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REPORT TO THE COMMITTEE 098273
ON INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES



UNITED STATES
GENERAL ACCOUNTING OFFICE



Use And Future Availability
Of Excess Defense Articles
In The Military
Assistance Program

Department of Defense

The report was prepared by the
General Accounting Office
under contract to the
Department of Defense
by the Army Research Office
Durham, North Carolina
1964

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

B-163582

The Honorable Thomas E. Morgan, Chairman
Committee on International Relations
House of Representatives

Dear Mr. Chairman:

On May 2, 1975, we briefed members of the Committee staff on our review of the use of excess defense articles in the military assistance program. This was done in response to your February 5 letter requesting several studies on U.S. security assistance and foreign military sales programs. The results of the other studies you requested are being provided separately as arranged with your staff.

This report deals with (1) the type and use of excess defense articles that are generated overseas, (2) future availability of excess defense articles and (3) alternative disposition of such articles in the event of reduced or terminated grant military assistance.

As discussed with your staff, the short time frame for this review did not permit us to develop definitive conclusions and recommendations on the future disposition of excess defense articles nor to obtain advance written comments from the Department of Defense. We discussed these matters with appropriate Defense officials, and their comments were considered in preparing this report.

The use of excess defense articles in the military assistance program has declined from a peak of about \$408 million, acquisition cost, in fiscal year 1970 to about \$85 million in 1974, when 62 percent of the major items were generated overseas. Although these items included aircraft, missiles, ships, combat and wheeled vehicles, ammunition, and weapons, wheeled vehicles accounted for 55 percent of all excess defense articles used to fill military assistance requirements in 1974. Data for the first half of fiscal year 1975 indicate a similar pattern of use.

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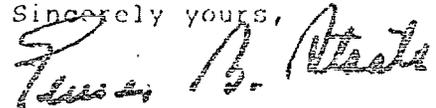
The military services have tentatively identified almost \$2 billion, acquisition cost, in excess defense articles, which are expected to become available through fiscal year 1980. This was the most current analysis readily available to us, and the various estimates did not always cover the same periods of time. These articles include ships, aircraft, combat and wheeled vehicles, and artillery pieces. The services predicted, however, that because of their ages, conditions, and types, most of these articles would be of little use to the military assistance program.

In addition, about \$12.4 billion in excess defense articles, which does not include ships and aircraft, is presently being held in military supply system inventories. Although these stocks include weapons, ammunition, vehicles, and repair parts, we did not determine their conditions nor whether they could be used to satisfy military assistance requirements.

We have previously taken the position that excess defense articles should be used to reduce funded costs of the military assistance program. With adequate availability of suitable articles, this might be achieved either through grants or sales or a combination of both. Other possibilities for disposition include selling for scrap all equipment and supplies in the inventory for which there are no predictable requirements, or retaining such assets in the inventory, at considerable expense, against possible future requirements. The selection of any alternative would require a major audit effort and a detailed analysis of the availability of excess defense articles, U.S. military requirements, and valid remaining needs of the military assistance program.

If we can be of further assistance, please let us know.

Sincerely yours,



Comptroller General
of the United States

SUMMARY OF GAO'S ANALYSIS OF
AVAILABILITY AND USE OF EXCESS DEFENSE
ARTICLES IN THE MILITARY ASSISTANCE PROGRAM

DEFINITION OF EXCESS DEFENSE ARTICLES

The Foreign Assistance Act of 1961, as amended, defines excess defense articles as the quantity of defense articles owned by the United States Government which is excess to the approved force acquisition objective and the approved force retention stock.

The relationship of excess defense articles to the various levels of assets authorized to be retained in the military supply system inventories, as of July 1, 1974, is shown at the right.

↑ excess defense articles ↓	(billions)	
	\$3.9	Potential Defense excess
	\$3.4	Contingency retention
	\$5.1	Economic retention
	\$2.1	Approved force retention
	\$31.1	Approved force acquisition objective

Other items that were declared excess or that became surplus were transferred to property disposal activities for further use, servicing, and disposal. These items fall within the definition of excess defense articles and, as of July 1, 1974, amounted to about \$5.1 billion.

The approved force acquisition objective and the approved force retention level are the quantities of items authorized to be acquired and retained to meet peacetime operational and mobilization reserve requirements of approved forces. Items

in excess of these levels in the inventory are classified as transferable/disposable stocks and defined as excess defense articles under the Foreign Assistance Act. They are retained in the inventory as follows.

Economic retention stock--items determined to be more economical to retain for future peacetime issues instead of meeting of future issues by procurement; must have a reasonably predictable demand rate.

Contingency retention stock--items having no predictable demand or quantifiable requirement, which are retained for possible contingencies.

Potential Defense excess stock--items which exceed all authorized retention levels but which have not been finally determined as excess to Defense needs. When such determination is made, excess property is transferred to property disposal activities for use by other Federal agencies or for disposal as surplus property.

USE OF EXCESS DEFENSE ARTICLES
IN THE MILITARY ASSISTANCE PROGRAM

Before fiscal year 1971, excess defense articles could be transferred to foreign countries under the Foreign Assistance Act without charge to Military Assistance Program (MAP) appropriations. In January 1971, the Congress enacted Public Law 91-672, which

- Set an exemption on the amount of excess defense articles transferable without charge to MAP.
- Stated that the value of excess defense articles granted to a foreign country shall be considered an expenditure of MAP funds.
- Required that, when an excess defense article was ordered for a foreign recipient, MAP funds be reserved in an amount equal to the article's value and that when the item was delivered, these funds be transferred to the Treasury.

Initially the MAP appropriation would be charged only when the aggregate value of all excess defense articles ordered in any fiscal year exceeded \$100 million. This provision

was revised to eliminate the exemption for excess defense articles generated in the United States and to apply to articles generated abroad only when the aggregate value ordered in any fiscal year exceeded \$150 million.

Since this law was enacted, the amount of excess defense articles transferable without charge to MAP and the meaning of value (MAP cost) for purposes of the exemption have been revised several times, as shown below.

<u>Fiscal year</u>	<u>Exemption (millions)</u>	<u>Meaning of value</u>
1971	\$100	Not less than one-third of acquisition cost
1972	185	Not less than one-third of acquisition cost
1973	185	Not less than one-third of acquisition cost
1974	a 150	b Actual value
1975	a 100	Actual value but not less than one-third of acquisition cost

a

Applies only to excess defense articles generated overseas. MAP appropriations are charged for all excess defense articles generated in the United States.

b

Determined by Defense as a percentage of acquisition cost, based on condition. GAO's report Excess Defense Article Valuation and Transfers of War Reserve Materials to Allies, June 10, 1974 (ID-75-69), examined Defense procedures for determining actual value.

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MAP ordered about \$85 million, acquisition cost, in excess defense articles in fiscal year 1974, \$82 million of which was for such major items as rifles, aircraft, and trucks. However, only \$13 million, or about 16 percent of acquisition cost, was charged against the limitation based on Defense's determination of the actual value of the articles. Secondary items, i.e., materials, components, parts, and accessories, are charged to MAP at full acquisition cost; accordingly, about \$3 million of these items have been excluded from our computations to give the percentages more meaning. Quantities of major items ordered in the United States and overseas in fiscal year 1974 and the first half of fiscal year 1975 are shown below.

<u>Location</u>	<u>Acquisition cost</u> (millions)	<u>MAP cost</u>	<u>Percent of acquisition cost</u>
Fiscal year 1974:			
United States	\$31.6	\$ 2.9	9.2
Overseas	<u>50.5</u>	<u>10.2</u>	20.2
Total	<u>\$82.1</u>	<u>\$13.1</u>	<u>16.0</u>
Fiscal year 1975 (note a):			
United States	\$ 1.3	\$ 0.2	15.4
Overseas	<u>21.0</u>	<u>10.9</u>	51.9
Total	<u>\$22.3</u>	<u>\$11.1</u>	<u>49.8</u>

as of Dec. 31, 1974.

The categories and acquisition cost of major excess defense articles ordered in fiscal years 1974 and 1975 are as follows.

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<u>Item</u>	<u>1974</u> (millions)	<u>1975 (note a)</u>
Ships	\$ 0.4	\$ -
Aircraft	18.3	8.7
Wheeled vehicles	44.8	12.8
Weapons	14.2	0.2
Combat vehicles	(b)	-
Ammunition	1.1	-
Other	<u>3.3</u>	<u>0.6</u>
Total	<u>\$82.1</u>	<u>\$22.3</u>

a As of Dec. 31, 1974.

b Less than \$100,000.

Of the major excess defense articles ordered for 15 countries in fiscal year 1974, 85 percent were for Turkey, Korea, Cambodia, Jordan, and Thailand. In the first half of 1975 92 percent of all major excess defense articles ordered were for the same five countries. Acquisition and MAP costs of major defense articles ordered, by country in fiscal years 1974 and 1975 is summarized below.

	<u>1974</u>		<u>1975 (note a)</u>	
	<u>Acquisition cost</u>	<u>MAP cost</u>	<u>Acquisition cost</u>	<u>MAP cost</u>
Ethiopia	\$ 609,721	\$ 84,266	\$ -	\$ -
Jordan	5,108,247	448,622	2,094,908	614,780
Turkey	36,790,749	2,109,070	7,023,242	2,254,173
Cambodia	6,567,603	6,493,509	871,927	124,912
Indonesia	1,981,586	292,391	127,929	7,956
Korea	16,913,420	1,582,794	7,340,163	7,128,013
Philippines	2,296,353	362,631	1,143,544	233,744
Thailand	4,084,423	739,582	3,234,283	676,732
Bolivia	902,105	107,024	88,009	27,345
El Salvador	48,702	2,677	-	-
Guatemala	1,482,888	120,958	-	-
Nicaragua	1,136,503	200,377	148,475	48,604
Panama	466,900	36,212	-	-
Paraguay	1,293,058	178,042	124,327	41,536
Uruguay	2,418,901	372,481	82,458	21,257
Total	<u>\$82,101,160</u>	<u>\$13,130,596</u>	<u>\$22,279,265</u>	<u>\$11,179,057</u>
Percent of acquisition cost		16		50.2

a As of Dec. 31, 1974.

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UTURE AVAILABILITY OF EXCESS DEFENSE ARTICLES

In a 1973 report to the Senate Committee on Foreign Relations^{1/}, GAO showed that excess defense articles were being provided to supplement regular funded assistance programs rather than to reduce the funded cost of MAP and recommended that excess defense articles be applied against funded requirements when possible. The Defense Department agreed with this recommendation, stating that procedures had been established for forecasting the availability of such articles for use as a substitute for the funded MAP.

We found that the military services have attempted to project the types and quantities of defense items which will become excess. During our review we obtained a list of major items, including aircraft, tanks, armored personnel carriers, and ships, expected to become excess through fiscal year 1960 available for issue to foreign recipients. This was the most current analysis readily available to us, and the various estimates did not always cover the same periods of time. We were cautioned that such projections involve a number of variables and should be only considered as tentative information. The total acquisition cost of the projected items amounted to almost \$2 billion; however, many of these items were probably not suitable for allied use.

The estimated number of Navy vessels that will become available between fiscal years 1976-80 is considerably less than the number already requested by foreign countries; therefore, it is likely that all vessels becoming available would be accepted. Navy officials said that because ships are high value items, countries would be reluctant to program MAP funds to acquire them. Consequently, the Navy either sells or loans excess ships to foreign countries. According to Navy officials, many aircraft estimated to become excess during the 5-year period are not in demand by foreign countries, because they do not possess the necessary maintenance capability, they are no longer logistically supported by the Navy, or they are old and in need of extensive repairs.

^{1/} "Use of Excess Defense Articles and Other Resources to Supplement the Military Assistance Program," Mar. 21, 1973 (B-163742).

Air Force officials estimated that 30 percent of its aircraft that will become excess between fiscal years 1975-80 will be in demand by foreign countries.

The Army estimate covered fiscal years 1975-77, and included only obsolete or contingency items. Therefore, it may not include all available items that qualify as excess defense articles under the Foreign Assistance Act. The data provided by the Army indicates that almost 12,600 items, including tracked and wheeled vehicles, artillery pieces, and other items having an acquisition cost of about \$103 million, may become available during the 3-year period. Army officials cautioned, however, that most of the items probably would not be acceptable to foreign countries because of their age and condition.

ALTERNATIVE DISPOSITION OF EXCESS DEFENSE ARTICLES

The reduction or termination of grant military assistance would not appear to create any special problems for Defense in disposing of excess defense articles, because MAP use of such articles historically has been relatively small compared with total availability. For example, since 1969 the acquisition cost of excess defense articles in the military supply system and in property disposal inventories at the end of the fiscal year has averaged about \$17 billion a year and MAP has annually used an average of \$312 million, less than 2 percent.

Thus, it appears that, regardless of the future level of military grant aid, large quantities of excess defense articles will continue to be retained in the military supply system. The acquisition cost of these assets at the end of fiscal years 1969-1974 ranged between \$9.8 billion and \$12.4 billion, as shown below.

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<u>Item</u> (note a)	<u>1969</u>	<u>1970</u>	<u>1971</u> (millions)	<u>1972</u>	<u>1973</u>	<u>1974</u>
Ammunition	\$ 1,695	\$ 1,982	\$ 1,755	\$ 1,327	\$ 1,504	\$ 1,927
Weapons, tanks, and combat and tactical vehicles	926	484	520	517	537	548
Other equipment	1,557	1,643	1,899	1,905	1,958	2,222
Secondary items	<u>8,107</u>	<u>7,790</u>	<u>6,966</u>	<u>6,070</u>	<u>6,674</u>	<u>7,719</u>
Total	<u>\$12,285</u>	<u>\$11,899</u>	<u>\$11,140</u>	<u>\$9,819</u>	<u>\$10,673</u>	<u>\$12,416</u>

a

Excludes ships, aircraft, and strategic missiles which are not considered part of supply system inventories.

Other items that were declared excess or that became surplus property were transferred to property disposal activities for further use, screening, and disposal. Year-end property disposal inventories for fiscal years 1969-74 are shown below.

<u>Item</u>	<u>1969</u>	<u>1970</u>	<u>1971</u> (millions)	<u>1972</u>	<u>1973</u>	<u>1974</u> (estimated)
Combat ships	\$ 196	\$ 534	\$ 842	\$ 977	\$ 1,230	\$ 1,028
Complete aircraft	2,062	1,746	2,720	3,175	2,509	2,207
Other	<u>2,107</u>	<u>2,350</u>	<u>2,492</u>	<u>2,608</u>	<u>2,686</u>	<u>1,898</u>
Total	<u>\$4,427</u>	<u>\$4,730</u>	<u>\$6,054</u>	<u>\$6,760</u>	<u>\$6,425</u>	<u>\$5,133</u>

Our March 21, 1973, report observed that excess defense articles were not usually accepted to satisfy requirements for which funding was expected during the current year because their acceptance might result in the reallocation of MAP funds to another country and because used articles are less desirable than new items under funded programs. Nevertheless we recommended that Defense review all funded but undelivered program requirements to determine the extent to which they could be satisfied by excess defense articles.

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We believe this recommendation is still valid. Depending on their suitability for specific MAP requirements, excess defense articles could possibly be used to meet the continuing needs of MAP if funded programs were reduced or terminated.

Foreign military sales is another possible use of excess defense articles as an alternative to funded grant aid programs. We were told that Defense is relying increasingly on sales. Although the volume of excess sales is small compared with total articles available, excess sales showed a marked increase in the first half of fiscal year 1975 over 1974, as shown below.

Item	1974		1975 (note a)	
	Sale price	Acquisition cost	Sale price	Acquisition cost
Aircraft	\$1,533	\$ 6,825	\$ 332	\$ 6,238
Missiles	152	756	-	-
Wheeled vehicles	620	5,826	913	6,598
Weapons	643	5,433	60	1,218
Combat vehicles	-	-	250	4,998
Ammunition	98	437	26	71
Other	8	110	316	2,618
Total	<u>\$3,054</u>	<u>\$19,387</u>	<u>\$1,897</u>	<u>\$21,741</u>
Percentage of acquisition cost	15.8		8.7	

a As of Dec. 31, 1974.

Although as shown, the aggregate value of excess sales at acquisition cost about doubled in the first half of fiscal year 1975, sales returns on excess property were approximately half those of 1974. We did not analyze the reason for this difference, but it might be caused by the increased use of

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sales rather than grants. Under the Foreign Assistance Act the value of items, for purposes of grants of excess property, cannot be less than 33-1/3 percent of their acquisition cost, but this restriction does not apply to foreign military sales. Under Defense regulations, excess defense articles are sold to foreign countries for as little as 5 percent of their acquisition costs depending on their condition.

Ships are not included in the above table because they are accounted for under a separate inventory and disposal procedure. Generally, ships are kept by the U.S. Government until their service life has expired and they are no longer needed for mobilization reserve purposes. Sales prices are based on the estimated scrap value of the vessels plus a charge for any residual equipment remaining on board. During fiscal year 1974 and the first half of fiscal year 1975 the Navy sold 115 ships (destroyers, submarines, mine sweepers and other types) with an acquisition cost estimated at \$517 million to 20 countries for about \$15 million. Fifty-four percent of the ships sold were previously on loan to the countries which bought them.

Selling excess defense articles for their scrap value is another way of disposing of them. Although it appears that under Defense pricing policies some excess defense articles could be sold for little more than scrap value under the foreign military sales program, it seems probable that these sales of excesses would usually provide a greater return to the United States. This is because the additional, and sometimes prohibitive, cost of demilitarizing defense items for scrap sales makes it more advantageous to the United States to sell such items through the foreign military sales program, even at the lowest prices allowable under Defense pricing policies.

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