

099360
760913

099360

REPORT TO THE CONGRESS



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

UNITED STATES
GENERAL ACCOUNTING OFFICE



LM099360

APR 30 1976

LIBRARY SYSTEM

Additional Costs Of Stationing U.S. Forces In Europe

Departments of State and Defense

An amendment to the 1974 Defense Appropriation Authorization Act required the President, among other things, to seek a substantial reduction of the amounts the U.S. pays for added budgetary expenses incurred as a result of stationing U.S. Forces in Europe.

The U.S. may have paid as much as \$1.3 billion extra to station some of its NATO-committed forces in Europe instead of at home during the fiscal year 1974. Defense's estimate of \$440 million has largely understated these costs, and the allies have not increased their contributions to help reduce them.

10000200

ID-76-32

703060
099360

APRIL 28, 1976



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

B-156489

To the President of the Senate and
Speaker of the House of Representatives

This report presents the results of our review of additional costs incurred by the United States in stationing NATO-committed forces in Europe instead of at home.

The Jackson-Nunn amendment to the 1974 Department of Defense Appropriation Authorization Act (Public Law 93-155) required the executive branch to proportionately reduce U.S. Forces deployed in Europe to the extent that the fiscal year 1974 balance-of-payments deficit was not fully offset. The amendment also provided that substantial reductions in the U.S. cost burden would be sought through appropriate arrangements with NATO and its individual members.

We reported to the Congress (ID-75-75, July 1, 1975) that the balance-of-payments deficit had been fully offset. However, during our subsequent review, we found that efforts to increase allied burden sharing as required by the amendment have resulted in only small reductions in the additional costs of stationing U.S. Forces in Europe. Further, the Defense Department largely understated these additional costs for fiscal year 1974 at \$440 million, while we estimated them to be as much as \$1.3 billion.

We believe that the Congress should consider--in the light of the information contained in this report--whether the cost-sharing provision of the Jackson-Nunn amendment has been met.

HOW MUCH MORE DOES IT COST TO
STATION U.S. FORCES IN EUROPE?

Defense has estimated that the cost of the U.S. commitment to NATO is over \$30 billion a year, or more than one-third of the total defense outlay for fiscal year 1975. Of this amount, \$8.8 billion is directly related to the U.S. Forces deployed in Europe.

The Jackson-Nunn amendment clearly indicates congressional desire to reduce the financial burden of the NATO commitment. Subsection (c) of the amendment provides that:

"* * * the other members of the North Atlantic Treaty Organization should, in order to achieve a more equitable sharing of the cost burden under the treaty, substantially increase their contributions to assist the United States in meeting those added budgeting expenses incurred as the result of maintaining and supporting United States forces in Europe, including, but not limited to, wages paid to local personnel by the United States, recurring expenses incurred in connection with the maintenance and operation of real property, maintenance facilities, supply depots, cold storage facilities, communications systems, and standby operations, and nonrecurring expenses such as the construction and rehabilitation of plants and facilities; * * * and that the President should seek, through appropriate bilateral and multilateral arrangements, a substantial reduction of the amounts paid by the United States in connection with those matters described above."

Defense estimate of additional costs

In response to the Jackson-Nunn amendment, Defense estimated that the extra cost incurred by stationing forces in Europe rather than in the United States amounted to \$440 million in fiscal year 1974. This estimate was based on fiscal year 1972 data, and, according to Defense officials, was probably understated. One official stated that the estimate was intended to provide a target amount to be presented to the allies during negotiations on reducing U.S. budgetary costs in Europe. He said that the \$440 million was never intended to be "auditable" since it was based on estimates and unvalidated data.

The purpose of this approach was to provide the allies a politically acceptable target for assisting the United States in meeting the extra budgetary costs of stationing troops in Europe. Defense officials believed that, if the figure were too high, the allies would be reluctant even to discuss cost sharing.

Nevertheless, the \$440 million estimate has been widely used as the true extra cost of stationing U.S. Forces in Europe. For example, the estimate was highlighted in a 1973 NATO study on financial problems arising from the stationing of U.S. Forces in NATO countries. The estimate has also been used in congressional testimony. A breakdown of the Defense estimate is shown below. For a detailed description of these costs, see appendix I.

<u>Cost category</u>	<u>Amount</u>
	(millions)
Permanent change of station	\$240
Transportation	130
Dependent education	90
Station allowances	80
Supply operations	<u>60</u>
Subtotal	\$600
Less: Lower local national employee pay	<u>-160</u>
Total additional cost	<u>\$440</u>

GAO estimate of additional costs

We estimate that the additional costs to station forces in Europe may be as much as \$1.3 billion. This estimate, shown in the following table, includes not only the categories in the Defense estimate but also many other cost areas which are clearly more expensive in Europe. The details of these costs are contained in appendix II.

GAO ESTIMATE OF ADDITIONAL COSTS
OF STATIONING U.S. FORCES IN EUROPE

<u>Cost area</u>	<u>Army</u>	<u>Air Force</u>	<u>Total</u>
	(millions)		
Permanent change of station	\$136	\$ 81	\$ 217
Overseas allowances	56	17	73
Dependent education	92	-	92
Family housing	47	21	68
Postal service	21	12	33
Military banking service	3	-	3
Recreation areas	5	-	5
U.S. Forces radio and TV	4	-	4
Headquarters operation	a/22	12	34
Base operations (facilities)	60	11	71
Central supply operations	124	-	124
Overseas transportation	62	58	120
Depot maintenance	5	-	5
Construction	8	8	16
Medical and health care	4	2	6
Subtotal	<u>\$649</u>	<u>\$222</u>	<u>\$ 871</u>
Other (note b)	-	-	465
Total			<u>\$1,336</u>

a/Includes the cost of U.S. European Command Headquarters (\$8 million).

b/This figure includes costs, such as those associated with U.S. naval forces which are difficult to quantify but which are at least partially extra costs of stationing forces in Europe. For details, see appendix II.

HOW MUCH DO THE ALLIES CONTRIBUTE TOWARD
THE SUPPORT OF U.S. FORCES IN EUROPE?

The Jackson-Nunn amendment requires the President to report to the Congress periodically on the administration's implementation of amendment provisions. Concerning U.S. stationing costs in Europe, however, the amendment does not specify what would constitute "substantial reductions" in U.S. costs, nor does it indicate the degree of administration efforts which would satisfy the law's intent. Furthermore,

reducing U.S. stationing costs is not tied to any single fiscal year, as are the offsets to the net balance-of-payments deficit.

Consequently, reducing these stationing costs and periodically reporting to the Congress are continuing legal requirements.

In what the President described as the sixth and final report to the Congress in May 1975, he commented only briefly on the subsection (c) requirements. He reported that the major form of budgetary support is contained in the 2-year U.S.-Germany Offset Agreement. The report stated that the offset agreement included \$224 million for barracks rehabilitation, \$343 million in interest foregone over the life of special 7-year securities purchased from the U.S. Government, and the absorption of \$8 million of real estate taxes and landing fees directly related to U.S. Forces in Germany. The report did not specifically point out, however, that the annual value of this support amounts to only \$165 million, as follows:

	(millions)
Barracks rehabilitation	\$112
Interest foregone on the purchase of U.S. securities	49
Absorption of taxes and landing fees	4

The report also noted that the allies support U.S. Forces in Europe by foregoing rent and other income valued at several hundred million dollars a year.

While allied contributions have helped the United States avoid further costs, they have contributed little to reducing additional stationing costs as called for in the Jackson-Nunn amendment. The German barracks rehabilitation program is closest to the type of budgetary support envisioned by the amendment. However, this program existed before the amendment was passed and was continued at the same level for 1974-1975. The increase in the dollar value placed on the contribution was caused by changes in the currency exchange rates and not by increased expenditures by Germany. Allied support, therefore, has not been "substantially increased."

Most of the support accrued through the offset agreements may have short-range value because the latest offset agreement expired in June 1975. A new agreement is being negotiated. We do not know what budgetary support, if any, may be provided.

CONCLUSIONS

The Defense estimate of the extra costs of stationing U.S. Forces in Europe was greatly understated. Although we believe that allied budgetary support falls short of a "substantial reduction" in U.S. costs as called for in the Jackson-Nunn amendment, the amendment's language is not specific; therefore, it is difficult to judge the extent to which the provisions of the law have been met.

AGENCY COMMENTS

We discussed this report informally with Defense and State officials. Defense supported these discussions with written comments (see app. III), with which State concurred. The officials did not disagree that the \$440 million Defense estimate of the additional costs was understated, nor did they provide new information to show that the allies had substantially increased their contributions to help reduce these costs as called for by the Jackson-Nunn amendment. Instead, they (1) challenged the way in which our estimate of \$1.3 billion was developed, (2) disagreed with our interpretation of the law's intent, and (3) cited the importance of giving what they termed other burden-sharing initiatives higher priority than budgetary support.

GAO's cost estimate

Defense's comments on our cost estimate involved only a recalculation of the cost categories which we identified in the report; they did not present an independent estimate of costs, nor did they include new cost categories or categories, such as temporary duty travel, for which information was not readily obtainable. Defense adjusted our cost estimate primarily by using different assumptions and methods which resulted in claimed offsetting savings and cost avoidances.

For example, the largest single area disputed by Defense was base operations, which it estimated to be \$334 million less than our estimate which was based on actual budgetary expenditures in Europe. Defense's recalculation relied on a per capita factor analysis which reputedly shows that base operations cost \$244 less per man in Europe than in the United States. On this basis, Defense concluded that there was no cost but rather a savings of \$63 million in fiscal year 1974.

Defense also recalculated the cost of central supply operations at \$154 million less than our estimate. Defense reduced this cost by substituting a percentage factor to cover only fixed overhead instead of including all the costs of operating the central supply activities.

We believe one of the major deficiencies in Defense's recalculations was the exclusion of costs specifically covered by the Jackson-Nunn amendment such as communications systems, construction, and standby operations. In addition, Defense deducted one-time investment and recurring exercise and pre-positioning costs which it felt would be necessary to meet the NATO commitment if U.S. Forces were returned to the United States. Using this rationale, Defense concluded that the United States saved over \$1 billion by stationing U.S. Forces in Europe in fiscal year 1974.

In our view, the only approach that is consistent with the types of budgetary considerations intended by the Jackson-Nunn amendment is one which isolates the stationing cost differential in the United States and Europe without regard to alternative force postures. Accordingly, our estimate considers only those costs which can be described as the extra costs associated with the stationing of U.S. Forces in Europe irrespective of the NATO commitment.

Notwithstanding the differing methodology, Defense's recalculation of our cost estimate--before deducting the one-time investment and recurring costs of returning U.S. Forces--supports half of our estimate of \$1.3 billion. In the final analysis, we believe this clearly demonstrates that (1) the initial Defense estimate was understated and (2) there is a need for Defense to develop an "auditable" statement of the additional costs of stationing U.S. Forces in Europe.

Interpretation of the Jackson-Nunn amendment

As to the intent of the Jackson-Nunn amendment, we believe the foregoing sections of this report deal fairly and objectively with its budgetary aspects, including the legal requirement for continued reporting. However, we recognize that because the amendment's language is not specific it is difficult to judge the extent to which the provisions have been met.

Higher priority "burden-sharing initiatives"

Defense believes that its present emphasis on allied force improvements and rationalization/standardization is the most

effective approach to burden sharing. While we recognize the importance of these initiatives, they do not appear to represent the kinds of contributions called for by the Jackson-Nunn amendment to reduce the " * * * added budgetary expenses incurred as the result of maintaining and supporting United States Forces in Europe." As such, a consideration of these concepts is beyond the scope of this report.

In commenting on the report, however, Defense provided a summary purporting to show German budgetary outlays in support of U.S. Forces in fiscal year 1974. While we were unable to evaluate this summary from the data provided, we noted that over 70 percent of the total amount shown was not expenditures but rather income foregone on real estate and about 20 percent was for Berlin occupation costs. We believe, therefore, that our earlier analysis and conclusions on allied contributions are still valid.

MATTERS FOR CONSIDERATION BY THE CONGRESS

We recognize that, in the final analysis, the Congress must determine the extent of U.S. participation in NATO. However, in the absence of fundamental changes in U.S. objectives in Europe, increased allied burden sharing appears to offer one of the most likely opportunities for reducing the U.S. share of NATO costs. Although further burden-sharing possibilities must be weighed against the allies' willingness and ability to pay and the possible political and military effect of efforts to obtain greater sharing, we nevertheless believe that the high cost of the U.S. commitment to NATO, and specifically the true additional cost of stationing U.S. Forces in Europe, might be used to elicit greater allied burden sharing. This can be effectively done only if U.S. costs are completely and accurately stated.

We recommend, therefore, that the Congress consider--in the light of the information contained in this report--whether the provisions of subsection (c) of the Jackson-Nunn amendment have been satisfied and whether there is a need for continued and more detailed progress reporting under subsection (d) of the amendment.



Comptroller General
of the United States

DEPARTMENT OF DEFENSE ESTIMATE OF
ADDITIONAL BUDGETARY COST FOR
STATIONING U.S. FORCES IN EUROPE

The additional budgetary operating cost of stationing U.S. Forces in NATO European countries is estimated at \$440 million for fiscal year 1974. This cost would not have been incurred if the same forces had been stationed in the United States. Major items included in the estimate are in two groups (see note a).

	Germany (note b)	Total (note c)
	(millions of dollars)	

A. The first group includes items which result in higher U.S. budget costs in Europe as compared to the United States. The major items are:

<p>1. <u>Permanent Change of Station Costs (PCS)</u>--PCS refers to relocating a U.S. military man from one duty station to another. Added costs are the difference between the average cost per man of an intra-United States PCS move and a PCS move between Europe and the United States (applied to the annual number of moves required to maintain U.S. European deployments).</p>	+170	+240
<p>2. <u>Transportation Costs</u>--Increased costs are due to the cost of shipping supplies between the United States and Europe.</p>	+100	+130
<p>3. <u>Dependent Education</u>--Added costs are differences between U.S. payments for education of military (including Department of Defense (DOD) civilian) dependents in the United States and the cost of the U.S. dependent education system in Europe.</p>	+70	+90

	Germany (<u>note b</u>)	Total (<u>note c</u>)
	(millions of dollars)	
4. <u>Station Allowances</u> --Payments to U.S. military personnel in Europe for housing and cost of living allowances over and above any such allowance in the United States.	+50	+80
5. <u>Supply Operation Costs</u> --These include "redundant" portions of the U.S. supply system necessary to maintain a major supply system in both Europe and the United States. The additional budgetary costs include those that would be unnecessary if all U.S. Forces were in the United States and served by one supply system.	+50	+60
B. The second group includes items which currently result in lower operating costs in Europe as compared to the United States. The major item is:		
1. <u>Pay Costs of "Non-U.S. Citizen" DOD Employees</u> --On the average non-U.S. citizen DOD employees in Europe cost less per man-year than U.S. citizens hired in the United States.	-130	-160
Total	+310	+440

a/The net figure of \$440 million is calculated on the basis of 1972 exchange rates and is therefore understated. The \$440 million does not include expenditures such as

--rotation of redeployed forces (for example, U.S.-based forces on temporary European exercises) to Europe;

--infrastructure costs; and

--major procurement, construction or research, development, test, and evaluation expenditures.

b/Germany total and individual item costs are rough estimates.

c/Includes NATO/European countries less Iceland. Greenland and the Azores also excluded.

DESCRIPTION OF ADDITIONAL STATIONINGCOSTS IDENTIFIED BY GAO

Identifiable additional budgetary costs can be discussed in three categories--costs related to personnel, costs associated with military operations, and other--not easily quantified--costs. While some of the cost areas overlap, it is nevertheless convenient to present them in these terms.

COSTS ASSOCIATED WITH PERSONNEL

Personnel-related costs include such things as PCS expenses; overseas living allowances; and dependent education, family housing, and many other support facilities and activities.

PCS expenses--\$217 million

The Army and Air Force moved over 230,000 military and civilian personnel and their dependents between the United States and Europe in fiscal year 1974 at a cost of about \$300 million. Because of the distance involved and the extra cost of shipping overseas, the average PCS cost was considerably higher than such a move within the United States. We estimate the total incremental cost of these overseas moves at \$217 million (Army--\$136 million and Air Force--\$81 million).

Overseas allowances--\$73 million

Military personnel and U.S. civilians employed by DOD in Europe are eligible for certain overseas allowances which are not available to personnel in the United States. The most significant of these allowances are for housing and cost of living. When Government housing is not available, some personnel must live "on the economy." When this happens in the United States, the military employee receives only the basic allowance for quarters (BAQ) established for his rank. In most European countries an eligible employee receives not only the BAQ but also a station housing allowance for his area and a cost-of-living allowance. According to data furnished by the Army and Air Force, overseas allowances totaling an estimated \$73 million (Army--\$56 million and Air Force--\$17 million) were paid to personnel stationed in the European area during fiscal year 1974. These costs are totally incremental or additional due to U.S. presence in Europe.

Dependent education--\$92 million

To educate the dependents of its military and civilian personnel, DOD established the United States Dependents Schools, European Area. In the United States, dependents generally attend regular public schools, and the only Government cost is under the Impact Aid Program. The incremental cost of dependent education in Europe, therefore, is about \$92 million--the difference between Dependents Schools expenditures for DOD dependents (\$128 million) and Impact Aid for a comparable number of students in the United States (about \$36 million).

Family housing--\$68 million

Over 57,000 DOD families, including some 2,500 civilians, live in Government-provided housing in Europe. In fiscal year 1974 this housing cost over \$160 million to operate and maintain. Because civilians would not receive Government quarters in the United States, the full cost of the civilian housing--about \$6 million--is incremental. Furthermore, there is a shortage of Government-owned family housing in the United States. Therefore, if the military families now living in Europe were back in the United States, they would probably live on the economy and receive a BAQ. In fiscal year 1974 the allowances in the United States would have been about \$62 million less than housing costs in Europe. Added to the civilian costs, this is a total incremental cost of \$68 million (Army--\$47 million and Air Force--\$21 million).

Postal service--\$33 million

The cost of transporting mail between the United States and Europe and handling and delivering mail in Europe is borne by the military services, not by the postal patrons. The annual overseas transportation cost of the Army Postal Operation system in Europe is estimated at \$33 million (Army--\$21 million and Air Force--\$12 million) and is a completely incremental cost.

Other personnel-related costs--\$12 million

Many other costs associated with services provided for personnel in Europe are incurred solely because of our presence in Europe and would not occur in the United States. Some of the costs which we were able to identify are shown below.

	Fiscal year 1974 amount
	(millions)
Support of military banking facilities	\$ 3
Operation and maintenance of recreation areas	5
Operation and maintenance of radio and television	<u>4</u>
	<u>\$12</u>

The cost incurred to operate a radio and television network in Europe solely for U.S. Forces is a clear example of an incremental cost. DOD does not provide this service in the United States because military personnel have access to numerous radio and television stations throughout the country. In addition to the annual costs to operate and maintain the system, DOD spent an estimated \$25 million in fiscal years 1973 through 1975 to purchase and construct transmitters, master antennae, and cable systems extending television reception to virtually all areas of Germany where U.S. Forces are stationed.

Is local national labor less expensive than U.S. labor?

In its estimate of the incremental cost of being in Europe, DOD stated that it saved an estimated \$160 million annually because local national (LN) pay is much less than U.S. labor pay for similar work. We found, however, that at mid-fiscal year 1975 pay and exchange rates, labor costs incurred in Europe are equivalent to those in the United States.

Wages, salaries, and benefits paid to LNs in fiscal year 1974 totaled over \$500 million, and at yearend U.S. Army, Europe (USAREUR) and U.S. Air Force in Europe (USAFE) employed about 60,000 LNs in appropriated-fund activities. Employees within Germany comprised about 92 percent of the LN work force and received about 94 percent of total payrolls. Our analysis of labor costs, therefore, focused on Germany. (Pay in Belgium and The Netherlands was generally higher than in Germany and was slightly lower in the United Kingdom, Italy, Spain, Greece, and Turkey.)

LNs receive bonuses and employer insurance contributions amounting to an average of 30 percent of base pay. U.S. citizens employed in the United States generally receive retirement, life and health insurance, and other benefits estimated by DOD to be about 11 percent. The table below illustrates the effect this difference in benefits has on the cost of

civilian white collar labor in Germany and the United States for the average LN grade and for a typical clerical position.

Comparison of Annual Payroll Costs
in Germany and the United States (note a)

Current pay rates expressed in dollars at an exchange rate of DM 2.32 to \$1.00 (May 1975)

<u>Pay item</u>	<u>Cost in Germany</u>	<u>Cost in United States</u>
<u>Average LN grade (C-5a, Step 5)</u>		
GS-6, Step 5 equivalent:		
Base pay	\$ 9,600	\$10,737
Direct benefits, bonuses	934	-
Employer's contributions	1,896	1,181
Service fee (note b)	<u>155</u>	<u>-</u>
Total	<u>\$12,585</u>	<u>\$11,918</u>
<u>Clerk, female, single</u>		
GS-4 equivalent:		
Base pay	\$ 7,644	\$ 8,102
Direct benefits, bonuses	771	-
Employer's contributions	1,464	913
Service fee (note b)	<u>124</u>	<u>-</u>
Total	<u>\$10,003</u>	<u>\$ 9,015</u>

a/Numerous studies are now underway regarding the manner in which employee benefits should be valued. These studies indicate that Federal retirement benefits may be considerably higher than 10 percent.

b/The United States pays the German Office of Defense Costs a 1.25-percent service charge to process the LN payroll for all U.S. Forces in Germany.

Employer's contributions in Germany include payments for group life, social, sickness, and unemployment insurance. The direct benefits include a bonus of 6.33 percent at Christmas, a 2-percent annual leave bonus, and a DM 26 "savings bond" every month.

Comparisons of blue collar wages is more difficult because rates vary by location throughout Germany and the United States. Officials of the USAREUR Civilian Personnel Division,

however, generally agreed that even blue collar wages in Germany are now on a par with those in the United States.

Even if the dollar exchange rate improves, it is doubtful that the overall cost of labor hired by DOD in Europe would be less than in the United States. LNs in Germany receive about 15 paid holidays compared to 9 in the United States, and the LN sick leave benefits in Germany are more liberal than in the United States. Moreover, employees in the United States would repay a substantial portion of their income to the Government as taxes. One Department of the Army study estimated that as much as 30 percent of the wages and salaries paid to civilians would return to the Government as taxes. LNs in Europe, of course, do not pay income taxes to the United States.

We believe that all these factors clearly indicate that the labor costs incurred by DOD in Europe are not substantially less than they would be in the United States. While it is difficult to compare total civilian labor costs in Europe and the United States, we believe that the costs are now roughly equivalent.

COSTS ASSOCIATED WITH MILITARY OPERATIONS

The 3,500 miles between the United States and Europe, the cost of living in many European countries, and the need for special organizations and activities in the theater combine to make day-to-day military operations more expensive in Europe than they would be in the United States.

U.S. military headquarters in Europe--\$34 million

Each military service maintains a theater headquarters responsible for the command and control of its personnel in Europe. In addition, the U.S. European Command coordinates the activities of the other theater headquarters. USAREUR, USAFE, and U.S. European Command headquarters incurred operations and maintenance costs in fiscal year 1974 totaling \$34 million (\$14 million, \$12 million, and \$8 million, respectively). This figure does not include the pay and allowances of military personnel or the cost of Navy headquarters in Europe. These items are discussed on pages 13 and 14 of this appendix.

While it is difficult to determine what headquarters arrangements would be required if all U.S. Forces were in the United States, it appears to us that these European headquarters could be eliminated with very little additional workload for existing headquarters in the United States. The entire costs, therefore, could be considered incremental.

Base operations--\$71 million

About half the operations and maintenance costs for U.S. Forces in Europe are incurred for "housekeeping" functions which fall under the category of base operations. In this cost account are such things as utilities, custodial services, real property maintenance, minor construction, transportation services, and engineering activities for all the facilities used by U.S. Forces. In fiscal year 1974 USAREUR spent over \$550 million and USAFE about \$190 million for these functions.

Base operations activities, of course, would be required whether troops are stationed in Europe or in the United States, and in many cases the costs would be similar. However, in at least two areas, utilities and real property maintenance, costs in Europe are substantially higher than they would be in the United States. For example, in fiscal year 1974 USAREUR spent an average of \$263 per person to provide utilities. In the United States the Army's fiscal year 1974 cost was \$181 per person. Similarly, real property maintenance costs were \$535 per thousand square feet of facility in Europe and \$441 in the United States.

The table below compares costs for utilities, real property maintenance, and four other categories of facilities-engineering activities for USAREUR and for a similar size force in the United States.

<u>Category</u>	<u>Total cost in Europe</u>	<u>Estimated cost in the United States</u>	<u>Extra cost (savings) in Europe</u>
	------(millions)-----		
Utilities	\$132	\$ 91	\$41
Real property maintenance	138	114	24
Minor construc- tion	11	11	-
Management and engineering	29	22	7
Fire protection	7	16	(9)
Other services	<u>43</u>	<u>46</u>	<u>(3)</u>
Total	<u>\$360</u>	<u>\$300</u>	<u>\$60</u>

USAFE incurred similar extra costs for some real property maintenance. We estimated the incremental costs at about \$11 million.

Supply operations--\$124 million

The extra costs associated with supply operations in Europe are essentially in two categories: (1) the operation of a separate supply system by the Army and (2) the increased level of inventories carried because of the longer order and shipping times required for supplies coming to Europe.

The Army maintains a separate supply network in Europe, including depots; supply management and overseas port operations; central procurement, command, and logistic support activities; and second destination transportation. The fiscal year 1974 cost to operate these central supply activities was about \$119 million. Since there is already an established supply network in the United States from which the European-based forces draw their supplies, we consider this entire cost to be incremental.

Because of the longer supply pipeline, the inventory investment for European-based forces is greater than that required for U.S.-based forces. In fiscal year 1974, USAREUR's average pipeline was valued at \$81 million, with an average order-ship time of about 76 days. The average order-ship time in the United States was only about 28 days, which would require a pipeline investment of about \$30 million. USAFE's pipeline investment--about \$8 million--is much smaller than the Army's and the average European order-ship time is about 51 days compared to a U.S. time of 20 days. The extra investment required for Europe, therefore, is about \$5 million. The services thus require about \$56 million of additional pipeline investment to support the European forces. While this full amount is not a recurring cost, we believe it is reasonable to consider the interest value of the funds tied up in inventory as incremental. At an interest rate of 8 percent, this cost was about \$4.5 million in fiscal year 1974.

Overseas transportation--\$120 million

The cost of transporting supplies to and from Europe, including port-handling in the United States, is incremental. In fiscal year 1974 this cost amounted to about \$120 million (Army--\$62 million and Air Force--\$58 million).

Depot maintenance--\$5 million

The Army conducts depot maintenance operations in Europe to overhaul and rebuild various equipment. In fiscal year 1974 depot maintenance costs were about \$65 million. It appears that existing plants in the United States could handle the European depot maintenance activity if all troops were

back in the United States. It is difficult to compare overall depot maintenance costs in Europe and the United States because the costs vary for different items of equipment. However, the fixed overhead costs in Europe could be considered incremental. The Army's depot maintenance fixed overhead costs in Europe are estimated at about \$5 million.

Military construction--\$16 million

The Army and Air Force received over \$19 million in construction funds in fiscal year 1974 to build dependent schools. Such schools would not be built in the United States where schools are the responsibility of the local school district. It is appropriate, therefore, to consider this cost as incremental. However, because of the variable nature of military construction funding, we believe it would be more reasonable to take the average amount spent on schools (and in one case on a military family housing project) over the past 3 years--about \$14 million per year (\$7 million each for Army and Air Force).

We also found that construction costs in Germany, where most of the Army's construction takes place, are higher than in the United States. An official of the U.S. Army Engineer Division in Germany said that typical construction projects in Germany will cost about 15 to 20 percent more than in Washington, D.C. If we applied these percentages to non-school-construction projects in Europe, the additional cost would be about \$2 million annually (about \$1 million for each service).

Medical and health care--\$6 million

It appears that the cost of providing medical care to patients is about the same in Europe and the United States. However, some services provided in Europe would not be provided in the United States. Dental care is offered to dependents and civilians in Europe but is generally not authorized for these groups in the United States. Total dental costs for the Army and Air Force during fiscal year 1974 were about \$9 million. The services estimated that about \$4.5 million was for dependent and civilian care and represents an incremental cost of being in Europe.

DOD also incurs costs for transporting certain serious medical patients within Europe and for evacuating some patients from Europe to the United States. We believe the overseas flights are clearly an incremental cost. In fiscal year 1974 the Air Force reported expenditures of about \$1.6 million for this function.

OTHER--\$465 million

Other costs incurred by the U.S. Forces in Europe could bring the total incremental costs to over \$1 billion. These costs have been difficult to quantify. Some of these cost categories are clearly extra cost but data is not readily available to estimate the applicable amount. Others are more difficult to classify as additional costs but nevertheless should be considered in the context of the costs of the U.S. military presence in Europe. Some of the more significant areas are listed below and are followed by more detailed discussion.

<u>Category</u>	<u>Army</u>	<u>Air Force</u>	<u>Total</u>
	----- (millions) -----		
Temporary duty travel	-	-	Undetermined
Communications	\$ 48	\$20	\$ 68
Theater support operations	90	-	90
Base operations	200	Undetermined	200
Military personnel pay	<u>57</u>	<u>Undetermined</u>	<u>57</u>
Subtotal	\$395	\$20	\$415
U.S. naval forces stationed in Europe			<u>50</u>
Total			<u>\$465</u>

Temporary duty travel

The full scope of additional costs relating to temporary duty travel connected with U.S. Forces was not readily identifiable because the services do not separately accumulate information on type and location of travel. However, we believe the cost of temporary duty travel between the United States and Europe and the additional per diem cost due to higher European per diem rates increase these DOD costs substantially.

Communications

U.S. Forces in Europe maintain a costly and extensive communications system. During fiscal year 1974 the Air Force's operations and maintenance cost for its European communications system was about \$20 million, while the Army's was about \$48 million. Both communication systems are controlled by commands located in the United States and not by USAREUR and USAFE.

The communications system in Europe is different from U.S. communications in that the military operates much of the European network. In the United States most of the communications system is operated by private industry through contractual arrangements.

Because of the differences in operations in the United States and Europe and the difficulty in comparing various communications systems and equipment, the additional costs of the European communications systems could not be estimated. Nevertheless, we believe that much of the operations costs are incremental because we doubt whether such an elaborate separate system would be required if the troops were stationed in the United States.

Theater support operations

Because of their presence in Europe, the military services, especially the Army, maintain extensive theater support operations which may not be required for similar U.S.-based forces. Theater support includes such diverse functions as military police, data processing, and finance. The fiscal year 1974 costs for these theater support operations totaled about \$90 million, as shown below. We believe that a great deal of these costs are incremental.

Theater Support Operations

	<u>Cost</u>
	(millions)
Army:	
U.S. Theater Army Support Forces	\$68.8
Engineer Construction Battalions	2.2
Prepositioned Materiel	10.8
Functional Training Centers	3.7
Special Ammunition Control	2.6
Foreign Language Training	<u>1.0</u>
	89.1
Air Force:	
Overseas Air Weapon Control System	<u>1.0</u>
Total	<u>\$90.1</u>

Base operations

The \$71 million figure previously identified as incremental base operations costs is based on a comparison of costs for facilities engineering activities such as utilities, maintenance, and engineering. These activities are only a portion of the base operations costs. We were unable to estimate the incremental cost of the remaining functions totaling over \$200 million, but we believe it is substantial. For example, transportation services accounted for \$38 million of USAREUR's base operations costs. Army data showed that administrative-use vehicle costs alone were about \$3 million more than for a comparable force in the United States.

Military personnel costs

The military pay and benefits associated with the various cost categories identified in this report have not been included in our estimate of additional costs. We believe, however, that military personnel in Europe perform some functions that would not be required in the United States and that, therefore, the military personnel costs associated with these functions should be considered in an assessment of the total additional costs incurred in Europe. These costs can be quite large. For example, USAREUR headquarters, which had a fiscal year 1974 operations and maintenance cost of about \$14 million, incurs military personnel costs of almost \$13 million. Similarly, central supply operations in Europe are extra functions required for the European theater which would not be needed in the United States. Military payroll costs of \$44 million in fiscal year 1974 were incurred for personnel engaged in these supply activities. It is difficult to estimate the total additional military payroll costs incurred in Europe because of the need for these theater activities, but we believe these costs should be considered in any future evaluations of the additional budgetary costs of stationing troops in Europe.

U.S. naval forces stationed in Europe

This report concentrates primarily on Army and Air Force incremental costs. The U.S. Navy maintains a large fleet and associated shore facilities in Europe and the Mediterranean area in support of NATO as well as for U.S. national purposes; however, Navy officials said that the U.S. Navy would maintain a European presence even in the absence of a NATO commitment. Therefore, the incremental nature of the cost of stationing U.S. naval forces in Europe is not clear. Nevertheless, the incremental cost could be as much as \$50 million,

which represents the operations and maintenance and other costs of the U.S. naval forces stationed in Europe, excluding the Sixth Fleet.



OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D C 20301

March 18, 1976

PROGRAM ANALYSIS
AND EVALUATION

Mr. Louis W. Hunter
Associate Director for Security
and International Relations (ID)
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Hunter:

The Secretary of Defense has asked us to provide formal comments in response to your draft report entitled, "Additional Costs of Stationing U.S. Forces in Europe", undated, OSD Case Number 4034C. These comments are attached as an enclosure and we request that they be included as an appendix to the final GAO report unless the report is modified to fully reflect them.

The Department of State has contributed to this response and concurs with its conclusions.

Our concerns with the findings and conclusions in the report are threefold:


-- The GAO cost estimates are based on implicit basic assumptions which are unrealistic and too narrowly focused, and which contain substantial errors. More importantly, GAO's estimates fail to take into account offsetting savings and cost avoidances which accrue as a result of stationing U.S. forces in Europe instead of CONUS.

-- The GAO has misinterpreted the thrust of the Jackson-Nunn Amendment. A careful review of efforts undertaken in response to the Amendment indicates that we have complied with both the spirit and intent of this legislation.

-- Our disagreement with GAO is not over whether we should continue to seek budgetary support (we are in fact currently negotiating with the FRG on this matter) but (1) whether we should give budgetary support a higher priority in our current array of burdensharing initiatives and (2) whether we should use the U.S.-CONUS troop stationing cost differential as a basis for establishing a budgetary support target.



If you have further questions on the substance or detail of these comments, my staff stands ready to provide whatever assistance you may require.


John D. Christie
Principal Deputy Assistant Secretary

Enclosure

DOD COMMENTS ON GAO DRAFT REPORT:"ADDITIONAL COSTS OF STATIONING U.S. FORCES IN EUROPE"Summary

Based on a preliminary review of the GAO draft report entitled, "Additional Costs of Stationing U.S. Forces in Europe" (undated), DoD believes:

- o The GAO cost estimates are based on implicit basic assumptions which are unrealistic and too narrowly focused, and which contain substantial errors. More importantly, GAO's estimates fail to take into account offsetting savings and cost avoidances which accrue as a result of stationing U.S. forces in Europe instead of CONUS.
 - Even before considering the offsetting savings and cost avoidances, a DoD adjustment to the GAO estimates based on more appropriate assumptions yields a comparable figure which is only about half the GAO estimate.
 - When offsetting savings and cost avoidances are considered, our computations show it is less expensive to maintain U.S. forces in Europe to meet the current threat than in CONUS.

(See GAO note 1, p. 21.)
- o The GAO has misinterpreted the thrust of the Jackson-Nunn Amendment. A careful review of efforts undertaken in response to the Amendment indicates that we have complied with both the spirit and intent of this legislation.
- o Our disagreement with GAO is not over whether we should continue to seek budgetary support (we are in fact currently negotiating with the FRG on this matter) but (1) whether we should give budgetary support a higher priority in our current array of burdensharing initiatives and (2) whether we should use the U.S.-CONUS troop stationing cost differential as a basis for establishing a budgetary support target.
 - Concerning point (1) above, we strongly believe that our present course of action -- emphasizing allied force improvements and rationalization/standardization while continuing to seek budgetary support where politically and economically feasible -- is the most effective approach to burdensharing and one that will provide the greatest long term benefit to the U.S. and to the Alliance.

- Concerning point (2), as noted earlier, when a more appropriate set of assumptions and offsetting savings and cost avoidances are considered it is clear that it does not cost more to maintain U.S. forces in Europe than CONUS to meet the current threat. Thus, U.S. efforts to obtain budgetary support from the Allies should be justified, not on the basis of the U.S.-CONUS cost differential, but on the basis of improving NATO's military posture and contributing to greater NATO cost effectiveness.

The following comments address each of these points:

Differences Between DoD and GAO Estimates of Additional Costs

In 1973, Defense estimated that the extra cost incurred by stationing forces in Europe rather than in the United States would amount to \$440 million in fiscal year 1974. This estimate was necessarily based on fiscal year 1972 data and was intended to provide a target amount for discussions with the allies on reducing U.S. budgetary costs in Europe. It was not intended to be an all inclusive estimate of the cost of an alternative force posture to meet the same strategy.

(See GAO note 1, p. 21.)

number of additional costs that it believes should have been included in the \$440 million incremental budgetary cost estimate. Using these costs, the GAO has developed an alternative FY 74 'budgetary cost' estimate of \$1336 million.

The GAO estimate incorrectly assumes that many Europe-deployed support units would not be required in the active force inventory if based in CONUS even though they may be required in time of war, and that Europe-deployed troops, if returned to CONUS, would require no further CONUS facility and logistics structure expansion.

Additionally, the estimate fails to take into account a number of significant offsetting savings and cost avoidances which accrue to the U.S. as a result of our stationing forces in Europe instead of CONUS. Shown below are examples of some of the actions that would have to be taken by DoD if all U.S. NATO oriented forces now in Europe were based in CONUS, assuming no fundamental change in U.S. defense policy and objectives.

- o Providing and maintaining adequate facilities in CONUS for troops now based in Europe.
- o Providing and operating the extra airlift, sealift and associated terminal facilities that would be needed to ensure that CONUS based forces could rapidly return to Europe in an emergency.

- o Providing and maintaining additional stocks of equipment pre-positioned in Europe, and conducting larger scale "Reforger/Crested Cap" type deployment exercises. These would be required to maintain our capability to rapidly deploy to Europe in order to counter the Warsaw Pact's mobilization and reinforcement capability.

Considering only the annual recurring costs of these actions along with a recalculation of incremental costs using the GAO-identified cost categories (but more reasonable basic assumptions concerning the retention of CONUS-based support forces), we compute the FY 74 incremental cost of Europe-based troops at about \$265 million. Moreover, if the large one-time investment costs are amortized over 30 years and included in the calculus, the result -- an annual savings of over \$100 million* -- shows that it was (and remains) less expensive to maintain U.S. forces in Europe to meet the current threat. (See Appendix A for cost details.)

As noted earlier, DoD's \$440 million figure was intended to provide a target amount for discussions with the allies on reducing U.S. budgetary costs in Europe. Accordingly, this figure did not include any of the offsetting savings or cost avoidances mentioned above. Nonetheless, DoD has always believed that any full and detailed accounting of the U.S.-Europe troop cost differential (See GAO note 1, p. 21.) should take all offsetting savings and cost avoidances into account.

Requirements of Jackson-Nunn (J-N)

A close review of the Amendment clearly indicates that the main purpose of J-N was to seek redress of our Balance of Payments (BOP) difficulties. The Congress made it clear that failure to satisfy that requirement would result in U.S. troop reductions. However, in discussing budgetary support it was less emphatic. There it spoke of substantial allied contributions to reduce the U.S. budgetary burden and did not establish a specific objective linked to the possibility of troop reductions.

The GAO report claims that the allies ". . . have contributed little to reducing additional stationing costs called for in the Jackson-Nunn Amendment," because "allied support. . . has not been 'substantially increased'" beyond previous years (p5). The claim is misleading.

- o First, it implies that previous levels of allied contributions were unimportant to the drafters of the Amendment. This is clearly not the case as previous US-FRG Offset Amendments have traditionally been accepted as a major indication of FRG financial support in the Congress.

*\$100 million average annual savings is undiscounted. If computed, using discounting, the average annual savings realized by keeping our forces in Europe would be greater than \$100 million.

- o Second, while the FY 74-75 US-FRG Offset Agreement was not larger in magnitude than the 72-73 Agreement, it was a significant further contribution by the FRG. Both Governments engaged in lengthy substantive negotiations which required the FRG to budget 'additional' and 'substantial' monies to fund the completion of the troop facilities rehabilitation program; procure new military equipment; assume for the first time responsibility for payment of U.S. troop-related real estate taxes and landing fees; purchase more uranium enrichment services; fund new R&D projects; and purchase more U.S. securities.
- o Third, at the time the Amendment was drafted the full extent of allied budgetary support was not generally recognized. In response to the Amendment the allies identified a substantial amount of assistance for which they had previously not been given credit -- e.g., assistance in the form of foregone rent and other services provided in support of U.S. troops in Europe amounting to over \$570 million in CY 74 in FRG alone. (A preliminary accounting of this assistance is provided in Appendix B.) Such forms of assistance are exactly the type the Congress is seeking because they result in cost avoidance to the U.S. Government, even though they do not appear in the Jackson-Nunn balance sheet.

We do not agree with GAO's claim that the submission of periodic reports to the Congress concerning U.S. stationing costs is a continuing legal requirement. The "Sixth and Final Report in Accordance with Section 812(D) of the Department of Defense Appropriation Authorization Act, 1974" (emphasis added) was submitted to the Congress by the President on May 27, 1975 (121 Congressional Record H4704, Daily Edition June 2, 1975).

Present Burdensharing Initiatives

Conditions have changed considerably since the \$440 million figure was prepared and the Jackson-Nunn Amendment was enacted. BOP is no longer a pressing issue because of the new system of flexible exchange rates; the allies have their own economic problems; and we are now, with the support of Congress, engaged in some important and far-reaching initiatives in NATO. These initiatives, in our view, largely supersede the more narrowly defined burdensharing initiative for which the \$440 million estimate was developed.

Jackson-Nunn and BOP pluses and minuses aside, we are still vitally interested in insuring that the allies carry their fair share of the NATO defense burden. We are also concerned with reducing, where possible, the cost to the U.S. of participating in NATO's collective defense. We intend to continue our efforts to obtain budgetary support from the allies to the extent this is politically and economically feasible and does not adversely affect our national security interests or other

important NATO initiatives. However, most of our burdensharing efforts are now oriented toward (1) insuring that the allies maintain their defense capabilities and continue to modernize their forces and (2) examining ways the U.S. and its allies can make the total alliance defense effort more efficient and effective through cooperative rationalization and standardization (R/S) programs. Cooperative R/S efforts represent, in our view, burdensharing in a most meaningful sense of the word. The benefits expected to accrue to the U.S. and to the alliance as a whole if these efforts are successful are considerable.

We strongly believe that our present course of action -- emphasizing allied force improvements and rationalization/standardization while continuing where politically and economically feasible to seek budgetary support -- is the most effective approach to burdensharing and one that will provide the greatest long term benefit to the U.S. and to the alliance.

GAO note 1. Deleted portion refers to matter omitted from this report.

FY 74 COST OF STATIONING U.S. FORCES IN EUROPE
VS. CONUS: DOD ANALYSIS OF GAO ESTIMATES AND ASSUMPTIONS

Estimates of the incremental costs or savings of stationing U.S. Forces in Europe rather than in CONUS are dependent on an assumed base case from which cost differentials are measured. The accuracy of the estimates depend not only on the accuracy of the data used in costing the alternatives, but also on the validity of the assumed base case scenario.

The GAO estimate provided in the GAO draft report attempts to identify the incremental 'budgetary' costs of stationing U.S. forces in Europe. The most critical of several implicit base case assumptions underlying this estimate are:

- o That the U.S. commitment to NATO will change to the extent that the U.S. need not retain the force capability inherent in the forces now in Europe, nor acquire the added capability to deploy these CONUS-based forces to Europe in time of emergency. (Example: The GAO estimate includes as an incremental cost the cost of maintaining pre-positioned stocks. This implies no further need to maintain them in the absence of U.S. European-based troops.)

- o That the CONUS basing and logistic support structure is entirely adequate to support all troops now stationed in Europe in addition to those presently in CONUS without additional investment in facilities and logistics infrastructure. (Example: The GAO estimate does not include any offsetting costs for base or logistics systems expansion.)

DoD believes that these assumptions are unrealistic, and that any redeployment of Europe-based forces would require substantial investment (1) to upgrade and expand the CONUS logistic support and base structure, and (2) to acquire a capability to rapidly redeploy forces to Europe in time of emergency. Further, each of these activities would carry with it attendant operating costs. In addition, a one-time cost would be incurred to return the troops to CONUS.

The table below provides a comparison of the GAO estimate of FY 74 incremental force costs (contained in the draft report) with a DoD adjustment to that estimate based on the following assumptions:

- o That there is no fundamental change in U.S. defense policy and strategy.

- o That the U.S. Sixth Fleet and its associated command and support activities remain in the Mediterranean; but

- That all of the U.S. Army and Air Force troops now stationed in Europe are returned to CONUS and retained in the active force structure; and

- That the CONUS logistics support and base structure is expanded as necessary to accommodate these forces.

o That additional mobility forces and/or prepositioned stocks are acquired to implement current U.S. defense policy and strategy for the defense of Europe by insuring that U.S. forces in CONUS can be rapidly deployed to Europe in an emergency.

o That deployment capabilities continue to be exercised, but on a larger scale to enhance and maintain force readiness and to demonstrate our ability to reinforce Europe.

ESTIMATED INCREMENTAL COSTS
OF STATIONING U.S. FORCES IN EUROPE

(Costs are for FY 74 in FY 74 \$M)

<u>Cost Category</u>	<u>GAO Estimate</u>	<u>DoD Adjusted Estimate</u>	<u>Notes</u>
PCS Moves	217	217	1/
Overseas Allowances	73	73	1/
Dependent Education	92	92	1/
Family Housing	68	41	2/
Postal Service	33	21	3/
Military Banking Service	3	-0-	4/
Recreation Areas	5	-0-	4/
U.S. Forces Radio/TV	4	-0-	4/
Headquarters Operations	47	7	5/
Naval Command & Spt Activities	50	-0-	5/
Base Operations	271	-63	6/
Central Supply Operations	168	14	7/
Overseas Transportation	120	108	3/
Depot Maintenance	5	5	1/
Construction	16	-0-	8/
Medical & Health Care	6	6	1/
Communications	68	54	9/
Theater Support	90	90	10/
LN Labor Offset	-0-	-0-	11/
Other Recurring (Exercise and Prepositioning Costs)	-0-	-400	12/
Total Recurring	1336	265	
One-Time	-0-	-11040	12/

1/ The GAO estimate appears to be a reasonable assessment of FY 74 incremental costs.

2/ Family Housing -- The GAO estimate assumes that all families returned to CONUS will occupy off-base quarters. The revised DoD estimate assumes in contrast that base expansions/reactivations necessitated by the return of Europe-deployed troops would make on-base quarters available in quantities sufficient to house military families at

on-base occupancy rates prevalent in FY 74 (about 40%), and at a cost about 20% greater than recoverable BAQ (FY 74 figures). The remaining families are assumed as seeking off-base housing and to receive BAQ.

- 3/ Postal Service -- The GAO estimate includes \$21 million for overseas postal transportation which DoD agrees is an incremental cost. (Of this, \$12 million is double-counted in the GAO's assessment of Air Force overseas transportation costs. Note the \$12 million reduction in the DoD-adjusted estimate in the Transportation Cost Category.) DoD believes, however, that the remaining \$12 million would be more than offset by the increased cost of service which would be required of the U.S. Postal Service at expanded/reactivated bases. For example, the U.S. Postal Service would have to provide home mail delivery for some 57,000 families (GAO figures), a service not provided under the APO system. In addition, post offices and substations would have to be expanded or new ones opened to accommodate the stationing of redeployed troops and dependents.
- 4/ Other Personnel-Related Costs -- Such costs are included under Base Operations in the DoD accounting system. See DoD estimate for Base Operations Costs.
- 5/ Headquarters & Naval Support Activities -- DoD believes that USAEUR, USAFE, and Mediterranean Naval Headquarters and facilities represent command and support capabilities which would have to be retained in some form, even in the absence of U.S. Army and Air Force troops in Europe. (The U.S. Sixth Fleet and its associated support headquarters and facilities would still be retained in the Mediterranean area after the redeployment of Army and Air Force personnel and equipment.) EUCOM headquarters is considered to be incremental; but a portion (an estimated 10% on a cost basis) would have to be retained in Europe as a liaison element. Incremental costs shown in the DoD estimate are the remaining EUCOM costs.
- 6/ Base Operations -- The GAO estimate includes \$71 million as the estimated differential in facilities maintenance costs, and an unspecified \$200 million as a rough guess at additional incremental costs. (The GAO report acknowledges that the additional \$200 million may not be totally incremental. Nevertheless, the entire sum is included in the \$1.3 billion GAO estimate of incremental costs.) DoD believes this figure to be totally unrealistic. Review of Army expenditure records for Army Base Operations costs alone (including the cost of recreational activities which are included elsewhere in the GAO estimate) indicates a differential cost per man of -\$244 in FY 74 -- that is, base operations were cheaper on a per capita basis in Europe than in CONUS. With slightly under 260,000 troops stationed ashore in the NATO countries in FY 74, use of this per capita factor results in a cost saving of about \$63 million.

- 7/ Central Supply Operations -- The GAO estimate of Supply Operations costs assumes that the entire system operating cost is incremental, whereas the GAO estimate for depot maintenance costs assumes that only system overhead costs are incremental. While DoD believes that the return of Europe-based troops to CONUS would require a modest expansion in the CONUS-based logistics system overhead, it is felt that the GAO approach to estimating incremental depot maintenance costs is more logical and equally applicable to the central supply function. Hence, the DoD estimate in this category is derived by applying a 7.7% overhead factor (implicit in the GAO estimate for depot maintenance) to the central supply system operating and maintenance costs, and by adding to the result the GAO-developed implicit interest (at 8%) on differential pipeline investment. (Military personnel costs are not included in the estimate since such costs would also be incurred in CONUS.)
- 8/ Construction -- Construction expenditures are not recurring costs. The DoD estimate of facilities construction cost requirements are considered in the treatment of one-time construction costs and savings.
- 9/ Communications -- While some portion of these costs may be incremental, DoD believes that a significant portion of the U.S. European communications system would have to be retained for contingencies and annually recurring troop exercises. The DoD figure is based on a conservative estimate of 20%.
- 10/ Theater Support Operations -- The GAO estimate includes costs in the following categories:

Theater Support (Admin) Forces	\$68.8M
Construction Battalions	2.2
Prepositioned Materiel (O&S)	10.8
Special Ammo Control	3.6
Training	<u>4.7</u>
Total	\$90.1M

Of these categories, DoD believes that the cost shown for Theater Support Forces is based only on Army support operations in Europe. If this figure is extrapolated to cover other Service requirements in Europe, it would increase to about \$90 million. However, the engineer construction battalions would be retained in the active forces in CONUS; the Special Ammunition Control System would have to be retained to insure continued U.S. control of nuclear warheads for Allied weapons systems; and the type of training costed by GAO would have to be conducted in CONUS at comparable costs. Further, the amount of prepositioned materiel would have to be more than doubled to facilitate the rapid return to Europe of the forces withdrawn to CONUS. (The cost impact of increasing prepositioned stocks is discussed in Note 11/.) Thus, the DoD estimate in this category is only \$90 million.

11/ Local National Labor Offset -- The original FY 72 DoD estimate of FY 74 costs reflects a \$160 million cost saving which was then anticipated to arise from the use in Europe of local national, rather than U.S. labor. The GAO estimate, using data from FY 75, argues that no such savings were in fact realized, and asserts that no savings were likely to have been realized in FY 74. However, whatever the level of labor cost savings, they are incorporated implicitly in the cost differential calculus for each of the other cost categories and should not be deducted explicitly.

12/ Other Recurring Costs -- This category reflects the avoidance of actions and attendant costs that would otherwise have to be taken by DoD (1) in order to withdraw the forces from Europe initially, (2) to expand/reactivate CONUS bases to accommodate these forces, and (3) to maintain and exercise a capability to deploy these CONUS-based forces to Europe.

(FY 74 \$B)

	<u>One Time</u>	<u>Annual Recurring</u>
Facilities Construction	5.04	
Less Europe Facilities Transfer (conservatively estimated at 5% value)	<u>-1.06</u>	
	3.98	
Relocation Costs	.10	
Equipment Procurement & Prepo Maintenance*	3.95	.05
Exercise Cost (Reforger type)		.11
Airlift Fleet Increase	<u>3.01</u>	<u>.24</u>
Total	\$11.04B	\$0.40B

*Includes cost of constructing temperature/humidity controlled warehouses for storage of added prepositioned stocks.

SUMMARY OF EXPENDITURES BY FRG TO
MAINTAIN U.S. FORCES, CY 1974

(Preliminary Accounting)

<u>Expenditure Category</u>	<u>Amount (DM/\$ in Millions)</u>
A. Defense outlays associated with foreign armed forces in FRG:	
1. Administration of real estate, structures, and space	DM 10.01
2. Services in connection with assignment of articles to foreign forces	7.95
3. Maintenance of real estate and structures	.50
4. Compensation for damages caused by U.S. forces	17.37
5. Compensation for occupation-related damages caused by or originating in connection with U.S. forces	1.16
6. Construction on U.S.-utilized real estate	1.06
7. Purchase of replacement real estate and/or erection of replacement structures	3.75
8. Purchase of real estate	3.50
9. Safeguarding of military installations, hydro-economical measures	16.02
10. Development contributions for FRG-owned real estate and encumbered real estate	.88
11. Road improvement in connection with U.S. forces traffic	25.10
12. Miscellaneous	11.62
Total Para A	DM 98.91*
B. States, including Berlin, share of administrative costs	DM 11.48
C. Transportation and other department budget expenditures:	
1. Firing range Spachbruecken reimbursement	DM .04
2. Replacement installation Giessen reimbursement	1.39
3. Dislocation of maintenance plant Boeblingen	.51
4. Release of Plot 614 at Mannheim	1.00
5. Transfer of former aircraft hanger at Mainz	.14
Total Para C	DM 3.07*
D. Defense outlays in connection with foreign armed forces for Berlin:	
1. Occupational costs and contractual expenses	DM 283.91
2. Costs related to occupation, estimated U.S. share	1.91
Total Para D	DM 285.81*
E. Total paras A, B, C, and D	DM 399.28*
	@ 2.6 DM/dollar = \$153.57

* Totals may not add due to rounding

APPENDIX B

APPENDIX B

Appendix B - (Cont'd)

<u>Expenditure Category</u>	<u>Amount</u> <u>(DM/\$ in Millions)</u>
F. Income foregone on real estate of approximately DM 22,000.00 capital value, based on 5% annual return	DM 1,100.00
G. Total paras E and F	DM 1,499.28*
	@ DM 2.6 = \$576.65

* Totals may not add due to rounding

PRINCIPAL OFFICIALS
RESPONSIBLE FOR ACTIVITIES
DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF STATE

SECRETARY OF STATE:

Henry A. Kissinger	Sept. 1973	Present
William P. Rogers	Jan. 1969	Sept. 1973

AMBASSADOR, U.S. MISSION
TO NATO:

Robert Strausz-Hupe	Apr. 1976	Present
Edward J. Streator (acting)	Feb. 1976	Apr. 1976
David Bruce	Oct. 1974	Feb. 1976
Donald H. Rumsfeld	Feb. 1973	Oct. 1974
David M. Kennedy	Mar. 1972	Feb. 1973

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

Donald H. Rumsfeld	Nov. 1975	Present
James R. Schlesinger	July 1973	Nov. 1975
William P. Clements (acting)	May 1973	June 1973
Elliot L. Richardson	Jan. 1973	May 1973
Melvin R. Laird	Jan. 1969	Jan. 1973

ASSISTANT SECRETARY OF DEFENSE
(International Security Affairs):

Amos A. Jordan (acting)	Dec. 1975	Present
Robert Ellsworth	June 1974	Dec. 1975
Amos A. Jordan	Jan. 1974	May 1974
Robert C. Hill	May 1973	Jan. 1974
Lawrence S. Eagleburger (acting)	Jan. 1973	Apr. 1973
Dr. G. Warren Nutter	Mar. 1969	Jan. 1973

COMMANDER IN CHIEF, EUROPE:

General Alexander M. Haig, Jr.	Nov. 1974	Present
General Andrew J. Goodpaster	May 1969	Oct. 1974

Copies of GAO reports are available to the general public at a cost of \$1.00 a copy. There is no charge for reports furnished to Members of Congress and congressional committee staff members. Officials of Federal, State, and local governments may receive up to 10 copies free of charge. Members of the press; college libraries, faculty members, and students; and non-profit organizations may receive up to 2 copies free of charge. Requests for larger quantities should be accompanied by payment.

Requesters entitled to reports without charge should address their requests to:

U.S. General Accounting Office
Distribution Section, Room 4522
441 G Street, NW.
Washington, D.C. 20548

Requesters who are required to pay for reports should send their requests with checks or money orders to:

U.S. General Accounting Office
Distribution Section
P.O. Box 1020
Washington, D.C. 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. Stamps or Superintendent of Documents coupons will not be accepted. Please do not send cash.

To expedite filling your order, use the report number in the lower left corner and the date in the lower right corner of the front cover.

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE



THIRD CLASS