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Briefing Report to Congressional
Committees

June 1994

EUROPEAN DRAWDOWN

Status of Residual Value Negotiations in Germany





National Security and
International Affairs Division

B-256496

June 23, 1994

The Honorable Sam Nunn
Chairman, Committee on
Armed Services
United States Senate

The Honorable Strom Thurmond
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Ronald V. Dellums
Chairman, Committee on
Armed Services
House of Representatives

The Honorable Floyd D. Spence
Ranking Minority Member
Committee on Armed Services
House of Representatives

The National Defense Authorization Act for 1993 (P. L. 102-484) requires the Department of Defense (DOD) to submit an annual report on overseas basing to the Senate and House Committees on Armed Services. The fiscal year 1994 authorization conference report directed GAO to review the accuracy of DOD's overseas basing report and submit a report to those same committees. Based on discussions with your staffs, we are providing information on the total estimate of potential residual value¹ of U.S. installations being returned to

¹Residual value is the value of U.S. investments in facilities and improvements at overseas installations as adjusted for inflation, depreciation, and damage.

European host countries and the status of the residual value negotiations between the U.S. government and the Federal Republic of Germany. On May 6, 1994, we briefed Senate staff and on May 10, 1994, we briefed House staff on the results of our work to date. This report documents the information provided during those briefings.

BACKGROUND

The U.S. government is seeking payment for the investments it has made in facilities it is returning to European host nations. The U.S. European Command, which has overall responsibility for managing residual value initiatives in Europe, has delegated technical negotiations with host nations to the service component commanders in Europe.

DOD asserts that it is entitled to the residual value of the U.S. investments made in the facilities. However, the Germans believe that future use, essentially a market value approach, should be used to assess the value of the properties. The German government negotiator stated that some facilities being returned have minimal or no future use and Germany will value those properties accordingly, regardless of the U.S. claim. In April 1993, we testified that negotiations were deadlocked because of the different approaches used to calculate residual value.²

RESULTS IN BRIEF

Thus far, the United States has recovered a small portion of its total estimated residual value claim in Europe. The total potential residual value is estimated by DOD to be \$3.8 billion in Europe. Most of this estimate comes from installations being returned in Germany, where the U.S. investment is estimated to be \$3.4 billion. European Command officials cautioned that this estimate is not necessarily what the United States will receive as a result of ongoing negotiations. Also, a DOD official stated it is unrealistic to expect large monetary compensation.

²U.S. Military Presence in Europe: Issues Related to the Drawdown (GAO/T-NSIAD-93-3, Apr. 27, 1993).

State Department officials said that as a result of recent high level discussions with German officials, a channel for negotiating a settlement has been opened, but much hard bargaining remains ahead. They also stated the \$3.4-billion estimated residual value is a starting point for negotiations, but they consider it significantly more than the United States can expect to receive at the end of the negotiating process. The State Department further noted that negotiations are being carried out at a time of severe financial constraints on Germany, resulting in part from assistance being provided to Russia, the Ukraine, and Eastern Europe.

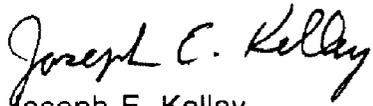
The United States has received about \$3 million in cash from Germany for a small number of properties returned before 1991. Unable to negotiate additional satisfactory cash settlements with Germany, the U.S. military has begun to focus on payment-in-kind. That is, the German government will fund military construction projects instead of paying in cash for U.S. facilities and improvements at U.S. installations being returned. This work will be performed by German companies and paid for by the German government. Since April 1993, U.S. component negotiators have concluded agreements with the German government for \$197.7 million for construction and upgrades at U.S. Army and Air Force facilities that will not be affected by the drawdown. The value of the Army payment-in-kind agreements will be applied against a future settlement; the Air Force payment-in-kind agreement represents a settlement for specific facilities at Rhein-Main that will be returned. The projects are shown in tables I.3 and I.4 in appendix I. The U.S. military intends to continue focusing on payment-in-kind in future negotiations with Germany.

SCOPE AND METHODOLOGY

We obtained information about the residual value of U.S. installations being returned to European host governments and reviewed the pace and progress of residual value negotiations with the Federal Republic of Germany. To accomplish this, we met with officials at the U.S. European Command in Stuttgart, Germany; the U.S. Army, Europe, in Heidelberg, Germany; the U.S. Air Forces in Europe in Ramstein, Germany; and DOD officials. In addition, we held discussions in Bonn, Germany, with officials from the U.S. Embassy and the German Ministry of Finance. At all locations, we obtained relevant documentation to describe the status of the U.S.-German negotiations and the prognosis for future settlement.

We performed our work between October 1993 and April 1994 in accordance with generally accepted government auditing standards. We presented this information to DOD, and State Department officials, and they generally agreed with the facts presented. We have made changes where appropriate in response to their comments.

If you or your staffs have any questions concerning this report, please contact me at (202) 512-4128. The major contributors to this report are listed in appendix II.



Joseph E. Kelley
Director-in-Charge
International Affairs Issues

MILITARY ESTIMATES OF THE RESIDUAL VALUE OF OVERSEAS
INSTALLATIONS BEING RETURNED AND THE STATUS OF
COMPENSATION AND PAYMENTS-IN-KIND RECEIVED

Tables I.1 and I.2 show the Army's and Air Force's estimates of residual value of property. Tables I.3 and Table I.4 show the Army's and Air Force's negotiated payment-in-kind projects in Germany.

Table I.1: Army Estimate of Residual Value for Properties Returned and Planned for Return to Germany as of January 31, 1994

Dollars in millions

| Year returned | Number of installations returned ^a | Investment value of returns | Estimated residual value | Settlements | |
|---------------|---|-----------------------------|--------------------------|----------------|---------------------|
| | | | | Cash | PIK |
| 1987-90 | 18 | ^b | ^b | \$3.0 | 0 |
| 1991 | 88 | \$194 | \$145 | 0 | 0 |
| 1992 | 169 | 630 | 452 | 0 | 0 |
| 1993 | 105 | 1,202 | 1,064 | .049 | \$25.5 ^c |
| 1994 | 103 | 727 | 586 | 0 | 109.7 ^c |
| 1995 | 73 | 322 | 265 | 0 | 0 |
| 1996 | 8 | 147 | 123 | 0 | 0 |
| Total | 564 | \$3,222 | \$2,635 | \$3.049 | \$135.2 |

^aData does not include partial returns of installations.

^bThe Army accepted a negotiated final settlement of \$3 million for properties returned between 1987 and 1990. Investment value and estimated residual value estimates were not readily available.

^cPIK is payment-in-kind, which refers to agreements between the United States and Germany for military construction in lieu of cash payments. These agreements do not represent settlement of residual value claims, but are considered a "down payment" against a future settlement.

Source: U.S. Army, Europe.

Table I.2: Air Force Estimate of Residual Value for Properties Returned and Planned for Return in Europe as of March 31, 1994

Dollars in millions

| Year returned | Number of installations returned | Investment value of returns | Estimated residual value | Settlements | |
|---------------|----------------------------------|-----------------------------|------------------------------|---------------------|---------------------|
| | | | | Cash | PIK |
| 1989 | 4 | ^a | \$.5 | \$30.0 ^b | 0 |
| 1990 | 4 | \$7.6 | 14.7 | 0 | 0 |
| 1991 | 16 | 293.7 | 363.9 | 0 | 0 |
| 1992 | 22 | 41.8 | 10.7 | 2.4 | 0 |
| 1993 | 41 | 238.0 | 359.7 | 0 | \$62.5 ^c |
| 1994 | 29 | 338.0 | 373.0 | 0 | 0 |
| 1995 | 2 | 37.3 | 40.6 | 0 | 0 |
| Year unknown | 4 | 4.8 | 7.8 | 0 | 0 |
| Total | 122 | \$961.1 | \$1,170.9^d | \$32.4 | \$62.5 |

Note: Because the Air Force is the executive agent for properties returned by the Army and Navy in some countries, this table contains residual value and investment figures for installations returned by those services.

^aThe Air Force did not provide investment data for these 1989 returns.

^bThese funds relate to the return of the North Atlantic Treaty Organization's (NATO) facilities at Woensdrecht. The United States still has a claim with NATO for the conjunctive funding improvements to these facilities, which are construction needs that exceed NATO standards and the user pays for the additional costs.

^cThe Air Force received PIK totaling about \$62.5 million in 1993 to fund projects at Ramstein Air Base for residual value claims for property returned at Rhein-Main Air Base.

^dThe Air Force estimate of residual value in Germany totals about \$722.2 million--about 62 percent of the \$1.17 billion total. The remaining residual value estimate of \$448.7 million relates to installations in Italy, Turkey, Greece, Belgium, and the Netherlands.

Source: U.S. Air Forces in Europe.

Table I.3: Army's Negotiated Payment-in-Kind Projects in Germany

Dollars in millions

| Location | Project^a | Cost |
|-----------------|-----------------------------|----------------|
| Hohenfels | Upgrade sewer system | \$25.5 |
| Grafenwoehr | Landfill expansion | 18.8 |
| Hohenfels | Maintenance facility | 20.4 |
| Grafenwoehr | Training facility | 2.7 |
| Hohenfels | Maintenance warehouse | 5.4 |
| Hohenfels | Hardstand/maintenance sheds | 10.6 |
| Schweinfurt | Barracks modernization | 14.3 |
| Landstuhl | Unit maintenance hangar | 11.4 |
| Hohenfels | Vehicle fuel station | 3.3 |
| Mannheim | Child care center | 9.0 |
| Schweinfurt | Vehicle maintenance sheds | 8.3 |
| Schweinfurt | Railhead ramp | 2.5 |
| Grafenwoehr | Electrical power range | 3.0 |
| Total | | \$135.2 |

Note: The projects range from fiscal year 1993 to the end of 1996.

^aThese agreements do not represent settlement of residual value claims, but are considered a "down payment" against a future settlement.

Source: U.S. Army, Europe.

Table I.4: Air Force Payment-in-Kind Projects Negotiated for Rhein-Main/Ramstein Settlement in Germany

Dollars in millions

| Location | Projects ^a | Cost |
|----------|------------------------------|--------|
| Ramstein | Hangar 1 | \$1.2 |
| | Hangar 2 | 1.4 |
| | Harden overruns | 7.5 |
| | Squad operations facility | .05 |
| | Training detachment facility | .05 |
| | Expand ramp space | 9.4 |
| | Hangar 3 | 3.0 |
| | Hangar/fuel facility | 8.9 |
| | Upgrade ramp | 2.4 |
| | Strategic ramp | 19.4 |
| | Vehicle maintenance facility | 4.7 |
| | Passenger terminal | 4.5 |
| Total | | \$62.5 |

Note: These projects represent a final settlement for Rhein-Main installations being returned; however, the United States may negotiate residual value on the new improvements being performed at Ramstein, should these facilities eventually be returned. The United States may also have a \$10-million environmental liability at Rhein-Main.

^aThese projects support the move of C-130s from Rhein-Main to Ramstein. The settlement value is close to the Air Force valuation of the property.

Source: U.S. Air Forces in Europe.

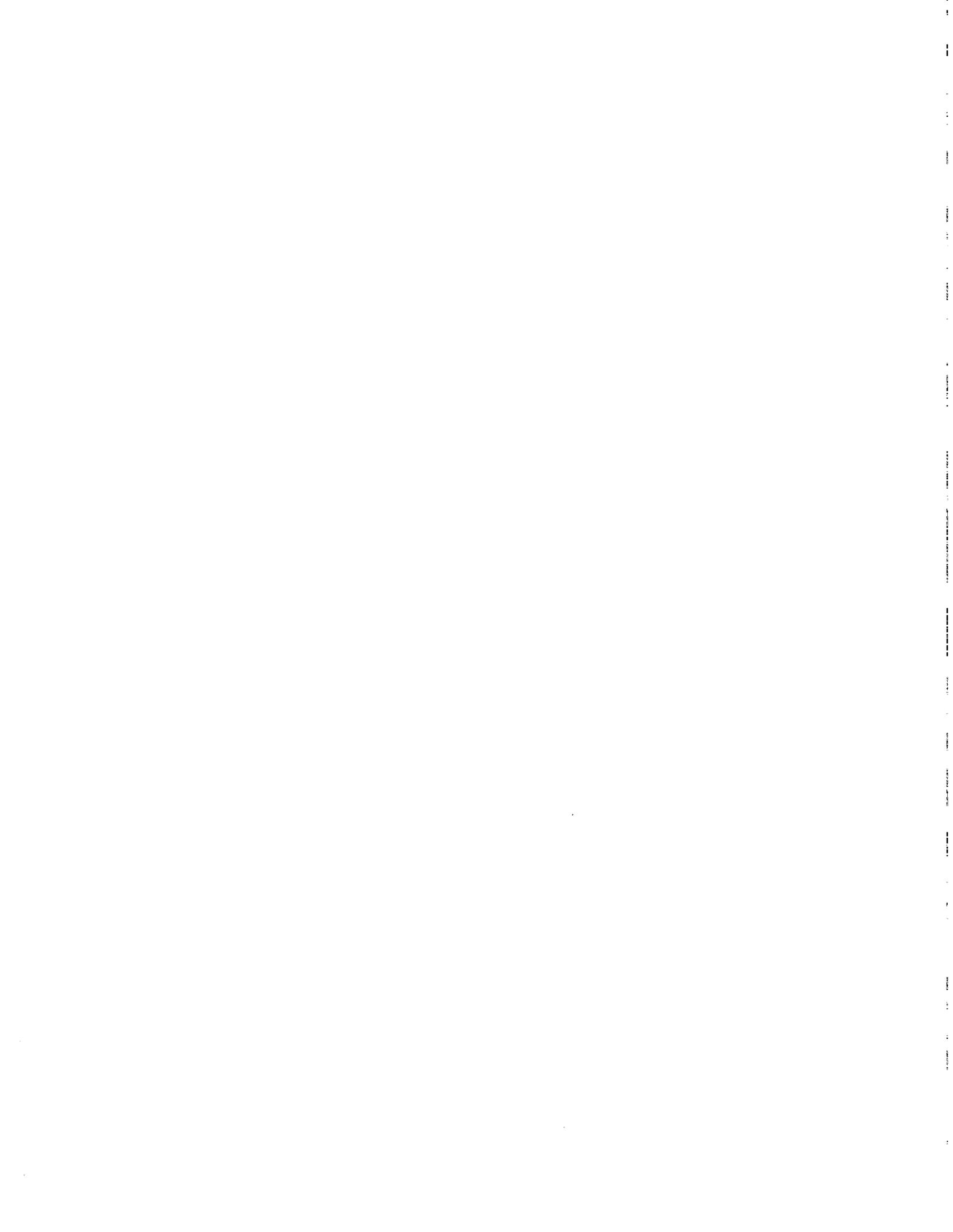
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