2 million, the actual amount recouped was $1.3 million, or 67 percent of the U.S. going-in position. The average time for settlement, from turnover to payment, was 5.3 years. The last of these 20 cases was settled in 1977. From then until 1989 U.S. forces gave residual value a low priority. We found no evidence of any settlements during that time.

U.S. forces renewed their interest in residual value in 1990 and assembled information on all unsettled cases. U.S. forces compiled a list of 80 unsettled cases from installations turned back between 1963 and 1990. For the 80 sites, the initial U.S. claim was $9.7 million. However, German officials countered with $7.3 million in damage claims. The actual amount recouped was $3.2 million, or about 33 percent of the initial U.S. claim. This last settlement covers all U.S. residual value claims up to the current drawdown.

Current Deadlock in Negotiations

Now I will return to the deadlock in current negotiations. We believe there are two major reasons for the deadlock. First, Germany and the U.S. use different approaches to estimate residual value. Second, German officials have indicated that they cannot afford to pay substantial amounts to the United States.

Regarding different approaches, U.S. forces emphasize that residual value should be based upon U.S. investments, adjusted for inflation and depreciation. Using this approach, U.S. forces have come up with residual value estimates for all their facilities in Germany. On the other hand, German officials emphasize the future use or sale of U.S. investments in their decision on what amount, if any, to reimburse U.S. forces. In the past, Germany has used this position to deny the value of some U.S. investments. These different approaches were the key difficulty we reported last year, and they continue to hamper settlements today.

The German shortage of funds is a new problem. German officials have indicated that, because of their recession and the cost of rebuilding eastern Germany, they cannot afford to pay substantial amounts to the United States for residual value. The German negotiators stated that the Bundestag, the German legislature, only appropriated DM 40 million (about $24 million)[1] to pay residual value for bases released in fiscal year 1991. This $24 million figure is substantially below minimum acceptable levels established by U.S. negotiators. In addition, the $24 million figure was not all meant for the United States; it was also meant for other NATO allies closing bases in Germany, including the British, Canadians, Belgians, and Dutch.

Breaking the Deadlock in Germany

A crucial question, then, is how to break the deadlock in Germany. DOD officials have suggested that the German government would be more inclined to settle cases if the United States agreed to spend the funds in Germany. That is, Germany would provide in-kind payments, such as construction of facilities for U.S. forces. Ideally, Germany should provide cash directly to the U.S. Treasury. Cash recoupments are consistent with congressional intent to use residual value proceeds to fund Operations and Maintenance costs at stateside bases. However, there may be merit to in-kind payments, if they would lead to real reductions in U.S. expenditures. Public Law 102-396 (Section 9047A) allows in-kind payments to be placed in a local currency account of the host country, provided that

-- DOD has identified sums anticipated in residual value settlements in its annual budget submission;

-- construction has been previously approved in a prior Act of Congress; and

-- 30 days prior to conclusion and endorsement of any such construction agreement, DOD has reported the project to the House and Senate Appropriation and Armed Services Committees.

To break the current deadlock, the intervention of the Secretary of State or the Secretary of Defense will likely be required. As more bases are turned over to the German government and the estimated amount of residual value increases, the backlog of cases will only become more difficult to resolve. If the German government is seriously interested in maintaining U.S. forces in its country, breaking the deadlock will be a way in which they can demonstrate their commitment to a continuation of a U.S. presence. As we have seen during the recent Status of Forces Agreement negotiations related to foreign national employees, the intervention of the Secretary of State was critical in gaining a favorable outcome to negotiations.

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[1]We used an exchange rate of DM 1.7 = U.S. $1.

PROGRESS MADE IN TERMINATING EMPLOYMENT OF LOCAL NATIONAL

Regarding the issue of severance pay for local national employees, estimates of the U.S. liability for German local nationals have changed dramatically since 1991, when we last examined this issue. A new tariff agreement has been implemented that doubles the average severance payment to local nationals, and local nationals are being terminated at a faster rate.

Last year, we issued a report on the long and costly process of reducing the U.S. military's local national work force in Germany. We concluded that the U.S. severance liability was about $3,000 per person (or about $144 million) calculated under the original Tariff Agreement between the U.S. government and the labor unions.[2] (The calculations assumed that all 47,280 U.S. local national employees on board as of June 1991 were eligible for full severance benefits.)

We also reported that at four installations where employees were released in 1991, about 50 percent contested their termination in court, and at three other locations court settlements resulted in average payments of over $5,200 per employee. We also pointed out that the long, complicated termination process required up to a year to implement, resulting in additional payroll costs of almost $800,000 at just two locations.

Local National Work Force Declining

As of June 1991, about 47,000[3] local nationals were on the U.S. military's payroll in Germany. By the end of 1992, the local work force had declined to about 35,500. The Army and Air Force predict that by the end of 1993, only about 27,000 local nationals will remain on the payroll. Some additional cuts are planned through 1995. One EUCOM official pointed out that local national terminations are occurring faster than military force reductions, thereby reducing support services, which in turn could adversely affect the quality of life for U.S. forces.

New Tariff Agreement Increases Liability

In December 1991, agreement was reached on a new Tariff Agreement or indemnity payment plan that increased severance benefits for the

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[2]Technically, the tariff agreement is between German unions and the German government, which negotiates on behalf of the U.S. government and other countries that have troops stationed in Germany.

[3]USAREUR and USAFE indirect hires only. This figure excludes employees paid from non-appropriated funds.

local national work force but makes rapid reductions possible. Among other things, the new agreement provides employees with a lump sum payment of up to 7 months' salary; the old agreement provided installment payments of up to 4 months' salary that were offset by German unemployment benefits and would be discontinued if the employee found work elsewhere.

From September 1991 through February 1993, USAREUR applied the indemnity plan in 3,806 instances. The total cost of these terminations was about $23 million for an average indemnity payment to date of about $6,100 per employee or about twice as much as the $3,000 the U.S. government would have paid under the original tariff agreement. The breakout of indemnity payments is presented in the following table:

Table 1: Payments (September 1991 through February 1993)

	Total paid	Number of cases	Average payment
Due to:			
RIF terminations	$13,771,404	2,444	$5,634
Annulment contracts[a]	7,185,414	1,070	6,715
Resignations	701,452	96	7,306
Court settlements	1,585,867	196	8,091
Total	$23,244,137	3,806	$6,107

[a]A contract that allows employees to depart their employment prior to the expiration of the tariff based notice period applicable to RIF terminations.

Indemnity Payments Reduce Litigation and Payroll Costs

The new Tariff Agreement or indemnity plan reduces the time and cost associated with litigation by allowing mutual agreement terminations under which employees agree not to go to court. According to USAFE and USAREUR officials, the new agreement has induced a large number of people to resign, reduced the number of court cases, and decreased the overall time it takes to terminate employees. Thus, the indemnity plan has also led to an overall reduction in payroll costs.

Based on information supplied by USAREUR, GAO calculated that for 1992 and 1993, only 27 percent of the employees terminated chose to litigate, compared to the 50 percent in 1991 that GAO reported earlier, saving USAREUR about $5.2 million in court costs. USAREUR reports that labor courts throughout Germany are supporting the provisions of the December 1991 Tariff Agreement. Looking at USAFE's success with the new tariff agreement, they report that at Zweibruecken Air Base, for example, only 63 out of 226 employees terminated elected to file court action. Although the number of litigants is low, 11 won court settlements averaging almost $19,000 each.

To illustrate the savings resulting from reduced payroll costs, of the 1,070 annulment contracts paid from September 1991 through February 1993, USAREUR reduced its payroll by about $6 million. This savings largely offsets the $7.2 million outlay in indemnity pay for the 1,070 employees. Termination, which previously took up to 1 year to complete, can now be done in 3 or 4 months with annulment contracts.

DOD Not Fully Funding Severance Liability

But the severance pay picture is not all bright. Neither USAFE nor USAREUR properly budget and accrue funds to cover their severance liability. The National Defense Authorization Act for fiscal years 1992 and 1993 authorized an account to accumulate obligations for severance pay for local national employees. DOD implementing guidance issued in January 1992 required that the military services accrue and obligate funds for severance and transfer them into the account and annually reconcile the balances. Last year, GAO recommended that the Army and Air Force use employee records to calculate the actual liability and reconcile the account. USAREUR reported that it obligated $173 million for its severance liability and disbursed $15 million as of February 1993, leaving $158 million in the account. However, USAREUR continues to use an average per-person cost of $4,000--far less than current indemnity payments--to calculate its full liability. USAFE told us that its fund contained $6,430 as of February 1993. USAFE chose not to accrue funds for its entire severance liability. Instead, USAFE obligates funds to cover its current liability only. We believe this practice is contrary to DOD guidance.

BURDEN SHARING INITIATIVES
YIELD NO RESULTS TO DATE

My next topic is that of burden sharing. Dissatisfied with the willingness of our European allies to offset the cost of maintaining U.S. forces in Europe, the Congress last year withheld $175 million in Operating and Maintenance obligation authority until the Secretary of Defense notified Congress that negotiations to revise the current agreements governing European allied contributions will increase contributions from the allies. We believe that this action has not resulted in any significant increase in allied contributions.

First, the State Department's Ambassador for Burden Sharing acknowledged to us in April 1993 that no new agreements that would increase the allies' contributions have been reached.

Second, DOD applied for release of obligational authority, quoting the 1993 Appropriations Act, which stated that DOD could not use these funds pending certification that "the percentage of United States military base operations and foreign national employee pay costs offset by financial or assistance-in-kind contributions made by European governments will increase during the fiscal year ending September 30, 1993." On March 24, 1993, DOD certified that European government contributions would increase by 2 percent from 1992 to 1993. DOD's supporting documentation showed that European contributions compared to U.S. costs would increase from 10.2 percent in 1992 to 12.6 percent in 1993. However, it should be noted that the European contribution actually went down in real terms.

In actual dollars, the European contributions will decline by $66 million (1 percent) during this period, from $1.6 billion to $1.5 billion. However, because the U.S. costs are also estimated to decrease by 22 percent from $15.7 billion to $12.2 billion, the ratio of contributions to costs yields an increase.

Looking closer at what constitutes European contributions, we find that they consist of direct cash contributions, such as personnel costs, and in-kind contributions, such as foregone rent on U.S. facilities, foregone road taxes, and foregone sales taxes due to commissary buys. We believe that these items should show some general sensitivity to the drawdown; instead, they appear to be lagging behind. European contributions should decline more than 1 percent, given the continued reduction in U.S. forces and major base closures planned for 1993.

The Ambassador for Burden Sharing said the U.S. government should consider changing its approach to burden sharing. He believes we need to give our allies credit for other global peacekeeping efforts they make, not just their contributions to NATO's defense. The definition of burden sharing could conceivably be expanded to include all of the allies' contributions toward achieving global peace and stability. Examples could include barracks the Germans are building in Russia for troops returning from the former East Germany, refugee assistance, and help provided emerging democracies in Eastern Europe.

We have some concerns with this proposal because it could become a tactic to avoid increased pressure on the allies to share the burden related to our common defense. Therefore, it will be important to define what contributions will be included. For example, would peacekeeping or humanitarian missions be included? If such an approach will in fact increase the real contributions of the allies to common objectives, then it may have some merit.

MANAGING EXCESS PROPERTY CREATES CHALLENGES TO DOD

Now let me turn to my final topic--the management of excess property during the drawdown. The decision to withdraw about two-thirds of our forces from Europe by 1995 will result in millions of tons in equipment and supplies becoming excess to U.S. military requirements. Between October 1989 and February 1993, the military services and the Defense Logistics Agency have turned over to DOD European disposal offices 836,000 line items with a total acquisition value of $4.7 billion.

These figures will continue to rise. For example, through fiscal year 1994, European disposal offices expected to receive 137,500 tons of major end items; 5,700 tons of individual equipment; 7,300 tons of repair parts; and 750 tons of miscellaneous property. To date, the disposal offices have disposed of $912 million of equipment and supplies by reutilizing it within DOD, issuing it for humanitarian assistance, selling it to foreign countries, transferring it to other federal agencies, and donating it to charities.

We found that usable equipment and supplies are being turned over to the disposal offices without appropriate screening. Such excesses may occur when deactivating Army units send equipment and supplies directly to the DOD disposal offices and bypass their Supply Support Activity. This activity is responsible for screening the items against current Army requirements. To ensure that only authorized, screened, and properly classified material is turned in, Army Disposal Excess Property Teams have been instructed to visit disposal offices at least monthly. However, according to supply and logistics officials in Europe, the services have no effective systematic means of screening another service's excess property against their own requirements.

Furthermore, the Army may not have sufficient funds to pay for the transportation, maintenance, repair, and storage cost associated with the drawdown. Through fiscal year 1996, the Army estimates that it will cost $282 million for the disposition of ammunition and major defense items. However, Army logistics officials told us that only $21 million is available, leaving a shortfall of $261 million. The Air Force also noted a possible funding shortfall. In addition, personnel reductions are likely to reduce the Air Force's ability to perform the massive job of redistributing and disposing of property no longer needed in Europe.

This concludes my statement. I will be happy to address any questions that you may have.

Figure 1

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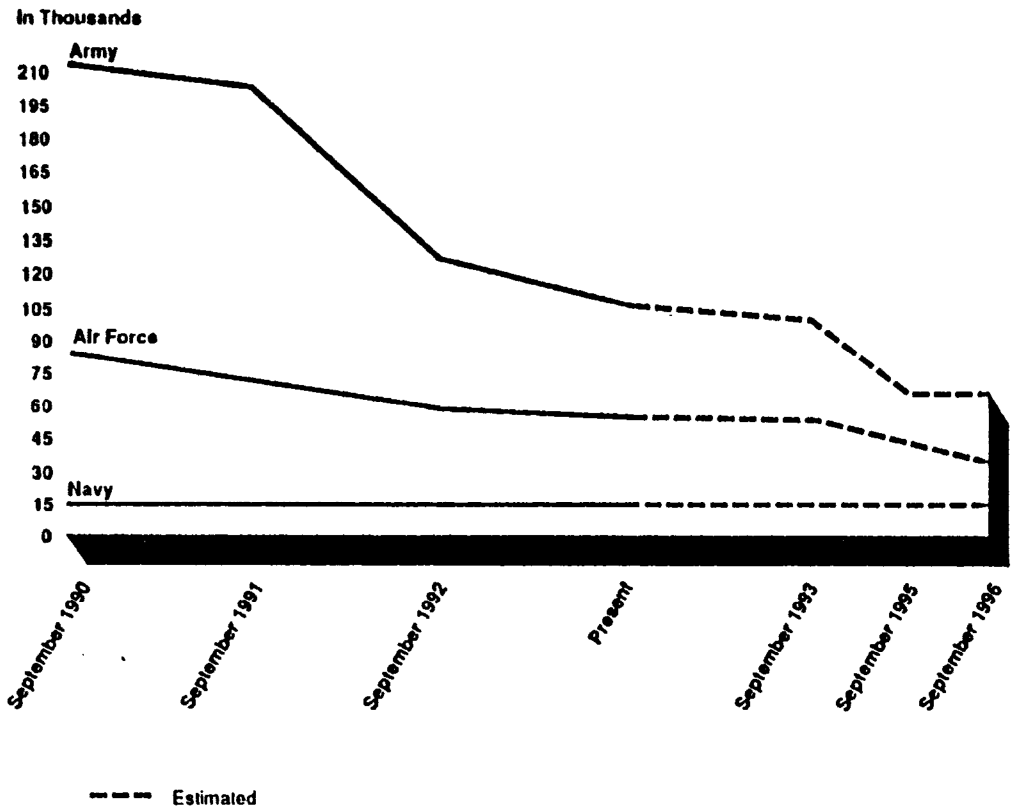
Progression Of U.S. Military Drawdown In Europe



Source: European Command (EUCOM)

Figure 2

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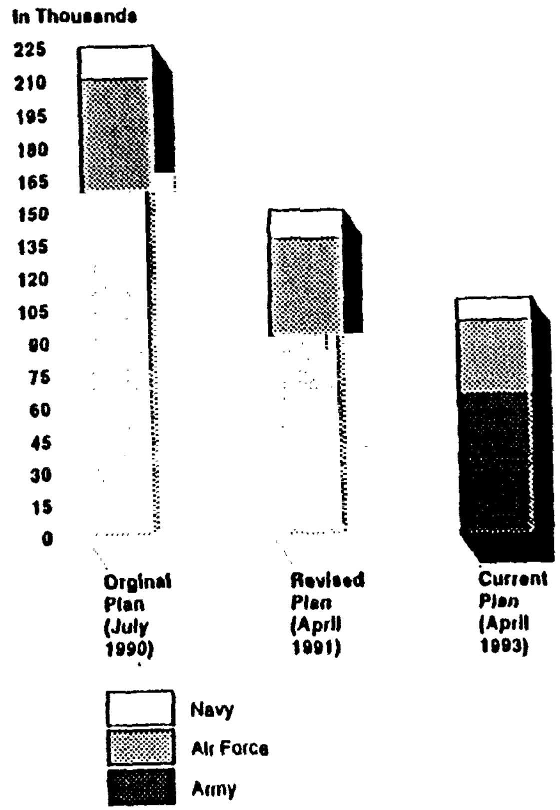
European Drawdown Plans: Successive End States For FY96



Source: European Command (EUCOM)

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