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MILITARY EXPORTS

Recovery of Nonrecurring Research and Development Costs





United States
General Accounting Office
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National Security and
International Affairs Division

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May 31, 1995

The Honorable Benjamin Gilman
Chairman
The Honorable Lee Hamilton
Ranking Minority Member
Committee on International Relations
House of Representatives

As requested, we are providing information on (1) the government's recovery of nonrecurring research and development costs on sales of major defense equipment, (2) the effect of charging a flat or standard rate rather than the current pro rata fee, and (3) views from supporters and opponents of the recovery of these costs. We believe that this information will help the Congress in its deliberations on proposals concerning the legislative requirement to collect such charges on future military sales.

Background

The Department of Defense (DOD) has been recovering nonrecurring research and development and one-time production costs on sales of weapon systems to foreign governments since 1967. The requirement to recover a proportionate amount of these costs was codified in the Arms Export Control Act in 1976, 22 U.S.C. section 2761 (e)(1)(B). The intent of the act was to control U.S. costs and the extent of weapons sales to foreign governments. The law required the recovery of costs on foreign military sales (government-to-government sales), but DOD retained its policy to collect nonrecurring costs on direct commercial sales (between the contractor and the buying entity) as it had been doing before the law was enacted. In 1992, DOD canceled its policy to recover nonrecurring costs on direct commercial sales in an effort to increase the competitiveness of U.S. firms in the world market. In 1995, a number of bills were introduced that could affect the recovery of nonrecurring costs on military sales.

DOD interpreted the Arms Export Control Act as requiring the recovery of research and development costs on a pro rata basis. Between 1974 and 1977, DOD used a pro rata rate up to 4 percent of the total sales price. Currently, the services calculate the pro rata rate by dividing total research and development and other one-time production costs by the anticipated total number of units to be produced for both domestic and foreign use. A separate charge is calculated for each item of major defense equipment. The Defense Security Assistance Agency (DSAA) must approve all charges.

They are published in the Major Defense Equipment List (MDEL) as part of DOD Manual 5105.38-M. DSAA officials acknowledged that the current pro rata calculation is complex and subject to error, particularly if sales fall short of or exceed projections.

Nonrecurring cost charges are considered offsetting proprietary receipts and are deposited into the U.S. Treasury General Fund. They are credited to DOD's total budget authority and total outlays but cannot be spent unless specifically appropriated.

The Arms Export Control Act also specifies that waivers or reduced charges of nonrecurring costs are permitted on sales to the North Atlantic Treaty Organization (NATO) countries, Australia, New Zealand, and Japan to further standardization and mutual defense treaties. However, each waiver and reduction requires written justification.

Results in Brief

DOD recovered \$181 million in nonrecurring costs on foreign military sales in fiscal year 1994 and estimated, based on historical trends, that collections could amount to \$845 million between fiscal years 1995 and 1999. However, DSAA waived almost \$273 million in nonrecurring cost charges on sales to NATO countries and Japan in fiscal year 1994. The total value of waivers for fiscal years 1991 through 1994 amounted to \$773 million. If the charge for nonrecurring costs is repealed, as has been proposed, some collections would continue for a few more years as the charges are recovered on deliveries associated with prior years' sales.

If the legislative requirement to collect nonrecurring cost charges is not repealed, one alternative to the current pro rata charge is a flat rate charge. A flat rate would be easy to calculate and would not need to be periodically updated, as is the case in calculating a pro rata charge. However, the effect of using a flat rate varies, depending on the way it is applied. In some cases, the amount the U.S. government would collect on each unit sold would be less than the pro rata charge; in others, it would be considerably more. We calculated flat rate charges of 3, 5, 8, and 10 percent on the acquisition cost of 68 weapons and compared them to current pro rata charges. We used two different methods of calculation.

- First, we calculated the charges after aggregating the weapon systems into four categories—projectiles, missiles, aircraft, and aircraft engines. In this case, the total charges for each group of weapon systems were generally

- lower than the current pro rata charges when using 3 and 5 percent but were comparable or higher for the most part when using 8 and 10 percent.
- Second, we calculated the charges on the individual weapon systems. In this case, the differences between the pro rata charges and the flat rate charges varied widely for each flat rate and, for example, were considerably higher for some aircraft but lower for some missiles.

We also calculated the average of the current pro rata charge on the acquisition cost of the 68 weapon systems; the average was 5.18 percent.

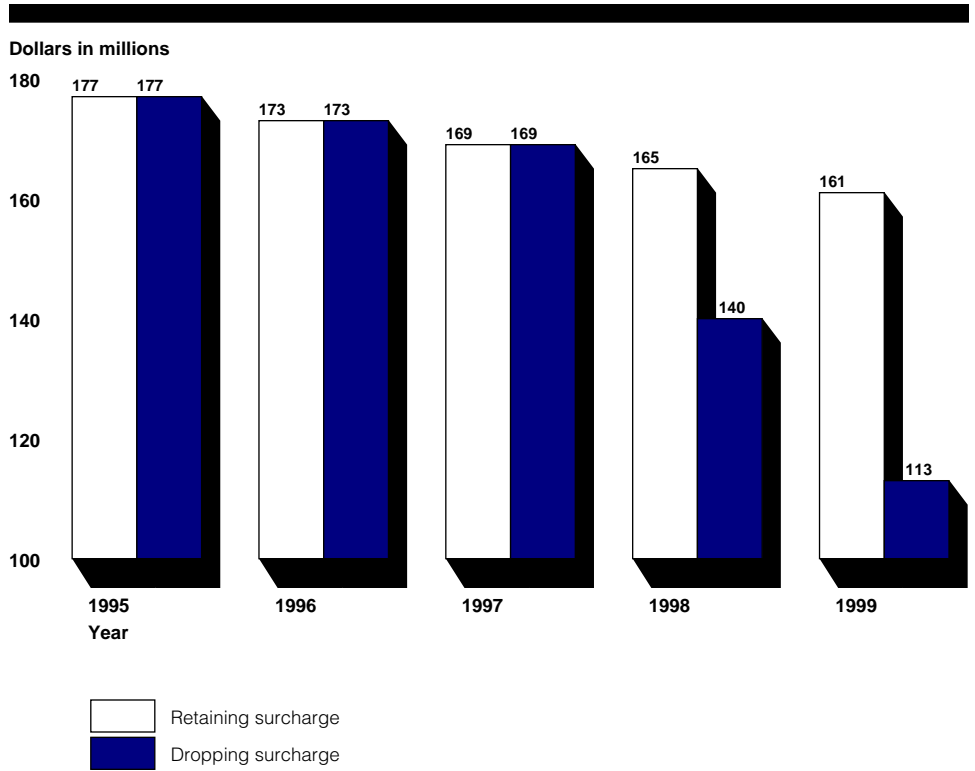
Supporters and opponents of the recovery of nonrecurring costs differ on its benefits and drawbacks. Supporters, including some arms control advocates, believe that the charges serve national security interests by keeping weapon systems out of unstable regions of the world and the weapons industry should not be subsidized at taxpayers' expense. Opponents of the charges, on the other hand, believe the charges adversely affect U.S. industry's competitiveness in the world market and could affect the U.S. economy in the long run. The United States has been the world's leading defense exporter since 1990, and based on orders received but not yet filled, the United States is likely to retain its first place position in the world market at least for the short term.

Nonrecurring Cost Collections and Waivers

DOD collected \$181 million in nonrecurring costs under the foreign military sales program in fiscal year 1994. Fiscal year 1990-92 collections total \$559.4 million—\$337.3 million for foreign military sales and \$222.1 million for direct commercial sales. Fiscal year 1993 collections totaled \$177.9 million. DSAA estimated in February 1995 that collections during fiscal years 1995-99 could amount to \$845 million.¹ DSAA based these estimates primarily on past sales. DSAA also estimated that if the charge on foreign military sales is dropped as proposed, collections would decrease by \$73 million through 1999. Some collections would continue based on deliveries to be made on current contracts. (See fig. 1.) A DSAA official stated that collections would probably stop completely in fiscal year 2002 if the charge is repealed in fiscal year 1995.

¹A DSAA official stated that the fiscal years 1993 and 1994 actual and fiscal years 1995-99 estimates include amounts due on commercial sales, but the amounts are not available.

Figure 1: Impact of Repealing the Nonrecurring Cost Charge on Foreign Military Sales



Note: Estimates include amounts due on remaining direct commercial sales deliveries.

Source: DSAA.

In May 1995, DSAA estimated that if a requirement to collect nonrecurring costs on direct commercial sales were reimposed in fiscal year 1996, it would resume collections in fiscal year 1998, given production and delivery lead times, and recover about \$198 million through fiscal year 1999. Table 1 shows estimated collections on both foreign military and direct commercial sales (including a charge on direct commercial sales).

Table 1: Estimated Nonrecurring Cost Collections If Charge Is Reimposed on Direct Commercial Sales

Dollars in millions				
Fiscal year	Foreign military sales	Direct commercial sales		Total
1995	\$177	0		\$177
1996	173	0		173
1997	169	0		169
1998	165	\$90		255
1999	161	108		269
Total	\$845	\$198		\$1,043

Source: DSAA.

Waivers Constitute a Major Loss of Revenue

DOD waived \$273 million in nonrecurring costs to NATO members and Japan in fiscal year 1994, about \$92 million more than DOD collected in nonrecurring cost charges in the same year.² About 90 percent of the waivers involved Norway's purchase of missiles and Turkey's purchase of missiles, aircraft, gun mounts, sonars, and vertical launchers. DOD's justification for the waivers involving Norway was to help achieve standardization, and the justification for waivers involving Turkey related to base rights agreements. Table 2 shows the aggregated totals of authorized waivers to NATO, 12 individual NATO countries, Australia, and Japan for fiscal years 1991 to 1994. Waivers on direct commercial sales represent sales agreements signed before the 1992 repeal.

Table 2: Nonrecurring Cost Waivers

Dollars in millions					
Type of sale	Fiscal year				Total
	1991	1992	1993	1994	
Foreign military	\$185.9	\$88.2	\$119.6	\$272.5	\$666.2
Direct commercial	58.0	5.9	43.0	0.3	107.2
Total	\$243.9	\$94.1	\$162.6	\$272.8	\$773.4

Source: DSAA.

²In addition, DOD does not collect nonrecurring cost charges from countries using U.S. foreign military financing to buy weapon systems.

Comparison of Current Pro Rata Charges With Flat Rates

We focused our analysis on the comparison of current pro rata charges with flat rate charges of 3, 5, 8, and 10 percent on the acquisition cost of 68 weapon systems sold.³ First, we calculated the charges on four categories of weapons—projectiles, missiles, aircraft, and aircraft engines. The flat rate charges of 3 and 5 percent generally resulted in lower total charges for each category of weapon systems—in the aircraft category, the charge was considerably less at 3 percent—than the total pro rata charges. Flat rate charges of 8 and 10 percent in most cases resulted in comparable or considerably higher total charges than the current pro rata charges for the four categories of weapon systems. For example, a 3-percent flat rate charged on the sale of each of 27 aircraft resulted in total charges of \$20.4 million, or \$9.5 million less than the \$29.9 million recovered under the pro rata system. On the other hand, a 10-percent flat rate charge on the sale of each of the 27 aircraft resulted in a total charge of \$67.9 million, or \$38 million more than the \$29.9 million recovered under the pro rata system.

On the 68 weapon systems we examined, current pro rata charges ranged from 0.07 percent to 15.95 percent of acquisition cost and averaged 5.18 percent. Thus, for a given flat rate of 3, 5, 8, or 10 percent, the difference between the flat rates and pro rata charges varies widely. For example, a 3-percent flat rate would be greater than a pro rata charge for 19 of the 27 aircraft we examined whereas a 3-percent flat rate was larger than the pro rata charge for only 2 of the 13 missiles we examined. However, on some sales of commonly sold military items, DOD might not recover the same level of charges using a nominal flat rate that it would under the pro rata system. For example, DOD anticipated collections of \$279 million in nonrecurring cost charges on the sales of 228 F-16 A/B aircraft and 131 F-16 C/D aircraft when they are delivered to the buying countries.⁴ A flat rate of 3 percent on these sales would yield about one-half the pro rata charges; a 6-percent flat rate would yield an amount comparable to the pro rata charges. On sales of HARM AGM-88 missiles to three countries, total pro rata charges for the 181 missiles sold amount to \$3.85 million. A 3-percent flat rate on these sales would provide only 40 percent of the pro rata charges; a 7.5-percent flat rate would yield an amount comparable to the pro rata charges.

Appendix I compares the current pro rata charges with flat rate charges of 3, 5, 8, and 10 percent on the weapon systems we examined.

³We did not analyze the impact of different flat rates on total charges recovered by the U.S. government because total recoveries would depend on the level of sales.

⁴Actual charges vary based on how an aircraft is equipped.

The benefit of computing nonrecurring cost charges with a flat rate is its ease of administration. In addition, some of the U.S. government's research and development investment would be recovered, though perhaps not accurately or equitably for some specific weapons or categories of weapons. Total recoveries are affected by sales, which are affected by a buyer's assessment of economic factors such as price, quality, availability, and competition, and must also be considered. We did not analyze flat rate charges on commercial sales because of the proprietary nature of commercial sales prices. However, DSAA officials stated that the same rate would apply to both types of sales should the nonrecurring cost charge be reimposed on direct commercial sales.

Prior Recommendations for Flat Rates

We reported in 1986 that the pro rata system had inaccuracies that prevented DOD from collecting accurate nonrecurring cost charges.⁵ For example, DOD was unable to accurately predict future costs and future U.S. and foreign quantity requirements. At that time, we recommended that DOD improve the existing pro rata system or develop a new approach for recovering research and development costs. The approach we suggested was to apply a flat rate to the acquisition price of all equipment sold abroad. We reported that with the use of a flat rate, DOD would recover comparable research and development costs yet simplify the complex administrative and review process of calculating a pro rata fee.

In 1986, DOD opted to retain the pro rata calculation and stated that the Arms Export Control Act would need to be revised to permit the use of a flat rate fee. DOD's reasoning at the time was that a flat rate would not recover a "proportionate" share of investment on individual items as the law required. DSAA's General Counsel now interprets 22 U.S.C. section 2761 (e)(1)(B) as allowing a flat rate to be collected because the law requires recovery of a proportionate amount, not a pro rata share. Thus, the DSAA General Counsel concluded that the law would not have to be amended to permit the use of a flat rate. In our view, it is not clear that DOD would have authority under current law to use a flat rate.

Opposing Views on Cost Recovery

Supporters and opponents of recovery of nonrecurring costs differ on its benefits and drawbacks. On one hand, supporters of nonrecurring cost recovery that we spoke with, including arms control advocates, argue that

⁵Nonrecurring Costs: Improvements Needed in DOD Cost Recovery Efforts (GAO/NSIAD-86-95, Apr. 18, 1986).

nonrecurring cost charges should be collected on both foreign military sales and direct commercial sales for a number of reasons.

- Some supporters believe that, from an economic standpoint, the United States should recover all its costs and not subsidize the weapons industry by forgoing recovery of a portion of its research and development investments.
- Others believe that arms sales decisions should be based on national security concerns, not the economic interests of private firms. One group pointed to successful conversions of elements of the defense industry to competitive members of the international market for civilian goods as a means to counter declining defense production.
- Some arms control advocates assert that higher prices may deter sales and lessen any threat to the United States by reducing the availability of arms worldwide.
- Some supporters told us that recovered charges are deposited into the U.S. Treasury and thus relieve the U.S. budget deficit and benefit U.S. taxpayers. Some groups believe waivers to NATO and other foreign countries should be abolished as well.

Opponents of recovery that we spoke with, generally industry representatives, favor repeal of the charge on foreign military sales and are adamantly against reimposing it on direct commercial sales. They expressed concerns that the charges raise sales prices and inhibit U.S. businesses' competitiveness in the world market. They asserted that any addition to the cost of weapons could price U.S. industry out of the world market with a cascading adverse impact on U.S. jobs, income, and tax revenue. They also stated that lost sales, whether government-to-government or direct commercial sales, raise prices to the U.S. military services because they lose the benefit of lower unit costs.

Industry officials also stated that the charge is an unfair tax that does not accurately represent U.S. research and development investment and is applied in an arbitrary manner. Many industry representatives said that the U.S. research and development investment benefits U.S. forces regardless of foreign sales and should not be imposed on foreign customers.

DOD officials stated that they believe the elimination of the recovery charge would not negatively affect national security interests and the elimination of the recovery charge would, overall, be beneficial to the United States.

In a May 1995 report, we compared U.S. government support for military exports with that of France, Germany, and the United Kingdom. We pointed out that, among other things, (1) the United States has been the world's leading defense exporter since 1990, with almost 50 percent of the global market; (2) based on orders placed but not yet filled, U.S. industry will likely remain strong in the world market, at least for the short term; and (3) the U.S. government already provides substantial financial and other support to the U.S. defense exporters. Because of the large size of the U.S. domestic defense program, European businesses believe they are at a disadvantage when competing with U.S. firms.⁶

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD concurred with the report. DOD indicated that (1) the Department fully supported the administration's proposal to repeal the statutory requirement to recover nonrecurring costs on foreign military sales of major defense equipment, (2) a consistent policy for foreign military and direct commercial sales is essential, and (3) the current imbalance between the two types of sales should be eliminated. DOD's comments are reprinted in appendix II. DOD also provided technical suggestions to clarify the report and they have been incorporated where appropriate. It should be pointed out that our review was not to assess the legislative proposals, but rather to focus primarily on the financial effects of using a flat rate instead of the current pro rata fees.

Scope and Methodology

We obtained information for this review from officials of DOD, DSAA, and the military services. We reviewed applicable statutes and DOD regulations governing recovery of nonrecurring costs on foreign military sales. We also discussed the benefits and drawbacks of recovering nonrecurring costs with supporters and opponents of recovery.

To determine the effect of imposing a flat rate charge, we obtained from each of the services the acquisition value⁷ of selected major defense equipment sold under the foreign military sales program. We calculated nonrecurring cost charges using flat rates of 3, 5, 8, and 10 percent of the acquisition values of the selected weapon systems.

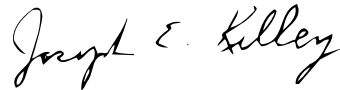
⁶Military Exports: A Comparison of Government Support in the United States and Three Major Competitors (GAO/NSIAD-95-86, May 18, 1995).

⁷We defined acquisition value as the amount paid by the U.S. government to the contractor plus the cost of government-furnished equipment for major defense equipment.

We did our work between January and March 1995 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from its issue date. At that time, we will send copies to the Chairmen of the Senate and House Committees on Appropriations, the Secretaries of Defense and State, and the Director of the Office of Management and Budget. Copies will also be made available to others on request.

Please contact me on (202) 512-4128 if you or your staff have any questions concerning this report. Major contributors to this report were Diana Glod, Barbara Schmitt, and George Taylor.



Joseph E. Kelley
Director-in-Charge
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Abbreviations

DOD	Department of Defense
DSAA	Defense Security Assistance Agency
MDEL	Major Defense Equipment List
NATO	North Atlantic Treaty Organization

Pro Rata and Flat Rate Charges

Table I.1: Pro Rata and Flat Rate Charges on Projectiles

155 mm projectile	Acquisition cost	Nonrecurring pro rata charge (percent of acquisition cost)	Nonrecurring pro rata charge	Flat rate charge			
				3 percent	5 percent	8 percent	10 percent
M107	\$156	2.13	\$3	\$5	\$8	\$12	\$16
M483/483A1	456	0.48	2	14	23	36	46
M549 HE RAP	635	2.17	14	19	32	51	64
M692/M731 HE ADAM	4,328	2.56	111	130	216	346	433
M712 GLGP Copperhead	34,057	12.19	4,152	1,022	1,703	2,725	3,406
M718/M741 RAAMS	1,638	3.49	57	49	82	131	164
M864 HE	765	6.14	47	23	38	61	77
Average		4.17					
Total			\$4,386	\$1,262	\$2,102	\$3,362	\$4,206

Note: Numbers for tables I.1 through I.4 have been rounded.

Source: DSAA and GAO computations.

**Appendix I
Pro Rata and Flat Rate Charges**

Table I.2: Pro Rata and Flat Rate Charges on Missiles

Missile	Acquisition cost	Nonrecurring pro rata charge (percent of acquisition cost)	Nonrecurring pro rata charge	Flat rate charge			
				3 percent	5 percent	8 percent	10 percent
AIM/RIM-7F/M	\$260,000	2.94	\$7,646	\$7,800	\$13,000	\$20,800	\$26,000
AIM/RIM-7P	260,000	15.48	40,258	7,800	13,000	20,800	26,000
AIM-9L	45,000	5.79	2,604	1,350	2,250	3,600	4,500
AIM-9H	59,009	5.86	3,457	1,770	2,950	4,721	5,901
AIM-9M	96,000	6.63	6,368	2,880	4,800	7,680	9,600
AGM-88	281,953	7.54	21,249	8,459	14,098	22,556	28,195
RGM-84D-1	1,003,559	4.39	44,083	30,107	50,178	80,285	100,356
RGM-84D-3	981,131	4.49	44,083	29,434	49,057	78,490	98,113
UGM-84-1	1,258,630	3.50	44,083	37,759	62,932	100,690	125,863
AGM-84D-1	835,648	5.28	44,083	25,069	41,782	66,852	83,565
RIM-66B-2/66B/66E (MR)/67A	438,542	2.87	12,602	13,156	21,927	35,083	43,854
RIM-66G/H/I	358,352	7.09	25,423	10,751	17,918	28,668	35,835
RIM-66K/L	400,597	9.73	38,965	12,018	20,030	32,048	40,060
Average		6.28					
Total			\$334,904	\$188,353	\$313,922	\$502,273	\$627,842

Source: DSAA and GAO computations.

**Appendix I
Pro Rata and Flat Rate Charges**

Table I.3: Pro Rata and Flat Rate Charges on Aircraft

Dollars in millions

Aircraft	Acquisition cost	Nonrecurring pro rata charge (percent of acquisition cost)	Nonrecurring pro rata charge	Flat rate charge			
				3 percent	5 percent	8 percent	10 percent
A-7D without FLIR	\$10.6	2.26	\$0.240	\$0.318	\$0.530	\$0.848	\$1.060
A-10 without TF-34 engines	9.4	4.15	0.390	0.282	0.470	0.752	0.940
C-5A Galaxy	129.9	9.78	12.700	3.897	6.495	10.392	12.990
C-130 Hercules w/4 T56 engines	14.6	0.68	0.100	0.438	0.730	1.168	1.460
C-141A Starlifter	29.8	2.99	0.890	0.894	1.490	2.384	2.980
C-141B Starlifter	42.6	2.09	0.890	1.278	2.130	3.408	4.260
F-4E	11.0	1.45	0.160	0.330	0.550	0.880	1.100
F-4G Wild Weasel (MOD only)	15.1	4.44	0.670	0.453	0.755	1.208	1.510
F/RF-5A/B Tiger ^a	3.7	1.08	0.040	0.111	0.185	0.296	0.370
F/RF-5E Tiger II ^a	5.3	1.32	0.070	0.159	0.265	0.424	0.530
F/RF-5F Tiger II ^a	8.4	2.50	0.210	0.252	0.420	0.672	0.840
F-15A/B Eagle ^b	25.5	7.25	1.850	0.765	1.275	2.040	2.550
F-15C/D Eagle ^b	28.2	6.74	1.900	0.846	1.410	2.256	2.820
F-15E Eagle ^b	30.0	13.13	3.940	0.900	1.500	2.400	3.000
F-16A/B Fighting Falcon	12.4	5.16	0.640	0.372	0.620	0.992	1.240
F-16C/D ^c	15.0	6.80	1.020	0.450	0.750	1.200	1.500
F-106A/B Delta Dart	25.2	0.63	0.160	0.756	1.260	2.016	2.520
F-111A	37.2	1.64	0.610	1.116	1.860	2.976	3.720
F-111D	36.5	1.67	0.610	1.095	1.825	2.920	3.650
F-111E	37.8	1.61	0.610	1.134	1.890	3.024	3.780
F-111F	39.4	1.55	0.610	1.182	1.970	3.152	3.940
KC-10 Extender	77.8	1.52	1.180	2.334	3.890	6.224	7.780
KC-135A Stratotanker	18.0	1.22	0.220	0.540	0.900	1.440	1.800
RF-4C Phantom	10.0	1.10	0.110	0.300	0.500	0.800	1.000
T-33A	0.7	0.40	0.003	0.021	0.035	0.056	0.070
T-37	1.0	2.00	0.020	0.030	0.050	0.080	0.100
T-38A	3.9	2.05	0.080	0.117	0.195	0.312	0.390
Average		3.22					
Total			\$29.853	\$20.370	\$33.950	\$54.320	\$67.900

(Table notes on next page)

**Appendix I
Pro Rata and Flat Rate Charges**

^aWithout two J-85 engines.

^bWithout engines, AN/APG-63 radars, multistage improvement program, and towed electronic warfare system.

^cWith engines.

Source: DSAA and GAO computations.

Table I.4: Pro Rata and Flat Rate Charges on Aircraft Engines

Dollars in millions

Aircraft engine	Acquisition cost	Nonrecurring pro rata charge (percent of acquisition cost)	Nonrecurring pro rata charge	Flat rate charge			
				3 percent	5 percent	8 percent	10 percent
CFM-56	\$2.959	0.07	\$0.020	\$0.089	\$0.148	\$0.237	\$0.296
F100-PW-100/200 (AFE)	2.670	10.64	0.284	0.080	0.134	0.214	0.267
F100-PW-220 (AFE)	3.270	11.16	0.365	0.098	0.164	0.262	0.327
F100-PW-229 (IPE)	4.700	13.57	0.638	0.141	0.235	0.376	0.470
F110-GE-100 (AFE)	2.954	12.36	0.365	0.089	0.148	0.236	0.295
F110-GE-129 (IPE)	4.000	15.95	0.638	0.120	0.200	0.320	0.400
F404	1.236	5.18	0.065	0.037	0.062	0.099	0.124
F404-GE-400/402	1.236	13.29	0.164	0.037	0.062	0.099	0.124
J60P-3/3A	0.63	4.76	0.003	0.002	0.003	0.005	0.006
J75	0.300	9.67	0.029	0.009	0.015	0.024	0.030
J79-GE 17/17A/119	0.686	3.94	0.027	0.021	0.034	0.055	0.069
J85	0.520	3.46	0.018	0.016	0.026	0.042	0.052
T53-L-703	0.020	10.00	0.002	0.001 ^a	0.001	0.002	0.002
T56	0.819	1.59	0.013	0.025	0.041	0.066	0.082
T58	0.500	4.00	0.020	0.015	0.025	0.040	0.050
T64	0.767	5.03	0.039	0.023	0.038	0.061	0.077
T700-GE-701/701A/701A1	0.505	5.94	0.030	0.015	0.025	0.040	0.051
T700-GE-701C	0.505	4.95	0.025	0.015	0.025	0.040	0.051
TF30	1.354	3.25	0.044	0.041	0.068	0.108	0.135
TF34	1.018	2.06	0.021	0.031	0.051	0.081	0.102
TF39	3.654	12.10	0.442	0.110	0.183	0.292	0.365
Average		7.33					
Total			\$3.252	\$1.015	\$1.688	\$2.699	\$3.375

^aActual amount is \$600.

Source: DSAA and GAO computations.

Comments From the Department of Defense



DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

15 MAY 1995

In reply refer to:
I-039221/95

Mr. Henry L. Hinton
Assistant Comptroller General,
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Hinton:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report "NONRECURRING COSTS: Recovery of Research and Development costs on Military Exports," dated May 2, 1995, (GAO Code 711110), OSD Case 9918. The Department concurs with the report.

The DoD fully supports the Administration's proposal to repeal the statutory requirement to recoup nonrecurring costs on Foreign Military Sales of major defense equipment. A consistent nonrecurring costs recoupment policy for Foreign Military Sales and direct commercial sales is essential; the current imbalance between the two types of sale should be eliminated.

Technical corrections were provided separately. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas G. Rhame".

Thomas G. Rhame
Lieutenant General, USA
Director

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