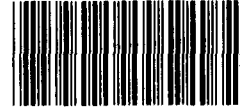


GAO

Testimony



142906

For Release
on Delivery
Expected at
9:30 a.m.
Friday
January 4, 1991

Cost and Financing of
Operation Desert Shield

Statement of
Charles A. Bowsher, Comptroller General
of the United States

Before the
Committee on Budget
United States House of Representatives



I appreciate the opportunity to testify today before this Committee on the estimated cost and financing of Operation Desert Shield. We began assessing the cost of the operation and our allies' contributions at the request of the Chairman of the House Committee on Armed Services. My testimony today reflects the results of our work to date. We intend to continue our work on the issues raised today and will provide further reporting to the Armed Services Committee as our work progresses.

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 consists of three components. One is the baseline cost of the U.S. forces committed to Desert Shield, which is already provided for in the fiscal year 1991 budget. We estimate 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. A second component is 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 are in the \$30 billion range for fiscal year 1991. The third component involves other related costs such as debt forgiveness for Egypt and humanitarian assistance. We estimate this cost to be about \$7 billion. Should there be an armed conflict, others have estimated that expenditures could total hundreds of millions of dollars more per day, particularly in the early days of the conflict.

As a result of Operation Desert Shield, the Department of Defense (DOD) is obligating its fiscal year 1991 appropriations for operations faster than normal and will exhaust some of these funds by sometime this spring. It can meet its short- and long-term financing needs by seeking supplemental funding, absorbing some of the incremental cost of the operation in its existing

budget, obtaining additional contributions from other countries, or some combination of these options.

To date, 35 countries have furnished troops and equipment. Other contributions of cash and assistance in-kind that could help defray U.S. costs are small relative to the total U.S. cost of the operation. DOD has reported receipt of cash contributions of about \$4.3 billion and in-kind contributions of about \$379 million.

Absorbing some of the costs of the operation in DOD's existing budget would require transferring funds from other appropriations such as procurement and research and development. We have been told that DOD is not considering this. Therefore, a supplemental appropriation to cover the costs of Operation Desert Shield seems inevitable.

The Budget Enforcement Act of 1990 provides that a supplemental appropriation to cover the costs of the operation is to be treated as emergency funding not subject to the budget agreement's spending limits. Any such supplemental appropriation not covered by contributions from other countries, however, will add directly to the deficit, just like the cost of the savings and loan bailout, which is also exempt from the spending constraints imposed by the budget agreement.

DOD is expected to request a supplemental appropriation soon in one lump sum for the rest of fiscal year 1991. Because of numerous uncertainties in the cost estimates, we believe it would be inappropriate to provide a lump sum supplemental now. Instead, the Congress should provide periodic appropriations during the fiscal year, as actual costs become clearer. Some of the uncertainties include (1) the unknown value of offsets such as assistance in kind, including fuel and water; (2) inadequate DOD guidance on what constitute Desert Shield costs

(guidance on such costs is important for purposes of any emergency supplemental appropriations under the Budget Enforcement Act); and (3) other factors, such as a decision to implement a rotation policy.

Let me discuss each of the matters in turn.

COST ESTIMATES OF DESERT SHIELD

The total cost of Desert Shield has three components: the baseline costs, the incremental costs, and other related costs.

Our baseline cost estimate was developed using DOD's five year defense program for fiscal years 1991 to 1995. The notional unit costs were developed by allocating the DOD 1991 fiscal year budget to the forces currently in existence DOD-wide. For example, we allocated the Army's budget for general purpose forces and overhead costs, \$56 billion, among the Army's 18 divisions. Thus the fiscal year 1991 budget to maintain one army division is about \$3 billion. We performed similar calculations and determined a unit cost of \$1 billion for Air Force tactical wings and \$5 billion for Navy carrier battle groups.

We then identified the units deployed to Operation Desert Shield, and based on these notional unit costs, we estimated the baseline cost to maintain the existing Army and reserve units in Desert Shield to be about \$37 billion, the Marines to be about \$6 billion, the Air Force about \$22 billion, and the Navy about \$30 billion.

Some would argue that the baseline cost estimate largely represents "sunk" costs that would be expended whether these troops were stationed in the Middle East or Europe or on American soil. For a number of reasons, we believe it is important to consider this cost as part of the total U.S.

commitment to Operation Desert Shield. First, absent Desert Shield, the fiscal year 1991 defense budget may have been cut beyond its current level, so some of these costs may not be "sunk" at all. Second, our commitment to the defense of Europe and NATO has been measured in these terms over the years because it reflects what the American taxpayer pays to support the Western alliance.

The second cost of Desert Shield is the incremental cost. Any estimate of incremental costs will have to be based on numerous variables and assumptions. DOD originally estimated that the fiscal year 1991 Desert Shield incremental costs would be about \$15 billion based on a troop level of 210,000. However, the Congressional Budget Office estimated that the incremental costs at this troop level were only about \$8 billion. Estimates based on projected troop levels of about 450,000 personnel range up to \$34 billion.

It is difficult to estimate with any precision the additional incremental costs if hostilities should break out. These costs would include ammunition, repairs, maintenance, and the replacement of equipment lost in combat. For example, a Maverick missile costs \$60 thousand and a Sparrow missile \$178 thousand. The cost to replace an F-16 would be \$19 million; an M1 tank, \$3 million; and an Apache helicopter, \$12 million. We have not attempted to estimate the cost of hostilities, but others have estimated that it would cost hundreds of millions of dollars more per day.

There are other related costs that the United States will incur as a result of the on-going crisis. To date, these costs total about \$7 billion for forgiveness of Egypt's military debt and about \$28 million provided through international organizations to care for evacuees resulting from Iraq's invasion of Kuwait.

Also, as we reported in November, 1990¹, the Commodity Credit Corporation (CCC) had a \$2 billion contingent liability under its export credit guarantee program covering loans for U.S. agricultural exports to Iraq. Under current conditions, these loans are not being repaid and the CCC may have to cover its guarantees.

DOD IS OBLIGATING FUNDS AT A RAPID PACE

At present, DOD is obligating its appropriations for military personnel and operations and maintenance (O&M) more rapidly than normal as a result of increased operations in the Middle East. Some of the factors driving this spending are the cost of deploying our forces to the Gulf, increased fuel and spare parts usage, the call-up of the reserves, the retention of military personnel who would otherwise be leaving the services, and extra pay to reflect the hazardous nature of duty in the Gulf. While the military personnel accounts should not be depleted until sometime in the fourth quarter, some O&M accounts will be fully obligated before that time.

The Army and the Marine Corps O&M accounts are being obligated most rapidly. These accounts fund such things as transportation, subsistence, fuel, base maintenance and operations, and civilian pay. Army officials told us that they expect to obligate their entire fiscal year 1991 O&M appropriation of \$21.5 billion by sometime in April or May. Obligations for the first quarter of fiscal year 1991 are expected to total about \$8.8 billion, or 41 percent of the full year appropriation.

The Marines, with 75 percent of their active duty forces now in the Gulf, expect to have obligated about half of their O&M

¹. International Trade: Iraq's Participation in U.S. Agricultural Export Programs (GAO/NSIAD 91-76, Nov. 1990).

budget, \$925 million of the \$1.9 billion appropriated, by the end of the first quarter. At this rate, the Marines will obligate their entire operations and maintenance budget by about mid-April.

The Air Force anticipates that it will fully obligate its fiscal year 1991 O&M budget in June. The Navy O&M account is being depleted more slowly because baseline costs already include having ships at sea about 45 days each quarter. The Navy's incremental cost is therefore limited to the extra days at sea of ships involved in the operation. The Navy's account is not projected to be fully obligated until sometime in the fourth quarter.

FINANCING OPTIONS

To address DOD's funding needs, the President has several options, which he may use individually or in some combination. One option is to seek supplemental funding as provided in the Budget Enforcement Act. As you know, the act provides that the incremental costs for Operation Desert Shield are to be treated as emergency funding requirements not subject to the budget agreement's defense spending limits. This type of funding would add directly to the budget deficit if not covered by contributions from other countries.

A second option is to absorb some of the cost of the operation within DOD's existing budget by directing the Secretary of Defense to transfer funds among DOD accounts. The Secretary has the authority, with the approval of the Office of Management and Budget, to transfer up to \$2.25 billion in fiscal year 1991 appropriations. Legislation would be required to transfer funds beyond that amount. As I said earlier, DOD is not considering this option.

A third option is for the President to seek additional contributions from our allies to increase their share of the cost of Desert Shield. Contributions in the form of assistance in kind can directly reduce the level of supplemental appropriations necessary to finance the operation. Cash contributions are deposited in the Defense Cooperation Account, a U.S. Treasury account established for contributions of money and proceeds from sales of any property accepted by the Secretary of Defense. Funds in this account may be used for such defense programs and activities as are authorized and appropriated by the Congress, including to defray the costs of Operation Desert Shield.

ALLIED CONTRIBUTIONS

After the Iraqi invasion and commencement of Operation Desert Shield, President Bush sent the Secretaries of State and Treasury to the Persian Gulf, Europe and East Asia to discuss sharing financing of the Persian Gulf crisis. To date, 50 countries have either pledged or actually contributed some type of support. These pledges and contributions include sending 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 Persian Gulf crisis.

Currently, 35 countries have sent ground, air, or naval forces to the Gulf region to participate in the Desert Shield operation and the maritime enforcement of the United Nations economic embargo against Iraq. Major contributors of cash and in-kind support include Saudi Arabia, Kuwait, United Arab Emirates, Japan, Germany, and Korea. As of December 1990, these countries, excluding Saudi Arabia, pledged a total of about \$6.7 billion. Saudi Arabia has also agreed to contribute cash and in-kind support, but the exact amount of the commitment is unknown.

As of December 31, 1990, Saudi Arabia, Kuwait, United Arab Emirates, Japan, and Germany provided about \$4.3 billion in direct cash contributions to the Defense Cooperation Account. The 1991 Defense Appropriations Act appropriated \$1 billion for transfer from this account to DOD's O&M accounts to reimburse certain incremental expenditures in support of Desert Shield.

In-kind contributions include food, fuel, water, transportation, material, and facilities. Major contributors include Saudi Arabia, United Arab Emirates, Japan, Germany, and Korea. As of December 31, 1990, the Defense Department has reported receipts of in-kind support, through October 1990, valued at about \$379 million. We have not had the opportunity to evaluate the basis for these reported levels.

The breakdown of pledges and contributions is as follows:

Table 1: Operation Desert Shield Pledges and Contributions
Dollars in millions

<u>Country</u>	<u>Pledge</u>	<u>Cash Contribution</u>	<u>In-Kind Contribution</u>	<u>Total Contributions</u>
Saudi Arabia	a	\$ 760	\$227	\$ 987
Kuwait	\$2,500	2,500	3	2,503
United Arab Emirates	1,000	250	30	280
Japan	2,000	428	50	478
Germany	1,072	272	65	337
Korea	<u>95</u>	<u>50</u>	<u>4</u>	<u>54</u>
Total	<u>\$6,667</u>	<u>\$4,260</u>	<u>\$379</u>	<u>\$4,639</u>

^aSaudi Arabia has made an open-ended commitment to support U.S. forces.

We understand that the U.S. Central Command in Saudi Arabia has provided information to DOD on in-kind support received after October 1990; however, DOD officials told us that they would not release this data to GAO until after the data has been reviewed internally. However, this process has proven time-consuming and is hindering GAO from providing the Congress with a timely analysis of allied contributions to Desert Shield. Also, access to this information is required to permit us to fulfill our legal obligation under Public Law 101-403 to audit contributions accepted by DOD.

In addition to cash and in-kind support, the European Commission and 20 countries have pledged financial support to Turkey, Jordan and Egypt, referred to as frontline states, and other countries affected by the economic embargo against Iraq. As of December 1990, these pledges totaled about \$13.1 billion. We understand that the State and Treasury Departments have information on disbursements of these pledges; however, Department officials told us that the data are sensitive, and therefore they will not release it to GAO. We agree that the information is sensitive; however, this is not a valid basis for denying access to GAO. Withholding

this information prevents GAO from performing a full analysis of allied contributions and denies Congress adequate information on which to base decisions.

Further, the European Commission and 19 countries have agreed to provide assistance, such as food and transportation, for evacuees resulting from the Iraqi invasion. To date, these pledges total about \$299 million.

DIFFICULTIES IN ESTIMATING COST .

A number of factors will make it difficult to estimate Desert Shield costs with any precision. The only DOD estimate we have seen is its September 1990 estimate of \$15 billion for the fiscal year 1991 incremental cost of Desert Shield. We understand that DOD is developing a revised estimate, but we have not yet received it. The DOD estimate was based on the assumption that once the deployment was complete, the troops in the Gulf would remain there for the balance of the fiscal year and that there will be no armed conflict. Any peaceful resolution of the crisis in the first part of 1991 could substantially reduce the cost. On the other hand, armed conflict could substantially increase costs. In addition, there is at least a 45-day lag in obtaining actual cost data. Therefore, even the estimate under development at DOD will be based on limited fiscal year 1991 data. 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.

There are a number of offsets to the incremental cost of the operation, which serve to reduce the cost. Some are immediate, such as cancelled training exercises; others are longer term, such as purchasing equipment now rather than later. The unknown value of many of the offsets will make it difficult to estimate the

operation's incremental cost. There are at least three types of offsets.

One type is expenditures DOD planned to make in fiscal year 1991 but won't make now as a result of Desert Shield. The services have attempted to quantify and factor this type of offset into their Desert Shield estimates. For example, the Army has identified about \$760 million in offsets, of which \$550 million is the cost of cancelled training exercises. In conversation with service officials, however, we found that not all offsets were being tracked and backed out from the cost of the operation. Also, service officials told us that many of the offsets could not be fully determined until the end of the fiscal year. On the other hand, offsets may be less than might otherwise be expected because many expenses remain despite the movement of forces to the Gulf. For example, officials at Fort Bragg, home of the 82nd Airborne Division, the first American unit deployed to the Gulf following the Iraqi invasion, told us that civilian personnel, a fixed cost at least in the short term, represents more than half of the expense of operating the post. Civilian personnel have taken over many of the tasks formerly performed by soldiers. Similarly, at Camp Lejeune, home of the Second Marine Expeditionary Force, officials told us that 90 percent of the camp's expenses are fixed costs. In addition, some troops that have deployed to the Middle East have been replaced by reservists, eliminating some potential savings. We will continue to examine DOD's development of the costs associated with this type of offset.

A second type of offset can be characterized as supplies purchased now to support Desert Shield that will not have to be bought later. The services, for example, have substantially increased their acquisition of supplies such as spare parts to support the deployment and possible military action. Also, the protective gear and medical supplies that the services are purchasing for use against chemical and biological threats may meet their needs for

some time to come. This stockpiling, under the assumption of no armed conflict, should reduce future budget expenditures, but the magnitude of any reductions may not be known until the end of the operation or sometime thereafter. We will attempt to document these kinds of offsets during the course of our work.

A third type of offset that defrays the cost of Operation Desert Shield involves contributions of assistance-in-kind from allied countries. As I previously stated, DOD has reported receipts of in-kind support valued at about \$379 million. In-kind support will help to defray DOD's costs for Desert Shield; however, the full dollar value of the offset will not be known until the assistance is actually received. Although some countries have pledged a specific amount, Saudi Arabia, the largest contributor of in-kind support, has made an open-ended commitment to support U.S. forces. Also, a particular country may decide to provide more or less than the original amount pledged.

In addition, tracking and accounting for in-kind support may be difficult. DOD has had little experience in accounting for in-kind contributions. Thus, the military services must establish new procedures to document receipt of the support, assign appropriate values, and account for the contributions in financial records.

Another difficulty in knowing the extent to which in-kind support will offset Desert Shield costs is that the military services must pay for some goods and services regardless of whether other countries provide them free of charge. For example, the Military Airlift Command (MAC) is receiving some donated fuel for its aircraft and donated airlift support normally provided by MAC aircraft. However, MAC bills the services for any transportation it provides as though it is 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 incur². The magnitude of any operating profit, however, will not be known until the books are closed on fiscal year 1991.

INADEQUATE GUIDANCE PROVIDED
REGARDING DESERT SHIELD COSTS

The Budget Enforcement Act defines Desert Shield costs eligible for emergency funding as those costs associated with operations in the Middle East and does not include costs that would be experienced by DOD as part of its normal operations absent Desert Shield. In implementing this legislation, the Office of the Secretary of Defense has not provided much guidance to the services as to what to count as Desert Shield costs and the services have developed little guidance of their own for individual military units.

Absent this guidance, costs could be included that should not be. For example, in its September estimate of Desert Shield incremental costs, DOD included the increase in the fuel cost for its normal -- non-Desert Shield -- operations as part of its cost of Desert Shield. In DOD's view, this latter figure is 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. We question whether such fuel costs should be included as a Desert Shield cost for purposes of emergency supplemental appropriations.

While DOD is experiencing higher fuel costs worldwide, it should either absorb them in its fiscal year 1991 budget or request a

²MAC 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.

supplemental appropriation separate from any supplemental appropriation for Desert Shield. It should be noted that such a supplemental appropriation could trigger a sequester under the Budget Enforcement Act unless the President and the Congress deemed it an emergency.

OTHER FACTORS AFFECTING COST

A number of other factors will affect the operation's cost. One is implementation of the "stop loss" policy at DOD that keeps people in the military beyond their scheduled separation date. The 1991 Defense Authorization Act directs a troop reduction of about 100,000 people from the 1990 level. Retaining these troops would cost about \$850 million more just for basic pay in 1991 to keep end strength at the 1990 level. There would be other increased costs as well, such as special pay, subsistence, and housing allowances. We have not been able to quantify these costs at this time.

Another factor that will affect the operation's cost are decisions pending at DOD, such as rotation policy for troops in the Middle East and whether to restock prepositioned supplies that have been drawn down. DOD has had the matter of whether to rotate forces in the Gulf under consideration for several months. Some former military officers have testified at recent congressional hearings that troops stationed in the Gulf will have to be rotated if they remain for the full fiscal year. To not rotate them, in these officers' view, would adversely affect their morale and their fighting edge. Given the large number of troops in the Gulf, any large-scale rotation policy would be expensive.

In deploying the Marines, DOD used the prepositioned stocks held on ships in the Indian Ocean for a contingency. These stocks were valued at about \$2 billion. DOD is now considering whether to restock these ships. If a decision is made to do so, additional

costs will be incurred. The amount will depend on whether replacement assets are acquired or taken from existing stocks.

NEED FOR CAUTION IN APPROPRIATING
SUPPLEMENTAL FUNDS

In summary, should the President seek supplemental funding for the cost of Operation Desert Shield, we believe that it is important that the Congress be aware of the uncertain nature of the operation and its ultimate cost. We believe that it would be prudent to provide any supplemental appropriation on a periodic basis so that funding can be adjusted based on actual experience.

- - - -

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