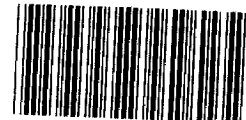




UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

RELEASED

September 18, 1981

B-163058

RESTRICTED - Not to be released outside the General Accounting Office except by the specific approval by the Office of Congressional Relations.

The Honorable Les Aspin
United States House of Representatives

Dear Congressman Aspin:

Subject: Pricing Data on the Proposed Sale of
AWACS to Saudi Arabia (ID-81-65)

In your letter of August 26, 1981, you asked that the General Accounting Office review the pricing data associated with the proposed sale of E-3A Airborne Warning and Control Systems (AWACS) and give you a judgment on whether the U.S. military would be charging the Government of Saudi Arabia a full pro rata share of non-recurring costs.

Department of Defense officials advised us that the estimated value of the sale, \$5.8 billion, announced by the White House on August 24, 1981, was based on preliminary computations and includes:

| | (in millions) |
|---|----------------|
| 5 aircraft | \$1,200 |
| Spares | 500 |
| Support equipment | 40 |
| Contractor support of AWACS | 1,300 |
| Upgrade ground command and control system | 2,100 |
| Miscellaneous | <u>660</u> |
| | <u>\$5,800</u> |

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According to the Department of Defense, these preliminary planning estimates cannot be considered valid for use in the formal letter of offer and acceptance for the sale. Nevertheless, these figures include provisions for

- 4 percent surcharge for non-recurring production costs (asset use/rental charge; to include use of U.S. facilities and tooling);
- 3 percent administrative surcharge; and
- 1.5 percent surcharge for quality assurance (to include contract administration and audit).

In addition, we were advised that:

- Defense Security Assistance Agency has granted no cost waivers on this proposed sale.
- The United States would charge Saudi Arabia the full cost of developing commercial replacements for certain non-releasable U.S. Air Force systems.
- Non-recurring costs recoupment is prorated as a pool against total estimated quantities of the sale model, past and projected.
- The recoupment estimate to be paid by Saudi Arabia for non-recurring costs would range between \$29 million and \$32 million per aircraft, or between \$145 million and \$160 million for five aircraft.
- The United States would share a portion of that recoupment with NATO, probably between \$29 million and \$32.45 million for the five aircraft.

We did not audit these preliminary numbers and did not attempt to make a judgment on Defense's cost recovery computations. However, in addition to U.S. efforts to recover the prorated share of all non-recurring costs, the sharing of the recoupment with NATO is another aspect which could be pursued further, if the proposed sale were approved, because the United States made extraordinary cost waivers and financial concessions in selling 18 AWACS to NATO. For example, the United States waived \$214 million for non-recurring research and development surcharges for the sale of AWACS to NATO.

Enclosure I provides the Department of Defense breakdown of the \$5.8 billion cited as the estimated value of the proposed sale and Enclosure II provides the current recoupment estimates of the Department of Defense for AWACS non-recurring costs.

B-163058

As we agreed with your office, we will not make this report available for general distribution or distribute it further for five days unless we receive your authorization or you announce its contents publicly. At that time we plan to send copies of the report to other congressional offices; the Secretary of Defense; the Secretary of the Air Force; the Director, Office of Management and Budget; and the Director, Defense Security Assistance Agency.

Sincerely yours,



Frank C. Conahan
Director

Enclosures - 2

CURRENT DEFENSE DEPARTMENT
COST ESTIMATES OF THE AWACS PACKAGE (Note a)

(in millions)

| | |
|--|----------------|
| - Five aircraft - includes nonrecurring software modifications to remove/replace non-releasable data from Saudi aircraft (approximately \$70 million), an avionics integration lab to test the Saudi unique system after removal of non-releasable systems, 4 percent surcharge for nonrecurring production costs (asset use/rental charge, to include use of U.S. facilities and tooling), 1.5 percent surcharge for quality assurance (to include contract administration and audit), and nonrecurring costs recoupment (See Enclosure II) | \$1,200 |
| - Spares | \$ 500 |
| - Support equipment | \$ 40 |
| - Miscellaneous - includes computer program ground support capability, training equipment, acquisition services, travel expenses, program reserve and 3 percent administrative surcharge on all above items | \$ 660 |
| - Contractor support of AWACS system | \$1,300 |
| --Includes 1.5 percent surcharge for quality assurance and 3 percent administrative surcharge | |
| - Upgrade ground command and control system | \$2,100 |
| --Includes 1.5 percent surcharge for quality assurance, 3 percent administrative surcharge, and 4 percent nonrecurring production cost surcharge on applicable items | |
| - Total | <u>\$5,800</u> |

a/ According to Defense officials, all estimates are under review and subject to change. These are preliminary figures supplied by the Department of Defense; they have not been reviewed by GAO.

DEFENSE DEPARTMENT ESTIMATES
FOR RECOUPING AWACS NONRECURRING COSTS (Note a)

Nonrecurring costs recoupment is prorated as a pool against total estimated quantities of the sale model, past and projected. Recoupment is identified by determining total nonrecurring investment and dividing by the total number of units estimated to be produced for Defense requirements, foreign military sales, and direct sales.

Current recoupment estimate

- Core Aircraft (Note b):

| | |
|-----------|--------------------------------|
| Cost Pool | \$1,092.7 million |
| Aircraft | 57 (34 USAF, 18 NATO, 5 Saudi) |
| Unit Cost | <u>\$19.17 million</u> |

- Standard Aircraft (Note b):

| | |
|-----------|--------------------------------|
| Cost Pool | \$ 424.9 million |
| Aircraft | 33 (10 USAF, 18 NATO, 5 Saudi) |
| Unit Cost | <u>\$ 12.88 million</u> |

- Total recoupment estimate to be paid by Saudi Arabia

| | |
|------------------------|-------------------------|
| Core Aircraft | \$ 19.17 million |
| + Standard Aircraft | \$ 12.88 million |
| Total Saudi | <u>\$ 32.05 million</u> |
| x Saudi Aircraft | 5 |
| Total Saudi Recoupment | <u>\$160.25 million</u> |

- Total recoupment estimated to be received by U.S.

| | |
|-----------------------------|-------------------------|
| Unit cost/standard aircraft | \$12.88 million |
| x Percentage funded by U.S. | |
| (Remainder by NATO) | <u>49.6 percent</u> |
| Total U.S. Unit Cost | \$ 6.39 million |
| + Total Core Unit Cost | <u>\$ 19.17 million</u> |
| Total U.S. Unit Recoupment | <u>\$ 25.56 million</u> |
| x Saudi Aircraft | 5 |
| Total Recoupment to U.S. | <u>\$127.80 million</u> |
| Total Recoupment to NATO | \$ 32.45 million |

- Dollar values shown are presently undergoing refinement to insure recoupment is based on Saudi configuration

--May reduce unit cost \$1-3 million

a/This preliminary information was supplied by the Department of Defense; it has not been reviewed by GAO.

b/Recoupment calculations are prorated based on the number of planes that have the same equipment. The terms Core and Standard aircraft relate to different configurations of the AWACS and the proposed configuration for the Saudi sale involves equipment from both.