

## Military Transactions

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### Coverage and definitions

The military accounts (part of line 3 and line 5, and part of line 20 and line 22) cover international transactions in which U.S. government military agencies participate.

Commercial transactions between U.S. private firms and foreign firms or governments, involving military types of goods or services without military agency participation, are not included in the military accounts. Commercial transactions are included in goods (lines 3 and 20), in other private services (lines 10 and 27), or in U.S. government miscellaneous services (lines 11 and 28), depending on the sector of the economy that provides or purchases the services.

In the military accounts, deliveries of goods and services to foreign governments, principally transfers under the Foreign Military Sales (FMS) program and various grant programs, are recorded as receipts, and defense expenditures abroad are recorded as payments. Because military installations abroad are considered within the U.S. economy, receipts include deliveries of military goods and services to foreign governments from U.S. installations abroad, and payments include purchases of goods and services from foreign residents for use at U.S. installations abroad.

Though the goods and services components of deliveries under the FMS program and defense expendi-

tures abroad programs appear in different locations in the accounts, they are described here in a single location because they are governed by the same legislative authorities, and the same conceptual principles underlie the collection of source data.

If the distinction between goods and services is clear, the objective in the construction of the accounts is to combine military goods exports and imports with commercial goods exports and imports, and to place military services exports and imports in the services accounts. When the distinction between goods and services is unclear, or the source data commingle goods and services, those transactions are classified as military services. Thus, beginning with statistics for 1999, military goods transferred to foreigners under the FMS program—such as aircraft, vehicles and weapons, missiles, and communication equipment—are classified as goods exports in line 3, and military goods purchased under direct defense expenditure programs—such as petroleum purchases abroad—are classified with other purchases of petroleum as goods imports in line 20. Military services exports under the FMS program—such as training, supply operations, and technical services—are classified in line 5 in the services accounts, and military services imports under direct defense expenditures abroad—such as payments for contractual services and construction—are classified in line 22 in the services accounts.

U.S. Department of Defense (DOD) reimbursable contractual activities abroad are recorded in both receipts and payments. When a foreign government or an international organization contracts for DOD goods or services, the foreign entity's provision of funds to DOD creates a U.S. liability. DOD, acting as a prime contractor, draws on these funds to pay its agencies, U.S. contractors, and foreign contractors for the delivery of goods and the rendering of services. Delivered goods and services are recorded as exports of goods under U.S. military agency sales contracts (part of line

3) or of services (line 5) and the liability is liquidated. To the extent that foreign goods and services are procured abroad (including those purchased by U.S. contractors) to fulfill DOD contractual obligations, purchases (imports) are recorded as defense expenditures abroad of goods (line 20) or of services (line 22). Net receipts or payments from these reimbursable contractual activities overseas are the difference between total DOD deliveries to fulfill the contracts (transfers under U.S. military agency sales contracts, both goods and services) and expenditures for foreign goods and services used in these contracts (direct defense expenditures, both goods and services). If foreign contractors purchase U.S.-origin goods and services, these purchases are recorded (but not separately identified) in goods exports (line 3).

Direct defense expenditures for goods and services recorded in the U.S. international transactions accounts measure only a portion of the full cost of conducting U.S. military operations abroad. The accounts cover only payments to foreign residents; they do not cover payments to U.S. businesses and personnel. For example, the accounts cover payments to foreign suppliers when constructing U.S. bases abroad and the expenditures of U.S. troops in the local (foreign) economies. But the accounts do not cover the cost of equipment and supplies procured in the United States and shipped abroad. Nor do the accounts include the portion of U.S. military personnel compensation that is not spent abroad.

**Estimation methods overview**

Estimates are based primarily on data submitted quarterly by U.S. military agencies to BEA as required by Office of Management and Budget (OMB) Directive No. 19. This Directive is supplemented by detailed DOD instructions to its various agencies, especially DOD Financial Management Regulation, Volume 6A, Chapter 13.

**1 U.S. Receipts—Transfers of Goods under U.S. Military Agency Sales Contracts (part of line 3)**

**U.S. Receipts—Transfers of Services under U.S. Military Agency Sales Contracts (line 5)**

These accounts measure transfers of goods and services to foreign governments under U.S. military agency sales contracts (see table 2). These accounts include (1) transfers under the Foreign Military Sales program, (2) transfers under foreign military grant programs, and (3) other miscellaneous receipts.

**Table 2. Transfers Under U.S. Military Agency Sales Contracts, 2009 (Part of Line 3 and Line 5)**

[Millions of dollars]

<b>Total</b> .....	<b>26,434</b>
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NOTE. Details not available due to security restrictions.

**1.1 Foreign military sales program**

1.1.1 This item measures transfers of goods and services by U.S. government military agencies to foreign governments under foreign military sales (FMS) program contracts. U.S. government military agencies include the military services—Army, Navy, and Air Force—and other DOD agencies. The FMS program is authorized under the provisions of the Arms Export Control Act of 1976 (Public Law 90–629, as amended) and predecessor legislation. Under this program, goods and services are transferred directly to foreign governments and international organizations by the U.S. Department of Defense (DOD). FMS deliveries may be financed by cash, but are often financed by credits or grants under various foreign assistance programs. The delivery is recorded by DOD at the time ownership is transferred to the foreign government or international organization. The transfer may be made abroad or in the United States for shipment abroad or

for use in the United States. In the latter case, although the goods physically remain in the United States (for example, equipment to train foreign personnel), ownership is transferred to a foreign government. Transfers may also be made from stocks at U.S. military installations abroad. Transfers under foreign military agency sales contracts also include deliveries of goods and services in fulfillment of DOD reimbursable contracts (see paragraphs 2.3–2.5).

1.1.2 Quarterly reports are submitted under OMB Statistical Directive No. 19. Security restrictions prohibit showing the details of these transactions.

## 1.2 Foreign military grant programs

1.2.1 This item measures transfers of goods and services by U.S. government military agencies to foreign governments under U.S. military grant programs. These receipts cover deliveries by the DOD of military goods and services under programs enacted by the U.S. Congress to provide military assistance for which no payment is expected or for which payment terms are indeterminate. Offsetting entries to these transfers are included in U.S. government grants (line 36). (1) Programs include the Military Assistance Program, the International Military Education and Training Program, the Military-to-Military Contract Program, the Excess Defense Articles program, and the special authority of the President to drawdown DOD stocks of defense articles in the event that a foreign country needs immediate assistance. (2) Additional programs include goods and services delivered by the DOD when U.S. government military agencies are executive agents for non-military assistance (such as humanitarian aid) abroad. Transfers related to U.S.-led humanitarian operations, direct support for anti-narcotics efforts in foreign countries, and cooperative threat reduction activities in the former Soviet Union fall in this category of transfers. (3) Also included, and by far the largest of the three categories, are transfers for reconstruction and to train and equip security forces abroad, such as those associated with the conflicts in Afghanistan and Iraq, which began in 2001 and 2003, respectively.

1.2.2 These items are net of returns of equipment previously transferred (reverse grants) and of supplies

and services provided to the U.S. government as part of a mutual assistance program.

1.2.3 Deliveries under these programs are recorded by DOD at the time ownership is transferred to the foreign government.

## 1.3 Other miscellaneous receipts

1.3.1 This item measures miscellaneous non-FMS sales of goods and services by U.S. government military agencies to foreign governments. These receipts cover sales abroad of surplus equipment; sales of materials and services to foreign countries or international organizations under logistical support programs; sales of petroleum products for land, naval, and air operations of foreign governments and international organizations; and sales of goods and services to United Nations peacekeeping operations under treaties specifying reimbursement to the United States. Returns to foreign governments of military equipment borrowed by the United States are also included in receipts. In general, non-FMS deliveries are recorded at the time of the receipt of funds by the U.S. government, which is presumed to occur within 30 days following delivery.

## 2 U.S. Payments—Direct Defense Expenditures, Goods (part of line 20)

### U.S. Payments—Direct Defense Expenditures, Services (line 22)

These accounts measure direct defense expenditures incurred abroad by U.S. military agencies (see [table 3](#)). These accounts include (1) expenditures by U.S. personnel abroad; (2) payments of wages to foreign residents; (3) construction expenditures abroad; (4) payments for contractual services abroad; (5) procurement of foreign goods; (6) purchases of foreign goods and services for military assistance programs; (7) North Atlantic Treaty Organization (NATO) support project payments; and (8) purchases of foreign goods and services by the U.S. Coast Guard. Construction expenditures abroad, payments for contractual services abroad, and procurement of foreign goods include foreign goods and services procured to fulfill DOD reimbursable contracts abroad (see paragraphs

2.3–2.5). This account also includes returns of leased military equipment to the United States from foreign governments.

This account excludes (1) overseas procurement and import of goods into the United States by U.S. private firms in fulfillment of defense contracts, which are included in commercial goods imports (line 20); (2) expenditures abroad for petroleum, which are included in goods imports (line 20), beginning with statistics for 1999; (3) expenditures abroad by U.S. transportation companies for their own account on cargoes carried for DOD, which are included in other transportation (line 25); (4) expenditures abroad by DOD for certain civil functions, which are included in U.S. government miscellaneous services (line 28); and (5) military pension payments to persons residing outside the United States, which are included in U.S. government pensions and other transfers (line 37). Also excluded are the costs incurred in the United States for the procurement of equipment, materials, and supplies for U.S. troops and installations abroad, because these transactions are between U.S. residents.

Direct defense expenditures are generally recorded on a cash disbursement basis. Payments are presumed to occur within 30 days following receipt of the goods or services.

In addition to data reported under OMB Directive No. 19, estimates of direct defense expenditures are based on data from supplementary sources of information, including reports by the individual military services on their operating strength in foreign locations, DOD reports submitted for a NATO defense expenditure questionnaire, and reports from other U.S. government agencies, including the U.S. Department of the Treasury's Monthly Treasury Statement.

## **2.1 Expenditures by U.S. personnel abroad**

This item consists of (1) personal expenditures by U.S. military and DOD civilian personnel stationed abroad, (2) personal expenditures abroad by U.S. naval personnel stationed in the United States, and (3) expenditures by military exchanges and similar facilities abroad.

### *2.1.1 Personal expenditures*

2.1.1.1 The estimates for personal expenditures abroad by military and civilian personnel are based on the amount paid to U.S. personnel and their dependents stationed abroad. These payments include housing and subsistence allowances, claim payments, and allotments disbursed to foreign addresses. The primary source of funds for these expenditures is transfers by DOD to banks or financial institutions, foreign or domestic, for credit to the individual accounts of personnel abroad. Reimbursable expenditures, including per-diem expenditures, by personnel on temporary duty abroad are also included.

2.1.1.2 Because many personal expenditures are made at U.S. installations abroad, the following transactions are deducted because these transactions are between U.S. residents. Deductions are made for personal expenditures by U.S. personnel at U.S. installations abroad, which include (1) sales by foreign-based military exchanges, commissaries, and similar facilities of foreign and U.S. goods and services to U.S. personnel; (2) sales of money orders and stamps, fees collected by military postal facilities, sales of bank money orders, and fees collected by base exchanges; and (3) personal expenditures for dry-cleaning, laundry, and other services. A deduction is also made for the portion of paychecks allotted to dependents in the United States.

2.1.1.3 After these deductions are made, BEA further adjusts these amounts to account for lower spending abroad in certain areas, such as combat zones, where living costs are covered essentially by the U.S. government, and the opportunity to spend money in the local economy on nonessential items is limited. The remainder after all of these deductions is assumed to represent the net amount of funds spent directly in the local economy of each foreign country by U.S. personnel and their dependents stationed abroad.

### *2.1.2 Expenditures by U.S. personnel on shore leave abroad*

2.1.2.1 This item consists of personal expenditures abroad (shore leave) by U.S. naval personnel stationed

in the United States. Estimates are based on the number of port calls, average length of stay, and average per capita amount spent in the local economy of each foreign country. This information is obtained by DOD from surveys of personnel returning from shore leave in various countries.

### *2.1.3 Expenditures by military exchanges and similar facilities abroad*

2.1.3.1 This item consists of expenditures by military exchanges and similar facilities abroad. Estimates are based on data on purchases of foreign goods and services by military exchanges and other nonappropriated fund activities, such as officers' clubs and movie facilities located abroad. Expenditures abroad for foreign products by commissaries are included in the category "procurement of foreign goods," which is discussed in paragraph 2.5. If military exchanges purchase goods and services in one foreign country, but sell them in another, the purchases are reported for the country where the goods and services are bought and the sales are recorded for the country where they are later sold.

## **2.2 Payments of wages to foreign residents**

2.2.1 This item consists of payments of wages by DOD directly to foreign employees and payments by DOD to foreign governments for the hire of foreign employees. Payments include U.S. government contributions to foreign retirement programs and separation allowances.

## **2.3 Construction expenditures abroad**

2.3.1 This item consists of expenditures abroad by U.S. prime contractors and their U.S. and foreign subcontractors, including the U.S. contractors' and subcontractors' personnel, for foreign goods and services in connection with both the construction of installations abroad for DOD use and reimbursable construction undertaken for foreign governments. Payments to U.S. contractors for work abroad are net of expenditures in the United States for U.S. products and services. Data are classified primarily by the country where the installation is located. Payments to foreign prime contractors for construction abroad are also in-

cluded and are classified by the country where the foreign contractor is incorporated.

## **2.4 Payments for contractual services abroad**

2.4.1 This item consists primarily of DOD payments for services performed at U.S. installations abroad by foreigners, such as real property maintenance and repair, and payments for utilities, communications, and transportation. Also included are DOD payments for services under reimbursable contracts. Payments to U.S. contractors for work abroad are net of expenditures in the United States for U.S. products and services.

## **2.5 Procurement of foreign goods**

2.5.1 This item consists primarily of DOD expenditures abroad for major equipment and other materials and supplies. Major equipment expenditures abroad are made under appropriations for both the procurement of items, such as aircraft components and parts, and for the repair, transportation, and other services related to major equipment. Included are purchases of (1) foreign products to be used or stockpiled abroad and (2) foreign products imported into the United States by U.S. military agencies on military or commercial carriers. Expenditures for materials and supplies, including foreign food products purchased by U.S. commissaries abroad, are made from both appropriated and nonappropriated funds. Beginning with statistics for 1999, expenditures for petroleum are excluded from this category and included in goods imports (line 20). Payments by DOD to foreign suppliers under reimbursable contracts with foreign governments are also included. Payments made to U.S. contractors are net of expenditures in the United States for U.S. products and services.

## **2.6 Military assistance programs**

2.6.1 This item consists of U.S. payments for foreign goods and services in support of various U.S. military assistance programs to develop the military capacity of U.S. allies. The primary programs have been the Military Assistance Program (MAP), which ended in 1994, and the Offshore Procurement Program. Also included are U.S. government payments for its share

of NATO international military headquarters expenses.

**2.7 NATO infrastructure projects**

2.7.1 This item consists of payments by the United States for its share of multinational construction costs for airfields, pipelines, and communications and naval facilities under the NATO infrastructure program; the installations may be utilized by the forces of all NATO countries. Also included are U.S. contributions to the multinational acquisition fund for the Airborne Early

Warning and Control System; this fund is used by NATO to acquire and maintain special aircraft and ground facilities to monitor, coordinate, and support activities of NATO forces.

**2.8 U.S. Coast Guard expenditures**

2.8.1 This item consists mainly of payments to maintain U.S. Coast Guard installations abroad that provide navigational assistance to the U.S. military and to U.S. maritime commerce. Expenditures abroad by U.S. Coast Guard personnel are also included.

**Table 3. U.S. Direct Defense Expenditures, 2009 (Part of Line 20 and Line 22)**  
[Millions of dollars]

<b>Total</b> .....	<b>35,605</b>
Expenditures by U.S. personnel abroad (line 22) .....	10,521
Personal expenditures by military and civilian personnel.....	8,842
Personal expenditures by naval personnel stationed in the United States .....	153
Expenditures by military exchanges and similar facilities .....	1,526
Payments of wages to foreign residents (line 22) .....	1,075
Direct hire .....	112
Contract hire .....	963
Construction expenditures abroad (line 22) .....	1,618
Direct DOD use.....	1,316
Reimbursable from foreign governments .....	302
Payments for foreign contractual services and other transactions (line 22).....	14,760
Direct DOD use.....	12,789
Reimbursable from foreign governments .....	1,971
Procurement of foreign goods (part of line 20 and line 22).....	7,284
Direct DOD use (part of line 20 and line 22).....	7,273
Major equipment (line 22) .....	145
Petroleum (excluding the Strategic Petroleum Reserve) (part of line 20) .....	5,131
Other materials and supplies (line 22) .....	1,997
Reimbursable from foreign governments (line 22) .....	11
Military assistance programs (line 22) .....	40
NATO infrastructure projects (line 22).....	268
Coast Guard expenditures (line 22).....	39