

DOCUMENT RESUME

02438 - [A1752786]

The United States and Japan Should Seek a More Equitable Defense Cost-Sharing Arrangement. ID-77-8; B-159341. June 15, 1977. 16 pp. + 5 appendices (6 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: International Economic and Military Programs (600);
International Economic and Military Programs: U.S.

International Security and Arms Control Commitments (601).

Contact: International Div.

Budget Function: National Defense: Military Assistance (052).

Organization Concerned: Department of Defense; Department of State.

Congressional Relevance: House Committee on International Relations; Senate Committee on Foreign Relations; Congress.

Authority: Department of Defense Appropriation Authorization Act, as amended (P.L. 93-155). Treaty of Mutual Cooperation and Security.

It has become increasingly apparent in recent years that Japan is capable of assuming a greater share of the common defense costs, and conditions now exist to seek increased defense contributions from the Government of Japan.

Findings/Conclusions: Japan's financial support of the U.S. presence has been limited to paying land rental for areas occupied by U.S. Forces, constructing replacement facilities, and payments to Japanese communities near U.S. bases. The heavy U.S. defense burden in Asia could be made more equitable by cost-sharing of common defense costs, such as increased logistical and operational support, labor cost sharing, and joint use of defense installations. Recommendations:

Secretaries of State and Defense should: jointly reexamine possible cost-sharing methods, and develop definitive plans for pursuing increased cost-sharing by the Government of Japan; begin negotiations to implement a labor cost-sharing agreement; and arrange for increased joint use of military installations.

(Author/DJM)

2786

02438

REPORT TO THE CONGRESS



*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

The United States And Japan Should Seek A More Equitable Defense Cost-Sharing Arrangement

Departments of Defense and State

The United States has a major role in preserving peace and stability in Northeast Asia. Japan has prospered under the security provided by the U.S. defense umbrella and has developed into an economic superpower capable of assuming a greater share of common defense costs. This report identifies conditions affecting Japan's role and discusses possible areas for increased Japanese support.



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-159341

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses conditions affecting Japan's ability to assume a greater share of the common defense costs and describes possible methods for obtaining increased Japanese support. We believe this report will be helpful to Members of Congress in their continuing review of U.S. international security arrangements.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretaries of Defense and State.

A handwritten signature in black ink, reading "Thomas B. Stearns".

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THE UNITED STATES AND JAPAN
SHOULD SEEK A MORE EQUITABLE
DEFENSE COST-SHARING ARRANGEMENT
Departments of Defense and State

D I G E S T

Japan has prospered under the security provided by the U.S. defense umbrella and has progressed from a devastated country after World War II to an economic superpower with the world's third largest economy and a gross national product of about \$500 billion. U.S. security commitments and force deployments contribute significantly to Japan's most immediate security concerns-- open sea lanes and a stable Korea.

By national policy, Japan's defense budget is restricted to less than 1 percent of its gross national product, which is significantly less than that of any other major nation. The minimal Japanese military expenditures are attributed to the U.S. security umbrella, the lack of a perceived military threat, and Japanese national policy. (See pp. 5 and 6.)

Japan's financial support of the U.S. presence in Japan has been limited to paying land rental for areas occupied by U.S. Forces, constructing agreed upon replacement facilities, and making payments to Japanese communities near U.S. bases. (See pp. 5 and 6.)

The heavy U.S. defense burden in Asia continues while at the same time the United States experiences chronic deficits in bilateral trade with Japan. (See pp. 4, 5, 7, and 8.)

Opportunities exist for seeking additional Japanese support for common defense costs, such as

- increased logistical and operational support,
- labor cost sharing, and
- joint use of defense installations.
(See pp. 9 to 14.)

GAO recommends that the Secretaries of State and Defense jointly reexamine possible cost-sharing methods, including those discussed in this report, and develop definitive plans for pursuing increased cost sharing by the Government of Japan. Important considerations include the

- missions, functions, or costs Japan can and should assume;
- impact on the U.S. military posture in Japan;
- possible U.S. cost savings or increased United States-Japan military capability; and
- target dates to discuss actions identified. (See p. 15.)

GAO also recommends that State and Defense (1) begin negotiations to implement a labor cost-sharing agreement and (2) take action to arrange for increased joint use of military installations. (See p. 16.)

The Department of Defense responded that GAO's report accurately reflects the cost-sharing problems in the United States-Japan security relationship. Both the Departments of Defense and State agreed with the report's recommendation to develop plans for exploring additional cost-sharing methods with Japan. (See p. 16.)

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Mutual Security Treaty	1
	Japanese defense posture	1
	Scope of review	2
2	OPPORTUNITY FOR INCREASED JAPANESE DEFENSE CONTRIBUTION	4
	Contributions toward common defense interests	4
	Government attitudes	6
	Basis for seeking greater cost sharing	7
3	POSSIBLE COST-SHARING METHODS	9
	Complementarity	9
	Labor cost sharing	10
	Joint use	13
4	CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS	15
	Agency comments	16
APPENDIX		
I	Cost and number of master labor contract employees in Japan	17
II	Letter dated March 1, 1977, from the Deputy Assistant Secretary for Budget and Finance, Department of State	18
III	Letter dated April 27, 1977, from the Director, Defense Security Assistance Agency, Department of Defense	20
IV	Letter dated May 4, 1977, from the Di- rector, Defense Security Assistance Agency, Department of Defense	21
V	Principal officials responsible for ad- ministration of activities discussed in this report	22

ABBREVIATIONS

DOD Department of Defense
GAO General Accounting Office
GOJ Government of Japan

CHAPTER 1

INTRODUCTION

Since World War II, Japan has prospered under the security provided by the U.S. defense umbrella and has progressed from a devastated country to an economic superpower with the world's third largest economy and a gross national product of about \$500 billion. U.S. security commitments and force deployments contribute significantly to Japan's most immediate security concerns--open sea lanes and a stable Korea--and further attest to the benefits of its security relations with the United States. This report discusses conditions bearing on Japan's ability to assume a greater share of the common defense costs, in light of its increased economic and financial capabilities, and identifies possible areas for increased Japanese support.

MUTUAL SECURITY TREATY

The 1960 Treaty of Mutual Cooperation and Security sets forth the mutual United States-Japan defense interests and obligations, recognizing the common concern of maintaining international peace and security in the Far East. It provides that the countries will, individually and in cooperation with each other, maintain and develop their capacities to resist armed attack, subject to their constitutional provisions. The treaty also requires the United States to act to meet the common danger of an armed attack against Japan, in accordance with U.S. constitutional provisions and processes, and to consult with the Government of Japan (GOJ) before making changes in U.S. forces or combat equipment deployed in Japan.

The State Department believes the treaty has been valuable to both countries. The United States retains needed bases from which it can project power into the Asia/Pacific area in support of U.S. strategic interests. For Japan, the treaty has meant a continued nuclear shield and the protection afforded by the presence of U.S. Forces. The treaty also serves as an important symbol of the United States-Japan relationship.

JAPANESE DEFENSE POSTURE

Japan's Self Defense Force totals about 237,000 personnel and is composed of about 155,000 ground, 43,000 air, and 39,000 maritime forces. The Ground Self Defense Force equipment inventory includes approximately 800 tanks, 640

armored vehicles, 310 helicopters, and 80 self-propelled guns. The Air Self Defense Force has over 500 combat aircraft. The Maritime Self Defense Force has about 150 ships, including nearly 50 in the destroyer class, and 12 submarines. These forces have primary responsibility for the initial conventional defense of Japanese territory and are designed to counter a limited conventional attack. U.S. military officials characterized Japanese forces as disciplined and professional but constrained by the resources made available to them.

Completion of the latest 5-year defense plan, though modest by U.S. standards, has been delayed by funding deficiencies. A Japanese defense white paper, while laying the groundwork for a limited defense buildup, acknowledges that Japan will continue to rely on the United States for its security.

Political, constitutional, and psychological constraints limit Japan's ability to expand or use military power. National policy prohibits the manufacture, possession, or introduction of nuclear weapons into Japan. Its constitution prohibits any overseas security role. The GOJ faces political difficulties in increasing the size of the Self Defense Force or increasing defense spending much beyond a self-imposed limit of approximately 1 percent of its gross national product.

The U.S. Government has agreed with the GOJ that a security posture focusing on the defense of Japanese territory is appropriate for Japan. The State Department has not pressed Japan to undertake regional security responsibilities, believing that such a role would be politically impossible for Japan and extremely disquieting to most of its neighbors. The Department of Defense (DOD) has encouraged Japan to improve the capability of its forces, particularly in the areas of antisubmarine warfare, airborne early warning, air defense, and ground force modernization, and the GOJ is reportedly addressing this issue.

SCOPE OF REVIEW

Most of our data and observations were developed during a May to July 1976 review of U.S. security arrangements with Japan. Fieldwork consisted of visiting the major military facilities in Japan, including Okinawa; discussing and obtaining briefings on relevant subjects from military commands in Hawaii and Japan, and the U.S. Embassy in Tokyo; and examining

transcripts of congressional hearings, Defense and State Department documents, and other authoritative material. Additional work and updating was performed at State and Defense during September and October 1976.

CHAPTER 2

OPPORTUNITY FOR INCREASED

JAPANESE DEFENSE CONTRIBUTION

Japan's minimal defense expenditures have enabled it to concentrate on economic growth, with highly successful results. In recent years it has become increasingly apparent that Japan is capable of assuming a greater share of the common defense costs, and conditions now exist to seek increased defense contributions from the GOJ.

CONTRIBUTIONS TOWARD COMMON DEFENSE INTERESTS

Comparing expenditures by the United States and Japan toward mutual defense interests is not possible because DOD expenditures and deployments in Asia support both U.S. and common defense interests. Neither the State Department nor DOD has validated data on the contributions by Japan, but data that is available indicates apparent inequities.

U.S. contributions

U.S. contributions for mutual defense interests include direct as well as indirect support, as illustrated by the following examples.

- Over 47,000 U.S. military personnel are stationed in Japan to assist in its defense, perform a support role, and deploy during regional crises. Direct LOD costs for these forces are estimated at nearly \$1 billion annually.
- Japan has repeatedly stressed that stability in Korea is vital to its interests and has sought assurances that U.S. Forces will remain in South Korea. The United States has over 40,000 troops in Korea, which cost \$600 million annually.
- Open sea lanes are considered critical to Japan's economic interests since it depends on importing huge quantities of raw materials and exporting its products to foreign markets. Japan has no military capability for keeping the sea lanes open, except near its shores, and relies on the U.S. Navy.

- U.S. Forces deployed in other Asian countries contribute to regional stability, which is considered important by Japan.
- Significant DOD costs in the United States are incurred in supporting forces deployed in Asia. Further, numerous U.S.-based forces have contingency missions that include deployment to Asia in support of United States-Japan and other regional U.S. defense interests.

Japanese contributions

Japan's recurring financial support for U.S. military presence in Asia is limited to paying land rental for areas occupied by U.S. Forces in Japan. This rental averaged about \$112 million annually during the past 3 years, according to GOJ sources. In addition, Japan has established various projects to construct replacement facilities as part of (1) U.S. base consolidation programs, in which valuable base land and facilities are voluntarily returned to Japan, or (2) GOJ requests that U.S. Forces relocate or relinquish facilities. Japan reportedly spent \$163 million on these one-time replacement projects during fiscal year 1976.

Japan and the U.S. Government also consider GOJ assistance payments to Japanese communities near U.S. bases (subsidies that include road improvements, noise abatement projects, etc.) as a cost of supporting the U.S. presence. DOD did not have a detailed breakdown of what Japan includes in this category, and there is some question about the validity of considering all these subsidy payments as GOJ support costs.

The Japanese Self Defense Forces have gradually improved their capabilities and reflect a significant contribution toward common defense goals. These forces, however, are not capable of defending Japan against a large sustained attack, and the GOJ continues to place heavy reliance on the United States for its defense. Japan spent nearly \$5 billion on defense in fiscal year 1976, but it ranks lowest of any major nation in defense spending as a percent of gross national product, a widely used method of comparing relative defense expenditures. Japan's defense budget is restricted by national policy to less than 1 percent of its gross national product and was 0.8 percent in 1975, significantly less than West Germany (2.8 percent), Great Britain (4.7 percent), South Korea (5.1 percent), and the United States (7.3 percent). One percent of Japan's military-age population is in the

armed services compared with 6 percent for the United States. The minimal Japanese military expenditures are attributed to the U.S. security umbrella, the lack of a perceived military threat, and Japanese national policy.

GOVERNMENT ATTITUDES

Most DOD and State Department officials that we talked with believed Japan is capable of increasing its share of the common defense costs and further improving its defense capabilities. Recent U.S. Government statements also reflect this idea.

President Ford's December 1975 Pacific Doctrine emphasized a United States-Japan partnership. He has also stated his advocacy of increased Japanese military contributions to its own defense. During an August 1975 visit to Japan, Secretary of Defense Schlesinger raised the issue of greater cooperation and coordination between U.S. and Japanese military forces; Japanese Defense Minister Sakata reportedly responded favorably and suggested that a Subcommittee for Defense Cooperation 1/ be established to discuss this subject.

The State Department is concerned that some areas of defense cost sharing, such as joint defense cooperation and coordination, could be politically sensitive. (A complicating factor has been the recent scandal surrounding alleged payments by Lockheed Aircraft Corporation to Japanese officials.) As a result, the United States has allowed discussion and examination of the issue to proceed at Japan's own necessarily slow pace. Although coordinated guidelines for the U.S. approach to the Subcommittee for Defense Cooperation were issued in March 1976, the State Department believed that to push matters, especially in such an area as military cooperation, would not be productive. Hence, the initiative for establishing the subcommittee was left to the Japanese.

1/The Subcommittee for Defense Cooperation was eventually formed and met for the first time in August 1976. This subcommittee is essentially a joint study panel under the Japan-U.S. Consultative Committee on Security to facilitate greater cooperation in implementing the Mutual Security Treaty.

There has also been congressional interest in seeking greater defense support from U.S. allies. The House Appropriations Committee reported in September 1975 that increasing Japan's conventional defense responsibilities is in the political, military, and economic interest of the United States.

There are increasing indications that Japan recognizes it should assume a greater share of the defense costs. For example, GOJ officials visited Washington, D.C., and Germany in July 1976 to develop detailed information on the cost-sharing methods used by Germany and other North Atlantic Treaty Organization members. Nevertheless, Japan will likely wait for U.S. initiative rather than volunteer to assume a greater defense role.

BASIS FOR SEEKING GREATER COST SHARING

The Jackson-Nunn Amendment to the 1974 DOD Appropriation Authorization Act (Public Law 93-155) required that U.S. Forces in Europe be reduced to the extent U.S. balance of payments deficits attributable to stationing U.S. troops there were not offset and that the U.S. cost burden be reduced through arrangements with NATO members. There was no requirement to apply this concept to Japan, nor have offset arrangements or new cost-sharing agreements been pursued with the GOJ. Further, the circumstances in Europe are not directly comparable to Japan, a very lightly armed power that has no regional military role. Nevertheless, if the sense of the Congress is that our more affluent allies should assume a more equitable share of defense costs, it appears reasonable to apply this concept to Japan.

Japan's trading position is quite unlike that of the United States in that it must cover the import of virtually all fuel and raw material requirements and much of its food with the export of manufactured goods. Japan's overall payments position, however, is excellent and there seems little doubt that it could contribute more for defense.

Japan has made tremendous economic strides during the past decade and is the dominant economic power in Asia. Its impressive economic growth is reflected in its bilateral trade with the United States; while the United States maintained a favorable balance before 1966, Japan has enjoyed a trade surplus every year since then. Each year from 1968 through 1975 the U.S. trade deficit with Japan exceeded

\$1 billion and cumulatively totaled \$15.8 billion during this period. According to an international report on the Japanese economy, its trade surplus with the rest of the world skyrocketed from \$1.4 billion in 1974 to \$5 billion in 1975. The trade surplus reached \$9.9 billion in 1976.

A comparison of the chronic U.S. bilateral trade deficits with Japan and the continuing heavy defense burden of stationing U.S. troops in Asia with Japan's tremendous economic capabilities and minimal defense outlays seems to suggest that Japan could contribute more.

CHAPTER 3

POSSIBLE COST-SHARING METHODS

Various methods exist for obtaining additional Japanese support for common defense costs. Three possibilities are discussed below.

COMPLEMENTARITY

The Mutual Security Treaty provides that the United States and Japan cooperate to maintain and develop their capacities to resist armed attack, subject to constitutional provisions. With increasing recognition that Japan can and should bear a larger share of its self-defense, a comprehensive and mutually agreed upon method is needed.

One approach, which is still in the conceptual stage, is the DOD idea of complementarity. Under this concept, the United States and Japan would develop complementary military defense capabilities, with Japan assuming an increased role. Contributions by each country would be in accordance with capabilities and constitutional limitations. Complementarity goals include (1) logistical support, (2) improved compatibility between United States and Japanese forces, and (3) increased operational cooperation.

This complementary defense approach is consistent with present administration policies and, in our opinion, has excellent potential for reducing U.S. military expenditures overseas or redirecting resources to unmet needs. Japanese force improvements could be limited to defensive or support capabilities, consistent with its constitutional constraints.

We believe that various logistical support functions, such as inland transportation, water port general cargo operations, or war materiel storage, might be provided or shared by Japan. U.S. military officials in Japan informed us that Japan's aircraft maintenance and ammunition manufacturing facilities are also excellent candidates for implementing this concept.

General areas identified for increased operational cooperation include antisubmarine warfare, air defense, and airborne early warning. Japan's potential acquisition of the P-3C maritime patrol craft is viewed by U.S. military officials as having potential for reducing the heavy anti-submarine role of U.S. Forces. Greater communications and intelligence cooperation also may be possible.

The Subcommittee for Defense Cooperation first met in August 1976, a year after it was initially proposed, and had held two additional meetings as of January 1977. Although cost-sharing issues have yet to be addressed, the third meeting did establish an agenda of subjects to be discussed. This subcommittee would seem to be the appropriate forum for discussing specific areas for additional Japanese support, yet neither State nor DOD has acted to establish areas for mutual defense cooperation. No specific objectives or milestones have been developed by the United States, and we were unable to identify specific priorities assigned to the general areas identified above.

LABOR COST SHARING

Because of DOD's high Japanese national labor costs and the direct benefits to Japan's economy, sharing these costs with the GOJ offers excellent potential. About 24,000 Japanese are employed by the GOJ and assigned to U.S. military installations under three employment contracts: master labor, indirect hire, and mariners.

The GOJ pays the employees' salaries and allowances and is reimbursed by the U.S. military services for these expenditures plus administrative costs. The annual wage increase is determined through negotiations, but the established procedure is to give these employees the same proportional increase as received by GOJ's national public service employees.

Rising cost of Japanese labor

Due to annual wage increases averaging 12.4 percent over the past 10 years, the cost of DOD's Japanese employees has tripled even though the force has been cut in half. Employee salaries now average \$13,000 annually and are fast approaching U.S. Civil Service rates. The annual payroll for Japanese employees is nearly \$400 million, and the U.S. Government's related cumulative retirement liability exceeds \$300 million. Because employee retirement pay is based on the salary at the time of separation, the retirement liability is raised in proportion with each annual pay increase. Appendix I shows a historical perspective of the rising labor costs despite personnel reductions.

Labor cost reduction efforts

U.S. military officials in Japan said the GOJ-approved wage increase is almost always accepted because DOD's policy is to pay prevailing wages. U.S. efforts have concentrated

on reducing associated benefits and allowances. Accomplishments include reducing the mandatory retirement age from 65 to 60 and reducing the workweek to 40 hours. Although these efforts have reduced wage costs, they have been piecemeal in nature and have not solved the problem.

Another DOD method of dealing with rising labor costs has been to contract out services performed by master labor employees. According to U.S. military officials, contractors are able to provide some services at less cost than in-house employees. For example, by converting three Yokota Air Base projects to contract, the Air Force estimates \$1.8 million will be saved over a 3-year period. However, U.S. efforts to make greater use of contracts have been limited by adverse Japanese political reaction, especially by the Japanese national labor force. This results in recruiting problems and in negotiating difficulties with labor unions.

The most common method of coping with escalating Japanese labor costs has been personnel reductions. Since 1972 more than 24,000 Japanese nationals have lost their jobs. These reductions resulted primarily from (1) cost-saving measures due to budget limitations and (2) changes in U.S. Force missions. As a result DOD has become a marginal employer, and employee relations have suffered. Laying off employees to reduce costs is against Japanese custom and has resulted in recruiting difficulties. Although not a critical issue in peacetime, it is questionable whether a rapid Japanese work force expansion to meet major DOD contingency needs could be achieved. Further personnel cuts to hold down costs could impair DOD's ability to carry out current missions. A more desirable alternative is for the GOJ to share these labor costs.

Labor cost sharing--a solution

Cost sharing is not a new concept. In June 1972 the Japanese Finance Minister announced he was studying a plan for the GOJ to share U.S. Force defense expenditures in Japan to avoid further revaluation of the yen. Cost sharing was brought up again in November 1972 by the Director General of the Japanese Defense Facilities Administration Agency during negotiations with U.S. Forces over the master labor contract. In commenting on a U.S. proposal to freeze the pay differential to a flat amount rather than a percentage of base pay, he said this was unfair to the employees and it would be better to explore cost sharing by the Japanese Government.

A May 1973 DOD study contained proposals for the GOJ to share DOD's local national costs, but it was never discussed with the GOJ. During our review of this matter in June 1976, the State Department and DOD jointly agreed to reexplore labor cost-sharing possibilities. Both U.S. Embassy and military officials in Japan expressed interest in labor cost sharing.

Examples of labor cost-sharing methods that could be explored with Japan include having it pay for (1) a fixed percentage of the local national payroll cost, (2) local national severance pay, (3) all local national costs above an established ceiling, or (4) specific types of support functions performed by local national employees. Additional possibilities are changing the method of computing retirement or including local national employees under Japan's national social security system. The method used would have to be politically acceptable to Japan.

Problems in implementing cost sharing

The Status of Forces Agreement could be a problem since it requires the United States to bear all expenditures to maintain U.S. Forces in Japan except for base land rentals and associated costs. Any labor cost-sharing arrangement would have to be developed within the framework of this agreement because neither country wants it renegotiated. U.S. officials believe this can be done.

Another concern was that GOJ expenditures for labor cost sharing could detract from its expenditures for military modernization. This was based on the assumptions that (1) Japan will continue to limit its defense expenditures to 1 percent of the gross national product and (2) any labor cost sharing would be funded out of the defense budget. U.S. military officials believe that the 1-percent barrier is increasingly being recognized as unrealistic by Japan. As for the second assumption, we identified certain defense personnel expenses not included in Japan's defense budget. For example, annuities for retired defense agency personnel are funded under the general welfare system. Although the present master labor contract retirement system is a lump sum payment, a switch to the Japanese annuity system could result in the GOJ funding retirement costs from nondefense appropriations. Depending on the arrangement, various cost savings could result. The annual DOD retirement accrual for Japanese employees is about \$20 million.

The U.S. Forces, Japan, and Japan's Defense Facilities Administration Agency concluded a joint study of labor issues in November 1976, after 23 meetings. The U.S. negotiators sought revisions in the retirement allowance system and the pay differential. Japanese negotiators addressed five issues of concern to Japanese employees. A final report was submitted to the United States-Japan Joint Committee on December 1, 1976, and this committee has been given the task of working out a proposal by November 1977 to solve the issues. This study, however, did not address labor cost sharing.

JOINT USE

The Status of Forces Agreement allows joint use of military installations not fully used by U.S. Forces, provided the Governments agree such use would not be harmful to U.S. interests. A number of military installations are jointly used by the U.S. military and various Japanese organizations, including Japan's Self Defense Force and commercial activities. The GOJ user shares the facilities' costs. In May 1976, 38 of the 138 installations used by U.S. Forces in Japan were covered by some form of joint-use agreement. Increased joint use, particularly with the Self Defense Force, offers a way to reduce U.S. operating costs at underused installations without harming peacetime or wartime contingency missions.

Potential candidates

Although we did not make a detailed analysis at all installations, we believe opportunities exist for increased joint use. The Army has several large underused bases in Japan held primarily for potential future contingencies, including Sagami Depot (538 acres), Makiminato Service Area (767 acres), and Yokohama North Dock (124 acres). An overriding consideration may be whether the Army needs to retain these installations, but, if retained, they would have excellent potential for joint use. Maintenance and repair facilities, training areas, and ammo storage areas are examples of other potential joint-use facilities.

The U.S. Forces in Japan agreed that joint use of underused facilities may be advantageous, provided that reaccess rights could be secured and operational difficulties accommodated. This could be accomplished by appropriate clauses in the implementing agreement, and an exchange of notes between the two Governments could be used to insure high-level support.

The advantages of joint-use arrangements include cost savings to the United States, increased opportunities for cooperation with Japan, the meeting of Self Defense Force needs, and better use of increasingly expensive facilities. DOD has not taken the initiative in proposing joint-use arrangements, and we believe additional opportunities exist.

CHAPTER 4

CONCLUSIONS, RECOMMENDATIONS, AND

AGENCY COMMENTS

In comparing the continuously large U.S. bilateral trade deficits with Japan and the multibillion dollar cost of stationing U.S. Forces in Asia with Japan's modest defense expenditures and tremendous economic capabilities, we concluded that the United States is justified in seeking increased Japanese support for the common defense costs. There are recognized political constraints on how far Japan can go, but a measurable level of increase should be possible.

A logical first step is to develop comprehensive objectives and priorities that meet U.S. interests. The goals of complementarity appear to offer a realistic approach in this direction. Although mutual cooperation is subject to mutual determination of how it will be achieved, the U.S. Government should establish its own position before holding discussions with Japan. Accordingly, we recommend that the Secretaries of State and Defense jointly reexamine possible cost-sharing methods, including those discussed in this report, and develop definitive plans for exploring additional cost-sharing opportunities with the GOJ. Important considerations include the

- missions, functions, or costs Japan can and should assume;
- impact on the U.S. military posture in Japan;
- possible U.S. cost savings or increased United States-Japan military capability; and
- target dates to discuss actions identified.

Positive U.S. action to initiate cost-sharing arrangements could lead to a more equitable sharing of common defense interests. Two potential areas are labor cost sharing and joint use of defense installations.

DOD's Japanese employees cost \$400 million annually, and the total related retirement liability exceeds \$300 million. In view of past wage increases and funding constraints, it appears doubtful that existing force levels and missions can be maintained without increased U.S. costs or some form of

cost sharing. Moreover, continued local national labor reductions may jeopardize U.S. ability to meet labor needs in the event of a contingency.

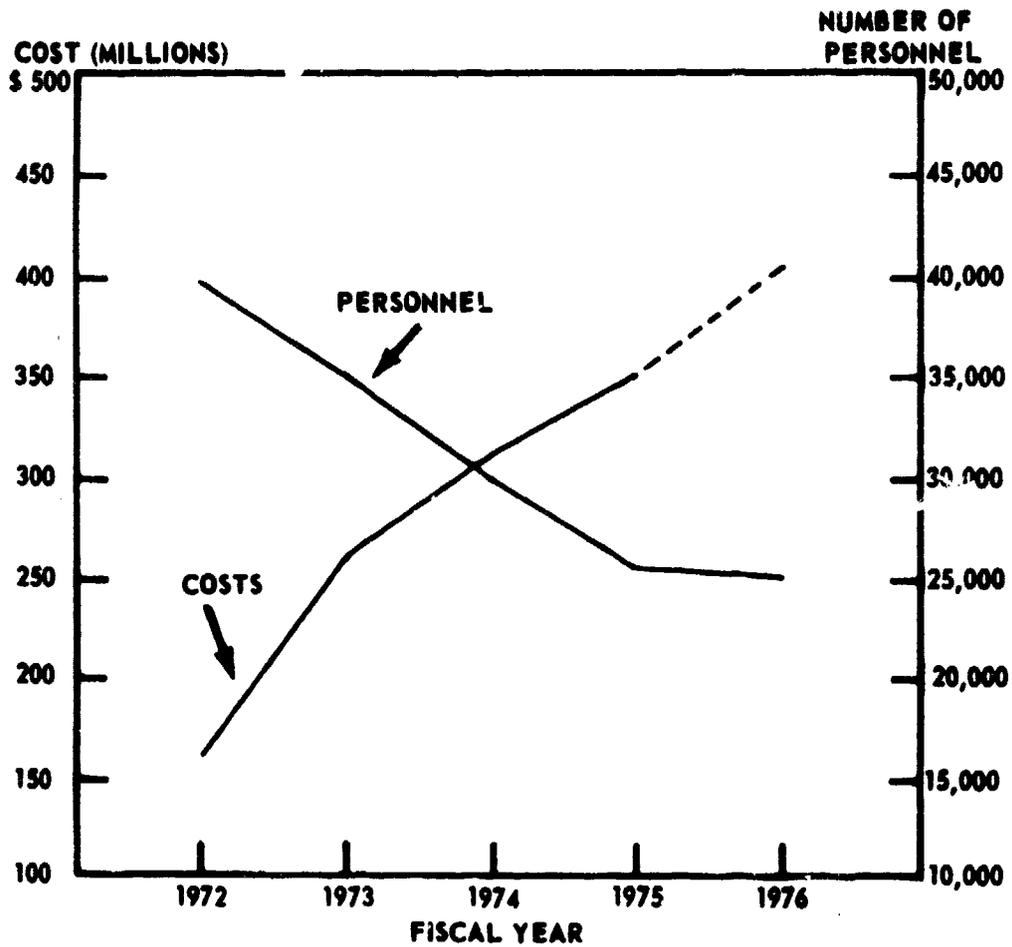
The recent decision to reconsider labor cost sharing is encouraging, but no target dates for taking action have been set. We recommend that the Secretaries of State and Defense begin negotiations to implement a labor cost-sharing arrangement.

We also recommend that the Secretary of Defense review the use of military installations in Japan to identify potential joint-use candidates, and then act to establish joint use of installations so identified. Underused Army installations would seem to be obvious joint-use candidates.

AGENCY COMMENTS

DOD stated that our report accurately reflects the cost-sharing problems in the United States-Japan security relationship and concurred with our conclusions and recommendations. The Department of State agreed with our recommendation to develop plans for exploring additional cost-sharing methods with the GOJ but said that other proposals in the report will require further study before a position is taken.

COST AND NUMBER OF MASTER LABOR CONTRACT EMPLOYEES IN JAPAN



---Estimated



DEPARTMENT OF STATE

Washington, D.C. 20520

March 1, 1977

Mr. J. K. Fasick
Director
International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Fasick:

I am replying to your letter of December 28, 1976, which forwarded copies of the draft report: "Opportunity for More Equitable Defense Cost Sharing Between the US and Japan."

The enclosed comments to the draft report were prepared by the Deputy Assistant Secretary for East Asian and Pacific Affairs.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Daniel L. Williamson, Jr.", written in a cursive style.

Daniel L. Williamson, Jr.
Deputy Assistant Secretary
for Budget and Finance

Enclosure:

Comments

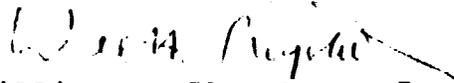
DEPARTMENT OF STATE COMMENTS ON GAO DRAFT REPORT:
"OPPORTUNITY FOR MORE EQUITABLE DEFENSE COST
SHARING BETWEEN THE US AND JAPAN"

The Department of State has no objection to the publication of this report in an unclassified form with the changes noted in the attached draft. We have passed other specific comments orally to the GAO drafters.

We do wish to note that the report, by the very nature of its subject material, takes a relatively narrow view of the issue of cutting US defense costs in Japan. Certain of the report's proposals, therefore, will require further study before the Department can take a position.

The Department's concurrence to publication of this report should be taken in light of the foregoing observation.

The Department agrees with the report's conclusion that it would be appropriate for the Secretaries of State and Defense to reexamine jointly possible cost sharing methods and to develop plans for exploring this subject further with the GOJ.



William H. Gleysteen, Jr.
Deputy Assistant Secretary
Bureau of East Asian and Pacific Affairs

CONFIDENTIAL

DEFENSE SECURITY ASSISTANCE AGENCY
AND
DEPUTY ASSISTANT SECRETARY (SECURITY ASSISTANCE) OASD/ISA
WASHINGTON, D.C. 20301

27 APR 1977

In reply
refer to: 1-25851/76

Mr. J. Kenneth Fasick
Director, International Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Fasick:

(U) This is in reply to your letter to the Secretary of Defense regarding GAO's revised draft report of February 1977, "Opportunity for More Equitable Sharing of the U.S./Japan Defense Burden" (OSD Case #4498), (ID 77-8).

(C) In general, we found the report to accurately reflect the cost-sharing problems in the U.S./Japan security relationship. We concur with the conclusions and recommendations and are submitting additional comments at the enclosure. [See GAO note 1.]

(U) DOD is conducting the requested security classification review of the draft and the results will be furnished separately.

Sincerely,

A handwritten signature in dark ink, appearing to read "H. M. Fish".

H. M. Fish
Lieutenant General, USAF
Director, Defense Security Assistance Agency
and
Deputy Assistant Secretary (ISA), Security Assistance

Attachment
a/s

[See GAO note 2.]

- GAO notes: 1. For declassification of this paragraph, see appendix IV.
2. The attachment has been omitted because its comments have been either incorporated into this report or relate to material discussed in our draft report but not included in this final report.

CONFIDENTIAL



DEFENSE SECURITY ASSISTANCE AGENCY
AND
DEPUTY ASSISTANT SECRETARY (SECURITY ASSISTANCE). OASD/ISA
WASHINGTON, D.C. 20301

4 MAY 1977

In reply
refer to: I-25851/77

Mr. J. Kenneth Fasick
Director, International Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Fasick:

Reference is made to my letter I-25851/77 of 27 April 1977 concerning GAO's revised draft report of February 1977, "Opportunity for More Equitable Sharing of the U.S./Japan Defense Burden" (OSD Case #4498), (ID 77-8).

This is to advise you that referenced letter should be declassified effective 27 April 1977 per authority of Director, DSAA. The classification marking of CONFIDENTIAL (C) in paragraph 2 should be lined through and replaced by UNCLASSIFIED (U).

Sincerely,

A handwritten signature in dark ink, appearing to read "H. M. Fish". The signature is fluid and cursive, written over a light background.

H. M. FISH
Lieutenant General, USAF
Director, Defense Security Assistance Agency
and
Deputy Assistant Secretary (ISA), Security Assistance

PRINCIPAL OFFICIALS RESPONSIBLE
FOR ADMINISTRATION OF
ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF STATE</u>		
SECRETARY OF STATE:		
Cyrus R. Vance	Jan. 1977	Present
Henry A. Kissinger	Sept. 1973	Jan. 1977
William P. Rogers	Jan. 1969	Sept. 1973
ASSISTANT SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS:		
Richard Holbrooke	Jan. 1977	Present
Philip C. Habib	Sept. 1974	Jan. 1977
Robert S. Ingersoll	Jan. 1974	Sept. 1974
Arthur W. Hummel, Jr.	May 1973	Jan. 1974
UNITED STATES AMBASSADOR TO JAPAN:		
Thomas P. Shoesmith (acting)	Mar. 1977	Present
James D. Hodgson	June 1974	Mar. 1977
Robert S. Ingersoll	Apr. 1972	<u>1</u> /Jan. 1974

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:		
Harold Brown	Jan. 1977	Present
Donald H. Rumsfeld	Nov. 1975	Jan. 1977
James R. Schlesinger	July 1973	Nov. 1975
ASSISTANT SECRETARY OF DEFENSE (INTERNATIONAL SECURITY AFFAIRS):		
Eugene V. McAuliffe	May 1976	Present
Amos A. Jordan (acting)	Dec. 1975	May 1976
Robert Ellsworth	June 1974	Dec. 1975
Amos A. Jordan (acting)	Jan. 1974	May 1974

1/Position vacant Feb.-May 1974.