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BY THE COMPTROLLER GENERAL
**Report To The Chairman
 Subcommittee On Defense, Senate
 Committee On Appropriations**
 OF THE UNITED STATES

AD-A144 501

**Reductions In U.S. Costs To Station Forces
 In The Federal Republic Of Germany And
 The United Kingdom Are Unlikely**

Congress has expressed a strong and continuing interest in reducing the costs of stationing U.S. Forces in Europe through increased cost sharing by the European allies. The Federal Republic of Germany and the United Kingdom provide substantial support to U.S. Forces stationed there, and are major contributors to the common defense of NATO.

Unless the U.S. commitment to NATO is reduced, it is unlikely that U.S. costs to station forces in those two countries will decline. Even the withdrawal of our troops would not necessarily reduce, and might increase, overall defense spending. Therefore, when considering the reduction of U.S. stationing costs, the broader issues of U.S. security objectives in Europe and the forces required to meet these objectives must also be addressed.

This is the unclassified version of an earlier GAO report on this subject.

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

B-198641

The Honorable Ted Stevens
Chairman, Subcommittee on Defense
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

This report is the unclassified version of our classified report which discusses the prospects for reducing U.S. stationing costs in the Federal Republic of Germany and the United Kingdom (GAO/C-NSIAD-84-7, April 10, 1984). We are also providing copies of this report to the Director, Office of Management and Budget, the Secretaries of Defense and State, and other interested congressional committees.

Sincerely yours,

Comptroller General
of the United States



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BY THE COMPTROLLER GENERAL
REPORT TO THE CHAIRMAN,
SUBCOMMITTEE ON DEFENSE,
SENATE COMMITTEE ON APPROPRIATIONS

REDUCTIONS IN U.S. COSTS
TO STATION FORCES IN THE
FEDERAL REPUBLIC OF
GERMANY AND THE UNITED
KINGDOM ARE UNLIKELY

D I G E S T

Since the mid-1960s, dissatisfaction by members of Congress with the level of burden sharing among North Atlantic Treaty Organization (NATO) allies has led to various U.S. troop withdrawal initiatives. While none of these have actually resulted in any withdrawals, Congress has expressed a strong and continuing interest in reducing the costs of stationing U.S. Forces in Europe through increased cost sharing by the European allies. (See pp. 1 and 2.)

The United States maintains over 350,000 troops, including those afloat in Western and Southern Europe in support of its NATO commitment. Many more are stationed in the United States as NATO reinforcements. The Department of Defense (DOD) estimated that \$122.3 billion, or 56 percent of the fiscal year 1982 defense budget was associated with the U.S. commitment to NATO.

At the request of the Chairman, Subcommittee on Defense, Senate Appropriations Committee, GAO reviewed several issues associated with burden sharing. This report discusses those issues as they relate to the Federal Republic of Germany and the United Kingdom. Similar issues for Japan and the Republic of Korea are discussed in an earlier report. The objectives of the European review were to determine

- what the United States spends to station forces in Europe,
- how U.S. force levels there have grown,
- how the Federal Republic of Germany and the United Kingdom help offset U.S. stationing costs, and

--the likelihood that these two allies will contribute more to future burden sharing requirements. (See pp. 5 to 7.)

ENHANCING THE U.S. CONTRIBUTION
HAS INCREASED FORCE LEVELS AND
STATIONING COSTS

Between 1975 and 1982, U.S. military strength in Europe grew by about 54,000 troops as the result of force modernization, advanced weapon technology, and new and additional aircraft deployments. Approximately 80 percent of the 355,600 U.S. troops in Europe at the end of fiscal year 1982 were stationed in the Federal Republic of Germany and the United Kingdom. (See pp. 3 and 4.)

GAO estimates that it cost the United States \$12 billion in fiscal year 1982 to support and maintain U.S. Forces in Europe, including personnel, operations and maintenance, construction, and family housing. The cost does not include the allocated share of expenses, such as new equipment and U.S.-based training and logistical support. DOD estimates that if these costs were included, the cost of forces deployed in Europe would be \$36.5 billion in fiscal year 1982--an increase of 55 percent over the 1975 cost of \$23.5 billion (constant FY 1982 dollars). U.S. military officials stated that increased stationing costs resulted from mission changes, force and weapons system modernization, military construction and inflation, and not from reduced burden sharing by the host countries. Because of difficulties in estimating the value of contributions like rent-free land and exemptions from taxes, GAO did not quantify total support provided by the Federal Republic of Germany and the United Kingdom or the extent to which it reduces U.S. cost. (See pp. 2 and 3.)

STATIONING COSTS IN THE FEDERAL
REPUBLIC OF GERMANY WILL CONTINUE
TO INCREASE

In addition to being one of the largest contributors to the common defense of NATO, the Federal Republic of Germany supports U.S. Forces by providing rent-free use of land and

facilities, paying part of the costs of U.S. maneuver damage, and granting exemptions from some taxes and custom fees. Insufficient data were available to quantify the value of this support and the extent to which it offsets U.S. stationing costs. (See pp. 8 to 12.)

Until fiscal year 1981, when Congress prohibited the use of DOD funds to pay foreign real estate taxes, the United States paid land taxes amounting to about \$5 million a year on rent free family housing in the Federal Republic of Germany. The national government has paid these taxes to local governments on behalf of the United States since then, but holds the United States liable for amounts paid. (See p. 10.)

U.S. officials have made limited progress in achieving agreements on issues where the United States seeks assistance. The United States is currently working with the Federal Republic of Germany on two cost sharing initiatives--wartime host-nation support and the master restationing plan. Both will substantially increase allied defense capabilities but will also require contributions which will increase U.S. costs. (See p. 12.)

Under the terms of the Wartime Host Nation Support Agreement, the Federal Republic of Germany will commit 93,000 reservists as military support for U.S. Forces for such things as rear area security, airfield repair, and medical decontamination during times of crisis or war. The costs to establish and maintain the capability to implement the Wartime Host Nation Support Agreement will be shared by the two countries. The U.S. share of this cost will be more than \$324 million out of the total \$600 million in costs estimated for the next 5 years. (See pp. 13 to 14.)

The conference committee considering the 1981 Military Construction Appropriation Act directed the Army to pursue host-nation support for the master restationing plan. Every year since then, the appropriation committees have reaffirmed the desire that the Federal Republic of Germany should assume a substantial share of the plan's cost. Although funds requested by DOD have been authorized, obligation of those funds is contingent upon a

financial agreement with the Federal Republic of Germany. The Federal Republic of Germany has agreed to work toward solving the problems connected with restationing but has not agreed on cost-sharing or financial arrangements for the plan. Without such agreement the restationing plan may be in jeopardy.

The objectives of the restationing plan are to (1) improve living and working conditions (2) accommodate modernization and (3) relocate to more tactically sound positions. Under the master restationing plan, DOD intended to vacate poorly situated U.S. facilities when troops occupying them were moved to new facilities. U.S. Army officials in Europe are now planning to use these facilities in addition to building new ones. The result will be an increase in facilities and associated maintenance costs. (See pp. 14 to 16.)

STATIONING COSTS IN THE UNITED KINGDOM

The United Kingdom shares substantially in the common defense burden of NATO and contributes to offset the cost of stationing U.S. Forces within its boundaries. Recent efforts to obtain additional cost sharing from the United Kingdom, however, have resulted in little progress. (See pp. 18 to 21.)

The United States pays at least \$3.9 million a year in direct and indirect property taxes, called rates, to the United Kingdom. (See pp. 21 and 22.)

BETTER DATA NEEDED TO ASSESS REASONABLENESS OF ALLIED COST SHARING

GAO believes that a comprehensive analysis of the costs of the U.S. commitment to NATO requires information on (1) the costs to station U.S. Forces in Europe and to maintain reinforcements in the United States, (2) the costs of alternative approaches for meeting the commitment, and (3) how the other NATO allies offset U.S. costs and the value of these contributions. (See p. 24.)

Prior to fiscal year 1983, DOD provided the Congress with an estimate of the annual costs of stationing forces in Europe and maintaining

reinforcements in the United States. This was discontinued because the Assistant Secretary of Defense for International Security Policy believed the estimates to be misleading and misused in that U.S. Forces are multipurposed and must be available to respond to threats in other regions of the world. In GAO's view the estimate is valuable in spite of its limitations because it provides information on what the United States is spending to maintain forces in various areas of the world. (See pp. 24 to 25.)

DOD subsequently provided the Congress with estimates on the cost of the alternative of withdrawing U.S. Forces from Europe and stationing them in the United States. These estimates showed that savings would occur only if forces were deactivated and placed in reserve. DOD also provides data on what the other NATO allies contribute to offset U.S. stationing costs. It has not, however, presented information on these elements as a comprehensive analysis of U.S. costs of the NATO commitment. (See pp. 25 to 28.)

MATTER FOR CONSIDERATION
BY THE CONGRESS

Increased contributions by the United Kingdom and Federal Republic of Germany to keep pace with the costs of growing U.S. force deployments and investments in new technology are unlikely. Therefore, GAO believes that significant reductions in U.S. stationing costs may not be achievable without withdrawing U.S. Forces from Europe. However, withdrawals would not necessarily reduce overall defense spending unless the U.S. commitment to NATO and current force levels were reduced.

This report focuses on the United Kingdom and the Federal Republic of Germany because 80 percent of the U.S. troops in Europe were stationed in these two countries. It is recognized that U.S. troops and the associated military hardware are not in these two countries to support just the host nation but rather to support U.S. security interests, including the NATO alliance. In considering the reduction of U.S. stationing costs, therefore, it is necessary to address the broader issue of U.S. security objectives in Europe

and the U.S. Forces required to meet those objectives. Congress may want to consider the need for an analysis by the Department of Defense concerning

--the costs of stationing U.S. Forces in Europe and maintaining reinforcements in the United States, as well as alternatives for meeting the U.S. commitment to NATO (see p. 29), and

--contributions by other NATO allies which offset U.S. costs.

AGENCY COMMENTS AND GAO'S EVALUATION

In commenting on the draft of this report, DOD and State agreed that contributions from the Federal Republic of Germany and the United Kingdom to further reduce U.S. stationing costs are unlikely. DOD and State noted that budgetary stringencies and economic recession have made it very difficult to obtain increased cost sharing from other NATO allies. State believed that GAO did not adequately recognize these factors and oversimplified and misrepresented allied defense cooperation efforts by focusing solely on U.S. stationing costs in Europe and how our allies there contribute to offset these costs. DOD commented that the wartime host-nation support agreement and the master restationing plan should be viewed within the context of the Army modernization program and that they were not designed to reduce peacetime stationing costs.

The report has been modified to address many State and DOD concerns. Nevertheless, GAO believes that the extent to which NATO allies directly offset U.S. stationing costs is an important part of allied burden sharing and of interest to the Congress. GAO's report recognizes the substantial contributions from the Federal Republic of Germany and the United Kingdom to the common defense despite economic difficulties and that the wartime host-nation support and master restationing initiatives are designed to increase defense capabilities. These programs will result in higher U.S. stationing costs with little likelihood of increasing allied contributions to offset U.S. costs.

State's written comments are in appendix II. Defense comments were provided orally.

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ABBREVIATIONS

DOD	Department of Defense
FRG	Federal Republic of Germany
GAO	General Accounting Office
GLCM	Ground-Launched Cruise Missile
NATO	North Atlantic Treaty Organization
UK	United Kingdom

CHAPTER 1

INTRODUCTION

The North Atlantic Treaty, ratified in 1949, establishes the framework for military, political, and economic cooperation among North Atlantic Treaty Organization (NATO) partners, and the Status of Forces Agreements outline the principal legal arrangements for the U.S. presence in Western Europe. That presence now stands at over 350,000 troops, and in fiscal year 1982, the Department of Defense (DOD) estimated that about half of the U.S. defense budget was associated with meeting its overall commitment to NATO.

Burden sharing in NATO is based on the principle of an equitable distribution of the common defense burden. The level of each member's contribution is a national decision based on its own economic and political considerations. In the simplest terms, burden sharing has three components consisting of the member's (1) military contribution to the NATO, usually measured by its defense budget as a percent of its gross national product, (2) financial contribution to common-funded projects, such as the NATO infrastructure program, and (3) contributions to offset the costs of stationing allied forces within its borders in support of the common defense. This report focuses on this last component of burden sharing in support of U.S. Forces stationed in the Federal Republic of Germany (FRG) and United Kingdom (UK).

CONGRESSIONAL INTEREST IN BURDEN SHARING

For some time, the Congress has expressed dissatisfaction with the level of burden sharing by other NATO allies, particularly compared with the large costs incurred by the United States. One result has been the recurring debate in Congress over whether U.S. troops should be withdrawn from Europe. For example, from 1966 to 1973, Senator Mansfield sponsored a series of resolutions calling for a substantial decrease in the number of U.S. troops stationed in Europe.

Senator Mansfield's resolutions were never adopted but had considerable support in the Senate. At least nine other Senators introduced amendments or resolutions during the 1960s and early 1970s aimed at reducing U.S. troop levels in Europe. Finally, in 1973 the Jackson-Nunn Amendment was enacted as part of the 1974 Defense Appropriation Authorization Act. This measure called on U.S. allies to offset the 1974 balance-of-payments deficit arising from stationing U.S. troops in Europe. If the full offset was not achieved, the amendment required withdrawal of U.S. Forces from Europe in the same proportion as the unmet deficit. This amendment also called on European allies to help meet the extra costs of stationing U.S. troops in

Europe, but a troop reduction requirement was not attached to this provision.

Subsequently, offset agreements were negotiated with the FRG. In May 1975, the President reported that the balance-of-payments deficit had been met and the United States did not withdraw any troops.

Congress is still concerned
about burden sharing

In early 1982, the Subcommittee on Defense, Senate Committee on Appropriations, held hearings which questioned the build-up of U.S. Forces in Europe since 1975. In September 1982, the Subcommittee proposed that the American military presence in Europe be reduced by 23,000 troops. Although legislation was not enacted, the House Committee on Appropriations in its report on the fiscal year 1983 Military Construction Appropriation Bill stated that

"* * * current defense burdensharing is wholly inconsistent with economic realities. As the United States significantly increases its spending on defense, other countries should develop host nation programs to reduce the U.S. costs associated with the maintenance of large numbers of U.S. troops and dependents stationed abroad."

U.S. COSTS OF MAINTAINING FORCES
IN EUROPE ARE ABOUT \$12 BILLION

Direct fiscal year 1982 costs to support and maintain U.S. Forces in Europe totaled about \$12 billion, as shown in table 1. The table excludes reimbursable and non-appropriated expenses. It also excludes the allocated share of such expenses as new equipment costs, U.S.-based training and logistical support, and military retirement pay. Many of these costs are not solely attributable to the presence of U.S. Forces in Europe. According to DOD estimates, if these costs were included, the cost of forces deployed in Europe would be \$36.5 billion. This represents an increase of 55 percent over the 1975 cost of \$23.5 billion (constant FY 1982 dollars). Furthermore, if the costs of maintaining reinforcement and strategic forces in the United States are added, DOD estimated the cost of the NATO commitment at \$122 billion in fiscal year 1982.¹

¹DOD officials differed with our use of their previous estimates, which they now believe to have serious shortcomings. See ch. 4 for a detailed discussion of the DOD estimates.

Table 1

Fiscal Year 1982 Costs of Maintaining U.S. Forces
in Europe by Appropriation

<u>Cost element</u>	<u>Cost (millions)</u>
Military Personnel	\$5,949
Operations and Maintenance	3,972
Military Construction	513
Family Housing	
Management	590
Other	998
Total	<u>\$12,022</u>

Incremental costs are defined as those costs incurred as a result of stationing U.S. Forces in Europe instead of the United States. Although U.S. service officials could not identify total additional costs of stationing forces in Europe, the Army identified their incremental military personnel costs at \$592 million for 1982 and an estimated \$626 million for fiscal year 1983. In commenting on our draft report, DOD stated that it had recently provided Congress with data showing total incremental costs and the direct costs of maintaining forces in Europe.

Generally, U.S. military officials told us that increased stationing costs resulted from mission changes, force and weapons systems modernization, military construction, and inflation. Force and weapons systems modernization also accounted for increases in the size of U.S. force levels in Europe.

U.S. FORCE LEVELS IN EUROPE
INCREASED 54,000 SINCE 1975

From 1975 through 1982, U.S. military strength grew by about 54,000, from 301,600 to 355,600. The Army and Air Force showed the largest growth during this period, with 30,427 and 12,300 military personnel increases, respectively. Navy and Marine forces afloat increased by about 10,500, with those ashore increasing by 800. From 1982 to 1983, the Army showed no programmed growth in force levels. The Air Force and Navy programmed increases of 5,000 and 706, respectively.

Actual U.S. military strength at the end of fiscal year 1982 is shown in table 2. According to DOD, the number of U.S. troops in Europe at the end of fiscal year 1982 was at least 7,400 more than planned, mostly because of U.S. Forces temporarily in Europe for military and training exercises. Most of the U.S. military presence in Europe is concentrated in the FRG; at the end of fiscal year 1982, over 256,000 U.S. troops were stationed there.

Table 2

U.S. Military Strength (Ashore and Afloat)^a
Western and Southern Europe 1975-1982
Actual

	<u>Fiscal Year</u>		
	<u>1975</u>	<u>1982</u>	<u>Increase</u>
	----- (thousands) -----		
Army	196.8	227.3	30.5
Air Force	69.2	81.6	12.4
Navy	32.0	39.5	7.5
Ashore	(12.1)	(12.9)	(.8)
Afloat	(19.9)	(26.6)	(6.7)
Marine Corps	3.5	7.2	3.7
Ashore	(1.3)	(1.3)	(.0)
Afloat	(2.2)	(5.9)	(3.7)
Total DOD	<u>301.6</u>	<u>355.6</u>	<u>54.0</u>
Ashore	(279.6)	(323.1)	(43.5)
Afloat	(22.1)	(32.6)	(10.5)

^aTotals may not add due to rounding.

U.S. force levels in Europe have grown because of efforts to enhance the capabilities and readiness of combat troops and equipment during the past decade. These efforts, which include force modernization, advanced weapon technology, and new and additional aircraft deployment, have required greater numbers of military personnel. An increase in combat forces also took place when DOD implemented the Nunn Amendment to the 1975 DOD Appropriations Authorization Act. This amendment required a reduction in support troops while allowing an increase in combat troops. Our report on the implementation of the Nunn Amendment² showed that the Army and Air Force added about 17,535 combat positions in Europe from 1975 to 1977. The U.S. military services reduced authorized support positions by 18,836 during the same period.

PREVIOUS GAO REPORT ON BURDEN SHARING

In 1981 we issued a report to the Chairman of the House Committee on Appropriations, which reviewed host-nation support

²Benefits and Problems Associated With Improving the ratio of U.S. Combat Troops to Military Support Personnel in Europe (LCD-78-408A), June 7, 1978.

provided to the United States by the United Kingdom and the Federal Republic of Germany.³ In the report we discussed the types of support provided and the advisability of renegotiating agreements to obtain increased host-nation support. We concluded that the United States needed to take a more consistent approach in attempting to get U.S. allies to pick up a bigger share of the costs of stationing U.S. Forces in Europe.

OBJECTIVES, SCOPE, AND METHODOLOGY

In June 1982, the Chairman of the Subcommittee on Defense asked us to review several burden sharing issues. (See app. I.) As a result of this request and meetings with the Chairman's office, we agreed to

- obtain stationing costs of U.S. Forces in Europe for fiscal year 1982,
- determine the nature and extent of the buildup in U.S. Forces deployed in Europe since 1975,
- identify ways the United Kingdom and Federal Republic of Germany contribute to reduce U.S. costs for maintaining U.S. Forces overseas,
- determine the likelihood that these two allies will contribute more to future burden sharing requirements, and
- determine the status of recommendations we made in our 1981 report on allied cost sharing in Europe.

We also agreed to review similar burden sharing issues for U.S. Forces in Japan and the Republic of Korea in a separate report.⁴

As agreed, we identified U.S. stationing costs for Europe and not for individual countries where those forces are stationed. Because approximately 80 percent of U.S. troops in Europe are stationed in the Federal Republic of Germany and the United Kingdom, most of the U.S. costs are associated with stationing in those two countries.

³Increased Cost Sharing for U.S. Forces in Europe Needs a More Systematic Approach (C-ID-81-3), Jan. 19, 1981.

⁴Greater Contributions by Japan and the Republic of Korea to Reduce U.S. Stationing Costs Are Unlikely (GAO/NSIAD/C-84-4), February 2, 1984.

From July through November 1982, we performed the review at DOD, the service commands, and the Department of State in Washington, D.C. We also met with representatives of the U.S. Mission to NATO in Brussels and the American embassies in Bonn and London. Our review included work at the following U.S. military commands in Europe:

- Headquarters, U.S. European Command,
Stuttgart, Federal Republic of Germany.
- Headquarters, U.S. Army, Europe, Heidelberg,
Federal Republic of Germany.
- Headquarters, U.S. Air Forces in Europe,
Ramstein, Federal Republic of Germany.
- Headquarters, Third Air Force, Mildenhall,
United Kingdom.
- U.S. Air Force 7502 Civil Engineering Squadron,
West Ruislip, United Kingdom.
- Headquarters, U.S. Naval Forces, Europe,
London, United Kingdom.

We gathered data on U.S. stationing costs and allied host-nation support by interviewing cognizant Department of State, DOD, and service component officials and evaluating supporting documentation.

In quantifying the 1982 costs of stationing U.S. Forces in Europe, we reviewed the appropriations classifications and elements of expense categories for the Navy, Air Force, and Army to determine which items were common to the three services. From this review and discussions with military fiscal officials, we drew up a standardized format to collect the necessary cost data and submitted it to fiscal officers from each of the U.S. services in Washington, D.C., and the European Commands. After receiving input from these officials, we reviewed the data and made additional contacts with U.S. services' personnel as necessary. Overall cost data from the various commands in Europe and Washington, D.C., were then consolidated and used to prepare tables in this report.

We did not quantify the total dollar value of support provided by the Federal Republic of Germany and the United Kingdom because of difficulties in estimating the value of such support. For example, both countries provide rent-free land and facilities, but there is generally no expenditure by the host nation nor an accurate means to determine rental value or replacement cost for the United States.

In reviewing U.S. force levels in Europe since 1975, we obtained manpower records for each of the services and interviewed military manpower officials in Washington, D.C., and at various commands in Europe.

Our work was done in accordance with generally accepted government audit standards.

The following exchange rates, in effect in December 1982, are used throughout this report to estimate the dollar value of host nation contributions:

1 British Pound = \$1.65

1 German Mark = \$0.42

Fluctuations in exchange rates can significantly alter the estimates, either upward or downward. As of July 24, 1984 the dollar was about 20 percent stronger in the U.K. and about 17 percent stronger in the FRG than at the time we made our estimates.

CHAPTER 2

STATIONING COSTS IN FEDERAL REPUBLIC OF GERMANY WILL CONTINUE TO INCREASE

The FRG contributes substantially to the common defense of Europe, both directly and through support of other NATO forces stationed in Germany. In the past, FRG has provided financial assistance to the United States beyond that set out in agreements between the two countries. Recent efforts, however, have focused more on improving wartime readiness than on relieving U.S. stationing costs. Implementation of the agreement on wartime host-nation support and a master restationing project will increase U.S. costs in the FRG. Although a congressionally imposed prohibition eliminating the payment of land taxes has somewhat reduced stationing costs, the near-term prospects for increased FRG cost sharing are poor.

DIRECT DEFENSE CONTRIBUTIONS ARE SUBSTANTIAL

The FRG is one of the largest contributors to the common defense burden of NATO. With active duty strength of about 490,000 troops, its Federal Armed Forces are a powerful force in central and northern Europe. Among NATO nations, the FRG ranks third in military manpower, defense spending (in total dollars and as a percent of gross national product), and deployed armored equipment. It has the fourth largest naval force and is second in the number of deployed combat aircraft.

The FRG also contributes to commonly funded projects and provides economic assistance to other NATO members. Specifically, it

- contributes over 25 percent of all NATO infrastructure funds,¹
- pays 25 to 28 percent of the cost for the NATO Airborne Early Warning and Control System, and
- has provided Turkey with about \$2.7 billion in economic and military aid over the past several years.

OTHER CONTRIBUTIONS OFFSET STATIONING COSTS

The NATO Status of Forces Agreement and the Supplementary Agreement govern the rights, obligations, privileges, and immunities arising from the presence of U.S. Forces in the FRG. At

¹The NATO infrastructure program is a facility construction program funded by contributions from member countries.

the end of fiscal year 1982, approximately 256,000, or 72 percent, of all U.S. Forces in Europe were stationed in the FRG. The agreements cover three areas of FRG contributions to U.S. Forces: (1) land and facilities, (2) maneuver damage claims, and (3) taxes and customs fees.

A fourth area, stationing of U.S. Forces in Berlin, also has important cost-sharing implications, though it is not covered in the agreements above.

Land and facilities

In accordance with Article 63 of the Supplementary Agreement, the FRG provides U.S. Forces rent-free use of federal and state-owned land and facilities. The U.S. Army controls 747 active military installations in the FRG with a total area of 283,580 acres. The Air Force has 9 primary and 137 ancillary installations covering 13,140 acres.

The United States Army, Europe, estimates that U.S.-occupied land and facilities in the FRG would have an annual rental value of about \$1.3 billion and a replacement cost of \$16 billion. Army officials told us, however, that this estimate is not based on an accurate appraisal or survey. Estimating the amount the FRG actually foregoes in rental or sale value is complicated because much of the property is not suited for FRG commercial or military use.

Maneuver damage

Under the Status of Forces Agreement, the United States usually pays for 75 percent of the damage its troops cause during exercise maneuvers. The FRG pays the other 25 percent and all the costs for administering and adjudicating claims. The United States spent about \$63 million for damage claims in fiscal year 1982. U.S. officials do not know how much the FRG paid. Assuming the U.S. share for 1982 was 75 percent, total claims would have been about \$84 million and the FRG share about \$21 million. The Army Claims Service estimated that FRG administrative and adjudicatory costs amount to \$8.3 million a year. About half of this is for processing U.S. damage claims, and the remainder is for damage caused by other NATO allies.

Taxes and customs fees

U.S. Forces are exempt from some FRG taxes and customs fees related to official purposes. Individual service members are also exempt from some taxes, customs fees, and value-added taxes on items purchased on the local economy. Service members who do not live in government-provided quarters pay property and utility taxes to FRG state governments through their rent payments. Because quarters allowance calculations include that

portion of rent which goes for taxes, the U.S. government is to some extent indirectly taxed. DOD has not estimated the amount of property tax paid indirectly to the FRG government.

Until the Congress, in fiscal year 1981, prohibited the payment of foreign government property taxes, the United States paid land taxes amounting to about \$5 million a year on rent-free family housing in the FRG.² The FRG has paid these taxes to local governments on behalf of the United States since then, but takes the position that the United States is liable. In an August 1982 letter to the Chief Engineer for the U.S. Army in Europe, the Ministry of Finance protested the U.S. position and stated that the FRG had spent about \$8 million to pay these taxes.

According to DOD and State Department officials, the congressional prohibition on land tax payments put the United States in a position of abrogating a long-standing international agreement with the FRG. These officials are concerned that the unilateral action will adversely affect U.S. relations with the FRG and create an unfavorable climate for future cost-sharing negotiations.

Past GAO report on foreign taxes

In a December 15, 1980, report³ on foreign tax payments, we recognized the U.S. obligation to pay FRG land taxes in accordance with the Supplementary Agreement. We concluded, however, that it was time either to eliminate these tax payments as inappropriate between allies or to reduce the charges to reflect services provided. We recommended, therefore, that the Secretaries of State and Defense negotiate with the FRG to eliminate or reduce land taxes on family housing to bring the payments more in line with services received from the local communities.

Berlin stationing costs

The FRG pays most stationing costs for U.S. Forces in Berlin, including all operations and maintenance, procurement of administrative vehicles, and local national and U.S. civilian payrolls. The FRG spent an estimated \$216 million in calendar year 1982 in support of U.S. Forces in Berlin.

The FRG also pays the stationing costs of French and British troops in Berlin. According to a 1983 budget proposal, FRG costs to station U.S. and foreign troops in Berlin will total \$474.4 million.

²This prohibition was also included in the fiscal years 1982 and 1983 Military Construction Appropriations Acts (P.L. 97-106 and 97-323.)

³Department of Defense Still Paying Some Foreign Taxes (ID-81-2), December 15, 1980.

Although the FRG bears a higher share of total defense costs in Berlin, the United States also bears a substantial share of the burden. According to figures provided by U.S. Army officials in Europe, the annual costs to the United States of stationing its forces in Berlin are as follows.

Military pay and allowances	\$61,226,900
Subsistence	2,981,900
Moving costs	590,100
Procurement costs	<u>1,507,800</u>
Total	<u>\$66,306,700^a</u>

^aThese costs do not include the value of U.S. ammunition or military equipment on hand in Berlin.

Past cost-sharing arrangements

Through past bilateral arrangements with the FRG, the United States has received financial assistance beyond that set out in the basic agreements. The FRG has usually tied the assistance to specific projects involving "one-time" commitments, rather than long-term assumptions of financial responsibility.

For example, the U.S./FRG offset agreements were designed to "offset" the unfavorable impact on U.S. balance of payments resulting from stationing U.S. Forces in the FRG. The total offset cost to the FRG for 1962 through 1975 was \$11 billion. Most of this was for procurement of U.S. military equipment, but it also included \$385 million for the modernization of U.S. facilities.

The offsets ended with the expiration of the fiscal year 1974-1975 agreement. In a July 17, 1976, Joint Statement on Mutual Defense Issues, U.S. President Ford and FRG Chancellor Schmidt declared that:

"Given the recently introduced changes in the international monetary area, specifically flexible exchange rates, as well as the notably improved strength of the dollar and a more acceptable U.S. balance-of-payments position, the President and the Chancellor consider that the traditional offset arrangements approach has lost its relevance."

In 1976, the FRG agreed to spend \$71.3 million to build part of the facilities needed to deploy a U.S. brigade at Garlstedt in northern Germany. Under the NATO Status of Forces and Supplementary Agreements, facility construction costs are normally the responsibility of the user nation. While the FRG did make an exception for the Garlstedt facilities, it was made clear that this contribution did not establish a precedent for future payments of U.S. stationing costs. The FRG Chancellor stated that, however, "The Federal Government does not rule out the possibility of contributions being considered in future exceptional cases which lie in the interest of collective defense."

RECENT COST-SHARING EFFORTS
CENTER ON THE STOESSEL DEMARCHE

Prior to November 1980, U.S. efforts to obtain greater assistance were a source of frustration to the FRG because the United States provided no clear indication of relative priorities for individual issues. To correct this situation, then U.S. Ambassador to the FRG, Walter Stoessel, on November 4, 1980, presented a "Demarche to the German Government on U.S. Forces Issues." The Demarche listed issues for which the United States sought assistance, including:

1. Wartime Host-Nation Support.
2. Master Restationing Plan.

Since November 1980, the United States and FRG have regarded the Demarche as the basis of U.S. efforts to seek German assistance. According to U.S. Army, Europe, officials, the Reagan administration reaffirmed the Stoessel Demarche, and it remains the official U.S. position. Progress in achieving agreements on the issues, however, has been limited.

Although Ambassador Stoessel stressed that efforts on various issues in the Demarche should go forward simultaneously, the FRG has been reluctant to negotiate on more than one item at a time. The first item, wartime host-nation support, resulted in an April 15, 1982, agreement but official talks on the subject had been ongoing since 1977. The basic concept of the agreement--provision of 93,000 West German support reservists--was firm at the time of the Demarche in November 1980. Only shortly before agreement was reached on host-nation support did formal talks begin on the second issue, master restationing.

WARTIME HOST-NATION SUPPORT
PRESENTS NO PEACETIME SAVINGS

Although U.S. Army officials consider the Wartime Host-Nation Support Agreement valuable because it will reduce serious shortfalls in U.S. logistical support, it will not reduce U.S. stationing costs. In fact, the United States will pay more than

\$324 million over the next 5 years to establish and maintain a framework for implementing the Agreement. The United States will continue to incur annual recurring costs for as long as the Agreement is in effect.

The Agreement is extensive, providing support in almost every facet of wartime support activity. During times of crisis or war, the FRG will commit 93,000 reservists to provide military support in such areas as rear area security, airfield repair, and medical decontamination services. The FRG will also provide civilian support, including the transportation of personnel, maintenance, and repair services. The military support pledged by the FRG is in addition to civil assistance provided in this and other agreements on collocated operating bases and civil military cooperation. In peacetime, FRG support will consist of approximately 1,800 military and civilian personnel who will maintain pre-positioned equipment.

The Agreement specifies that the United States will meet a previous commitment to reinforce its four divisions and associated flying squadrons in the FRG with an additional six armored, mechanized, and infantry divisions and associated flying squadrons within 10 days.

The costs to establish and maintain the capability to provide wartime host-nation support will be shared by the United States and the FRG. The FRG will bear the personnel and equipment costs for the 93,000 reservists as well as material investment costs for the military command, logistic, and training organizations of their forces. The United States will pay all other material investment costs, the salaries of the civilian workforce, annual operations and maintenance, and general administration. In addition, the United States will pay for all goods and services requested and received by its forces in time of crisis or war.

Cost estimates for establishing the wartime host-nation support capability over its first 5 years are \$350 million for the initial investment in supplies and equipment and \$250 million in annual recurring costs (\$50 million a year). The United States will pay a greater share of the investment costs, but Army officials said this will be offset over time by higher annual recurring costs for the FRG. According to DOD, U.S. costs will amount to \$324 million of the total \$600 million for fiscal years 1983-87.

Some wartime host-nation support facilities may qualify for NATO infrastructure funding, but NATO has not yet made a determination. The United States and FRG will share equally the cost of facilities not funded by the NATO infrastructure program. The cost of these facilities has not been determined and is not included in the program cost estimates.

Army officials believe the Wartime Host-Nation Support Agreement represents a significant cost avoidance to the United States. According to these officials, it would cost the United States 13 to 37 times as much to provide the same support with U.S. assets. Army officials said the FRG reservists fill a projected shortfall in support forces and will not reduce the need for any U.S. troops presently stationed in Europe or the United States.

According to U.S. Army, Europe, planning officials, the United States always assumed that the FRG would provide some degree of support to U.S. Forces in wartime. This support would have come from civil sources as well as from that portion of the German Territorial Army⁴ which operates in the U.S. sector. The Wartime Host-Nation Support Agreement is a big step forward, according to the planning officials, because support provided is military, tailored to U.S. requirements, and the result of joint planning.

ADDITIONAL COSTS WOULD BE INCURRED
FOR MASTER RESTATIONING PLAN

The United States and FRG have agreed to work toward solving the problems connected with restationing U.S. Forces within the FRG. At the direction of the conference committee that considered the 1981 Military Construction Appropriation Act, the United States is seeking a substantial FRG investment in facilities for the master restationing plan, but the issue is still under negotiation. Since no agreement has been reached the restationing plan may be in jeopardy. Even if the FRG pays a large share of the facilities costs, master restationing would increase U.S. costs because it would expand U.S. facilities and troop strength.

The restationing plan, which would provide construction of facilities, is closely linked to the Army's program to modernize and upgrade the capabilities of its forces. Construction of these facilities would also permit battalions currently in the FRG to move closer to defensive positions. The three objectives of the plan are to (1) improve living and working conditions for soldiers, (2) accommodate modernization, and (3) relocate to more tactically sound positions.

According to U.S. Army officials, master restationing would improve the living and working conditions for close to 20 percent of the U.S. Forces in the FRG and would improve U.S. war-fighting capability.

⁴The German Territorial Army is that portion of the federal forces which provides combat support in rear areas.

FRG investment needed, but
no agreement reached so far

In the Stoessel Demarche, the United States informed the FRG that the restationing plan would not be possible without its contribution because the conference committee considering the 1981 Military Construction Appropriation Act directed the Army to pursue it as a host-nation support program. Since little or no construction in the plan qualifies for NATO infrastructure funding, the United States must rely on a bilateral agreement with the FRG to make restationing affordable and satisfy congressional desires for cost sharing.

Every year since 1981, various congressional committees and conferences have reaffirmed the desire that the FRG should assume a substantial share of the plan's cost. Although funds requested by DOD for U.S. portions have been authorized, obligation of those funds is contingent upon a financial agreement with the FRG.

The United States and FRG have made progress in resolving some restationing plan issues, but they have not agreed on cost sharing or financial arrangements for the plan. The FRG position is that funding for master restationing be in accord with the NATO Status of Forces Agreement; that is, the FRG is only obligated to pay the cost of constructing facilities, such as railroads, roads, and utilities. To induce the FRG to begin formal discussions on restationing, DOD abandoned its original plan to have the FRG pay all restationing costs and now agrees to pay for much of the construction.

No peacetime cost reduction
through return of vacated facilities

The official estimate of construction costs for the restationing plan does not include the cost to construct family housing units. U.S. Army, Europe, officials objected to our inclusion of family housing costs in the master restationing plan construction cost estimate on the grounds that U.S. funds will not be used to construct these housing units. They also pointed out that some of the families which would occupy these units currently live in leased quarters elsewhere in the FRG. We believe that family housing construction costs should be included in the cost estimate because the United States would pay full rental value for the units, which would be constructed solely for Army use, and in most U.S. military communities in the FRG, family housing is provided at no rental cost to the United States.

The original concept of the master restationing plan included the return to the FRG of real estate vacated by restationed U.S. Forces. This return was to have two important financial benefits. First, construction of new facilities for restationed troops would be largely "self-financed" because the FRG was expected to apply the value of vacated properties toward building the new facilities. Second, savings were to result

when U.S. forces vacated unsuitable, inefficient facilities which have large backlogs for maintenance and repair. These two financial advantages were mentioned as recently as May 1982 in a memorandum for the Deputy Secretary of Defense.

U.S. Army officials in Europe, however, have stated that return of real estate as an offset to restationing costs is unrealistic for the following reasons:

- The U.S. Army plans to "backfill" vacated facilities with units from overcrowded facilities in the FRG or with new units.
- U.S.-controlled facilities in the FRG do not belong to the United States, so the United States cannot sell them. Procedures for return of property to the FRG are complicated by the question of whether the United States has been a net contributor or detractor to the value of these facilities.
- FRG officials have shown no interest in exchanging U.S.-controlled facilities for new real estate or facility construction.

Master restationing as now envisioned is in fact an expansion of U.S. facilities, which would increase stationing costs for U.S. Forces even if the FRG agrees to pay a large share of the new facilities' costs.

CONCLUSIONS

Progress in negotiating agreements on the Stoessel Demarche issues has been limited. The first two issues on the Demarche show potential for increased FRG contributions to the common burden of defense, but both will also increase U.S. stationing costs.

The U.S. approach to the master restationing plan has changed since it was proposed in the Stoessel Demarche. The original concept of paying for the program through FRG contributions, exchange of facilities, and savings through reduced maintenance costs for modern facilities has been abandoned to accommodate force modernization and expansion. Moreover, given the conference committee's direction that the U.S. seek a financial contribution from the FRG and the absence of an agreement, the restationing plan may be in jeopardy.

The Wartime Host-Nation Support Agreement will provide the United States with logistic support from the FRG in time of crisis or war. It appears to be a valuable contribution to the common defense which will benefit the United States through cost avoidance and other non-quantifiable measures. It will, however, increase U.S. costs in the FRG.

The congressional prohibition on land tax payments has reduced U.S. stationing costs in the FRG. The FRG is opposed to this action, however, and according to DOD and Department of State officials it may hinder U.S. efforts to negotiate additional host-nation support and reduce U.S. stationing costs.

Our 1981 report noted that although the Stoessel Demarche established a priority list of U.S. cost-sharing programs, it lacked specific goals and milestones for these programs and a way of monitoring and reporting progress. We recommended that the Secretaries of State and Defense establish specific goals and measurement milestones for the initiatives. Because of the limited progress in achieving agreement on Demarche issues, as highlighted in this report, we continue to believe that specific goals and milestones are needed to further emphasize the congressional goal of reducing U.S. stationing costs.

AGENCY COMMENTS AND OUR EVALUATION

The Departments of Defense and State agreed that the War-time Host-Nation Support Agreement and the master restationing plan will increase U.S. stationing costs in the FRG. DOD stated that both initiatives must be viewed within the context of the Army's force modernization program, which will increase costs worldwide. DOD officials believe both programs are extremely cost effective because they enable the United States to enhance its national security in a most economical manner. State asserted that the issue is not whether having those programs costs more than not having them but whether FRG participation lowers program costs.

With regard to the master restationing plan, DOD stated it has not abandoned its plan for cost sharing. It is seeking to gain as much support as possible and expects the FRG to pay a significant part of the construction costs. DOD also said the return of facilities is being actively considered but will not be "definitively addressed" until the scope of the restationing agreement and future facilities requirements in the FRG are known.

This report does not include a suggestion found in the draft that Congress should consider requiring the executive branch to negotiate a permanent solution to the land tax issue with the FRG. DOD disagreed with the suggestion on the ground that negotiating the tax issue would require renegotiating the Status of Forces Agreement with the FRG. DOD favored lifting the congressional prohibition, thereby eliminating its adverse effect on U.S.-FRG bilateral relations. The suggestion was deleted because, on reflection, the legislative action implicit in it seemed inappropriate in view of Congress' continuous prohibition on the use of military construction and family housing funds to pay real property taxes.

CHAPTER 3

STATIONING COSTS IN UNITED KINGDOM

NOT LIKELY TO BE REDUCED

The United Kingdom shares a substantial part of the burden for common defense in NATO and also contributes to offsetting the cost of stationing U.S. Forces within its boundaries. For several reasons, however, including economic problems in the U.K. and the priorities of DOD and State in seeking additional allied contributions, it is apparent that U.S. costs will increase rather than decrease. Furthermore, recent U.S. efforts to negotiate reductions in certain charges and taxes paid to the U.K. have been unsuccessful.

U.K. CONTRIBUTIONS ARE IMPORTANT TO NATO COMMON DEFENSE

The U.K. continues to make a substantial contribution to the common defense of NATO despite recent economic difficulties and pressures to reduce defense expenditures. The U.K. has major responsibility for defending the sea lanes vital to the flow of reinforcements and supplies to Western Europe. In the event of a conflict, the U.K. has plans for rapid and large-scale reinforcement of the several thousands of its troops permanently stationed in the FRG. The U.K. also provides assistance outside the NATO area, especially in the Middle East and Southwest Asia.

Over the past decade, the U.K. spent about 5 percent of its gross national product on defense. U.K. officials hope to meet the NATO goal of increasing defense spending by 3 percent a year over the next 4 years. Furthermore, the U.K. is the third largest contributor to the NATO Infrastructure Program, paying about 10 percent of the cost of each NATO project.

U.K. CONTRIBUTIONS RELIEVE SOME U.S. STATIONING COSTS

At the end of fiscal year 1982, approximately 27,000, or 8 percent, of all U.S. Forces in Europe were stationed in the U.K. These forces constitute the second largest U.S. presence in Europe. The largest U.K. contribution to offset the costs of these forces in the U.K. is the provision of surplus Crown land and facilities rent free. While the U.K. also provides a large number of housing units for U.S. Forces, the United States must pick up some renovation and accommodation costs. Implementation of a Wartime Host-Nation Support Agreement has resulted in the United States avoiding some costs. The U.K. also provides other services and waivers of charges which constitute sizable savings to the United States, but these are not easily quantified.

Rent-free land and facilities

The U.K. provides a substantial amount of land and facilities rent free. For example, it allows the U.S. Air Force to occupy eight main air bases and numerous smaller sites in the United Kingdom. One additional installation will be brought under U.S. control with the introduction of the ground-launched cruise missile (GLCM). Also, the U.S. Navy has a submarine base in Holy Loch, Scotland, and the U.S. Army has a storage and a transportation facility and two armament depots in the United Kingdom. Although U.S. Forces are allowed to use the facilities free of charge, they are responsible for maintenance and up-keep. U.S. officials in the U.K. estimate the annual rental value of U.S.-occupied land and facilities at over \$20 million.

The United States pays some costs for housing

The U.K. now provides U.S. Forces with over 1,700 units of surplus Ministry of Defense housing and has agreed to provide another 1,000 units in support of the GLCM deployment. As with housing provided by the FRG, the United States is responsible for renovating and maintaining the surplus housing. The United States is not, however, reimbursed, as it is in the FRG, for any improvements made once the housing is returned to the U.K. Renovation can be quite expensive; it is estimated that the United States will pay \$37 million to renovate cruise missile base housing units.

U.S. avoids costs with Wartime Host-Nation Support Agreement

The Lines of Communication and Collocated Operating Base Agreements between the United States and the United Kingdom will result in the commitment of U.K. military and civilian facilities and equipment for use by U.S. Forces in a time of crisis or war.

Extensive negotiations for host-nation support of U.S. Forces deploying to or through the U.K. during periods of crisis or war are ongoing. Seven plans have been completed and 33 component and joint initiatives are in various stages of development. All types of combat support and combat service support have been included in the U.S. requests.

Other services and waivers of charges

The U.K. provides a number of other services to U.S. Forces in peacetime and also waives customs duties and value-added taxes on goods used for official purposes. For example, the Royal Air Force provides the U.S. Air Force with various air traffic services free of charge. These services are estimated to cost the U.K. about \$1.9 million a year in salaries alone.

According to DOD, the U.K. also incurred about \$1.5 million in fees for U.S. Air Force aircraft crossing the Shanwick oceanic control area during 1982.

The U.S. Air Force has access to several British-controlled training ranges. DOD estimates that the U.K. pays \$5.8 million a year for the U.S. share of range operations and maintenance. Early warning service is also provided to the United States on a reimbursable basis. The United States reimburses the Royal Air Force about \$240,000 annually for personnel costs associated with the early warning service, but the operational costs are borne by the U.K.

COST-SHARING AGREEMENT

The cost-sharing agreement dates back to 1973 and deals mainly with the use and financing of facilities, utility services, and rights-of-way and other easements. Under the agreement, the U.K. also provides land surplus to its needs at no cost to U.S. forces. The agreement stipulates that construction and maintenance work required on land made available to U.S. Forces generally is to be performed by the U.K. government. The United States, however, is obligated under the arrangement to pay the actual cost of construction and maintenance services plus administrative expenses of 7 percent of the actual cost of the work performed. The U.K. government assumes any remaining administrative expenses.

Other U.S. costs under the terms of the 1973 agreement include

- off-base construction required to support base construction;
- in-house design when a U.S. construction project is cancelled; and
- damage and injury claims arising from work performed by the U.K. on behalf of the United States, both on and off base.

No ongoing negotiations on U.K. proposals

Although the United Kingdom formally requested to begin negotiations on a new arrangement and the United States submitted counterproposals, U.S. embassy officials in London told us they are not presently engaged in negotiations but are conducting "preliminary discussions." U.S. embassy and Department of State officials did not provide information on U.S. counterproposals because they involved ongoing negotiations.

U.S. COSTS FOR GLCM DEPLOYMENT
ARE MORE THAN ANTICIPATED

The United Kingdom was the first of five NATO countries where the United States will base the GLCM. The United States will incur substantial additional costs as the result of the U.K. basing scheme. U.S. officials concede that the British contribution will not fully offset additional U.S. costs to deploy GLCM. It is estimated that total U.S. costs to deploy, operate, and maintain GLCM at two locations will exceed \$1.6 billion over the next 10 years. Total U.K. contributions will probably represent less than 1 percent of this cost.

UNITED STATES CONTINUES TO PAY
RATES TO THE UNITED KINGDOM

The United States continues to pay at least \$3.9 million and perhaps as much as \$5.2 million a year in direct and indirect taxes, called rates, to the U.K. These payments made by U.S. Forces may be an area for reducing U.S. stationing costs.

All U.K. rates are levied by local councils--similar to U.S. counties or municipalities--which bill the U.K. government for amounts due on properties occupied by U.S. Forces. The United States reimburses the U.K. treasury an amount equal to 14 percent of the total bill to cover the value of public services provided to American Forces. These U.S. payments are called contributions in lieu of rates. The United States also pays rates on rental guarantee and direct lease housing directly to local council authorities.¹ It paid over \$1.9 million in rates and in contributions in lieu of rates in U.K. fiscal year 1979, the latest date for which these figures were available. The U.S. Air Force also paid about \$266,000 in rates during fiscal year 1982 as a portion of accommodation charges for surplus Ministry of Defense housing occupied by U.S. personnel.

Third Air Force representatives in past negotiations with the U.K. have attempted to eliminate these payments, because rates paid by service personnel for privately rented housing more than compensate local governments for public services provided to U.S. Forces. U.K. Ministry of Defense representatives have been unwilling to eliminate the payments, because they believe the rates reflect services received, including police and fire protection, the use of libraries, highway and traffic services, public health services, and refuse collection.

¹For rental guarantee housing, the United States guarantees landlords a certain occupancy rate. Direct lease housing is, as the name implies, leased by the United States directly from landlords.

Thousands of service members pay rates through private lease arrangements. Air Force officials in the U.K. estimate that about 9,900 service members who rent housing on their own pay full rates but receive only about 30 percent of the benefits for which they are paying. At least 5,659 of these members receive military housing allowances. As housing allowances are based on average rents, including rates, we estimate that the United States indirectly pays more than \$2 million in rates to the U.K. each year.² Air Force officials estimated in 1980 that these indirect taxes may be as much as \$3.3 million annually.³

CONCLUSIONS

The United Kingdom makes substantial contributions toward the defense of NATO and provides facilities and services which offset U.S. stationing costs in the United Kingdom. For several reasons, however, including economic problems in the U.K. and the priorities of DOD and State in seeking additional allied contributions, it is apparent that U.S. costs will increase rather than decrease. Additionally, the United States continues to pay the U.K. between \$3.9 million and \$5.2 million a year in direct and indirect rates.

AGENCY COMMENTS AND OUR EVALUATION

Omitted from this final report is a prior suggestion that the Congress consider requiring the Secretaries of Defense and State to negotiate elimination of rate payments in the U.K. This suggestion was omitted because it assumed an answer to the question of whether "rates" equate to real property taxes mentioned in the appropriation prohibition.

The Department of State commented that the general tenor of this chapter under-emphasized the significant contribution by the U.K. toward Western defense. Officials noted that our

²Total rates paid for rental guarantee and direct lease housing for British fiscal year 1979-1980 (\$893,150) divided by the number of members occupying such housing on March 31, 1982 (2,503), equals average annual rates per unit (\$357), multiplied by the minimum number of members eligible to receive housing allowances (5,659) equals rates estimated paid by the United States indirectly through higher housing allowances (\$2.02 million).

³GAO report, Department of Defense Still Paying Some Foreign Taxes (C-ID-81-2).

report emphasizes points of technical and minor operational differences on agreements which, overall, work exceptionally well. Our discussion of accommodation charges on surplus housing units was cited as an example. We believe that the report is balanced in its recognition of U.K. contributions to common defense and contributions to offset U.S. stationing costs and of areas where these costs can be offset further.

CHAPTER 4

CONGRESS NEEDS BETTER INFORMATION ON

COSTS OF U.S. COMMITMENT TO NATO

DOD should provide the Congress with more comprehensive information on the costs of the U.S. commitment to NATO. The three elements we believe are needed to evaluate these costs are:

- What it currently costs to station U.S. Forces in Europe and maintain reinforcements in the United States.
- What it would cost if the U.S. approach for meeting the commitment were altered.
- How the other NATO allies contribute to offset U.S. costs.

Although DOD previously provided the Congress with cost estimates for the U.S. commitment to NATO, it stopped releasing this information because officials believed the estimates were misleading and misused by the Congress. Instead of providing estimates on the costs to station forces in Europe and maintain reinforcements in the United States, DOD provides the Congress with estimates of the costs to withdraw U.S. Forces from Europe.

In contrast, DOD has made progress in developing comprehensive data on host-nation support of U.S. Forces. It has also provided the Congress with annual reports on allied contributions to the common defense. Both efforts are an improvement over the situation which existed at the time of our last report on allied cost sharing in 1981, but they do not provide enough detail to determine how those contributions offset U.S. costs.

PREVIOUS COST ESTIMATES HAVE PROVIDED VALUABLE INFORMATION

DOD has traditionally derived cost estimates for U.S. commitments by allocating the total U.S. force structure to various regions of the world and calculating the cost of the regional allocations. For NATO this calculation resulted in two figures: (1) the cost of U.S. Forces formally committed to NATO based on U.S. Forces identified in the most recent U.S. response to the NATO defense planning questionnaire and (2) the cost of forces planned for use in a NATO contingency.

The rationale for the latter category is that in any conflict with the Warsaw Pact, all U.S. Forces which could contribute would be made available. In other words, the two figures differ

because the United States plans to use more U.S. Forces in NATO than are formally committed. The fiscal year 1982 cost estimates for U.S. forces planned for NATO, which were provided to the Congress, were determined by dividing the 1982 DOD budget of \$222.2 billion into four categories.

1. Forces rapidly available to NATO.
2. Multipurpose forces.
3. Forces for other contingencies.
4. Unallocated costs (retired pay).

In addition to the direct costs of combat forces in each category, an allocated share of the costs for new equipment and a proportionate share of U.S.-based training and logistics support, research, development, testing and evaluation, and DOD administration were included. The cost of U.S. Forces formally committed to NATO was estimated to be \$122.3 billion, or 56 percent of the DOD budget for fiscal year 1982.

Beyond this summary data, DOD's estimate provided useful information because it further analyzed costs by NATO category and appropriation title. For example, for forces rapidly available to NATO, the fiscal year 1982 analysis showed annual costs associated with Europe deployed forces and early reinforcements since 1974. In addition, it allocated the fiscal year 1982 estimated costs for the force categories by appropriation titles, including military personnel and procurement. In our opinion, the approach of allocating the DOD budget by geographic regions or commitments is valuable in spite of its limitations because it

- provides information on what the United States is spending to maintain forces in various areas of the world,
- associates these expenses with the anticipated missions of the forces, and
- provides a means for setting priorities within the DOD budget by equating the cost associated with the perceived benefits.

**COST ESTIMATES FOR WITHDRAWING
FORCES FROM EUROPE ARE VALUABLE
BUT NEED ADDITIONAL DETAIL**

For the fiscal year 1983 budget, DOD changed its method for estimating the costs of U.S. Forces committed to NATO. DOD now estimates the cost to withdraw selected forces from Europe and restation them in the United States. While we believe this

information is valuable, it has limited usefulness without detailed estimates on forces overseas or the extent of host-nation support provided to those forces.

DOD officials maintain that estimating the cost of withdrawing troops avoids serious shortcomings associated with the former approach. DOD believes that estimates on the cost of the U.S. commitment to NATO produced numbers that were "misleading and misused" because members of Congress viewed the estimates as areas for potential reductions in defense spending. The Assistant Secretary of Defense for International Security Policy gave the following reasons why the allocation method produced misleading estimates.

"U.S. Forces are multipurpose. While U.S. Forces are available to meet any aggression in Europe by the Soviet Union and its allies, they must also be able to respond to threats against U.S. security interests in other regions of the world. Thus, even if our NATO commitment were suddenly to disappear, we would not necessarily be able to inactivate a significant portion of the forces now stationed in Europe, much less those in CONUS whose current primary mission is rapid deployment to Europe.

"Much of our force structure not directly allocatable to Europe under any defensible methodology nevertheless supports many common allied interests. Examples are our strategic nuclear forces and the Rapid Deployment Joint Task Force."

The Assistant Secretary's analysis stated that the central issue of congressional inquiries on the cost of NATO deployments concerns the impact on the total DOD budget of shifting various increments of U.S. Forces from Europe to the United States.

DOD's analysis on the cost of withdrawing forces from Europe considered two levels of withdrawal. The first involved an infantry division and one tactical air wing and the other an Army Corps and two tactical air wings. Four different sets of variables were applied to the two withdrawals to produce eight options or scenarios. Although each option assumed withdrawn forces would return to Europe in a conflict, they differed as to how quickly and whether (1) equipment would be pre-positioned in Europe, (2) additional mobility forces would be required, and (3) withdrawn units would remain in the active force structure or be placed in reserve status.

Of the eight options considered in the DOD estimate, net savings would only occur in the two where withdrawn forces are removed from the active force structure and put into reserve--

\$2 billion for the smaller withdrawal and \$4 billion for the larger one. It also estimated net increases in total obligational authority ranging from \$300 million to \$19 billion for fiscal years 1984 to 1988 would result from the other six options. The DOD analysis included an assessment of the policy, political, and military implications of unilateral troop withdrawal and determined they would not be in the best interest of NATO or the United States.

We believe the DOD estimate on the cost of withdrawing U.S. Forces from Europe provides valuable information but has limited usefulness in the format presented. The analysis does not provide sufficient detail to compare, from a cost/benefit perspective, the pros and cons of the options analyzed to those of the current force structure. Thus, it is not possible to make an independent assessment of these or other alternatives to the current U.S. force levels.

PROGRESS MADE IN GATHERING HOST-NATION SUPPORT DATA

In our 1981 report we recommended, among other things, that the Secretary of Defense establish a system within the European Command for identifying, collecting, and reporting data on types and amounts of support that other NATO allies provide to the U.S. Forces. We recommended that DOD use this data to monitor and evaluate accomplishments resulting from cost-sharing initiatives. Since then, DOD has made some progress in this area and is currently developing a data base on host-nation support. It is also providing the Congress with annual reports on allied contributions to the common defense.

DOD data base on host-nation support

The organization of the Joint Chiefs of Staff is developing a computerized data base called the Allied Cooperative Support Sharing System. The system will be used to identify and monitor host-nation support agreements for logistical support of U.S. Forces. The U.S. European Command is incorporating data on wartime host-nation support into the system. According to officials of the European Command, the system will eventually include data on peacetime host-nation support agreements.

Specifically, this system will provide information on the types of logistics support the other NATO allies have agreed to provide and the contact points for implementing the agreements. Eventually the system will include data on U.S. savings accrued by having the logistics support available. Officials of the Joint Chiefs of Staff told us, however, that they do not expect the system to be fully implemented for 5 to 6 years.

Annual reports on allied
contributions to common defense

The Levin Amendment to the fiscal year 1981 DOD Authorization Act (Public Law 96-342, sec. 1006C) required the Secretary of Defense to provide Congress with a report to include

- a comparison of the fair and equitable share of the defense burden that should be borne by the United States and each of its allies,
- a description of U.S. efforts to eliminate any disparities in burden-sharing, and
- estimates of real growth in defense spending by NATO members.

The Congress made similar amendments to the Defense Authorization Act for fiscal years 1982 and 1983.

The reports issued thus far provide useful data on allied burden-sharing by comparing the level of contributions by the U.S. and other NATO allies to the common defense through a variety of measurement standards; for example, of the percent of gross domestic product each country allocates to defense. Other measurement standards include total active-duty military and civilian manpower, combat aircraft, per capita defense spending, and naval force tonnage.

The reports discuss performance in meeting NATO's goal for each country to increase real defense spending by 3 percent a year and progress in fulfilling the Long-Term Defense Program. Agreements for peacetime and wartime host-nation support of U.S. Forces by other NATO allies and Japan are also discussed. This includes examples of types of support provided and some of the current U.S. initiatives to increase support.

The report provides information on how the United States and its allies share the burden of common defense. It does not, however, provide information on how host-nation contributions offset U.S. stationing costs in Europe.

CONCLUSIONS

We believe that, by not providing the Congress with estimates of U.S. stationing and other costs related to NATO, DOD is depriving the legislative branch of crucial information for evaluating the adequacy of U.S. defense expenditures and allied contributions. In our opinion, estimates on the cost of withdrawing U.S. Forces from Europe are incomplete without information on the costs of stationing current U.S. Forces in Europe or what other NATO allies do to offset these costs.

DOD has made progress in developing comprehensive data on allied cost sharing, but the system is not expected to be fully implemented for 5 to 6 years. Although the DOD has been providing the Congress with an annual report on allied contributions to common defense, we do not believe the report contains sufficient detail on allied contributions to offset U.S. stationing costs to effectively measure progress in this area.

MATTER FOR CONSIDERATION BY THE CONGRESS

Because increased contributions by the other NATO allies are unlikely, we believe that significant reductions in U.S. stationing costs may not be achievable without withdrawing U.S. Forces from Europe. These withdrawals would not necessarily reduce, and might increase, overall defense spending unless the U.S. commitment to NATO were also reduced.

This report focuses on the United Kingdom and the Federal Republic of Germany because 80 percent of the U.S. troops in Europe were stationed in these two countries. It must be recognized that U.S. troops and the associated military hardware are not in these two countries to support just the host nation, but rather to support U.S. security interests including the NATO alliance. In considering the reduction of U.S. stationing costs, therefore, it is necessary to address the broader issue of U.S. security objectives in Europe and the U.S. Forces required to meet them. Congress may want to consider the need for more detailed information from the Department of Defense concerning

- the costs of stationing U.S. Forces in Europe and maintaining reinforcements in the United States, as well as alternative strategies for meeting the U.S. commitment to NATO, and
- direct and indirect contributions by other NATO allies which would reduce U.S. stationing costs or the need for deploying U.S. Forces in Europe.

AGENCY COMMENTS AND OUR EVALUATION

DOD disagreed that Congress needs better information on the cost of the U.S. commitment to NATO or that estimates on the cost of withdrawing U.S. Forces from Europe are incomplete without data on U.S. stationing costs and contributions by other NATO allies to offset those costs. Although, during our review, DOD was not providing information on the costs of maintaining U.S. Forces in Europe, officials told us in August 1983 that they had provided this information. The estimates now provided, however, do not contain the extent of detail which was in the

previous estimates and which we believe is necessary for comparing the cost of the current U.S. force structure to that of other alternatives. In our opinion, the fact that DOD has provided additional information in spite of earlier objections signifies concurrence with the intent of our conclusion.

DOD disagreed that it needed to include more detailed information on offsets of stationing costs in its annual report to Congress on Allied Contributions to the Common Defense. DOD officials stated that the report is not intended to provide such details, which they characterized as a relatively minor part of the total burden sharing picture. We believe that allied offsets of U.S. stationing costs are an important part of allied burden sharing because they have been of interest to the Congress. Moreover, information on these offsets may be needed to provide the Congress with effective oversight of DOD and State Department progress in reducing stationing costs.

APPENDIX I

MARK B. MATTHEWS, CHIEF, CLERK

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APPENDIX I

United States Senate

COMMITTEE ON APPROPRIATIONS

WASHINGTON, D.C. 20510

June 23, 1982

Mr. Charles A. Bowsher
 Comptroller General of the United States
 U. S. General Accounting Office
 441 G Street, N. W.
 Washington, D. C. 20548

Dear Mr. Bowsher:

This subcommittee held hearings on April 21 and 22 which highlighted the growing imbalance between U. S. defense commitments worldwide and the efforts of U. S. allies to share that defense burden. The United States is undertaking the biggest defense spending program in history, but we have seen little evidence that Japan or the European members of NATO are fully committed to join the U. S. initiative.

I believe the congressional debate begun this year over this burden-sharing issue will continue and intensify. Therefore, I would like the General Accounting Office to prepare a report that would be available by December 31, 1982, for the subcommittee's use in hearings next year. The report should:

- provide as comprehensive a schedule as possible of direct U. S. military commitments abroad, with data on the cost of forces deployed overseas to meet these commitments, and estimates of cost incurred within the United States in support of overseas commitments (such as NATO reinforcements);
- analyze the level of effort being expended on mutual defense by major U. S. allies abroad, especially in the NATO and Pacific arenas, including overall statistics on defense spending and allied sharing of specific U. S. costs for maintaining forces overseas;
- discuss ways in which allied forces supplement or complement U. S. military forces overseas to decrease U. S. costs or reduce the need for U. S. deployments; and
- examine major trends in U. S. defense commitments overseas to assess the impact on future burdensharing requirements.

The subcommittee recognizes that there are no absolute measures of equitable burdensharing between the United States and its allies. Nevertheless, we believe the data and analyses GAO can provide in this report

Mr. Charles A. Bowsher
June 23, 1982
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will be useful to the subcommittee as it seeks to balance legitimate U. S. defense interests against the high costs of maintaining large numbers of U. S. forces abroad.

Members of the subcommittee staff have discussed our interest in this issue with staff from your International Division, who provided information on previous GAO work related to burdensharing. Susan Shekmar and Dwight Dyer of the subcommittee staff will be handling this matter and can answer any questions about the request.

With best wishes,

Cordially,



TED STEVENS

Chairman

Subcommittee on Defense



DEPARTMENT OF STATE

Comptroller
Washington, D.C. 20520

5 JUL 1983

Dear Frank:

I am replying to your letter of June 9, 1983, which forwarded copies of the draft report: "Reducing U.S. Stationing Costs in the FRG and the UK through Increased Cost Sharing: the Outlook is Poor."

The enclosed comments on this report were prepared by the Acting Assistant Secretary in the Bureau of European Affairs.

We appreciate having had the opportunity to review and comment on the draft report. If I may be of further assistance, I trust you will let me know.

Sincerely,

Roger
Roger B. Feldman

Mr. Frank C. Conahan,
Director,
National Security and
International Affairs Division
U.S. General Accounting Office,
Washington, D.C. 20548

GAO Note: The block portions of the enclosure were identified by State Department as classified and have been deleted from this presentation.

GAO DRAFT REPORT: "Reducing US Stationing Costs in the FRG and the UK through Increased Cost Sharing: The Outlook is Poor"

In general, we find the subject report to be oversimplified and misleading. A study which is intended to evaluate Allied burdensharing, should not focus solely upon the cost of stationing US troops in Europe, nor how much is spent by only two of these allies to directly offset these stationing costs. A much broader perspective is needed which includes a review of, 1) the threat to US and Alliance security; 2) the US security needs which are being met by the forward stationing of US forces in Europe; 3) the increased capabilities which the US derives at reduced cost by having the allies offset some of our stationing costs; and (4) a wider range of factors which indicate level of burdensharing support by allies. A basic problem with the report is the failure to recognize it is in the US interest to have US troops in Europe.

In order to evaluate the level of allied defense contributions, it is necessary to consider also the historic perspective. Analysis should consider the increased defense spending by our Allies over the last decade as well as the severe economic/domestic situations predominant today in the countries involved. The "DOD Report to Congress on Allied Contributions to the Common Defense" serves as a useful tool to evaluate these as well as additional burdensharing considerations. It furnishes the broad spectrum of factors which we feel are necessary to more fairly evaluate the complex cost sharing issue.

Specific examples from the report which we feel denigrate and misrepresent Allied defense cooperation efforts are as follows:

(1) The report states that "implementation of the agreement on wartime host nation support and a master restationing project will only increase US costs in the FRG." It is true that overall US costs in Germany are likely to increase because of the need to satisfy our long neglected Army requirements in Germany. However, the MRP, which would provide many of the facilities needed for modernization, would keep overall costs lower than they otherwise would be for the simple reason that part of the cost of MRP construction would be borne by the FRG. Likewise, as regards Wartime HNS, the issue is not whether having this important program costs more than not having it, but rather whether German participation in it lowers the program's costs. The answer obviously is that it does.

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(2) The report states that some reduction in stationing costs was achieved by the congressionally mandated prohibition on payment of land taxes on US family housing in the FRG. The truth is that only five million dollars a year have been saved in exchange for considerable German ill will and worsened prospects for the various contractual arrangements which we are seeking in the HNS and MRP contexts. The Germans have correctly pointed out that our refusal to pay these taxes raises serious questions as to whether we would pay lease costs for build-to-lease housing and base support under the MRP.

(3) We noted the totally incorrect assertion on page 19 that the FRG response to the Stoessel demarche was "yes to wartime host nation support; no to all other measures". The truth is that the FRG has never given a definitive "no" to any of the Stoessel Demarche items. We are currently negotiating with the Germans on Item 2 (the MRP)

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the Stoessel Demarche items remain on the long-term US-FRG agenda for discussion and resolution.

(4) The general tenor of the section on the United Kingdom underemphasizes HMG's significant contribution toward Western defense. It fails to properly recognize the increased UK defense spending during a period of economic recession. The report emphasizes points of technical and minor operational differences regarding agreements which overall work exceptionally well to fulfill political and military purposes. As an example, the report notes on Pages 30 through 32 the UK contributions which relieve the United States of considerable cost in the stationing of American forces in Britain. It spotlights, however the one area of disagreement,

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in which we are actively working with the British toward a satisfactory settlement

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(5) The report conveys the overall impression that: (a) State and Defense have been ineffective in obtaining Allied cost sharing; (b) the Germans and the British have resisted any increased support for US Forces; (c) thanks only to the Congress has something been "achieved" (the non-payment of our land tax obligations); and (d) the outlook for further cost

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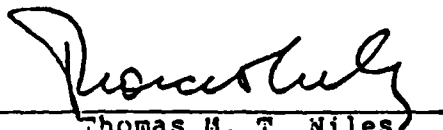
sharing is poor. The report does not do justice to the major executive branch initiatives of recent years to obtain increased cost sharing; it does not adequately recognize the importance of Wartime Host Nation Support Agreements; it makes no mention of the economic recession and budgetary stringencies in Europe which make progress difficult at this particular moment.

(6) The report's conclusions are not constructive. They imply that the Congress will have to, or should, take some kind of unilateral action if the Allies cannot be convinced to pay more. We believe the vague implication that we will need to resort to ceilings or reductions of US troop levels in Europe in order to achieve increased allied defense spending to be erroneous, misleading, and dangerous. Such solutions would most likely lead to reduced defense efforts by allies and would seriously weaken the security of us all. Not only would this affect our common defense but it would have severe political and economic impact upon US and alliance relations. In addition, it would be the worst signal we could send at this time to both the Soviet Union and our allies regarding the US commitment to the Western Alliance. It would have a direct and negative bearing upon the results of sensitive arms control negotiation presently underway.

We would recommend in future studies of this nature that the GAO consult the embassies concerned during the drafting of such reports and routinely provide each Ambassador with the penultimate draft in order to give him an opportunity to make any last minute comments. We believe this practice would assist in avoidance of inaccuracies and oversimplifications noted in this report.

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These comments should be considered in conjunction with an evaluation by the Defense Department of specific data presented in the report.


Thomas M. T. Niles
Acting Assistant Secretary
of State for European Affairs

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