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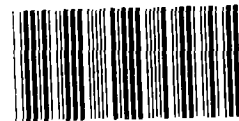
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Fact Sheet for the Chairman,
Subcommittee on Defense, Committee on
Appropriations, House of Representatives

November 1987

INTERNATIONAL AGREEMENTS

The U.S.-German Wartime Host Nation Support Agreement



134321



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-198641

November 3, 1987

The Honorable Bill Chappell, Jr.
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

As requested in your letter of February 11, 1987, and in subsequent discussions with your representative, we examined the status of the implementation of and funding for the April 1982 U.S.-German Wartime Host Nation Support (WHNS) Agreement to identify the potential for budget reductions. We did not identify any funds that should be considered for reduction. We briefed your representative on the status of our work, and this fact sheet presents the final summary of the results of our examination and provides information on the implementation status of the agreement and U.S. funding.

In our August 6, 1987, letter, we presented the results of our examination to identify potential budget reductions of selected line items from the Other Base Maintenance and Support Equipment part of the "Other Procurement, Air Force" appropriation request. At the request of the Subcommittee on Readiness of the House Committee on Armed Services, we are examining the effectiveness of WHNS in addressing current force structure shortfalls. This is part of an overall review of the ability of the United States to meet its commitment to provide 10 divisions within 10 days to the North Atlantic Treaty Organization (NATO). This examination is scheduled for completion in early 1988.

Under the WHNS Agreement, the Federal Republic of Germany (the host nation) is to provide logistic support to U.S. forces in Germany in time of war or crisis. In return, the U.S. will provide 10 divisions and supporting Army and Air Force flying squadrons in the Federal Republic.

The costs to establish and maintain the German capability to support U.S. forces are to be shared by the two countries and NATO. For example, Germany is to pay personnel and equipment costs associated with the German troops. The United States is to pay for the salaries of German civilian

workers who will maintain pre-positioned equipment and all equipment needed by the Germans in support of U.S. forces, such as camouflage nets, forklifts, heavy equipment transporters, and airfield flood lights. NATO is to fund the construction of required facilities. Facility costs not eligible for NATO funding will be shared by the two countries.

A number of long-standing issues related to implementing the WHNS Agreement have been resolved. Principal among these are agreements to procure 40 percent of U.S.-funded support equipment from German sources and 60 percent from U.S. sources and to accelerate the activation of German support units. These actions change the situation we previously noted in our briefings to your representative on this agreement, specifically, that the Department of Defense was requesting appropriations that could not be fully obligated.

A number of issues, however, remain unresolved. For instance, NATO has not yet determined what it will fund. Also, the new activation schedule, changes in monetary rates, and the uncertainty of costs for such equipment as the heavy equipment transporter could result in a U.S. cost share in excess of current funding estimates and a reduction in support equipment procurement from U.S. sources.

Our work also disclosed the following:

- In January 1986, agreement was reached on a new unit activation schedule, which substantially accelerated the activation of German military units that will support U.S. activities. Activated units are using interim facilities, and Germany has agreed to provide interim storage without cost for WHNS equipment at German depots until construction of specific WHNS facilities is completed.
- U.S. officials in Europe estimate an Army funding shortfall of \$169 million in 1987 and \$154 million in 1988, because of the new activation schedule and the decline in the strength of the dollar against the German mark.
- About \$60 million for procurement of U.S.-manufactured heavy equipment transporters remains unobligated because the transporters did not pass testing. Therefore, U.S. European theater officials decided to consider equipment from other manufacturers, including non-U.S. sources. U.S. European theater officials would like to procure

German equipment, but it would cost the United States about \$42 million more.

- Germany has offered to fully pre-finance all WHNS construction projects. In return, the United States has agreed to pay 50 percent of costs not funded by NATO, conditioned on enabling legislation and availability of funding.
- Estimates by NATO and by the U.S. Army, Europe, differ on how much NATO will pay for WHNS construction projects. If NATO pays less than the amount estimated by the U.S. Army, Europe, additional funding by either the United States or Germany will be required. However, U.S. European theater officials believe that additional U.S. funds will not be needed because Germany will pay any additional costs.

During our review, we (1) interviewed responsible agency officials of the U.S. European Command and of the Headquarters of U.S. Army, Europe, and U.S. Air Forces in Europe, (2) reviewed relevant files and obtained funding data, and (3) reviewed other applicable documentation, such as the text of the WHNS Agreement and implementing letters. We obtained information from U.S. sources and did not contact representatives of the German government.

We provided U.S. European theater officials with an opportunity to review this fact sheet for accuracy and completeness. Their comments have been included where appropriate.

Should you need further information, please call me on 275-4268.

Sincerely yours,



Harry R. Finley
Senior Associate Director

C o n t e n t s

	<u>Page</u>
Letter	1
APPENDIX	
I	THE U.S.-GERMAN WARTIME HOST NATION SUPPORT AGREEMENT
	5
	Status of implementation
	5
	Information on funding
	6
TABLES	
I.1	WHNS Funding and Requests
	7
I.2	OPA Account WHNS Funding
	8
I.3	USAREUR WHNS Operation and Maintenance Funding
	9
I.4	1987 OPA Funding Shortfalls
	10
I.5	USAFE OPAF WHNS Procurement
	12
I.6	USAFE Operation and Maintenance Funding
	12

ABBREVIATIONS

EUCOM	U.S. European Command
GAO	General Accounting Office
HET	heavy equipment transporter
MILCON	Military Construction
NATO	North Atlantic Treaty Organization
OMA	Operations and Maintenance, Army
OMAF	Operations and Maintenance, Air Force
OPA	Other Procurement, Army
OPAF	Other Procurement, Air Force
WHNS	wartime host nation support
USAFE	U.S. Air Forces in Europe
USAREUR	U.S. Army, Europe

THE U.S.-GERMAN WARTIME HOSTNATION SUPPORT AGREEMENTSTATUS OF IMPLEMENTATION

The United States and the Federal Republic of Germany signed the Wartime Host Nation Support (WHNS) Agreement on April 15, 1982. The agreement was negotiated to help offset serious shortages in logistics support for U.S. forces in Germany in times of crisis or war. The United States agreed to provide 10 divisions and supporting Army and Air Force flying squadrons. Germany agreed to establish a combat support/combat service support force of 93,000 Bundeswehr (German Reserve) soldiers to provide additional logistics support to U.S. forces. The German soldiers will provide such military support as rear area security, airfield repair, and medical decontamination services. The agreement also formalized the German intent to provide civilian sector support, such as transportation, maintenance, and repair services. In peacetime, German support will consist of approximately 1,800 military and civilian personnel to maintain pre-positioned equipment.

The costs to establish and maintain the capability to provide wartime host nation support will be shared by the United States, Germany, and the North Atlantic Treaty Organization (NATO). Germany is to pay personnel and certain equipment costs for its 93,000 reserve soldiers as well as specific material investment costs for the military command, logistic, and training organizations. The United States is to pay all other material investment costs, the salaries of the civilian work force, annual operations and maintenance costs, and the costs of general administration. In addition, the United States will pay for all goods and services requested and received by U.S. forces during crisis or war.

Under the WHNS Agreement, both countries are to assign host nation construction projects sufficiently high priority to ensure their funding under the NATO infrastructure program. This program is NATO's commonly funded military construction program designed to provide essential operational facilities and equipment in support of military forces. There are 13 eligible categories of projects funded under the program, including such facilities as airfield shelters, storage sites, and repair and maintenance shops.

The implementation cost of the agreement was initially estimated in 1982 at \$580 million and was to be shared by the United States and Germany. However, increased prices and the decline of the dollar have increased original estimates of both the total and

annual recurring costs. The United States has not identified the total cost of the agreement because all implementing details have not been completed.

The quantities and type of equipment to be purchased for the host nation's support units have been agreed to by German and U.S. officials. A joint U.S.-German committee analyzed WHNS equipment requirements in 1983 and concluded that, from a military perspective, a vast majority of the equipment should be of German origin. The United States did not accept the committee's recommendation. In an August 1984 letter to the German Minister of Defense, the Secretary of Defense acknowledged greater interoperability and ease of military support using German items but stated that gaining congressional approval for WHNS required assuring the Congress that the majority of items would come from U.S. sources. In 1985, an agreement was reached between German and U.S. officials on WHNS equipment procurement sourcing, which provides that 60 percent of U.S.-funded equipment will be procured from U.S. sources and 40 percent will be procured from German sources. An implementing technical agreement was concluded in 1986.

In 1985, Germany also offered to fully pre-finance all WHNS construction projects. Pre-financing is a method of providing funds for construction projects before they are approved and funded by NATO. The country providing the pre-financing funding later seeks recoupment from NATO. In return for the German offer to pre-finance the WHNS construction projects, the United States agreed to pay 50 percent of any project costs not funded by NATO, subject to congressional authorization and funding.

In January 1986, agreement was reached on a new activation schedule, which substantially accelerated the activation of German military units to support U.S. Army activities. Forty-six of the total 100 units were activated in 1986, and completion of all unit activations was scheduled for 1989. Acceleration was made possible by Germany's agreement to pre-finance all WHNS construction and to allow units to be activated before all necessary facilities were prepared. Activated units are using interim facilities, and Germany has agreed to provide interim storage without cost for WHNS equipment at German depots until construction of specific WHNS facilities is completed.

INFORMATION ON FUNDING

U.S. support for the WHNS is to be funded through five Department of Defense appropriation accounts: Other Procurement, Air Force (OPAF); Operations and Maintenance, Air Force (OMAF); Other Procurement, Army (OPA); Operations and Maintenance, Army (OMA); and Military Construction (MILCON), Army.

Table I.1: WHNS Funding and Requests

Appropriations account	Fiscal year					Total	
	1983	1984	1985	1986	1987	1983-1987	1988
	----- (millions) -----						
OPA appropriations	\$4.96	\$22.40	\$17.04	\$41.00	\$41.90	\$127.30	
OPA request							\$47.40
OMA appropriation	1.19	8.17	9.28	11.19	14.52	44.35	
OMA request							17.60
OPAF appropriations	-----20.97 ^a -----			4.80	11.30	37.07	
OPAF request							9.80
OMAF appropriations	0.32	1.50	6.80	13.50	10.10	32.20	
OMAF request							21.10
MILCON, Army request					17.50 ^b		

^aTotal funding for fiscal years 1983 to 1985.

^bThe Congress authorized \$4.5 million of this request but has not appropriated any funds.

Other Procurement, Army, account

From fiscal years 1983 to 1987, a total of \$127.3 million has been available for WHNS procurement from OPA. Of this, about \$49.5 million has been obligated by the U.S. Army, Europe (USAREUR), for the procurement of German-sourced equipment, and about \$15 million has been obligated to procure U.S. camouflage nets. About \$63 million has not been obligated and is being withheld by the Department of the Army primarily for the procurement of heavy equipment transporters. Table I.2 shows a breakdown in OPA account funding for WHNS.

Table I.2: OPA Account WHNS Funding

	Fiscal year					Total
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	
	----- (millions) -----					
OPA appropriations	<u>\$4.96</u>	<u>\$22.40</u>	<u>\$17.04</u>	<u>\$41.00</u>	<u>\$41.90</u>	<u>\$127.30</u>
Obligations						
U.S. camouflage nets	4.96	5.00	5.00	-	-	14.96
German-sourced equipment	-	-	-	45.00 ^a	4.50	49.50
Planned expenditures						
U.S.-sourced heavy equipment transporters	-	-	-	23.10	7.40	60.50 ^b
German-sourced price increases/currency revaluation	-	-	-	<u>2.30</u>	-	<u>2.30</u>
Total obligations and planned expenditures	<u>\$4.96</u>	<u>\$ 5.00</u>	<u>\$ 5.00</u>	<u>\$70.40</u>	<u>\$41.90</u>	<u>\$127.30</u>

^aIncludes \$29.4 million from unobligated 1984-85 OPA funds and \$15.6 million from 1986 OPA funds. Initially, \$17.9 of the 1986 \$41 million OPA appropriation was available for German-sourced equipment, but only \$15.6 million was actually obligated; \$2.3 million is being held in reserve at USAREUR for price fluctuations and currency revaluation.

^bBeing held at the Department of the Army for procurement of U.S. heavy equipment transporters (HETs).

Operations and Maintenance, Army, account

A total of \$51.4 million was available for WHNS from 1983-87 OMA appropriations and additional funding. Out of this amount, about \$24 million has been obligated for German-sourced equipment procurement items with a unit cost of less than \$5,000. USAREUR returned about \$14 million to the Department of the Army. Most of the remainder of the OMA appropriations went toward recurring OMA expenditures. OMA funding is shown in table I.3.

Table I.3: USAREUR WHNS Operation and Maintenance Funding

	Fiscal year					Total
	1983	1984	1985	1986	1987	
	----- (millions) -----					
OMA appropriations	\$1.19	\$8.17	\$ 9.28	\$11.19	\$14.25	\$44.35
Funding received for unfinanced requirements	-	-	1.70	5.38	-	7.08
Total available funding	<u>1.19</u>	<u>8.17</u>	<u>10.98</u>	<u>16.57</u>	<u>14.52</u>	<u>51.43</u>
OMA obligations						
German-sourced equipment	-	-	5.20	9.45	9.40	24.05
OMA bills	0.11	0.17	0.46	1.59	5.10	7.43
Other	-	0.20	0.08	0.01	-	0.29
Total obligations	<u>0.11</u>	<u>0.37</u>	<u>5.74</u>	<u>11.05</u>	<u>14.50</u>	<u>31.77</u>
OMA reductions						
returned to Department of the Army	1.08	7.80	5.25	-	-	14.13
Gramm-Rudman reduction	-	-	-	5.52	-	5.52
Total reductions	<u>1.08</u>	<u>7.80</u>	<u>5.25</u>	<u>5.52</u>	<u>-</u>	<u>19.65</u>
Total obligations and reductions	<u>\$1.19</u>	<u>\$8.17</u>	<u>\$10.99</u>	<u>\$16.57</u>	<u>\$14.50</u>	<u>\$51.42</u>

In fiscal years 1985 and 1986, USAREUR contracted with the German Contracting Authority to buy German-sourced equipment line items. The September 1985 contract utilized \$2.6 million of OMA funding and included 158 German equipment line items. The April 1986 contract utilized \$29.4 million of unobligated OPA appropriations from 1984-85, \$15.6 million 1986 OPA funding, and \$9.4 million of 1986 OMA WHNS funding for a total contract cost of \$54.4 million. A total of 289 German-sourced equipment lines will be procured under the 1986 contract.

OPA funding shortfalls

U.S. European Command (EUCOM) and USAREUR officials state that the "front-loading" of unit activations in 1986 combined with the decline in the strength of the dollar and higher equipment prices

have resulted in OPA funding shortfalls for WHNS equipment requirements. USAREUR has estimated that OPA funding for U.S.- and German-sourced equipment will be short \$169 million in 1987. Funding shortfalls for German-sourced WHNS equipment requirements were estimated at \$86 million, while funding for U.S.-sourced equipment requirements was estimated to be short an additional \$83 million. Table I.4 provides a breakdown of OPA's funding shortfalls.

Table I.4: 1987 OPA Funding Shortfalls

	<u>Equipment funding requirements</u>	
	<u>German-sourced</u>	<u>U.S.-sourced</u>
	----- (millions) -----	
Prior year requirements	\$75.60	\$111.10
Current year requirements	<u>14.80</u>	<u>32.00</u>
Total requirements	90.40	143.10
Available funding	<u>4.50</u>	<u>60.50^a</u>
Shortfall	<u>\$(85.89)</u>	<u>\$(82.60)</u>

^aBeing withheld by the Department of the Army for procurement of U.S. HETs. Includes \$23.1 million held from fiscal year 1986 appropriations.

Fiscal year 1988 OPA and OMA requests

USAREUR has requested \$47.4 million in fiscal year 1988 OPA funds for procurement of German- and U.S.-sourced WHNS equipment. Of this amount, \$2.5 million is for the U.S. forklift procurement. USAREUR officials will use the remaining \$44.9 million to help meet WHNS procurement funding shortfalls. However, the remaining OPA funding shortfalls in 1988 are estimated at \$154 million. USAREUR officials project that, with the fiscal year 1989 OPA funding request (currently \$58 million), procurement for 1987 activations can begin. Procurement of all German-sourced OPA equipment requirements, estimated to cost \$178 million, is projected by 1992.

USAREUR has requested \$17.6 million in fiscal year 1988 OMA funding and believes that it can complete the procurement before 1992 of remaining OMA equipment items for \$5.5 million.

Future OPA and OMA funding

According to USAREUR officials, equipment prices will further increase the total cost of the WHNS procurement program. Prices have increased for many German-sourced equipment items, and the German Contracting Authority has not established firm prices for these items. USAREUR officials estimated that January 1987 price increases in OPA-funded German equipment have raised the total cost of WHNS equipment procurement by \$14 million. Increasing prices could also shift some OMA-funded items to the OPA-funded category if costs exceed \$5,000.

To resolve the problem of increasing German equipment prices, USAREUR proposed the preparation of a requirements contract that would identify all WHNS German equipment purchases on a multi-year contract and establish prices that would not deviate more than 10 percent. The German Contracting Authority has not yet responded to this proposal.

The Army has not obligated a major part of the OPA funds appropriated for WHNS equipment procurement. The \$60.5 million in unobligated fiscal years 1986 and 1987 OPA funds is for procurement of U.S.-manufactured HETs. U.S. Army testing showed that the U.S.-manufactured transporters did not operate properly or have the necessary capability. As a result, a decision was made to consider other transporter manufacturers, possibly including non-U.S. sources. EUCOM and USAREUR officials may request that the Department of Defense provide an exception to the 60/40 sourcing agreement in order to procure German transporters. These officials believe that German equipment can meet the needs of German WHNS units and also reduce U.S. logistical, maintenance, and training requirements. However, current USAREUR cost estimates show that procurement of German transporters would cost the United States \$41.7 million more than U.S.-sourced equipment.

As noted earlier, 1987 funding shortfalls for U.S.-sourced equipment requirements were \$83 million. USAREUR officials state that this shortfall is primarily associated with procurement of U.S. forklifts. Forklift requirements were estimated to cost \$73.9 million with funding for these items to be programmed during fiscal years 1988-90: \$2.5 million in 1988, \$27.6 million in 1989, and \$43.8 million in 1990. Contracts are to be awarded in November 1987, and forklifts are to be delivered to WHNS units in 1988-90.

United States Air Forces in Europe funding

USAFE's spending of available procurement funding for WHNS equipment increased significantly during 1985 and 1986. USAFE

obligated about \$53 million from past unobligated OPAF and OMAF funds for WHNS equipment procurement.

From fiscal years 1983 to 1987, a total of \$37 million was available for WHNS equipment procurement from OPAF appropriations, as shown in table I.5. All of this amount, plus additional funds received from USAREUR for airfield damage repair procurement, were obligated on German-sourced equipment.

Table I.5: USAFE OPAF WHNS Procurement

	Fiscal year			Total
	1983-85	1986	1987	
	----- (millions) -----			
OPAF appropriations	\$20.97	\$ 4.80	\$11.30 ^a	\$37.07
Obligations	\$ 4.88	\$25.76 ^b	\$ 7.96	\$38.60

^aIncludes \$3.1 million withheld by airstaff for weapons.

^bIncludes 1983-85 funding and \$6.5 million received from USAREUR for airfield damage repair procurement.

A total of \$32.2 million was available for WHNS procurement from fiscal year 1983-87 OMAF appropriations. Out of this amount, \$25.9 million has been obligated for German-sourced equipment, U.S.-sourced camouflage nets, and recurring OM expenditures. OM funding is shown in table I.6.

Table I.6: USAFE Operation and Maintenance Funding

	Fiscal year					Total
	1983	1984	1985	1986	1987	
	----- (millions) -----					
OMAF appropriations	\$0.32	\$1.50	\$6.80	\$13.50	\$10.10 ^a	\$32.20
Obligations	\$0.03	\$1.50	\$6.80	\$14.00 ^b	\$ 3.58	\$25.90

^aUnobligated portion of \$6.6 million expected to be used in 1987.

^bIncludes additional "fall out" money (unobligated money from other accounts) spent on camouflage nets.

According to USAFE, there has been a whole range of procurement problems, including broadly defined requirements and outdated tables of allowance, unsuitable and incapable contractors,

uncoordinated efforts within the German military, U.S. procurement demands on the German procurement system, and the lack of sufficient staff within the German contracting authority. USAFE officials said that progress has been made to solve some of these problems.

USAFE has requested \$9.8 million of 1988 OPAF funding for procurement of German-sourced WHNS equipment. The USAFE WHNS action officer said that the funding will not be allocated to specific unit activations but will be obligated toward completing as much equipment procurement of high-priced items as possible.

USAFE requested \$21.1 million in 1988 OMAF funding. Including the \$6.6 million in unobligated 1987 OMAF funds, USAFE will have \$27.7 million in OMAF funding available between now and the end of fiscal year 1988. Out of this amount, \$4.5 million will be used for procurement of 78 equipment line items on which USAFE has firm prices. USAFE officials say that remaining funding will be obligated to the procurement of an additional 85 equipment line items on which USAFE has no firm prices yet, munitions and other consumables, and recurring OMAF expenditures estimated at \$2 million.

According to USAFE, 80 percent of required equipment will be on hand or in procurement in 1988. USAFE has a buy list of 317 equipment items that remain to be procured with OPAF and OMAF funding. USAFE's procurement plan shows that WHNS equipment requirement costs for fiscal year 1989 will be \$4.7 million but that additional out-year equipment requirements total \$29.7 million.

Regarding U.S.-sourced items, there are 10 other equipment items in addition to camouflage nets that are U.S.-sourced. Six of these items are vehicles such as forklifts and refuelers that are not being procured by WHNS appropriations. They are being procured as part of the total Air Force war reserve materiel program. Other items such as chemical warning alarms and intrabase radios will be procured through OMAF funding. Ten sets of emergency runway lights are the only WHNS OPAF-funded U.S.-sourced items. They are to be procured in 1988 at a cost of \$719,000 each.

Military Construction, Army

There are differences between USAREUR and NATO estimates of NATO funding for WHNS construction projects. USAREUR estimated that NATO would eventually fund 80 percent of the costs for the 106 WHNS construction projects and that total U.S. costs would be \$26.6 million. However, in 1986, NATO authorities screened 21 construction projects and indicated that it may only support 60

to 70 percent of USAREUR project costs and about 44 percent of USAFE project costs. Therefore, there may be a need for about \$9 million in additional U.S. funds for all USAREUR and USAFE projects. EUCOM and USAREUR officials, however, believe that additional U.S. funding will not be needed because they believe that Germany will pay any additional construction costs.

The Department of Defense requested \$17.5 million in fiscal year 1987 Army military construction funding to cover WHNS construction costs. U.S. officials said that the U.S. acceptance of the German offer to pre-finance construction costs and the agreement to fund 50 percent of additional costs was conditioned on enabling legislation and availability of funds. The Congress authorized \$4.5 million for fiscal year 1987 for WHNS construction but did not appropriate any funds. The actual resolution of how much NATO will pay will not be known until construction is completed--in most cases 6 to 8 years from now. Until then, U.S. officials do not plan to ask for any more WHNS construction funding.

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