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Testimony

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The Administration's Proposal for Financing
Operations Desert Shield and Desert Storm

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Statement of
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of the United States

Before the
Committee on Budget
United States House of Representatives

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should be appropriated only to the extent that it is needed to supplement allied pledges.

My statement today will elaborate on these major points.

The cost of Operations Desert Shield and Desert Storm will be considerable. As I testified before this Committee in January, the total U.S. cost of Operation Desert Shield without any hostilities could exceed \$130 billion in fiscal year 1991, assuming the forces now in place remain there throughout the fiscal year. This cost consisted of three components. One was the baseline cost of the U.S. forces committed to Desert Shield, which is already provided for in the fiscal year 1991 budget. We estimated the cost of paying, equipping, and maintaining these forces to be nearly \$100 billion in fiscal year 1991. These funds would be expended whether the troops were in the Middle East or elsewhere. However, as a result of the Gulf crisis these costs are higher than planned because the crisis postponed the reduction of about 100,000 troops directed by the 1991 Defense Authorization Act. A second component was the incremental cost of mounting the operation, including deploying the troops, calling up the reserves, and providing the required additional support for the forces. Estimates of this cost for more than 400,000 troops were in the \$30 billion range for fiscal year 1991. The third component involved other related costs, such as debt forgiveness for Egypt and humanitarian assistance. We

estimated this cost to be about \$7 billion. With the armed conflict now in progress, the cost will be higher, although it is not possible to estimate the final cost because of critical unknowns such as the duration and intensity of fighting.

Separate from the Operations' cost, there is a need to finance it to assure that our troops in the Gulf receive all the support they need to fight the war. My testimony today addresses this financing requirement. To finance the incremental cost of Operations Desert Shield and Desert Storm, the Administration has made a supplemental proposal that calls for establishing a working capital type account, rather than the traditional approach in which the Department of Defense (DOD) requests and the Congress appropriates funds by functional account, such as military personnel, operations and maintenance, and procurement. Under the working capital proposal, DOD, through the Office of Management and Budget, would have direct access to, and spending discretion over, the funds without further congressional oversight or review. The working capital account would be funded by an initial \$15 billion appropriation and up to \$50 billion in transfers of allied contributions from the Defense Cooperation Account.

This approach appears inconsistent with Congress' intent to maintain funding control over allied contributions when it established the Defense Cooperation Account. Under the existing

law, funds in this account may be used for such defense programs and activities as are authorized and appropriated by the Congress, including defraying the cost of Desert Shield and Desert Storm. The Administration's proposed approach also appears similar to the Administration's proposal for funding the Resolution Trust Corporation. As I stated in testimony before the House Banking Committee² last week, providing the Corporation with an "open checkbook" would effectively eliminate controls over its obligational authority written into the existing law. I believe in the case of the Resolution Trust Corporation, as I do in the case of the Defense Cooperation Account, that it is important to retain the budget and appropriation control mechanisms already in place and functioning. Moreover, if the Administration's approach were adopted, it would be much more difficult for Congress to be sure that the allies' contributions were not used to fund aspects of defense subject to the three-year limitations of the budget agreement.

To date the allies have pledged \$53.5 billion in cash and in-kind contributions to support U.S. Desert Shield and Desert Storm operations. About \$12.2 billion has been received in cash and deposited in the Defense Cooperation Account. Another estimated

²Statement of Charles A. Bowsher before the Committee on Banking, Finance, and Urban Affairs, House of Representatives (GAO/T-GGD-91-7)

\$2.7 billion has been received in the form of in-kind contributions, such as fuel and food.

I testified in January that there are many uncertainties in estimating the incremental cost of Desert Shield and Desert Storm and that Congress should provide periodic supplemental funding until actual costs become clearer. We believe that many uncertainties still exist today and we have some concerns regarding the costs estimates provided with the supplemental proposal. Specifically, the estimate (1) includes higher fuel costs that DOD is paying for operations outside the Middle East, (2) overstates costs that are being incurred because it does not take into account rebates and credits that are being accrued within DOD that will reduce actual outlays, and (3) does not fully reflect substantial savings resulting from free fuel and other in-kind contributions. Moreover, based on past GAO work, we have found that it is generally difficult to obtain good actual cost data because DOD lacks effective cost accounting systems.

For these reasons we continue to believe that Congress should provide periodic supplemental funding through the traditional supplemental appropriations process. We further believe that an initial supplemental appropriation of \$17 billion based on the actual and estimated Desert Shield and Desert Storm obligations would support current operations through March 31, 1991, including operations and pressing procurement needs. The

Congress could then provide further appropriations quarterly as actual experience clarifies spending requirements.

The first increment of supplemental funding should be provided by appropriating the \$11 billion balance now in the Defense Cooperation Account together with additional funds from that account as they become available, not to exceed the \$17 billion we believe to be required through March 31. This would eliminate the need for immediate U.S. funding beyond the over \$100 billion already appropriated for the baseline cost of the U.S. forces in the Middle East.

Subsequent quarterly supplemental appropriations should be enacted in response to specific requests from DOD (as approved by the Office of Management and Budget and the President) and should draw first on accumulating balances in the Defense Cooperation Account. Only if Desert Storm funding requirements exceed anticipated contributions in the Defense Cooperation Account should additional U.S. funds be appropriated.

To assure to the extent possible that proper accountability and control are maintained, appropriations to finance Desert Shield and Desert Storm should take the normal form and be specified as to account, purpose, and period of availability. Upon the conclusion of hostilities, there should be a full accounting for

and audit of the expenditure of all the funds that have been appropriated, including those from the Defense Cooperation Account.

DESCRIPTION OF THE ADMINISTRATION'S REQUEST

The funding mechanism the Administration is requesting consists of two basic elements. One element is the establishment of a Desert Shield Working Capital Account, which would be funded initially by \$15 billion in new budget authority provided by the U.S. Government and would subsequently be replenished by foreign contributions as funds become available from the Defense Cooperation Account. The funds in this account would be used to maintain a continuity of payment for the funding requirements of Desert Shield and Desert Storm. The other element is the authority to transfer additional funds from the Defense Cooperation Account to reimburse defense appropriation accounts depleted by the incremental costs of Desert Shield and Desert Storm.

The Administration's request is not a traditional appropriations request for authority to obligate specified amounts of money in specific appropriations accounts, such as military personnel and operations and maintenance. This request would instead provide as much as about \$26 billion immediately (the sum of the \$15 billion in new budget authority plus approximately \$11 billion in

foreign contributions deposited in the Defense Cooperation Account). As additional foreign contributions are deposited in the Defense Cooperation Account, the Administration's proposal would make them available as well. Currently, the Administration estimates that foreign contributions committed to the Operations but not yet received total about \$39 billion, which when added to the funds now in the Defense Cooperation Account plus the additional \$15 billion requested by the Administration totals about \$65 billion. To the extent the sum of the \$15 billion and the funds deposited in the Defense Cooperation Account are not sufficient to cover the Operations' cost, the Administration plans to seek additional funds from Congress or additional contributions.

The Administration's request would give the Secretary of Defense, with the approval of the Office of Management and Budget, the authority to transfer funds from the Defense Cooperation Account without further Congressional action and to use these funds as it deemed necessary to cover the incremental costs of the Operations. The proposal provides less Congressional control than the existing mechanism for accessing funds from the Defense Cooperation Account, which the Congress established October 1, 1990, under Public Law 101-403. The 1990 act authorized the Secretary of Defense to accept contributions of money and property. Cash contributions and the proceeds from the sale of property are deposited in the Account. Funds in this Account may

be used for such defense programs and activities as are authorized and appropriated by Congress, including to defray the costs of Desert Shield and now Desert Storm. In the 1991 Defense Appropriation Act the Congress appropriated \$1 billion for transfer from the Account to operations and maintenance appropriations of DOD for the purpose of reimbursing incremental expenditures made for fuel, transportation, equipment maintenance, and purchases from stock. The Administration's request would significantly diminish the Congressional role established in October 1990.

STATUS OF ALLIED CONTRIBUTIONS

Since the Iraqi invasion of Kuwait and the outbreak of hostilities, 46 countries have pledged or contributed some type of support for the Persian Gulf crisis. These pledges and contributions include deployment of military forces to the Gulf region; cash donations to the U.S. Treasury; in-kind support to U.S. forces in Saudi Arabia and other Gulf states; and economic assistance to countries affected by the U.N. economic embargo against Iraq. Some countries have provided other types of support, such as basing and overflight rights and military assistance to countries affected by the hostilities.

Military Contributions

Currently, 31 countries have sent ground, air or naval forces, or support units to the Gulf region to participate in the multinational force supporting Desert Shield, Desert Storm and maritime enforcement of the economic embargo. Since the outbreak of hostilities in mid-January 1991, allied forces have participated in combat and combat support missions during the air campaign against Iraq.

Cash Contributions and In-Kind Support to the United States

Major contributors of cash and in-kind support to the United States include Saudi Arabia, Kuwait, United Arab Emirates, Japan, Germany, and Korea. As of February 1991, these countries pledged a total of \$53.5 billion. These pledges were to cover the costs of Operation Desert Shield and Desert Storm from August 1990 through March 1991.

As of February 20, 1991, Saudi Arabia, Kuwait, United Arab Emirates, Japan, Germany, and Korea contributed about \$12.2 billion in direct cash contributions to the Defense Cooperation Account. Of this amount, Japan and Germany contributed about \$3.3 billion and asked that these funds and any of their subsequent cash donations be used to cover expenses related to transporting U.S. troops, equipment, and materials to the Gulf

region. The other countries did not place any conditions on the use of their contributions.

In-kind contributions include food, fuel, water, transportation, material, and facilities. Major contributors included Saudi Arabia, United Arab Emirates, Kuwait, Japan, Germany, and Korea. As of February 20, 1991, DOD has reported receipts through January 1991 of in-kind support valued at about \$2.7 billion. We have not had the opportunity to evaluate the basis for these reported levels; however, we intend to visit the Central Command in the near future to review in-kind reporting procedures. The breakdown of pledges and contributions is as follows

Allied Pledges and Contributions of Cash
and In-Kind Support to the United States
(U.S. \$ Millions)

<u>Country</u>	<u>Pledges^a</u>			<u>Contributions</u>		<u>Total</u>
	<u>1990</u>	<u>1991</u>	<u>Total</u>	<u>Cash</u> (2/20/91)	<u>In-Kind</u> (1/31/91)	
Saudi Arabia	3,339	13,500	16,839	4,457	1,566	6,023
Kuwait	2,506	13,500	16,006	3,500	10	3,510
United Arab Emirates	1,000	2,000	3,000	870	140	1,010
Germany	1,072	5,500	6,572	2,432	531	2,963
Japan	1,740	9,000	10,740	866	457	1,323
Korea	80	305	385	50	21	71
Other ^b	3	0	3	0	3	3
Total	<u>9,740</u>	<u>43,805</u>	<u>53,545</u>	<u>12,175</u>	<u>2,728</u>	<u>14,903</u>

^a1990 pledges are for August 1990 through December 1990 and 1991 pledges are for January 1991 through March 1991.

^bIncludes Oman, Qatar, Bahrain and Denmark.

As the above table indicates, total allied pledges are about \$53.5 billion compared with total contributions of about \$14.9 billion. Thus, about \$38.6 billion is due in total future receipts. Of the \$9.7 billion pledged for 1990 costs, about \$5.8 billion had been contributed as of December 31, 1990. As of February 20, 1991, these contributions increased to about \$7.3 billion. The remaining \$2.4 billion includes about \$1.7 billion that DOD intends to bill Saudi Arabia in the near future for reimbursement of in-kind support and enroute transportation expenses for the second deployment of U.S. forces; about \$19 million in cash recently requested from the United Arab Emirates and \$700 million from Germany, Japan, and Korea for in-kind

support. According to DOD officials, the outstanding in-kind support reflects goods and services that have been ordered and will be delivered soon.

Economic Assistance to Frontline States and Other Countries

In addition to cash and in-kind support, the European Commission and 24 countries have pledged economic assistance to Turkey, Jordan and Egypt, referred to as frontline states, and other countries affected by the economic embargo against Iraq. This support includes concessional loans, import financing grants and project assistance. As of February 1991, these pledges totaled about \$14.7 billion for the period of August 1990 through December 1991, and contributions totaled about \$6.7 billion.

The status of pledges and contributions is as follows

Economic Assistance to Frontline States (FLS) and other Countries
As of 2/19/91 (U.S. \$ Millions)

Donor	Pledge to FLS	Contribution to FLS	Pledge to Other States	Contribution to Other States	Total Pledges	Total Contribution
<u>Gulf States</u>						
Saudi Arabia	2,848	1,788	1,503	1,203	4,351	2,991
Kuwait	2,500	855	1,184	763	3,684	1,618
United Arab Emirates	1,000	587	418	418	1,418	1,005
<u>European Commission</u>						
EC Budget	805	78	0	0	805	78
<u>Bilateral</u>						
Belgium	33	7	0	0	33	7
Denmark	30	10	0	0	30	10
France	200	0	30	0	230	0
Germany	1,190	360	144	0	1334	360
Ireland	6	0	0	0	6	0
Italy	150	37	9	0	159	37
Luxembourg	4	1	0	0	4	1
Netherlands	63	45	0	0	63	45
Portugal	1	0	0	0	1	0
Spain	36	9	0	0	36	9
United Kingdom	5	5	0	0	5	5
<u>Other European Countries/</u>						
<u>Australia</u>						
Australia	14	3	0	0	14	3
Austria	11	1	0	0	11	1
Finland	15	13	0	0	15	13
Iceland	3	2	0	0	3	2
Norway	32	14	21	21	53	35
Sweden	52	21	0	0	52	21
Switzerland	109	9	0	0	109	9
Japan	2,120	445	0	0	2,120	445
Canada	66	17	0	0	66	17
Korea	83	5	17	2	100	7
Total	11,375	4,311	3,326	2,407	14,701	6,718

Other Types of Contributions

In addition to military, economic, and in-kind support, our allies have contributed with other means. For example, Germany has deployed a fighter squadron to Turkey and ships to the Eastern and Central Mediterranean Sea, and pledged about \$2.7 billion in military assistance to Turkey, Israel, and the United Kingdom. Further, Japan has sent oil booms to Saudi Arabia to assist in counteracting the Gulf oil slick. In addition, our NATO allies and certain Gulf countries have granted basing and transit rights.

UNCERTAINTIES AND CONCERNS REGARDING ADMINISTRATION

COST ESTIMATES SUGGESTS PERIODIC SUPPLEMENTAL FUNDING

We have several concerns about the cost estimates provided with the supplemental proposal. Specifically, the estimate (1) includes higher fuel costs that DOD is paying for operations outside the Middle East; (2) overstates costs that are being incurred because it does not take into account rebates and credits that are being accrued within DOD that will reduce actual outlays; and (3) fails to fully reflect substantial savings resulting from free fuel and other in-kind contributions.

DOD also includes in its cost estimate the purchase of large amounts of supplies such as spare parts to support the deployment and military action. To the extent these supplies are not

consumed during the Operations, they could meet DOD inventory requirements for some time to come. This could reduce future defense budgets by the value of any excess inventory.

Fuel Costs

DOD includes in its estimate for all of fiscal year 1991 \$2.8 billion to cover the higher price all of DOD is paying for fuel for its operations throughout the world. In DOD's view, higher fuel prices are a Desert Shield cost because fuel costs rose as a result of Iraqi aggression, which led to the deployment of military forces to the Gulf. As we testified in January, we do not believe that these fuel costs should be included in a supplemental appropriation for Desert Shield. The Omnibus Budget Reconciliation Act of 1990, which provides that the incremental costs for Operation Desert Shield are to be treated as emergency funding requirements, defines such costs as those associated with increased operations in the Middle East. DOD's need to pay higher overall fuel costs is no different than any other federal agency's.

In addition, the drop in oil prices over the past few months should alleviate some of DOD's need for funding in this area. The Defense Stock Fund continues to charge the services \$44.10 per barrel of refined fuel. However, the fund is currently paying only about \$37 a barrel. If this pattern continues throughout the

balance of the fiscal year, the Stock Fund will likely make a profit which could be rebated to the services.

Rebates

The issue of rebates and credits arises in several areas. We are concerned that these be accurately accounted for so that DOD does not receive some future windfall. For example, the Navy and the Marine Corps obligate funds for fuel they receive in the Persian Gulf. Most of this fuel was provided free by Saudi Arabia and other Gulf states to some part of DOD, usually the Army or the Air Force. If, for example, an Air Force tanker fuels up Navy planes, the Air Force charges the Navy for that fuel--even though the Air Force received it free. That obligation will at some point have to be undone, or if paid, rebated to the Navy. Until that point, however, the costs of Desert Shield and Desert Storm are overstated.

As I testified in January, the Military Airlift Command (MAC) could show an operating profit when it closes its books on fiscal year 1991. MAC is also receiving some free fuel as well as donated airlift support normally provided by MAC aircraft. However, MAC bills the services for any transportation it provides as though it were paying for all the costs - regardless of whether any are received free. According to MAC officials, they will rebate to the services any operating profits resulting

from its operations, including those attributable to donated fuel and airlift, and other factors, such as recapturing more fixed costs than they incur³. The magnitude of any operating profit, however, will not be known until the end of the fiscal year. Our concern is that DOD will receive appropriations to cover expenses that should not really exist.

Assistance In-kind

DOD's cost estimates do not reflect the savings from the likely receipt of assistance in-kind throughout the fiscal year. As of February 20, 1991, DOD had reported receipts of about \$2.7 billion of in-kind support from October 1990 through January 1991; however, it has not adjusted its estimates to reflect any offset of direct costs for this support or expected future support. Our estimate for future receipts through the end of fiscal year 1991

³MAC develops its tariffs based on its estimates of costs it will incur, including an amount to recapture fixed costs. The fixed costs are spread over its approved flying hours, 450,000 in the 1991 budget. To the extent MAC bills more than its approved flying hours, it will be recovering an amount in excess of its fixed costs. MAC officials advised us that they may end the year having flown twice their approved flying hours. Actual billed hours will of course not be known until the end of the fiscal year.

is about \$3.7 billion based on about \$700 million due from Japan, Germany, and Korea from their 1990 pledges, and a projected amount of \$3 billion from Saudi Arabia for its 1991 pledge⁴.

ALTERNATIVE TO ADMINISTRATION PROPOSAL

Given the uncertainties and concerns regarding the Operations' cost estimates, we believe a traditional supplemental appropriation would be more advisable than the Administration's working capital proposal. Such an appropriation would be emergency funding not subject to the defense spending limits contained in the Omnibus Budget Reconciliation Act of 1990. We estimate that an appropriation of \$17 billion would be required to cover the anticipated funding requirements of the Operation from October 1, 1990, through March 31, 1991, the first half of fiscal year 1991. Our estimate is based on first quarter fiscal year 1991 obligations of \$5.8 billion for deployment and subsistence reported by DOD minus the higher price DOD is paying for fuel worldwide; GAO's estimate of second quarter obligations based on DOD's projection of operating tempo; and the cost of accelerated acquisitions needed for use in the Gulf this fiscal year. The Congress could then provide further appropriations

⁴Pledges for 1991 from Japan, Germany, and Korea consist of cash contributions, and Saudi Arabia's pledge is for cash and in-kind support. Because Saudi Arabia provides in-kind support on an ongoing basis, we projected the amount for the remainder of the fiscal year based on the value of support provided in December 1990.

quarterly as actual experience clarifies spending requirements. This funding should be provided by appropriating the \$11 billion in the Defense Cooperation Account and additional funds from that account as they become available, not to exceed the \$17 billion we believe to be required through March 31. This funding plan would eliminate the need for immediate U.S. funding beyond the over \$100 billion already appropriated by Congress for the base costs of our forces in the Middle East.

CONCLUSION

We need to assure that our troops in the Gulf receive all the support they need to fight the war. The Administration, rather than requesting a specific funding level to pursue the war, has asked Congress to establish a unique funding mechanism with little Congressional control. The obvious alternative to this funding mechanism is the traditional appropriations process. We believe that a \$17 billion appropriation, which should be drawn from funds deposited in the Defense Cooperation Account, would be required to cover the anticipated funding requirements of the Operations for the first half of fiscal year 1991. Congress, however, should place limits on its use. Specifically, we believe that Congress should make clear that incremental costs do not include the higher fuel costs DOD is incurring outside the Middle East. We further believe that upon the conclusion of hostilities there should be a full accounting of the expenditure of funds and

the assets consumed to assure appropriate disposition of all funds and assets made available for the Operations.

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Mr. Chairman, this concludes my statement. I would be happy to respond to any questions.