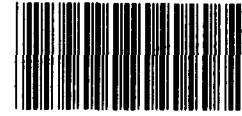


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Allied Contributions in Support  
of Operations Desert Shield and  
Desert Storm

Statement of  
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Before the  
Committee on Ways and Means  
House of Representatives



I appreciate the opportunity to testify today on the status of allied contributions to support Operations Desert Shield and Desert Storm and the use of these contributions to defray U.S. costs. In summary, we believe that the Office of Management and Budget's (OMB) reports, for the most part, accurately reflect the status of allied pledges and contributions. However, we note that some pledges have been revised, and the reported value of in-kind support is, in some cases, based on estimated rather than actual costs.

We believe that allied cash contributions should be sufficient to finance U.S. funding requirements to pay for the incremental costs of the war in the Persian Gulf and, that U.S. taxpayers' funds will, therefore, not be needed. We note that DOD's funding requirements will be less than OMB's estimate of incremental costs because, for example, some equipment lost during the war will not be replaced, and other costs are being satisfied through in-kind support furnished by our allies.

#### STATUS OF ALLIED CONTRIBUTIONS

Since the Iraqi invasion of Kuwait, the European Commission (EC) and 49 countries have contributed support for the Persian Gulf crisis. These contributions include the deployment of military forces to the Gulf region, cash transfers to the U.S. Treasury, in-kind support to U.S. forces in Saudi Arabia and other Gulf states,

and economic assistance to countries affected by the U.N. economic embargo against Iraq. Some countries have also provided other support, such as basing and overflight rights, military assistance to countries affected by the hostilities, and assistance to Kurdish refugees.

#### Military Contributions

During the Persian Gulf crisis, 36 countries sent ground, air, or naval forces or support units to the Gulf region. These forces participated directly in the multinational force or provided support by, for example, interdicting vessels suspected of violating the U.N. embargo, performing combat and combat support missions during Operation Desert Storm, and deploying medical personnel or chemical detection equipment.

#### Cash Contributions and In-Kind Support to the United States

Allied contributions to the United States have consisted of cash transfers to the Defense Cooperation Account<sup>1</sup> and in-kind support, including food, fuel, water, transportation, material, and facilities. Major contributors include Saudi Arabia, Kuwait, the United Arab Emirates, Japan, Germany, and Korea.

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<sup>1</sup>Public Law 101-403 (Oct. 1, 1990), established this account to accept contributions to the Department of Defense (DOD), including money and proceeds from the sale of any property donated to DOD.

As required by the Persian Gulf Conflict Supplemental Authorization and Personnel Benefits Act, OMB is providing monthly reports on contributions and incremental costs. In its latest report, dated July 15, 1991, OMB reported that our allies had pledged about \$54 billion and contributed about \$44.5 billion, including \$39.1 billion in cash and \$5.4 billion in in-kind support. As of July 30, 1991, DOD had received an additional \$1.6 billion in cash; therefore, contributions are currently about \$46.1 billion.

Table 1 shows the breakdown of pledges and contributions.

Table 1: Allied Pledges and Contributions to the United States  
Dollars in millions

	Pledges			Contributions			Future Receipts	Percent of Pledge Met
	1990 <sup>a</sup>	1991 <sup>a</sup>	Total	Cash <sup>b</sup>	In-Kind <sup>c</sup>	Total		
Saudi Arabia	\$3,339	\$13,500	\$16,839	\$ 9,036	\$3,693	\$12,729	\$4,110	76
Kuwait	2,506	13,500	16,006	12,475	32	12,507	3,499	78
United Arab Emirates	1,000	3,087	4,087	3,870	217	4,087	0	100
Japan	1,740	8,332	10,072	9,376 <sup>d</sup>	567	9,943	129	99
Germany	1,072	5,500	6,572	5,772 <sup>d</sup>	782	6,554	18	99
Korea	80	275 <sup>e</sup>	355	150	70	220	135	62
Other <sup>f</sup>	3	18	21	4	17	21	0	100
<b>Total</b>	<b>\$9,740</b>	<b>\$44,212</b>	<b>\$53,952</b>	<b>\$40,683</b>	<b>\$5,378</b>	<b>\$46,061</b>	<b>\$7,891</b>	<b>85</b>

<sup>a</sup>1990 pledges covered August through December 1990. 1991 pledges covered January through March 1991.

<sup>b</sup>Cash contributions are as of July 30, 1991.

<sup>c</sup>In-kind contributions are as of June 30, 1991.

<sup>d</sup>Of these amounts, Japan and Germany specified that \$961 million and \$272 million, respectively, were for transportation expenses. Other countries did not place conditions on their contributions.

<sup>e</sup>Includes \$25 million pledge under the 1990 pledge, but reserved for 1991.

<sup>f</sup>Includes Italy, Oman, Qatar, Bahrain, and Denmark.

We believe that, for the most part, OMB's July 15, 1991 report accurately reflects the status of allied pledges and contributions. I would like to make some observations, however, regarding the Japanese and Korean pledges, the status of future receipts, and DOD's valuation of in-kind support.

Reductions in Pledges  
of Japan and Korea

In its earlier reports, OMB stated that allied pledges totaled about \$54.6 billion. OMB recently revised this figure to about \$54 billion to reflect a reduction in the 1991 Japanese and Korean pledges. According to administration officials, the pledges were reduced due to a misunderstanding between governments.

To our knowledge, no formal written agreements were signed regarding these pledges. According to administration officials, U.S. and Japanese officials met during January 1991 to discuss Japan's pledge for 1991. Japan pledged \$9 billion in cash and U.S. officials believed that this pledge was solely for the United States. However, in early February 1991, the Japanese government issued a press release stating that the \$9 billion was for financial support of the multinational forces, subject to the Japanese Diet's approval.

The Japanese Diet approved the pledge in March 1991, however due to a decline in the yen, the dollar value of the pledge had decreased

to about \$8.532 billion. Of this amount, Japan disbursed \$7.832 billion to the United States and \$700 million to other countries. In July 1991, Japan contributed an additional \$500 million to the United States to cover post-combat expenses, bringing the total to \$8.332 billion. On July 11, 1991, President Bush met with Prime Minister Kaifu and accepted the Japanese government's position regarding the allocation of the 1991 pledge. OMB then reduced the pledge amount to \$8.332 billion to reflect the actual amount paid.

The Korean government issued a statement on its 1991 pledge in January 1991 and specified that the pledge was \$280 million "for the multinational force in the Gulf, the U.S. in particular." Korea had previously reserved \$25 million of its 1990 pledge for 1991, therefore, the additional \$280 million increased the total to \$305 million. In February 1991, the Korean Minister of Defense, in a letter to Secretary Cheney, stated that the 1991 pledge was only for the U.S. government. However, in June 1991, the Vice Minister of Foreign Affairs, in a letter to the U.S. embassy charge d'affaires, stated that the pledge was for the multinational force, including the United States. In July 1991, the administration accepted this position, and OMB reduced the pledge by \$30 million.

#### Status of Future Receipts

Of the \$7.9 billion in future receipts, DOD expects to receive about \$7.7 billion in cash, including \$4.1 billion from Saudi

Arabia; \$3.5 billion from Kuwait; and up to \$129 million from Japan. The remainder will be in in-kind support from Germany and Korea. Saudi Arabia has not provided a timetable for payment of its pledge, but DOD expects Kuwait to provide full payment by the end of fiscal year 1991. The exact amount of cash to be paid by Japan will be determined after final deliveries of in-kind material occur and the Japanese government pays suppliers. These deliveries consist of items, such as medical supplies, that were ordered but not delivered before hostilities ended and are now being shipped to stateside sites.

Germany has completed deliveries of in-kind support. The total of Germany's in-kind contributions, \$782 million, does not reflect all of the costs Germany incurred to transport U.S. troops and equipment to German ports and overstates the value of certain vehicles. DOD officials are developing an estimate of transportation costs and have asked the German government to provide input. Our review of DOD's valuation showed that DOD inadvertently overstated the value of heavy transport vehicles and trucks by about \$44 million. DOD plans to adjust the total to reflect an increase for the transportation costs and a reduction for the vehicles.

Korea's balance of \$135 million reflects in-kind support due against its revised 1991 pledge of \$275 million. The Korean government announced its 1991 pledge in January 1991, and since

that time, DOD and Korean officials have been discussing U.S. requirements for in-kind support. To satisfy the balance, the Korean government intends to provide \$85 million in airlift and sealift to transport cargo from the Persian Gulf and \$50 million in in-kind material to replenish stocks drawn from inventories belonging to U.S. Forces, Korea, during Desert Shield and Desert Storm. Items offered include chemical protective clothing, vehicles, and gas masks.

DOD advised the Korean government that no additional airlift is required but that additional sealift assets may be needed. Since September 1990, Korea has provided four ships per month, and DOD estimates that it can use these ships through November 1991. Korea has offered additional ships, and DOD is reviewing this offer. DOD recently agreed to accept Korea's offer of \$50 million in material, provided the items replace losses to U.S. Forces Korea's inventory for support of Desert Shield and Desert Storm and meet U.S. operational requirements and specifications. DOD has worked with the Korean government to ensure that these conditions are met and has revised the list of items initially offered. We are currently reviewing this matter.

#### Valuation of In-Kind Support

OMB has reported receipts of in-kind support valued at about \$5.4 billion. This value is based on cost data compiled by the U.S.



Transportation Command and the U.S. Central Command. When command officials did not have access to actual expenditures, they estimated the value using information provided verbally from local suppliers, prices paid under previously held U.S. contracts, and standard U.S. cost factors. As a result, the assigned value may differ from the actual cost incurred by the contributing country. For example, Central Command officials used a standard price per gallon to value fuel supplied to U.S. troops in Saudi Arabia based on the average price paid by DOD in September 1990 for jet fuel. The actual amount paid by the Saudi government is unknown.

Economic Assistance to  
"Frontline States" and  
Other Countries

In addition to cash and in-kind support to the United States, the EC and 24 countries pledged economic assistance to Turkey, Jordan, and Egypt, referred to as "frontline states," and to other countries affected by the economic embargo against Iraq. This support includes import financing grants, project assistance grants, and concessional loans. As of May 10, 1991, State reported that these pledges were about \$16.1 billion for 1990 and 1991, and contributions were about \$8.9 billion.

Table 2 shows the status of pledges and contributions.

Table 2: Economic Assistance to Frontline States and Other Countries  
(as of May 10, 1991) Dollars in millions

Donor	Frontline states		Other countries <sup>a</sup>		Total	
	Pledge	Contribution	Pledge	Contribution	Pledge	Contribution
<u>Gulf States</u>	\$6,168	\$3,863	\$3,636	\$2,845	\$9,804	\$6,708
Saudi Arabia	2,848	2,188	1,833	1,463	4,681	3,651
Kuwait	2,500	855	1,184	763	3,684	1,618
United Arab Emirates	820	820	619	619	1,439	1,439
<u>European Community</u>	3,039	1,225	177	1	3,216	1,226
EC funds	805	624	0	0	805	624
France	200	0	30	0	230	0
Germany	1,195	462	137	0	1,332	462
Italy	650	37	9	0	659	37
Other <sup>b</sup>	189	102	1	1	190	103
<u>Japan</u>	2,126	803	481	0	2,607	803
<u>Others</u>	413	112	99	62	512	174
Korea	98	19	17	2	115	21
Norway	24	7	82	60	106	67
Switzerland	120	16	0	0	120	16
Other <sup>c</sup>	171	70	0	0	171	70
<b>Total</b>	<b>\$11,746</b>	<b>\$6,003</b>	<b>\$4,393</b>	<b>\$2,908</b>	<b>\$16,139</b>	<b>\$8,911</b>

<sup>a</sup>Bangladesh, Djibouti, Lebanon, Morocco, Pakistan, Somalia, Syria, and Tunisia.

<sup>b</sup>Belgium, Denmark, Ireland, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom.

<sup>c</sup>Australia, Austria, Canada, Finland, Iceland, and Sweden.

#### Other Types of Contributions

In addition to military, economic, and in-kind support, our allies have contributed in other ways. For example, Germany deployed a fighter squadron to Turkey and ships to the eastern and central Mediterranean Sea and pledged about \$2.7 billion in

military assistance to Turkey, Israel, and the United Kingdom. Also, some of our NATO allies and certain Gulf countries have granted military basing and transit rights, and several countries provided assistance to Kurdish refugees.

USE OF ALLIED CONTRIBUTIONS  
TO DEFRAY U.S. COSTS

The United States has committed considerable resources to support Operations Desert Shield and Desert Storm. We estimate that the total cost of the operation exceeds \$100 billion. Our allies have pledged about \$54 billion, or about half, of the total cost. The total cost is divided into three components. The first component is the U.S. investment of about \$50 billion to pay, equip, and otherwise maintain a force of 540,000 personnel. Second, we estimate up to \$10 billion in other related costs, such as the forgiveness of Egypt's \$7 billion debt to the United States.

The third component is the incremental costs of conducting Desert Shield and Desert Storm, or those costs that DOD would otherwise not have incurred, including combat costs. OMB reported that these costs were about \$42.2 billion from August 1990 through May 1991. OMB also reported that estimated remaining costs, such as redeployment, personnel costs, and repair of equipment will be an additional \$19 billion--bringing the total incremental cost to

about \$61 billion. We are currently reviewing the basis for this estimate.

Incremental Costs Are Higher  
Than Funding Requirements

While the United States has incurred substantial incremental costs to conduct Desert Shield and Desert Storm, there is an important distinction between these costs and funding requirements. Specifically, not all of the costs translate into new funding requirements. Funding requirements represent outlays that the United States has made or will ultimately be required to make, either from funds contributed by our allies or from U.S. taxpayers' funds. For example, the incremental costs reported by OMB include the value of equipment lost that will not be replaced, such as a B-52 aircraft, and, therefore, funding requirements would be less. Further, the costs include fuel and other items provided by our allies as in-kind support and, therefore, do not require any U.S. funding.

In contrast to a \$61 billion estimate of total incremental costs, OMB reported incremental funding requirements for fiscal years 1991 and 1992 to be \$47.5 billion. This figure does not include actual requirements of \$2.1 billion funded with U.S. monies for fiscal year 1990. Combined, the total funding requirement through fiscal year 1992 is \$49.6 billion. Of the \$47.5 billion, \$47.1 billion represents DOD funding needs and the other \$400

million represents miscellaneous funding needs for several other federal agencies, including the Departments of State, Veterans Affairs, and Education. Of the \$47.1 billion in DOD funding requirements, \$22.3 billion has been obligated through May 31, 1991. From May 31, 1991 through the completion of the operation, DOD expects to obligate an additional \$2.4 billion for military personnel, \$15.3 billion for operation support, including equipment maintenance and refurbishment, subsistence, and fuel, \$5.4 billion for procurement, and \$1.5 billion to replenish the stock funds. We are currently reviewing the basis for these funding requirements and reconciling the details to the total requirement.

To date, our allies have contributed about \$40.7 billion in cash, and an additional \$7.7 billion is expected, making about \$48.4 billion available to meet U.S. funding requirements. Therefore, we believe that fiscal year 1991 and 1992 funding requirements can be fully financed from allied contributions without using U.S. taxpayers' funds.

Mr. Chairman, that concludes my statement. I would be happy to respond to questions at this time.

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