

72238

REPORT OF THE
COMPTROLLER GENERAL
OF THE UNITED STATES

Defense Action To Reduce
Charges For Foreign Military
Training Will Result In The
Loss Of Millions Of Dollars

Department of Defense

On September 28, 1976, the Department of Defense reduced training charges for foreign military students. GAO estimates that it will cost the United States at least \$40.4 million in fiscal year 1977.

Recovery of full cost of providing training to foreign students is required by law. GAO pointed out in a December 14, 1976, report to the Congress (FGMSD-76-91) that even prior to the decision to reduce tuition rates, the Defense pricing system was not recovering full costs. GAO recommended in the December 1976 report that, in addition to rescinding the order to reduce tuition rates, the Secretary of Defense should revise the pricing systems so that all allocable costs are recovered. GAO believes that these recommendations are still valid.

FGMSD-77-17

FEB. 23. 1977

1-72238
FWA

TO THE READER:

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-159835

The Honorable Clarence D. Long
House of Representatives

Dear Mr. Long:

Your letter of October 19, 1976, raised several questions on the Department of Defense's action on September 28, 1976, to reduce tuition rates for training foreign military students.

Defense gave us information which shows the effect of the tuition rate reductions on fiscal year 1977 cost recoveries for foreign military training. Data for subsequent periods was not available.

We analyzed and summarized the information and made limited tests to determine its accuracy. Because only 3 months of foreign training for fiscal year 1977 had been completed at the time of review, most of the information received was based on Defense's latest estimates.

Following are our answers to the questions contained in your letter and to other questions raised during conversations with your office and the offices of the House and Senate Appropriations Committees.

Question 1. How much will the reduction in training charges for foreign military students cost the U.S. taxpayers and which foreign countries will benefit?

Response:

The cost will be about \$40.4 million in fiscal year 1977. The countries that will benefit from the reduction in prices and the amount of reductions by each of the military services furnishing the training are shown in appendix II.

Question 2. If the decision to reduce tuition rates is rescinded, are Defense pricing systems adequate to recover the full cost of providing training?

Response:

For several years Defense permitted each of the military services to interpret the law as to what extent the costs of training foreign students should be recovered. As a result, different pricing systems were established by each of the military services. The Navy's system was designed to recover the full cost of training foreign students. The Army's system provided that foreign tuition rates would include only the estimated additional direct and indirect costs incurred to train foreign students. The Air Force's system excluded fixed costs incurred to train students and required that only the variable cost of training (those costs which vary in direct proportion to increases and decreases in student load) be charged foreign students. The Marine Corps provided training free of charge.

In response to GAO and congressional concerns, Defense issued detailed pricing guidance on November 5, 1975, which resulted in substantial increases in Army and Air Force tuition rates and reductions in Navy tuition rates. As pointed out in our December 14, 1976, report to the Congress entitled, "Millions of Dollars of Costs Incurred in Training Foreign Military Students Have Not Been Recovered," the pricing guidance was a decided improvement but it (1) did not require an equitable allocation of certain base operating costs to tuition rates and (2) prescribed cost factors for military and civilian retirement and other costs to be used in computing the tuition rates which should have been much higher. With these revisions, the system would more nearly recover full costs.

Concerning the first point above, we did not compute the loss to the United States resulting from the exclusion of certain base operations costs because of the time it would have taken to assemble cost data on all courses. We did, however, compare fiscal year 1977 tuition rates for selected Navy courses as computed by the Navy under its previous full cost pricing system to tuition rates developed by the Navy using the November guidelines. The Navy's previous pricing system provided for an equitable allocation of all base operations costs. As shown in appendix IV, cost reductions for Navy courses due to the November guidelines were appreciable.

With regard to the second point, the cost to the United States of not charging higher rates in fiscal year 1977 is at least \$9.2 million. (See app. III.) This amount is in addition to the \$40.4 million in reductions resulting from the September 28, 1976, guidelines.

Question 3. Which Defense appropriations will be used to finance the reduction in charges for training courses?

Response:

The military personnel appropriations will finance \$13 million of the \$40.4 million in reduced training charges. The operations and maintenance appropriations will finance \$8.4 million of the reduction. The remaining \$19 million will, in effect, be financed by a reduction in "Miscellaneous Receipts" of the Treasury.

As discussed in our December 14, 1976, report, Defense regulations require that costs recovered for military retirement pay and depreciation of assets be deposited in Miscellaneous Receipts. Under the September 1976 pricing guidelines, the military services were instructed to exclude the cost of military retirement pay and to significantly reduce the charge for depreciation in computing rates, thus reducing amounts to be credited to Miscellaneous Receipts.

Appendix V shows a breakout of the \$40.4 million in reduced charges by financing appropriation or Miscellaneous Receipts, and military service.

Question 4. Who made the decision to reduce training charges for foreign military personnel?

Response:

We were told by Defense officials that former Deputy Secretary of Defense, William P. Clements, made the decision.

Question 5. Why was the decision made to reduce foreign training charges?

Response:

In letters dated August 12, 1976 (see app. VI), the Deputy Secretary of Defense notified the Chairmen of the House and

Senate Committees on Appropriations that he had directed changes in the November guidelines that would result in a 20- to 30-percent reduction in tuition prices.

He explained that he took this action because the sudden and substantial increase in tuition prices had a drastic impact on foreign countries. He said these countries had little or no time to make adjustments in their budgets for students already scheduled for training and that, in most cases, this had required substantial reductions in their input of students.

The Deputy Secretary said that the November guidelines failed to recognize the military, political, and economic benefits to be gained by the United States in training foreign students.

To accomplish the reduction, two changes were made to the November guidelines. The first change eliminated personnel costs pertaining to leave, holiday, and retirement from the computation of tuition rates. The second change discontinued the practice of recouping depreciation on aircraft by charging an hourly use charge and applying a 1 percent rate to course costs to recoup depreciation of other assets. Depreciation is now recouped by charging 4 percent of the training course costs.

Both committees strongly disagreed with the positions outlined in the Deputy Secretary's letter. (See app. VII.) They advised the Secretary that the November guidelines should remain in effect; that the Defense budget is not to be used to partially subsidize the training of foreign students; and that Defense appropriations will be reduced by amounts equal to reimbursements lost through failure to make adequate and appropriate charges for services rendered to foreign governments by Defense.

Our analysis of student loads in the military services' training programs neither confirms nor refutes the Deputy Secretary's contention that there would be a substantial reduction in the input of foreign students as a result of increased tuition rates. The Air Force, which receives over 70 percent of the reimbursements for training foreign military students, had no measurable change in the number of foreign students to be trained after carrying out the November 5, 1975, pricing guidelines. The Navy had reductions in foreign student enrollment although the tuition charges were reduced substantially as a result of the November 1975 guidelines. On the other hand, the Army, whose tuition rates

were increased substantially, also had reductions in the foreign student enrollment.

Question 6. What effect have the new pricing procedures had on cost of training under the military assistance program?

Response:

Fiscal year 1977 tuition rates for the military assistance program were not computed using the September 1976 pricing guidelines, nor were the tuition rates determined using Defense's November 1975 pricing criteria. Instead, military assistance program tuition rates were established using the old military service pricing systems discussed on page 2 of this report and in chapter 2 of our December 14, 1976, report to the Congress. As we noted, the Army used an additive pricing system; the Air Force charged only the variable cost of training; and the Navy recovered essentially the full cost of training.

Data was not readily available to show the amount by which the fiscal year 1977 military assistance training program would be subsidized as a result of the military services pricing policies. We do believe, however, that the undercharges are probably substantial. As we noted in our December 1976 report, under the Army and Air Force pricing systems, millions of dollars were not being recovered.

Pricing requirements for foreign military sales are similar to pricing requirements for training under the military assistance program. All costs for the training of foreign students are to be recovered except the cost of U.S. military personnel are to be excluded from tuition rates under the military assistance program in accordance with the Foreign Assistance Act of 1961 as amended (22 U.S.C. 2311). We noted that in fiscal year 1975, the Army failed to charge at least \$5.8 million in costs to the foreign assistance appropriation because of deficiencies in its pricing system.

We were told that, effective October 1, 1977 (fiscal year 1978), military assistance program tuition rates will be computed using the September pricing guidelines. Defense officials stated that their fiscal year 1977 budget request and the amounts appropriated for military assistance were based on the old tuition rates and that if the military assistance program tuition rates were increased by using

either the November 1975 or September 1976 guidelines, a reduction in training would result. Defense officials said it was decided not to ask the Congress for a supplemental appropriation to cover the increased costs.

- - - -

In our December 1976 report we concluded that although the November 1975 guidelines greatly improved the pricing of training courses offered to foreign students, some changes should be made to the guidelines to insure that the full cost of training is recovered, as expressly required by the Arms Export Control Act. We also concluded that Defense was not justified in modifying the November guidelines to effect reductions in tuition rates.

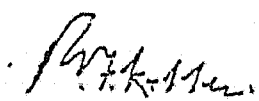
We recommended that the Secretary of Defense rescind the revision to the November 1975 pricing guidelines and that he change the guidelines to require the military services to (1) allocate base operations costs on the basis of missions, (2) specifically include the cost of school overhead personnel, and (3) use factors which will result in the full recovery of civilian and military retirement costs and the cost of civilian health benefits and life insurance.

We believe our conclusions and recommendations are still valid.

As your office asked, we did not request formal written comments from the Department of Defense but did informally discuss the contents of this report with Defense officials. Where appropriate, their comments are included. Also, as requested by your office, we are sending the report to the House Committee on Appropriations and to the Senate Committee on Appropriations, Subcommittee on Defense.

Sincerely yours,

ACTING


Comptroller General
of the United States

APPENDIX I

APPENDIX I

CLARENCE D. LONG
25 DISTRICT, MARYLAND

COMMITTEE ON
APPROPRIATIONS

SUBCOMMITTEES:
FOREIGN OPERATIONS
INTERIOR

TRANSPORTATION SERVICE—CIVILIAN GOVERNMENT

Congress of the United States
House of Representatives
Washington, D.C. 20515

October 19, 1976

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WASHINGTON, D.C. 20515
202-225-7041

DISTRICT OFFICES:
300 POST OFFICE BUILDING
TOWSON, MARYLAND 21204
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"OFFICE ON WHEELS"

Elmer B. Staats
Comptroller General
United States General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

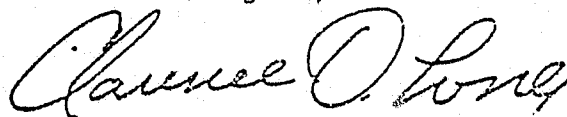
Dear Mr. Staats:

I understand that despite the objections of both the House and Senate Appropriations Committees the Department of Defense on September 28, 1976, directed the military services to significantly reduce the charges paid by foreign governments for military training of foreign students. The effect of this understatement of training costs is to conceal the true cost of our foreign aid programs, and I view it as one more instance of invisible foreign aid.

I should be interested in having GAO determine who made the decision to cut the training charges, why and how that decision was taken, how much it will cost the U.S. taxpayers, and who will receive the benefits of these substantial rate reductions.

I understand that the Financial and General Management Studies Division of GAO has been working on the issue of Defense Department recovery of full personnel costs related to foreign military sales and training. I should appreciate a separate report on the recent training charge reductions.

Warm regards,



CLARENCE D. LONG

CDL:bsb

ESTIMATED REDUCTIONS IN TRAINING CHARGES

FOR FISCAL YEAR 1977

BY FOREIGN COUNTRY

<u>Country</u>	<u>Air Force</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Total</u>	<u>Percent</u>
Iran	\$13,886,861	\$ 260,232	\$1,646,837	\$ 31,024	\$15,824,954	39.2
Germany	7,900,919	1,503,038	266,088	4,949	9,674,994	23.9
Saudi Arabia	4,193,361	697,920	603,210	11,611	5,506,108	13.6
Kuwait	211,291	324,300	1,040,775	16,317	1,592,683	3.9
Norway	1,251,660	75,642	4,884	2,381	1,334,567	3.3
Nigeria	255,740	717,754	3,624	6,432	983,550	2.4
Ethiopia	737,460	-	-	-	737,460	1.8
Denmark	624,170	34,044	3,778	38	662,030	1.6
Spain	-	-	554,863	9,363	564,226	1.4
Kenya	443,200	-	-	-	443,200	1.1
Italy	-	1,001	328,569	7,334	326,904	0.8
Jordan	-	297,744	-	-	297,744	0.7
Israel	26,500	198,678	18,208	2,543	245,929	0.6
Canada	144,280	31,723	50,334	4,512	230,849	0.6
Thailand	225,900	1,340	-	-	227,240	0.6
Australia	-	6,003	181,533	5,132	192,668	0.5
Belgium	93,940	63,047	-	-	156,987	0.4
Netherlands	-	107,155	20,736	3,160	131,051	0.3
Japan	-	35,917	80,899	1,738	118,554	0.3
France	-	39,446	75,776	1,628	116,850	0.3
Greece	-	26,692	85,069	2,992	114,753	0.3
Taiwan	-	106,792	1,746	13	108,551	0.3
Bahrain	-	104,271	-	-	104,271	0.3
Turkey	31,650	12,798	38,623	98	83,169	0.2
Korea	-	33,609	-	-	33,609	0.1
Other	540,229	32,041	8,581	4,704	585,555	1.5
Total	<u>\$30,567,161</u>	<u>\$4,711,193</u>	<u>\$5,014,133</u>	<u>a/\$115,969</u>	<u>\$40,408,456</u>	<u>100.0</u>

a/Includes \$84,507 for Marine Corps personnel associated with training provided by the Navy.

APPENDIX II

APPENDIX II

ESTIMATED COST TO THE UNITED STATES OF NOT CHARGING FOREIGN GOVERNMENTSHIGHER RATES FOR MILITARY RETIREMENT AND CIVILIAN BENEFITSRELATED TO FOREIGN TRAINING DURING FISCAL YEAR 1977 DUE TODEFICIENCIES IN THE NOVEMBER 5, 1975, PRICING GUIDELINES

<u>Description</u>	<u>Air Force</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Total</u>
Military retirement:					
Based on GAO com-					
puted factor	\$13,154,643	\$2,590,104	\$1,994,457	\$83,952	\$17,823,156
Based on Defense					
factor	(8,597,806)	(1,618,815)	(1,312,143)	(55,232)	(11,583,996)
Difference	<u>4,556,837</u>	<u>971,289</u>	<u>682,314</u>	<u>28,720</u>	<u>6,239,156</u>
Civilian benefits:					
Based on Civil Serv-					
ice Commission					
factor	4,373,250	-	-	-	4,373,250
Included by Defense	(1,371,403)	(a)	(a)	(a)	(1,371,403)
Difference	<u>3,001,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,001,847</u>
Total	<u>\$ 7,558,684</u>	<u>\$ 971,289</u>	<u>\$ 682,314</u>	<u>\$28,720</u>	<u>\$9,241,007</u>

a/Information could not be readily obtained.

FISCAL YEAR 1977TUITION RATES FOR SELECTED TRAINING COURSESAS COMPUTED BY THE NAVY UNDER ITS FULL COSTPRICING CRITERIA VERSUS TUITION RATESESTABLISHED UNDER THE NOVEMBER 5, 1975, PRICING GUIDELINES

<u>Course title</u>	<u>Navy 's full cost criteria</u>	<u>November guidelines</u>	<u>Percentage decrease</u>
Aviation environmental indoctrination	\$ 6,142	\$ 4,687	24
Aviation instructor training	3,685	2,812	24
Flight instructor training	2,457	1,875	24
Primary (basic flight)	40,422	31,611	22
Basic Naval flight officer	40,456	31,565	22
Basic prop (multi- engine)	11,717	10,097	14
Advanced prop (multiengine)	78,728	67,763	14
Basic helicopter	11,717	10,097	14
Primary helicopter	11,439	9,997	13
Basic jet	121,227	114,133	6

ESTIMATED AMOUNT OF REDUCTIONS IN REIMBURSEMENTS BY MILITARYAPPROPRIATION OR MISCELLANEOUS RECEIPTS ACCOUNTAPPLICABLE TO FOREIGN MILITARY SALES TRAININGTO BE PROVIDED BY DEFENSE DURING FISCAL YEAR 1977

<u>Military service</u>	<u>Appropriation</u> <u>Military personnel</u>	<u>Operation and maintenance</u>	<u>Miscellaneous receipts of the Treasury</u>	<u>Total</u>
Air Force	\$ 9,458,296	\$7,266,462	\$13,842,403	\$30,567,161
Army	2,294,851	-	2,416,342	4,711,193
Navy	1,258,057	1,161,669	2,594,407	5,014,133
Marine Corps	37,855	2,569	75,515	115,969
Total	<u>\$13,049,059</u>	<u>\$8,430,700</u>	<u>\$18,928,697</u>	<u>\$40,408,456</u>

THE DEPUTY SECRETARY OF DEFENSE
Washington, D.C. 20301

AUG 12 1976

Honorable George H. Mahon
Chairman, Committee on Appropriations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The House Committee on Appropriations Report on the Department of Defense Appropriation Bill, 1976 indicated a concern that the Air Force was neglecting to charge foreign countries the full cost of the training including a realistic share of the training base. The Senate Committee on Appropriations concurred in this position.

In view of these concerns, the Department of Defense (DoD) made a review of the pricing policy for charging foreign countries for training. A revised pricing policy was issued on November 5, 1975. The revised policy required a charge to the foreign student of a share of all cost at the training base, including such costs as salaries of instructor and training staff; supplies and materials; aircraft POL and maintenance; a share of base overhead; and a charge for the use of base assets including aircraft.

This revised pricing policy which was made effective January 1, 1976, resulted in substantial increases in most Air Force and Army courses, for both pilot and technical training. The most substantial increases were in Army courses where the previous policy had been to charge essentially "out-of-pocket" costs.

You can appreciate that this sudden and substantial increase in prices had a drastic impact on the foreign countries who were using our training programs. They had little or no time to make adjustments in their budgets for students already scheduled into training. In most cases, this has required substantial reductions in their input of students.

I have had several discussions with representatives of foreign governments with reference to the higher prices. Based on these discussions as well as recommendations from several U.S. ambassadors, the Chairman, Joint Chiefs of Staff, and other DoD personnel, I have personally reviewed our November 5, 1975, pricing policy. It is my conclusion that it goes well beyond the intent of your direction since it fails to give any recognition to the military

and political benefits to be gained by the U.S. from such training. Such benefits include improved regional stabilization and the lessening of our requirements for overseas deployed forces. In addition, training is frequently an integral part of a package arrangement involving the sale of hardware which in many instances results in reduced costs for the U.S. when the items are being procured for the DoD.

Therefore, I have directed that two changes which are discussed below, be made to our training pricing policy. These changes will result in a 20-30% reduction in tuition prices established by the November 1975 policy but still substantially higher than those under our prior policy. Examples of the difference between the price of several courses using both methods are attached. Under this changed policy, we will establish a fair price and recoup full cost for training which will not require any subsidy from DoD appropriations nor adversely impact the training of U.S. students.

The first change involves the pricing of military and civilian pay. The November 5, 1975, policy requires that a foreign student bear a straight pro rata share of the cost of all direct and indirect base personnel who directly or indirectly support the training program. Salaries are costed using base pay plus acceleration rates for leave, retirement, medical, etc. In certain instances, the foreign student is absorbed into the training program without the necessity of increasing the base staffing. The U.S. instructors and/or other personnel associated with foreign military training are highly trained assets which we can use almost immediately in any contingency. The costs of keeping these personnel in a high state of readiness are borne by the foreign nations. For example, instructor pilots will augment our tactical fighter force after minimum check-out time in the weapon system and aircraft maintenance personnel will augment mobility forces as our forces surge prior to mobilization of Reserve Forces. I believe that our pricing should give some recognition to this fact. While this could be done by the review of each course to determine the student staff relationship and making a judgmental decision on the exact amount of the staff costs to be charged, it would be an enormous task and could result in widely varying rates for similar courses. To insure that all courses are priced on a consistent basis and to reduce the pricing workload, I plan on a pricing system that will give each course an equal basis for charging the cost of personnel involved in training. The revised procedure will exclude the acceleration factors for leave, holiday and retirement from the computation when costing direct and indirect base personnel.

The second change involves the use of DoD assets. Our present policy provides for the recoupment of depreciation on aircraft by the use of an hourly use charge which is predicated on the cost of the aircraft and its useful life expressed in flying hours. Depreciation for all other assets used in training is recouped by means of application of a rate of 1% to the total course costs. Depreciation on assets used in foreign military sales, other than training, is recouped by application of a rate of 4%. In order to bring the training method of recouping depreciation into agreement with the method used on other Foreign Military Sales, the hourly use charge and the 1% rate are being deleted from our pricing policy and replaced by a 4% rate on the total cost of training.

I plan to issue this revised guidance to be effective October 1, 1976, for the FY 1977 program. In view of the Committee's continuing interest in our pricing policy for training foreign students, as evidenced in your report on the 1977 appropriations, I want to keep you informed of our planned actions.

Sincerely,

Bill Clements

Enclosure

GAO Note: The same letter was sent to Senator John L. McClellan, Chairman, Senate Committee on Appropriations

Examples of Price Changes
(in thousands)

	<u>Pre 5 Nov 1975 Prices</u>	<u>Pricing Policy 5 Nov 1975</u>	<u>Proposed Revision</u>
<u>Air Force</u>			
UPT (GAO note)	\$140.0	\$214.4	\$151.5
<u>Army</u>			
UH-1 Instructor			
Pilot Course	4.4	13.1	9.7
Improved Hawk			
Mechanic Sys-			
tem Repair	2.3	10.9	7.0
Ammunition Of-			
ficers Course	1.2	3.1	2.3
<u>Navy</u>			
Jet UPT	337.1	301.2	230.1
Electrician			
Mate Class B	3.5	3.5	2.8

GAO note: UPT means undergraduate pilot training.

UNITED STATES SENATE
COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

August 16, 1976

The Honorable William P. Clements, Jr.
Deputy Secretary of Defense
Washington, D.C. 20301

Dear Mr. Secretary:

Thank you for your letter of August 12, 1976, regarding a proposed revision in the current prices being charged foreign customers for training their personnel in the U.S. training establishment.

As you know, last year both the Senate and House Appropriations Committees expressed concern that the Services (in particular the Air Force) were neglecting to charge foreign countries the full cost of this training, including a realistic share of the training base.

Last year's conference report on Department of Defense appropriations (House Report 94-710) strongly emphasized the need to charge a realistic price to foreign countries for training, and it included the following statement:

"The conferees agreed that applicable Defense regulations should be revised to require that Foreign Military Sales charges for pilot training include realistic estimates of the full and proportionate cost of training support, base operations support, and training organization overhead".

Subsequent to issuance of that report, the Committee carefully reviewed the new pricing guidance issued by the Department. The Committee's report on FY 1977 Department of Defense appropriations treated this as an item of special interest and stated the following:

"On November 5, 1975, the DOD published new pricing guidance for all FMS training, including pilot training. This guidance provides for the recovery of the full and proportionate cost of training support, base operations support and training organization overhead. The Defense Department went even further and developed an hourly cost rate for each type of aircraft utilized in

flight training. These hourly rates were issued on January 16, 1976. DOD intends to revise Instruction 2140.1 to include the guidance provided on November 5, 1975, and the new aircraft hourly use rates.

"The Committee reviewed the rates being charged for pilot training to foreign governments under the new guidance, and believes that the pricing methodology and the resultant rates are responsive to its direction. DOD is to be complimented for its actions in this area.

"To insure that the charges for training continue to reflect the full cost of such training for that portion of the student load that is FMS, the Committee insists that any alteration in the present pricing policies which would cause any significant change in the charge rates be submitted to the Committee for approval prior to implementation. This policy is to be applied to all categories of FMS training."

The Committee might further point out that, because of the actions taken by the Committee last year and our strong feelings on this matter, it gave careful scrutiny to the rates established on November 5, 1975, and carefully considered whether they were adequate. Upon review, it was determined that DoD had complied with the Committee's direction, and had finally begun to charge proper and realistic rates.

It now appears that, as a result of complaints on the part of our foreign customers that prices are too high, DoD has decided to make downward adjustments to a pricing policy specifically approved by this Committee. According to your letter, the changes will result in a 20-30% reduction in tuition prices specifically approved by this Committee and deemed to be a reasonable interpretation of the direction contained both in Senate Report 94-446 and House Report 94-710.

The rationale offered in your letter for a reduction in the present pricing policy is identical to the rationale offered in 1976 and explicitly rejected by both the Senate and the House Appropriations Committees when they reviewed these charges. Frankly, the Committee is somewhat surprised that the Department of Defense is even contemplating

the subsidy of Foreign Military Sales customers when the Congress long ago explicitly rejected the arguments advanced in favor of such a subsidy.

The Committee must advise you that it strongly objects to the proposed revision in pricing policy. This would completely upset the careful work accomplished last year and again this year by both the Senate and House Appropriations Committees and result in providing a "free ride" to many countries under many Foreign Military Sales cases. Such a free ride is totally unacceptable to the Committee.

If the Department should implement the policy outlined in your letter, the Committee would have no recourse other than to repeat the action taken last year in reducing the DoD appropriations by the amount that should be collected from FMS sales as a reimbursement.

Please advise me of actions taken in this matter.

With kind regards, I am

Sincerely,

John L. McClellan
Chairman

JLM:ljm

Congress of the United States
House of Representatives
Committee on Appropriations
Washington, D.C. 20515
August 25, 1976

Honorable William P. Clements, Jr.
Deputy Secretary of Defense
Washington, D.C. 20301

Dear Mr. Secretary:

This is in response to your letter of August 12, 1976, in which you conveyed to the Committee a decision to substantially reduce the charges made for training foreign nationals at U.S. defense installations. The sizable cost to the United States taxpayer is evidenced by the fact that over \$140 million would be lost in reimbursements from the few examples contained in your letter.

It is the considered opinion of the Committee that the pricing policies which went into effect on November 5, 1975, in response to direction from the Appropriations Committees of the House and Senate should remain in effect. The Committee has recognized and continues to recognize that the United States receives many military and political benefits as a result of providing training for foreign countries. However, we also are aware of the fact that the foreign nations benefit from such training. If they had to undertake this training on their own it would be either more expensive for them or the training would not provide the same level of professionalism.

If the foreign governments receiving training or other manpower intensive services from the Department of Defense are unable to pay the full cost, the required support should then be sought from the Congress through the Military Assistance Program, and the Department of Defense reimbursed accordingly. The Defense budget is not to be used to partially subsidize the Military Assistance Program.

I must also point out that the sudden and substantial increases in prices which you mention in your letter would not have been necessary had the Air Force and Army been charging foreign customers at rates comparable to those charged by the Navy. The examples contained in your letter show how Navy reimbursement rates were actually reduced

as a result of the November 5, 1975, revised pricing policies. This is a further indication that the November 5 rates are not excessive. I must also point out that the Committee had in previous years recommended increases in these charges, but little or nothing was done by the Air Force and Army. Thus, in the case of Air Force pilot training it became necessary for the Committee to reduce the request by an amount equal to one-half the amount the General Accounting Office determined should have been obtained through appropriate charges to foreign governments.

Your letter points out, and the Committee fully appreciates, that training is frequently an integral part of a package arrangement involving the sale of hardware which in many instances results in reduced costs for the U.S. when the items are also being procured for the Department of Defense. However, if the Department continues to provide training, logistics, and other manpower related activities in support of weapons sales at far less than cost to the U.S. Government, the American taxpayer, and the U.S. economy is losing the financial benefit from the hardware sale. As you are aware, GAO has expanded its review in this overall area of reimbursements to foreign military sales.

The Committee does not support your recent decision on this matter and considers the guidelines in your November 1975 directive to be more in line with our direction. The Committee intends to closely monitor the estimates for reimbursable collections contained in the FY 1978 budget when it is received. It is the Committee's intention to reduce requests for direct funding by amounts equal to reimbursements lost through failure to make adequate and appropriate charges for services rendered by the Department of Defense to foreign governments.

Sincerely,

George Mahon
Chairman

END