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Cost of Operation Desert Shield and Desert Storm and Allied Contributions

Statement of
Frank C. Conahan, Assistant Comptroller General
National Security and International Affairs
Divtsion

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Committee on Budget
House of Representatives

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I appreciate the opportunity to testify today before this Committee on the cost of Operations Desert Shield and Desert Storm and allied contributions to help defray this cost. At the outset, I would like to emphasize that the Office of Management and Budget (OMB) reports on the incremental costs of the Operations. We have reported on both incremental and total costs and now estimate that total costs could exceed $100 billion. Our allies have pledged about $54.6 billion or about half of the total cost. Having said that, I will present our views on the Administration's most recent cost estimates, the differences between estimated costs and funding requirements, and the extent to which taxpayer financing will be required.

In summary, we believe that, for the most part, OMB's and the Department of Defense's (DOD) estimated cost through May 1991 is reasonable, but we believe that the estimate of future costs is unsupported and appears high. More importantly, we believe that incremental funding requirements will be substantially less than OMB's cost estimate, and that fiscal year 1991 incremental funding needs can be fully financed through allied contributions to the Defense Cooperation Account.

COST ESTIMATE CONCERNS

As you know, OMB, as required by the Persian Gulf Conflict Supplemental Authorization and Personnel Benefits Act, is providing monthly reports on the incremental costs of Operation Desert Storm[1]. OMB's latest report, dated April 27, 1991, lists incremental costs of $31.6 billion, including combat costs, from the inception of the operation in August 1990 through February 1991. OMB's report states that additional costs will include the phasedown of operations; redeployment of forces; equipment

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[1]These reports include the cost of Operation Desert Shield as well. I shall refer to Operations Desert Shield and Desert Storm as the operation for the balance of this statement.

refurbishment, that is, repair, rehabilitation, and maintenance, caused by high operating rates and combat use during the war; and long-term benefit and disability costs. OMB reports that the costs reported through February 1991 plus these additional costs are expected to result in total incremental costs of $60 billion or more.

DOD estimates the cost for a three month post-combat period and redeployment will total about $12.2 billion. The remaining cost of at least $16.2 billion ($60 billion minus $43.8 billion, the sum of reported costs through February of $31.6 billion and estimated phasedown and redeployment costs of $12.2 billion) is primarily due to the cost of equipment refurbishment.

We have not had the opportunity to fully evaluate the $31.6 billion in incremental cost OMB reported through February, but we have seen no evidence to dispute the bulk of this cost estimate. One concern we do have involves the inclusion of the higher fuel prices DOD is paying for non-operation related activities worldwide, which total about $1.6 billion for the period reported. We do not believe higher fuel prices to be a cost of the operation. A second concern we have is that the estimate may also reflect higher-than-actual costs charged by DOD's revolving fund accounts. Because of the increased volume of services provided, revolving fund operations, such as air and sea transportation and depot maintenance, might have charged users higher-than-actual costs. As we testified in February, the revolving funds may ultimately rebate or credit the overcharges back to the using services. This would reduce the services' fiscal year 1992 budget needs.

We also have not had an opportunity to evaluate DOD's $12.2 billion estimate for the three month post-combat period and redeployment, but have seen no evidence to dispute it. We

understand that OMB will report a March cost estimate of $4.6 billion.

The residual $16.2 billion for additional costs is unsupported. DOD has not yet developed an estimate for the majority of these costs. In addition, the residual cost appears high because some funds are already available for equipment refurbishment. Specifically, DOD's fiscal year 1991 budget includes $8.4 billion for depot maintenance. Depot maintenance programs fund the overhaul, repair, and maintenance of aircraft, missiles, ships, combat vehicles, and other equipment, including the overhaul and repair of engines and other exchangeable component parts. While this budget is for all of DOD, given the large volume of equipment deployed to the Persian Gulf, it is reasonable to assume that a portion of these funds would have been available for refurbishing this equipment. Furthermore, DOD's post-combat phasedown cost estimate includes $600 million for all equipment to be inspected and fully repaired using in-theater spare parts. Consequently, while the final cost of equipment repair and maintenance remains unknown at this time, we believe the incremental cost could be less than $16.2 billion.

Finally, although there may be additional costs, there may also be reductions in future budget needs because of the buildup of inventories that were not needed as a result of the war's short duration.

Overall we believe that the cost of the operation could total more than $100 billion if you include the approximately $50 billion we estimate it cost the United States to raise, equip, and maintain the force that was deployed and as much as $10 billion in other costs, including $7 billion in debt forgiveness for Egypt.

INCREMENTAL COSTS VS INCREMENTAL FUNDING REQUIREMENTS

An important distinction needs to be made between costs and funding needs. Funding requirements represent outlays that the United States will ultimately be required to make, either from funds contributed by the allies or from the new budget authority provided by the Congress. The $43.8 billion in incremental costs reported by OMB and DOD for operations and redeployment includes $31.6 billion for operations through February 1991 and $12.2 billion in post-combat phasedown and redeployment costs. The $43.8 billion in incremental costs for operations and redeployment includes actual expenditures, the value of assistance-in-kind, and anticipated expenditures for which DOD has not actually obligated funds. Anticipated expenditures include such items as the replacement of equipment destroyed in the war, the deactivation of Ready Reserve Fleet ships, and the restocking of maritime prepositioned ships. Some anticipated expenditures may never translate into obligations because DOD may choose not to make certain expenditures.

On the basis of our review of DOD's data on obligations and costs and of OMB's reports, we believe that incremental funding requirements for fiscal year 1991 for the operation will be about $33 billion. There are three reasons for the difference between our funding estimate and OMB's higher cost estimate, which involve costs incurred in fiscal year 1990, the treatment of assistance-in-kind, and other costs that may not require funding.

One reason is that OMB's report includes fiscal year 1990 costs of $3.3 billion, which have already been funded. A second reason is that OMB is using cost estimates rather than actual costs. Using DOD's obligations data as a measure of actual costs suggests such costs are considerably lower than OMB's reported costs. For example, DOD reported obligations for the first quarter of fiscal year 1991 of $5.8 billion for the operation

while OMB reported estimated costs of $9.9 billion. This is a difference of $4.1 billion. Obligations data are not yet available for January and February 1991, but DOD officials have advised us that obligations will be substantially lower than OMB's reported costs for January and February.

OMB's reported cost estimate of $9.9 billion is in part higher than obligations because costs include the value of assistance-in-kind provided by our allies, which do not require DOD to obligate funds since they are received free. In the first quarter of fiscal year 1991, OMB reported assistance-in-kind of $1 billion. This accounts for about one-fourth of the $4.1 billion difference between first quarter obligations and costs. We have been attempting to correlate obligations and reported costs to better understand the balance of the disparity between the two; however, to date DOD has not provided us with a reconciliation.

The third reason that obligations are lower than costs is that anticipated expenditures, which are included in OMB's reports, do not result in DOD's immediately obligating funds and may never result in the obligation of funds. For example, in its April 27 report, OMB reported procurement costs of $6.9 billion for the first five months of fiscal year 1991. This amount included $1.2 billion to reflect the value of major equipment destroyed during the conflict. However, because equipment losses were limited and the administration's current budget proposal includes a substantial reduction in the armed forces over the next several years, it may be unnecessary to replace destroyed equipment.

We believe that the reporting of anticipated expenditures, including combat losses, accounts for the substantial disparity between reported procurement costs and DOD's supplemental funding estimate. DOD originally estimated procurement needs of $6.4 billion in fiscal year 1991, but it revised this figure down to

$2.9 billion following the war's rapid conclusion. DOD's revised estimate is $4 billion less than OMB's reported cost, which suggests that many of the reported costs are anticipated expenditures that may never result in the obligation of funds.

Draw on New Appropriations Not Needed

To provide funding for the operation, Congress appropriated $15 billion to a newly established Persian Gulf Regional Defense Fund and authorized the transfer of funds in the Defense Cooperation Account to various DOD appropriations accounts. As of May 13, 1991, our allies had contributed about $32 billion to the Defense Cooperation Account and are expected to contribute an additional $15.3 billion, for a total of $47.3 billion.

On the basis of our estimated funding needs of $33 billion for operations through February 1991 and post-combat phasedown and redeployment and an as yet undetermined amount of the $16.2 billion in equipment refurbishment and other costs, which I described earlier, we believe that allied contributions will be sufficient to meet the incremental funding requirements for the operation. It will therefore not be necessary to draw funds from the $15 billion in new appropriations provided by Congress.

STATUS OF ALLIED CONTRIBUTIONS

Since the Iraqi invasion of Kuwait, 38 countries have contributed support for the Persian Gulf crisis. These contributions include the deployment of military forces to the Gulf region, cash payments 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 United Nations 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

Allied military contributions have included the deployment of ground, air, naval or support forces to participate in the multinational force supporting Desert Shield, Desert Storm and the maritime enforcement of the economic embargo. These forces, representing 31 countries, participated in combat and combat support missions during the military campaign against Iraq, and some remain to assist U.S. forces in enforcing the cease-fire agreement.

Cash Contributions and In-Kind Support to the United States

Major contributors of cash and in-kind support to the United States include Saudi Arabia, Kuwait, the United Arab Emirates, Japan, Germany, and Korea. As of May 1991, these countries had pledged about $54.6 billion to offset U.S. costs. According to State and DOD officials, no additional pledges are anticipated.

As of May 13, 1991, Saudi Arabia, Kuwait, the United Arab Emirates, Germany, Japan, and Korea had contributed about $32 billion in cash to the Defense Cooperation Account. Of this amount, Japan and Germany specified that the cash they had contributed toward their 1990 pledges was to be expended to transport U.S. troops, equipment, and materials to the Gulf region. Japan also requested that the cash contributions under its 1991 pledge be used for logistics related expenses.

In-kind contributions include food, fuel, water, transportation, material, and facilities. Major contributors include Saudi Arabia, the United Arab Emirates, Kuwait, Japan, Germany and Korea. As part of its 1990 pledge, Japan specified that its in-kind airlift and sealift support be used to transport cargo other than weapons, ammunition, or personnel. The other countries did not place conditions on the use of in-kind support.

As of May 13, 1991, DOD had reported receipts of in-kind support, through April 1991, valued at about $5.1 billion. Because the U.S. Central Command and the U.S. Transportation Command, which are responsible for determining the value of in-kind support, did not always have access to data on actual expenditures, this value may differ from the cost incurred by the contributor. For example, Central Command officials determined the value of food supplied to U.S. troops in Saudi Arabia based on the amount paid to contractors under U.S. contracts before the Saudi government assumed responsibility for the contracts in November 1990. The actual amount paid by the Saudi government is unknown.

The breakdown of pledges and contributions is shown as follows:

Allied Pledges and Contributions for Cash and In-Kind Support to the United States
(U.S. dollars in millions)

	Pledges			Contributions			Balance Remaining	Percent of Pledge Met
	1990	1991	Total	Cash (5/13/91)	In-Kind (4/30/91)	Total		
Saudi Arabia	3,339	13,500	16,839	4,536	3,407	7,943	8,896	47
Kuwait	2,506	13,500	16,006	9,250	24	9,274	6,732	58
United Arab Emirates	1,000	3,000	4,000	3,570	197	3,767	233	94
Japan	1,740	9,000[a]	10,740	8,792[b]	637	9,429	1,311	88
Germany	1,072	5,500	6,572	5,772[c]	782	6,554	18	99
Korea	80	305	385	110	53	163	222	42
Other[d]	3	12	15	4	16	20	0	100
Total	9,740	44,817	54,557	32,034	5,116	37,150	17,412	68

[a]Pledge amount is under discussion. Japanese government states that the pledge is $8.3 billion (now $7.8 billion due to decline in yen). U.S. government believes the amount is $9 billion.
[b]Includes $961 million to be expended for transportation costs.
[c]Includes $272 million to be expended for transportation costs.
[d]Includes Oman, Qatar, Bahrain and Denmark.

The table shows that total contributions are about $37.2 billion compared to pledges of about $54.6 billion. Of the remaining $17.4 billion, a total of about $15.3 billion is expected to be

in cash payments from Saudi Arabia, Kuwait, United Arab Emirates, Japan and Korea and the remaining $2.1 billion in in-kind support from Saudi Arabia, Germany and Korea.

Economic Assistance to Frontline States and Other Countries

In addition to cash and in-kind support, the European Commission 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 and project assistance grants, and concessional loans. As of May 1, 1991, these pledges were about $16.1 billion for 1990 and 1991, and contributions were about $8.9 billion.

The status of pledges and contributions is shown as follows:

Economic Assistance to Frontline States and Other Countries
As of 5/1/91 (U.S. dollars in millions)

Donor	Frontline States		Other Countries[a]		Total	
	Pledge	Contribution	Pledge	Contribution	Pledge	Contribution
GULF STATES	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
EUROPEAN COMMISSION	3,039	1,225	177	1	3,216	1,226
Budget	805	624	0	0	805	624
Bilateral	2,234	601	177	1	2,411	602
France	200	0	30	0	230	0
Germany	1,195	462	137	0	1,332	462
Italy	650	37	9	0	659	37
Other[b]	189	102	1	1	190	103
JAPAN	2,126	803	481	0	2,607	803
OTHERS	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[c]	171	70	0	0	171	70
Total	11,748	6,003	4,393	2,908	16,139	8,911

[a]Bangladesh, Djibouti, Lebanon, Morocco, Pakistan, Somalia, and Syria
[b]Belgium, Denmark, Ireland, Luxembourg, Netherlands, Portugal, Spain and United Kingdom
[c]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 means. 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. Further, Japan sent oil booms to Saudi Arabia to assist in counteracting the Gulf oil slick. In addition, our NATO allies and certain

Gulf countries have granted basing and transit rights and several countries are providing assistance to Kurdish refugees.

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

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